ACUITY BRANDS INC
Form 10-Q
April 03, 2019

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deferred revenues primarily consist of long-term service-type warranties, which are typically recognized ratably as revenue between five and ten years from the date of sale, and are included within Other long-term liabilities on the Consolidated Balance Sheets1367668914075197 0001144215 2018-09-01 2019-02-28 0001144215 2019-03-29 0001144215 2018-08-31 0001144215 2019-02-28 0001144215 2017-12-01 2018-02-28 0001144215 2017-09-01 2018-02-28 0001144215 2018-12-01 2019-02-28 0001144215 2017-08-31 0001144215 2018-02-28 0001144215 ayi:Fiscal2018AcquisitionsMember 2018-08-31 0001144215 ayi:Fiscal2018AcquisitionsMember 2019-02-28 0001144215 ayi:Fiscal2018AcquisitionsMember 2018-09-01 2019-02-28 0001144215 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2019-02-28 0001144215 us-gaap:AccountingStandardsUpdate201409Member us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2019-02-28 0001144215 us-gaap:AccountingStandardsUpdate201615Member 2017-09-01 2018-02-28 0001144215 us-gaap:AccountingStandardsUpdate201409Member 2018-09-01 0001144215 us-gaap:AccountingStandardsUpdate201615Member 2018-09-01 2019-02-28 0001144215 us-gaap:AccountingStandardsUpdate201707Member 2017-12-01 2018-02-28 0001144215 us-gaap:AccountingStandardsUpdate201707Member 2017-09-01 2018-02-28 0001144215 us-gaap:AccountingStandardsUpdate201409Member us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-09-01 2019-02-28 0001144215 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-09-01 2019-02-28 0001144215 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-12-01 2019-02-28 0001144215 us-gaap:AccountingStandardsUpdate201409Member us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-12-01 2019-02-28 0001144215 srt:ScenarioPreviouslyReportedMember 2017-09-01 2018-02-28 0001144215 srt:ScenarioPreviouslyReportedMember 2017-12-01 2018-02-28 0001144215 2018-09-01 0001144215 ayi:SalesChannelThroughCorporateAccountsNetworkMember 2018-12-01 2019-02-28 0001144215 ayi:SalesChannelThroughIndependentSalesNetworkMember 2018-09-01 2019-02-28 0001144215 ayi:SalesChannelThroughRetailMember 2018-09-01 2019-02-28 0001144215 ayi:SalesChannelThroughRetailMember 2018-12-01 2019-02-28 0001144215 ayi:SalesChannelThroughCorporateAccountsNetworkMember 2018-09-01 2019-02-28 0001144215 ayi:SalesChannelThroughDirectSalesNetworkMember 2018-09-01 2019-02-28 0001144215 ayi:SalesChannelThroughOtherMember 2018-12-01 2019-02-28 0001144215 ayi:SalesChannelThroughIndependentSalesNetworkMember 2018-12-01 2019-02-28 0001144215 ayi:SalesChannelThroughDirectSalesNetworkMember 2018-12-01 2019-02-28 0001144215 ayi:SalesChannelThroughOtherMember 2018-09-01 2019-02-28 0001144215 us-gaap:SalesRevenueNetMember us-gaap:ProductConcentrationRiskMember us-gaap:ShortTermContractWithCustomerMember 2018-09-01 2019-02-28 0001144215 ayi:CustomerswithMarketingandTradePromotionProgramsMember 2018-09-01 0001144215 ayi:CustomerswithMarketingandTradePromotionProgramsMember 2019-02-28 0001144215 ayi:CustomerswithRightsofReturnCashDiscountsandOtherCreditsMember 2019-02-28 0001144215 us-gaap:SalesRevenueNetMember us-gaap:ProductConcentrationRiskMember ayi:ContractsWithMultiplePerformanceObligationsMember 2018-09-01 2019-02-28 0001144215 ayi:CustomerswithRightsofReturnCashDiscountsandOtherCreditsMember 2018-09-01 0001144215 us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:SeniorNotesMember 2019-02-28 0001144215 ayi:IndustrialRevenueBondMaturingin2021Member us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:NontaxableMunicipalBondsMember

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ayi:ExternalCustomerMember 2018-09-01 2019-02-28 0001144215 srt:ParentCompanyMember ayi:ExternalCustomerMember 2018-09-01 2019-02-28 0001144215 srt:ConsolidationEliminationsMember ayi:ExternalCustomerMember 2018-09-01 2019-02-28 0001144215 ayi:InterCompanyMember 2018-09-01 2019-02-28 0001144215 srt:GuarantorSubsidiariesMember srt:ConsolidationEliminationsMember ayi:InterCompanyMember 2018-09-01 2019-02-28 0001144215 srt:SubsidiaryIssuerMember ayi:ExternalCustomerMember 2018-09-01 2019-02-28 0001144215 srt:ParentCompanyMember srt:ConsolidationEliminationsMember ayi:InterCompanyMember 2018-09-01 2019-02-28 0001144215 srt:ConsolidationEliminationsMember 2018-02-28 0001144215 srt:SubsidiaryIssuerMember 2017-08-31 0001144215 srt:SubsidiaryIssuerMember 2018-02-28 0001144215 srt:GuarantorSubsidiariesMember 2017-08-31 0001144215 srt:ConsolidationEliminationsMember 2017-08-31 0001144215 srt:GuarantorSubsidiariesMember 2018-02-28 0001144215 srt:ParentCompanyMember 2017-08-31 0001144215 srt:ParentCompanyMember 2018-02-28 0001144215 srt:NonGuarantorSubsidiariesMember 2018-02-28 0001144215 srt:NonGuarantorSubsidiariesMember 2017-08-31 iso4217:USD iso4217:USD xbrli:shares ayi:Segment xbrli:pure ayi:acquisition xbrli:shares ayi:installment
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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 February 28, 2019.

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	**58-2632672**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*
1170 Peachtree Street, N.E., Suite 2300, Atlanta, Georgia	**30309-7676**
(Address of principal executive offices)	*(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 every Interactive Data File required to be submitted 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 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, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o
Smaller reporting company o	Emerging growth company o	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 – 39,907,302 shares as of March 29, 2019.

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PART I. FINANCIAL INFORMATION
Item 1. *Financial Statements*
ACUITY BRANDS, INC.
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	February 28, 2019 (unaudited)	August 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 232.0	$ 129.1
Accounts receivable, less reserve for doubtful accounts of $1.4 and $1.3, respectively	520.1	637.9
Inventories	413.0	411.8
Prepayments and other current assets	67.5	32.3
Total current assets	1,232.6	1,211.1
Property, plant, and equipment, at cost:		
Land	22.8	22.9
Buildings and leasehold improvements	188.7	189.1
Machinery and equipment	537.0	516.6
Total property, plant, and equipment	748.5	728.6
Less — Accumulated depreciation and amortization	(464.3)	(441.9)
Property, plant, and equipment, net	284.2	286.7
Goodwill	968.5	970.6
Intangible assets, net	482.4	498.7
Deferred income taxes	2.9	2.9
Other long-term assets	21.2	18.8
Total assets	$ 2,991.8	$ 2,988.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 351.1	$ 451.1
Current maturities of long-term debt	7.0	0.4
Accrued compensation	61.0	67.0
Other accrued liabilities	165.3	164.2
Total current liabilities	584.4	682.7
Long-term debt	349.7	356.4
Accrued pension liabilities	62.9	64.6
Deferred income taxes	89.8	92.5
Self-insurance reserves	8.3	7.9
Other long-term liabilities	94.9	67.9
Total liabilities	1,190.0	1,272.0
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; 53,744,644 and 53,667,327 issued, respectively	0.5	0.5
Paid-in capital	917.5	906.3
Retained earnings	2,121.6	1,999.2
Accumulated other comprehensive loss	(114.7)	(114.8)
Treasury stock, at cost — 14,075,197 and 13,676,689 shares, respectively	(1,123.1)	(1,074.4)
Total stockholders' equity	1,801.8	1,716.8
Total liabilities and stockholders' equity	$ 2,991.8	$ 2,988.8

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

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

	Three Months Ended		Six Months Ended	
	February 28, 2019	February 28, 2018	February 28, 2019	February 28, 2018
Net sales	$854.4	$ 832.1	$1,787.0	$ 1,674.9
Cost of products sold	520.5	497.6	1,085.6	990.5
Gross profit	333.9	334.5	701.4	684.4
Selling, distribution, and administrative expenses	237.6	244.4	487.7	473.9
Special charge	0.4	0.6	1.4	0.8
Operating profit	95.9	89.5	212.3	209.7
Other expense (income):				
Interest expense, net	8.6	8.0	17.3	16.1
Miscellaneous expense, net	1.1	2.8	2.4	4.0
Total other expense	9.7	10.8	19.7	20.1
Income before income taxes	86.2	78.7	192.6	189.6
Income tax expense (benefit)	19.9	(18.2)	46.7	21.2
Net income	$66.3	$ 96.9	$145.9	$ 168.4
Earnings per share:				
Basic earnings per share	$1.68	$ 2.34	$3.67	$ 4.05
Basic weighted average number of shares outstanding	39.5	41.4	39.7	41.6
Diluted earnings per share	$1.67	$ 2.33	$3.66	$ 4.04
Diluted weighted average number of shares outstanding	39.6	41.5	39.8	41.7
Dividends declared per share	$0.13	$ 0.13	$0.26	$ 0.26
Comprehensive income:				
Net income	$66.3	$ 96.9	$145.9	$ 168.4
Other comprehensive income (loss) items:				
Foreign currency translation adjustments	4.9	2.5	(3.9)	(8.0)
Defined benefit plans, net of tax	1.4	1.8	4.0	3.4
Other comprehensive income (loss), net of tax	6.3	4.3	0.1	(4.6)
Comprehensive income	$72.6	$ 101.2	$146.0	$ 163.8

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)

	Six Months Ended	
	February 28, 2019	February 28, 2018
Cash flows from operating activities:		
Net income	$145.9	$ 168.4
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	43.3	38.3
Share-based payment expense	15.3	16.8
Loss on sale or disposal of property, plant, and equipment	0.4	0.1
Deferred income taxes	0.4	(32.0)
Change in assets and liabilities, net of effect of acquisitions, divestitures, and exchange rate changes:		
Accounts receivable	139.6	73.2
Inventories	(1.3)	6.8
Prepayments and other current assets	(21.8)	(9.2)
Accounts payable	(102.6)	(54.0)
Other current liabilities	(38.9)	(39.8)
Other	8.0	9.0
Net cash provided by operating activities	188.3	177.6
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(24.9)	(20.9)
Acquisition of businesses, net of cash acquired	—	(26.4)
Other investing activities	2.9	0.7
Net cash used for investing activities	(22.0)	(46.6)
Cash flows from financing activities:		
Borrowings on credit facility	86.5	—
Repayments of borrowings on credit facility	(86.5)	—
Repayments of long-term debt	(0.2)	(0.2)
Repurchases of common stock	(48.7)	(194.3)
Proceeds from stock option exercises and other	0.3	1.4
Payments of taxes withheld on net settlement of equity awards	(4.3)	(6.7)
Dividends paid	(10.5)	(10.9)
Net cash used for financing activities	(63.4)	(210.7)
Effect of exchange rate changes on cash and cash equivalents	—	(1.6)
Net change in cash and cash equivalents	102.9	(81.3)
Cash and cash equivalents at beginning of period	129.1	311.1
Cash and cash equivalents at end of period	$232.0	$ 229.8
Supplemental cash flow information:		
Income taxes paid during the period	$63.2	$ 80.3
Interest paid during the period	$24.5	$ 23.4

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

Note 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 (Acuity Brands, ABL, and such other subsidiaries are collectively referred to herein as “we,” “our,” “us,” “the Company," or similar references) and was incorporated in 2001 under the laws of the State of Delaware. We are one of the world’s leading providers of lighting and building management solutions and services for commercial, institutional, industrial, infrastructure, and residential applications throughout North America and select international markets. Our lighting and building management solutions include devices such as luminaires, lighting controls, controllers for various building systems, power supplies, prismatic skylights, and drivers, as well as integrated systems designed to optimize energy efficiency and comfort for various indoor and outdoor applications. Additionally, we continue to expand our solutions portfolio, including software and services, to provide a host of other economic benefits resulting from data analytics that enables the Internet of Things (“IoT”), supports the advancement of smart buildings, smart cities, and the smart grid, and allows businesses to develop custom applications to scale their operations. We have one reportable segment serving the North American lighting market and select international markets.

We prepared the *Consolidated Financial Statements* in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) to present the financial position, results of operations, and cash flows of Acuity Brands and its wholly-owned subsidiaries.

These unaudited interim consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present fairly our consolidated financial position as of February 28, 2019, our consolidated comprehensive income for the three and six months ended February 28, 2019 and 2018, and our consolidated cash flows for the six months ended February 28, 2019 and 2018. Certain information and footnote disclosures normally included in our annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. However, we believe 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, 2018 and notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on October 25, 2018 (File No. 001-16583) (“Form 10-K”).

The results of operations for the three and six months ended February 28, 2019 and 2018 are not necessarily indicative of the results to be expected for the full fiscal year due primarily to seasonality, which results in our net sales and net income generally being higher in the second half of our fiscal year, the impact of any acquisitions, and, among other reasons, the continued uncertainty of general economic conditions that may impact our key end markets for the remainder of fiscal 2019.

Note 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. Refer to the *New Accounting Pronouncements* footnote for additional information regarding retrospective reclassifications related to accounting standards

adopted in the current year.

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Note 3 — Acquisitions and Investments
No acquisitions were completed during the first six months of fiscal 2019. The following discussion relates to acquisitions completed during fiscal 2018.

IOTA Engineering, LLC
On May 1, 2018, using cash on hand and borrowings available under existing credit arrangements, we acquired all of the equity interests of IOTA Engineering, LLC ("IOTA"). IOTA is headquartered in Tucson, Arizona and manufactures highly engineered emergency lighting products and power equipment for commercial and institutional applications both in the U.S. and international markets. The operating results of IOTA have been included in our consolidated financial statements since the date of acquisition and are not material to our financial condition, results of operations, or cash flows.

Lucid Design Group, Inc.
On February 12, 2018, using cash on hand, we acquired all of the equity interests of Lucid Design Group, Inc ("Lucid"). Lucid is headquartered in Oakland, California and provides a data and analytics platform to make data-driven decisions to improve building efficiency and drive energy conservation and savings. The operating results of Lucid have been included in our consolidated financial statements since the date of acquisition and are not material to our financial condition, results of operations, or cash flows.

Accounting for Fiscal 2018 Acquisitions
Acquisition-related costs were expensed as incurred. Amounts related to the acquisition accounting for these acquisitions are reflected in the *Consolidated Balance Sheets*. The aggregate purchase price of these acquisitions reflects total goodwill and identified intangible assets of approximately $77.0 million and $81.8 million, respectively, as of February 28, 2019. Identified intangible assets consist of indefinite-lived marketing-related intangibles as well as definite-lived customer-based and technology-based assets, which have a weighted average useful life of approximately 14 years. We finalized the acquisition accounting for Lucid during the current quarter. There were no material changes to our financial statements as a result of the finalization of this acquisition accounting. However, the acquisition accounting for IOTA is deemed provisional as we continue to gather information related to the identification and valuation of certain deferred tax items.

Note 4 — New Accounting Pronouncements

Accounting Standards Adopted in Fiscal 2019

ASU 2017-01 -— Clarifying the Definition of a Business
In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-01, *Clarifying the Definition of a Business* ("ASU 2017-01"), which requires an evaluation of whether substantially all of the fair value of assets obtained in an acquisition is concentrated in a single identifiable asset or a group of similar identifiable assets. If so, the transaction does not qualify as a business. The guidance also requires an acquired business to include at least one substantive process and narrows the definition of outputs. We adopted ASU 2017-01 effective September 1, 2018 and applied the guidance prospectively. The provisions of ASU 2017-01 did not have a material effect on our financial condition, results of operations, or cash flows.

ASU 2016-15 — Statement of Cash Flows
In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows* ("ASU 2016-15"), which is intended to reduce the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. These cash flows include debt prepayment and extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and proceeds from the settlement of corporate-owned life insurance. We adopted ASU 2016-15 effective September 1, 2018 and applied the changes retrospectively.

We maintain life insurance policies on certain former employees primarily to satisfy obligations under certain deferred compensation plans. As required by the standard, proceeds from these policies are now classified as cash inflows from investing activities. We received $0.8 million and $0.7 million from corporate-owned

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life insurance policies during the six months ended February 28, 2019 and 2018, respectively. As such, cash flows from operations for the six months ended February 28, 2018 decreased $0.7 million, with a corresponding increase to cash flows from investing activities, compared to amounts previously reported. The remaining provisions of ASU 2016-15 do not apply to us for the periods presented.

ASU 2017-07 — Presentation of Net Periodic Pension Cost

In March 2017, the FASB issued ASU No. 2017-07, *Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* ("ASU 2017-07"), which changes the presentation of net periodic pension cost related to employer sponsored defined benefit plans and other postretirement benefits. Service cost is now included within the same income statement line item as other compensation costs arising from services rendered during the period, while other components of net periodic pension cost are presented separately outside of operating income. Additionally, only service costs may be capitalized in assets. We adopted ASU 2017-07 effective as of September 1, 2018. We applied the standard retrospectively for the presentation of the service cost component and the other components of net periodic pension cost within our income statements. As a practical expedient, we used amounts previously disclosed in the *Pension and Defined Contribution Plans* footnote of the *Notes to Consolidated Financial Statements* within our Form 10-K as the basis for retrospective application because amounts capitalized in inventory at a given point in time are de minimis and determining these amounts was impractical. Upon adoption of ASU 2017-07, our previously reported *Operating profit* for the three and six months ended February 28, 2018 increased $1.5 million and $3.1 million, respectively, with a corresponding increase to *Miscellaneous expense, net*. The provisions of ASU 2017-07 have no impact to our net income or earnings per share.

The impact of the provisions of ASU 2017-07 on the *Consolidated Statement of Comprehensive Income* for the three and six months ended February 28, 2018 are as follows (in millions):

	Three Months Ended February 28, 2018			**Six Months Ended February 28, 2018**		
	As Revised	**Previously Reported**	**Higher (Lower)**	**As Revised**	**Previously Reported**	**Higher (Lower)**
Cost of products sold	$497.6	$ 497.2	$ 0.4	$990.5	$ 989.8	$ 0.7
Selling, distribution, and administrative expenses	244.4	246.3	(1.9)	473.9	477.7	(3.8)
Miscellaneous expense, net	2.8	1.3	1.5	4.0	0.9	3.1

ASC 606 — Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which replaced the existing revenue recognition guidance in U.S. GAAP. Since the issuance of ASU 2014-09, the FASB released several amendments to improve and clarify the implementation guidance, as well as to change the effective date. These standards have been collectively codified within Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"). ASC 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard also requires additional disclosures about the nature, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments.

We adopted ASC 606 effective September 1, 2018 using the modified retrospective method and recognized a cumulative effect of applying ASC 606 of $13.0 million in *Retained earnings* on the *Consolidated Balance Sheet* as of this date. We applied the standard to all contracts as of the transition date. Information for prior years presented has not been restated and continues to reflect the authoritative accounting standards in effect for those periods.

Adjustments related to the adoption of ASC 606 include additional deferrals of revenue recognition for service-type warranties and the gross presentation of right of return assets and refund liabilities for sales with a right of return. The effects of the adoption of ASC 606 on our *Consolidated Statement of Comprehensive Income* for the three and six months ended February 28, 2019, and the *Consolidated Balance Sheet* as of February 28, 2019 are as follows (in millions except per share amounts):

Consolidated Statement of Comprehensive Income	**Three Months Ended February 28, 2019**			**Six Months Ended February 28, 2019**		
	As Currently Reported	**Without ASC 606 Adoption**	**Higher (Lower)**	**As Currently Reported**	**Without ASC 606 Adoption**	**Higher (Lower)**
Net sales	$854.4	$ 856.0	$(1.6)	$1,787.0	$1,791.0	$(4.0)
Cost of products sold	520.5	521.0	(0.5)	1,085.6	1,087.4	(1.8)
Selling, distribution, and administrative expenses	237.6	237.5	0.1	487.7	487.5	0.2
Operating profit	95.9	97.1	(1.2)	212.3	214.7	(2.4)
Income tax expense	19.9	20.2	(0.3)	46.7	47.3	(0.6)
Net income	66.3	67.2	(0.9)	145.9	147.7	(1.8)
Basic earnings per share	$1.68	$ 1.70	$(0.02)	$3.67	$3.72	$(0.05)
Diluted earnings per share	1.67	1.69	(0.02)	3.66	3.71	(0.05)

Consolidated Balance Sheet	**February 28, 2019**		
	As Currently Reported	**Without ASC 606 Adoption**	**Higher (Lower)**
Accounts receivable, net	$520.1	500.5	$ 19.6
Prepayments and other current assets	67.5	52.3	15.2
Other accrued liabilities	165.3	130.3	35.0
Deferred income tax liabilities	89.8	94.6	(4.8)
Other long-term liabilities	94.9	75.5	19.4
Retained earnings	2,121.6	2,136.4	(14.8)

Accounting Standards Yet to Be Adopted

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract* (“ASU 2018-15”), which will require customers to apply internal-use software guidance to determine the implementation costs that are able to be capitalized. Capitalized implementation costs will be required to be amortized over the term of the arrangement, beginning when the cloud computing arrangement is ready for its intended use. ASU 2018-15 is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2019. The standard allows changes to be applied either retrospectively or prospectively. We will adopt the standard as required in fiscal 2021. The provisions of ASU 2018-15 are not expected to have a material effect on our financial condition, results of operations, or cash flows.

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which requires an entity to assess impairment of its financial instruments based on its estimate of expected credit losses. The provisions of ASU 2016-13 are effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2019. Entities are required to apply these changes through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. We will adopt the amendments as required in fiscal 2021. The provisions of ASU 2016-13 are not expected to have a material effect on our financial condition, results of operations, or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (“ASU 2016-02”), which requires lessees to include most leases on the balance sheet. ASU 2016-02 is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2018. Since the issuance of ASU 2016-02, the FASB released several amendments to improve and clarify the implementation guidance, as well as to change the allowable adoption methods. These standards have been collectively codified within ASC 842, *Leases* (“ASC 842”). The standard allows entities to present the effects of the accounting change as either a cumulative adjustment as of the beginning of the earliest period

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presented or as of the date of adoption. We have an implementation team tasked with reviewing our lease obligations and determining the impact of the new standard to our financial statements. The team is also tasked with identifying appropriate changes to our business processes, systems, and controls to support recognition and disclosure under the new standard. Currently, the implementation team has completed its review of outstanding property leases, which account for a substantial portion of our outstanding lease obligations. The team is in the process of reviewing and analyzing equipment leases, information technology contracts, and other contracts that may have ASC 842 impacts. At this time, we cannot reasonably estimate the impact of adopting the standard. The implementation team reports its findings and progress of the project to management on a frequent basis and to the Audit Committee of the Board of Directors on a quarterly basis. We will adopt the standard as required on September 1, 2019.
All other newly issued accounting pronouncements not yet effective have been deemed either immaterial or not applicable.

Note 5 — Revenue Recognition
We recognize revenue when we transfer control of goods and services to our customers. Revenue is measured as the amount of consideration we expect to receive in exchange for goods and services and is recognized net of allowances for rebates, sales incentives, product returns, and discounts to customers. Sales and use taxes collected on behalf of governmental authorities are excluded from revenues. Payment is generally due and received within 60 days from the point of sale or prior to the transfer of control of certain goods and services. No payment terms extend beyond one year, and we apply the practical expedient within ASC 606 to conclude that no significant financing terms exist within our contracts with customers. Allowances for cash discounts to customers are estimated using the expected value method based on historical experience and are recorded as a reduction to sales. Our standard terms and conditions of sale allow for the return of certain products within four months of the date of shipment. We also provide for limited product return rights to certain distributors and other customers, primarily for slow moving or damaged items subject to certain defined criteria. The limited product return rights generally allow customers to return resalable products purchased within a specified time period and subject to certain limitations, including, at times, when accompanied by a replacement order of equal or greater value. At the time revenue is recognized, we record a refund liability for the expected value of future returns primarily based on historical experience, specific notification of pending returns, or based on contractual terms with the respective customers. Although historical product returns generally have been within expectations, there can be no assurance that future product returns will not exceed historical amounts. A significant increase in product returns could have a material adverse impact on our operating results in future periods. Total refund liabilities recorded under ASC 606 related to rights of return, cash discounts, and other miscellaneous credits to customers were $36.9 million and $41.2 million as of February 28, 2019 and September 1, 2018, respectively, and are reflected within *Other accrued liabilities* on the *Consolidated Balance Sheets*. Additionally, we record right of return assets for products expected to be returned to our distribution centers, which are included within *Prepayments and other current assets* on the *Consolidated Balance Sheets*. Such assets totaled $15.2 million and $16.4 million as of February 28, 2019 and September 1, 2018, respectively.
We also maintain one-time or ongoing marketing and trade-promotion programs with certain customers that require us to estimate and accrue the expected costs of such programs. These arrangements include cooperative marketing programs, merchandising of our products, introductory marketing funds for new products, and other trade-promotion activities conducted by the customer. Costs associated with these programs are generally estimated based on the most likely amount expected to be settled based on the context of the individual contract and are reflected within the *Consolidated Statements of Comprehensive*

Income in accordance with ASC 606, which in most instances requires such costs to be recorded as reductions of revenue. The refund liabilities associated with these programs totaled $32.9 million and $43.9 million as of February 28, 2019 and September 1, 2018, respectively, and are reflected within *Other accrued liabilities* on the *Consolidated Balance Sheets*.

Costs to obtain and fulfill contracts, such as sales commissions and shipping and handling activities, are short-term in nature and are expensed as incurred.

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Nature of Goods and Services

Products

Approximately 94% of revenue is generated from short-term contracts with our customers to deliver tangible goods such as luminaires, lighting controllers, controllers for various building systems, power supplies, prismatic skylights, and drivers. We record revenue from these contracts when the customer obtains control of those goods. For sales designated free on board shipping point, control is transferred at the time of shipment. For sales designated free on board destination, customers take control when a product is delivered to the customer's delivery site.

Professional Services

We collect fees associated with training, installation, and technical support services, primarily related to the set up of our lighting solutions. We recognize revenue for these one-time services at the time the service is performed. We also sell certain service-type warranties that extend coverages for products beyond their base warranties. We account for service-type warranties as distinct performance obligations and recognize revenue for these contracts ratably over the life of the additional warranty period. Claims related to service-type warranties are expensed as incurred.

Software

Software sales include licenses for software, data usage fees, and software as a service arrangements, which generally extend for one year or less. We recognize revenue for software based on the contractual rights provided to a customer, which typically results in the recognition of revenue ratably over the contractual service period.

Shipping and Handling Activities

We account for all shipping and handling activities as activities to fulfill the promise to transfer products to our customers. As such, we do not consider shipping and handling activities to be separate performance obligations, and we expense these costs as incurred.

Contracts with Multiple Performance Obligations

A small portion (approximately 6%) of our revenue is derived from the combination of any or all of products, professional services, and software licenses. Significant judgment may be required to determine which performance obligations are distinct and should be accounted for separately. We allocate the expected consideration to be collected to each distinct performance obligation based on its standalone selling price. Standalone selling price is generally determined using a cost plus margin valuation when no observable input is available. The amount of consideration allocated to each performance obligation is recognized as revenue in accordance with the timing for products, professional services, and software as described above.

Contract Balances

Our rights related to collections from customers are unconditional and are reflected within *Accounts receivable* on the *Consolidated Balance Sheets*. We do not have any other significant contract assets. Contract liabilities arise when we receive cash or an unconditional right to collect cash prior to the transfer of control of goods or services.

The amount of transaction price from contracts with customers allocated to our contract liabilities as of February 28, 2019 and September 1, 2018 consists of the following (in millions):

	February 28, 2019	**September 1, 2018**
Current deferred revenues	$ 4.4	$ 4.8
Non-current deferred revenues	40.3	35.0

Current deferred revenues primarily consist of software licenses, and to a lesser extent professional service and sales-type warranty fees collected prior to performing the related service. Current deferred revenues are included within *Other current liabilities* on the *Consolidated Balance Sheets*. These services are expected to be performed within one year. Non-current deferred revenues primarily consist of long-term service-type warranties, which are typically recognized ratably as revenue between five and ten years from the date of sale, and are included within *Other long-*

term liabilities on the *Consolidated Balance Sheets.* Revenue recognized from beginning balances of contract liabilities during the six months ended February 28, 2019 totaled $3.1 million.
Unsatisfied performance obligations that do not represent contract liabilities consist primarily of orders for physical goods that have not yet been shipped. This backlog of orders at any given time is affected by various factors, including seasonality, cancellations, sales promotions, production cycle times, and the timing of receipt and shipment of orders, which are usually shipped within a few weeks of order receipt. Accordingly, a comparison of backlog orders from period to period is not necessarily meaningful and may not be indicative of future shipments.

Disaggregated Revenues

Our lighting and building management solutions are sold primarily through independent sales agents who cover specific geographic areas and market channels, by internal sales representatives, through consumer retail channels, and directly to large corporate accounts. The following table shows revenue from contracts with customers by sales channel for the three and six months ended February 28, 2019 (in millions):

	Three Months Ended February 28, 2019	**Six Months Ended February 28, 2019**
Independent sales network	$ 571.3	$ 1,221.1
Direct sales network	87.3	186.3
Retail sales	73.6	159.1
Corporate accounts	75.3	127.4
Other	46.9	93.1
Total	$ 854.4	$ 1,787.0

Note 6 — Fair Value Measurements

We determine fair value measurements based on the assumptions a market participant would use in pricing an asset or liability. ASC 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).
Our cash and cash equivalents (Level 1), which are required to be carried at fair value and measured on a recurring basis, were $232.0 million and $129.1 million as of February 28, 2019 and August 31, 2018, respectively.
We utilize valuation methodologies to determine the fair values of our financial assets and liabilities in conformity with the concepts of “exit price” and the fair value hierarchy as prescribed in ASC 820. All valuation methods and assumptions are validated at least quarterly to ensure the accuracy and relevance of the fair values. There were no material changes to the valuation methods or assumptions used to determine fair values during the current period.
We used quoted market prices to determine the fair value of Level 1 assets and liabilities. No transfers between the levels of the fair value hierarchy occurred during the current fiscal period. In the event of a transfer in or out of a level within the fair value hierarchy, the transfers would be recognized on the date of occurrence.

Disclosures of fair value information about financial instruments (whether or not recognized in the balance sheet), for which it is practicable to estimate that value, are required each reporting period in addition to any financial instruments carried at fair value on a recurring basis as prescribed by ASC 825, *Financial Instruments* ("ASC 825"). In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows.

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The carrying values and estimated fair values of certain of our financial instruments were as follows at February 28, 2019 and August 31, 2018 (in millions):

	February 28, 2019		August 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Senior unsecured public notes, net of unamortized discount and deferred costs	$349.7	$357.0	$349.5	$361.7
Industrial revenue bond	4.0	4.0	4.0	4.0
Bank loans	3.0	3.1	3.3	3.3

The senior unsecured public notes are carried at the outstanding balance, net of unamortized bond discount and deferred costs, as of the end of the reporting period. Fair value is estimated based on discounted future cash flows using rates currently available for debt of similar terms and maturity (Level 2).
The industrial revenue bond is carried at the outstanding balance as of the end of the reporting period. The industrial revenue bond is a tax-exempt, variable-rate instrument that resets on a weekly basis; therefore, we estimate that the face amount of the bond approximates fair value as of February 28, 2019 based on bonds of similar terms and maturity (Level 2).
The bank loans are carried at the outstanding balance as of the end of the reporting period. Fair value is estimated based on discounted future cash flows using rates currently available for debt of similar terms and maturity (Level 2).
ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value to us. In many cases, the fair value estimates cannot be substantiated by comparison to independent markets, nor can the disclosed value be realized in immediate settlement of the instruments. In evaluating our management of liquidity and other risks, the fair values of all assets and liabilities should be taken into consideration, not only those presented above.

Note 7 — Goodwill and Intangible Assets
Through multiple acquisitions, we acquired intangible assets consisting primarily of trademarks and trade names associated with specific products with finite lives, definite-lived distribution networks, patented technology, non-compete agreements, and customer relationships, which are amortized over their estimated useful lives. Indefinite-lived intangible assets consist of trade names that are expected to generate cash flows indefinitely.
We recorded amortization expense of $7.7 million and $6.7 million during the three months ended February 28, 2019 and 2018, respectively, and $15.4 million and $13.3 million during the six months ended February 28, 2019 and 2018, respectively. Amortization expense is generally recorded on a straight-line basis and is expected to be approximately $30.8 million in fiscal 2019, $30.8 million in fiscal 2020, $28.0 million in fiscal 2021, $27.0 million in fiscal 2022, and $25.9 million in fiscal 2023.
The changes in the carrying amount of goodwill during the six months ended February 28, 2019 and 2018 are summarized below (in millions):

	Six Months Ended	
	February 28, 2019	February 28, 2018
Beginning balance	$970.6	$ 900.9
Additions from acquired businesses	—	13.4
Foreign currency translation adjustments	(2.1)	(2.4)
Ending balance	$968.5	$ 911.9

Further discussion of goodwill and other intangible assets is included within the *Significant Accounting Policies* footnote of the *Notes to Consolidated Financial Statements* within our Form 10-K.

Note 8 — Inventories

Inventories include materials, labor, inbound freight, and related manufacturing overhead, are stated at the lower of cost (on a first-in, first-out or average cost basis) or market, and consist of the following (in millions):

	February 28, 2019	August 31, 2018
Raw materials, supplies, and work in process [1]	$ 183.8	$ 196.8
Finished goods	259.5	251.8
Inventories excluding reserves	443.3	448.6
Less: Reserves	(30.3)	(36.8)
Total inventories	$ 413.0	$ 411.8

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[1] Due to the immaterial amount of estimated work in process and the short lead times for the conversion of raw materials to finished goods, we do not believe the segregation of raw materials and work in process is meaningful information.

Note 9 — Earnings Per Share

Basic earnings per share for the periods presented is computed by dividing net earnings available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed similarly but reflects the potential dilution that would occur if dilutive options were exercised, all unvested share-based payment awards were vested, and other distributions related to deferred stock agreements were incurred.

The following table calculates basic earnings per common share and diluted earnings per common share for the three and six months ended February 28, 2019 and 2018 (in millions, except per share data):

	Three Months Ended		Six Months Ended	
	February 28, 2019	February 28, 2018	February 28, 2019	February 28, 2018
Net income	$ 66.3	$ 96.9	$ 145.9	$ 168.4
Basic weighted average shares outstanding	39.5	41.4	39.7	41.6
Common stock equivalents	0.1	0.1	0.1	0.1
Diluted weighted average shares outstanding	39.6	41.5	39.8	41.7
Basic earnings per share	$ 1.68	$ 2.34	$ 3.67	$ 4.05
Diluted earnings per share	$ 1.67	$ 2.33	$ 3.66	$ 4.04

The following table presents stock options and restricted stock awards that were excluded from the diluted earnings per share calculation for the three and six months ended February 28, 2019 and 2018 as the effect of inclusion would have been antidilutive:

	Three Months Ended		Six Months Ended	
	February 28, 2019	February 28, 2018	February 28, 2019	February 28, 2018
Stock options	314,673	189,428	290,360	176,549
Restricted stock awards	189,683	198,186	194,232	216,746

Further discussion of our stock options and restricted stock awards is included within the *Common Stock and Related Matters* and *Share-based Payments* footnotes of the *Notes to Consolidated Financial Statements* within our Form 10-K.

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Note 10 — Changes in Stockholders' Equity

The following tables summarize changes in the components of stockholders' equity for the three and six months ended February 28, 2019 and 2018 (in millions):

	Common Stock Outstanding						
	Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock, at cost	Total
Balance, August 31, 2018	40.0	$ 0.5	$ 906.3	$ 1,999.2	$ (114.8)	$ (1,074.4)	$ 1,716.8
Net income	—	—	—	79.6	—	—	79.6
Other comprehensive loss	—	—	—	—	(6.2)	—	(6.2)
ASC 606 adjustments	—	—	—	(13.0)	—	—	(13.0)
Amortization, issuance, and cancellations of restricted stock grants	0.1	—	3.8	—	—	—	3.8
Employee stock purchase plan issuances	—	—	0.1	—	—	—	0.1
Cash dividends of $0.13 per share paid on common stock	—	—	—	(5.2)	—	—	(5.2)
Repurchases of common stock	(0.2)	—	—	—	—	(25.0)	(25.0)
Balance, November 30, 2018	39.9	0.5	910.2	2,060.6	(121.0)	(1,099.4)	1,750.9
Net income	—	—	—	66.3	—	—	66.3
Other comprehensive income	—	—	—	—	6.3	—	6.3
Amortization, issuance, and cancellations of restricted stock grants	—	—	7.1	—	—	—	7.1
Employee stock purchase plan issuances	—	—	0.2	—	—	—	0.2
Cash dividends of $0.13 per share paid on common stock	—	—	—	(5.3)	—	—	(5.3)
Repurchases of common stock	(0.2)	—	—	—	—	(23.7)	(23.7)
Balance, February 28, 2019	39.7	$ 0.5	$ 917.5	$ 2,121.6	$ (114.7)	$ (1,123.1)	$ 1,801.8

	Common Stock Outstanding						
	Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock, at cost	Total
Balance, August 31, 2017	41.8	$ 0.5	$ 881.0	$ 1,659.9	$ (99.7)	$ (776.1)	$ 1,665.6
Net income	—	—	—	71.5	—	—	71.5
Other comprehensive loss	—	—	—	—	(8.9)	—	(8.9)
Amortization, issuance, and cancellations of restricted stock grants	0.1	—	2.5	—	—	0.1	2.6
Employee stock purchase plan issuances	—	—	0.2	—	—	—	0.2
Cash dividends of $0.13 per share paid on common stock	—	—	—	(5.5)	—	—	(5.5)
Stock options exercised	—	—	0.6	—	—	—	0.6
Balance, November 30, 2017	41.9	0.5	884.3	1,725.9	(108.6)	(776.0)	1,726.1
Net income	—	—		96.9	—	—	96.9
Other comprehensive income	—	—	—	—	4.3	—	4.3
Reclassification of stranded tax effects of the TCJA [(1)]	—	—	—	11.1	(11.1)	—	—
Amortization, issuance, and cancellations of restricted stock grants	0.1	—	7.6	—	—	—	7.6
Employee stock purchase plan issuances	—	—	0.1	—	—	—	0.1
Cash dividends of $0.13 per share paid on common stock	—	—	—	(5.4)	—	—	(5.4)
Stock options exercised	—	—	0.5	—	—	—	0.5
Repurchases of common stock	(1.2)	—	—	—	—	(194.3)	(194.3)
Balance, February 28, 2018	40.8	$ 0.5	$ 892.5	$ 1,828.5	$ (115.4)	$ (970.3)	$ 1,635.8

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[1] See *Income Taxes* footnote of the *Notes to Consolidated Financial Statements* within our Form 10-K for additional details.

Note 11 — Comprehensive Income

Comprehensive income represents a measure of all changes in equity that result from recognized transactions and other economic events other than transactions with owners in their capacity as owners. Other comprehensive income (loss) includes foreign currency translation and pension adjustments. The before tax amounts of the defined benef

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it pension plan items reclassified from *Accumulated other comprehensive loss* are included in *Miscellaneous expense, net* on the *Consolidated Statements of Comprehensive Income*. See the *Pension Plans* footnote within the *Notes to Consolidated Financial Statements* for additional details.
The following table presents the changes in each component of accumulated other comprehensive loss during the six months ended February 28, 2019 and 2018 (in millions):

	Foreign Currency Items	Defined Benefit Pension Plans	Accumulated Other Comprehensive Loss Items
Balance at August 31, 2018	$ (53.9)	$ (60.9)	$ (114.8)
Other comprehensive (loss) income before reclassifications	(3.9)	0.9	(3.0)
Amounts reclassified from accumulated other comprehensive loss	—	3.1	3.1
Net current period other comprehensive (loss) income	(3.9)	4.0	0.1
Balance at February 28, 2019	$ (57.8)	$ (56.9)	$ (114.7)

	Foreign Currency Items	Defined Benefit Pension Plans	Accumulated Other Comprehensive Loss Items
Balance at August 31, 2017	$ (28.7)	$ (71.0)	$ (99.7)
Other comprehensive loss before reclassifications	(8.0)	—	(8.0)
Amounts reclassified from accumulated other comprehensive loss	—	3.4	3.4
Net current period other comprehensive (loss) income	(8.0)	3.4	(4.6)
Reclassification of stranded tax effects of TCJA [1]	—	(11.1)	(11.1)
Balance at February 28, 2018	$ (36.7)	$ (78.7)	$ (115.4)

[1] See *Income Taxes* footnote of the *Notes to Consolidated Financial Statements* within our Form 10-K for additional details.

The following table presents the tax expense or benefit allocated to each component of other comprehensive income (loss) for the three and six months ended February 28, 2019 and 2018 (in millions):

	Three Months Ended					
	February 28, 2019			February 28, 2018		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Foreign currency translation adjustments	$4.9	$ —	$ 4.9	$2.5	$ —	$ 2.5
Defined benefit pension plans:						
Amortization of defined benefit pension items:						
Prior service cost	0.7	(0.1)	0.6	0.8	(0.2)	0.6
Actuarial losses	1.0	(0.2)	0.8	1.7	(0.5)	1.2
Total defined benefit pension plans, net	1.7	(0.3)	1.4	2.5	(0.7)	1.8
Other comprehensive loss	$6.6	$ (0.3)	$ 6.3	$5.0	$ (0.7)	$ 4.3

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	Six Months Ended					
	February 28, 2019			February 28, 2018		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Foreign currency translation adjustments	$(3.9)	$ —	$ (3.9)	$(8.0)	$ —	$ (8.0)
Defined benefit pension plans:						
Actuarial gain or loss	1.3	(0.4)	0.9	—	—	—
Amortization of defined benefit pension items:						
Prior service cost	1.5	(0.3)	1.2	1.6	(0.6)	1.0
Actuarial losses	2.1	(0.5)	1.6	3.4	(1.0)	2.4
Settlement losses	0.4	(0.1)	0.3	—	—	—
Total defined benefit pension plans, net	5.3	(1.3)	4.0	5.0	(1.6)	3.4
Other comprehensive loss	$1.4	$ (1.3)	$ 0.1	$(3.0)	$ (1.6)	$ (4.6)

Note 12 — Debt and Lines of Credit

Lines of Credit

On June 29, 2018, we entered into a credit agreement (“Credit Agreement”) with a syndicate of banks that provides us with a $400.0 million five-year unsecured revolving credit facility (“Revolving Credit Facility”) and a $400.0 million unsecured delayed draw term loan facility (“Term Loan Facility”). We had no borrowings outstanding under the current Revolving Credit Facility or Term Loan Facility as of February 28, 2019. Additionally, we had no borrowings outstanding under our previous credit facility as of August 31, 2018.

Generally, amounts outstanding under the Revolving Credit Facility allow for borrowings to bear interest at either the Eurocurrency Rate or the base rate at our option, plus an applicable margin. Eurocurrency Rate advances can be denominated in a variety of currencies, including U.S. Dollars, and amounts outstanding bear interest at a periodic fixed rate equal to the London Interbank Offered Rate (“LIBOR”) or screen rate for the applicable currency plus an applicable margin. The Eurocurrency applicable margin is based on our leverage ratio, as defined in the Credit Agreement, with such margin ranging from 1.000% to 1.375%. Base rate advances bear interest at an alternate base rate plus an applicable margin. The base rate applicable margin is based on our leverage ratio, as defined in the Credit Agreement, with such margin ranging from 0.000% to 0.375%. The Term Loan Facility allows for borrowings to be drawn over a one-year period ending June 29, 2019, utilizing up to four separate installments, which are U.S. dollar denominated. Borrowings under the Term Loan Facility will amortize in equal quarterly installments of 2.5% per year in year one, 2.5% per year in year two, 5.0% per year in year three, 5.0% per year in year four, and 7.5% per year in year five. Any remaining borrowings under the Term Loan Facility are due and payable in full on June 29, 2023. The Term Loan Facility allows for borrowings to bear interest at either a Eurocurrency Rate or the base rate, at our option, in each case plus an applicable margin. Eurocurrency Rate advances can be denominated in a variety of currencies, including U.S. Dollars, and amounts outstanding bear interest at a periodic fixed rate equal to the LIBOR or screen rate for the applicable currency plus an applicable margin. The Eurocurrency applicable margin is based on our leverage ratio, as defined in the Credit Agreement, with such margin ranging from 0.875% to 1.250%. Base Rate advances bear interest at an alternate base rate plus an applicable margin. The base rate applicable margin is based on our leverage ratio, as defined in the Credit Agreement, with such margin ranging from 0.0% to 0.25%.

We are required to pay certain fees in connection with the Credit Agreement, including administrative service fees and annual facility fees. The annual facility fee is payable quarterly, in arrears, and is

determined by our leverage ratio as defined in the Credit Agreement. The facility fee ranges from 0.125% to 0.25% of the aggregate $800.0 million commitment of the lenders under the Credit Agreement. The Credit Agreement contains financial covenants, including a minimum interest expense coverage ratio ("Minimum Interest Expense Coverage Ratio") and a leverage ratio ("Maximum Leverage Ratio") of total indebtedness to earnings before interest, tax, depreciation, and amortization ("EBITDA"), as such terms are defined in the Credit Agreement. These ratios are computed at the end of each fiscal quarter for the most recent 12-month period. The Credit Agreement generally allows for a Minimum Interest Expense Coverage Ratio of 2.50 and a Maximum Leverage Ratio of 3.50, subject to certain conditions, as such terms are defined in the Credit Agreement.

We were in compliance with all financial covenants under the Credit Agreement as of February 28, 2019. At February 28, 2019, we had additional borrowing capacity under the Credit Agreement of $794.7 million under the most restrictive covenant in effect at the time, which represents the full amount of the Revolving Credit Facility and the Term Loan Facility less the outstanding letters of credit of $5.3 million issued under the Revolving Credit Facility. As of February 28, 2019, we had outstanding letters of credit totaling $9.5 million, primarily for securing collateral requirements under our casualty insurance programs and for providing credit support for our industrial revenue bond (not an outstanding amount under the Revolving Credit Facility).

Long-term Debt

At February 28, 2019, we had $350.0 million of publicly-traded, senior unsecured notes outstanding at a 6% interest rate that are scheduled to mature in December 2019 (the "Unsecured Notes"). Although the Unsecured Notes will mature within one year from February 28, 2019, we have the ability and intent to refinance these borrowings using availability under our Term Loan Facility, subject to satisfying the applicable conditions precedent. Currently, we plan to refinance the Unsecured Notes in full with borrowings under the Term Loan Facility, of which $343.3 million of the current carrying value would be due more than one year from the refinancing date. As such, this amount is reflected within *Long-term debt* on the *Consolidated Balance Sheets* as of February 28, 2019. We also had $4.0 million of tax-exempt industrial revenue bonds that are scheduled to mature in 2021 and $3.0 million outstanding under fixed-rate bank loans outstanding at February 28, 2019. Further discussion of our long-term debt is included within the *Debt and Lines of Credit* footnote of the *Notes to Consolidated Financial Statements* within our Form 10-K.

Interest Expense, net

Interest expense, net, is comprised primarily of interest expense on long-term debt, obligations in connection with non-qualified retirement benefits, and Revolving Credit Facility borrowings, partially offset by interest income earned on cash and cash equivalents.

The following table summarizes the components of interest expense, net for the three and six months ended February 28, 2019 and 2018 (in millions):

	Three Months Ended		**Six Months Ended**	
	February 28, 2019	**February 28, 2018**	**February 28, 2019**	**February 28, 2018**
Interest expense	$ 9.1	$ 8.7	$ 18.3	$ 17.4
Interest income	(0.5)	(0.7)	(1.0)	(1.3)
Interest expense, net	$ 8.6	$ 8.0	$ 17.3	$ 16.1

Note 13 — Commitments and Contingencies

In the normal course of business, we are subject to the effects of certain contractual stipulations, events, transactions, and laws and regulations that may, at times, require the recognition of liabilities, such as those related to self-insurance reserves and claims, legal and contractual issues, environmental laws and regulations, guarantees, and indemnities. We establish reserves when the associated costs related to uncertainties or guarantees become probable and can be reasonably estimated. For the period ended February 28, 2019, no material changes have occurred in our reserves for self-insurance, litigation, environmental matters, guarantees and indemnities, or relevant events and circumstances, from those disclosed in the *Commitments and Contingencies* footnote of the *Notes to Consolidated Financial Statements* within our Form 10-K.

Product Warranty and Recall Costs

Our products generally have a standard warranty term of five years that assure our products comply with agreed upon specifications. We record an allowance for the estimated amount of future warranty costs when the related revenue is recognized. Estimated costs related to product recalls based on a formal campaign soliciting repair or return of that product are accrued when they are deemed to be probable and can be reasonably estimated. Estimated future warranty and recall costs are primarily based on historical experience of identified warranty and recall claims. However, there can be no assurance that future warranty or recall costs will not exceed historical amounts or that new technology products may not generate unexpected costs. If actual future warranty or recall costs exceed historical amounts, additional allowances may be required, which could have a material adverse impact on our results of operations and cash flows.

Reserves for these product warranty and recall costs are included in *Other accrued liabilities* and *Other long-term liabilities* on the *Consolidated Balance Sheets.* The changes in the reserves for product warranty and recall costs during the six months ended February 28, 2019 and 2018 are summarized as follows (in millions):

	Six Months Ended	
	February 28, 2019	February 28, 2018
Beginning balance	$27.3	$ 22.0
Warranty and recall costs	9.6	15.1
Payments and other deductions	(9.2)	(13.1)
ASC 606 adjustments [(1)]	(14.8)	—
Ending balance	$12.9	$ 24.0

[(1)] Certain service-type warranties accounted for as contingent liabilities prior to the adoption of ASC 606 are now reflected as contract liabilities effective September 1, 2018. Refer to the *New Accounting Pronouncements* and *Revenue Recognition* footnotes for additional information.

Securities Class Action

On January 3, 2018, a shareholder filed a class action complaint in the United States District Court for the District of Delaware against the Company and certain of our officers on behalf of all persons who purchased or otherwise acquired our stock between June 29, 2016 and April 3, 2017. On February 20, 2018, a different shareholder filed a second class action complaint in the same venue against the same parties on behalf of all persons who purchased or otherwise acquired our stock between October 15, 2015 and April 3, 2017. The cases were transferred on April 30, 2018, to the United States District Court for the Northern District of Georgia and subsequently were consolidated as In re Acuity Brands, Inc. Securities Litigation, Civil Action No. 1:18-cv-02140-MHC (N.D. Ga.). On October 5, 2018, the court appointed lead plaintiff filed a consolidated amended class action complaint (the “Consolidated Complaint”), which supersedes the initial complaints. The Consolidated Complaint is brought on behalf of all persons who purchased our common stock between October 7, 2015 and April 3, 2017 and alleges that the Company and certain of our current officers and one former executive violated the federal securities laws by making false or misleading statements and/or omitting to disclose material adverse facts that (i) concealed known trends negatively impacting sales of the Company’s products and (ii) overstated our ability to achieve profitable sales growth. The plaintiffs seek class certification, unspecified monetary damages, costs, and attorneys’ fees. We dispute the allegations and intend to vigorously defend against the claims in the complaints. We have filed a motion to dismiss the Consolidated Complaint. Estimating an amount or range of possible losses resulting from litigation proceedings is inherently difficult, particularly where the matters

involve indeterminate claims for monetary damages and are in the stages of the proceedings where key factual and legal issues have not been resolved. For these reasons, we are currently unable to predict the ultimate timing or outcome of or reasonably estimate the possible losses or a range of possible losses resulting from the matters described above. We maintain Director and Officer insurance policies that may cover any liability arising out of this litigation up to the policies' limits, subject to a self-insured retention and other terms and conditions.

Litigation

We are subject to various other legal claims arising in the normal course of business, including patent infringement, employment matters, and product liability claims. Based on information currently available, it is the opinion of management that the ultimate resolution of any such pending and threatened legal proceedings will not have a material adverse effect on our financial condition, results of operations, or cash flows. However, in the event of unexpected future developments, it is possible that the ultimate resolution of any such matters, if unfavorable, could have a material adverse effect on our financial condition, results of operations, or cash flows in future periods. We establish reserves for legal claims when associated costs become probable and can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher than the amounts reserved for such claims. However, we cannot make a meaningful estimate of actual costs to be incurred that could possibly be higher or lower than the amounts reserved.

Trade Compliance Matters

In the course of routine reviews of import and export activity, we previously determined that we misclassified and/or inaccurately valued certain international shipments of products. We are conducting a detailed review of this activity to determine the extent of any liabilities and implementing the appropriate remedial measures. At this time, we are unable to determine the likelihood or amount of loss, if any, associated with these shipments.

Note 14 — Share-based Payments

We account for share-based payments through the measurement and recognition of compensation expense for share-based payment awards made to employees and directors, including stock options and restricted shares (all part of our equity incentive plan), and share units representing certain deferrals into our director deferred compensation plan or our supplemental deferred savings plan.

The following table presents share-based payment expense and new shares issued upon exercise of stock options for the three and six months ended February 28, 2019 and 2018 (in millions, except shares):

	Three Months Ended		**Six Months Ended**	
	February 28, 2019	**February 28, 2018**	**February 28, 2019**	**February 28, 2018**
Share-based payment expense	$ 7.5	$ 8.3	$ 15.3	$ 16.8
Shares issued from option exercises	—	3,208	—	9,364

Further details regarding each of these award programs and our share-based payments are included within the *Share-based Payments* footnote of the *Notes to Consolidated Financial Statements* within our Form 10-K.

Note 15 — Pension Plans

We have several pension plans, both qualified and non-qualified, covering certain hourly and salaried employees. Benefits paid under these plans are based generally on employees’ years of service and/or compensation during the final years of employment. We make annual contributions to the plans to the extent indicated by actuarial valuations and statutory requirements. Plan assets are invested primarily in equity and fixed income securities.

Service cost of net periodic pension cost is allocated between *Cost of products sold* and *Selling, distribution, and administrative expenses* in the *Consolidated Statements of Comprehensive Income* based on the nature of the employee's services. All other components of net periodic pension cost are included within *Miscellaneous expense, net* in the *Consolidated Statements of Comprehensive Income*. Net periodic

pension cost during the three and six months ended February 28, 2019 and 2018 included the following components before tax (in millions):

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	Three Months Ended		Six Months Ended	
	February 28, 2019	February 28, 2018	February 28, 2019	February 28, 2018
Service cost	$ 0.8	$ 0.7	$ 1.6	$ 1.4
Interest cost	2.3	2.2	4.5	4.4
Expected return on plan assets	(3.2)	(3.1)	(6.3)	(6.2)
Amortization of prior service cost	0.7	0.8	1.5	1.6
Settlement loss	—	—	0.4	—
Recognized actuarial loss	1.0	1.7	2.1	3.4
Net periodic pension cost	$ 1.6	$ 2.3	$ 3.8	$ 4.6

Further details regarding our pension plans are included within the *Pension and Defined Contribution Plans* footnote of the *Notes to Consolidated Financial Statements* within our Form 10-K.

Note 16 — Special Charge

During fiscal 2019, we recognized pre-tax special charges of $1.4 million. These charges primarily related to move costs associated with the previously announced transfer of activities from a planned facility closure. During fiscal 2018, we recognized special charges consisting primarily of severance and employee-related benefit costs for the elimination of certain operations and positions following a realignment of our operating structure, including positions within various selling, distribution, and administrative ("SD&A") departments. Further details regarding our special charges are included within the *Special Charge* footnote of the *Notes to Consolidated Financial Statements* within our Form 10-K.
Costs reflected within *Special charge* on the *Consolidated Statements of Comprehensive Income* for the three and six months ended February 28, 2019 and 2018 are summarized as follows (in millions):

	Three Months Ended		Six Months Ended	
	February 28, 2019	February 28, 2018	February 28, 2019	February 28, 2018
Severance and employee-related costs	$ (0.3)	$ 0.6	$ (0.8)	$ 0.8
Move and other restructuring costs	0.7	—	2.2	—
Total special charges	$ 0.4	$ 0.6	$ 1.4	$ 0.8

As of February 28, 2019, remaining restructuring reserves were $4.6 million and are included in *Accrued compensation* on the *Consolidated Balance Sheets*. The changes in the reserves related to these programs during the six months ended February 28, 2019 are summarized as follows (in millions):

	Fiscal 2018 Actions	Fiscal 2017 Actions	Total
Balance at August 31, 2018	$ 9.2	$ 0.9	10.1
Severance costs	(0.4)	(0.4)	(0.8)
Payments made during the period	(4.3)	(0.4)	(4.7)
Balance at February 28, 2019	$ 4.5	$ 0.1	$ 4.6

Note 17 — Income Taxes

During the second quarter of fiscal 2019, we finalized our accounting for the tax effects of the Tax Cuts and Jobs Act (“TCJA”) in accordance with Staff Accounting Bulletin No. 118 (“SAB 118”). As a result, we recorded a net tax benefit of $0.9 million related to TCJA impacts including, but not limited to, our one-time transition tax, deferred income taxes, and executive compensation.

Previously, we asserted that all undistributed earnings and original investments in foreign subsidiaries were indefinitely reinvested and, therefore, had not recorded any deferred taxes related to any outside basis differences associated with our foreign subsidiaries. As of February 28, 2019, the estimated undistributed earnings from foreign subsidiaries

was $78.3 million. A significant portion of these earnings was subject to U.S. federal taxation in fiscal 2018 as part of the one-time transition tax. We are no longer asserting indefinite reinvestment on the portion of our unremitted earnings that were previously subject to U.S. federal taxation with the one-time transition tax. Accordingly, we recognized a deferred income tax liability of $0.6 million for certain foreign withholding taxes and U.S. state taxes during the current quarter. With respect to unremitted earnings and original investments in foreign subsidiaries where we are continuing to assert indefinite reinvestment, any future remittances could be subject to additional foreign withholding taxes, U.S. state taxes, and certain tax impacts relating to foreign currency exchange effects. It is not practicable to estimate the amount of any unrecognized tax effects on these reinvested earnings and original investments in foreign subsidiaries.

We have elected to account for the tax on Global Intangible Low-Taxed Income (“GILTI”) as a period cost and, therefore, do not record deferred taxes related to GILTI on our foreign subsidiaries.

Further details regarding the effects of the TCJA are included within the *Income Taxes* footnote of the *Notes to Consolidated Financial Statements* within our Form 10-K.

Note 18 — Supplemental Guarantor Condensed Consolidating Financial Statements

In December 2009, ABL, the 100% owned and principal operating subsidiary of Acuity Brands, refinanced the then current outstanding debt through the issuance of the Unsecured Notes. See *Debt and Lines of Credit* footnote for further information.

In accordance with the registration rights agreement by and between ABL and the guarantors to the Unsecured Notes and the initial purchasers of the Unsecured Notes, ABL and the guarantors to the Notes filed a registration statement with the SEC for an offer to exchange the Unsecured Notes for an issue of SEC-registered notes with identical terms. Due to the filing of the registration statement and offer to exchange, we determined the need for compliance with Rule 3-10 of SEC Regulation S-X (“Rule 3-10”). In lieu of providing separate audited financial statements for ABL and ABL IP Holding, we have included the accompanying Condensed Consolidating Financial Statements in accordance with Rule 3-10(d) of SEC Regulation S-X since the Unsecured Notes are fully and unconditionally guaranteed by Acuity Brands and ABL IP Holding. The column marked “Parent” represents the financial condition, results of operations, and cash flows of Acuity Brands. The column marked “Subsidiary Issuer” represents the financial condition, results of operations, and cash flows of ABL. The column entitled “Subsidiary Guarantor” represents the financial condition, results of operations, and cash flows of ABL IP Holding. Lastly, the column listed as “Non-Guarantors” includes the financial condition, results of operations, and cash flows of the non-guarantor direct and indirect subsidiaries of Acuity Brands, which consist primarily of foreign subsidiaries.

Consolidating adjustments were necessary in order to arrive at consolidated amounts. In addition, the equity method of accounting was used to calculate investments in subsidiaries. Accordingly, this basis of presentation is not intended to present the Company's financial condition, results of operations, or cash flows for any purpose other than to comply with the specific requirements for parent-subsidiary guarantor reporting.

CONDENSED CONSOLIDATING BALANCE SHEETS
(In millions)

	February 28, 2019					
	Parent	Subsidiary Issuer	Subsidiary Guarantor	Non-Guarantors	Consolidating Adjustments	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ 152.1	$ 17.8	$ —	$ 62.1	$ —	$ 232.0
Accounts receivable, net	—	450.9	—	69.2	—	520.1
Inventories	—	385.4	—	27.6	—	413.0
Other current assets	20.4	29.9	—	17.2	—	67.5
Total current assets	172.5	884.0	—	176.1	—	1,232.6
Property, plant, and equipment, net	0.1	224.6	—	59.5	—	284.2
Goodwill	—	746.3	2.7	219.5	—	968.5
Intangible assets, net	—	278.8	105.1	98.5	—	482.4
Deferred income taxes	36.1	—	—	6.2	(39.4)	2.9
Other long-term assets	0.3	19.1	—	1.8	—	21.2
Investments in and amounts due from affiliates	1,698.8	491.4	300.4	—	(2,490.6)	—
Total assets	$ 1,907.8	$ 2,644.2	$ 408.2	$ 561.6	$ (2,530.0)	$ 2,991.8
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	$ 0.7	$ 325.3	$ —	$ 25.1	$ —	$ 351.1
Current maturities of long-term debt	—	6.6	—	0.4	—	7.0
Other accrued liabilities	9.3	175.8	—	41.2	—	226.3
Total current liabilities	10.0	507.7	—	66.7	—	584.4
Long-term debt	—	347.1	—	2.6	—	349.7
Deferred income taxes	—	103.5	—	25.7	(39.4)	89.8
Other long-term liabilities	96.0	55.5	—	14.6	—	166.1
Amounts due to affiliates	—	—	—	131.3	(131.3)	—
Total stockholders' equity	1,801.8	1,630.4	408.2	320.7	(2,359.3)	1,801.8
Total liabilities and stockholders' equity	$ 1,907.8	$ 2,644.2	$ 408.2	$ 561.6	$ (2,530.0)	$ 2,991.8

CONDENSED CONSOLIDATING BALANCE SHEETS

(In millions)

	August 31, 2018					
	Parent	**Subsidiary Issuer**	**Subsidiary Guarantor**	**Non-Guarantors**	**Consolidating Adjustments**	**Consolidated**
ASSETS						
Current assets:						
Cash and cash equivalents	$80.5	$ —	$ —	$ 48.6	$ —	$ 129.1
Accounts receivable, net	—	560.7	—	77.2	—	637.9
Inventories	—	386.6	—	25.2	—	411.8
Other current assets	2.3	18.6	—	11.4	—	32.3
Total current assets	82.8	965.9	—	162.4	—	1,211.1
Property, plant, and equipment, net	0.2	226.8	—	59.7	—	286.7
Goodwill	—	746.5	2.7	221.4	—	970.6
Intangible assets, net	—	286.6	106.5	105.6	—	498.7
Deferred income taxes	36.4	—	—	6.2	(39.7)	2.9
Other long-term assets	1.2	15.6	—	2.0	—	18.8
Investments in and amounts due from affiliates	1,707.0	370.6	279.5	—	(2,357.1)	—
Total assets	$1,827.6	$ 2,612.0	$ 388.7	$ 557.3	$ (2,396.8)	$ 2,988.8
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	$0.3	$ 420.7	$ —	$ 30.1	$ —	$ 451.1
Current maturities of long-term debt	—	—	—	0.4	—	0.4
Other accrued liabilities	18.8	170.1	—	42.3	—	231.2
Total current liabilities	19.1	590.8	—	72.8	—	682.7
Long-term debt	—	353.5	—	2.9	—	356.4
Deferred income taxes	—	106.5	—	25.7	(39.7)	92.5
Other long-term liabilities	91.7	34.0	—	14.7	—	140.4
Amounts due to affiliates	—	—	—	138.8	(138.8)	—
Total stockholders' equity	1,716.8	1,527.2	388.7	302.4	(2,218.3)	1,716.8
Total liabilities and stockholders' equity	$1,827.6	$ 2,612.0	$ 388.7	$ 557.3	$ (2,396.8)	$ 2,988.8

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ACUITY BRANDS, INC.
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(In millions)

	Three Months Ended February 28, 2019					
	Parent	Subsidiary Issuer	Subsidiary Guarantor	Non-Guarantors	Consolidating Adjustments	Consolidated
Net sales:						
External sales	$—	$756.6	$ —	$ 97.8	$ —	$ 854.4
Intercompany sales	—	—	12.6	50.0	(62.6)	—
Total sales	—	756.6	12.6	147.8	(62.6)	854.4
Cost of products sold	—	466.6	—	103.3	(49.4)	520.5
Gross profit	—	290.0	12.6	44.5	(13.2)	333.9
Selling, distribution, and administrative expenses	10.8	202.1	0.7	37.2	(13.2)	237.6
Intercompany charges	(0.9)	—	—	0.9	—	—
Special charge	—	0.4	—	—	—	0.4
Operating (loss) profit	(9.9)	87.5	11.9	6.4	—	95.9
Interest expense, net	3.0	4.4	—	1.2	—	8.6
Equity earnings in subsidiaries	(77.3)	(8.7)	—	—	86.0	—
Miscellaneous expense (income), net	1.5	(0.1)	—	(0.3)	—	1.1
Income before income taxes	62.9	91.9	11.9	5.5	(86.0)	86.2
Income tax (benefit) expense	(3.4)	19.3	2.5	1.5	—	19.9
Net income	66.3	72.6	9.4	4.0	(86.0)	66.3
Other comprehensive income (loss) items:						
Foreign currency translation adjustments	4.9	4.9	—	—	(4.9)	4.9
Defined benefit plans, net of tax	1.4	1.1	—	0.3	(1.4)	1.4
Other comprehensive income items, net of tax	6.3	6.0	—	0.3	(6.3)	6.3
Comprehensive income	$72.6	$78.6	$ 9.4	$ 4.3	$ (92.3)	$ 72.6

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CONDENSED CONSOL OF COMPREHENSIVE INCOME

(In millions)

	Three Months Ended February 28, 2018					
	Parent	Subsidiary Issuer	Subsidiary Guarantor	Non-Guarantors	Consolidating Adjustments	Consolidated
Net sales:						
External sales	$—	$740.4	$ —	$ 91.7	$—	$ 832.1
Intercompany sales	—	—	12.5	41.2	(53.7)	—
Total sales	—	740.4	12.5	132.9	(53.7)	832.1
Cost of products sold	—	441.0	—	95.3	(38.7)	497.6
Gross profit	—	299.4	12.5	37.6	(15.0)	334.5
Selling, distribution, and administrative expenses	9.6	211.8	0.8	37.2	(15.0)	244.4
Intercompany charges	(0.8)	(0.4)	—	1.2	—	—
Special charge	—	0.6	—	—	—	0.6
Operating (loss) profit	(8.8)	87.4	11.7	(0.8)	—	89.5
Interest expense, net	2.6	4.0	—	1.4	—	8.0
Equity earnings in subsidiaries	(106.2)	(1.0)	—	0.1	107.1	—
Miscellaneous expense, net	1.6	0.8	—	0.4	—	2.8
Income (loss) before income taxes	93.2	83.6	11.7	(2.7)	(107.1)	78.7
Income tax (benefit) expense	(3.5)	(15.0)	0.9	(0.6)	—	(18.2)
Net income (loss)	96.7	98.6	10.8	(2.1)	(107.1)	96.9
Other comprehensive income (loss) items:						
Foreign currency translation adjustments	2.5	2.5	—	—	(2.5)	2.5
Defined benefit plans, net of tax	1.8	1.3	—	0.5	(1.8)	1.8
Other comprehensive income items, net of tax	4.3	3.8	—	0.5	(4.3)	4.3
Comprehensive income (loss)	$101.0	$102.4	$ 10.8	$ (1.6)	$ (111.4)	$ 101.2

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(In millions)

	Six Months Ended February 28, 2019					
	Parent	Subsidiary Issuer	Subsidiary Guarantor	Non-Guarantors	Consolidating Adjustments	Consolidated
Net sales:						
External sales	$—	$1,585.5	$ —	$201.5	$—	$1,787.0
Intercompany sales	—	—	26.3	103.0	(129.3)	—
Total sales	—	1,585.5	26.3	304.5	(129.3)	1,787.0
Cost of products sold	—	967.1	—	219.6	(101.1)	1,085.6
Gross profit	—	618.4	26.3	84.9	(28.2)	701.4
Selling, distribution, and administrative expenses	19.7	419.8	1.4	75.0	(28.2)	487.7
Intercompany charges	(2.2)	—	—	2.2	—	—
Special charge	—	1.4	—	—	—	1.4
Operating (loss) profit	(17.5)	197.2	24.9	7.7	—	212.3
Interest expense, net	6.1	8.8	—	2.4	—	17.3
Equity earnings in subsidiaries	(166.4)	(12.0)	—	0.1	178.3	—
Miscellaneous expense (income), net	3.4	(0.7)	—	(0.3)	—	2.4
Income before income taxes	139.4	201.1	24.9	5.5	(178.3)	192.6
Income tax (benefit) expense	(6.4)	45.9	5.2	2.0	—	46.7
Net income	145.8	155.2	19.7	3.5	(178.3)	145.9
Other comprehensive income (loss) items:						
Foreign currency translation adjustments	(3.9)	(3.9)	—	—	3.9	(3.9)
Defined benefit plans, net of tax	4.0	2.3	—	0.6	(2.9)	4.0
Other comprehensive income (loss) items, net of tax	0.1	(1.6)	—	0.6	1.0	0.1
Comprehensive income	$145.9	$153.6	$ 19.7	$4.1	$(177.3)	$146.0

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CONDENSED CONSOL OF COMPREHENSIVE INCOME
(In millions)

	Six Months Ended February 28, 2018					
	Parent	Subsidiary Issuer	Subsidiary Guarantor	Non-Guarantors	Consolidating Adjustments	Consolidated
Net sales:						
External sales	$—	$1,484.6	$ —	$190.3	$—	$1,674.9
Intercompany sales	—	—	24.5	84.7	(109.2)	—
Total sales	—	1,484.6	24.5	275.0	(109.2)	1,674.9
Cost of products sold	—	871.1	—	200.2	(80.8)	990.5
Gross profit	—	613.5	24.5	74.8	(28.4)	684.4
Selling, distribution, and administrative expenses	20.2	406.5	1.6	74.0	(28.4)	473.9
Intercompany charges	(1.9)	(0.8)	—	2.7	—	—
Special charge	—	0.8	—	—	—	0.8
Operating (loss) profit	(18.3)	207.0	22.9	(1.9)	—	209.7
Interest expense, net	5.3	8.0	—	2.8	—	16.1
Equity earnings in subsidiaries	(187.1)	(2.1)	—	0.1	189.1	—
Miscellaneous expense (income), net	3.2	1.3	—	(0.5)	—	4.0
Income (loss) before income taxes	160.3	199.8	22.9	(4.3)	(189.1)	189.6
Income tax (benefit) expense	(8.5)	27.2	3.0	(0.5)	—	21.2
Net income (loss)	168.8	172.6	19.9	(3.8)	(189.1)	168.4
Other comprehensive income (loss) items:						
Foreign currency translation adjustments	(8.0)	(8.0)	—	—	8.0	(8.0)
Defined benefit plans, net of tax	3.4	2.5	—	0.9	(3.4)	3.4
Other comprehensive (loss) income items, net of tax	(4.6)	(5.5)	—	0.9	4.6	(4.6)
Comprehensive income (loss)	$164.2	$167.1	$ 19.9	$(2.9)	$(184.5)	$163.8

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ACUITY BRANDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
(In millions)

	Six Months Ended February 28, 2019					
	Parent	Subsidiary Issuer	Subsidiary Guarantor	Non-Guarantors	Consolidating Adjustments	Consolidated
Net cash provided by operating activities	$133.8	$35.9	$—	$18.6	$—	$188.3
Cash flows from investing activities:						
Purchases of property, plant, and equipment	—	(20.2)	—	(4.7)	—	(24.9)
Other investing activities	0.8	2.1	—	—	—	2.9
Net cash provided by (used for) investing activities	0.8	(18.1)	—	(4.7)	—	(22.0)
Cash flows from financing activities:						
Borrowings on credit facility	—	86.5	—	—	—	86.5
Repayments of borrowings on credit facility	—	(86.5)	—	—	—	(86.5)
Repayments of long-term debt	—	—	—	(0.2)	—	(0.2)
Proceeds from stock option exercises and other	0.3	—	—	—	—	0.3
Repurchases of common stock	(48.7)	—	—	—	—	(48.7)
Withholding taxes on net settlement of equity awards	(4.3)	—	—	—	—	(4.3)
Dividends paid	(10.5)	—	—	—	—	(10.5)
Net cash used for financing activities	(63.2)	—	—	(0.2)	—	(63.4)
Effect of exchange rates changes on cash	0.2	—	—	(0.2)	—	—
Net change in cash and cash equivalents	71.6	17.8	—	13.5	—	102.9
Cash and cash equivalents at beginning of period	80.5	—	—	48.6	—	129.1
Cash and cash equivalents at end of period	$152.1	$17.8	$—	$62.1	$—	$232.0

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ACUITY BRANDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
(In millions)

	Six Months Ended February 28, 2018					
	Parent	Subsidiary Issuer	Subsidiary Guarantor	Non-Guarantors	Consolidating Adjustments	Consolidated
Net cash provided by operating activities	$ 141.1	$ 14.4	$ —	$ 22.1	$ —	$ 177.6
Cash flows from investing activities:						
Purchases of property, plant, and equipment	—	(15.2)	—	(5.7)	—	(20.9)
Investments in subsidiaries	(26.4)	—	—	—	26.4	—
Acquisitions of business, net of cash acquired	—	—	—	(26.4)	—	(26.4)
Other investing activities	0.7	—	—	—	—	0.7
Net cash used for investing activities	(25.7)	(15.2)	—	(32.1)	26.4	(46.6)
Cash flows from financing activities:						
Repayments of long-term debt	—	—	—	(0.2)	—	(0.2)
Proceeds from stock option exercises and other	1.4	—	—	—	—	1.4
Repurchases of common stock	(194.3)	—	—	—	—	(194.3)
Withholding taxes on net settlement of equity awards	(6.7)	—	—	—	—	(6.7)
Intercompany capital	—	—	—	26.4	(26.4)	—
Dividends paid	(10.9)	—	—	—	—	(10.9)
Net cash (used for) provided by financing activities	(210.5)	—	—	26.2	(26.4)	(210.7)
Effect of exchange rate changes on cash	—	0.8	—	(2.4)	—	(1.6)
Net change in cash and cash equivalents	(95.1)	—	—	13.8	—	(81.3)
Cash and cash equivalents at beginning of period	237.7	—	—	73.4	—	311.1
Cash and cash equivalents at end of period	$ 142.6	$ —	$ —	$ 87.2	$ —	$ 229.8

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Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The purpose of this discussion and analysis is to enhance the understanding and evaluation of the results of operations, financial position, cash flows, indebtedness, and other key financial information of Acuity Brands, Inc. ("Acuity Brands") and its subsidiaries as of February 28, 2019 and for the three and six months ended February 28, 2019 and 2018. The following discussion should be read in conjunction with the *Consolidated Financial Statements* and *Notes to Consolidated Financial Statements* included within this report. Also, please refer to the Acuity Brands' Annual Report on Form 10-K for the fiscal year ended August 31, 2018, filed with the Securities and Exchange Commission (the "SEC") on October 25, 2018 ("Form 10-K").

Overview

Company

Acuity Brands is the parent company of Acuity Brands Lighting, Inc. ("ABL") and other subsidiaries (Acuity Brands, ABL, and such other subsidiaries are collectively referred to herein as "we," "our," "us," "the Company," or similar references). Our principal office is located in Atlanta, Georgia.

We are one of the world's leading providers of lighting and building management solutions and services for commercial, institutional, industrial, infrastructure, and residential applications throughout North America and select international markets. Our lighting and building management solutions include devices such as luminaires, lighting controls, controllers for various building systems, power supplies, prismatic skylights, and drivers, as well as integrated systems designed to optimize energy efficiency and comfort for various indoor and outdoor applications. Additionally, we continue to expand our solutions portfolio, including software and services, to provide a host of other economic benefits resulting from data analytics that enables the Internet of Things ("IoT"), supports the advancement of smart buildings, smart cities, and the smart grid, and allows businesses to develop custom applications to scale their operations. As of February 28, 2019, we operate 18 manufacturing facilities and eight distribution facilities along with three warehouses to serve our extensive customer base.

We do not consider acquisitions a critical element of our strategy but seek opportunities to expand and enhance our portfolio of solutions, including the following transactions completed in the prior fiscal year:

On May 1, 2018, using cash on hand and borrowings available under existing credit arrangements, we acquired IOTA Engineering, LLC ("IOTA"). IOTA is headquartered in Tucson, Arizona and manufactures highly engineered emergency lighting products and power equipment for commercial and institutional applications both in the U.S. and internationally.

On February 12, 2018, using cash on hand, we acquired Lucid Design Group, Inc ("Lucid"). Lucid is headquartered in Oakland, California and provides a data and analytics platform to make data-driven decisions to improve building efficiency and drive energy conservation and savings.

No acquisitions were completed during the first six months of fiscal 2019.

The results of operations for the six months ended February 28, 2019 and 2018 are not necessarily indicative of the results to be expected for the full fiscal year due primarily to seasonality, which results in our net sales and net income generally being higher in the second half of our fiscal year, the impact of any acquisitions, and, among other reasons, the continued uncertainty of general economic conditions that may impact our key end markets for the remainder of fiscal 2019.

Liquidity and Capital Resources

Our principal sources of liquidity are operating cash flows generated primarily from our business operations, cash on hand, and various sources of borrowings. Our ability to generate sufficient cash flow from operations or to access certain capital markets, including banks, is necessary to fund our operations and capital expenditures, pay dividends, repurchase shares, meet obligations as they become due, and maintain compliance with covenants contained in our financing agreements.

For the first six months of fiscal 2019, we paid $24.9 million for property, plant, and equipment, primarily for new and enhanced information technology capabilities, equipment, tooling, and facility enhancements. We

currently expect to invest approximately 1.5% of net sales in capital expenditures during fiscal 2019.
In March 2018, the Board of Directors (the “Board”) authorized the repurchase of up to six million shares of the Company's common stock. As of February 28, 2019, 1.2 million shares had been repurchased under this authorization,

of which 0.4 million shares were repurchased in fiscal 2019. We expect to repurchase the remaining shares available for repurchase on an opportunistic basis subject to various factors including stock price, Company performance, market conditions and other possible uses of cash.

Our short-term cash needs are expected to include funding operations as currently planned; making capital investments as currently anticipated; paying quarterly stockholder dividends as currently anticipated; paying principal and interest on debt as currently scheduled, including our senior unsecured notes maturing in December 2019, which we expect to repay with borrowings available under existing credit arrangements; making required contributions to our employee benefit plans; funding possible acquisitions; and potentially repurchasing shares of our outstanding common stock as authorized by the Board. We believe that we will be able to meet our liquidity needs over the next 12 months based on our cash on hand, current projections of cash flow from operations, and borrowing availability under financing arrangements. Additionally, we believe that our cash flows from operations and sources of funding, including, but not limited to, future borrowings and capacity, will sufficiently support our long-term liquidity needs.

Cash Flow

We use available cash and cash flow from operations, borrowings on credit arrangements, and proceeds from the exercise of stock options to fund operations, capital expenditures, and acquisitions if any; to repurchase Company stock; and to pay dividends.

Our cash position at February 28, 2019 was $232.0 million, an increase of $102.9 million from August 31, 2018. During the six months ended February 28, 2019, we generated net cash flows from operations of $188.3 million. Cash generated from operating activities, as well as cash on-hand, was used during the six months ended February 28, 2019 primarily to repurchase 0.4 million shares of our outstanding common stock for $48.7 million, fund capital expenditures of $24.9 million, pay dividends to stockholders of $10.5 million, and pay withholding taxes on the net settlement of equity awards of $4.3 million.

We generated $188.3 million of cash flow from operating activities during the six months ended February 28, 2019 compared with $177.6 million in the prior-year period, an increase of $10.7 million, due primarily to lower operating working capital requirements. Operating working capital (calculated by adding accounts receivable plus inventories, and subtracting accounts payable-net of acquisitions and the impact of foreign exchange rate changes) decreased approximately $35.7 million during the first six months of fiscal 2019 compared to a $26.0 million decrease during the first six months of fiscal 2018 due primarily to greater cash collections from customers year over year, partially offset by increased payments for trade payables.

We believe that investing in assets and programs that will over time increase the overall return on our invested capital is a key factor in driving stockholder value. We paid $24.9 million and $20.9 million in the first six months of fiscal 2019 and 2018, respectively, primarily related to investments in new information technology, equipment, tooling, and facility enhancements. We expect to invest approximately 1.5% of net sales primarily for new equipment, tooling, facility enhancements, and information technology capabilities during fiscal 2019.

Capitalization

Our current capital structure is comprised principally of senior unsecured notes and equity of our stockholders. Total debt outstanding was $356.7 million and $356.8 million at February 28, 2019 and August 31, 2018, respectively, and consisted primarily of fixed-rate obligations.

On December 8, 2009, ABL issued $350.0 million of senior unsecured notes due in fiscal 2020 (the “Unsecured Notes”) in a private placement transaction. The Unsecured Notes were subsequently exchanged for Securities and Exchange Commission (“SEC”) registered notes with substantially identical terms. The Unsecured Notes bear interest at a rate of 6% per annum and were issued at a price equal to 99.797% of their face value and for a term of ten years. Although the Unsecured Notes will mature within one year from the balance sheet, we have the ability and intent to refinance these borrowings using availability under our unsecured delayed draw term loan facility (“Term Loan Facility”) as described below. Currently, we plan to refinance the Unsecured Notes in full with borrowings under the Term Loan Facility, of which $343.3 million

of the carrying value would be due greater than one year from the refinancing date. As such, this amount is reflected within *Long-term debt* on the *Consolidated Balance Sheets* as of February 28, 2019. See the *Debt and Lines of Credit* footnote of the *Notes to Consolidated Financial Statements* for more information.

On June 29, 2018, we entered into a credit agreement (“Credit Agreement”) with a syndicate of banks that provides us with a $400.0 million five-year unsecured revolving credit facility (“Revolving Credit Facility”) and a $400.0 million Term Loan Facility. On February 28, 2019, we had no borrowings outstanding under the Revolving Credit Facility and no borrowings under the Term Loan Facility. We were in compliance with all financial covenants under the Credit

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Agreement as of February 28, 2019. At February 28, 2019, we had additional borrowing capacity under the Credit Agreement of $794.7 million under the most restrictive covenant in effect at the time, which represents the full amount of the Revolving Credit Facility and the Term Loan Facility less the outstanding letters of credit of $5.3 million issued on the Revolving Credit Facility. As of February 28, 2019, we had outstanding letters of credit totaling $9.5 million, primarily for securing collateral requirements under our casualty insurance programs and for providing credit support for our industrial revenue bond, including $5.3 million issued under the Revolving Credit Facility. See the *Debt and Lines of Credit* footnote of the *Notes to Consolidated Financial Statements* for more information.

During the first six months of fiscal 2019, our consolidated stockholders' equityincreased $85.0 million to $1.80 billion at February 28, 2019, from $1.72 billion at August 31, 2018. The increase was due primarily to net income earned in the period, partially offset by share repurchases, adjustments related to the adoption of Accounting Standards Codification 606, *Revenue from Contracts with Customers* ("ASC 606"), and the payment of dividends. Our debt to total capitalization ratio (calculated by dividing total debt by the sum of total debt and total stockholders' equity) was16.5% and 17.2% at February 28, 2019 and August 31, 2018, respectively. The ratio of debt, net of cash, to total capitalization, net of cash, was 6.5% and 11.7% at February 28, 2019 and August 31, 2018, respectively.

Dividends

We paid dividends on our common stock of $10.5 million and $10.9 million ($0.26 per share) during the six months ended February 28, 2019 and 2018, respectively. All decisions regarding the declaration and payment of dividends are at the discretion of the Board and are evaluated regularly in light of our financial condition, earnings, growth prospects, funding requirements, applicable law, and any other factors the Board deems relevant.

Results of Operations

Second Quarter of Fiscal 2019 Compared with Second Quarter of Fiscal 2018

The following table sets forth information comparing the components of net income for the three months ended February 28, 2019 and 2018 (in millions except per share data):

	Three Months Ended			
	February 28, 2019	**February 28, 2018**	**Increase (Decrease)**	**Percent Change**
Net sales	$854.4	$ 832.1	$ 22.3	2.7 %
Cost of products sold	520.5	497.6	22.9	4.6 %
Gross profit	333.9	334.5	(0.6)	(0.2)%
Percent of net sales	*39.1 %*	*40.2 %*	*(110) bps*	
Selling, distribution, and administrative expenses	237.6	244.4	(6.8)	(2.8)%
Special charge	0.4	0.6	(0.2)	NM
Operating profit	95.9	89.5	6.4	7.2 %
Percent of net sales	*11.2 %*	*10.8 %*	*40 bps*	
Other expense (income):				
Interest expense, net	8.6	8.0	0.6	7.5 %
Miscellaneous expense, net	1.1	2.8	(1.7)	NM
Total other expense	9.7	10.8	(1.1)	NM
Income before income taxes	86.2	78.7	7.5	9.5 %
Percent of net sales	*10.1 %*	*9.5 %*	*60 bps*	
Income tax expense (benefit)	19.9	(18.2)	38.1	NM
Effective tax rate	*23.1 %*	*(23.1)%*		
Net income	$66.3	$ 96.9	$ (30.6)	(31.6)%
Diluted earnings per share	$1.67	$ 2.33	$ (0.66)	(28.3)%

NM - not meaningful

Net sales were $854.4 million for the three months ended February 28, 2019 compared with $832.1 million reported for the three months ended February 28, 2018, an increase of $22.3 million, or 2.7%. For the three months ended February 28, 2019, we reported net income of $66.3 million, a decrease of $30.6 million, or 31.6%, compared with

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$96.9 million for the three months ended February 28, 2018. For the second quarter of fiscal 2019, diluted earnings per share decreased 28.3% to $1.67 compared with $2.33 reported in the year-ago period.
Fiscal 2019 results were impacted by the adoption of ASC 606, which resulted in a decrease to revenues, gross profit, and operating profit of $1.6 million, $1.1 million, and $1.2 million, respectively, during the three months ended February 28, 2019. Additionally, fiscal 2018 results were restated to reflect the impact of adopting Accounting Standards Update No. 2017-07, *Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* ("ASU 2017-07"). Upon adoption of ASU 2017-07, our previously reported operating profit and other expense both increased $1.5 million for the three months ended February 28, 2018. The provisions of ASU 2017-07 had no impact to our previously reported net income or earnings per share. See *New Accounting Pronouncements* footnote of the *Notes to Consolidated Financial Statements* for further details.
The following table reconciles certain U.S. generally accepted accounting principles ("U.S. GAAP") financial measures to the corresponding non-U.S. GAAP measures referred to in the discussion of our results of operations, which exclude the impact of manufacturing inefficiencies, acquisition related items, amortization of acquired intangible assets, share-based payment expense, special charges associated primarily with continued efforts to streamline the organization, and certain discrete income tax benefits of the U.S. Tax Cuts and Jobs Act (the "TCJA"). Although the impacts of some of these items have been recognized in prior periods and could recur in future periods, we typically exclude these charges during internal reviews of performance and use these non-U.S. GAAP measures for baseline comparative operational analysis, decision making, and other activities. These non-U.S. GAAP financial measures, including adjusted gross profit and margin, adjusted selling, distribution, and administrative ("SD&A") expenses and adjusted SD&A expenses as a percent of net sales, adjusted operating profit and margin, adjusted net income, and adjusted diluted earnings per share, are provided to enhance the user's overall understanding of our current financial performance. Specifically, we believe these non-U.S. GAAP measures provide greater comparability and enhanced visibility into our results of operations. The non-U.S. GAAP financial measures should be considered in addition to, and not as a substitute for or superior to, results prepared in accordance with U.S. GAAP.

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(In millions, except per share data)	**Three Months Ended**			
	February 28, 2019	**February 28, 2018**	**Increase (Decrease)**	**Percent Change**
Gross profit	$333.9	$ 334.5		
Add-back: Manufacturing inefficiencies [1]	0.9	—		
Adjusted gross profit	$334.8	$ 334.5	$ 0.3	0.1 %
Percent of net sales	*39.2 %*	*40.2 %*	*(100)*	*bps*
Selling, distribution, and administrative expenses	$237.6	$ 244.4		
Less: Amortization of acquired intangible assets	(7.7)	(6.7)		
Less: Share-based payment expense	(7.5)	(8.3)		
Less: Acquisition-related items [2]	—	(0.2)		
Adjusted selling, distribution, and administrative expenses	$222.4	$ 229.2	$ (6.8)	(3.0)%
Percent of net sales	*26.0 %*	*27.5 %*	*(150)*	*bps*
Operating profit	$95.9	$ 89.5		
Add-back: Amortization of acquired intangible assets	7.7	6.7		
Add-back: Share-based payment expense	7.5	8.3		
Add-back: Manufacturing inefficiencies [1]	0.9	—		
Add-back: Acquisition-related items [2]	—	0.2		
Add-back: Special charge	0.4	0.6		
Adjusted operating profit	$112.4	$ 105.3	$ 7.1	6.7 %
Percent of net sales	*13.2 %*	*12.7 %*	*50*	*bps*
Net income	$66.3	$ 96.9		
Add-back: Amortization of acquired intangible assets	7.7	6.7		
Add-back: Share-based payment expense	7.5	8.3		
Add-back: Manufacturing inefficiencies [1]	0.9	—		
Add-back: Acquisition-related items [2]	—	0.2		
Add-back: Special charge	0.4	0.6		
Total pre-tax adjustments to net income	16.5	15.8		
Income tax effects	(3.8)	(3.0)		
Less: Discrete income tax benefits of the TCJA [3]	—	(31.2)		
Adjusted net income	$79.0	$ 78.5	$ 0.5	0.6 %
Diluted earnings per share	$1.67	$ 2.33		
Adjusted diluted earnings per share	$1.99	$ 1.89	$ 0.10	5.3 %

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[1] Incremental costs incurred due to manufacturing inefficiencies directly related to the closure of a facility.

[2] Acquisition-related items include professional fees.

[3] Discrete income tax benefits of the TCJA recognized within *Income tax expense (benefit)* on the *Consolidated Statements of Comprehensive Income*. See *Income Taxes* footnote within the *Notes to Consolidated Financial Statements* for additional details.

Net Sales

Net sales for the three months ended February 28, 2019 increased 2.7% compared with the prior-year period due primarily to a sales volume increase of over 3%, partially offset by a less than 1% unfavorable change in product prices and mix of products sold (“price/mix”) as the benefits from recently announced price increases were more than offset by changes primarily in sales channel mix and to a much lesser degree in the mix of products sold; the realization from recent price increases was estimated to have contributed low single-digit growth to overall net sales for the quarter. Also impacting second quarter net sales was a less

than 1% favorable impact of acquired revenues from acquisitions net of lost revenues from divestitures, which was largely offset by a combination of unfavorable changes in foreign exchange rates and the impact of the adoption of ASC 606. Each of our sales channels experienced solid growth

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during the second quarter with the exception of the independent sales network, which was relatively flat year-over-year. Due to the changing dynamics of our product portfolio, including the increase of integrated lighting and building management solutions, it is not possible to precisely quantify or differentiate the individual components of volume, price, and mix. We also believe our current period net sales were adversely impacted by customers buying products during the first quarter of fiscal 2019 in advance of the effective dates of recently announced price increases.

Gross Profit

Gross profit for the second quarter of fiscal 2019 decreased $0.6 million, or 0.2%, to $333.9 million compared with $334.5 million in the prior-year period as the contribution from higher sales volume, realized price increases, and benefits from productivity improvements were offset by both a shift in key customers and changes in sales channel mix described below as well as higher input costs. Gross profit margin decreased 110 basis points to 39.1% for the three months ended February 28, 2019 compared with 40.2% in the prior-year period. The decline in gross profit margin was due primarily to a shift in sales among key customers within the retail channel as well as changes in sales channel mix. Although current quarter gross profit reflected a mix shift towards certain sales channels and customers that generate lower gross profit margins as compared with our historical consolidated gross profit margin profile, the decline was generally offset by proportionally lower SD&A expenses as freight and commissions associated with such sales were lower. Adjusted gross profit margin for the three months ended February 28, 2019 declined 100 basis points to 39.2% compared with 40.2% in the prior year period.

Operating Profit

SD&A expenses for the three months ended February 28, 2019 were $237.6 million compared with $244.4 million in the prior-year period, a decrease of $6.8 million, or 2.8%. The decrease in SD&A expenses was due primarily to a decrease in outbound freight and commission expense as well as certain cost containment and productivity improvements, which were partially offset by higher costs to support the increase in net sales, and to a lesser degree, additional expenses associated with acquired businesses. The decline in outbound freight and commission expense was partially due to the customer mix shift within the retail sales channel as previously noted. SD&A expenses for the second quarter of fiscal 2019 were 27.8% of net sales compared with 29.4% for the prior-year period. Adjusted SD&A expenses for the three months ended February 28, 2019 were $222.4 million (26.0% of net sales) compared with $229.2 million (27.5% of net sales) in the prior-year period.

We recognized pre-tax special charges of $0.4 million during the second quarter of fiscal 2019 compared with pre-tax special charges of $0.6 million recorded during the second quarter of fiscal 2018. Further details regarding our special charges are included in the *Special Charge* footnote of the *Notes to Consolidated Financial Statements*.

Operating profit for the second quarter of fiscal 2019 was $95.9 million (11.2% of net sales) compared with $89.5 million (10.8% of net sales) for the prior-year period, an increase of $6.4 million, or 7.2%. The increase in operating profit was primarily due to lower SD&A expenses, partially offset by lower gross profit. Adjusted operating profit increased by $7.1 million, or 6.7%, to $112.4 million for the second quarter of fiscal 2019 compared with $105.3 million for the second quarter of fiscal 2018. Adjusted operating profit margin increased to 13.2% for the second quarter of fiscal 2019 compared with 12.7% for the year-ago period.

Other Expense (Income)

Other expense (income) consists principally of net interest expense and net miscellaneous expense, which includes non-service related components of net periodic pension cost, gains and losses associated with foreign currency-related transactions, and non-operating gains and losses. Interest expense, net, was $8.6 million and $8.0 million for the three months ended February 28, 2019 and 2018, respectively. We reported net miscellaneous expense of $1.1 million and $2.8 million for the three months ended February 28, 2019 and 2018, respectively.

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Income Taxes and Net Income

Our effective income tax rate was 23.1% and (23.1)% for the three months ended February 28, 2019 and 2018, respectively. The effective income tax rate for the three months ended February 28, 2018 was significantly impacted by the provisions of the TCJA, which was enacted during the second quarter of fiscal 2018. Further details regarding the TCJA are included in the *Income Taxes* footnote of the *Notes to Consolidated Financial Statements*. We currently estimate that our blended consolidated effective income tax rate, before any discrete items, will approximate 24% to 26% for the remainder of fiscal 2019.

Net income for the second quarter of fiscal 2019 decreased $30.6 million to $66.3 million from $96.9 million reported for the prior-year period. The decrease in net income resulted primarily from a one-time tax benefit for income taxes related to the TCJA recorded in 2018 that did not recur in the current fiscal year, partially offset by increased operating profit compared to the prior-year period. Diluted earnings per share for the three months ended February 28, 2019 decreased $0.66 to $1.67 compared with diluted earnings per share of $2.33 for the prior-year period. This decrease reflects higher net income tax expense, partially offset by a reduced share count.

Adjusted net income for the second quarter of fiscal 2019 was $79.0 million, compared with $78.5 million in the prior-year period, which represented an increase of $0.5 million, or 0.6%. Adjusted diluted earnings per share for the three months ended February 28, 2019 increased $0.10, or 5.3%, to $1.99 compared with $1.89 for the prior-year period.

First Six Months of Fiscal 2019 Compared with First Six Months of Fiscal 2018

The following table sets forth information comparing the components of net income for the six months ended February 28, 2019 and 2018 (in millions except per share data):

	Six Months Ended			
	February 28, 2019	February 28, 2018	Increase (Decrease)	Percent Change
Net sales	$			