ACUITY BRANDS INC
Form 8-K
March 26, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported) March 25, 2003

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

Delaware	001-16583	No. 58-2632672
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

1170 Peachtree Street, N.E. Suite 2400, Atlanta, GA	30309
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (404) 853-1400

None
(Former name or former address, if changed since last report)

ITEM 5. Other Events.

Attached hereto is a press release issued by Acuity Brands, Inc. (the "Registrant") on March 25, 2003. A copy of the press release is filed herewith as Exhibit 99.1 and is incorporated herein by reference.

ITEM 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(a) Financial Statements of Businesses Acquired.

None.

(b) Pro Forma Financial Information.

None.

(c) Exhibits.

The following exhibit is filed herewith:

EXHIBIT NO.	DESCRIPTION
99.1	Press Release, issued by Registrant on March 25, 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: March 25, 2003

ACUITY BRANDS, INC.

BY: /S/ VERNON J. NAGEL

Vernon J. Nagel
Executive Vice President and
Chief Financial Officer

Exhibit 99.1

Company Contact:
Karen Holcom
Acuity Brands, Inc.
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ACUITY BRANDS REPORTS
2003 SECOND QUARTER RESULTS

ATLANTA, March 25, 2003 - Acuity Brands, Inc. (NYSE: AYI) announced today that sales for its second quarter ended February 28, 2003 were $489.4 million compared to $468.2 million reported in the year ago period, an increase of $21.2 million, or 4.5 percent. The sales percentage increase occurred equally at both Acuity Lighting Group (ALG) and Acuity Specialty Products Group (ASP). Net income for the second quarter of fiscal 2003 was $7.7 million, or $0.19 per share, compared to $10.6 million, or $0.26 per share, reported in the second quarter of fiscal 2002. This represents a decrease in both net income and earnings per share of approximately 27 percent. The Company continued to reduce debt, ending the quarter with total debt of $519.6 million, down $24.2 million from November 30, 2002. These consolidated results were generally consistent with management's expectations.

The decline in net income compared to the year ago period was largely due to a planned decrease in production volume resulting in lower absorption of manufacturing costs, primarily at ALG. This resulted in the acceleration of approximately $2.9 million of greater expense in the second quarter of fiscal 2003. Also contributing to the decline in net income were higher costs for certain raw materials, greater expenses for non-discretionary items, and increased spending for new product introductions and expanded marketing and logistics initiatives. The impact of these higher costs was partially offset by the contribution margin earned from the higher sales volume noted above, benefits from profit improvement initiatives, and cost containment programs.

The Company continued to have significant success at reducing its level of working capital, particularly inventory, through improved manufacturing efficiency and productivity, while supporting its sales growth initiatives. These improvements in manufacturing capabilities are expected to allow more effective utilization of inventory assets. While the temporary reduction in product output had a negative impact on the earnings reported in the second quarter as noted above, the decline in inventory contributed to the generation of positive free cash flow that was used to pay down debt.

Second Quarter Segment and Corporate Overview

Sales at Acuity Lighting Group in the second quarter of fiscal 2003 were $368.8 million compared to $352.8 million reported in the year ago period, an increase of $16.0 million, or 4.5 percent. The increase in sales at ALG was primarily due to greater shipments of products through channels of distribution serving national accounts, home improvement centers, and other key commercial and industrial markets. In the second quarter ALG announced a sales price increase for certain products. The terms and conditions of the price increase resulted in a significant influx of orders in the second quarter with delivery dates that extend into the third quarter of fiscal 2003. As a consequence, the backlog at ALG increased $45.0 million, or 37.8 percent, to $164.1 million from November 30, 2002 and 6.6 percent over the year ago period. Operating profit for Acuity Lighting Group decreased $3.2 million to $18.8 million in the second quarter of fiscal 2003 from $22.0 million reported in the prior year. Operating profit margins dropped to 5.1 percent from 6.2 percent, as the variable contribution margin from the higher sales volume was more than offset by the lost absorption of manufacturing costs as noted above; continued pricing pressure in certain markets and product mix changes; higher raw material costs, particularly steel and fuel costs; and greater spending for certain sales and marketing initiatives and for non-discretionary expenses such as insurance.

Sales at Acuity Specialty Products Group in the second quarter of fiscal 2003 were $120.6 million, an increase of 4.5 percent over the same period one year earlier. The increase in sales was driven by greater product penetration in key channels of distribution including home improvement centers and certain industrial market segments, such as food processing and preparation and vehicle wash. Operating profit at ASP for the second quarter of fiscal 2003 declined $3.6 million to $4.8 million from $8.4 million reported in the year ago period. Operating margins declined to 4.0 percent from 7.3 percent a year ago. The decline in operating profit was primarily due to startup costs associated with a number of initiatives, including new product introductions and expanded marketing and logistics programs, all of which are expected to benefit future periods. In addition, ASP incurred higher costs for certain raw materials and certain non-discretionary spending, including medical and other insurances. This was partially offset by increased selling prices and the greater contribution margin from the higher sales volume noted above.

Corporate expenses were $4.2 million in the second quarter of fiscal 2003 compared to $3.2 million in the year ago period. The increase was due primarily to higher expense associated with certain stock-based benefit plans, liability insurance, and expanded audit services. Net interest expense of $9.5 million in the second quarter of fiscal 2003 was lower than net interest expense of $10.2 million reported in the year ago period due to a reduction in both debt balances and interest rates.

Net sales for the first half of fiscal 2003 increased $44.7 million, or 4.7 percent, to $994.6 million compared to $949.9 million reported in the same period a year ago. Net income for the first six months was $18.2 million, or $0.44 per share, compared to last year's first half net income of $22.1 million, or $0.54 per share. Net income and earnings per share were down approximately 18 percent in the first half of fiscal 2003 compared to the year ago period.

Outlook

James S. Balloun, Chairman, President, and Chief Executive Officer of Acuity Brands, said, "During the second quarter we continued to implement programs aimed at making our businesses stronger and more financially viable, while confronting the difficult conditions that continue to prevail in certain key markets, particularly non-residential construction. For example, we implemented sales price increases on many products throughout the Company, reflecting the strength of our value propositions and the need to generate acceptable margins to fund future innovations and to continue to build greater customer service capabilities. In addition, the benefits of continued investments to improve our manufacturing capabilities allowed us to significantly reduce inventory during the quarter, particularly at ALG, while meeting the needs of our expanding customer base. These programs will continue to improve our financial performance, including better margins, higher returns on invested capital, and lower debt. These initiatives and actions are not without a short-term cost. For example, we reduced the levels of inventory by lowering our production output in the second quarter, while supporting a 4.5 percent increase in sales. This resulted in less absorption of manufacturing costs, leading to the acceleration of greater expense and reduced gross profits during the quarter. However, the benefits are twofold: we are becoming more efficient in our manufacturing capabilities, thus reducing future costs, and we now need less investment in working capital to support our businesses. As a consequence, we were again able to significantly reduce outstanding debt in the quarter because of lower working capital requirements. As of February 28, 2003, our outstanding debt balance was $519.6 million, a reduction of $24.2 million since November 30, 2002 and approximately $124 million over the last five quarters. We have achieved this while paying approximately $6 million in quarterly dividends and investing in our businesses.

"Overall, the results for the second quarter were generally in line with our internal expectations. We are pleased with our ability to generate revenue growth under these difficult economic conditions. We have been able to do this by expanding our customer base and extending our market leading brands into more channels of distribution. However, we are not as pleased with our earnings performance. Earnings continue to be impacted by numerous controllable and uncontrollable factors. Uncontrollable factors included pricing pressures, rising raw material costs (including steel and petroleum-based components), and non-discretionary spending for insurance, all of which continue to persist. Controllable factors included costs associated with lowering levels of inventory, as previously mentioned, and investments in sales and marketing initiatives at both businesses designed to strengthen our capabilities. We continue to make these investments because of high expectations for future benefit and the knowledge that past investments have had a significant benefit on current performance by partially offsetting the impact of the negative factors noted above. Overall, while the net impact of these factors resulted in lower operating margins in the quarter when compared with the year ago period, these investments are positioning the Company for a higher level of performance than we had in the past.

"We remain confident about the long-term potential of the solid businesses that comprise Acuity Brands. However, we are cautious about our near-term results due to uncertainties in the economic environment, particularly for non-residential construction, which is one of the key drivers of the lighting fixture market. We anticipate that the results for the third quarter of fiscal year 2003 will reflect the historical seasonal pattern of greater sales, the benefits of a strong backlog at ALG, and the positive impact of various initiatives to enhance margins, including previously mentioned price increases. Assuming no further deterioration in the economy and the benefit of the previously mentioned items, we continue to expect our full year earnings to be in the range of $1.20 to $1.40 per share."

Conference Call and Board News

As previously announced, the Company will host a conference call to discuss second quarter results on March 25, 2003 at 4:00 p.m. EST. Interested parties may listen to this call live today or hear a replay until April 15, 2003 at the Company's Web site: www.acuitybrands.com.

The Board of Directors will hold its regular quarterly meeting on April 2, 2003.

Acuity Brands, Inc., with fiscal year 2002 sales of approximately $2.0 billion, is comprised of Acuity Lighting Group and Acuity Specialty Products Group. Acuity Lighting Group is the world's leading lighting fixture manufacturer and includes brands such as Lithonia(R), Holophane(R), Peerless(R), Hydrel(R), and American Electric Lighting(R). Acuity Specialty Products Group is a leading provider of specialty chemicals and includes brands such as Zep(R), Enforcer(R), and Selig Industries(TM). Headquartered in Atlanta, Georgia, Acuity Brands employs 11,800 people and has operations throughout North America and in Europe.

Forward-Looking Statements

Certain information contained in this press release constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are inherently uncertain and involve risks. Consequently, actual results may differ materially from those indicated by the forward-looking statements. Statements made herein that may be considered forward looking include statements concerning: (a) expected benefits of improvements in manufacturing capabilities; (b) expected future benefits of startup costs associated with a number of initiatives, including new product introductions and expanded marketing and logistic programs at Acuity Specialty Products Group; (c) the impact of programs aimed at making the Company's businesses stronger and more financially viable on future financial performance, including better margins, higher returns on invested capital, and lower debt; (d) expected future cost reductions resulting from more efficient manufacturing; (e) anticipated benefits of investments in sales and marketing initiatives at both of the Company's businesses; and (f) forecasted results for the third quarter and earnings per share for the full fiscal year of 2003. A variety of risks and uncertainties could cause the Company's actual results to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. The risks and uncertainties include without limitation the following: (a) the uncertainty of general business and economic conditions, including the potential for a more severe slowdown in non-residential construction, changes in interest rates, and fluctuations in commodity and raw material prices or foreign currency rates; (b) the Company's ability to realize the anticipated benefits of initiatives expected to reduce costs, improve profits, enhance customer service, increase manufacturing efficiency, reduce debt, and expand product offerings and brands in the market through a variety of channels; (c) the risk that projected future cash flows from operations are not realized; (d) unexpected developments in the Company's legal and environmental proceedings; and (e) the other risk factors more fully described in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 11, 2002.

ACUITY BRANDS, INC.

SUMMARY OF OPERATIONS (Unaudited)

	THREE MONTHS ENDED FEBRUARY 28		
	SALES		OPERATING PRO
(Amounts in thousands, except per-share data)	2003	2002	2003
Lighting Equipment	$ 368,792	$ 352,788	$ 18,826
Specialty Products	120,595	115,457	4,811
	$ 489,387	$ 468,245	23,637
Corporate			(4,231)
Other income (expense), net (1)			2,115
Interest expense, net			(9,519)
Income before taxes			12,002

Income taxes	4,321
Net income	$ 7,681
Earnings per Share:	
Basic earnings per share	$ .19
Basic weighted-average shares outstanding during period	41,443
Diluted earnings per share:	$ .19
Diluted weighted-average shares outstanding during period	41,470

	SIX MONTHS ENDED FEBRUARY 28		
	SALES		OPERATING PRO
(Amounts in thousands, except per-share data)	2003	2002	2003
Lighting Equipment	$ 751,450	$ 716,898	$ 44,893
Specialty Products	243,163	233,038	8,482
	$ 994,613	$ 949,936	53,375
Corporate			(7,687)
Other income (expense), net (1)			1,997
Interest expense, net			(19,293)
Income before taxes			28,392
Income taxes			10,221
Net income			$ 18,171
Earnings per Share:			
Basic earnings per share			$ .44
Basic weighted-average shares outstanding during period			41,417
Diluted earnings per share:			$ .44
Diluted weighted-average shares outstanding during period			41,444
Pro Forma Earnings per Share (2):			
Basic earnings per share			n/a
Basic weighted-average shares outstanding during period			n/a

(1) Other income (expense), net consists primarily of gains or losses on the sale of assets and f
(2) Actual per share data has not been presented for periods prior to the second quarter of fisca
that comprise Acuity Brands were wholly owned subsidiaries of National Service Industries, Inc. d
Additionally, public trading of the Acuity Brands shares did not commence until December 3, 2001;
market share prices exist for the calculation of the potential dilutive effect of stock options f
second quarter of fiscal year 2002. As a result, pro forma diluted earnings per share is not pre

ACUITY BRANDS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(Amounts in thousands, except per-share data)	FEBRUARY 28 2003	AUGUST 31 2002	
Assets			Liabilities and Stockholders' Equ
Current Assets			

Cash and short-term investments	$ 9,470	$ 2,694	Current Liabilities
Receivables, net	311,289	322,735	Long-Term Debt, less current matu
Inventories	196,966	216,942	Deferred Income Taxes
Other current assets	53,330	48,626	Other Long-Term Liabilities
			Stockholders' Equity
Total Current Assets	571,055	590,997	
Property,Plant,and Equipment,net	228,575	240,679	Current Ratio
Other Assets	517,545	526,278	Percent of Debt to Total Capitali
Total Assets	$1,317,175	$1,357,954	

CONDENSED CONSOLIDATED CASH FLOWS (Unaudited)

	SIX MONTHS ENDED FEBRUARY 28		
(Amounts in thousands)	2003	2002(3)	
Cash Provided by (Used for):			Cash Provided by (Used for):
Operations-			Financing-
Net income	$ 18,171	$22,092	Debt
Depreciation and amortization	23,459	25,930	Dividends
Other operating activities	12,364	9,423	Net activity with NSI
			Other financing activities
Cash Provided by Operations	53,994	57,445	
			Cash Used for Financing
Investing-			Effect of Exchange Rate on Cas
Capital expenditures	(13,542)	(16,456)	
Acquisitions	-	(24,765)	
Sale of assets	1,768	1,691	Net Change in Cash
			Cash at Beginning of Year
Cash Used for Investing	$(11,774)	$(39,530)	Cash at End of Period

(3) Certain prior period amounts have been reclassified to conform with the current year presenta