

ACUITY BRANDS INC  
Form 10-Q  
April 04, 2017  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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Form 10-Q

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(Mark  
One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
For the quarterly period ended February 28, 2017.

OR

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.

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ACUITY BRANDS, INC.

(Exact name of registrant as specified in its charter)

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Delaware

(State or other jurisdiction of  
incorporation or organization)

1170 Peachtree Street, N.E., Suite 2300, Atlanta, Georgia

(Address of principal executive offices)

(404) 853-1400

(Registrant's telephone number, including area code)

58-2632672

(I.R.S. Employer

Identification Number)

30309-7676

(Zip Code)

None

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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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  No

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

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

Large Accelerated

Filer

Accelerated

Filer

Non-accelerated Filer

Smaller Reporting

Company

(Do not check if a smaller reporting  
company)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No   
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 — 44,092,486 shares as of March 30, 2017.

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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, 2017	August 31, 2016
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 463.2	\$ 413.2
Accounts receivable, less reserve for doubtful accounts of \$1.6 and \$1.7, respectively	500.9	572.8
Inventories	353.7	295.2
Prepayments and other current assets	46.1	41.7
Total current assets	1,363.9	1,322.9
Property, plant, and equipment, at cost:		
Land	22.0	23.1
Buildings and leasehold improvements	180.5	174.4
Machinery and equipment	458.9	448.2
Total property, plant, and equipment	661.4	645.7
Less: accumulated depreciation and amortization	(383.6)	(377.9)
Property, plant, and equipment, net	277.8	267.8
Goodwill	893.3	947.8
Intangible assets, net	446.4	381.4
Deferred income taxes	4.7	5.1
Other long-term assets	13.0	23.0
Total assets	\$ 2,999.1	\$ 2,948.0
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 365.5	\$ 401.0
Current maturities of long-term debt	0.3	0.2
Accrued compensation	25.0	95.2
Other accrued liabilities	156.0	176.1
Total current liabilities	546.8	672.5
Long-term debt	355.8	355.0
Accrued pension liabilities	116.4	119.9
Deferred income taxes	102.5	74.6
Self-insurance reserves	8.2	7.2
Other long-term liabilities	64.6	59.0
Total liabilities	1,194.3	1,288.2
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; 53,512,076 and 53,415,687 issued, respectively	0.5	0.5
Paid-in capital	868.4	856.4
Retained earnings	1,498.4	1,360.9
Accumulated other comprehensive loss	(143.9)	(139.4)
Treasury stock, at cost — 9,679,752 and 9,679,457 shares, respectively	(418.6)	(418.6)

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Total stockholders' equity	1,804.8	1,659.8
Total liabilities and stockholders' equity	\$ 2,999.1	\$ 2,948.0

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 29, 2017	February 29, 2016	February 29, 2017	February 29, 2016
Net sales	\$804.7	\$ 777.8	\$1,655.9	\$ 1,514.4
Cost of products sold	468.9	440.9	960.5	858.1
Gross profit	335.8	336.9	695.4	656.3
Selling, distribution, and administrative expenses	227.8	230.1	459.6	436.7
Special charge	—	0.1	1.2	0.5
Operating profit	108.0	106.7	234.6	219.1
Other expense (income):				
Interest expense, net	8.0	8.2	16.2	16.1
Miscellaneous expense (income), net	0.6	(1.1)	(7.3)	(1.8)
Total other expense	8.6	7.1	8.9	14.3
Income before provision for income taxes	99.4	99.6	225.7	204.8
Provision for income taxes	32.1	34.1	76.7	70.9
Net income	\$67.3	\$ 65.5	\$149.0	\$ 133.9
Earnings per share:				
Basic earnings per share	\$1.54	\$ 1.50	\$3.40	\$ 3.08
Basic weighted average number of shares outstanding	43.8	43.5	43.8	43.4
Diluted earnings per share	\$1.53	\$ 1.49	\$3.39	\$ 3.06
Diluted weighted average number of shares outstanding	44.0	43.8	44.0	43.7
Dividends declared per share	\$0.13	\$ 0.13	\$0.26	\$ 0.26
Comprehensive income:				
Net income	\$67.3	\$ 65.5	\$149.0	\$ 133.9
Other comprehensive income (loss) items:				
Foreign currency translation adjustments	3.3	(9.2)	(8.6)	(13.4)
Defined benefit pension plans, net of tax	2.1	1.3	4.1	2.7
Other comprehensive income (loss), net of tax	5.4	(7.9)	(4.5)	(10.7)
Comprehensive income	\$72.7	\$ 57.6	\$144.5	\$ 123.2

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,	February 29,
	2017	2016
Cash flows from operating activities:		
Net income	\$149.0	\$ 133.9
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	36.5	30.7
Share-based payment expense	16.0	13.0
Excess tax benefits from share-based payments	(6.2 )	(14.3 )
Loss (gain) on the sale or disposal of property, plant, and equipment	0.1	(1.1 )
Gain on sale of investment in unconsolidated affiliate	(7.2 )	—
Deferred income taxes	(2.7 )	(0.3 )
Change in assets and liabilities, net of effect of acquisitions, divestitures, and exchange rate changes:		
Accounts receivable	69.7	18.3
Inventories	(59.5 )	(3.5 )
Prepayments and other current assets	(8.9 )	(11.4 )
Accounts payable	(32.2 )	(16.2 )
Other current liabilities	(83.6 )	(29.2 )
Other	0.6	(0.4 )
Net cash provided by operating activities	71.6	119.5
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(35.8 )	(43.8 )
Proceeds from sale of property, plant, and equipment	5.4	2.2
Acquisition of businesses, net of cash acquired	—	(613.7 )
Proceeds from sale of investment in unconsolidated affiliate	13.2	—
Other investing activities	(0.2 )	—
Net cash used for investing activities	(17.4 )	(655.3 )
Cash flows from financing activities:		
Issuance of long-term debt	0.9	1.1
Repurchases of common stock	(0.4 )	—
Proceeds from stock option exercises and other	2.3	6.2
Excess tax benefits from share-based payments	6.2	14.3
Dividends paid	(11.5 )	(11.4 )
Net cash (used for) provided by financing activities	(2.5 )	10.2
Effect of exchange rate changes on cash and cash equivalents	(1.7 )	(6.9 )
Net change in cash and cash equivalents	50.0	(532.5 )
Cash and cash equivalents at beginning of period	413.2	756.8
Cash and cash equivalents at end of period	\$463.2	\$ 224.3
Supplemental cash flow information:		
Income taxes paid during the period	\$97.8	\$ 61.0
Interest paid during the period	\$22.8	\$ 22.1

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

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ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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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 the “Company”). The Company’s 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, the Company continues to expand its 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”) and supports the advancement of smart buildings, smart cities, and the smart grid. The Company has one reportable segment serving the North American and select international markets.

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

These unaudited interim consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present fairly the Company’s consolidated financial position as of February 28, 2017, the consolidated comprehensive income for the three and six months ended February 28, 2017 and February 29, 2016, and the consolidated cash flows for the six months ended February 28, 2017 and February 29, 2016. Certain information and footnote disclosures normally included in the Company’s annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. However, the Company believes that the disclosures included herein are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the audited consolidated financial statements of the Company as of and for the three years ended August 31, 2016 and notes thereto included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on October 27, 2016 (File No. 001-16583) (“Form 10-K”). The results of operations for the three and six months ended February 28, 2017 and February 29, 2016 are not necessarily indicative of the results to be expected for the full fiscal year due primarily to seasonality, which results in the net sales and net income of the Company generally being higher in the second half of its fiscal year, the impact of any acquisitions, and, among other reasons, the continued uncertainty of general economic conditions that may impact the key end markets of the Company for the remainder of fiscal 2017.

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.

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ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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3. Acquisitions and Investments

The Company does not consider acquisitions a critical element of its strategy but seeks opportunities for growth through acquisitions and investments. In recent years, the Company has acquired or made investments in a number of businesses that participate in the lighting, building management, and related markets, including the businesses described below. The acquisitions and investments were made with the intent to further expand and complement the Company's lighting and building management solutions portfolio. The purchased companies were fully integrated into the Company's operations.

DGLogik, Inc.

On June 30, 2016, using cash on hand and treasury stock, the Company acquired DGLogik, Inc. ("DGLogik"), a provider of innovative software solutions that enable and visualize the IoT. DGLogik's solutions provide users with the intelligence to better manage energy usage and improve facility performance. DGLogik is headquartered in the San Francisco Bay Area, California. The operating results of DGLogik have been included in the Company's consolidated financial statements since the date of acquisition and are not material to the Company's financial condition, results of operations, or cash flows. Preliminary amounts related to the acquisition are reflected in the Consolidated Balance Sheets. These amounts are deemed to be provisional until disclosed otherwise, as the Company continues to gather information related to the identification and valuation of intangible and other acquired assets and liabilities.

Juno Lighting LLC

On December 10, 2015, using cash on hand, the Company acquired for approximately \$380 million all of the equity interests of Juno Lighting LLC ("Juno Lighting"), a leading provider of downlighting and track lighting fixtures for both residential and commercial applications. Juno Lighting is headquartered in Des Plaines, Illinois. At the time of acquisition, Juno Lighting generated annual revenues of approximately \$250 million. The operating results of Juno Lighting have been included in the Company's consolidated financial statements since the date of acquisition. Provisional amounts recognized at the acquisition date related to the Juno Lighting acquisition have been adjusted to reflect the finalization of the valuation of customer relationships and certain accrued liabilities. These adjustments resulted in an increase to intangible assets, net of \$81.1 million, a decrease to goodwill of \$50.5 million, an increase to deferred income tax liabilities of \$29.6 million, and a decrease to net operating working capital of \$1.0 million as of February 28, 2017. The fair values of assets acquired and liabilities assumed were finalized and reflected on the Consolidated Balance Sheets prospectively as of February 28, 2017.

Geometri LLC

On December 9, 2015, using cash on hand, the Company acquired certain assets and assumed certain liabilities of Geometri, LLC ("Geometri"), a provider of a software and services platform for mapping, navigation, and analytics. The operating results of Geometri have been included in the Company's consolidated financial statements since the date of acquisition. The Company finalized the acquisition accounting for Geometri during fiscal 2017, and the amounts are reflected on the Consolidated Balance Sheets. There were no material changes to the Company's financial statements as a result of the finalization of the acquisition accounting.

Distech Controls Inc.

On September 1, 2015, using cash on hand, the Company acquired for approximately \$240 million all of the outstanding capital stock of Distech Controls Inc. ("Distech Controls"), a provider of building automation solutions that allow for the integration of lighting, HVAC, access control, closed circuit television, and related systems. Distech Controls is headquartered in Quebec, Canada. At the time of acquisition, Distech Controls generated annual revenues of approximately \$60 million. The Company finalized the acquisition accounting for Distech Controls during fiscal 2016, and the amounts are reflected on the Consolidated Balance Sheets. There were no material changes to the Company's financial statements as a result of the finalization of the acquisition accounting.



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ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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4. New Accounting Pronouncements

Accounting Standards Adopted in Fiscal 2017

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-04, Simplifying the Test for Goodwill Impairment (“ASU 2017-04”). This guidance eliminates the requirement to determine the implied fair value of goodwill to measure an impairment of goodwill. Rather, goodwill impairment charges will be calculated as the amount by which a reporting unit's carrying amount exceeds its fair value. Adoption of the provisions in ASU 2017-04 is required for the Company for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company has adopted ASU 2017-04 effective beginning in the current period. The provisions of ASU 2017-04 did not have a material effect on the Company's financial condition, results of operations, or cash flows.

In July 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments (“ASU 2015-16”), which simplifies the accounting for measurement-period adjustments to provisional amounts recognized in a business combination. ASU 2015-16 eliminates the requirement to retrospectively account for adjustments made to provisional amounts recorded in connection with a business combination and is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2015. The Company has adopted ASU 2017-04 this fiscal year and has presented all adjustments to provisional amounts recorded in connection within a business combination in fiscal 2017 prospectively.

In April 2015, the FASB issued ASU No. 2015-05, Customer's Accounting For Fees Paid In A Cloud Computing Arrangement (“ASU 2015-05”), which provides guidance for a customer's accounting for cloud computing costs. ASU 2015-05 is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2015. The provisions of ASU 2015-05 did not have a material effect on the Company's financial condition, results of operations, or cash flows.

Accounting Standards Yet to Be Adopted

In March 2017, the FASB issued ASU No. 2017-05, Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (“ASU 2017-05”), which will change the presentation of net periodic benefit cost related to employer sponsored defined benefit plans and other postretirement benefits. Service cost will be 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 benefit pension cost will be presented separately outside of operating income. Additionally, only service costs may be capitalized in assets. ASU 2017-05 is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2017. The provisions of ASU 2017-05 are not expected to have a material effect on the Company's financial condition, results of operations, or cash flows.

In January 2017, the FASB issued 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 acquired 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. The Company is required to apply this guidance to annual periods beginning after December 15, 2017, including interim periods within those periods. The Company is currently evaluating the impact of the provisions of ASU 2017-01 and intends to implement the standard as required in fiscal 2019.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, (“ASU 2016-09”), which will change certain aspects of accounting for share-based payments to employees. ASU 2016-09 is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2016. The standard requires that all excess tax benefits and deficiencies currently recorded as additional paid-in capital be prospectively recorded in income tax expense. As such, implementation of this standard could create volatility in the Company's effective income tax rate on a quarter by quarter basis. The volatility in the effective

income tax rate is due primarily to fluctuations in the Company's stock price and the timing of stock option exercises and vesting of restricted share grants. The standard also requires excess tax benefits to be presented as an operating activity on the statement of cash flows rather than as a financing activity. This element of the guidance may be applied retrospectively or prospectively. The Company intends to implement the standard as required in fiscal 2018.

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ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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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. The Company is currently evaluating the impact of the provisions of ASU 2016-02 and intends to implement the standard as required in fiscal 2020.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which will replace most existing revenue recognition guidance in U.S. GAAP. ASU 2014-09 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 judgments. ASU 2014-09 allows for both retrospective and prospective methods of adoption. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the guidance in ASU 2014-09 and has the same effective date as the original standard. During the three months ended July 1, 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing; ASU 2016-11, Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting; and ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients. These amendments are intended to improve and clarify the implementation guidance of ASU 2014-09 and have the same effective date as the original standard. The Company is currently evaluating the impact that the adoption of these standards will have on our consolidated financial statements.

All other newly issued accounting pronouncements not yet effective have been deemed either immaterial or not applicable.

#### 5. Fair Value Measurements

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

The Company's cash and cash equivalents (Level 1), which are required to be carried at fair value and measured on a recurring basis, were \$463.2 million and \$413.2 million as of February 28, 2017 and August 31, 2016, respectively. The Company utilizes valuation methodologies to determine the fair values of its 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.

The Company 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 Topic 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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ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The carrying values and estimated fair values of certain of the Company's financial instruments were as follows at February 28, 2017 and August 31, 2016 (in millions):

	February 28, 2017		August 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Investment in noncontrolling affiliate	\$—	\$—	\$8.0	\$14.4
Liabilities:				
Senior unsecured public notes, net of unamortized discount and deferred costs	\$348.9	\$384.8	\$348.7	\$388.8
Industrial revenue bond	4.0	4.0	4.0	4.0
Bank loans	3.2	3.2	2.5	2.6

Investment in noncontrolling affiliate represents a strategic investment accounted for using the cost method. The Company based the fair value of the investment as of August 31, 2016 on an offer by a third party to purchase the business (Level 3). The Company sold the investment during October 2016, resulting in the recognition of a gain of \$7.2 million, which is reflected in Miscellaneous income, net on the Consolidated Statements of Comprehensive Income.

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, the Company estimates that the face amount of the bond approximates fair value as of February 28, 2017 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 the Company. 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 the Company's management of liquidity and other risks, the fair values of all assets and liabilities should be taken into consideration, not only those presented above.

#### 6. Goodwill and Intangible Assets

Through multiple acquisitions, the Company 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. The Company recorded amortization expense of \$7.8 million and \$6.0 million during the three months ended February 28, 2017 and February 29, 2016, respectively, and \$13.7 million and \$11.0 million during the six months ended February 28, 2017 and February 29, 2016, respectively. Amortization expense is generally recorded on a straight-line basis and is expected to be approximately \$26.1 million in fiscal 2017, \$25.1 million in fiscal 2018, \$25.1 million in fiscal 2019, \$24.7 million in fiscal 2020, and \$24.6 million in fiscal 2021.

During the current quarter, the Company finalized the purchase accounting allocation for Juno Lighting. As a result, the Company recorded \$1.9 million of additional amortization expense to reflect the amortization that would have been recognized in previous periods if the adjustment to intangibles was recognized as of the acquisition date.

Additionally, amortization expense recorded by the Company, as well as expected amortization expense, include a preliminary estimate related to intangibles acquired with DGLogik. This amount is deemed to be provisional until disclosed otherwise, as the Company continues to gather information related to the identification and valuation of

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ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

intangible assets acquired. Refer to the Acquisitions & Investments footnote for additional information regarding the preliminary purchase price allocations for these acquisitions.

The change in the carrying amount of goodwill during the six months ended February 28, 2017 is summarized below (in millions):

Balance at August 31, 2016	\$947.8
Adjustments to provisional amounts	(50.5 )
Foreign currency translation adjustments	(4.0 )
Balance at February 28, 2017	\$893.3

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

## 7. Inventories

Inventories include materials, labor, in-bound 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, August 31,	
	2017	2016
Raw materials, supplies, and work in process <sup>(1)</sup>	\$ 194.6	\$ 170.3
Finished goods	185.2	145.3
Inventories excluding reserves	379.8	315.6
Less: reserves	(26.1 )	(20.4 )
Total inventories	\$ 353.7	\$ 295.2

<sup>(1)</sup> Due to the immaterial amount of estimated work in process and the short lead times for the conversion of raw materials to finished goods, the Company does not believe the segregation of raw materials and work in process to be meaningful information.

## 8. Earnings Per Share

Prior to fiscal 2017, basic earnings per share was computed by dividing net earnings available to common stockholders by the weighted average number of common shares outstanding, which was modified to include the effects of all participating securities during the period, as prescribed by the two-class method under ASC Topic 260, Earnings Per Share ("ASC 260"). Participating securities included unvested share-based payment awards with a right to receive nonforfeitable dividends. The equity plan approved by stockholders in January 2013 changed the dividend provisions, causing share-based payment awards to lose the right to receive nonforfeitable dividends. Due to this change, any shares granted after January 2013 were not participating securities as prescribed by the two-class method under ASC 260 and were accounted for in the diluted earnings per share calculation described below.

The impact of participating securities was not material for the three and six months ended February 28, 2017.

Therefore, basic earnings per share for these periods 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.

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The following table calculates basic earnings per common share and diluted earnings per common share for the three and six months ended February 28, 2017 and February 29, 2016 (in millions, except per share data):

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Net income	\$67.3	\$ 65.5	\$149.0	\$ 133.9
Basic weighted average shares outstanding	43.8	43.5	43.8	43.4
Common stock equivalents	0.2	0.3	0.2	0.3
Diluted weighted average shares outstanding	44.0	43.8	44.0	43.7
Basic earnings per share	\$1.54	\$ 1.50	\$3.40	\$ 3.08
Diluted earnings per share	\$1.53	\$ 1.49	\$3.39	\$ 3.06

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, 2017 and February 29, 2016 as the effect of inclusion would have been antidilutive:

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Stock options	128,867	71,115	105,047	49,624
Restricted stock awards	103,752	2,965	78,188	63,305

Further discussion of the Company's 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 the Company's Form 10-K.

## 9. 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) for the Company includes foreign currency translation and pension adjustments.

The following table presents the changes in each component of accumulated other comprehensive income (loss) during the six months ended February 28, 2017 (in millions):

	Foreign Currency Items	Defined Benefit Pension Plans	Accumulated Other Comprehensive Loss Items
Balance at August 31, 2016	\$ (47.7 )	\$ (91.7 )	\$ (139.4 )
Other comprehensive loss before reclassifications	(8.6 )	—	(8.6 )
Amounts reclassified from accumulated other comprehensive income	—	4.1	4.1
Net current period other comprehensive (loss) income	(8.6 )	4.1	(4.5 )
Balance at February 28, 2017	\$ (56.3 )	\$ (87.6 )	\$ (143.9 )

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The following tables present the tax expense or benefit allocated to each component of other comprehensive income (loss) for the three and six months ended February 28, 2017 and February 29, 2016 (in millions):

	Three Months Ended					
	February 28, 2017			February 29, 2016		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Foreign currency translation adjustments	\$3.3	\$ —	\$ 3.3	\$(9.2 )	\$ —	\$(9.2 )
Defined benefit pension plans:						
Amortization of defined benefit pension items:						
Prior service cost	0.8	<sup>(1)</sup> (0.2 )	0.6	0.8	<sup>(1)</sup> (0.3 )	0.5
Actuarial losses	2.2	<sup>(1)</sup> (0.7 )	1.5	1.2	<sup>(1)</sup> (0.4 )	0.8
Total defined benefit pension plans, net	3.0	(0.9 )	2.1	2.0	(0.7 )	1.3
Other comprehensive income (loss)	\$6.3	\$ (0.9 )	\$ 5.4	\$(7.2 )	\$ (0.7 )	\$(7.9 )
	Six Months Ended					
	February 28, 2017			February 29, 2016		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Foreign currency translation adjustments	\$(8.6)	\$ —	\$(8.6 )	\$(13.4)	\$ —	\$(13.4 )
Defined benefit pension plans:						
Amortization of defined benefit pension items:						
Prior service cost	1.6	<sup>(1)</sup> (0.5 )	1.1	1.6	<sup>(1)</sup> (0.5 )	1.1
Actuarial losses	4.4	<sup>(1)</sup> (1.4 )	3.0	2.5	<sup>(1)</sup> (0.9 )	1.6
Total defined benefit pension plans, net	6.0	(1.9 )	4.1	4.1	(1.4 )	2.7
Other comprehensive loss	\$(2.6)	\$ (1.9 )	\$(4.5 )	\$(9.3 )	\$ (1.4 )	\$(10.7 )

These accumulated other comprehensive income (loss) components are included in net periodic pension cost. See

<sup>(1)</sup> Pension and Profit Sharing Plans footnote within the Notes to Consolidated Financial Statements for additional details.

## 10. Debt

## Lines of Credit

On August 27, 2014, the Company executed a \$250.0 million revolving credit facility (the “Revolving Credit Facility”). The Revolving Credit Facility will mature, and all amounts outstanding will be due and payable, on August 27, 2019. The Revolving Credit Facility contains financial covenants, including a minimum interest coverage ratio (“Minimum Interest Coverage Ratio”) and a leverage ratio (“Maximum Leverage Ratio”) of total indebtedness to earnings before interest, taxes, depreciation, and amortization expense (“EBITDA”), as such terms are defined in the Revolving Credit Facility agreement. These ratios are computed at the end of each fiscal quarter for the most recent 12-month period. The Revolving Credit Facility allows for a Minimum Interest Coverage Ratio of 2.50 and a Maximum Leverage Ratio of 3.50, subject to certain conditions defined in the financing agreement. As of February 28, 2017, the Company was in compliance with all financial covenants under the Revolving Credit Facility. At February 28, 2017, the Company had additional borrowing capacity under the Revolving Credit Facility of \$243.9 million under the most restrictive covenant in effect at the time, which represents the full amount of the Revolving Credit Facility less outstanding letters of credit of \$6.1 million issued under the Revolving Credit Facility. As of February 28, 2017, the Company had

outstanding letters of credit totaling \$11.0 million, primarily for securing collateral requirements under the casualty insurance programs for Acuity Brands and for providing credit support for the Company's industrial revenue bond, including \$6.1 million issued under the Revolving Credit Facility.

Generally, amounts outstanding under the Revolving Credit Facility bear interest at a Eurocurrency Rate.

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 Inter Bank Offered Rate ("LIBOR") for the applicable

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ACUITY BRANDS, INC.

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currency plus a margin as determined by the Company's leverage ratio ("Applicable Margin"). The Applicable Margin is based on the Company's leverage ratio, as defined in the Revolving Credit Facility, with such margin ranging from 1.000% to 1.575%.

The Company is required to pay certain fees in connection with the Revolving Credit Facility, including administrative service fees and an annual facility fee. The annual facility fee is payable quarterly, in arrears, and is determined by the Company's leverage ratio as defined in the Revolving Credit Facility. This facility fee ranges from 0.125% to 0.300% of the aggregate \$250.0 million commitment of the lenders under the Revolving Credit Facility.

**Long-term Debt**

At February 28, 2017, the Company 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 "Notes") and \$4.0 million of tax-exempt industrial revenue bonds that are scheduled to mature in 2021. The Company also had \$3.2 million outstanding under fixed-rate bank loans. Further discussion of the Company's long-term debt is included within the Debt and Lines of Credit footnote of the Notes to Consolidated Financial Statements within the Company's 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 on cash and cash equivalents.

The following table summarizes the components of interest expense, net for the three and six months ended February 28, 2017 and February 29, 2016 (in millions):

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Interest expense	\$8.5	\$ 8.3	\$17.1	\$ 16.6
Interest income	(0.5 )	(0.1 )	(0.9 )	(0.5 )
Interest expense, net	\$8.0	\$ 8.2	\$16.2	\$ 16.1

**11. Commitments and Contingencies**

In the normal course of business, the Company is 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. The Company establishes reserves when the associated costs related to uncertainties or guarantees become probable and can be reasonably estimated. For the period ended February 28, 2017, no material changes have occurred in the Company's 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 the Company's Form 10-K.

**Trade Compliance Matters**

Prior to the close of the acquisition, Distech Controls discovered shipments by it and its subsidiaries during the past five years of standard commercial building control products directly or indirectly to customers in a country that may constitute violations of U.S. and Canadian sanctions or export regulations, including those administered by the U.S. Office of Foreign Asset Control ("OFAC") and the Export Controls Division of the Canadian Department of Foreign Affairs, Trade and Development ("DFATD"). Distech Controls estimates that it received total revenue of approximately \$0.3 million from these shipments. Distech Controls has voluntarily self-reported the potential violations to OFAC and DFATD and retained outside counsel that conducted an investigation of the matter and filed a full voluntary disclosure with these agencies. The Company has assessed the matter and implemented related ongoing compliance and remediation efforts.

The Company intends to fully cooperate with respect to any investigations by governmental agencies of the potential violations. The former shareholders of Distech Controls have jointly agreed to indemnify the Company for

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ACUITY BRANDS, INC.

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damages, if any, as a result of, in respect of, connected with or arising out of the potential violations or any inaccuracy or breach of the representations made by Distech Controls to the Company related thereto, up to a specified aggregate amount, which is not material to the Company's consolidated financial statements. These indemnity obligations are supported by an escrow account containing proceeds from the transaction equal to the specified aggregate amount. The Company currently believes that this indemnity will be sufficient to cover any damages related to the potential violations and the costs and expenses related to the investigation thereof and any related remedial actions. The Company therefore does not expect this matter to have a material adverse effect on the business, financial condition, cash flow, or results of operations of the Company. There can be no assurance, however, that actual damages, costs and expenses will not be in excess of the indemnity or that the Company and its affiliates will not be subject to other damages, including but not limited to damage to the Company's reputation or monetary or non-monetary penalties as permitted under applicable trade laws, that may not be fully covered by the indemnity. Estimated liabilities for legal fees as well as potential fines or penalties related to this matter are included in Other accrued liabilities within the Consolidated Balance Sheets.

Additionally, through a review of shipment activity at other subsidiaries, the Company discovered that it may have misclassified certain shipments of component parts to its manufacturing facilities under applicable import/export regulations. Although no claim has been asserted against the Company, the Company is reviewing these shipments to determine the extent of any liabilities and the extent of available remedial measures. The Company is unable at this time to determine the likelihood or amount of any loss associated with the misclassification of these shipments.

**Product Warranty and Recall Costs**

Acuity Brands records 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, which may include extended warranties, 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 the Company's results of operations and cash flows.

Reserves for 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, 2017 and February 29, 2016 are summarized as follows (in millions):

	Six Months Ended	
	February 28, 2017	February 29, 2016
Beginning balance	\$15.5	\$ 9.6
Warranty and recall costs	17.2	9.5
Payments and other deductions	(14.3 )	(8.2 )
Acquired warranty and recall liabilities	—	0.3
Ending balance	\$18.4	\$ 11.2

**Litigation**

The Company is subject to various 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 pending and threatened legal proceedings will not have a material adverse effect on the financial condition, results of operations, or cash flows of the Company. 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 the financial condition, results of operations, or cash flows of the

Company in future periods. The Company establishes 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, the Company cannot make a meaningful estimate of actual costs to be incurred that could possibly be higher or lower than the amounts reserved.

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ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## 12. Share-based Payments

The Company accounts for share-based payments through the measurement and recognition of compensation expense for share-based payment awards made to employees and directors of the Company, including stock options and restricted shares (all part of the Company's equity incentive plan), and share units representing certain deferrals into the Company's director deferred compensation plan or the Company's 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, 2017 and February 29, 2016 (in millions, except shares):

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Share-based payment expense	\$ 8.1	\$ 6.6	\$16.0	\$ 13.0
Shares issued from option exercises	—	—	12,030	117,289

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

## 13. Pension Plans

The Company has 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. Plan assets are invested primarily in equity and fixed income securities.

Net periodic pension cost for the Company's defined benefit pension plans during the three and six months ended February 28, 2017 and February 29, 2016 included the following components before tax (in millions):

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Service cost	\$0.9	\$ 0.9	\$1.8	\$ 1.8
Interest cost	2.0	2.4	4.0	4.8
Expected return on plan assets	(2.8 )	(2.8 )	(5.6 )	(5.6 )
Amortization of prior service cost	0.8	0.8	1.6	1.6
Recognized actuarial loss	2.2	1.2	4.4	2.5
Net periodic pension cost	\$3.1	\$ 2.5	\$6.2	\$ 5.1

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

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ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## 14. Special Charge

During fiscal 2017 and 2016, the Company recorded pre-tax special charges for actions initiated to streamline the organization, including the integration of recent acquisitions. These streamlining activities include the consolidation of selected production activities and realignment of certain responsibilities, primarily within various selling, distribution, and administrative departments. The Company expects that these actions to streamline its business activities, in addition to those taken in previous fiscal years, will allow it to reduce spending in certain areas while permitting continued investment in future growth initiatives, such as new products, expanded market presence, and technology and innovation.

The details of the special charge during the three and six months ended February 28, 2017 and February 29, 2016 are summarized as follows (in millions):

	Three Months Ended February 28, 2017	Six Months Ended February 28, 2017	February 29, 2016
Severance and employee-related costs	\$— \$ 0.1	\$(0.2)	\$ 0.5
Lease termination costs	— —	1.1	—
Production transfer costs	— —	0.3	—
Special charge	\$— \$ 0.1	\$1.2	\$ 0.5

As of February 28, 2017, remaining restructuring reserves were \$3.3 million and are included in Accrued compensation and Other long-term liabilities on the Consolidated Balance Sheets. The changes in the reserves related to these programs during the six months ended February 28, 2017 are summarized as follows (in millions):

	Severance and Employee-Related Costs	Lease Termination Costs	Total Restructuring Reserves
Balance at August 31, 2016	\$ 6.4	\$ 0.2	\$ 6.6
Costs incurred	(0.2	) 1.1	0.9
Payments made during the period	(3.7	) (0.5	) (4.2
Balance at February 28, 2017	\$ 2.5	\$ 0.8	\$ 3.3

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ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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15. Supplemental Guarantor Condensed Consolidating Financial Statements

In December 2009, ABL, the 100% owned and principal operating subsidiary of the Company, refinanced the then current outstanding debt through the issuance of the Notes. See Debt and Lines of Credit footnote of the Notes to Consolidated Financial Statements within the Company's Form 10-K for further information.

In accordance with the registration rights agreement by and between ABL and the guarantors to the Notes and the initial purchasers of the Notes, ABL and the guarantors to the Notes filed a registration statement with the SEC for an offer to exchange the Notes for an issue of SEC-registered notes with identical terms. Due to the filing of the registration statement and offer to exchange, the Company 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, the Company has included the accompanying Condensed Consolidating Financial Statements in accordance with Rule 3-10(d) of SEC Regulation S-X since the 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. Eliminations 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-subsubsidiary guarantor reporting.

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ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## CONDENSED CONSOLIDATING BALANCE SHEETS

(In millions)

	February 28, 2017					
	Parent	Subsidiary Issuer	Subsidiary Guarantor	Non-Guarantors	Consolidating Adjustments	Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$399.9	\$ —	\$ —	\$ 63.3	\$ —	\$ 463.2
Accounts receivable, net	—	437.7	—	63.2	—	500.9
Inventories	—	328.8	—	24.9	—	353.7
Other current assets	13.3	13.8	—	19.0	—	46.1
Total current assets	413.2	780.3	—	170.4	—	1,363.9
Property, plant, and equipment, net	0.3	226.4	—	51.1	—	277.8
Goodwill	—	685.4	2.7	205.2	—	893.3
Intangible assets, net	—	241.8	111.6	93.0	—	446.4
Deferred income taxes	19.4	—	—	6.6	(21.3 )	4.7
Other long-term assets	0.1	11.5	—	1.4	—	13.0
Investments in and amounts due from affiliates	1,478.6	347.8	219.0	—	(2,045.4 )	—
Total assets	\$1,911.6	\$2,293.2	\$ 333.3	\$ 527.7	\$ (2,066.7 )	\$ 2,999.1
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Accounts payable	\$0.8	\$ 337.6	\$ —	\$ 27.1	\$ —	\$ 365.5
Current maturities of long-term debt	—	—	—	0.3	—	0.3
Other accrued liabilities	7.6	141.4	—	32.0	—	181.0
Total current liabilities	8.4	479.0	—	59.4	—	546.8
Long-term debt	—	352.9	—	2.9	—	355.8
Deferred income taxes	—	95.8	—	28.0	(21.3 )	102.5
Other long-term liabilities	98.4	64.4	—	26.4	—	189.2
Amounts due to affiliates	—	—	—	108.9	(108.9 )	—
Total stockholders' equity	1,804.8	1,301.1	333.3	302.1	(1,936.5 )	1,804.8
Total liabilities and stockholders' equity	\$1,911.6	\$2,293.2	\$ 333.3	\$ 527.7	\$ (2,066.7 )	\$ 2,999.1

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ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## CONDENSED CONSOLIDATING BALANCE SHEETS

(In millions)

	August 31, 2016				Consolidating Adjustments	Consolidated
	Parent	Subsidiary Issuer	Subsidiary Guarantor	Non- Guarantors		
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$368.2	\$ —	\$ —	\$ 45.0	\$ —	\$ 413.2
Accounts receivable, net	—	503.0	—	69.8	—	572.8
Inventories	—	274.7	—	20.5	—	295.2
Other current assets	2.5	14.3	—	24.9	—	41.7
Total current assets	370.7	792.0	—	160.2	—	1,322.9
Property, plant, and equipment, net	0.3	217.8	—	49.7	—	267.8
Goodwill	—	735.8	2.7	209.3	—	947.8
Intangible assets, net	—	168.1	113.4	99.9	—	381.4
Deferred income taxes	47.5	—	—	6.5	(48.9 )	5.1
Other long-term assets	1.4	20.4	—	1.2	—	23.0
Investments in and amounts due from affiliates	1,347.6	299.6	200.5	—	(1,847.7 )	—
Total assets	\$1,767.5	\$2,233.7	\$ 316.6	\$ 526.8	\$ (1,896.6 )	\$ 2,948.0
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Accounts payable	\$1.2	\$ 371.3	\$ —	\$ 28.5	\$ —	\$ 401.0
Current maturities of long-term debt	—	—	—	0.2	—	\$ 0.2
Other accrued liabilities	14.5	215.4	—	41.4	—	271.3
Total current liabilities	15.7	586.7	—	70.1	—	672.5
Long-term debt	—	352.8	—	2.2	—	355.0
Deferred income taxes	—	95.5	—	28.0	(48.9 )	74.6
Other long-term liabilities	92.0	64.8	—	29.3	—	186.1
Amounts due to affiliates	—	—	—	96.9	(96.9 )	—
Total stockholders' equity	1,659.8	1,133.9	316.6	300.3	(1,750.8 )	1,659.8
Total liabilities and stockholders' equity	\$1,767.5	\$2,233.7	\$ 316.6	\$ 526.8	\$ (1,896.6 )	\$ 2,948.0

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ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

	Three Months Ended February 28, 2017					
	Parent	Subsidiary Issuer	Subsidiary Guarantor	Non-Guarantors	Consolidating Adjustments	Consolidated
Net sales:						
External sales	\$—	\$ 712.7	\$ —	\$ 92.0	\$ —	\$ 804.7
Intercompany sales	—	—	11.7	37.0	(48.7 )	—
Total sales	—	712.7	11.7	129.0	(48.7 )	804.7
Cost of products sold	—	406.8	—	97.7	(35.6 )	468.9
Gross profit	—	305.9	11.7	31.3	(13.1 )	335.8
Selling, distribution, and administrative expenses	12.6	196.3	0.9	31.0	(13.0 )	227.8
Intercompany charges	(0.8 )	0.2	—	0.6	—	—
Operating (loss) profit	(11.8 )	109.4	10.8	(0.3 )	(0.1 )	108.0
Interest expense, net	2.7	4.0	—	1.3	—	8.0
Equity earnings in subsidiaries	(76.7 )	1.2	—	—	75.5	—
Miscellaneous expense (income), net	—	0.8	—	(0.2 )	—	0.6
Income (loss) before provision for income taxes	62.2	103.4	10.8	(1.4 )	(75.6 )	99.4
(Benefit) provision for income taxes	(5.1 )	32.4	3.8	1.0	—	32.1
Net income (loss)	67.3	71.0	7.0	(2.4 )	(75.6 )	67.3
Other comprehensive income (loss) items:						
Foreign currency translation adjustments	3.3	3.3	—	—	(3.3 )	3.3
Defined benefit pension plans, net	2.1	0.7	—	0.7	(1.4 )	2.1
Other comprehensive income items, net of tax	5.4	4.0	—	0.7	(4.7 )	5.4
Comprehensive income (loss)	\$72.7	\$ 75.0	\$ 7.0	\$ (1.7 )	\$ (80.3 )	\$ 72.7

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ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

	Three Months Ended February 29, 2016					
	Parent	Subsidiary Issuer	Subsidiary Non-Guarantor	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated
Net sales:						
External sales	\$—	\$ 693.1	\$ —	\$ 84.7	\$ —	\$ 777.8
Intercompany sales	—	—	11.4	29.5	(40.9 )	—
Total sales	—	693.1	11.4	114.2	(40.9 )	777.8
Cost of products sold	—	380.5	—	88.8	(28.4 )	440.9
Gross profit	—	312.6	11.4	25.4	(12.5 )	336.9
Selling, distribution, and administrative expenses	11.1	202.3	1.0	28.2	(12.5 )	230.1
Intercompany charges	(0.8 )	0.3	—	0.5	—	—
Special charge	—	0.1	—	—	—	0.1
Operating (loss) profit	(10.3 )	109.9	10.4	(3.3 )	—	106.7
Interest expense, net	2.7	4.1	—	1.4	—	8.2
Equity earnings in subsidiaries	(73.8 )	1.1	—	0.1	72.6	—
Miscellaneous income, net	—	(0.8 )	—	(0.3 )	—	(1.1 )
Income (loss) before provision for income taxes	60.8	105.5	10.4	(4.5 )	(72.6 )	99.6
(Benefit) provision for income taxes	(4.7 )	35.9	4.2	(1.3 )	—	34.1
Net income (loss)	65.5	69.6	6.2	(3.2 )	(72.6 )	65.5
Other comprehensive income (loss) items:						
Foreign currency translation adjustments	(9.2 )	(9.2 )	—	—	9.2	(9.2 )
Defined benefit pension plans, net	1.3	0.4	—	0.3	(0.7 )	1.3
Other comprehensive (loss) income items, net of tax	(7.9 )	(8.8 )	—	0.3	8.5	(7.9 )
Comprehensive income (loss)	\$57.6	\$ 60.8	\$ 6.2	\$ (2.9 )	\$ (64.1 )	\$ 57.6

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ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

	Six Months Ended February 28, 2017				Consolidating Adjustments	Consolidated
	Parent	Subsidiary Issuer	Subsidiary Non- Guarantor	Subsidiary Non- Guarantors		
Net sales:						
External sales	\$—	\$1,459.0	\$—	\$196.9	\$—	\$1,655.9
Intercompany sales	—	—	23.2	88.6	(111.8)	—
Total sales	—	1,459.0	23.2	285.5	(111.8)	1,655.9
Cost of products sold	—	833.7	—	212.6	(85.8)	960.5
Gross profit	—	625.3	23.2	72.9	(26.0)	695.4
Selling, distribution, and administrative expenses	24.4	396.2	1.8	63.1	(25.9)	459.6
Intercompany charges	(2.0)	0.4	—	1.6	—	—
Special charge	—	1.2	—	—	—	1.2
Operating (loss) profit	(22.4)	227.5	21.4	8.2	(0.1)	234.6
Interest expense, net	5.5	8.0	—	2.7	—	16.2
Equity earnings in subsidiaries	(167.1)	(7.9)	—	0.2	174.8	—
Miscellaneous income, net	—	(6.5)	—	(0.8)	—	(7.3)
Income before provision for income taxes	139.2	233.9	21.4	6.1	(174.9)	225.7
(Benefit) provision for income taxes	(9.8)	80.2	4.7	1.6	—	76.7
Net income	149.0	153.7	16.7	4.5	(174.9)	149.0
Other comprehensive income (loss) items:						
Foreign currency translation adjustments	(8.6)	(8.6)	—	—	8.6	(8.6)
Defined benefit pension plans, net	4.1	1.4	—	1.4	(2.8)	4.1
Other comprehensive (loss) income items, net of tax	(4.5)	(7.2)	—	1.4	5.8	(4.5)
Comprehensive income	\$144.5	\$146.5	\$16.7	\$5.9	\$(169.1)	\$144.5

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ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

	Six Months Ended February 29, 2016				Consolidating Adjustments	Consolidated
	Parent	Subsidiary Issuer	Subsidiary Non- Guarantor	Subsidiary Non- Guarantors		
Net sales:						
External sales	\$—	\$ 1,344.5	\$ —	\$ 169.9	\$ —	\$ 1,514.4
Intercompany sales	—	—	22.2	61.5	(83.7 )	—
Total sales	—	1,344.5	22.2	231.4	(83.7 )	1,514.4
Cost of products sold	—	746.5	—	171.0	(59.4 )	858.1
Gross profit	—	598.0	22.2	60.4	(24.3 )	656.3
Selling, distribution, and administrative expenses	22.1	382.7	2.0	54.2	(24.3 )	436.7
Intercompany charges	(1.6 )	0.6	—	1.0	—	—
Special charge	—	0.5	—	—	—	0.5
Operating (loss) profit	(20.5 )	214.2	20.2	5.2	—	219.1
Interest expense, net	5.3	8.1	—	2.7	—	16.1
Equity earnings in subsidiaries	(150.5 )	(6.0 )	—	0.2	156.3	—
Miscellaneous income, net	—	(0.7 )	—	(1.1 )	—	(1.8 )
Income before provision for income taxes	124.7	212.8	20.2	3.4	(156.3 )	204.8
(Benefit) provision for income taxes	(9.2 )	71.3	8.2	0.6	—	70.9
Net income	133.9	141.5	12.0	2.8	(156.3 )	133.9
Other comprehensive income (loss) items:						
Foreign currency translation adjustments	(13.4 )	(13.4 )	—	—	13.4	(13.4 )
Defined benefit pension plans, net	2.7	0.8	—	0.6	(1.4 )	2.7
Other comprehensive (loss) income items, net of tax	(10.7 )	(12.6 )	—	0.6	12.0	(10.7 )
Comprehensive income	\$ 123.2	\$ 128.9	\$ 12.0	\$ 3.4	\$ (144.3 )	\$ 123.2

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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, 2017				Consolidating Adjustments	Consolidated
	Parent	Subsidiary Issuer	Subsidiary Guarantor	Non- Guarantors		
Net cash provided by operating activities	\$35.1	\$ 15.8	\$ —	—\$ 20.7	\$ —	—\$ 71.6
Cash flows from investing activities:						
Purchases of property, plant, and equipment	—	(29.8 )	—	(6.0 )	—	(35.8 )
Proceeds from sale of property, plant, and equipment	—	—	—	5.4	—	5.4
Proceeds from the sale of investment	—	13.2	—	—	—	13.2
Other investing activities	—	(0.2 )	—	—	—	(0.2 )
Net cash used for investing activities	—	(16.8 )	—	(0.6 )	—	(17.4 )
Cash flows from financing activities:						
Issuance of long-term debt	—	—	—	0.9	—	0.9
Proceeds from stock option exercises and other	2.3	—	—	—	—	2.3
Repurchases of common stock	(0.4 )	—	—	—	—	(0.4 )
Excess tax benefits from share-based payments	6.2	—	—	—	—	6.2
Dividends paid	(11.5 )	—	—	—	—	(11.5 )
Net cash (used for) provided by financing activities	(3.4 )	—	—	0.9	—	(2.5 )
Effect of exchange rates changes on cash	—	1.0	—	(2.7 )	—	(1.7 )
Net change in cash and cash equivalents	31.7	—	—	18.3	—	50.0
Cash and cash equivalents at beginning of period	368.2	—	—	45.0	—	413.2
Cash and cash equivalents at end of period	\$399.9	\$ —	\$ —	—\$ 63.3	\$ —	—\$ 463.2

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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 29, 2016				Consolidating Adjustments	Consolidated
	Parent	Subsidiary Issuer	Subsidiary Guarantor	Non- Guarantors		
Net cash provided by operating activities	\$77.3	\$ 46.0	\$ —	—\$ (3.8 )	\$ —	—\$ 119.5
Cash flows from investing activities:						
Purchases of property, plant, and equipment	—	(38.3 )	—	(5.5 )	—	(43.8 )
Proceeds from sale of property, plant, and equipment	—	0.1	—	2.1	—	2.2
Investments in subsidiaries	(380.3 )	380.3	—	—	—	—
Acquisitions of business, net of cash acquired	—	(384.4 )	—	(229.3 )	—	(613.7 )
Net cash used for investing activities	(380.3 )	(42.3 )	—	(232.7 )	—	(655.3 )
Cash flows from financing activities:						
Issuance of long-term debt	—	—	—	1.1	—	1.1
Proceeds from stock option exercises and other	6.2	—	—	—	—	6.2
Excess tax benefits from share-based payments	14.3	—	—	—	—	14.3
Dividends paid	(11.4 )	—	—	—	—	(11.4 )
Net cash provided by financing activities	9.1	—	—	1.1	—	10.2
Effect of exchange rate changes on cash	—	(3.7 )	—	(3.2 )	—	(6.9 )
Net change in cash and cash equivalents	(293.9 )	—	—	(238.6 )	—	(532.5 )
Cash and cash equivalents at beginning of period	479.9	—	—	276.9	—	756.8
Cash and cash equivalents at end of period	\$186.0	\$ —	\$ —	—\$ 38.3	\$ —	—\$ 224.3

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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, 2017 and for the three and six months ended February 28, 2017 and February 29, 2016. For a more complete understanding of this discussion, please read the Notes to Consolidated Financial Statements included in this report. Also, please refer to the Company’s Annual Report on Form 10-K for the fiscal year ended August 31, 2016, filed with the Securities and Exchange Commission (the “SEC”) on October 27, 2016 (“Form 10-K”). The following discussion should be read in conjunction with the Consolidated Financial Statements and related notes included within this report.

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 the “Company”). The Company has its principal office in Atlanta, Georgia.

The Company is 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. The Company’s 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, the Company continues to expand its 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”) and supports the advancement of smart buildings, smart cities, and the smart grid. As of February 28, 2017, the Company operates nineteen manufacturing facilities and seven distribution facilities along with one warehouse to serve its extensive customer base.

The Company does not consider acquisitions a critical element of its strategy but seeks opportunities to expand and enhance its portfolio of solutions, including the following transactions:

On June 30, 2016, using cash on hand and treasury stock, the Company acquired DGLogik, Inc. (“DGLogik”), a provider of innovative software solutions that enable and visualize the IoT. DGLogik's solutions provide users with the intelligence to better manage energy usage and improve facility performance. DGLogik is headquartered in the San Francisco Bay Area, California.

On December 10, 2015, using cash on hand, the Company acquired Juno Lighting LLC (“Juno Lighting”), a leading provider of downlighting and track lighting fixtures for both residential and commercial applications. Juno Lighting is headquartered in Des Plaines, Illinois.

On December 9, 2015, using cash on hand, the Company acquired certain assets and assumed certain liabilities of Geometri, LLC (“Geometri”), a provider of a software and services platform for mapping, navigation, and analytics.

On September 1, 2015, using cash on hand, the Company acquired Distech Controls Inc. (“Distech Controls”), a provider of building automation solutions that allow for the integration of lighting, HVAC, access control, closed circuit television, and related systems. Distech Controls is headquartered in Quebec, Canada.

Please refer to the Description of Business and Basis of Presentation footnote of the Notes to Consolidated Financial Statements for more information.

Liquidity and Capital Resources

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

Based on its cash on hand, availability under existing financing arrangements, and current projections of cash flow from operations, the Company believes that it will be able to meet its liquidity needs over the next 12 months. The Company's short-term needs are expected to include funding operations as currently planned, making anticipated

capital investments, paying quarterly stockholder dividends as currently anticipated, paying principal and interest on

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borrowings as currently scheduled, making required contributions to its employee benefit plans, funding potential acquisitions, and potentially repurchasing shares of its outstanding common stock as authorized by the Board of Directors (the “Board”). Approximately two million shares of the Company’s common stock are currently authorized and available for repurchase under an existing repurchase program. The Company expects to repurchase these shares on an opportunistic basis. The Company currently expects capital spending to be between approximately two and two and a half percent of sales during fiscal 2017, of which \$35.8 million had been invested as of February 28, 2017, primarily for equipment, tooling, and facility enhancements, as well as for new and enhanced information technology capabilities. Additionally, management believes that the Company’s cash flows from operations and sources of funding, including, but not limited to, borrowing capacity, will sufficiently support the long-term liquidity needs of the Company.

**Cash Flow**

The Company uses available cash and cash flow from operations, as well as proceeds from the exercise of stock options, to fund operations and capital expenditures, repurchase common stock of the Company, fund acquisitions, and pay dividends. The Company’s cash position at February 28, 2017 was \$463.2 million, an increase of \$50.0 million from August 31, 2016. During the six months ended February 28, 2017, the Company generated net cash flows from operations of \$71.6 million and received proceeds from the sale of an investment in an unconsolidated affiliate of \$13.2 million. Cash generated from operating activities, as well as cash on-hand, was used during the current period primarily to fund capital expenditures of \$35.8 million and to pay dividends to stockholders of \$11.5 million.

The Company generated \$71.6 million of cash flow from operating activities during the six months ended February 28, 2017 compared with \$119.5 million in the prior-year period, a decrease of \$47.9 million, due primarily to higher operating working capital requirements and variable incentive compensation payments in excess of the related accrual, partially offset by higher net income. 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) increased approximately \$22.0 million during the first six months of fiscal 2017 compared to a \$1.4 million increase during the first six months of fiscal 2016. Higher operating working capital at February 28, 2017 reflected an increase in inventory to support expected higher sales volumes and to improve service to customers. Management believes that investing in assets and programs that will over time increase the overall return on its invested capital is a key factor in driving stockholder value. The Company invested \$35.8 million and \$43.8 million in the first six months of fiscal 2017 and 2016, respectively, primarily related to investments in new equipment, tooling, facility enhancements, and information technology. As noted above, the Company expects to invest between approximately two and two and a half percent of sales primarily for equipment, tooling, facility enhancements, and new and enhanced information technology capabilities during fiscal 2017.

**Capitalization**

The current capital structure of the Company is comprised principally of senior unsecured notes and equity of its stockholders. As of February 28, 2017, total debt outstanding was \$356.1 million, compared with \$355.2 million at August 31, 2016, and consisted primarily of fixed-rate obligations. During fiscal 2017, the Company borrowed \$0.9 million under recently-executed fixed-rate long-term bank loans.

On August 27, 2014, the Company executed a Revolving Credit Facility (“Revolving Credit Facility”) with a borrowing capacity of \$250.0 million. The Revolving Credit Facility will mature and all amounts outstanding thereunder will be due and payable on August 27, 2019. The Company was in compliance with all financial covenants under the Revolving Credit Facility as of February 28, 2017. At February 28, 2017, the Company had additional borrowing capacity under the Revolving Credit Facility of \$243.9 million under the most restrictive covenant in effect at the time, which represents the full amount of the Revolving Credit Facility less outstanding letters of credit of \$6.1 million issued under the Revolving Credit Facility. As of February 28, 2017, the Company had outstanding letters of credit totaling \$11.0 million, primarily for securing collateral requirements under the casualty insurance programs for Acuity Brands and providing credit support for the Company’s industrial revenue bond, including \$6.1 million issued under the Revolving Credit Facility. See the Debt footnote of the Notes to Consolidated Financial Statements for more information.



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During the first six months of fiscal 2017, the Company's consolidated stockholders' equity increased \$145.0 million to \$1.80 billion at February 28, 2017, from \$1.66 billion at August 31, 2016. The increase was due primarily to net income earned in the period, stock issuances resulting primarily from the exercise of stock options and the related excess tax benefits, and amortization of pension plan prior service costs and actuarial losses partially offset by dividend payments and foreign currency translation adjustments. The Company's debt to total capitalization ratio (calculated by dividing total debt by the sum of total debt and total stockholders' equity) was 16.5% and 17.6% at February 28, 2017 and August 31, 2016, respectively. The ratio of debt, net of cash, to total capitalization, net of cash, was (6.3)% at February 28, 2017 and (3.6)% at August 31, 2016.

**Dividends**

Acuity Brands paid dividends on its common stock of \$11.5 million and \$11.4 million (\$0.26 per share) during the six months ended February 28, 2017 and February 29, 2016, respectively. All decisions regarding the declaration and payment of dividends by Acuity Brands are at the discretion of the Board and are evaluated regularly in light of the Company's financial condition, earnings, growth prospects, funding requirements, applicable law, and any other factors the Board deems relevant.

**Results of Operations****Second Quarter of Fiscal 2017 Compared with Second Quarter of Fiscal 2016**

The following table sets forth information comparing the components of net income for the three months ended February 28, 2017 and February 29, 2016 (in millions except per share data):

	Three Months Ended			
	February 28, 2017	February 29, 2016	Increase (Decrease)	Percent Change
Net sales	\$804.7	\$ 777.8	\$ 26.9	3.5 %
Cost of products sold	468.9	440.9	28.0	6.4 %
Gross profit	335.8	336.9	(1.1 )	(0.3 )%
Percent of net sales	41.7 %	43.3 %	(160 )	bps
Selling, distribution, and administrative expenses	227.8	230.1	(2.3 )	(1.0 )%
Special charge	—	0.1	(0.1 )	NM
Operating profit	108.0	106.7	1.3	1.2 %
Percent of net sales	13.4 %	13.7 %	(30 )	bps
Other expense (income):				
Interest expense, net	8.0	8.2	(0.2 )	(2.4 )%
Miscellaneous expense (income), net	0.6	(1.1 )	1.7	NM
Total other expense	8.6	7.1	1.5	21.1 %
Income before provision for income taxes	99.4	99.6	(0.2 )	(0.2 )%
Percent of net sales	12.4 %	12.8 %	(40 )	bps
Provision for income taxes	32.1	34.1	(2.0 )	(5.9 )%
Effective tax rate	32.3 %	34.2 %		
Net income	\$67.3	\$ 65.5	\$ 1.8	2.7 %
Diluted earnings per share	\$1.53	\$ 1.49	\$ 0.04	2.7 %
NM - not meaningful				

Net sales were \$804.7 million for the three months ended February 28, 2017 compared with \$777.8 million reported for the three months ended February 29, 2016, an increase of \$26.9 million, or 3.5%. For the three months ended February 28, 2017, the Company reported net income of \$67.3 million, an increase of \$1.8 million, or 2.7%, compared with \$65.5 million for the three months ended February 29, 2016. For the second quarter of fiscal 2017, diluted earnings per share increased 2.7% to \$1.53 compared with \$1.49 reported in the year-ago period.

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 the Company's results of operations, which exclude the impact of acquisition-related items, amortization of acquired intangible assets, share-



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based payment expense, and special charges associated primarily with continued efforts to streamline the organization. Although special charges, amortization of acquired intangible assets, and share-based payment expense have been recognized in prior periods and could recur in future periods, management typically excludes these charges during internal reviews of performance and uses these non-U.S. GAAP measures for baseline comparative operational analysis, decision making, and other activities. Primarily due to the impact of the four acquisitions completed during fiscal 2016, the Company experienced noticeable increases in amortization of acquired intangibles, share-based payments used to improve retention and align the interest of key leaders of acquired businesses, and special charges due to activities to streamline and integrate those acquisitions. These non-U.S. GAAP financial measures, including adjusted gross profit and margin, adjusted selling, distribution, and administrative (“SD&A”) expenses, adjusted operating profit and margin, adjusted net income, and adjusted diluted earnings per share, are provided to enhance the user’s overall understanding of the Company’s current financial performance. Specifically, the Company believes these non-U.S. GAAP measures provide greater comparability and enhanced visibility into the 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. Amounts in the following table are shown in millions except per share data.

	Three Months Ended		Increase (Decrease)	Percent Change
	February 28, 2017	February 29, 2016		
Gross profit	\$335.8	\$ 336.9		
Add-back: Acquisition-related items <sup>(1)</sup>	—	1.4		
Adjusted gross profit	\$335.8	\$ 338.3	\$ (2.5 )	(0.7 )%
Percent of net sales	41.7 %	43.5 %		