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AYI.N - Q4 2021 Acuity Brands Inc Earnings Call

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OVERVIEW:

Co. reported FY21 net sales of $3.5b and diluted EPS of $8.38. 4Q21 net sales was $992m and 4Q21 diluted EPS was $2.72.

CORPORATE PARTICIPANTS

Charlotte McLaughlin *Acuity Brands, Inc. - VP of IR*

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Acuity Brands Fourth Quarter Full Year 2021 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to Charlotte McLaughlin, Vice President of Investor Relations. Please go ahead.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

Thank you, Shannon. Good morning, and welcome to the Acuity Brands Fiscal 2021 Fourth Quarter and Full Year 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 2021 fourth 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 detailed highlights from the last quarter and the last 12 months as well as 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. Good morning, everyone. Thank you for joining us to discuss Acuity Brands. I'm pleased with our company's performance in the fourth quarter of fiscal 2021. In a challenging global supply chain environment, we grew sales 11% and expanded our gross profit and operating profit margins.

Our performance demonstrated our focus on product vitality and customer service. We allocated capital effectively by closing the acquisition of OSRAM's North American digital business and have created permanent value for our shareholders through the repurchase of company shares.

2021 was a pivotal year for us as we advanced our corporate transformation, and I'd like to take a few minutes to recap some of those achievements. We returned the company to growth. We grew sales in the third quarter, the fourth quarter and the full year, and we expect this growth to continue. We expanded gross profit margins for the full year despite a challenging global environment. We realigned our businesses into ABL, our Acuity Brands Lighting and Lighting Controls business; and ISG, our Intelligent Spaces Group. This alignment creates the necessary strategic focus on each business and allows us to develop the leadership teams that will deliver on their potential.

We generated strong cash flow and allocated capital in a way that creates permanent value for shareholders. We held our first-ever Investor Day. We built a strong and diverse leadership team and are attracting new talent throughout the organization.

Our continuing improvements around ESG are central tenets to our strategy. We have made significant progress by reaching carbon neutrality in our operations and by committing to the reduction of 100 million metric tons of carbon from our put in place products and services by 2030. We've made progress on diversity, equity and inclusion and on governance. And you can read more about all of this in our upcoming 10-K, our annual report, our annual EarthLIGHT report and our proxy. And finally, we have positioned ourselves well for 2022 and beyond.

I now want to update you on our ongoing transformation in each of our businesses, and I will start with ABL. We've had a good year in ABL. Our focus on innovation through product vitality and increasing our service levels for the benefit of our customers has delivered strong results. And we are continuing our efforts to drive our product expansion.

The Compact Pro High Bay, which we've discussed before, continues to deliver from both a revenue and margin perspective in the high-growth industrial sector. Our product vitality efforts include improvements to existing products and the introduction of new ones.

In the fourth quarter, we introduced the HomeGuard LED security floodlight. It's an exciting addition to our Contractor Select portfolio. This new platform offers a technology upgrade, higher efficacy, greater safety options and ease of installation. Sales have been strong. We're off to a great start in a category where we currently have low share and strong growth opportunities.

We are also continuing to increase our service levels and deliver productivity improvements. We are using Better, Smarter, Faster to improve our processes and our technology for better, more efficient customer service.

Today, I'd like to focus on Agile. Agile is our commerce platform that is used by our channel for all of the key steps that they need to do business in Lighting and Lighting Controls: from finding products to creating solutions for large projects to bidding on those projects; to place in the orders; and finally, tracking those orders to completion. Our team is constantly improving Agile. One of our key areas of focus has been to improve the quality of the product data that we provide. This improvement provides many tangible benefits, including ease of use and improved order accuracy.

Another area of focus that I've spoken about before is order status. I bring this up again because it has been essential during this complicated period. We were able to provide clearer information to our channel about their order status, which allows us to better meet their needs in the face of the global supply chain challenges. These examples address significant historical pain points and are foundational, which allow us to improve our service levels today and in the future.

As we enter 2022, the priorities for Trevor and the rest of the ABL team remain the same: maintain high product vitality, continue to elevate our service levels and continue to use technology to differentiate ourselves.

Now moving to the Intelligent Spaces Group. The mission of ISG is to use technology to solve problems in spaces by making them smarter, safer and greener. We believe that each of these provides ample opportunities for future growth. Distech Controls is a collection of open protocol products necessary to effectively operate spaces. Atrius provides applications which use data to deliver value in those spaces. We are having success across Europe and North America with our Distech platform, especially around campuses, data centers and spaces that require a significant amount of control around the operation of the facilities.

We continue to add products to this ISG portfolio. During the quarter, we added the ECLYPSE Connected Thermostat, an open protocol device that reduces installation costs, helps manage energy costs and improves the comfort of spaces.

Now before I turn the call over to Karen, I'd like to conclude with thoughts on our transformation and the opportunity ahead. In the face of a challenging global environment, we have demonstrably improved our company and its performance. We have demonstrated our ability to grow sales through innovation and our ability to service our customers. We have improved our gross profit margins through product and productivity improvements. We have improved our operating profit margin by leveraging our costs. We have allocated capital efficiently through reinvestment in the business, acquisitions and share repurchase.

We have the talent and the tools to build upon the operating strength we have developed over the last 18 months. As we look forward, we expect to continue this performance. We are strategically positioned at the intersection of sustainability and technology. We have assembled a world-class team. We have demonstrated the ability to both build and acquire businesses. We have strong organic cash generation, and we have demonstrated that we know what to do with it to create value.

Now I'll turn the call over to Karen, who will take a deeper dive into our performance and outlook for 2022, and then I'll be back for Q&A and closing remarks.

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

Thank you, Neil. I want to start by recognizing the accomplishments of the team this year. We have made progress on our transformational priorities, improved the financial performance of the business and continued to thoughtfully allocate capital.

Our fourth quarter performance was solid. Net sales were $992 million, an increase of 11% compared to the prior year. This performance was driven by strong customer demand, improved execution across our go-to-market channel and the addition of the OSRAM acquisition, which added approximately 200 basis points.

Gross profit margin was 42.2% for the fourth quarter of fiscal 2021, an increase of 10 basis points over the prior year despite rising costs from raw materials, electrical component supply chain interruptions and a significant escalation of freight costs. We were able to offset the increased costs with higher sales volume, product and productivity improvements and a benefit from price increases. I'm extremely pleased with the team's execution around our gross profit margin that led to such a great result in a volatile cost environment.

Reported operating profit margin was 13.4% of net sales for the fourth quarter of fiscal 2021, an increase of 150 basis points over the prior year. Adjusted operating profit margin was 15.8% of net sales for the fourth quarter of fiscal 2021, an increase of 110 basis points over the prior year. The majority of this improvement was driven by the higher gross profit margin and leverage of our operating expenses.

The effective tax rate for the fourth quarter of fiscal 2021 was 21.9% compared with 24.5% in the prior year due to the impact of several discrete items.

Finally, we saw a significant improvement in diluted earnings per share for the fourth quarter of fiscal 2021. Diluted EPS of $2.72 increased $0.85 or 46% over the prior year, and adjusted diluted earnings per share of $3.27 increased $0.92 or 39% over the prior year. Our share repurchase program favorably impacted diluted EPS by $0.24 versus the prior year.

Before I move on to the segment results, I want to highlight a few numbers in our full year 2021 operating results. Net sales were $3.5 billion, an increase of 4% compared to the prior year, driven by improved sales performance in the second half of 2021.

We delivered a full year gross profit margin of 42.6%, an increase of 40 basis points over the prior year. Reported operating profit margin was 12.4% of net sales for fiscal 2021, an increase of 180 basis points over the prior year with adjusted operating profit margin at 14.6% for fiscal 2021, an increase of 90 basis points over the prior year.

The effective tax rate for fiscal 2021 was 22.7% compared with 23.5% in the prior year. We expect this rate to be approximately 23% for the full year in fiscal 2022, excluding any unusual discrete items and assuming no change to the corporate tax rate. Diluted earnings per share of $8.38 was a 34% increase over the prior year, and adjusted diluted earnings per share of $10.17 was a 23% increase over the prior year.

We had 36.6 million diluted shares outstanding during fiscal 2021, with our share repurchase program favorably impacting diluted EPS by $0.57 versus the prior year. Moving on to our segments.

During the quarter, the Lighting and Lighting Controls segment delivered a sales increase of 11% versus the prior year. This was driven by improvements within our independent sales network, which grew approximately 10% and the direct sales network, which grew about 15% in the current quarter as a direct result of our strong go-to-market efforts as well as recovery in the construction market.

Our corporate accounts channel continued the positive momentum and saw an increase in sales of 16% compared to the prior year as large retailers move forward with previously deferred renovation spend. The performance in this channel is dependent upon our customers' renovation cycle and can be uneven quarter-to-quarter. Sales in the retail channel declined approximately 20% as compared to the prior year and will continue to be impacted through the remainder of the calendar year as a result of a customer inventory rebalancing.

The retail channel continues to be an attractive channel for Acuity. During the quarter, we closed the acquisition of OSRAM's DS business. The acquisition contributed around 200 basis points of growth to ABL revenue, and we expect a similar level of impact in 2022.

Now moving to ABL operating profit for the fourth quarter of 2021, which increased 23% to $149 million versus $122 million in the prior year, with operating profit margin improving 150 basis points to 15.8%. Adjusted operating profit for the fourth quarter of 2021 improved 21% versus the prior year, with adjusted operating profit margin improving 140 basis points to 16.8%.

2021 was a year of improvement. To summarize the full year, the ABL business saw sales growth of 3% to $3.3 billion versus the prior year and an improvement across profitability metrics. Operating profit for the full year increased 12% to $476 million versus the prior year, with operating profit margin improving 110 basis points to 14.5%. Adjusted operating profit for fiscal 2021 improved 10% to $515 million versus the prior year, and adjusted operating profit margin improved 100 basis points to 15.7%.

Now moving on to the results for our Intelligent Spaces Group. For the fourth quarter of 2021, sales in spaces increased approximately 24% to $51 million, reflecting continued demand with strengths across our building and HVAC controls. Spaces' operating profit for the fourth quarter of 2021 increased $3.6 million to $2 million versus the prior year. Adjusted operating profit for the fourth quarter of 2021 of $6 million was $3.9 million greater than the prior year as a result of continued sales growth.

The spaces team had a great year. We recruited an incredible leadership team and broke the business out into a stand-alone segment. The team ended fiscal 2021 with sales growth of 21% to $190 million versus the prior year. Operating profit increased $13.8 million to $9.9 million versus the prior year, and operating profit margin of 5.2% for fiscal 2021 improved 770 basis points versus the prior year, with adjusted operating profit margin improving 400 basis points to 13.5%.

Now turning to cash flow. We continue to generate solid cash flow. The net cash from operating activities for fiscal 2021 was $409 million. This was a decrease of $96 million or 19% compared to the prior year, largely due to the increase in working capital needed to support the higher level of sales. We invested $44 million or 1.3% of net sales in capital expenditures during fiscal 2021, and we continue to believe that capital expenditures of around 1.5% of net sales is an appropriate annual level as we head into 2022.

We continue to allocate capital effectively by prioritizing growth investments, M&A, maintaining our dividend and creating permanent value for shareholders through share repurchases. During the year, we repurchased approximately 3.8 million shares of common stock for $435 million at an average price of $114 per share. We have around 3.8 million shares still remaining under our current Board authorization. I would now like to spend a few minutes reviewing some of the most important conversations around our company and offer insights into how we are thinking about them.

This is a complicated global environment and input costs have been changing frequently. For example, freight costs. I'd like to use this as a window into how we are managing these challenges. We balance our long-term freight contracts, which are at favorable cost with additional capacity at current cost to deliver high levels of service to our customers. We have passed along some of these costs through price increases, and we are balancing delivering on our margin expectations and delivering on our most important promise, which is to be the company which our customers can rely upon.

As we head into 2022, we are confident in our businesses and in our team. We expect ABL to grow net sales in the high single digits for the full year of 2022. We expect ISG to deliver net sales growth in the mid-teens. We expect a 42%-plus annualized gross profit margin for the full year of 2022, and we believe we can continue to leverage our operating costs as we increase net sales.

Finally, we will continue to allocate capital effectively. We are transforming our business and focusing on our customers, our investors and our associates. We enter 2022 a much stronger company and with clear opportunities. Thank you for joining us today. I will now pass it back to the operator to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Tim Wojs with Baird.

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

Nice job here. Congrats on the fiscal. I guess maybe just to start, topic du jour is really the supply chain. And it looks to us that you've been managing it really well. If you can maybe talk through a little bit of just some of the key pain points that you're seeing from a supply chain perspective, kind of what components are tightest and how you're managing some of the kind of transpacific kind of transportation issues? And I guess we hear kind of broad chip constraints, but I guess I'm curious how broad that pressure is through the chips that you actually buy.

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

Yes. Tim, thank you, and thank you for the comments and thank you for the question. Obviously, this is the topic of the day, as you point out. This is probably a challenging global environment as any of us have seen, certainly and as long as we can remember.

As we think about -- and Karen used freight as an example, we have seen -- we haven't seen a consistent either one directional price increase on all of our commodities, number one; or number two, consistent lack of availability on commodities. So it's been a moving target really throughout the process. And we expect that all to continue basically through the next at least 12 to 15 or 18 months.

So our adaptability to that has been key to us delivering, most importantly, the ability to ship to customers and then secondarily, the ability to deliver on margin. As we look through to what has been most challenging, as you point out, chip constraints are a broad term. And obviously, we have a lot of different chips that we use in different products. And that, too, has been a little bit of a moving target.

We got out in front early with some of our suppliers and partners. And we've worked hard to be a good partner to them through this process, which is we've tried to give them as clear a direction as to what we need as possible. And so what that's allowed us to do is be more predictable for them, which has allowed them to be more predictable for us.

Now those challenges have impacted us in different ways. So for example, we would make a sensor which has a certain chip, and we might be down for a week on the development of that sensor, which holds up some of our orders. But we've been able to sequence those such that we've delivered the results that you've seen.

Now as I point out, we don't expect the world to get any better in the foreseeable future. So we're using all of the levers we have to continue to prioritize, as I said earlier: one, to be -- as Karen used the expression, be the customer or be the partner that our customers can rely upon; and second, to meet our margin expectations.

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

Okay. Okay, that's great. And then maybe just kind of as a follow-on on pricing. Is there any way to provide some context around pricing? I know that it wasn't really like the primary driver of kind of the offset that you had to some of the cost headwinds. So I guess, what was the benefit in the fourth quarter? And how are you thinking about the contribution from price to revenue growth in fiscal '22?

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

So we've been able to get price, Tim, and we're starting to see the benefit of that a little bit in the fourth quarter to impact -- to mitigate these cost increases. And as you will remember, the industry has gone through a series of -- collectively has gone through a series of price increases.

We've done 3 and we're seeing the benefit of that. And obviously, those will be cumulative and they'll layer in later the further along we get. So obviously, our channel are placing orders today, which turns into backlog for us, which turns into shipments later and finally, net sales. So you'll see us trying to balance that relationship.

But as I said on the last call, and I want to emphasize this point is, we're trying to be the company that our customers can rely upon. And that means we ship on a regular basis, and we are as predictable as we can be for them around what their costs will be as they plan their projects to grow. So we are able to get -- we are getting price. It is having an impact, which is mitigating some of the impact of the -- of these cost issues, and we're also obviously improving our product and productivity improvements to also contribute to that performance.

Operator

Our next question comes from Ryan Merkel with William Blair.

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

So I guess just a follow-up on gross margin. What are some of the bigger pluses and minuses for fiscal '22 as you aim to hit 42%? Obviously passing along price is one, but what are some of the other key drivers?

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*

Sure. Yes, Ryan, as we mentioned, we do have price as one of our levers that we use to offset the rising cost. It's not the only lever. We focus heavily on our product and productivity improvements. We've used the Compact Pro High Bay as an example of things that we do to our portfolio to remove cost, to make it more efficient, to make it easier for the customer to install, and that ultimately impacts our profitability.

We also work with our supply chain to improve productivity of their performance. So there's a lot of different levers that we're using. And then finally, we will get some benefit from the sales growth as well as we're able to leverage some of the volume across our facilities.

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

And Karen, can I build on that to put in context kind of where we are in the transformation. So as I got here, I focused the company and you on gross margin to demonstrate that we could manage price-cost relationship. And I believe that we've done that in what has obviously been a very challenging environment.

We're also now, as we've returned the company to growth, as Karen mentioned, we're demonstrating the ability to leverage costs and increase our operating margins as well. So I feel good with where we are, and we'll start -- you'll hear us start to talk more and more about operating profit and EBITDA and cash flow as we look forward.

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

Very helpful. Okay. And then second question, I guess, it's a two-part question on China. So can you remind us what percent of sales or what percent of COGS you import from China? And then secondly, do you expect any shortages as China is facing a power crunch and some of the factories just aren't running 5 some days a week?

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

Yes. It's a good question. So first of all, we have a pretty dynamic supply chain. So the -- we've just -- we don't break out specific numbers. But directionally, think about like 20% from Asia, 60% in Mexico and 20% in the U.S. and Canada, the rest of North America. So we have some dexterity in our supply chain that we use to our benefit in -- well, really always, but especially in times like these.

Part of what we are developing with our new product portfolios, as we've increased vitality, we've also increased this dexterity so that those products can be manufactured some -- the same products can be manufactured both in Asia and North America.

At the moment, our key constraint is access to containers, and which is why Karen brought up freight. I think everybody is dealing with that. As she indicated, we've obviously planned in advance for that, and so we've locked in both availability and price for certain periods. And now we're accelerating some of that.

As we look out, let's add this -- let's add China power issues to the 768 other ways that the supply chain is being impacted by these global challenges. And we'll adapt to that the same way we're adapting to all the other challenges.

Operator

Our next question comes from Christopher Glynn with Oppenheimer.

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

Yes. Congrats on a great year. Curious, the demand environment generally, I appreciate the segment top line guidances. As we look at linearity and moving into the new quarters, we kind of just use normal seasonality as a guide? Or any other key prevailing puts and takes?

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

Yes. Chris, thanks for the question. I think the level of demand will mildly mitigate the normal seasonal impacts. So I think you'll see -- we'll see some higher -- a little bit higher growth in the first part of the year where we have more clarity, and we'll see for the back half of the year. That's part of the reason we provided outlook for the full year.

And our expectation is that given kind of where the state of the world, number one, kind of nothing is normal at this point, so the number one. And number two is we're adapting, as you can see through our performance.

And so while the -- there -- we'll get to a new normal at some point. We're not quite there yet. So on the broader demand question, obviously, the outlook we provided for the Lighting and Lighting Controls business demonstrates that we feel good about our business and where it's going to be for the full year. And we'll work through a series of steps along the way to get there in quarters. Some will be a little bit higher and probably, we expect some will be a little bit lower, but we'll get there.

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

Okay. And my follow-up is just on kind of margin puts and takes. But clearly, things got worse since your third quarter and the macro and in particular, August, September, you may have had a little help on the timing of your fiscal year relative to how people will report later in the month. So just curious, you do also have ramping price realization. Do you see the net of incremental supply chain logistics challenges and incremental price kind of, is your best call kind of neutral on those sequential?

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

So Chris, let me debate your premise. So when we presented gross margin in the second quarter, we highlighted that we have the highest margins in the industry by a margin, and we delayed our price increases as a result.

And now you're starting to see us do two things in tandem, which is: one, realize price and two, mitigate the impacts of cost changes, which as Karen indicated, are volatile. They're not straight line in one direction or the other. And I don't think our performance is different based on a month. So I'm not sure that that's accurate.

Having said that, as we look forward, we balanced the year going forward around the expectations that Karen outlined. So ABL will continue to grow in the high single digits. ISG will continue to grow in the mid-teens, and we'll continue to deliver around the 42% greater gross margin, which is the demonstration of us managing that relationship.

And then finally, we've demonstrated we can cash the check as the company gets larger. So we're turning those net sales into profits and cash flow. And that's ultimately how we create value. We'll grow net sales, we'll turn it into cash and we'll grow the balance sheet not as fast. So that's our long-term model for value creation.

Operator

Our next question comes from Chris Snyder with UBS.

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

I also wanted to follow up on the gross margin comments. The guidance for next year is 42% plus, which is basically in line with fiscal Q4 levels. Can you maybe talk about the quarterly cadence here? It feels like over the next couple of quarters, cost pressure is increasing and maybe get some back half relief. Is that the cadence that we should expect with gross margin? And could we see quarters below 42% and then others above 42%, that kind of shake out in that 42% plus?

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

Yes. Chris, thank you for joining us today. For the full year, we do think 42% plus is achievable. But as you said, there will be some volatility between the quarters. As our sales increase, we'll get leverage from the higher cost, we'll have timing of the benefits of price increases and then we're continuing to manage through the cost increases that we see.

As I talked about earlier, we have some benefit from contracts that are locked in over the longer term, but we still have to buy things on the spot market, which can be very volatile. So you will see variability, and our focus is really managing for the full year to that 42-plus percent.

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

Appreciate that. And then with cost pressure picking up here over the next couple of quarters, it feels like the commodity realization is probably higher. Some of these -- I'm assuming some of your long-duration freight contracts are likely going to reprice higher.

I guess on the price offset, so I know the company did 3 price increases. Is it that the one -- I think the one we saw in July, has that not fully shown through yet? Because I believe the September 1 was a bit more targeted. And I guess, is it just that, that comes through on a lag. So even though costs are going higher in subsequent quarters, pricing is getting incrementally better even if you guys don't put in further price increases. So sorry if that's confusing.

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

No. I think I understand what you're asking. No, as Neil said, we do have a backlog. So some of the backlog will have different impacts of the price increase. So we had our first price increase announced in March, which was impacting late in the fourth quarter, very, very little, and we saw some of that realization in our results this time.

The other two price increases, if you will, sitting in the backlog and then will then translate into shipments and net sales as we go into fiscal 2022. So that's where you see a little bit of that timing difference. So certainly, we didn't see the benefit of all the price increases that we've announced in the fourth quarter and do expect that to increase sequentially as we head into next year.

Operator

Our next question comes from Jeff Sprague, Vertical Research.

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

Wondering if you could just speak a little bit to kind of just the customer conversation and the mix dynamics that you're seeing in the business. I thought it was interesting that the renovation side of the equation and deferred maintenance might be coming back. Is there something kind of more ongoing to glean from that? What's your initial conclusion on that?

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

Yes. Jeff, that's a great question. And just as an interesting anecdote, there's a construction project in the office above us right now that we had to go get shut down for the call because you wouldn't have been able to hear us. So it turns out office renovation, at least in the Atlanta market, is strong.

The -- I would say that the trends that we identified before have continued. So the high-growth areas around industrial, for example, where there's a lot of new investment have continued. We've seen, as Karen indicated, through the disaggregated revenue, we've seen strength pretty much across the board through our channels, which means that there's strength in really all of the main categories. So demand has not been an issue for us, and we don't think it's going to be an issue for us for the foreseeable future.

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

Are there any other verticals you'd point out? You touched on industrial a couple of times just now and in your opening remarks. What about education, health care, et cetera? Is there any other kind of discernible trends emerging?

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

Yes. It's a good question. Thanks for following up, and let me dive in a little bit deeper there. Yes, education has been very strong. Obviously, that will be seasonal now going forward. But we continue -- we expect that to continue to be strong, and we're well positioned for what we expect to be strength in the next season for education.

Health care is a place where we have the opportunity to gain more share. Obviously, there's strength there. And we highlighted the HomeGuard LED light because obviously, that's an area where we have the opportunity to take share and there's -- and we have a relatively low share to begin with.

So we're -- I think one of the key strengths of our business is that we have a broad footprint, which allows us to participate where there is strength, and that strength is in the places that you would expect.

The only thing that I would say that we're probably -- maybe our expectation is slightly different is, as we indicated earlier, I think the -- where I joked about the office upstairs, the renovation market, we think, is going to be there going forward, and we're positioned well for that as well.

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

I'm sorry, just one quick house cleaning one. Just on your disaggregated revenues, would the OSRAM revenues pretty much be proportionately running through each one of those, maybe perhaps ex retail? How do we think about that?

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

No. You see the OSRAM retails in the other channel, in the ABL disaggregated revenue line.

Operator

And our last question comes from John Walsh with Credit Suisse.

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

I guess maybe the first question is, it looks like inventories ticked up sequentially. Obviously, you had good growth this quarter, better than we were all modeling. You're talking about good growth the first half of your fiscal '22. Could you maybe talk about if you were building some buffer inventory there so that you get ahead of any kind of incremental change in the supply chain? Or if that's kind of stuff that you know is going out the door for maybe some of your customers? I don't know if that would fall under corporate or somebody else there in the disaggregated revenue.

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

Yes. So John, there's two things going on in inventory. One would be exactly what you described. We are trying to build a little bit ahead for inventory to service the demand that we see. So you see a little bit of impact of that in the quarter, but you also see the addition of the OSRAM inventory. So that's also coming through in that inventory line, is the inventory that we purchased with the acquisition and the components that go into making those products.

Days are only because of the OSRAM. Days on the other portion of the business are steady.

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

Got you. Okay, that makes sense. And then you talked a little bit -- you've talked a lot about supply chain. In an earlier question, you did highlight how you both have your operations, your manufacturing in Mexico and the United States. Can you talk about kind of your labor availability in those different regions, if you are seeing anything different? I think most of us might not be as close to the Mexico labor markets. But obviously, the U.S. labor markets are very tight right now. Would just love to understand kind of the dynamic there and what you're seeing from your own operations.

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

Yes. John, let me address that one. So first, on the U.S. labor market, the labor market is tight, as you indicated. My view is that people -- all people are taking a step back as a result of the impacts of the pandemic and the general changes in their lives and saying kind of what do I really want to do.

And so we're aggressively working to be the place where the best people want to come because they can do their best work. And that for us is everybody, whether you're a maintenance employee at one of our manufacturing facilities, a cell operator, a focus factory manager, distribution employee driver, et cetera. So that's tight.

So availability has been tight, and there will be wage inflation over the course of the next year or so. We're currently working through that, but we're paying hyper attention to that.

Mexico, we have a larger presence there, obviously. We've been a leader in INDEX, which is the maquiladora group of companies down there around the COVID response, around vaccination and around kind of the general experience of our associates there. And so we feel really -- we have a strong bond with our associates there, and we've not had the same labor tightness there that we -- that I think everybody has seen in the U.S.

Operator

Thank you. I'd now like to hand the call back over to Neil Ashe for closing remarks.

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

Thank you all again for joining us, and thank you for your interest in Acuity. We feel like that our fiscal year just completed in August is a really important milestone in the transformation of the company.

As we indicated, we returned the company to growth. We've demonstrated the ability to deliver margins. We've demonstrated the ability to leverage our expenses as we grow our net sales, and we are confident about both of our businesses, ABL, the Lighting and Lighting Controls business and ISG, the Spaces Group. And so we expect this to continue to be a challenging global environment, and we're pleased with our position in it going forward. So thank you for your time, and we look forward to catching up with you in a few months.

Operator

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