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AYI.N - Q2 2022 Acuity Brands Inc Earnings Call

EVENT DATE/TIME: APRIL 05, 2022 / 12:00PM GMT

OVERVIEW:

Co. reported 2Q22 net sales of $909m and diluted EPS of $2.13.

CORPORATE PARTICIPANTS

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

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

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PRESENTATION

Operator

Good morning, and welcome to the Acuity Brands Second Quarter Earnings Call of Fiscal 2022. (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 Brands, Inc. - VP of IR*

Thank you, Michelle. Good morning, and welcome to the Acuity Brands Fiscal 2022 Second Quarter Earnings Call. As a reminder, some of our comments today may be forward-looking statements based on management's beliefs and assumptions and information currently available to management at this time. These beliefs are subject to known and unknown risks and uncertainties, many of which may be beyond our control, including those detailed in our periodic SEC filings. Please note that the company's actual results may differ materially from those anticipated, and we undertake no obligation to update these statements.

Reconciliations of certain non-GAAP financial metrics with their corresponding GAAP measures are available in our 2022 second quarter earnings release, which is available on our Investor Relations website at www.investors.acuitybrands.com.

With me this morning is Neil Ashe, our Chairman, President and Chief Executive Officer, who will provide an update on our strategy and highlights from the last quarter; and Karen Holcom, our Senior Vice President and Chief Financial Officer, who will walk us through our earnings performance. There will be an opportunity for Q&A at the end of the call. (Operator Instructions) We are webcasting today's conference call live.

Thank you for your interest in Acuity Brands. I will now turn the call over to Neil Ashe.

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

Thank you, Charlotte, and good morning to everyone joining us to discuss Acuity Brands. Our team delivered another strong performance in the second quarter of fiscal 2022. For the second consecutive quarter, we delivered net sales growth of 17%, and we maintained our gross profit margin at 41.7%, consistent with the first quarter. And compared to last year, we increased diluted earnings per share by 22%.

Despite the cost challenges, we were able to convert our sales growth into operating profit and net income by effectively leveraging operating expenses.

The world remains complicated. Although our demand environment is strong, costs continue to be volatile, and we are continuously dealing with the ongoing pressures resulting from the global component shortages. In spite of this, our team continues to execute well, and this is reflected in our performance.

Both ABL and Spaces are performing admirably. Our decisions to prioritize shipments by investing in electrical components and transportation are resulting in higher sales and operating profits albeit at slightly lower margins.

Now I want to move to talk to our progress at both ABL and Spaces. First, in ABL, I'm happy to report that some things are returning to the way they used to be. In March, we hosted our first in-person sales conference in 3 years, [Next '22]. It was great to be back together with our independent sales network, who have performed exceptionally through the ups and downs over the last 2 years.

We have the best agents in the industry, and it was a great opportunity to talk about our strategic vision for Acuity Brands Lighting, share many new products and engage our agency partners around our EarthLIGHT initiatives. This was the first time that many of our associates and agents had seen each other in-person since the pandemic started. While we have been incredibly productive working virtually with our channel, it was great to spend some quality time together in-person. It was hard not to be struck by the levels of energy and enthusiasm throughout the event and the consistency of the feedback from our agents. They said Acuity is delivering.

Our investments in service have allowed us to prioritize delivering for our customers when others have been unable to. At the same time, our investments in product vitality have allowed us to continue to create compelling new products that are both innovative and market moving.

As I said last quarter, we have done this by focusing on 3 main areas. First, by focusing on strategic supplier relationships. The current environment has reminded us all that it really matters who you do business with. Because we are the largest lighting company, we have certain advantages over our direct competitors. But those same components are also used by larger industries. Consequently, we are making investments in people, time and resources. We have recruited a new Head of Strategic sourcing for ABL. We are working with our key suppliers on effective planning and allocation management, and we are investing in inventory.

Second, by empowering our teams to prioritize access and speed over cost on available components, we have been able to ensure continuity of supply across many of our existing product lines while also supporting our ongoing product vitality efforts across our product portfolio.

Finally, as I said last quarter, our engineering teams continue their herculean efforts to redesign products to the available components. At the same time, these teams have also managed to introduce around 220 new or significantly upgraded Lighting and Lighting Control products over the last 2 years. We expect the challenges around access to and cost of components to continue into the foreseeable future.

Our strategy around product vitality and the dexterity of our engineering teams in flexing to the changing requirements of the component shortages has been a significant part of why we are leading in this market, and we expect to continue these efforts.

Another highlight of the next conference was our focus on EarthLIGHT. EarthLIGHT is an important part of our strategy. Our product vitality efforts are not just about improving the functionality of our products, it is also about redesigning products to reduce customer energy consumption, reducing packaging and waste and improving transportation efficacy. This quarter, we announced a new initiative that brings together both technology and sustainability to significantly reduce paper use by introducing scannable QR Code instructions across our products.

At Next, we also expanded our community outreach by packing 1,000 bags of food for a local Atlanta organization together with our agents. It was one of the highlights of the event.

Now moving to the Intelligent Spaces Group. Spaces had another solid quarter of growth. In both Distech and Atrius, we have a strong product road map to make Spaces smarter, safer and greener. Distech continues to win in the building controls market against significant competition.

Through the ECLYPSE controller products, Distech is at the forefront of the technology curve, with the presence in key markets and recognized leadership built on open protocol technology.

In the last quarter, Distech won projects across North America and Canada and saw significant project wins in key verticals, including an education, commercial, infrastructure and in data centers. Distech is now a key supplier to 2 of the largest cloud providers.

We also continue to develop the Atrius platform, including progress on Atrius Building Insights, and we expect to expand the portfolio over time. We continue to add talent to this team.

Finally, I want to update you on our capital allocation. Our capital allocation priorities remain the same. We expect to continue to prioritize investments for growth in our current businesses to invest in acquisitions, to maintain our dividend and to allocate capital to share repurchases when there is an opportunity to create permanent value for our shareholders.

This quarter, the Board of Directors authorized additional capacity for share repurchases to increase our remaining authorization from 3 million to 5 million shares. Since May of 2020, we have repurchased approximately 13% of our shares outstanding.

I would also like to announce the appointment of [Sachin Saint Paul], our Senior Vice President of Growth and Transformation. Sach joins us to manage our technology organization to deploy our better, smarter, faster company operating system and to lead the integration efforts for future acquisitions. Sach comes to us with distinguished experience at leading companies, including Trimble and Honeywell. We're excited to have Sach on our team.

As I close, I once again want to thank our team for their ongoing efforts. Each quarter, we are faced with new challenges, and our team continues to deliver. Our continued focus on service and product vitality is allowing us to take advantage of the strong demand environment.

I will now turn the call over to Karen, who will take a deeper dive into our quarter performance, and I'll be back later in the call for Q&A and for some closing remarks.

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

Thank you, Neil. I want to start by reiterating thanks to our teams for their work over the last quarter. I am so impressed by their flexibility and ability to drive results.

We delivered strong performance in the second quarter of 2022. We grew net sales. We managed margins effectively despite a volatile cost environment, and we leveraged our operating expenses.

Net sales were $909 million, an increase of 17% compared to the prior year. This performance was driven by our focus on service levels and product vitality, a continued recovery in the end markets of both of our business segments and the benefits of recent price increases and acquisitions.

Gross profit was $379 million, an increase of $43 million or 13% over the prior year. This improvement was driven by revenue growth and by offsetting the significant increase in input costs through price increases and product and productivity improvements. Gross profit as a percent of sales was 41.7%, a decrease of 170 basis points from 43.4% in the prior year but flat sequentially from the first quarter of 2022. I will talk more about the current cost environment later on in the call.

Reported operating profit was $102 million, an increase of $11 million or 12% over the prior year. Reported operating profit margin was 11.3% of net sales for the second quarter of fiscal 2022, a decrease of 40 basis points over the prior year.

Adjusted operating profit was $123 million, an increase of $14 million or 13% over the prior year. Adjusted operating profit margin was 13.5% of net sales, a decrease of 50 basis points against the prior year. Adjusted operating profit margin was lower than the prior year as the decline in gross profit margin was partially offset by leveraging operating expenses.

Finally, we saw continued improvement in diluted earnings per share for the second quarter of fiscal 2022. Diluted EPS of $2.13 increased $0.39 or 22% over the prior year and adjusted diluted earnings per share of $2.57 increased $0.45 or 21% over the prior year. Our share repurchase program favorably impacted adjusted diluted EPS by $0.06.

Now moving on to our segments. During the quarter, our Lighting and Lighting Controls segment saw sales increase 17% to $863 million over the prior year. This was driven by the improvements within our independent sales network, which grew approximately 12% and an increase of 5% in our direct sales network. Additionally, sales in the corporate account channel increased approximately 105% over the prior year.

Recall that last year, customers have paused their renovations due to the pandemic. That activity has now restarted as you can see from the growth this quarter. We also had growth in our other channel of 83% over the prior year, due primarily to the acquisition of OSRAM.

Sales in the retail channel declined approximately 2% in the current quarter. This was due to some of our inventories being delayed in transit or held up in the port, resulting in longer lead times than we anticipated. We should start to see growth in this channel in the upcoming quarters.

ABL's operating profit for the second quarter of 2022 was $117 million, an increase of 14% versus the prior year with operating margin declining 30 basis points to 13.5%. Adjusted operating profit of $127 million improved 13% versus the prior year with adjusted operating profit margin declining 50 basis points to 14.7%. ABL has demonstrated the ability to grow sales while leveraging our operating expenses.

Moving on to the results for our Intelligent Spaces Group. For the second quarter of 2022, sales in Spaces increased approximately 16% to $50 million, reflecting growth in both Distech and Atrius. Spaces' operating profit in the second quarter of 2022, increased approximately $400,000 to $1.2 million. Adjusted operating profit of $6 million increased approximately $1 million versus the prior year as a result of the strong sales growth and continued investment in the business.

Our business model continues to be highly productive, generating $127 million of net cash flow from operating activities in the first half of fiscal 2022. This was a decrease of $85 million compared to the prior year due primarily to an increased investment in working capital, primarily related to inventory. Inventory days are up over the end of our fiscal year with approximately half of the increase due to increased lead times on sourced finished goods and to a slightly lesser extent increased purchases of electronic components. We are managing our inventory levels to support our growth as well as insulate our production facilities from inconsistent supply availability.

We also invested $24 million or 1.3% of net sales in capital expenditures during the first 6 months of fiscal 2022. Finally, we have continued to repurchase shares in the second quarter. As a result, since May of 2020, we have bought back approximately 13% of our company shares at an average price of approximately $120 per share.

I would now like to spend a few minutes focusing on the remainder of the year. As Neil stated, we expect the current environment to continue for the foreseeable future with strong demand, while access and cost of components will remain a challenge. Our focus throughout will continue to be on growing sales and leveraging our operating expenses.

In relation to the recent instability in Europe, we have no direct sales exposure either to Russia or Ukraine. However, the conflict does add to the existing supply chain pressures. Additionally, we are experiencing increases in transportation costs, driven by expected increases in oil prices. In the last 15 months, we have strategically introduced fixed price increases in addition to driving product and productivity improvements.

Before I hand you over to the operator, I want to leave you with our key takeaways. We have continued to demonstrate strong sales growth and effective management of gross margin in a volatile cost environment. We have leveraged our operating expenses. And finally, we have continued to allocate capital effectively.

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

QUESTIONS AND ANSWERS

Operator

Our first question comes from Christopher Glynn with Oppenheimer.

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

Curious if you're seeing any instances of encountering the elasticity as the price increases take fuller effect and commentary on backlog levels versus normal?

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

Chris, thanks for being with us. As Karen indicated in her commentary, we've been able to strategically introduce 6 price increases over kind of the course of this year way more than we expected, obviously. And the reaction has been kind of relatively accepting of those price increases. So you've seen us have success, obviously, in the top line performance as a result of that.

Demand remains strong. So as we look at backlogs in terms of committed orders, they are obviously significantly higher than they usually are at this point, which is a reflection both of the strong demand as well as the availability of components, et cetera, that Karen alluded to. So we're trying to work through that as effectively as we can, and we expect that dynamic to be -- to continue through at least the rest of the calendar year, which is demand is strong and supply chain is tight.

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

And just a follow-up for maybe guidance slide was removed in the outlook section in the press release. Do we just retain the prior quarter's disclosure by default?

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

Yes. So it's really hard to introduce something new to the world. So our -- so just to reframe kind of our -- what we had intended to do at the beginning of the year was to provide a financial framework, which we did not engender to update through the year. So that was, as you remember, kind of mid-single digits for ABL and that implied expanding operating margins, which is what we're delivering on.

Our focus during the year is going to be on telling you what we're doing, why we're doing and how we're doing that and delivering the best results that we can. And so as we talked about, obviously, there's price increases. There's volume. And within the ability to realize that, we're really focused on these 3 things, the strategic supplier relationships, prioritizing access to over cost of some of our components and the continuous reengineering we're doing of products to the available components. So that's how we're doing what we're doing and the results are kind of obviously speaking for themselves.

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

Neil, just a small point of order. You just said a mid-single digits for ABL. I think you're standing metric is high single digits?

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

Yes, high single digits, sorry. Thank you for correcting me, Chris. I didn't mean to accidentally give the wrong numbers.

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

I know you didn't.

Operator

Our next question comes from Ryan Merkel at William Blair.

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

So Neil, you mentioned the 6 price increases, and it sounds like realization is pretty good given the backdrop. Just curious, when do you expect to see the full impact just given the backlog there of those 6? And then can you give us a sense of the range of like what price could contribute once you start seeing the full impact?

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

Yes. So as we kind of talk through those, one of the things we highlighted in our last quarter was that we have intentionally not repriced the backlog. So just for those who may not know, a project gets started, whether it's -- I'll focus on C&I for a second. Project gets started. The -- we start to make quotes for that project. When those quotes are accepted, we consider that a committed order and we honor that price going forward. So all price increases are from that -- effectively from that point forward. So you see the -- effectively the cumulative effect of those price increases in the backlog as it starts to roll forward.

The challenge with managing or matching up pricing cost is, obviously, those are moving independently of each other. So we are -- we have realized a significant amount of price, and we will continue to realize more as the cumulative impact of that kind of rolls out through the rest of the year.

Independent separately from that, obviously, we're buying the necessary components to manufacture those goods. So whether it's components, when we can get -- when and where and what we need to pay for them to get them and the other key materials like steel, aluminum, et cetera, which are moving independently of each other. The sum of those, obviously, is our ability to manage price cost. And that's how we feel like we've done a -- even though the margins aren't as high as they were last year, given the volatility on the cost side, we feel like we've done a really nice job of managing those. And it sets us up for continued performance the way and by the same manner in which we've done it for the remainder of the fiscal year.

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

Got it. Okay. And then for my follow-up, just can you comment on the backlog? Did it grow sequentially just given the supply chain challenges and any cancellations or pushouts? Or do you feel pretty good about the next 3 to 6 months based on what you're hearing and seeing from customers?

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

Yes. So as I said, and Karen indicated, we've seen strong demand. That's continued. So backlog has picked up slightly sequentially. So there's plenty of business out there. It's -- we're just working hard to satisfy it.

Operator

Our next question comes from Chris Snyder at UBS.

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

So I totally understand the strategy and also the drivers of the building inventory levels at the company during the -- I guess, this quarter and last. But could you speak to any maybe impact this has on margin, whether it'd be higher fixed cost absorption in the current period or if this inventory level were to maybe normalize or rightsize lower, any potential margin headwinds coming from a result of that?

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

Yes. Karen, do you want to start?

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

Sure. Yes. Chris, as we've mentioned, we have intentionally increased our inventory really related to 2 reasons, one with the longer lead times that we're seeing on the purchased finished goods. It used to take about 20 days to get to us and now it's taking closer to 50. So that has been some build that has happened because of those longer lead times.

The second reason has been availability of our electronic components. So we have tried to secure more of those than we would typically do just in light of the shortages so that we can service the demand that we're seeing. So as that rolls through, you're not going to see any kind of headwinds as you described other than from the increase in costs that we've been talking about, and that Neil has described on the call.

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

Appreciate that. And then for my follow-up, I want to touch on M&A. In the past, the company has spoke to its interest in adding tech assets to build out the Spaces Group. But if I remember correctly, I also believe there was some commentary at the Investor Day around maybe even pushing into a tangential industrial vertical. Could you just provide some color on the company's M&A strategy as the cash balance remains maybe higher than what we've seen historically?

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

Yes, I'll take that one, Chris. So I can't speak for what the acquisition strategy was before I got here. So we'll focus on kind of what we said on the Investor Day, which is that our capital allocation priorities are pretty straightforward. One, we want to grow the businesses we already have. Two, we want to expand the company via acquisition, both investments in our current businesses, lighting and spaces as well as add additional businesses over time. The third is to maintain our dividend. And then the fourth is when we see an opportunity to create permanent value for share repurchase, we've done that. And when it's been really attractive, we've been really aggressive.

So as we look forward to the acquisition strategy, that is absolutely a part of where we want to -- how we want to deploy capital going forward, and we want to grow the business. As a point of fact, though, we've seen significant opportunity to generate value through our existing businesses. So that's where we focused our efforts.

Obviously, the OSRAM acquisition is a great example of adding a strategic asset to an important business for us. So as a reminder, the reason that we did that was threefold. One was to control the technology we have in our Luminaires. So the analogy I drove with our team was we were a car company that didn't manufacture engines and now we do. The second was to expand our OEM channel so that we could participate more fulsomely in the broader market. And then the third was to integrate our supply chain so that we could scale more effectively. That acquisition is performing exceptionally well.

From a financial perspective, it's -- as we indicated on the last quarter, it's mildly dilutive from a gross margin percentage, but dollar -- obviously, dollar accretive, and we expect that to accelerate over time as we integrate it. We're actively looking at opportunities to expand the Spaces Group, both in businesses that are more related to Distech primarily and then we're working aggressively to demonstrate organic sales growth with the Atrius products as a first step towards investing further in them.

And then finally, that gives us the opportunity over the next couple of years to add other businesses to the portfolio. So we're positioning the company both from an ability perspective as well as a talent perspective, evidence the addition of Sach. And obviously, we're positioning well from a financial perspective. So the narrative will be over the next while, we will continue to improve the businesses that we already have. And over time, we'll add businesses where we can demonstrate what we've done with ABL and Spaces and other environments where we can drive high returns for our shareholders.

Operator

Our next question comes from Josh Chan at Baird.

Joshua K. Chan - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate*

Congrats on a good quarter. My first question is on the supply chain, I guess. Could you update us on kind of how it has changed sequentially, if at all, anything getting better or worse and how do you expect that to trend in the coming months, I guess?

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

Karen, I'll take that one. I would say, Josh -- I would say that the supply chain -- I mean, I can't think of a better -- different analogy other than kind of whack-a-mole. It just seems to be something different each time. So -- and I believe that's the -- you see that flowing through in kind of pick your commodity, pick your component. The big picture trends are pretty obvious. There is a -- there is more demand than supply for global chips. So kind of working through allocations and demand planning is the challenge there trying to get our unfair share of those. Transportation has been a problem. That should hopefully get a little bit better in the foreseeable future, absent kind of any Long Beach strike issues moving product through the West Coast. And then commodity prices have changed. You can see those as well as we can.

So whether it's steel or with the Ukraine situation, aluminum prices obviously changed. So we're kind of playing whack-a-mole, which is why we've talked about kind of how we're trying to manage through this, and Karen walked through the pricing and the costing. That's why I feel like we're pleased with these margins on the gross margin level in a steady-state environment. I'm confident we'd be delivering higher margins. But even if they hang around at these levels for a while, I think we can be pleased with them.

Joshua K. Chan - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate*

And then I guess my second question is on market share. It certainly seems like you're winning in terms of market share. Given the more kind of transactional nature of some of these projects, like what can you do? Or how are you working to retain the gains that you've secured over this time period?

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

Yes. Josh, I would say our focus right now continues to be on service and product vitality. And that's really where you're seeing us be able to grow our sales in the independent sales network and our direct sales network is really having an impact for our ability to differentiate with service in our product portfolio. So we're just going to continue that focus as we move forward.

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

The only thing I'd add to that, Josh, is we've had a lot of success with the contractor select portfolio, which is right product, right place, right time. So we describe it as your most important everyday lighting products. And so that is -- as long as we maintain high product vitality, that's an interesting and important part of the portfolio going forward.

Operator

Our next question comes from Jeff Osborne at Cowen and Company.

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

A couple of questions on my end. Karen, I think on the last quarter, you had mentioned that you thought 2Q would be the low point for gross margins throughout the year. Is that still the case?

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

I do not recall mentioning that it would be the low point for gross margins. I think what we talked about is that second quarter is our sequentially our -- or seasonally our lowest top line. And so you could expect to see some of that seasonal decrease, which you saw. I think we were down about $20 million from the first quarter. So you do get a little bit of an impact from leveraging some of your fixed costs and gross profit from that perspective. And just as we talked about before, as we look ahead, the cost and availability of components continue to be a challenge. We will prioritize servicing our customers and speed over cost, and we'll continue to manage those costs aggressively.

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

And then 2 other quick ones. Any impact to the backlog from rising interest rates on some of your larger projects? And then I was just curious what the initiatives are to try to work through the backlog quicker with the increase in inventory to help you do that?

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

Yes. So first on the rates, I don't think we've seen that yet. So we're obviously paying close attention to that. And there's -- I don't -- I think it's pretty obvious that projects -- the value of projects will have to change -- big project, not our projects. The projects we're a part of will be impacted at some point by discount rates.

In terms of managing through the backlog, we are -- we have initiated a significant number of activities. I highlighted the key ones about kind of redesigning products and the strategic supplier relationships and managing to costs or to access and speed over cost. The -- if you were to walk our halls, you would hear us talk about best, which is a backlog elimination strategy and that activity spans from focus factories in Mexico all the way through our sourcing, our product and our go-to-market teams. And so we're aggressively ramping capacity. We've -- as you can see, we've worked -- well, you can't see. Some things are harder than -- look easier than they are. This one has been a challenge as we've managed through components. We've gotten labor in a really good spot over time now. So we're starting to crank through that backlog. The good news is that orders remain strong. So even though we continue to increase our production and our productivity, the orders keep coming in.

Operator

And our next question comes from Brian Lee at Goldman Sachs.

Miguel E. De Jesus - *Goldman Sachs Group, Inc., Research Division - Associate*

This is Miguel on for Brian. Just had a quick -- just a quick question to talk about inventories again. So you talked about the 2 impacts, the increased lead times and then also the increasing purchases. Is there a shift happening with how you're managing inventories going forward just as -- potentially as the lead times come down, would you expect to continue to hold higher inventories as a percent of revenue maybe as you maybe think about increasing revenues, just given all of the supply chain challenges going on?

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

Yes. So thank you, Miguel. As I mentioned, the 2 reasons, and you're right, are the extended lead times on the source finished goods and then also the electronic components. So how we're managing those? As we're looking ahead, so we're trying not to look in the rearview mirror to manage inventories, but really look ahead, understand where we have the demand, understand where we have the products that we need to meet or the inventory we need to meet that demand and focusing really carefully on that. So we don't expect that our days would continue to be this high. We do believe that it's necessary right now given the challenges that we're seeing in access to components and to inventory, but we are managing by days and very aggressively in the windshield.

Operator

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

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

Thank you all for joining us this morning. We really appreciate your interest in Acuity Brands. I would say, from my perspective, the summary is, I believe that our team delivered a really good quarter in a really challenging environment. As we look forward, demand remains strong. Supply chain remains tight and challenging, and we'll continue the hard work to deliver on the results that you've seen going forward. So thank you for your interest in us, and thank you to our team and our independent sales network for their hard work delivering these results.

Operator

This concludes the program. You may now disconnect. Everyone, have a great day.
