ACUITY BRANDS INC
Form 10-Q
July 03, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended May 31, 2018.
OR	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from to .

Commission file number 001-16583.

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

Delaware	58-2632672
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1170 Peachtree Street, N.E., Suite 2300, Atlanta, Georgia	30309-7676
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o   No þ
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
Common stock — $0.01 par value — 40,181,023 shares as of June 29, 2018.

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

	May 31, 2018 (unaudited)	August 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 94.3	$ 311.1
Accounts receivable, less reserve for doubtful accounts of $2.0 and $1.9, respectively	572.6	573.3
Inventories	406.5	328.6
Prepayments and other current assets	32.4	32.6
Total current assets	1,105.8	1,245.6
Property, plant, and equipment, at cost:		
Land	22.8	22.5
Buildings and leasehold improvements	187.3	180.7
Machinery and equipment	511.1	484.6
Total property, plant, and equipment	721.2	687.8
Less — Accumulated depreciation and amortization	(433.2)	(400.1)
Property, plant, and equipment, net	288.0	287.7
Goodwill	970.5	900.9
Intangible assets, net	504.6	448.8
Deferred income taxes	3.1	3.4
Other long-term assets	10.4	13.2
Total assets	$ 2,882.4	$ 2,899.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 464.5	$ 395.1
Current maturities of long-term debt	1.6	0.4
Accrued compensation	58.4	41.8
Other accrued liabilities	147.6	163.6
Total current liabilities	672.1	600.9
Long-term debt	356.4	356.5
Accrued pension liabilities	86.7	96.9
Deferred income taxes	87.9	108.2
Self-insurance reserves	9.3	7.9
Other long-term liabilities	69.6	63.6
Total liabilities	1,282.0	1,234.0
Commitments and contingencies (see Commitments and Contingencies footnote)		
Stockholders' equity:		
Preferred stock, $0.01 par value; 50,000,000 shares authorized; none issued	—	—
Common stock, $0.01 par value; 500,000,000 shares authorized; 53,644,873 and 53,549,840 issued, respectively	0.5	0.5
Paid-in capital	899.2	881.0
Retained earnings	1,896.2	1,659.9
Accumulated other comprehensive loss	(121.1)	(99.7)
Treasury stock, at cost — 13,676,689 and 11,678,002 shares, respectively	(1,074.4)	(776.1)

Total stockholders’ equity	1,600.4	1,665.6
Total liabilities and stockholders’ equity	$ 2,882.4	$ 2,899.6

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		Nine Months Ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
Net sales	$944.0	$891.6	$2,618.9	$2,547.5
Cost of products sold	554.6	512.7	1,544.4	1,473.2
Gross profit	389.4	378.9	1,074.5	1,074.3
Selling, distribution, and administrative expenses	273.6	246.9	751.3	706.5
Special charge	9.9	0.5	10.7	1.7
Operating profit	105.9	131.5	312.5	366.1
Other expense (income):				
Interest expense, net	8.4	8.1	24.5	24.3
Miscellaneous income, net	(1.7)	(1.2)	(0.8)	(8.5)
Total other expense	6.7	6.9	23.7	15.8
Income before income taxes	99.2	124.6	288.8	350.3
Income tax expense	26.2	42.4	47.4	119.1
Net income	$73.0	$82.2	$241.4	$231.2
Earnings per share:				
Basic earnings per share	$1.81	$1.91	$5.86	$5.31
Basic weighted average number of shares outstanding	40.4	43.1	41.2	43.5
Diluted earnings per share	$1.80	$1.90	$5.85	$5.29
Diluted weighted average number of shares outstanding	40.5	43.3	41.3	43.7
Dividends declared per share	$0.13	$0.13	$0.39	$0.39
Comprehensive income:				
Net income	$73.0	$82.2	$241.4	$231.2
Other comprehensive income (loss) items:				
Foreign currency translation adjustments	(7.6)	2.4	(15.6)	(6.2)
Defined benefit pension plans, net of tax	1.9	2.0	5.3	6.1
Other comprehensive (loss) income, net of tax	(5.7)	4.4	(10.3)	(0.1)
Comprehensive income	$67.3	$86.6	$231.1	$231.1

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)

	Nine Months Ended	
	May 31, 2018	May 31, 2017
Cash flows from operating activities:		
Net income	$241.4	$231.2
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	58.5	56.5
Share-based payment expense	24.4	24.1
Loss on sale or disposal of property, plant, and equipment	0.1	0.3
Gain on sale of investment in unconsolidated affiliate	—	(7.2)
Deferred income taxes	(32.0)	(2.8)
Change in assets and liabilities, net of effect of acquisitions, divestitures, and exchange rate changes:		
Accounts receivable	6.5	50.4
Inventories	(66.4)	(47.1)
Prepayments and other current assets	0.6	(3.5)
Accounts payable	62.9	(37.7)
Other current liabilities	(2.6)	(81.4)
Other	7.3	15.2
Net cash provided by operating activities	300.7	198.0
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(32.2)	(55.2)
Proceeds from sale of property, plant, and equipment	—	5.5
Acquisition of businesses, net of cash acquired	(163.5)	—
Proceeds from sale of investment in unconsolidated affiliate	—	13.2
Other investing activities	—	(0.2)
Net cash used for investing activities	(195.7)	(36.7)
Cash flows from financing activities:		
Borrowings on credit facility	237.3	—
Repayments of borrowings on credit facility	(236.1)	—
(Repayments) issuances of long-term debt	(0.3)	1.1
Repurchases of common stock	(298.4)	(357.9)
Proceeds from stock option exercises and other	1.6	2.7
Payments for employee taxes on net settlement of equity awards	(7.2)	(13.2)
Dividends paid	(16.2)	(17.2)
Net cash used for financing activities	(319.3)	(384.5)
Effect of exchange rate changes on cash and cash equivalents	(2.5)	(0.3)
Net change in cash and cash equivalents	(216.8)	(223.5)
Cash and cash equivalents at beginning of period	311.1	413.2
Cash and cash equivalents at end of period	$94.3	$189.7
Supplemental cash flow information:		
Income taxes paid during the period	$101.5	$127.4
Interest paid during the period	$23.7	$22.9

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

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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”) and was incorporated in 2001 under the laws of the State of Delaware. 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 to provide a host of other economic benefits, including software and services that enable the Internet of Things (“IoT”). The Company's IoT solutions provide customers with access to robust data analytics; support the advancement of smart buildings, smart cities, and the smart grid; and allow businesses to develop custom applications to scale their operations. The Company has one reportable segment serving the North American lighting market 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 May 31, 2018, the consolidated comprehensive income for the three and nine months ended May 31, 2018 and 2017, and the consolidated cash flows for the nine months ended May 31, 2018 and 2017. 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, 2017 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 26, 2017 (File No. 001-16583) (“Form 10-K”).

The results of operations for the three and nine months ended May 31, 2018 and 2017 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 2018.

2. Significant Accounting Policies

Use of Estimates

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

Reclassifications

Certain prior-period amounts have been reclassified to conform to the current year presentation. No material reclassifications occurred during the current period. Refer to the New Accounting Pronouncements footnote for additional information regarding retrospective reclassifications related to accounting standards adopted in the current year.

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3. Acquisitions and Investments

IOTA Engineering, LLC

On May 1, 2018, using cash on hand and borrowings available under existing credit arrangements, the Company acquired all of the equity interests of IOTA Engineering, LLC ("IOTA"). IOTA is headquartered in Tucson, Arizona and manufactures highly engineered emergency lighting products and power equipment for commercial and institutional applications both in the U.S. and internationally. The operating results of IOTA 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 accounting are reflected in the Consolidated Balance Sheets as of May 31, 2018. 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.

Lucid Design Group, Inc.

On February 12, 2018, using cash on hand, the Company acquired all of the equity interests of Lucid Design Group, Inc ("Lucid"). Lucid is headquartered in Oakland, California and provides a data and analytics platform to make data-driven decisions to improve building efficiency and drive energy conservation and savings. The operating results of Lucid have been included in 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 accounting 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.

Accounting for Fiscal 2018 Acquisitions

Acquisition-related costs were expensed as incurred. Preliminary amounts related to the acquisition accounting for these acquisitions are reflected in the Consolidated Balance Sheets as of May 31, 2018. The aggregate preliminary purchase price of these acquisitions reflects total goodwill and identified intangible assets of approximately $75.7 million and $79.1 million, respectively. Identified intangible assets consist of indefinite-lived marketing-related intangibles as well as definite-lived customer-based and technology-based assets, which have a weighted average useful life of approximately 22 years. 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. These amounts are expected to change as the Company finalizes the allocation.

4. New Accounting Pronouncements

Accounting Standards Adopted in Fiscal 2018

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Improvements to Employee Share-Based Payment Accounting, ("ASU 2016-09"), which changes certain aspects of accounting for share-based payments to employees. The standard requires that all excess tax benefits and deficiencies previously recorded as additional paid-in capital be prospectively recorded in income tax expense, which could create volatility in the Company's effective income tax rate on a quarter by quarter basis 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 and taxes paid for employee withholdings to be presented as a financing activity. The Company adopted ASU 2016-09 effective as of September 1, 2017. Excess tax benefits and deficiencies are recorded within Income tax expense within the Consolidated Statements of Comprehensive Income on a prospective basis as required by the standard; however, the Company elected to present changes to the statement of cash flows on a retrospective basis as allowed by the standard in order to maintain comparability between fiscal years. As such, cash flows from operations for the nine months ended May 31, 2017 increased $18.7 million, with a corresponding decrease to cash flows from financing activities, compared to amounts previously reported.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“ASU 2018-02”), which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act (the "TCJA") signed into law in December 2017. The Company adopted ASU 2018-02 effective as of the beginning of the current reporting period and recorded a reclassification for the stranded tax effects resulting from the TCJA from Accumulated other comprehensive loss to Retained earnings in the amount of $11.1 million on the Consolidated Balance Sheets during the second quarter of fiscal 2018. Refer to the Income Taxes footnote for further details.

Accounting Standards Yet to Be Adopted

In March 2017, the FASB issued ASU No. 2017-07, Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU 2017-07"), which 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 2017-07 is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2017. The provisions of ASU 2017-07 are not expected to have a material impact 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. ASU 2017-01 is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2017. 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 August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows ("ASU 2016-15"), which is intended to reduce the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows including debt prepayment and extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and proceeds from the settlement of corporate-owned life insurance. ASU 2016-15 is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2017. The Company intends to implement the standard as required in fiscal 2019, and the provisions of ASU 2016-15 are not expected to have a material impact on the Company's financial statement disclosures.

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. In January 2018, the FASB issued ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842, which establishes an optional transition practical expedient when applying the guidance in ASU 2016-02 and has the same effective date as the original standard. 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. Since the issuance of ASU 2014-09, the FASB released several amendments to improve and clarify the implementation guidance, as well as to change the effective date. These standards have been collectively codified within Accounting Standards Codification (“ASC") 606, Revenue from Contracts with Customers (“ASC 606”). ASC 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard also requires additional disclosures about the nature, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASC 606 permits two transition methods: the full retrospective method and the modified retrospective method. Under the full retrospective method, the standard would be applied to each prior reporting period presented with the cumulative effect of applying the standard recognized at the earliest period shown. Under the modified retrospective method, the cumulative effect of applying the standard would be recognized at the date of initial application. ASC 606 is effective for annual reporting periods beginning after December 15, 2017. The Company will adopt the requirements of the new standard on September 1, 2018.

The Company has an implementation team tasked with identifying potential differences that will result from applying the new revenue recognition standard to the Company's contracts with its customers. The implementation team reports the findings and progress of the project to management on a frequent basis and to the Audit Committee of the Board of Directors on a quarterly basis. The implementation team has completed its initial phase of contract reviews and continues to evaluate the results of those reviews with respect to potential changes from adopting the new standard on the Company's consolidated financial statements. Management anticipates the most significant changes will relate to additional deferral of revenue recognition for certain services provided and the gross presentation of right of return assets and refund liabilities for sales with a right of return. Based on the current portfolio of the Company's revenue generating activities, these changes are not expected to have a material impact on the Company's consolidated financial condition, results of operations, or cash flows. Additionally, the implementation team is in the process of identifying appropriate changes to the Company's business processes, systems, and controls to support recognition and disclosure under the new standard. Based on the implementation team's current findings and the overall expected immaterial impact of adoption, the implementation team is currently evaluating which adoption method would provide the most meaningful information to the Company's stakeholders.

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

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 $94.3 million and $311.1 million as of May 31, 2018 and August 31, 2017, 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 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.

The carrying values and estimated fair values of certain of the Company’s financial instruments were as follows at May 31, 2018 and August 31, 2017 (in millions):

	May 31, 2018		August 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Senior unsecured public notes, net of unamortized discount and deferred costs	$349.4	$364.9	$349.1	$379.7
Industrial revenue bond	4.0	4.0	4.0	4.0
Bank loans	3.4	3.4	3.8	3.8
Revolving credit facility borrowings	1.2	1.2	—	—

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 May 31, 2018 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).

The borrowings on the Company's revolving credit facility are carried at the outstanding balance as of the end of the reporting period. The borrowings are variable-rate instruments that reset on a short-term basis; therefore, the Company estimates that the face amount of the notes approximate fair values as of May 31, 2018 based on borrowings 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 $7.2 million and $8.2 million during the three months ended May 31, 2018 and 2017, respectively, and $20.5 million and $21.9 million during the nine months ended May 31, 2018 and 2017, respectively. Amortization expense is generally recorded on a straight-line basis and is expected to be approximately $28.0 million in fiscal 2018, $29.8 million in fiscal 2019, $29.8 million in fiscal 2020, $26.9 million in fiscal 2021, and $25.2 million in fiscal 2022. These estimated amounts include $1.7 million for fiscal 2018 and $3.8 million for fiscal 2019, 2020, 2021, and 2022 related to the intangible assets acquired associated with the IOTA and Lucid transactions. The acquisition accounting and the related useful lives and amortization for the IOTA and Lucid acquisitions are preliminary as the Company continues to gather information related to the identification and valuation of intangible assets acquired.

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The change in the carrying amount of goodwill during the nine months ended May 31, 2018 is summarized below (in millions):

Balance at August 31, 2017	$900.9
Additions from acquired businesses	75.7
Foreign currency translation adjustments	(6.1)
Balance at May 31, 2018	$970.5

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):

	May 31, 2018	August 31, 2017
Raw materials, supplies, and work in process [1]	$196.2	$ 176.5
Finished goods	251.4	180.8
Inventories excluding reserves	447.6	357.3
Less: Reserves	(41.1)	(28.7)
Total inventories	$406.5	$ 328.6

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

8. Earnings Per Share

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

The following table calculates basic earnings per common share and diluted earnings per common share for the three and nine months ended May 31, 2018 and 2017 (in millions, except per share data):

	Three Months Ended		Nine Months Ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
Net income	$73.0	$ 82.2	$241.4	$231.2
Basic weighted average shares outstanding	40.4	43.1	41.2	43.5
Common stock equivalents	0.1	0.2	0.1	0.2
Diluted weighted average shares outstanding	40.5	43.3	41.3	43.7
Basic earnings per share	$1.81	$ 1.91	$5.86	$5.31
Diluted earnings per share	$1.80	$ 1.90	$5.85	$5.29

The following table presents stock options and restricted stock awards that were excluded from the diluted earnings per share calculation for the three and nine months ended May 31, 2018 and 2017 as the effect of inclusion would have been antidilutive:

	Three Months Ended	Nine Months Ended

	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
Stock options	239,230	149,000	179,385	113,074
Restricted stock awards	240,783	176,249	257,617	87,219

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. Changes in Equity

The following table summarizes changes in the components of stockholders' equity for the nine months ended May 31, 2018 (in millions):

	Common Stock Outstanding						
	Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock, at cost	Total
Balance, August 31, 2017	41.9	$ 0.5	$ 881.0	$ 1,659.9	$ (99.7)	$ (776.1)	$ 1,665.6
Net income	—	—	—	241.4	—	—	241.4
Other comprehensive loss	—	—	—	—	(10.3)	—	(10.3)
Reclassification of stranded tax effects of the TCJA [1]	—	—	—	11.1	(11.1)	—	—
Amortization, issuance, and cancellations of restricted stock grants	0.1	—	16.6	—	—	0.1	16.7
Employee stock purchase plan issuances	—	—	0.5	—	—	—	0.5
Cash dividends of $0.39 per share paid on common stock	—	—	—	(16.2)	—	—	(16.2)
Stock options exercised	—	—	1.1	—	—	—	1.1
Repurchases of common stock	(2.0)	—	—	—	—	(298.4)	(298.4)
Balance, May 31, 2018	40.0	$ 0.5	$ 899.2	$ 1,896.2	$ (121.1)	$ (1,074.4)	$ 1,600.4

[1] See Income Taxes footnote within the Notes to Consolidated Financial Statements for additional details.

10. 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 loss during the nine months ended May 31, 2018 (in millions):

	Foreign Currency Items	Defined Benefit Pension Plans	Accumulated Other Comprehensive Loss Items
Balance at August 31, 2017	$ (28.7)	$ (71.0)	$ (99.7)
Other comprehensive loss before reclassifications	(15.6)	—	(15.6)
Amounts reclassified from accumulated other comprehensive income	—	5.3	5.3
Net current period other comprehensive (loss) income	(15.6)	5.3	(10.3)
Reclassification of stranded tax effects of TCJA [1]	—	(11.1)	(11.1)
Balance at May 31, 2018	$ (44.3)	$ (76.8)	$ (121.1)

[1] See Income Taxes footnote within the Notes to Consolidated Financial Statements for additional details.

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

The following table presents the tax expense or benefit allocated to each component of other comprehensive income (loss) for the three and nine months ended May 31, 2018 and 2017 (in millions):

	Three Months Ended					
	May 31, 2018			May 31, 2017		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Foreign currency translation adjustments	$(7.6)	$ —	$(7.6)	$2.4	$ —	$ 2.4
Defined benefit pension plans:						
Amortization of defined benefit pension items:						
Prior service cost [1]	0.8	(0.1)	0.7	0.8	(0.2)	0.6
Actuarial losses [1]	1.7	(0.5)	1.2	2.2	(0.8)	1.4
Total defined benefit pension plans, net	2.5	(0.6)	1.9	3.0	(1.0)	2.0
Other comprehensive (loss) income	$(5.1)	$ (0.6)	$(5.7)	$5.4	$ (1.0)	$ 4.4

	Nine Months Ended					
	May 31, 2018			May 31, 2017		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Foreign currency translation adjustments	$(15.6)	$ —	$(15.6)	$(6.2)	$ —	$ (6.2)
Defined benefit pension plans:						
Amortization of defined benefit pension items:						
Prior service cost [1]	2.4	(0.7)	1.7	2.4	(0.7)	1.7
Actuarial losses [1]	5.1	(1.5)	3.6	6.6	(2.2)	4.4
Total defined benefit pension plans, net	7.5	(2.2)	5.3	9.0	(2.9)	6.1
Other comprehensive (loss) income	$(8.1)	$ (2.2)	$(10.3)	$2.8	$ (2.9)	$ (0.1)

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(1) The before tax amount of these other comprehensive income (loss) components is included in net periodic pension cost. See Pension Plans footnote within the Notes to Consolidated Financial Statements for additional details.

11. 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. 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 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 had $1.2 million in borrowings outstanding under the Revolving Credit Facility as of May 31, 2018. Additionally, 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.

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 May 31, 2018, the Company was in compliance with all financial covenants under the Revolving Credit Facility. As of May 31, 2018, the Company had outstanding letters of credit totaling $10.2 million, primarily for securing collateral requirements under the Company's casualty insurance programs and for providing credit support for the Company’s industrial revenue bond (not an outstanding amount under the Revolving Credit Facility). At May 31, 2018, the Company had additional borrowing capacity under the Revolving Credit Facility of $243.5 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 $5.3 million issued under the Revolving Credit Facility and $1.2 million in borrowings on the Revolving Credit Facility. During June 2018, the Company entered into a new revolving credit facility and term loan facility. Refer to the Subsequent Events footnote in the Notes to Consolidated Financial Statements for further information.

Long-term Debt

At May 31, 2018, 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 “Unsecured Notes”) and $4.0 million of tax-exempt industrial revenue bonds that are scheduled to mature in 2021. The Company also had $3.4 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 earned on cash and cash equivalents.

The following table summarizes the components of interest expense, net for the three and nine months ended May 31, 2018 and 2017 (in millions):

	Three Months Ended		Nine Months Ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
Interest expense	$8.9	$ 8.5	$26.3	$ 25.6
Interest income	(0.5)	(0.4)	(1.8)	(1.3)
Interest expense, net	$8.4	$ 8.1	$24.5	$ 24.3

12. 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 May 31, 2018, 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

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

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Product Warranty and Recall Costs

The Company's products generally have a standard warranty term of five years. The Company 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. In certain limited cases, the Company has warranty arrangements for terms that exceed the standard term. Given that these longer-term warranties are not included in the Company's historical experience, the Company utilizes estimated failure rates from industry sources to determine the potential future warranty cost. 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 nine months ended May 31, 2018 and 2017 are summarized as follows (in millions):

	Nine Months Ended	
	May 31, 2018	May 31, 2017
Beginning balance	$22.0	$ 15.5
Warranty and recall costs	21.4	23.4
Payments and other deductions	(19.5)	(19.9)
Acquired warranty and recall liabilities	0.6	—
Ending balance	$24.5	$ 19.0

Securities Class Action

On January 3, 2018, a shareholder filed a class action complaint in the United States District Court for the District of Delaware against the Company and certain of its officers on behalf of all persons who purchased or otherwise acquired the Company's stock between June 29, 2016 and April 3, 2017. On February 20, 2018, a different shareholder filed a second class action complaint in the same venue against the same parties on behalf of all persons who purchased or otherwise acquired the Company's stock between October 15, 2015 and April 3, 2017. A motion to consolidate the cases has been filed and is presently pending, unopposed. The cases were transferred on April 30, 2018, to the United States District Court for the Northern District of Georgia. The complaints allege that the defendants violated the federal securities laws by making false or misleading statements and/or omitting to disclose material adverse facts that (i) concealed known trends negatively impacting sales of the Company's products and (ii) overstated the Company's ability to achieve profitable sales growth. The plaintiffs seek class certification, unspecified monetary damages, costs, and attorneys' fees. The Company disputes the allegations in the complaints and intends to vigorously defend against the claims. Estimating an amount or range of possible losses resulting from litigation proceedings is inherently difficult, particularly where the matters involve indeterminate claims for monetary damages and are in the stages of the proceedings where key factual and legal issues have not been resolved. For these reasons, the Company is currently unable to predict the ultimate timing or outcome of or reasonably estimate the possible losses or a range of possible losses resulting from the matters described above. The Company is insured, in excess of a self-retention, for Directors and Officers liability.

Other Litigation

The Company is subject to various other legal claims arising in the normal course of business, including patent infringement, employment matters, and product liability claims. Based on information currently available, it is the opinion of management that the ultimate resolution of any such pending and threatened legal proceedings will not have a material adverse effect on 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.

13. 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 nine months ended May 31, 2018 and 2017 (in millions, except shares):

	Three Months Ended		Nine Months Ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
Share-based payment expense	$7.6	$ 8.1	$24.4	$ 24.1
Shares issued from option exercises	—	2,524	9,364	14,554

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.

14. 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 nine months ended May 31, 2018 and 2017 included the following components before tax (in millions):

	Three Months Ended		Nine Months Ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
Service cost	$0.7	$ 0.9	$2.1	$ 2.7
Interest cost	2.2	2.0	6.6	6.0
Expected return on plan assets	(3.1)	(2.8)	(9.3)	(8.4)
Amortization of prior service cost	0.8	0.8	2.4	2.4
Recognized actuarial loss	1.7	2.2	5.1	6.6
Net periodic pension cost	$2.3	$ 3.1	$6.9	$ 9.3

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During the current period, the Company contributed an additional $5.0 million to its domestic defined benefit plans, resulting in total contributions of $8.0 million to these plans for fiscal 2018. No additional contributions are expected to be made to the domestic defined benefit plans for the remainder of the year.
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.

15. Special Charge

During fiscal 2018, the Company recognized special charges primarily related to the planned consolidation of certain facilities and associated reduction in employee headcount. During fiscal 2017, the Company recognized special charges consisting primarily of severance and employee-related benefit costs for the elimination of certain operations and positions following a realignment of the Company's operating structure, including positions within various selling, distribution, and administrative (“SD&A”) departments.
Costs reflected within Special charge on the Consolidated Statements of Comprehensive Income for the three and nine months ended May 31, 2018 are summarized as follows (in millions):

	Three Months Ended		Nine Months Ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
Severance and employee-related costs	$9.9	$ 0.3	$10.5	$ 0.1
Lease termination and other restructuring costs	—	0.2	0.2	1.6
Special Charge	$9.9	$ 0.5	$10.7	$ 1.7

As of May 31, 2018, remaining restructuring reserves were $17.3 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 nine months ended May 31, 2018 are summarized as follows (in millions):

	Fiscal 2018 Actions	Fiscal 2017 Actions	Fiscal 2016 Actions	Total
Balance at August 31, 2017	$ —	$ 11.2	$ 1.4	$12.6
Severance costs	10.6	—	(0.1)	10.5
Payments made during the period	—	(4.8)	(1.0)	(5.8)
Balance at May 31, 2018	$ 10.6	$ 6.4	$ 0.3	$17.3

16. Income Taxes

On December 22, 2017, the President of the United States signed into law the TCJA, which reduces the federal corporate tax rate from 35% to 21% effective January 1, 2018 and requires a one-time transition tax on accumulated unremitted foreign earnings. During the second quarter of fiscal 2018, the Company recognized a provisional tax benefit estimate of $31.2 million within Income tax expense on the Consolidated Statements of Comprehensive Income following the enactment of the TCJA. This provisional amount included a benefit of $32.3 million to decrease the Company's deferred income taxes to a revised statutory federal rate as well as a current estimate for the provision for unremitted foreign earnings of approximately $1.1 million.

Amounts reflected in the current fiscal year are not finalized as the Company continues to evaluate the impact of the TCJA on these components of the Company's ultimate tax liability. Although the Company is able to make a reasonable estimate of the impact of the corporate rate change to its deferred taxes, further evaluation of the TCJA may change the measurement of, or identify new, deferred tax amounts. Additionally, the Company has not completed its analysis of the total post-1986 earnings and profits not previously subject to income taxes, including the determination of amounts held in cash and other certain assets specified by the TCJA. Upon finalization of this calculation, the provisional amount recorded for unremitted foreign earnings may change.

The TCJA also includes a provision for a global intangible low-taxed income (“GILTI”) tax. Companies can either account for taxes on GILTI in the period in which they are incurred or establish deferred tax liabilities for the expected future taxes associated with GILTI. The Company has not yet made a policy election with respect to its treatment of these taxes.

Additionally, the Company reclassified $11.1 million from Accumulated other comprehensive loss to Retained earnings in relation to the revaluation of deferred tax assets related to the Company's defined benefit plans during the second quarter of fiscal 2018.

17. Subsequent Events

On June 29, 2018, the Company entered into a credit agreement (“Credit Agreement”) with a syndicate of banks that provides the Company with a $400.0 million five-year unsecured revolving credit facility (“New Revolving Credit Facility”) and a $400.0 million unsecured delayed draw term loan facility (“Term Loan Facility”). On June 29, 2018, the Company had $90.4 million borrowings outstanding under the New Revolving Credit Facility and no borrowings under the Term Loan Facility. At June 29, 2018, the Company had additional borrowing capacity under the Credit Agreement of $704.3 million under the most restrictive covenant in effect at the time, which represents the full amount of the New Revolving Credit Facility and the Term Loan Facility less the outstanding letters of credit of $5.3 million issued and $90.4 million in borrowings on the New Revolving Credit Facility. Available borrowings under the Credit Agreement may be used for general corporate purposes, working capital, refinancing indebtedness under the prior Revolving Credit Facility, share repurchases, and non-hostile acquisitions.

The New Revolving Credit Facility replaced the Company's $250.0 million Revolving Credit Facility, which was scheduled to mature on August 27, 2019. Generally, amounts outstanding under the New Revolving Credit Facility allow for borrowings to bear interest at either the Eurocurrency Rate or the base rate at the Company's option. Eurocurrency Rate advances can be denominated in a variety of currencies, including U.S. Dollars, and amounts outstanding bear interest at a periodic fixed rate equal to the LIBOR for the applicable currency plus an applicable margin. The Eurocurrency applicable margin is based on the Company’s leverage ratio, as defined in the Credit Agreement, with such margin ranging from 1.000% to 1.375%. Base Rate advances bear interest at an alternate base rate plus an applicable margin. The base rate applicable margin is based on the Company’s leverage ratio, as defined in the Credit Agreement, with such margin ranging from 0.0% to 0.375%.

The Term Loan Facility allows for borrowings to be drawn over a one-year period ending June 29, 2019, utilizing up to four separate installments, which are U.S. dollar denominated. Borrowings under the Term Loan Facility will amortize in equal quarterly installments of 2.5% per year in year one, 2.5% per year in year two, 5.0% per year in year three, 5.0% per year in year four, and 7.5% per year in year five. Any remaining borrowings under the Term Loan Facility are due and payable in full on June 29, 2023. The Term Loan Facility allows for borrowings to bear interest at either a Eurocurrency Rate or the base rate, at the Company's option. 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 LIBOR for the applicable currency plus an applicable margin. The Eurocurrency applicable margin is based on the

Company’s leverage ratio, as defined in the Credit Agreement, with such margin ranging from 0.875% to 1.250%. Base Rate advances bear interest at an alternate base rate plus an applicable margin. The base rate applicable margin is based on the Company’s leverage ratio, as defined in the Credit Agreement, with such margin ranging from 0.0% to 0.25%.

The Company is required to pay certain fees in connection with the Credit Agreement, including administrative service fees and annual facility fees. The annual facility fee is payable quarterly, in arrears, and is determined by the Company’s leverage ratio as defined in the Credit Agreement. The facility fee ranges from 0.125% to 0.250% of the aggregate $800.0 million commitment of the lenders under the Credit Agreement.

The Credit Agreement contains financial covenants, including a minimum interest expense coverage ratio (“New Minimum Interest Expense Coverage Ratio”) and a leverage ratio (“New Maximum Leverage Ratio”) of total indebtedness to EBITDA, as such terms are defined in the Credit Agreement. These ratios are computed at the end of each fiscal quarter for the most recent 12-month period. The Credit Agreement generally allows for a New Minimum Interest Expense Coverage Ratio of 2.50 and a New Maximum Leverage Ratio of 3.50, subject to certain conditions defined in the financing agreement.

18. Supplemental Guarantor Condensed Consolidating Financial Statements

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

In accordance with the registration rights agreement by and between ABL and the guarantors to the Unsecured Notes and the initial purchasers of the Unsecured Notes, ABL and the guarantors to the Notes filed a registration statement with the SEC for an offer to exchange the Unsecured Notes for an issue of SEC-registered notes with identical terms. Due to the filing of the registration statement and offer to exchange, 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 Unsecured Notes are fully and unconditionally guaranteed by Acuity Brands and ABL IP Holding. The column marked “Parent” represents the financial condition, results of operations, and cash flows of Acuity Brands. The column marked “Subsidiary Issuer” represents the financial condition, results of operations, and cash flows of ABL. The column entitled “Subsidiary Guarantor” represents the financial condition, results of operations, and cash flows of ABL IP Holding. Lastly, the column listed as “Non-Guarantors” includes the financial condition, results of operations, and cash flows of the non-guarantor direct and indirect subsidiaries of Acuity Brands, which consist primarily of foreign subsidiaries. Consolidating adjustments were necessary in order to arrive at consolidated amounts. In addition, the equity method of accounting was used to calculate investments in subsidiaries. Accordingly, this basis of presentation is not intended to present the Company's financial condition, results of operations, or cash flows for any purpose other than to comply with the specific requirements for parent-subsidiary guarantor reporting.

CONDENSED CONSOLIDATING BALANCE SHEETS
(In millions)
May 31,
2018