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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, and welcome to the Acuity Brands' Fiscal 2024 First Quarter 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 Brands, Inc. - VP of IR*

Thank you. Good morning, and welcome to the Acuity Brands' Fiscal 2024 First Quarter Earnings Call. As a reminder, some of our comments today may be forward-looking statements based on our management's beliefs and assumptions and information currently available to our 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 our 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 2024 first 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 give an overview of the quarter, and Karen Holcom, our Senior Vice President and Chief Financial Officer who will walk us through our fiscal first quarter financial performance. There will be an opportunity for Q&A at the end of this call. For those participating, please limit your remarks to 1 question and 1 follow-up if necessary.

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 thanks to all of you for joining us this morning.

We continue to demonstrate strong execution in our fiscal 2024 first quarter. We increased our adjusted operating profit, our adjusted operating profit margin and our adjusted diluted earnings per share. We generated significant free cash flow, and we allocated capital effectively to drive value. Both our Lighting and our Intelligent Spaces businesses continued to perform well during the quarter. Particularly in ABL, our performance was excellent. We increased adjusted operating profit by $15 million on $71 million less sales and increased the adjusted operating profit margin 280 basis points to 17.5%. Our strategy is yielding results. We're increasing product vitality, elevating service levels, using technology to improve and differentiate both our products and how we operate the business, and we are driving productivity.

Today, our products are perceived as being more valuable in the marketplace. At the same time, we are lowering costs. Our product vitality efforts are the combination of new product introductions and improvements to our existing portfolio to ensure that our products are more valuable to our customers and more profitable for us. Our Contractor Select portfolio is about 300 of our most popular products. They are used in common everyday lighting applications and are in stock at retailers and electrical distributors. We continue to invest in product vitality, and we have expanded our Lithonia Lighting ESXF Floodlight family. This is a better product for distributors because it allows them to carry less inventory and is better for contractors because it is easier to install.

This product family was first introduced in 2022 to offer a uniform lighting solution for parking lots, walkways and outer buildings. It uses switchable technology to provide installers 36 on-site options, including lumen output, color temperature, photocell and mounting options.

Our design select portfolio consists of configurable product options that meet the key choices of lighting specifiers with high levels of service. This quarter, we added additional products in our downlighting, panel, emergency lighting and outdoor categories. As we expand the options available in this portfolio, our focus is on product vitality and making it easier for the specification community to chose superior solutions.

Our efforts to elevate service are having a positive impact on our customers. In October, we were once again recognized by the voters of IMARK Electrical as one of the suppliers of the year for 2023. We also continue to invest in productivity improvements in our operations. Earlier this quarter, we traveled with a group of associates to our Mexican manufacturing facilities to open our new state-of-the-art Santa Rosa production facility, which includes our highly efficient new paint line. This facility embraces technology to deliver a better product to our customers and improves the efficiency of the paint line process while also reducing the environmental impact.

I'd like to highlight a couple of ways we're doing this. Our paint guns and torque guns in our new facility are powered by a high-efficiency air compressor that aims to reduce approximately half of our CO_2 generation compared to the air compressor from our previous paint line. High-efficiency walls, burners and booster technology in our ovens require less gas than similar systems and use around 40% less natural gas than our previous infrared ovens. The transition to this facility has been seamless. We relocated an existing facility to the new SPF facility without any service interruption and now have capacity available for future growth.

Our combined paint and natural gas savings are delivering on our required financial return for the facility while also meeting our sustainability objectives. You can learn more about this project and other accomplishments in our recently released EarthLIGHT report, available on our ESG for Investors page on our Investor Relations website.

Now moving to our Spaces Group. Our mission in our Intelligent Spaces business is to make spaces smarter, safer and greener through our strategy of connecting the edge to the cloud. Distech has the best edge control devices on the market, while Atrius will be the best in cloud applications.

At Distech, we are focused on expanding our addressable market in 2 ways. The first is geographic and the second is increasing what we control in a build space. This quarter, we continued our geographic expansion, adding several new system integrators in the U.K., Asia and Australia. In one of our original markets, France, our hard work is paying off. The Building Services Research and Information Association called out Distech as dominating the French building automation and control systems market in a newly released report.

We also continue to increase what we can control in a build space. In October, we launched our Distech Resense Move sensor at several industry conferences in Europe. This is an advanced 7-in-1 ceiling-mounted sensor that is able to detect occupancy in spaces. It counts the number of people using a space, providing feedback on occupancy requirements to the building users. It is AI-powered and can be used to optimize indoor air quality, reduce energy and cleaning costs and enhance occupancy comfort. It will be revealed to our North American and international customers at the AHR Expo in Chicago later this month.

Our expansion into refrigeration controls is also going well with the integration of KE2 Therm on track and performing as we expected. During the quarter, we released the KE2 Therm Edge manager with a BACnet communication stack. This is the same open protocol technology that is used by Distech and is an important step to ensure compatibility between both the Distech edge controllers and the KE2 Therm edge controllers.

Now turning to our outlook. The changes that we have made to the business are impactful and long lasting. Our order rates are growing both year-over-year and sequentially. We're back to typical lead times and absent the excess backlog from last year, we would be experiencing sales growth. We are focused on controlling what we can control and we are confident our execution will continue.

In our Lighting and Lighting Controls business, we will continue to focus on delivering margin and cash flow. In our Spaces group, we will continue to grow geographically and by adding to what we can control in a build space. We're delivering applications that are making a difference.

Now I'll turn the call over to Karen, who will update you on our first quarter performance.

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

Thank you, Neil, and good morning to everyone on the call.

We started the year with strong performance. We increased our adjusted operating profit by $14 million year-over-year, improved our adjusted operating profit margin by 250 basis points over the prior year and by 40 basis points sequentially. We increased our adjusted diluted earnings per share by $0.43 year-over-year and generated cash flow from operations of $190 million. We continue to improve our businesses and allocated capital effectively.

For total AYI, we generated net sales in the first quarter of $935 million, which was $63 million or 6% lower than the prior year as a result of the lower net sales in our ABL business. This was partially offset by continued growth in the ISG business of 13% in the quarter.

We continue to deliver year-over-year margin improvement. During the quarter, our adjusted operating profit increased by $14 million on lower sales, while we expanded adjusted operating profit margin to 16.5%, an increase of approximately 250 basis points from the prior year. This increase was driven largely by the significant year-over-year improvement in our gross profit margin as we continued to execute and drive margin through product vitality, the management of price and cost and productivity improvements.

During the quarter, our adjusted diluted earnings per share of $3.72, increased $0.43 or 13% over the prior year, primarily as a result of higher net income and to a lesser extent, lower shares outstanding due to the share repurchases.

In ABL, net sales were $876 million in the quarter, a decrease of around 7% compared with the prior year, driven by declines across most of our channels, offset slightly by continued strong performance in our retail channel. Sales growth in ABL this quarter had a challenging year-over-year comparison as the results in the first quarter of fiscal 2023 benefited from working down an elevated level of backlog. ABL's adjusted operating profit increased 11% to $154 million on lower net sales and we delivered adjusted operating profit margin of 17.5%, a 280 basis point improvement over the prior year.

ISG's net sales for the first quarter were $64 million, an increase of 13% as Distech continued to grow and KE2 Therm performed as we expected. ISG's adjusted operating profit was $10 million.

Now turning to our cash flow performance. We generated $190 million of cash flow from operating activities for the first quarter of fiscal 2024, an increase of $3 million over the prior year, primarily due to an improvement in net income partially offset by a decrease in cash flow from working capital.

During the first quarter of fiscal 2024, we continue to allocate capital consistent with our priorities. We invested $15 million in capital expenditures and allocated approximately $50 million to repurchase around 300,000 shares. Since the beginning of the fourth quarter of fiscal 2020, we have repurchased over 9 million shares at an average price of about $143 per share, which was funded by organic cash flow.

To wrap up, we had a strong quarter, particularly in ABL. We continued to deliver strong margin and cash flow performance. We grew adjusted operating profit and improved adjusted operating profit margin. We increased adjusted diluted earnings per share, generated strong cash flow from operations and allocated capital effectively. We are pleased with our performance, and we will reevaluate the outlook at the midpoint of the year.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Joe O'Dea with Wells Fargo.

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

So -- I mean, really impressive gross margin obviously this quarter. I think just any additional detail unpacking that you talked kind of high level on vitality, productivity and price cost. But anything in terms of kind of quantifying that bridge when we think about sequentially gross profit down kind of less than what we saw out of the revenue decline and trying to appreciate sort of what some of the moving pieces are there and then bigger picture just the sustainability of a 45.8% gross margin?

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

Yes. Thank you, Joe. Good morning to all of you. So -- as we unpack the margin performance, a couple of things to talk about. First of all, obviously, our year is off to a really good start. We're taking the companies to levels of performance that it has never seen before and these margins are the results of the impacts of the strategy and the work that our team has been doing to implement that around product vitality, around service, around technology and around productivity. That is culminated in this performance, specifically in this quarter, we're recognizing that our products, as I said in the prepared remarks, are being valued for their impact in the marketplace, which affords us the opportunity to manage price strategically. We continue to take cost out of the production of the products. So the output is the margin that you see.

This quarter was mildly impacted by some mix. The -- our Controls business was strong. Our ISG is obviously growth accretive, margin accretive and return accretive, so that has some impact. But when you boil it all down, this quarter is a result, and the margin performance in this quarter, is a result of the strategy and the work that we've been doing around product vitality, around service, around technology and around productivity.

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

And just a quick clarification because you did make the point in prepared remarks and just kind of reiterated there, where products perceived is more valuable in the marketplace today. I thought about sort of the pricing dynamic over the last couple of years as being priced in response to cost. But is it fair to sort of deduce that this quarter, you're actually in the market sort of taking price up because it's the value that you're delivering, and so you're still able to achieve price up?

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

So we -- I believe that's a fair conclusion. Yes, we are realizing the benefits in the first quarter price. We talked about in the last call and in the second quarter, we also implemented a price increase. So we're demonstrating to the market that we will continue to manage price. So -- and that's obviously in the second quarter, so has no impact on these numbers. But -- but as I've said consistently, we're moving to strategically manage price. And by that, we mean that, number one, our products need to be valued in the marketplace because they need to -- to deserve to be valued. We're in a good position on that front.

The second around our product vitality efforts is that we need to demonstrate that we can make more money with profit as a result of those prices, which is what we're doing from a cost perspective. So -- so I believe this is a good foundation.

Now obviously, these are extraordinary margins. So we don't need to continue to perform at this level for the rest of the year, but to deliver outstanding results, but we feel very good about the how in these margins.

Operator

Our next question comes from the line of Tim Wojs with Baird.

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

Maybe just my first question. Neil, you had kind of talked about in the prepared remarks that order rates kind of improved sequentially and that they're up year-over-year. I know it's probably hard, but I'll ask the question anyway. I mean, how much of that do you think is just the year-over-year comparisons kind of lapping some of the backlog depletion and a lead time improvement versus maybe what's going on in the underlying end market?

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

Yes. Thanks for the question, Tim. Let me unpack that because I think this is really important.

So -- so our net sales is obviously a result of our shipments in the period. The shipments in the period are a result of the orders that led up to at times the lead time basically. So we are now in a position where our lead times have more normalized. In other words, the order and the shipment rates are relatively consistent with each other. And so it's important that on both the sequential basis and on a year-over-year basis, our order rates are modestly up, in other words, without last year's comparable sales would be growing.

Last year was -- the net sales were the beneficiary of backlog reduction from orders which had been placed earlier. So -- the order -- when we talk about this order rate being up modestly, that versus the daily order rate of last year's first quarter and last year's fourth quarter. So -- the best way that we've come to think about this is that there was more of a pull forward last year industry-wide than there was a cycle. So -- so in effect, we processed a lot more business last year than that existed.

When you smooth the line over time and we've talked about this consistently, when you smooth the line over time, we will be -- the Lighting and Lighting Control business will be a consistent grower.

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

And I guess, have you seen any sort of kind of underlying improvement in the end market? I mean obviously, rates have kind of moved back with what the Fed has done. I'm just kind of curious if you see that in your order rates at all?

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

Yes. So obviously, we're seeing -- if it's year-over-year improvement and sequential improvement, there is improvement in our order rate. As we look forward to our -- kind of our view on the macro, as I've been consistent with this, we don't have a better crystal ball than you do. Our -- we are confident in the current levels of the order rate and the performance of the order rate.

As I said last quarter, we're comfortable operating in this environment. And as we look forward, we feel pretty good about where things are. Our outlook doesn't expect things to get materially better or materially worse basically. So as Karen said, we'll reevaluate at the middle of the year where we are for the rest of the year.

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

And then maybe just the second question, just on maybe margins. Just given where the gross margins have kind of landed over the last couple of quarters, I mean, has that changed how you think about kind of the reinvestment that you'd want to make or need to make in the business to drive above-market growth? Or do you think it's just kind of a higher base level of margin for the business kind of going forward?

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

It's a little bit of both, and I would say on that front, Tim, we don't believe that these margins are a result of harvesting. So we believe that they're the outcome of the strategy, as I've said kind of -- and I won't continue to be redundant on it. But I believe there are an outcome. So we believe this is a point in time.

At the same time, we also are beginning to focus on verticals and areas where we haven't on the Lighting side, either been strong or participated at all. A very small example, we made a tiny investment in Horticulture. Why? Because we think over the next kind of period of time that will be an opportunity and so we're positioning for that now. So we'll start to make those kind of investments, Tim, so that we can continue to hopefully expand the addressable market on the Lighting side.

And then I don't want to miss the opportunity to talk about Spaces. And Karen can address the specifics of the quarter -- the financials in the quarter, if necessary later. But in the big picture, the Spaces Group is growth accretive, margin accretive and returns accretive. And we feel really good about what we're doing there and their impact -- their ability to continue to impact the company going forward.

Operator

Our next question comes from the line of Chris Snyder with UBS.

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

I wanted to follow up on the gross margin up a 410 basis points year-on-year despite the sales decline, which is really impressive. It seems to us that the driver there is one price cost. You guys have helped prices costs have moderated due to the technology, the vitality and all the stuff you mentioned, Neil, but also some level of selectivity, which you've talked to over the past couple of quarters. When we think about that 410 basis points, could you kind of break down the build between selectivity and price cost improvement over the last year?

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

Yes, I'll start. Karen, you fill in for us.

We have not built a walk directly from -- to break down the 410. So I'm going to do this more off the top of my head, Chris, than I am kind of reading on a walk.

Big picture. Let's start with -- let's start with price. So -- as we've said consistently, we managed price to where we think we need to be in the marketplace. So -- Obviously, we have real strength in Contractor Select. You can see the retail channel was up this quarter. It's the growth spot despite the fact that net sales were down. So -- so obviously, we're meeting the market at that level of the market.

On the project side, we have the ability to choose which projects we take, obviously. So in our pricing and then our bidding on those projects, we are choosing which projects we want to invest it in. And so -- and we do invest in some projects. So this is not -- we're not pure price takers here. We are choosing and based on the marketplace. And that's really the key for us is that when we talk about managing price strategically, we're meeting price where it needs to be.

Second, on the cost front. So obviously, there's been material improvements in the portfolio over the course of the last 3 years, and that continues. That has allowed us to create a more normalized distribution of margin within the portfolio. So we don't have the laggards that we had in the past. And so it's not wholly dependent on mix in a way that it has been in the past.

Now I would say that this quarter, we had a good quarter in Controls and obviously ISG performed at a higher growth level than ABL. So there is some mix impact, but it is modest. It is not determinative.

And then finally, to your point on cost moderating, there are kind of -- there are some obvious post-pandemic costs, which have changed, steel containers, et cetera. And it's worth kind of calling out containers as an example because now we're dealing with obviously the Red Sea challenges. So container costs that were about $3,000 per container can now rise as much as $6,000 per container. With that in context, at the peak, those were in the $20,000 per container kind of rate. So that gives you an idea of kind of where those differences are. And so we have a plan to deal with those higher container costs for the remainder of the year.

So when I summarize those 3 things together. One is, as I said in the remarks, our products are being recognized for their value in the marketplace. That's fundamental. That's key. That's number one. Two is, the strategy has produced a more consistent result across our portfolio. So mix is less impactful than it may have been in the past. And then the third is, we've moved aggressively to get to a more consistent cost basis on materials.

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

I appreciate that. And if I could just may follow up more thematically. It sounds like a lot of it say, we want to get price for the value we're bringing to the market. But the company has always been -- it's prickly. I know, Neil, you have only been there for a few years, but over your time, I think the company has always been a leader on technology and a leader on product quality. So what's kind of flipped there to get the gross margin from 41%, 42% now to 45% plus? Because it feels like a lot of the -- you've always kind of leading on the product technology side.

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

Yes. Thanks, Chris. These things take time. I wish I was not as old as I am, but I've been around the barn more than once. And you just realize that like kind of all of these changes are cumulative and it takes time for them to all kind of line up. And obviously, and this is a conversation that we have with our team here, which is that we're taking the company to levels of performance that it's never seen before. That's true in the market -- broader market where the competence of our product quality cascades through our sales team, through our independent sales agents, et cetera, through distributors, through the service levels and the programs that we've put in place. So those things cumulatively add up to the performance that you're seeing today.

Operator

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

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

So my first question, Neil, can you talk about large projects back market? How is activity? Are you seeing delays, cancellations? Or is that sort of improving? Just what's the latest update?

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

Yes, Ryan, thanks. I mean we called out the order rate to kind of demonstrate that we're finding a new kind of normal. I think anecdotally, there's a lot of talk around big projects in kind of calendar '25, that sort of period, whether it's infrastructure or other things. I think that's just kind of the general kind of on the street sentiment about kind of what's going on out there. So other than that, we're in a relatively -- I think we're in a kind of a new normal from a consistency perspective.

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

Okay. So you're not seeing large projects be particularly weak?

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

I mean, anecdotally, there's some discussion about kind of that. I don't know what weak means. And I think that's a -- it's worth us all kind of taking a step back and saying, okay, if we had an industry-wide pull forward over kind of, call it, '22 and '23, which is what we're talking about on our comparables, that has manifested in net sales higher than order rates for some period as we were very clear about that in '23. Now with order rates and shipments more equilibrated and a normal relationship in a period, this is kind of the normal run rate of the market. And so yes, there are some good days and some bad days within that, obviously. So -- but it's not -- we don't -- we're not viewing a cliff on the horizon anywhere.

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

Okay. And then I had a question on gross margin as well. Obviously, first quarter was really strong. Normal seasonality would put you at about 45% for the year. I'm just curious, is there any reason that we should be below that is the biggest risk just sales and fixed cost deleverage at this point?

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

Karen, do you want to take that?

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

Yes, Ryan. So in terms of seasonality, just when we look at where we are today, I think we are probably -- that Neil said, order rates and shipment rates are coming in alignment. So it's looking like we're getting back to seasonality, but we haven't fully seen that. On the margin side, when you look at where we are comparative to the first quarter last year, we ended up last year at 45.1%. So we increased our gross profit margin throughout the year. And as Neil described, that was a combination of our strategy and also executing on some costs that were higher in the first half of the year that moderated in the second half.

So really, if you look at where we are now, we think this is a pretty strong level of gross profit impacted by the mix for Controls impacted by the mix of the higher ISG. So I would say that around this level is probably pretty high, but we expect to be pretty confident in our gross profit margin.

Operator

Our next question comes from the line of Christopher Glynn with Oppenheimer & Company.

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

Congrats on a strong start to the year. I was curious on Design Select, still kind of early days, but anything kind of pithy or interesting, you could share about the market reception on that rollout?

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

The market reception has been really strong. So we continue to tweak how it's presented in the market so that people can understand it. The industry has historically focused on something that's called Quick Ship. And so sometimes this is confused for Quick Ship, it is not Quickship -- this is an overhaul of a group of products that the specification community can know that they can choose and the options they can choose with those products. And so that's starting to manifest as we talked about, nothing -- I'm thinking -- I'm trying to think of a pithy answer for you. I don't have a good pithy answer for you, but we're really -- or a good anecdote for you, but it is progressing really well, and we're pleased with where it is.

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

Okay. Well, that was pithy enough for me. And then on the seasonality, it sounds like I think Karen said, not declaring victory really, if I could paraphrase, but sort of leaning into normal seasonality. I think is the message I got there as we look at the forward quarters. I'm curious, the market is one part of that. And then it sounds like maybe your share momentum relative to the market in any given period might be adding muscle. So I'm curious about the interplay of that versus market when we say that we're kind of leaning towards normal seasonality here.

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

Yes. So let me kind of take your comment. Thank you for paraphrasing Karen. That was a long answer to get to. We're not declaring victory yet, but that's exactly what the message was meant to be.

The -- so building up, first of all, on what we can control. We feel very, very good about what we control. So that is -- that's the kind of the foundation. I think a lot of questions we've gotten from this crowd over the course of the last few quarters is, "Hey, are you sacrificing -- are you sacrificing share for margin?" And we don't believe that we are. We've said that consistently as we've gone through. So -- so that culminates in the order rates that we are describing. So up sequentially and up year-over-year. However, modestly, they're up sequentially and year-over-year. So that is, as I said earlier, we believe these things are cumulative. In other words, the market really starting to realize those things.

As I said, when we open, we don't need to operate at these levels of margin for the rest of the year to deliver outstanding results. So -- so we don't have outrageous aspirations for the remainder of the year. But we're very confident in the quality, the how of how we're delivering these results.

Operator

Our next question comes from the line of Jeffrey Sprague with Vertical Research.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder & Managing Partner*

Maybe just kind of picking up on that, I know you don't want to kind of speak to the framework or the guidance every quarter. But coming off this quarter and thinking about what you said about you don't need to do anything heroic now for the remainder of the year. What would -- in your mind, what would drive you to the bottom half or bottom even 2/3 of that larger framework that you put out?

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

Yes. So let me unpack that a little bit and make sure kind of we're all on the same page. It is not our desire to provide quarterly guidance or update guidance on a quarterly basis. Karen was clear in her prepared remarks that we are going to take a look at the outlook and framework at the middle of the year, which is inconsistent with how we would normally do things. So obviously, we can do the math also. If we take consensus plus our (inaudible) this quarter on an EPS basis, you get way up in the -- in our EPS range. So -- so as she said, we'll take a look going forward in the middle point of the year.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder & Managing Partner*

And then just on SG&A. So that did move up a couple of hundred bps on a full year basis last year and up again this quarter, probably some deleverage on the sales decline obviously. But -- where are we at in terms of kind of getting to a normalization there or the ability to deliver some operating leverage on the SG&A line?

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

Sure, Jeff. As you recall in the fourth quarter, we did take some costs out of the ABL business. So we feel pretty good about the cost reductions as we evaluate how we do the work. And we think we're really at the right level of investment from where we need to be to leverage when the sales growth comes back. That being said, in the ISG business, we did have some isolated cost this year that don't really affect the run rate of that business. So overall, I just feel good about the current level of investment going forward that we can leverage.

Operator

Our next question comes from the line of Jeff Osborne with TD Cowen.

Jeffrey David Osborne - *TD Cowen, Research Division - MD & Senior Research Analyst*

Karen, I just had a question on what was the surprise relative to the guidance that you had given or the commentary 3 months ago around margins declining sequentially. Was it the strength in controls or the strength in the retail channel? Just trying to get a sense of the surprise because Neil had indicated that the 4 areas of vitality service, technology and productivity are essentially a culmination of years of investment. So what was the differential relative to 3 months ago's outlook?

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

Yes. So what I would say is that I would not use the word surprise. We really weren't surprised by the level of gross margin that you're seeing this quarter. As Neil said, we're taking the company to levels of performance that it hasn't seen before. What -- kind of the gross margin of the 45.8%, the -- not typical level of performance that you would see. It's just a higher mix of control that had some impact this quarter. But overall, it's really the execution of the business, the continued growth of ISG and really the strategy as we execute over product vitality, service, technology and productivity improvements that are driving this level of gross profit margin.

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

Yes, Jeff, just a quick build on that. What Karen had said last quarter is that normally, on a sequential basis, the gross margin would go down from Q4 to Q1.

Jeffrey David Osborne - *TD Cowen, Research Division - MD & Senior Research Analyst*

Got it. And then what was abnormal then this time? I guess I'm still confused on that.

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

Performance. We continue to perform.

Jeffrey David Osborne - *TD Cowen, Research Division - MD & Senior Research Analyst*

Perfect. And then, Neil, your predecessor, Vern, would -- I think the past 2 election cycles that highlighted weakness in the end markets and sort of the skittish buyer, if I recall, the terminology correct. I'm just curious, it sounds like your outlook on the macro is a bit more calm and pipeline looks good, et cetera. Do you anticipate the November election having any impact on either larger projects or smaller projects?

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

I mean I don't know what Vern's logic was there. I can tell you that one thing I do know about Vern's feelings this morning is that he's a proud Michigan Wolverine. So I am sure that he was celebrating late into the night last night.

As we look forward on the macro, the -- it is as we have described earlier in the call, we believe that we found a kind of new normal and we're not expecting -- we're not expecting anything extraordinarily positive or extraordinarily negative between now and the end of the calendar year.

Operator

Our next question comes from the line of Brian Lee with Goldman Sachs.

Unidentified Analyst

This is Grace on for Brian. I guess there's a lot of questions on margins. So I have -- I just have one question on the demand trend on the order rate. I think a year ago, you were the first one to call out the interest rate impact and slower order rate. Now you talked about order rates up year-over-year and sequentially. So can you talk about what are the drivers of that? Are you taking market share? Is it because of lower interest rates? And also given how interest rates have been trending in the past few months, maybe this is too early to tell, but do you see any order rate acceleration based on your conversation with customers today?

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

Yes, Grace. I mean, I want to kind of make the same kind of point. So this will be mildly redundant. But the order rate is obviously year-over-year. The issue on a last year basis -- not the issue. The results last year on the net sales basis were the results of order rates that had happened prior to that. We pointed out that through -- kind of through the course of the year that there was an impact on those order rates, you're seeing the impact on those order rates.

Now those order rates have normalized, and we have found kind of a consistent level of operating performance. So as we annualize those -- the comps and eliminate the excess backlog impact that happened at the beginning of FY '23, then you'll start to see a kind of more normal performance, specifically from the Lighting business. Obviously, ISG has continued to grow.

So over the long arc of time, this will continue the Lighting business, basically had a pull forward, an industry-wide pull forward, and will look like on a compounded annual growth rate exactly where we expect it to be, which is in the kind of mid single digits of growth rate.

Operator

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 closing remarks.

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

Thank you all for joining us this morning. Obviously, our year is off to a really good start, and we are both pleased about that and encouraged about what that means for the future.

We are focused on the strategy, and it is yielding results both in ABL and in the Spaces Group, and we look forward to catching up with you again this time next quarter. Have a good day.

Operator

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