

ACUITY BRANDS INC
Form 10-K
October 26, 2017
Table of Contents

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

Form 10-K

(Mark
One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended August 31, 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.

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)	

Securities registered pursuant to Section 12(b) of the Act:
Title of Each Class Name of Each Exchange on Which Registered
Common Stock (\$0.01 Par Value) New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

Edgar Filing: ACUITY BRANDS INC - Form 10-K

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer (Do not check if a smaller reporting company)

Smaller Reporting Company Emerging Growth Company

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.

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

Based on the closing price of the Registrant’s common stock of \$211.30 as quoted on the New York Stock Exchange on February 28, 2017, the aggregate market value of the voting stock held by nonaffiliates of the registrant was \$9,261,770,061.

The number of shares outstanding of the registrant’s common stock, \$0.01 par value, was 42,080,827 shares as of October 24, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

Location in Form 10-K	Incorporated Document
Part II, Item 5; Part III, Items 10, 11, 12, 13, and 14	Proxy Statement for 2017 Annual Meeting of Stockholders

ACUITY BRANDS, INC.

Table of Contents

	Page No.
<u>Part I</u>	
<u>Item 1. Business</u>	<u>1</u>
<u>Item 1a. Risk Factors</u>	<u>6</u>
<u>Item 1b. Unresolved Staff Comments</u>	<u>13</u>
<u>Item 2. Properties</u>	<u>13</u>
<u>Item 3. Legal Proceedings</u>	<u>14</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>14</u>
<u>Part II</u>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	<u>15</u>
<u>Item 6. Selected Financial Data</u>	<u>17</u>
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
<u>Item 7a. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>32</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>34</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>79</u>
<u>Item 9a. Controls and Procedures</u>	<u>79</u>
<u>Item 9b. Other Information</u>	<u>79</u>
<u>Part III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>80</u>
<u>Item 11. Executive Compensation</u>	<u>80</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>80</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>80</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>80</u>
<u>Part IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>81</u>
<u>Signatures</u>	<u>89</u>
<u>Financial Statement Schedules</u>	<u>90</u>

Table of Contents

PART I

Item 1. Business

Overview

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, including software and services, to provide a host of other economic benefits resulting from data analytics that enables the Internet of Things (“IoT”), supports the advancement of smart buildings, smart cities, and the smart grid, and allows businesses to develop custom applications to scale their operations.

As a results-driven, customer-centric company, management continues to align the unique capabilities and resources of the organization to drive profitable growth by providing comprehensive, differentiated, and integrated lighting and building management solutions and services for customers, driving world-class cost efficiency, and leveraging a culture of operational excellence through continuous improvement.

Lighting and building management solutions vary significantly in terms of functionality and performance and are selected based on a customer's specification, including the aesthetic desires and performance requirements for a given application. The Company’s lighting and building management solutions are marketed under numerous brand names, including but not limited to Lithonia Lighting®, Holophane®, Peerless®, Gotham®, Mark Architectural Lighting™, Winona® Lighting, Juno®, Indy™, Aculux™, Healthcare Lighting®, Hydrel®, American Electric Lighting®, Carandini®, Antique Street Lamps™, Sunoptics®, RELOC® Wiring Solutions, eldoLED®, Distech Controls®, Acuity Controls™, and Atrius™. As of August 31, 2017, the Company manufactures products in 16 facilities in North America and three facilities in Europe and employs approximately 12,500 associates.

Principal customers include electrical distributors, system integrators, retail home improvement centers, electric utilities, lighting showrooms, national accounts, and energy service companies located in North America and select international markets serving new construction, renovation, and maintenance and repair applications. In North America, the Company’s lighting and building management solutions are sold primarily by independent sales agents, electrical distributors, system integrators, and internal sales representatives who cover specific geographic areas and market channels. Products are delivered directly or through a network of distribution centers, regional warehouses, and commercial warehouses using both common carriers and a company-managed truck fleet. To serve international customers, the sales forces utilize a variety of distribution methods to meet specific individual customer or country requirements. In fiscal 2017, sales originated in North America accounted for greater than 97% of net sales. See the Supplemental Disaggregated Information footnote of the Notes to Consolidated Financial Statements for more information concerning the domestic and international net sales of the Company. The Company has one reportable segment serving the North American and select international lighting and building management markets.

Industry Overview

Based on industry sources and government information, the Company estimates that in fiscal 2017 the size of the North American lighting and building management solutions market served by the Company (also referred to herein as “addressable market”) was approximately \$19 billion and similar to the prior year as the addressable market was estimated to be flat to up low-single digits compared with fiscal 2016. The addressable market includes non-portable luminaires as defined by the National Electrical Manufacturers Association; poles for outdoor lighting; emergency lighting fixtures; daylighting; lighting controls; heating, ventilation, and air conditioning (“HVAC”) controls; and building management controllers, software, and systems. This market estimate is based on a combination of external industry data and internal estimates, and excludes portable and vehicular lighting fixtures and certain related lighting

components, such as lighting ballasts and most lamps. A source of demand for the lighting and building management industry is attributed to the renovation and retrofit of less efficient lighting and building management systems. While the precise size of the North American market is not known, the Company estimates the potential size of the installed base of lighting and building management solutions to be well in excess of \$500 billion.

The Company operates in a highly competitive industry that is affected by volatility from a number of general business and economic factors, such as gross domestic product growth, employment levels, credit availability, energy

1

Table of Contents

costs, and commodity costs. The Company's market is based on residential and non-residential construction, both new as well as renovation and retrofit activity, which is sensitive to the volatility of these general economic factors. The Company is not aware of any data that accurately quantifies the split of the non-residential lighting market between new construction and renovation and retrofit activity; however, recent trends developed from industry sources and Company estimates suggest that renovation and retrofit activity represents a growing proportion of the total non-residential lighting market. Construction spending on infrastructure projects such as highways, streets, and urban developments has a material impact on the demand for the Company's infrastructure-focused lighting and building management solutions. Demand for the Company's lighting and building management solutions sold through certain retail channels is highly dependent on economic drivers, such as consumer spending and discretionary income, along with housing construction and home improvement spending.

The residential and non-residential market is influenced by: the development of new lighting technologies, including solid-state lighting, electronic drivers, embedded lighting controls, form factors, and more effective optical designs and lamps; federal, state, and local requirements for updated energy codes; incentives by federal, state, and local municipal authorities, as well as utility companies, for using more energy-efficient lighting and building management solutions; and design technologies addressing sustainability and facilitating smarter buildings and cities. The Company is a leading provider of integrated lighting and building management solutions based on these technologies and utilizes internally developed, licensed, or acquired intellectual property. Solid-state lighting and digital building management systems provide the opportunity for lighting and building management systems to be integrated in a manner resulting in the optimal platform for enabling the IoT that collect and exchange data to increase efficiency as well as provide a host of other economic benefits resulting from data analytics and other features. The industry's addressable market is likely to meaningfully expand due to the benefits and value creation provided by intelligent networked lighting, building management systems, and the IoT. New entrants, including both well-established as well as new software and technology companies, therefore continue to develop capabilities and solutions that are both complementary as well as competitive to those of traditional industry participants.

Products and Solutions

The Company offers a broad portfolio of indoor and outdoor lighting and building management solutions for commercial, institutional, industrial, infrastructure, and residential applications. The portfolio of lighting solutions includes lighting products utilizing fluorescent, light emitting diode ("LED"), organic LED ("OLED"), high intensity discharge, metal halide, and incandescent light sources to illuminate an extensive number of applications as well as standalone and embedded lighting control solutions from simple to sophisticated, wired and wireless. Lighting and controls products and solutions include the following: recessed, surface, and suspended lighting; downlighting; decorative lighting; emergency and exit lighting; track lighting; daylighting; special-use lighting; street and roadway lighting; parking garage lighting; underwater lighting; area pedestrian, flood, and decorative site lighting; landscape lighting; occupancy sensors; photocontrols; relay panels; architectural dimming panels; and integrated lighting controls systems. Building management solutions include products and solutions for controlling HVAC, lighting, shades, and access control that deliver end to end optimization of those building systems. The Company's lighting and building management solutions are designed to enhance the occupant experience, improve the quality of the visual environment, and provide seamless operational energy efficiency and cost reductions, as well as increased digital functionality due to a unique capability to collect vast amounts of data that can better enable the IoT for building owners. The solutions portfolio of the Company also includes modular wiring, LED drivers, sensors, glass, and inverters sold primarily to original equipment manufacturers ("OEMs").

In addition, the Company provides services across applications that primarily relate to monitoring and controlling lighting and building management systems through network technologies and the commissioning of control systems. During fiscal 2017, the Company launched the Atrius™ IoT platform, which delivers connectivity and intelligence to a space via an expansive network of smart LED lighting and controls and a software platform that gathers, unlocks and transforms raw data to enable a broad range of software solutions addressing critical business challenges. The Company's total solution offerings now include recurring services that deliver an array of capabilities, including indoor positioning, asset tracking, space utilization, spatial analytics, and energy management.

Sales of lighting and building management solutions, excluding services, accounted for approximately 99% of total consolidated net sales for the Company in fiscal 2017, 2016, and 2015.

Sales and Marketing

Sales. The Company sells lighting and building management solutions to customers in the North American market utilizing numerous sales forces, including internal direct salespeople and independent sales agencies, based on the

Table of Contents

channel and geography served. The Company also operates separate European sales forces, including independent international sales agencies and system integrators, and an international sales group coordinating export sales outside of North America and Europe.

Marketing. The Company markets its portfolio and service capabilities to end users in multiple channels through a broad spectrum of marketing and promotional methods, including direct customer contact, trade shows, on-site training, print and digital advertising in industry publications, product brochures, and other literature, as well as through digital marketing and social media. The Company operates training and education facilities in several locations throughout North America and Europe designed to enhance the lighting knowledge of customers and industry professionals.

Customers

Customers of the Company include electrical distributors, system integrators, retail home improvement centers, electric utilities, utility distributors, national accounts, value-added resellers, government entities and municipalities, lighting showrooms, developers, OEMs, and energy service companies. In addition, there are a variety of other professionals who can represent a significant influence in the product and solutions specification process for any given project. These generally include building owners, federal, state, and local governments, contractors, engineers, architects, and lighting designers.

No single customer accounted for more than 10% of net sales in fiscal 2017 or fiscal 2016. A single customer of the Company accounted for approximately 11% of net sales in fiscal 2015. These sales included products for resale as well as for lighting the customer's facilities.

Manufacturing and Distribution

The Company operates 19 manufacturing facilities, including eight facilities in the United States, six facilities in Mexico, three facilities in Europe, and two in Canada. The Company utilizes a blend of internal and outsourced manufacturing processes and capabilities to fulfill a variety of customer needs in the most cost-effective manner. Certain critical processes, such as reflector forming and anodizing, high-end glass production, surface mount circuit board production, and assembly are performed (not exclusively) at company-operated facilities, offering the ability to differentiate products through superior capabilities. Other components, such as lamps, LEDs, certain LED light engines, sockets, and ballasts are purchased primarily from third-party vendors. The Company's investment in its production facilities is focused primarily on improving capabilities, product quality, and manufacturing efficiency as well as environmental, health, and safety compliance. The Company also utilizes contract manufacturing from U.S., Asian, and European sources for certain products. Of total finished goods manufactured and purchased in fiscal 2017, the Company's U.S. operations produced approximately 22%, its Mexican operations produced approximately 56%, and its European operations produced approximately 2%, and finished product manufactured by others accounted for approximately 20%.

Approximately 72% of the products manufactured by the Company are produced outside the United States, of which approximately 70% are produced at six facilities in Mexico. These facilities are authorized to operate as Maquiladoras by the Ministry of Economy of Mexico. Maquiladora status allows the Company to import certain items from the United States into Mexico duty-free, provided that such items, after processing, are exported from Mexico within a stipulated time frame. Maquiladora status, which is renewed periodically, is subject to various restrictions and requirements, including compliance with the terms of the Maquiladora program and other local regulations, which have become stricter in recent years.

Lighting and building management solutions are delivered directly from manufacturing facilities or through a network of strategically located distribution centers, regional warehouses, and commercial warehouses in North America using both common carriers and a company-managed truck fleet. For international customers, distribution methods are adapted to meet individual customer or country requirements. During fiscal 2017, net sales initiated outside of the U.S. represented approximately 11% of total net sales. See the Supplemental Disaggregated Information footnote of the Notes to Consolidated Financial Statements for additional information regarding the geographic distribution of net sales, operating profit, and long-lived assets.

Research and Development

Research and development (“R&D”) is defined as the critical investigation aimed at discovery of new knowledge and the conversion of that knowledge into the design of a new product or significant improvement to an existing product. The Company invests in the development of new products and solutions as well as the enhancement of existing

Table of Contents

offerings with a focus on improving the performance-to-cost ratio and energy efficiency. The Company also develops software applications and capabilities to enhance data analytics offerings. R&D expenses consist of compensation, payroll taxes, employee benefits, materials, supplies, and other administrative costs, but do not include all new product development costs. For fiscal 2017, 2016, and 2015, research and development expense totaled \$52.0 million, \$47.1 million, and \$41.1 million, respectively.

Competition

The Company experiences competition based on numerous factors, including features and benefits, brand name recognition, product quality, product and system design, energy efficiency, customer relationships, service capabilities, and price. The market for lighting and building management solutions and services is competitive and continues to evolve. Certain global and more diversified electrical manufacturers may provide a broader product offering utilizing electrical, lighting, and building management products as well as pricing benefits from the bundling of various offerings. In addition, there have been a growing number of new competitors, from small startup companies to global electronics, technology, and software companies, offering competing solutions, sometimes deploying different technologies.

Environmental Regulation

The operations of the Company are subject to numerous comprehensive laws and regulations relating to the generation, storage, handling, transportation, and disposal of hazardous substances, as well as solid and hazardous wastes, and to the remediation of contaminated sites. In addition, permits and environmental controls are required for certain of the Company's operations to limit air and water pollution, and these permits are subject to modification, renewal, and revocation by issuing authorities. On an ongoing basis, the Company allocates resources, including investments in capital and operating costs relating to environmental compliance. Environmental laws and regulations have generally become stricter in recent years, and federal, state, and local governments domestically and internationally are considering new laws and regulations, including those governing raw material composition, air emissions, end-of-life product dispositions, and energy efficiency. The Company is not aware of any pending legislation or proposed regulation related to environmental issues that would have a material adverse effect on the Company. The cost of responding to future changes, however, may be substantial.

Raw Materials

Products produced by the Company require certain raw materials, including certain grades of steel and aluminum, electrical and electronic components, plastics, and other petroleum-based materials and components. In fiscal 2017, the Company purchased approximately 109,000 tons of steel and aluminum. The Company estimates that approximately 7% of purchased raw materials are petroleum-based. Additionally, the Company estimates that approximately five million gallons of diesel fuel were consumed in fiscal 2017 through the Company's distribution activities. The Company purchases most raw materials and other components on the open market and relies on third parties for providing certain finished goods. While these items are generally available from multiple sources, the cost of products sold may be affected by changes in the market price of raw materials, as well as disruptions in availability of raw materials, components, and sourced finished goods.

The Company does not currently engage in or expect to engage in significant commodity hedging transactions for raw materials, though the Company has and will continue to commit to purchase certain materials for a period of up to 12 months. The Company monitors and investigates alternative suppliers and materials based on numerous attributes including quality, service, and price. The Company currently sources raw materials and components from a number of suppliers, but the Company's ongoing efforts to improve the cost effectiveness of its products and services may result in a reduction in the number of its suppliers.

Backlog Orders

The Company produces and stocks quantities of inventory at key distribution centers and warehouses throughout North America and to a much lesser degree, certain European markets. The backlog of orders at any given time is affected by various factors, including seasonality, cancellations, sales promotions, production cycle times, and the timing of receipt and shipment of orders, which are usually shipped within a few weeks of order receipt. Accordingly, a comparison of backlog orders from period to period is not necessarily meaningful and may not be indicative of future shipments.

Table of Contents

Intellectual Property

The Company owns or has licenses to use various domestic and foreign patents, trademarks, and other intellectual property related to its products, processes, and businesses. These intellectual property rights are important factors for its businesses. The Company relies on copyright, patent, trade secret, and trademark laws as well as agreements, restrictive covenants, and internal processes and controls to protect these proprietary rights. Despite these protections, unauthorized parties may attempt to infringe on the intellectual property of the Company. As of August 31, 2017, the Company had approximately 1,275 active United States and foreign patents. While patents and patent applications in the aggregate are important to the competitive position of the Company, no single patent or patent application is individually material to the Company.

Seasonality and Cyclicalities

The Company's business exhibits some seasonality, with net sales being affected by weather and seasonal demand on construction and installation programs, particularly during the winter months, as well as the annual budget cycles of major customers. Because of these seasonal factors, the Company has experienced, and generally expects to experience, its highest sales in the last two quarters of each fiscal year.

The Company's lighting and building management solutions are sold to customers in both the new construction as well as renovation and retrofit markets for residential and non-residential applications. The construction market is cyclical in nature and subject to changes in general economic conditions. Sales volume has a major impact on the profitability of the Company. Economic downturns and the potential decline in key construction markets may have a material adverse effect on the net sales and operating income of the Company.

Employees

As of August 31, 2017, the Company employed approximately 12,500 associates, of which approximately 4,000 were employed in the United States, approximately 8,000 in Mexico, and approximately 500 in other international locations, including Europe, Canada, and the Asia/Pacific region. Union recognition and collective bargaining arrangements are in place or in process, covering approximately 9,500 persons (including approximately 2,000 in the United States). Union recognition and collective bargaining arrangements covering approximately 7,000 persons will expire within the next fiscal year, primarily due to annual negotiations with unions in Mexico. The remaining expiring arrangements relate to approximately 500 persons employed within the United States. The Company believes that it has a good relationship with both its unionized and non-unionized employees.

Information Concerning Acuity Brands

The Company makes its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K (and all amendments to these reports) and proxy statements, together with all reports filed pursuant to Section 16 of the Securities Exchange Act of 1934 by the Company's officers, directors, and beneficial owners of 10% or more of the Company's common stock, available free of charge through the "SEC Filings" link on the Company's website, located at www.acuitybrands.com, as soon as reasonably practicable after they are filed with or furnished to the SEC. Information included on the Company's website is not incorporated by reference into this Annual Report on Form 10-K. The Company's reports are also available on the Securities and Exchange Commission's website at www.sec.gov.

Additionally, the Company has adopted a written Code of Ethics and Business Conduct that applies to all of the Company's directors, officers, and employees, including its principal executive officer and senior financial officers. The Code of Ethics and Business Conduct and the Company's Corporate Governance Guidelines are available free of charge through the "Corporate Governance" link on the Company's website. Any amendments to, or waivers of, the Code of Ethics and Business Conduct for the Company's principal executive officer and senior financial officers will be disclosed on the Company's website promptly following the date of such amendment or waiver. Additionally, the Statement of Responsibilities of Committees of the Board and the Statement of Rules and Procedures of Committees of the Board, which contain the charters for the Company's Audit Committee, Compensation Committee, and Governance Committee, and the rules and procedures relating thereto, are available free of charge through the "Corporate Governance" link on the Company's website. Each of the Code of Ethics and Business Conduct, the Corporate Governance Guidelines, the Statement of Responsibilities of Committees of the Board, and the Statement of Rules and Procedures of Committees of the Board is available in print to any stockholder of the Company that

requests such document by contacting the Company's Investor Relations department.

Table of Contents

Item 1a. Risk Factors

This filing contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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. See "Cautionary Statement Regarding Forward-Looking Information" included in Management's Discussion and Analysis of Financial Condition and Results of Operations. These risks could adversely impact the Company's financial position, results of operations, and cash flows and could cause the market price of the Company's common stock to decrease. Such risks include, without limitation:

Risks Related to the Company's Strategy

General business, political, and economic conditions, including the strength of the construction market, political events, or other factors may affect demand for the Company's products and services.

The Company competes based on such factors as name recognition and reputation, quality, service, product features, innovation, and price. In addition, the Company operates in a highly competitive environment that is influenced by a number of general business and economic factors, such as economic vitality, employment levels, credit availability, interest rates, trends in vacancy rates and rent values, energy costs, and commodity costs. Sales of lighting and building management solutions depend significantly on the level of activity in new construction and renovation/retrofits. Declines in general economic activity, appropriations, and regulations, including tax policy, may negatively impact new construction and renovation projects, which in turn may impact demand for the Company's product and service offerings.

The Company's results may be adversely affected by fluctuations in the cost or availability of raw materials, components, purchased finished goods, or services.

The Company utilizes a variety of raw materials and components in its production process including steel, aluminum, lamps, certain rare earth materials, LEDs, LED drivers, ballasts, wire, electronic components, power supplies, petroleum-based by-products, natural gas, and copper. The Company also sources certain finished goods externally. Future increases in the costs of these items could adversely affect profitability, as there can be no assurance that future price increases will be successfully passed through to customers. The Company generally sources these goods from a number of suppliers. However, there are a limited number of suppliers for certain components and certain purchased finished goods, which on a limited basis results in sole-source supplier situations. Disruptions in the supply of those items could negatively impact the Company's performance. Suppliers for certain of those items are competitors of the Company that may, for various strategic reasons, choose to cease selling to the Company. In addition, the Company's ongoing efforts to improve the cost effectiveness of its products and services may result in a reduction in the number of its suppliers, and in turn, increased risk associated with reliance on a single or limited number of suppliers. Furthermore, volatility in certain commodities, such as oil, impacts all suppliers and, therefore, may cause the Company to experience significant price increases from time to time regardless of the number and availability of suppliers. Profitability and volume could be negatively impacted by limitations inherent within the supply chain of certain of these component parts, including competitive, governmental, and legal limitations, natural disasters, and other events that could impact both supply and price. Additionally, the Company is dependent on certain service providers for key operational functions. While there are a number of suppliers of these services, the cost to change service providers and set up new processes could be significant.

The Company's results may be adversely affected by its inability to maintain pricing.

Aggressive pricing actions by competitors, including those within the technology and services sectors, may affect the Company's ability to achieve desired revenue growth and profitability levels under its current pricing strategies. The Company may also decide to lower prices to match the competition. Additionally, the Company may not be able to increase prices to cover rising costs of components and raw materials. Even if the Company were able to increase prices to cover costs, competitive pricing pressures may not allow the Company to pass on any more than the cost increases. Alternatively, if component and raw material costs were to decline, the marketplace may not allow the Company to hold prices at their current levels.

The Company's inability to effectively introduce new products and solutions could adversely affect its ability to compete.

Continual introductions of new products and solutions, services, and technologies, enhancement of existing products and services, and effective servicing of customers are key to the Company's competitive strategy. The success of new product and solution introductions depends on a number of factors, including, but not limited to, timely and

6

Table of Contents

successful product development, product quality, market acceptance, the Company's ability to manage the risks associated with product life cycles, such as additional inventory obsolescence risk as product life cycles begin to shorten, new products and production capabilities, the effective management of purchase commitments and inventory levels to support anticipated product manufacturing and demand, the availability of products in appropriate quantities and costs to meet anticipated demand, and the risk that new products may have quality or other defects in the early stages of introduction. Accordingly, the Company cannot fully predict the ultimate effect of new product introductions and transitions on the Company's business. Additionally, new products and solutions may not achieve the same profit margins as expected and as compared to the Company's historic products and solutions.

The Company may pursue future growth through strategic acquisitions, alliances, or investments, which may not yield anticipated benefits.

The Company has strengthened its business through strategic acquisitions, alliances, and investments and may continue to do so as opportunities arise in the future. Such investments have been and may be in start-up or development stage entities. The Company will benefit from such activity only to the extent that it can effectively leverage and integrate the assets or capabilities of the acquired businesses and alliances, including, but not limited to, personnel, technology, and operating processes. Moreover, unanticipated events, negative revisions to valuation assumptions and estimates, diversion of resources and management's attention from other business concerns, and difficulties in attaining synergies, among other factors, could adversely affect the Company's ability to recover initial and subsequent investments, particularly those related to acquired goodwill and intangible assets or non-controlling interests. In addition, such investment transactions may limit the Company's ability to invest in other activities, which could be more profitable or advantageous.

The inability to effectively execute its business strategies could adversely affect the Company's financial condition and results of operations.

Various uncertainties and risks are associated with the implementation of a number of aspects of the Company's global business strategies, including but not limited to, the development, marketing and selling of new products and solutions, new product development, the development, marketing, and selling of lighting, building management, and software-based solutions, effective integration of acquisitions, and the development of production capacity related to components such as LED drivers. Those uncertainties and risks include, but are not limited to: diversion of management's attention; difficulty in retaining or attracting employees; negative impact on relationships with distributors and customers; obsolescence of current products and slow new product development; inability to effectively participate in the emerging opportunities of the Internet of Things ("IoT") utilizing the Company's digital lighting and building management systems; additional streamlining efforts; inability to produce certain components with quality, performance, and cost attributes equal to or better than provided by other component manufacturers; and unforeseen difficulties in the implementation of the management operating structure. Problems with strategy execution could offset anticipated benefits, disrupt service to customers, and impact product quality as well as adversely affect the Company. With the addition of new products and solutions, the Company may encounter new and different competitors that may have more experience with respect to such products and solutions.

The Company may experience difficulties in streamlining activities which could impact shipments to customers, product quality, and the realization of expected savings from streamlining actions.

The Company expects to benefit from its ongoing programs to streamline operations, including the consolidation of certain manufacturing facilities and the reduction of overhead costs. Such benefits will only be realized to the extent that the Company can effectively leverage assets, personnel, and operating processes in the transition of production between manufacturing facilities. Uncertainty is inherent within the facility consolidation process and unforeseen circumstances could offset the anticipated benefits, disrupt service to customers, and impact product quality.

Risks Related to the Company's Operations

Technological developments and increased competition could affect the Company's operating profit margins and sales volume.

The Company competes in an industry and markets where technology and innovation play major roles in the competitive landscape. The Company is highly engaged in the investigation, development, and implementation of new technologies and services. Securing key partnerships and alliances as well as employee talent, including having access

to technologies, services, and solutions developed by others, and obtaining appropriate patents and the right to utilize patents of other parties all play a significant role in protecting the Company's freedom to operate and development activities. Additionally, the continual development of new technologies by existing and new source suppliers — including

7

Table of Contents

non-traditional competitors with significant resources — looking for either direct market access or partnerships with competing large manufacturers, coupled with significant associated exclusivity and/or patent activity, could adversely affect the Company's ability to sustain operating profit margins and desirable levels of sales volume.

In addition, there have been a growing number of new competitors, from small startup companies to global electronics, technology, and software companies, which may vertically integrate and begin offering total solution packages that directly compete with the Company's offerings. Certain global and more diversified electrical manufacturers as well as certain global technology and building solution providers may be able to obtain a competitive advantage over the Company by offering broader and more integrated solutions utilizing electrical, lighting, controls, building automation systems, and data analytics, and small startup companies may offer more localized product sales and support services within individual regions.

The Company may be unable to sustain significant customer and/or channel partner relationships.

Relationships with customers are directly impacted by the Company's ability to deliver quality products and services.

Although no individual customer exceeded 10% of sales during the current fiscal year, the loss of or a substantial decrease in the volume of purchases by certain larger customers could harm the Company in a meaningful manner.

The Company has relationships with channel partners such as electrical distributors, home improvement retailers, independent sales agencies, system integrators, and value-added resellers. While the Company maintains positive, and in many cases long-term, relationships with these channel partners, the loss of a number of these channel partners or a substantial decrease in the volume of purchases from a major channel partner or a group of channel partners could adversely affect the Company.

The Company could be adversely affected by disruptions to its operations outside of its control.

The breakdown of equipment or other events, including labor disputes, strikes, workplace violence, pandemics, cyber-attacks, civil disruptions, or catastrophic events such as war or natural disasters, leading to production interruptions in the Company's or one or more of its suppliers' facilities could adversely affect the Company.

Approximately 56% of the Company's finished products are manufactured in Mexico, a country that periodically experiences heightened civil unrest which could cause a disruption of the supply of products to or from these facilities.

Further, because many of the Company's customers are to varying degrees dependent on planned deliveries from the Company's facilities, those customers that have to reschedule their own production or delay opening a facility due to the Company's missed deliveries as a result of these disruptions could pursue financial claims against the Company.

The Company may incur costs to correct any of these problems in addition to facing claims from customers. Further, the Company's reputation among actual and potential customers may be harmed and result in a loss of business. While the Company has developed business continuity plans, including alternative capacity, to support responses to such events or disruptions and maintains insurance policies covering, among other things, physical damage and business interruptions, these policies may not cover all losses. The Company could incur uninsured losses and liabilities arising from such events, including damage to its reputation, loss of customers, and substantial losses in operational capacity.

Company operating systems, information systems, or portable devices may experience a failure, a compromise of security, or a violation of data privacy laws or regulations, which could adversely impact the Company's operations as well as the effectiveness of internal controls over operations and financial reporting.

The Company is highly dependent on various software and automated systems to record and process operational and financial transactions. The Company could experience a failure of one or more of these software and automated systems or could fail to complete all necessary data reconciliation or other conversion controls when implementing a new software system.

The Company could also experience a compromise of its security due to many reasons, including technical system flaws, clerical, data input or record-keeping errors, or tampering or manipulation of its systems by employees or unauthorized third parties. Information security risks also exist with respect to the use of portable electronic devices, such as laptops and smartphones, which are particularly vulnerable to loss and theft.

The Company may also be subject to disruptions of any of these systems arising from events that are wholly or partially beyond its control (for example, natural disasters, acts of terrorism, cyber attacks, epidemics, computer viruses, and electrical/telecommunications outages). All of these risks are also applicable where the Company relies on outside vendors to provide services, which may operate in a cloud environment. The Company is dependent on the third-party vendors to operate secure and reliable systems which may include data transfers over the internet.

The Company also maintains information technology to support lighting controls systems in certain of its customer offerings, which are integral to the functionality of those integrated systems. In addition to the risks noted above, there are other risks associated with these customer offerings. Customers may be installing software on their networks and

8

Table of Contents

utilizing portable electronic devices, which may have security protocol variations that are outside of the Company's control and could result in a data security compromise.

The Company and certain of its third-party vendors may receive and store personal information in connection with human resources operations, customer offerings, and other aspects of the business. A material network breach in the security of these systems could include the theft of intellectual property, trade secrets, or employee and customer information. To the extent that any disruption or security breach results in a loss or damage to the Company's data, or an inappropriate disclosure of confidential or customer or employee information, it could cause significant damage to the Company's reputation, affect relationships with the Company's customers and employees, lead to claims against the Company, and ultimately harm the Company's business. In addition, the Company may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

The Company is also subject to an increasing number of data privacy laws and regulations that prohibit certain transfers of data, including but not limited to transfers within and outside the Company from certain jurisdictions to others. Failure to comply with such laws and regulations could result in the imposition of fines, penalties and other costs. The legal and regulatory data privacy framework is evolving and uncertain. For example, the European Court of Justice's decision in October 2015 to invalidate the Safe Harbor data privacy program between the United States and the European Union could disrupt the Company's ability to transfer data from Europe to the United States in compliance with applicable law.

Operating system failures, ineffective system implementation or disruptions, failure to comply with data privacy laws or regulations, or the compromise of security with respect to internal or external operating systems or portable electronic devices could subject the Company to liability claims, harm the Company's reputation, interrupt the Company's operations, disrupt customer operations, and adversely affect the Company's internal control over financial reporting, business, financial condition, results of operations, or cash flows.

Changes in the Company's relationship with employees, changes in U.S. or international employment regulations, an inability to attract and retain talented employees, or a loss of key employees could adversely impact the effectiveness of the Company's operations.

The Company employed approximately 12,500 people as of August 31, 2017, approximately 8,500 of whom are employed in international locations. As such, the Company has significant exposure to changes in domestic and foreign laws governing relationships with employees, including wage and hour laws and regulations, fair labor standards, minimum wage requirements, overtime pay, unemployment tax rates, workers' compensation rates, citizenship requirements, and payroll taxes, which likely would have a direct impact on the Company's operating costs. Union recognition and collective bargaining agreements are in place or in process covering approximately 76% of the Company's workforce, primarily due to annual negotiations with unions in Mexico. Collective bargaining agreements representing approximately 56% of the Company's workforce will expire within one year. While the Company believes that it has good relationships with both its unionized and non-unionized employees, the Company may become vulnerable to a strike, work stoppage, or other labor action by these employees.

The Company relies upon the knowledge and experience of employees involved in functions throughout the organization that require technical expertise and knowledge of the industry. An inability to attract and retain such employees could adversely impact the Company's ability to execute key operational functions.

There are inherent risks in our solutions and services businesses.

Risks inherent in the sale of solutions and services include assuming greater responsibility for successfully delivering projects that meet a particular customer specification, including defining and controlling contract scope and timing, efficiently executing projects, and managing the performance and quality of the Company's subcontractors and suppliers. As the Company expands its service offerings, reliance on the technical infrastructure to provide services to customers will increase. If the Company fails to appropriately manage and secure the technical infrastructure required, customers could experience service outages or delays in implementation of services. If the Company is unable to manage and mitigate these risks, the Company could incur liabilities and other losses.

Table of Contents

The Company may be subject to risk in connection with third-party relationships necessary to operate the Company's business.

The Company utilizes strategic partners and third party relationships in order to operate and grow its business. For instance, the Company utilizes third parties to contract manufacture certain products, as well as perform certain selling, distribution, and administrative functions. The Company cannot control the actions or performance, including product quality, of these third parties and therefore, cannot be certain that the Company or its end-users will be satisfied. Any future actions of or any failure to act by any third party on which the Company's business relies could cause the Company to incur losses or interruptions in its operations.

The Company is subject to risks related to operations and suppliers outside the United States.

The Company has substantial activities outside of the United States, including sourcing of products, materials, components and purchased finished goods. The Company's operations, as well as those of key vendors, are therefore subject to regulatory, economic, political, military, and other events in countries where these operations are located, particularly Mexico. In addition to the risks that are common to both the Company's domestic and international operations, the Company faces risks specifically related to its foreign operations, including but not limited to: foreign currency fluctuations; unstable political, social, regulatory, economic, financial, and market conditions; laws that prohibit shipments to certain countries or restricted parties and that prohibit improper payments to government officials such as the Foreign Corrupt Practices Act and the U.K. Bribery Act; potential for privatization and other confiscatory actions; trade restrictions and disruption; criminal activities; unforeseen increases in tariffs and taxes; corruption; and other changes in regulation in international jurisdictions that could result in substantial additional legal or compliance obligations for the Company. The Company operates six manufacturing facilities in Mexico, which are authorized to operate as Maquiladoras by the Ministry of Economy of Mexico. Maquiladora status allows the Company to import certain items from the United States into Mexico duty-free, provided that such items, after processing, are exported from Mexico within a stipulated time frame. Maquiladora status, which is renewed periodically, is subject to various restrictions and requirements, including compliance with the terms of the Maquiladora program and other local regulations, which have become stricter in recent years.

Certain regulations related to the Maquiladora program became effective in Janua