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AYI.N - Q4 2023 Acuity Brands Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, and welcome to the Acuity Brands Fiscal 2023 Fourth Quarter and Full Year Earnings Call. After the speaker's presentation, the company will conduct a question-and-answer session. 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, Liz. Good morning, and welcome to the Acuity Brands Fiscal 2023 Fourth Quarter and Full Year 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 our corresponding GAAP measures are available in our 2023 fourth quarter and full year 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 our full year highlights; and also Karen Holcom, our Senior Vice President and Chief Financial Officer, who will walk us through our fourth quarter performance and full financial year performance as well as provide an outlook for our full year fiscal 2024.

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 good morning to all of you joining us. Our fiscal fourth quarter performance demonstrated excellent execution. Our focus on margin and cash generation led to increased adjusted operating profit margin and higher adjusted diluted earnings per share despite a decline in sales in the lighting business.

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This quarter concluded a successful year. We delivered strong financial performance. We continue to improve our businesses, and we allocated capital effectively. Throughout fiscal 2023, both our lighting and spaces teams made meaningful progress driving our business forward.

In our Acuity Brands Lighting and Lighting Controls business, our strategy is to increase product vitality, improve service levels, use technology to improve and differentiate both our products and our services and to drive productivity.

In 2023, we realigned our product portfolio through the introduction of Design Select. We now have 3 defined ways in which we go to market: Contractor Select, Design Select and Made to Order. By combining a high product vitality and improved service levels, Design Select allows us to better serve lighting specifiers, distributors and electrical contractors.

The realignment of our portfolio, together with our ongoing product vitality efforts, has allowed us to strategically manage price in a dynamic environment, while the ongoing productivity improvements in our supply chain continue to improve our processes and manage our costs. We also continuously evaluate our portfolio. This year, that evaluation resulted in the divestiture of our Sunoptics daylighting business and the decision to exit Winona custom architectural lighting solutions. There's a bit of noise in the numbers this quarter, resulting from a series of actions.

The first is the result of our ongoing transformation efforts. We have redefined our work, where and how it is done, resulting in organizational changes that will lead to more efficiencies. The second are charges primarily for impairment of trade names related to prior acquisitions. The third charge resulted from the collectibility of a supplier warranty obligation owed to us for components we use in products manufactured and sold between 2017 and 2019.

Karen will cover each of these in more detail. This year, our teams have refreshed approximately 20% of our product portfolio and have introduced many new product families. I'd like to highlight our American Electric lighting brand, where we launched AutoConnect, which is a durable, value-driven solution for outdoor infrastructure lighting that includes connected luminaires for roadway, industrial and commercial applications.

The rollout was targeted to coincide with the anticipated increase of infrastructure investments and positions us well for continued success. In August of this year, the City of Philadelphia announced that it has selected our American Electric Lighting outdoor lighting product as a major supplier for the Philadelphia Streetlight Improvement Project. The citywide project will replace and connect approximately 130,000 street lights into a network of more efficient, longer-lasting remotely controlled LED lights, which is expected to reduce street lighting energy usage by more than 50% and is expected to reduce municipal carbon emissions by more than 9%.

Our team continued to be recognized for our innovation and the value that our products bring to our customers. In the fourth quarter, 6 of our lighting solutions were selected for the 2023 Illuminating Engineering Society Progress Report, which showcases the year's most significant advancements in the art and science of lighting, including our warm dim technology for Aculux, emergency battery backup cylinders from Gotham, and flame lighting technique from Hydrel.

Our marketing team was also announced as a winner of the Best of the Best Marketing Award for 2023 by the Electrical Distributor Magazine. Now moving to spaces, where we had another great year. The strategy for our Intelligent Spaces business is to make spaces smarter, safer and greener by connecting the edge to the cloud.

Distech has the best edge control devices on the market, and Atrius will be the best in cloud applications. Our strategic priority for Distech is to expand our addressable market in 2 ways. The first is geographic, and the second is increasing what we control in a built space.

In 2023, we continue to drive this strategy forward by establishing a presence in the U.K. market and through the acquisition of KE2 Therm, which added commercial refrigeration controls to our portfolio. The integration of KE2 Therm is progressing well, and we rounded out a successful year with them being awarded a 2023 Dealer Design Award.

Earlier this year, we launched Atrius Data Lab, the intersection point between the edge devices and Distech and the applications in the cloud. Atrius Data Lab is a foundational to our ability to automate the environment of a built space and help ensure that our partners achieve their specific energy and sustainability goals.

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During the quarter, Atrius was named as a Sustainability Leadership Award winner in the 2023 Sustainability Awards program. The program honors people, teams and organizations who have made sustainability an integral part of their business practice or overall mission. I'm pleased with the progress we have made as a team in 2023.

We have successfully positioned our company at the intersection of sustainability and technology, setting ourselves up for long-term growth by taking advantage of 2 of the most important megatrends: minimizing the impacts of climate change and maximizing the impacts of technology.

Our ABL business continue to lead as the largest lighting and lighting controls company in North America. And we have made the business more predictable, repeatable and scalable by focusing on product vitality, improving service levels, the use of technology throughout the business and driving productivity. Our spaces business continued to grow as an attractive technology business that connects the edge to the cloud for built spaces.

Distech has a significant technology advantage that we can continue to expand as the mechanical and analog controls of today become digital over time. And Atrius introduced new applications in the cloud that are already making a difference for our customers. We have changed how the company works for a better, smarter, faster operating system.

Better, smarter, faster is the combination of processes, tools and ways of working that spans from strategy to people to operating rhythms to problem solving. It is unique to our organization and allows us to drive strategic alignment, manage change and deliver results.

Our values are at the core of our culture and help create a shared purpose for achieving our company's strategic goals. We make decisions based on our values, and these values impact how we treat each other and how we serve our customers. The combination of better, smarter, faster and our values allows us to operate more efficiently with greater distribution of responsibility and accountability throughout the company. It is how we continue to improve our businesses and respond quickly and effectively to changing economic environments.

The alignment of everyone in our organization through our value creation model, through our total rewards framework compounds that responsibility and accountability. Our associates understand how they contribute to our overall strategy. If you stop people in our company and ask them how we create value, they will answer we grow net sales, we turn those profits into cash, and we don't grow the balance sheet as fast.

This year, we have continued to demonstrate that we are effective capital allocators. We have invested for growth in our current businesses through R&D and capital expenditures. We've enhanced our portfolio through the exit of Sunoptics and the acquisition of KE2 Therm. We've maintained our dividend, and we've created a permanent shareholder value with approximately $1.3 billion in share repurchases since the beginning of the fourth quarter of fiscal 2020, which amounts to about 23% of the then shares outstanding.

As we turn to our fiscal 2024, our strategic priorities remain the same. In our lighting business, we will continue to drive margin and cash flow. We expect roughly the same market conditions in lighting for the remainder of this calendar year, with the potential for some improvement in the next calendar year.

We will continue to grow our Intelligence Spaces group in 3 ways: Geographically, by adding control planes and by delivering applications that make a difference in built spaces. We will continue the development of our better, smarter, faster operating system in order to improve our current businesses and those that we acquire in the future, and we will continue to allocate capital consistent with our priorities.

Now I'll turn the call over to Karen, who will update you on our 2023 performance and provide more details about 2024.

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

Thank you, Neil, and good morning to everyone on the call. We executed well throughout fiscal 2023. In a challenging sales environment in the lighting business, we improved our adjusted operating profit by $9 million year-over-year and generated cash flow from operations of $578 million.

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We continue to improve our businesses and allocated capital effectively. For total AYI, we generated net sales in the fourth quarter of approximately $1 billion, which was $100 million or 9% lower than the prior year as a result of the decline in net sales in our ABL business. This was partially offset by continued growth in the ISG business of 17% in the quarter.

We continue to deliver year-over-year margin improvement. During the quarter, our adjusted operating profit was down year-over-year on lower sales, while we expanded adjusted operating profit margin to 16.1%, an increase of approximately 80 basis points from the prior year. The increase was driven largely by the significant improvement in our gross profit margin as we continue to strategically manage price and costs.

During the quarter, our adjusted diluted earnings per share of $3.97 increased $0.02 or 1% over the prior year. In ABL, net sales were $944 million in the quarter, a decrease of 11% compared with the prior year, driven by declines across most of our channels, offset slightly by continued strong performance in our retail channel.

ABL's adjusted operating profit decreased 2% to $159 million on lower net sales. And we delivered adjusted operating profit margin of 16.8%, a 150 basis point improvement over the prior year as we strategically managed price and input costs improved, particularly steel and inbound freight.

As Neil mentioned at the beginning of the call, we also took several charges during the quarter that's primarily related to ABL. Taken together, these amounted to $35.5 million in nonrecurring pretax charges or $0.87 in diluted earnings per share. The first is a result of our ongoing transformation efforts and includes a charge of $6 million in severance as we realigned how we work.

The second is a $16.5 million noncash impairment charge for a small investment and for certain trade names related to prior acquisitions. In addition, we transitioned several of those trade names from indefinite to definite lives to more accurately reflect their value.

The third is a $13 million pretax noncash charge for the impairment of a receivable based on its collectibility. The receivable is from a supplier who owes us a warranty obligation related to the recovery of quality costs we have incurred for certain ABL outdoor lighting products manufactured and sold between 2017 and 2019. We are pursuing recovery from the supplier.

ISG's net sales for the fourth quarter were $72 million, an increase of 17%, as Distech continued to win business across new and existing customers. This quarter, we also had a modest benefit from the acquisition of KE2 Therm. ISG's adjusted operating profit was $14 million, which was a decline of approximately 3% over the prior year as we continued to invest in the business for long-term growth.

Now turning to our cash flow performance. We generated $578 million of cash flow from operating activities for the full year of fiscal 2023, an increase of $262 million over the prior year, driven largely by improvements in working capital. We've improved both days of inventory and accounts receivable compared to the end of fiscal 2022.

In fiscal 2023, we invested $67 million in capital expenditures and allocated $269 million to repurchase approximately 1.6 million shares. Since the beginning of the fourth quarter of fiscal 2020, we have repurchased over 9 million shares at an average price of approximately $143 per share, which was funded by organic cash flow.

I now want to spend a few minutes expanding on our outlook for 2024. Consistent with our 2023 guidance, we are going to provide annual guidance anchored around net sales and adjusted diluted EPS. 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 2024, our expectation is that net sales will be within the range of $3.7 billion and $4 billion for total AYI. This is based on the assumptions that ABL will deliver sales down low to mid-single digits as a result of conditions in the lighting macro environment. And ISG will continue to generate sales growth in the mid-teens as we continue to take share and expand geographically and into new control planes.

We expect to deliver adjusted diluted earnings per share within the range of $13 to $14.50 for total AYI. Our capital allocation and priority -- our capital allocation priorities in 2024 are unchanged, and we will continue to focus on delivering margin and cash flow.

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In conclusion, we strategically managed price and cost and delivered margin growth at ABL. We continue to grow the Intelligent Spaces Group. We generated strong cash flow from operations and allocated capital effectively. We continue to improve the business through product and productivity improvements, and we continue to take the steps necessary to drive our transformation forward.

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 Tim Wojs with Baird.

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

Maybe, Neil, just to start, anything from an environment perspective, just any color that you could maybe provide on kind of what you're seeing kind of in the end market demand environment, maybe the quoting environment today? And your comments maybe about calendar year '24 maybe being a bit better. Is that just kind of starting to cycle easier comparisons? Or is there something that you're kind of seeing from a visibility perspective that you'd call out?

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

Yes, thanks for the question. So first of all, we're really proud with our performance. We've obviously demonstrated that we can execute in this environment. And I wish the economy would line up with our fiscal year, but it doesn't.

So the -- as we're looking forward to kind of our fiscal first quarter and the rest of this year, while the business is relatively consistent, it's pretty much choppy all over. So we feel good about kind of where we guided for the year given that. And we also feel like there's still strong kind of volume in each of our networks.

So the C&I network, obviously, is about 60% of the business. As Karen pointed out, the retail business has remained strong for us. The direct business has been comparatively strong for us. And as you can see in our channel, the OEM business is down, which is our sales to other lighting manufacturers. So taken together then, we feel like we're comfortable operating in this environment and we feel like we've got a responsible plan for 2024.

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

Okay. Okay. Good. And then just, Karen, just when you think about guidance, and I guess, high-level, sales down kind of low to mid-single digits. It's -- at least in ABL business, I think it's down 3% overall. And I think that the midpoint of the EPS range winds up being down 2%. Could you just maybe give us kind of the puts and takes or what to think about in terms of kind of managing maybe a down volume environment versus kind of keeping margins what appears to be pretty stable?

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

Yes, sure. Thanks, Tim. So the guidance, just to reiterate, the guidance for the net sales range is $3.7 billion to $4 billion, and you'll see all this in the presentation. That does anticipate that lighting would be down low to mid-single digits as we discussed, kind of the continuation of the trends that Neil talked about just a moment ago.

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When we look at the margin that we expect to maintain, it's a solid plan. And we don't expect to stay kind of at the high levels that we are now, but we still expect to be able to strategically manage our product vitality, our service levels, our technology and productivity to continue to deliver strong performance that would land us in the EPS range of $13 and $14.50 for the year.

I would just call out ISG, we're still predicting up to mid-teens in that business. So that's still going to continue to grow next year. The acquisition of KE2 Therm will be a benefit as well. So really, really pleased with the performance overall.

Operator

Our next question comes from the line of Ryan Merkel from William Blair. Our next question comes from Joe O'Dea with Wells Fargo.

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

I guess first question is just the sort of combination of sort of channel inventory management and then the macro. And so what you've seen over the course of the past few months, what you're anticipating through kind of the rest of this year in terms of any additional headwinds related to destock? Or is there a little bit of a transition where macro has gotten a little bit choppier, but destock gets a little bit less challenging.

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

Yes. So just for just a little bit of historical context as we kind of recreate FY '23, obviously, we burned through backlog through the first half of our fiscal 2023. We talked extensively through the remainder of the year at how lead times have compressed, and that's led to the destocking you referred to.

We're now getting to a more normal relationship between order rate and shipment rate. So we're starting to, and that's what I was alluding to in the answer to Tim's question, we still -- we're comfortable operating in this environment. So I think what we are experiencing now are macro lighting trends.

And unfortunately, we're in a period where people are just buying less lighting and lighting controls. I'll also highlight, though, that as Karen pointed out, the Intelligence basis group continues to grow mid-teens. So the portfolio of the business is expanding. At the same time, in both the Lighting business and the Spaces business, we've been able to layer in margin despite the decline in sales at ABL.

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

Got it. And then on the cash side, I think another year of solid cash generation. You did less on the buyback side. You ended with cash in a pretty strong position. And so just any commentary around what you might be seeing on the M&A pipeline side of things? Or is it kind of as you're monitoring may be a little bit choppier environment, the bias to hold a little bit more cash, how we should think about buyback posture in 2024?

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

Yes. Thank you, Joe. You'll see in the presentation that we'll post, we've talked about some of the assumptions that reflect our cash priorities for next year. So our cash -- our capital allocation priorities are going to be the same. First to invest in our current businesses for growth; second, to invest in M&A; third, to maintain our dividend; and fourth, will be share repurchases.

And so at this point, we've repurchased about 23% of our shares since we started at the beginning of fiscal -- fourth quarter of fiscal 2020. And so we're looking at this upcoming year about $40 million to $60 million in share repurchases is what we would expect, and you'll see that in the presentation. And then, Neil, do you want to comment on?

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

I'd just add a couple of things, Joe. First is, obviously, we have done, I think, a very -- an outstanding job of generating cash. So through layering in margin and aggressive management of our balance sheet and working capital, especially on the lighting side, we've demonstrated the ability to generate a significant amount of cash.

Our priorities, as Karen outlined, are -- remain the same. We want to grow our business. And so -- but when the market presents us with opportunities, we will take advantage of those opportunities to repurchase shares. We've demonstrated since we've been here over the last 2.5 years that when the stock goes down, we buy more and when the stock goes up, we buy less.

And -- but our focus and our priorities are in the order and Karen mentioned them. We want to grow our current business and we want to grow the platform through acquisitions. And we feel good about our opportunities in all of those. On the acquisition side, our priority is the -- is to continue to add to our Intelligence Spaces Group. We think that there are very interesting and in some cases, meaningful opportunities to expand there. And so that's where we're spending the most of our time. But we are also open for business on the lighting side to other specific opportunities.

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 ask about the ABL guide for 2024. And specifically, what we should expect in first half versus second half. So down low to mid-single for the year. I think Neil talked about pressure in the market through the end of this calendar year. So I would assume that the declines are steeper in the first half and then moderate in the back half.

Is there any color about how we should be thinking about the slope of ABL in '24 as we're kind of working towards to that low to mid-single-digit decline?

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

Yes. So Chris, thanks for the question. I would guide you back to kind of historical sequential trends where obviously, on a sequential basis, we drop off from fourth quarter to first quarter and from first quarter to second quarter. And last year, in those same periods, we were still at inflated levels of backlog as we were burning through backlog. So then we get you to a more normal -- in our assumptions, gets you to a more normal cadence in the back half of the year.

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

I appreciate that. So it sounds like maybe high single-digit type declines in the first half, if I run that seasonality. And certainly, we see how the comps in the back half get easier. And is the uplift in growth really just kind of a function of the comps getting a lot easier into the back half? Or is there also an assumption that the macro will become more supportive into the back half?

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

So our assumptions aren't relying on significant improvement on the -- from a macro environment. As I mentioned, we have returned to a more normal relationship between order intake and shipment rates. So we are -- and as I mentioned, we're comfortable executing in this environment.

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So I think what we are ultimately suggesting for fiscal 2024 is that the back half of the year, we end up kind of clearing all of the legacy impacts of the increased backlogs and all of the other supply chain things. And so we end up with a more normal year. I think if you were -- if the economy matched up with our fiscal year, which it has no interest in what our fiscal year is, then you would say -- you would notice the third and fourth quarters of fiscal 2023 and the first and second quarters of fiscal 2024 on a calendar basis. But that gets us to where we are, which is kind of where you suggest, which is we'll be down in ABL in the first half of the year, and it will normalize a little bit in the back.

Operator

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

Unidentified Analyst

This is Grace on for Brian. I guess my first question, just to follow up on the last question. Sounds like you're expecting improvement. You called out the assumption of clearing all the legacy impact of the increased backlog. Just curious like what gives you the confidence to see that improvement? Are you seeing like sell-through improvement from quarter-over-quarter?

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

Yes, Grace, as I pointed out, we've returned in the lighting business to a more normal relationship between order intake and shipment rates within the quarter. So we are at normal lead times. So our lead times are in the 20- to 30-day range in our lighting business, which translates to a performance where orders and shipments are consistent.

As I explained in response to Chris' question, the -- we were at this point in the last year for our fiscal first and second quarters in Lighting, we were burning through additional backlog. So we obviously are not burning through additional backlog anymore. So we have returned to a more normal correlation between order intake and shipment rate.

Operator

(Operator Instructions) Our next question comes from Jeff Osborne with TD Cowen.

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

Just, Neil, you mentioned several times, expanding geographically and control planes on the ISG side. Do you have any organic efforts there? You alluded to potentially meaningful M&A activity there. I was just curious how to balance those 2 comments.

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

So that is basically all organic. So Distech continues to grow. We've called out the U.K. where we've had some success in that market, and we'll continue to expand in Asia over the course in Australia over the course of this year and beyond. So that is primarily organic growth.

The acquisition that added to that would be KE2 Therm, which added refrigeration controls. So those are added. So we're confident in the organic cash, I mean, the organic growth at ISG any acquisitions we make would then be in addition to that, and we see some interesting opportunities there as well.

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

Perfect. And then either for you, Neil or Karen, what are the assumptions around price and volume mix as it relates to the revenue guidance for the year?

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

Yes. I'll take that one, Jeff. So as Karen has explained through the course of this year, volume was -- we had a healthy mix in fiscal 2023 first half of both volume and price. That was, again, as we were burning through the backlog. Through the back half of this year, we have delivered performance largely through price as volumes have moderated.

So on a sequential basis, we feel pretty decent on the relationship between volume and price. So we think we're in a healthy balance of both of those for -- in our lighting guidance for 2024. They are -- the volume is impacting and we're comfortable with where we are in price.

Operator

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

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

Can we just follow up a little bit back to what you just said on price. So if I understand, you're saying most of the revenue decline that we see in the quarter is price. Is that what you meant? Could you just kind of clarify?

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

Yes. Sorry, if I left with that impression, that was not what I intended to say. So I was talking about fiscal '24 in response to other Jeff's question, which was -- and so how we how we got to our net sales assumptions for the lighting business next year.

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

Got it. And then if I recall, you haven't actually made a major pricing move for the better part of the year. Is that correct? And do you have additional pricing actions in the market at this point in time?

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

So as we've mentioned consistently, Jeff, we have -- our strategy, the underlying strategy of product vitality, service, technology and productivity has afforded us the opportunity to more strategically manage price.

So while there were a number of broad pricing actions through kind of '22 and '23, we've become significantly more targeted in those actions now. So for example, we're in the market now. We just recently announced a price increase around certain controls products this quarter.

The -- we're also strategic about where we choose to invest in price. That's generally in the Contractor Select portfolio, and it's generally to expand our market share in the electrical distribution channel. And it's highly targeted. So it's very low dollars comparative investment on a percentage basis. So the strategy has empowered us to more strategically manage price. And so we are no longer really going after broad-based pricing changes like that up and down, but more strategically managing on different categories and for different reasons.

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

And then maybe just one last one. So the cash flow was solid in '23. By my math, the inventory days are actually now a fair amount below normal. Can you do more on inventory or working capital at this point? Maybe just a little some thoughts on cash outlook for 2024.

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

Yes, I think as we look ahead, Jeff, I agree, we had a really good performance this year with our cash flow generation, and we were able to improve our days. I think there's still some opportunity as we look ahead, probably not to the magnitude of what you see in -- or what we saw in 2023.

So for example, if you think about where we were in '22, we had high levels of inventory because of lead times from our suppliers. We were able to bring that down to a little bit better than our normal levels of inventory. But I think as we continue to drive the strategy, particularly at ABL, around product vitality, service, technology and productivity, there is still room for some improvement as we kind of drive that strategy throughout the business.

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

And Jeff, I'd love to take this opportunity to summarize kind of where I think we are from a performance perspective. Obviously, it's hard to increase margins when sales are declining. We've demonstrated that we can do that. It's also hard to make the kind of improvements that we've demonstrated and you highlighted from a working capital perspective, we've structurally improved the business.

The strategy, as Karen outlined, has changed, both where we -- how we operate and how successfully we can operate. So that makes us very comfortable with our continuing performance around margin and cash generation.

Operator

Our next 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

I just want to circle back to the kind of sequential commentary. So it seems like if we run sort of normal seasonality out of the fourth quarter kind of revenue rate, we get roughly to the midpoint. I guess that also would seem to imply that you're going from an environment where you were dealing with channel inventory rationalization that ends. And so arguably, there should be an uplift and maybe the incremental pressures that the macro is a little bit more challenging.

And so just wanted to sort of touch on that dynamic again a little bit more. And then within that, I think a tremendous amount of focus on sort of verticals within non-res and so any additional commentary sort of on thoughts that you have around kind of verticals that would be stronger where you're maybe paying a little bit closer attention to any potential softness.

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

Yes, Joe, thanks for the follow-up. So again, we would like to provide you as much of a read through the macro as we can, but we can only kind of comment really on our performance. And so as it relates to that, as just to kind of reiterate, in the first half of fiscal 2023, we were burning through backlog. We have now returned to a more normal order and relationship between order and shipment rates, where our order rate is -- it drives basically the shipments within the quarter, and we're at kind of a 20- to 30-day lead times, so average lead time in the lighting business.

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So things are relatively back to normal. So on a sequential basis, that's how you see the more traditional sequential seasonality play out. So as we look forward, I'd like to say we know more about the macro environment than others. The advantage, but we -- I don't think we do. The advantage we have is that our portfolio on the lighting side really addresses the -- wherever there can be growth in the marketplace.

So the product vitality efforts that we have undertaken, the service levels we have undertaken allows us to be strong in retail, strong in electrical distribution, strong in each of the categories, well positioned for infrastructure. So we are in the places where we can benefit from any changes in the lighting market.

In the meantime, we're comfortable operating at these kind of levels of market activity and continuing to deliver the margins and the cash flow that Karen effectively highlighted through the guidance.

Operator

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

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

I just wanted to ask on gross margin. I don't believe this has come up. Can you just talk about what level of gross margin is implied in the guide next year as we're going from $3.7 billion to $4 billion of revenue to that $30 million, $40 million, $50 million of earnings?

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

Yes, sure. Chris, I'll take that. The -- as Karen pointed out, the -- all we are guiding to is net sales and adjusted EPS. I'm confident in your math skill, so you'll quickly realize that, that implies that we are -- we don't need to be at the levels of margin we were in the fourth quarter to -- for the full year next year to deliver that range.

What it does say, though, is that, as I was responding to Jeff Sprague earlier, we have structurally improved this business, which allows us to operate at higher margins than the company has operated in the past. It's worth saying that the fourth quarter gross profit margins are the highest in the history of the company. So we don't have to maintain those levels to continue to deliver what we consider to be outstanding performance. And further, as I have pointed out repeatedly, the -- and our value creation model is about growing net sales, turning profits into cash and not growing the balance sheet as fast.

So we've made structural changes, which allow us to operate at these higher margin levels and to turn those margins into cash. So we feel really good about kind of the permanence of the changes that we've made in the Lighting business and the continued opportunity we have to improve that. At the same time, we can continue to grow the portfolio through ISG and then through adding additional businesses to the portfolio.

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

I really appreciate that. And if I could follow up with 1 more, and it's probably the biggest question that I get, is when we look at this gross margin, I mean it's pretty incredible, up 340 basis points versus the start of the year. But at the same time, volumes have rolled. I understand that there's the backlog dynamic. I understand maybe the macro is a bit softer. But do you guys think that there is any negative volume impact from this big uplift in gross margin? And how does the company think about balancing that? It feels like there's a bit of maybe a sliding scale dynamic.

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

Yes. No, I appreciate you asking the question and giving us the opportunity to address it. We talked a bit about this in the third quarter call. But I want to reflect on it some more, which is most importantly, our strategy in the lighting business around biotic vitality, service technology and productivity has put us in a position to manage price and to manage margins in a step function better way than we have in the past.

And so we feel really good about that. As we have evaluated volumes, and I was addressing this with Jeff's question, we strategically managed price where we choose to where we think we can drive volume. We realize that at these margin levels, we've created a significant amount of value. And so we have a lot of incentive to continue to operate at these margin levels. All of the data that we are looking at across verticals says that we are appropriately pricing for the volume that's available in the market. And that's our goal over time.

So we will -- that's why we've continued to layer in margin and cash flow during this low volume period and why we believe we're well positioned for the inevitable return of volume growth at some point in the future.

Operator

And I'm showing no further questions in 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

First of all, thank you all for spending some time with us this morning. We're really proud of our financial performance, as we've talked about through the call. We had a great year. We delivered strong financial performance. We continue to structurally improve both the lighting business, and we continue to grow the Intelligence Spaces Group, and we can allocate capital effectively.

Our priorities for next year remain the same. We're going to continue to focus on operating excellence in the lighting business and making it more predictable, repeatable and scalable. We'll continue to grow the Spaces business, and we will be consistent with our capital allocation priorities. So we look forward to being back together with you at the end of the quarter, and hope you have a good rest of your day. Thank you for your interest in Acuity Brands.

Operator

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

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