ACUITY BRANDS INC
Form 10-Q
January 09, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended November 30, 2013.
OR	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to .

Commission file number 001-16583.

ACUITY BRANDS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	58-2632672 (I.R.S. Employer Identification Number)
1170 Peachtree Street, N.E., Suite 2300, Atlanta, Georgia (Address of principal executive offices)	30309-7676 (Zip Code)
(404) 853-1400 (Registrant's telephone number, including area code)	

None
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer þ	Accelerated Filer o	Non-accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock — $0.01 par value — 43,059,952 shares as of January 7, 2014.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statement
ACUITY BRANDS, INC.
CONSOLIDATED BALANCE SHEETS
(In millions, except share and per-share data)

	November 30, 2013 (unaudited)	August 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$398.1	$359.1
Accounts receivable, less reserve for doubtful accounts of $2.0 and $1.5 as of November 30, 2013 and August 31, 2013, respectively	332.6	318.3
Inventories	208.3	203.0
Deferred income taxes	14.7	13.6
Prepayments and other current assets	25.6	19.5
Total Current Assets	979.3	913.5
Property, Plant, and Equipment, at cost:		
Land	6.6	7.2
Buildings and leasehold improvements	108.4	109.6
Machinery and equipment	361.3	354.5
Total Property, Plant, and Equipment	476.3	471.3
Less — Accumulated depreciation and amortization	329.2	323.4
Property, Plant, and Equipment, net	147.1	147.9
Other Assets:		
Goodwill	570.4	568.2
Intangible assets, net	241.1	245.1
Deferred income taxes	1.6	1.7
Other long-term assets	26.7	27.4
Total Other Assets	839.8	842.4
Total Assets	$1,966.2	$1,903.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$244.3	$249.5
Accrued compensation	27.2	28.0
Accrued pension liabilities, current	1.2	1.2
Other accrued liabilities	123.2	107.5
Total Current Liabilities	395.9	386.2
Long-Term Debt	353.6	353.6
Accrued Pension Liabilities, less current portion	52.2	54.7
Deferred Income Taxes	55.9	53.9
Self-Insurance Reserves, less current portion	7.2	7.0
Other Long-Term Liabilities	61.8	54.9
Commitments and Contingencies (see Commitments and Contingencies footnote)		
Stockholders' Equity:		
Preferred stock, $0.01 par value; 50,000,000 shares authorized; none issued	—	—
Common stock, $0.01 par value; 500,000,000 shares authorized; 52,394,129 issued and 42,674,874 outstanding at November 30, 2013; 52,205,933 issued and 42,486,678 outstanding at August 31, 2013	0.5	0.5

Paid-in capital	739.8	735.5
Retained earnings	779.2	740.3
Accumulated other comprehensive loss items	(59.7)	(62.6)
Treasury stock, at cost, 9,719,255 shares at November 30, 2013 and August 31, 2013	(420.2)	(420.2)
Total Stockholders' Equity	1,039.6	993.5
Total Liabilities and Stockholders' Equity	$1,966.2	$1,903.8

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ACUITY BRANDS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(In millions, except per-share data)

	Three Months Ended	
	November 30, 2013	November 30, 2012
Net Sales	$574.7	$481.1
Cost of Products Sold	337.6	291.6
Gross Profit	237.1	189.5
Selling, Distribution, and Administrative Expenses	159.7	140.6
Special Charge	—	0.7
Operating Profit	77.4	48.2
Other Expense (Income):		
Interest Expense, net	8.0	7.7
Miscellaneous Expense, net	0.6	0.1
Total Other Expense	8.6	7.8
Income before Provision for Income Taxes	68.8	40.4
Provision for Income Taxes	24.3	14.3
Net Income	$44.5	$26.1
Earnings Per Share:		
Basic Earnings per Share	$1.03	$0.61
Basic Weighted Average Number of Shares Outstanding	42.6	41.8
Diluted Earnings per Share	$1.03	$0.61
Diluted Weighted Average Number of Shares Outstanding	42.9	42.3
Dividends Declared per Share	$0.13	$0.13
Comprehensive Income:		
Net income	$44.5	$26.1
Other Comprehensive Income/(Expense) Items:		
Foreign currency translation adjustments	2.3	1.3
Defined benefit pension plans, net	0.6	(2.1)
Other Comprehensive Income/(Expense) Items, net of tax	2.9	(0.8)
Comprehensive Income	$47.4	$25.3

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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ACUITY BRANDS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In millions)

	Three Months Ended November 30,	
	2013	2012
Cash Provided by/(Used for) Operating Activities:		
Net income	$44.5	$26.1
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	10.6	10.0
Share-based compensation expense	4.5	4.3
Excess tax benefits from share-based payments	(5.2)	(5.4)
Deferred income taxes	0.8	1.1
Change in assets and liabilities, net of effect of acquisitions, divestitures, and effect of exchange rate changes:		
Accounts receivable	(14.0)	(6.6)
Inventories	(5.0)	0.5
Prepayments and other current assets	(4.7)	(5.3)
Accounts payable	(5.4)	(28.4)
Other current liabilities	19.8	(9.9)
Other	(2.5)	(0.9)
Net Cash Provided by/(Used for) Operating Activities	43.4	(14.5)
Cash Provided by/(Used for) Investing Activities:		
Purchases of property, plant, and equipment	(8.5)	(11.2)
Proceeds from sale of property, plant, and equipment	0.9	—
Net Cash Used for Investing Activities	(7.6)	(11.2)
Cash Provided by/(Used for) Financing Activities:		
Proceeds from stock option exercises and other	2.6	8.2
Excess tax benefits from share-based payments	5.2	5.4
Dividends paid	(5.6)	(5.5)
Net Cash Provided by Financing Activities	2.2	8.1
Effect of Exchange Rate Changes on Cash	1.0	0.6
Net Change in Cash and Cash Equivalents	39.0	(17.0)
Cash and Cash Equivalents at Beginning of Period	359.1	284.5
Cash and Cash Equivalents at End of Period	$398.1	$267.5
Supplemental Cash Flow Information:		
Income taxes paid during the period	$13.4	$7.6
Interest paid during the period	$10.5	$9.7

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ACUITY BRANDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(Amounts in millions, except per-share data and as indicated)

1. Description of Business and Basis of Presentation

Acuity Brands, Inc. (“Acuity Brands”) is the parent company of Acuity Brands Lighting, Inc. (“ABL”), and other subsidiaries (collectively referred to herein as “the Company”). The Company designs, produces, and distributes a broad array of lighting solutions and services for commercial, institutional, industrial, infrastructure, and residential applications for various markets throughout North America and select international markets. The Company's lighting solutions include devices such as luminaires, lighting controls, power supplies, prismatic skylights, light-emitting diode (“LED”) lamps, and integrated lighting systems for indoor and outdoor applications utilizing a combination of light sources, including daylight, and other devices controlled by software that monitors and manages light levels while optimizing energy consumption (collectively referred to herein as “lighting solutions”). The Company has one operating segment serving the North American lighting market and select international markets.

The Company has made several acquisitions over the last five years to expand and enhance its portfolio of lighting solutions, including the following recent acquisitions:

On March 13, 2013, the Company acquired for cash, including potential additional cash payments that may be paid in future periods under earn-out provisions, all of the ownership interests in eldoLAB Holding B.V. (“eldoLED”), a leading provider of high-performance drivers for LED lighting systems based in Eindhoven, the Netherlands. The operating results of eldoLED have been included in the Company's consolidated financial statements since the date of acquisition.

On December 20, 2012, the Company acquired for cash all of the ownership interests in Adura Technologies ("Adura"), a leading developer of radio frequency (RF) mesh networking technology that allows individual light fixtures to communicate in a wireless mesh network with switches, sensors, and system management software.The operating results for Adura have been included in the Company’s consolidated financial statements since the date of acquisition.

The Consolidated Financial Statements have been prepared by the Company in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and present the financial position, results of operations, and cash flows of Acuity Brands and its wholly-owned subsidiaries. References made to years are for fiscal year periods.

These unaudited interim consolidated financial statements reflect all normal and recurring adjustments which are, in the opinion of management, necessary to present fairly the Company’s consolidated financial position as of November 30, 2013, the consolidated statements of comprehensive income for the three months ended November 30, 2013 and 2012, and the consolidated cash flows for the three months ended November 30, 2013 and 2012. Certain information and footnote disclosures normally included in the Company’s annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. However, the Company believes that the disclosures included herein are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the audited consolidated financial statements of the Company as of and for the three years ended August 31, 2013 and notes thereto included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on October 29, 2013 (File No. 001-16583) (“Form 10-K”).

The results of operations for the three months ended November 30, 2013 and 2012 are not necessarily indicative of the results to be expected for the full fiscal year because the net sales and net income of the Company historically have been higher in the second half of its fiscal year and because of the continued uncertainty of general economic conditions that may impact the key end markets of the Company for the remainder of fiscal 2014.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Reclassifications
Certain prior-period amounts have been reclassified to conform to the current year presentation. No material reclassifications occurred during the current period.

3. New Accounting Pronouncements
Accounting Standards Adopted in Fiscal 2014
In July 2012, the FASB issued ASU No. 2012-02, Intangibles - Goodwill and Other (Topic 350) - Testing Indefinite-Lived Intangible Assets for Impairment ("ASU 2012-02"), which allows companies to assess qualitative factors to determine if indefinite-lived intangible assets other than goodwill have been impaired. If the qualitative factors reviewed do not indicate that it is more likely than not that the fair value of an indefinite-lived intangible asset does not exceed the carrying value, ASU 2012-02 deems any further impairment testing to be unnecessary. In the event that the qualitative review indicates otherwise, a company is required to perform further quantitative impairment testing as prescribed by Topic 350. ASU 2012-02 is effective for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company adopted ASU 2012-02 in the first quarter of fiscal 2014. The provisions of ASU 2012-02 did not have a material effect on the Company's results of operations, financial condition, and cash flows.
In January 2013, the FASB issued ASU No. 2013-01, Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities ("ASU 2013-01"), which amended ASC Subtopic 210-20, Balance Sheet - Offsetting. ASU 2013-01 clarified the scope of ASU 2011-11, Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11"). ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of that entity's financial statements to understand the effect of those arrangements on its financial position. ASU 2013-01 clarifies the scope of ASU 2011-11 as applying to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset either in accordance with other requirements of the Accounting Standards Codification or subject to an enforceable master netting arrangement or similar arrangement. The provisions of ASU 2011-11 and ASU 2013-01 are effective retrospectively to all comparative periods for public entities during annual reporting periods beginning after January 1, 2013 (effective date) and interim reporting periods therein. The Company adopted ASU 2012-02 in the first quarter of fiscal 2014. The provisions of ASU 2013-01 did not have a material effect on the Company's results of operations, financial condition, and cash flows.
Accounting Standards Yet to Be Adopted
In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (a consensus of the FASB Emerging Issues Task Force) ("ASU 2013-05"), which applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. ASU 2013-05 is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The Company is currently reviewing the provisions of ASU 2013-05 but does not expect it to have a material effect on the Company's financial condition, results of operations, and cash flows.
In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force) ("ASU 2013-11"), which applies to the presentation of unrecognized tax benefits as a liability on the balance sheet when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to

settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose. ASU 2013-11 is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The Company is currently reviewing the provisions of ASU 2013-11 but does not expect it to have a material effect on the Company's financial condition, results of operations, and cash flows.

4. Acquisitions

The Company has actively pursued opportunities for investment and growth through acquisitions. The Company has acquired businesses that participate in the lighting market, as discussed below. As with previous acquisitions, the companies were purchased to further expand and complement the Company’s lighting solutions portfolio and were fully incorporated into the Company’s operations. None of the business combinations-individually or in the aggregate-represented a material transaction as compared with the Company’s financial condition, results of operations, or cash flows in any of the periods in which control was obtained.

eldoLED Acquisition

On March 13, 2013, the Company acquired for cash, including potential additional cash payments that may be paid in future periods under earn-out provisions, all of the ownership interests in eldoLAB Holding B.V. (“eldoLED”), a leading provider of high-performance drivers for LED lighting systems based in Eindhoven, the Netherlands. Potential cash payments related to the earn-out provisions are payable beginning in fiscal 2014 and ending in fiscal 2017 subject to achievement of the earn-out provisions. The operating results of eldoLED have been included in the Company's consolidated financial statements since the date of acquisition and are not material to the Company's financial condition, results of operations, or cash flows. Preliminary amounts related to the acquisition are reflected in the Consolidated Balance Sheets. These amounts are deemed to be provisional until disclosed otherwise, as the Company continues to gather information related to the deferred tax assets and liabilities.

Adura Technologies Acquisition

On December 20, 2012, the Company acquired for cash all of the ownership interests in Adura Technologies ("Adura"), a leading developer of radio frequency (RF) mesh networking technology that allows individual light fixtures to communicate in a wireless mesh network with switches, sensors, and system management software. The operating results of Adura have been included in the Company's consolidated financial statements since the date of acquisition and are not material to the Company's financial condition, results of operations, or cash flows. Management finalized the acquisition accounting for Adura during the first quarter of fiscal 2014 and the amounts are reflected in the Consolidated Balance Sheets.

5. Assets Held For Sale

The Company classifies long-lived assets as held for sale upon the development of a plan for disposal and in accordance with applicable U.S. GAAP and ceases the depreciation and amortization of the assets at that date. During the first quarter of fiscal 2014, the Company ceased operations at two small manufacturing facilities and classified the remaining assets as held for sale at that time. One property was subsequently sold in the first quarter, resulting in an immaterial loss. The Company is actively marketing the remaining properties classified as held for sale. As of November 30, 2013, the carrying value of the properties held for sale was $6.7, of which $3.9 is included in Prepayments and other current assets and $2.8 is included in Other long-term assets on the Consolidated Balance Sheets.

Further details regarding the Company’s assets held for sale are included within the Significant Accounting Policies footnote of the Notes to Consolidated Financial Statements within the Company’s Form 10-K.

6. Fair Value Measurements

The Company determines a fair value measurement based on the assumptions a market participant would use in pricing an asset or liability. ASC Topic 820, Fair Value Measurements and Disclosures ("ASC 820"), establishes a three level hierarchy making a distinction between market participant assumptions based on (i) unadjusted quoted prices for identical assets or liabilities in an active market (Level 1), (ii) quoted prices in markets that are not active or inputs that are observable either directly or indirectly for substantially the full term of the asset or liability (Level 2), and (iii) prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement (Level 3).

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The following table presents information about assets and liabilities required to be carried at fair value and measured on a recurring basis as of November 30, 2013 and August 31, 2013:

	Fair Value Measurements as of:							
	November 30, 2013				August 31, 2013			
	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value
Assets:								
Cash and cash equivalents	$398.1	$—	$—	$398.1	$359.1	$—	$—	$359.1
Other	0.7	—	—	0.7	0.7	—	—	0.7
Liabilities:								
Other	$0.7	$—	$12.8	$13.5	$0.7	$—	$	