Apogee Enterprises (APOG)

$18.00 (As of 04/08/20)

Price Target (6-12 Months): **$15.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/07/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**5-Strong Sell**
	Zacks Style Scores:	VGM:B
	Value: B | Growth: D | Momentum: B	

Summary

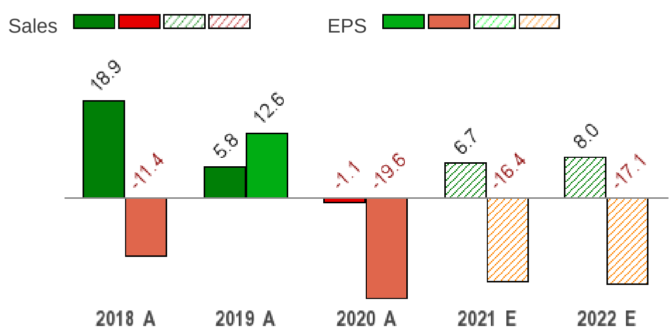
Apogee's fourth-quarter fiscal 2020 earnings beat the Zacks Consensus Estimate, while sales missed the same. Both top and bottom-line figures declined year over year. The company has not provided any guidance for fiscal 2021 citing the uncertainty related to the COVID-19 outbreak. The company is assessing the impact on its business and evaluating actions to react to the changing market conditions. Some of Apogee's projects have been slowed, while few others have been put on hold due to the pandemic. These are likely to impact its results. The Large-Scale Optical segment is bearing the brunt of the pandemic with a decline in customer demand. Moreover, Architectural Glass revenues have been impacted by lower project volumes resulting from heightened competition from foreign players, while higher start-up costs will erode margins.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$46.70 - $13.77
20 Day Average Volume (sh)	451,920
Market Cap	$477.1 M
YTD Price Change	-44.6%
Beta	1.68
Dividend / Div Yld	$0.75 / 4.2%
Industry	Glass Products
Zacks Industry Rank	Bottom 6% (239 out of 253)
Last EPS Surprise	45.7%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-32.3%
Expected Report Date	06/25/2020
Earnings ESP	0.0%
P/E TTM	7.6
P/E F1	9.1
PEG F1	0.9
P/S TTM	0.3

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022					1,598 E
2021					1,480 E
2020	355 A	357 A	338 A	337 A	1,387 A

EPS Estimates

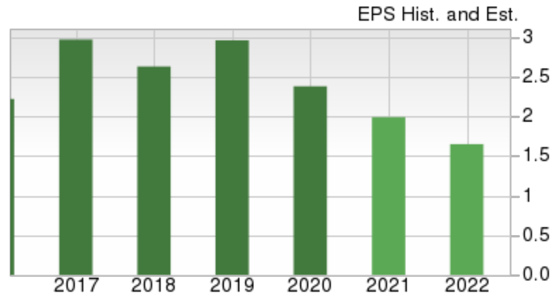
	Q1	Q2	Q3	Q4	Annual*
2022					$1.65 E
2021					$1.99 E
2020	$0.58 A	$0.72 A	$0.57 A	$0.51 A	$2.38 A

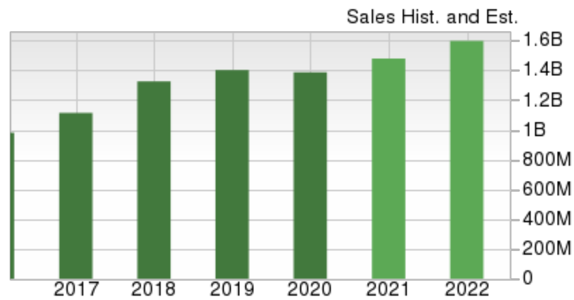
*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 04/08/2020. The reports text and the analyst-provided sales and EPS estimates are as of 04/09/2020.

Overview

Apogee Enterprises is a leader in technologies for the design and development of value-added glass products, services, and systems. The company operates under four segments, with three of the segments serving the commercial construction market:





The **Architectural Glass** segment (25% of total revenues in fiscal 2020) fabricates glass used in customized window and wall systems forming the outside skin of commercial and institutional buildings. The segment consists of Viracon, a fabricator of coated, high-performance architectural glass for global markets. Its markets include the U.S. government, offices, education, health care and hotels.

The **Architectural Services** segment (20%) is involved in designing, engineering, fabricating and installing walls and windows of glass constituting the outside skin of commercial and institutional buildings which are being constructed or renovated. The segment consists of Harmon, one of the largest U.S. full-service building glass installation and renovation companies. The Architectural Services segment operates mid to small-size complex projects in the U.S.

The **Architectural Framing Systems** (49%) designs, engineers, fabricates and finishes the aluminium frames used in customized aluminium and glass window, curtainwall, storefront and entrance systems structuring the outside skin and entrances of commercial and institutional buildings with features such as energy efficiency and hurricane protection. The segment comprises of Wausau Window and Wall Systems, Tubelite and Linetec.

The **Large-Scale Optical** (LSO) segment (6%) manufactures value-added glass and acrylic products for the picture framing market. The LSO segment consists of Tru Vue, a manufacturer of value-added glass and acrylic for the custom picture framing and fine art market.

On Jun 12, 2017, the company acquired the stock of EFCO Corporation (EFCO), a privately-held U.S. manufacturer of architectural aluminum window, curtainwall, storefront and entrance systems for commercial construction projects, for around $190 million.

On Dec 14, 2016, Apogee acquired substantially all the assets of Sotawall, Inc., a privately-held Canadian designer and fabricator of high-performance, unitized curtainwall systems for commercial construction projects, for around $138 million.

Reasons To Sell:

While Apogee’s Large-Scale Optical segment will be hurt by lower customer demand due to the coronavirus crisis, increased competition and startup costs will impact the Architectural Glass segment.

- Apogee has not provided any guidance for fiscal 2021 citing the uncertainty related to the COVID-19 outbreak. The company is assessing the potential impact on its business and evaluating actions to react to the changing market conditions. Also, some of Apogee’s projects have been slowed, while a few others have been put on hold due to the pandemic. These are likely to hurt its resultArchitectural Glass revenues have been impacted by lower project volumes resulting from increased competition from overseas competitors. So far this year, the company has incurred $4.5 million of start-up costs related to the new Architectural Glass facility which is likely to hurt the segment’s margins in fiscal 2021.

- The Large-Scale Optical segment is bearing the brunt of the coronavirus outbreak. It has witnessed a decline in near-term customer demand. Two of its primary manufacturing locations also have been shut down to contain the spread of the virus. Furthermore, the segment depends on the strength of the retail picture framing market, which, in turn, is dependent on consumer confidence and the U.S. economy. Considering the impact of the coronavirus outbreak on the U.S economy, the segment’s results will be affected in the near term.

- The Large-Scale Optical segment’s sales are highly dependent on a small number of customers. Consequently, loss of a significant customer base or a substantial reduction in pricing or the shift of certain customers to a less favorable mix of value-added picture framing glass products could materially reduce the segment’s sales and operating results.

Risks

- In response to the coronavirus outbreak, the company has taken several precautionary measures for the health and safety of its employees. The company continues to operate construction-related activities as it is an essential service according to the federal CISA guidelines on critical infrastructure projects. All of Apogee's architectural segments continue to operate, ship products and meet customers' requirements. Overall demand for Architectural Products and Services has been stable with all of the company's facilities remaining operational. The company remains focused on the long-term prospects of all of its business segments. With leading brands, strong customer relationships and significant backlog, the company is well poised to navigate through the current turbulent situation, while its cost-reduction initiatives will deliver significant savings in fiscal 2021.

- The Architectural Services segment continued to have a strong order flow in fourth-quarter fiscal 2020. The segment ended the year with a recordbacklog of $660 million, up 9% from the prior quarter. Backed by its strong pipeline, the company expects backlog growth in the fiscal first quarter as well. This is likely to drive top and bottom line for at least the next two years. Apogee's new facility in Architectural Glass business is fully operational and will likely contribute to segment revenues and income in the days to come. The company's segments have the potential to increase market share, expand into new geographies and markets, and introduce new products.

- Apogee's continues to focus on strategy to diversify revenue streams, explore growth opportunities, and improve the efficiency and productivity of operations. This positions the company well to deliver stable growth and profitability. The company has initiated several operational and commercial improvements, including cost reductions, integrated product management and pricing strategies, and supply chain and operational efficiencies. Apogee has made significant progress identifying procurement cost savings opportunities across the enterprise. Taken together, these cost reduction and performance improvement actions are expected to generate annual savings of $30 to $40 million when fully implemented. The company plans to utilize these savings to improve overall operating margins. Additionally, the company expects the cost reduction plan, when fully implemented, will significantly improve working capital and cash flow performance.

- The company is implementing actions to maintain the financial and liquidity positions during the current coronavirus crisis. In fiscal 2020, the company returned $44 million of cash to shareholders through share repurchases and dividend payments. For the time being, the company is restricting upon capital expenditures and has suspended share repurchases in order to preserve cash. At the end of fiscal 2020, the company had unused credit facility of $200 million which will aid the company to fund operations. During the fourth quarter of fiscal 2020, the company also reduced total debt to $218 million from $251 million at the end of the third quarter. Apogee will utilize excess free cash flow to further reduce debt.

Last Earnings Report

Apogee Q4 Earnings Beat Estimates, Revenues Miss

Quarter Ending	02/2020
Report Date	Apr 02, 2020
Sales Surprise	NA
EPS Surprise	45.71%
Quarterly EPS	0.51
Annual EPS (TTM)	2.38

Apogee reported fourth-quarter fiscal 2020 (ended Feb 29, 2020) adjusted earnings per share of 51 cents, which beat the Zacks Consensus Estimate of 35 cents by a margin of 46%. However, the reported figure declined 40% from the prior-year quarter.

Including one-time items, the company reported earnings per share of 45 cents against a loss per share of 45 cents in the year-ago quarter.

Apogee reported revenues of $337 million, missing the Zacks Consensus Estimate of $370 million. The reported figure was also down 3% from the prior-year quarter.

Operational Update

Cost of sales in the fiscal fourth quarter was down 14% year over year to $256.6 million. Gross profit improved 75% year over year to $77.5 million. Gross margin came in at 23% compared with 12.8% in the year-ago quarter.

Selling, general and administrative (SG&A) expenses came in at $61.8 million, up 5% from the prior-year quarter. Adjusted operating income plunged 44% year over year to $17.6 million. Operating margin in the reported quarter was 5.2% compared with the prior-year quarter figure of 9.0%.

Segment Performance

In the fiscal fourth quarter, revenues in the Architectural Framing Systems segment declined 10% year over year to $153 million, owing to lower volumes. The segment's operating income plunged 79% year over year to around $2 million.

Revenues in the Architectural Glass Systems segment slipped 5% year over year to $98.3 million reflecting lower volumes driven by increased competition from foreign competitors leveraging the strength of the U.S. dollar. Operating income came in at $3.8 million, reflecting year-over-year decline of 48%. This decline can be attributed to start-up costs related to the new manufacturing facility for the small projects growth initiative, higher insurance costs, and decreased volumes, partially offset by improved factory productivity.

Revenues in the Architectural Services segment were up 11% year over year to $73 million on higher volumes driven by favorable project timing. The segment's operating profit fell 6% year over year to $8.5 million.

Revenues in the Large-Scale Optical Technologies segment declined 11% year over year to $21.5 million due to lower U.S. retail sales. Operating income dipped 1% year over year to $7.1 million.

Backlog

The Architectural Services segment's backlog rose 9% year over year to a record $660 million in the reported quarter. Backlog in the Architectural Framing segment amounted to $432 million, up 14% from the prior-year quarter's $378 million.

Financial Position

Apogee had cash and cash equivalents of $14.9 million at the end of the fiscal 2020 compared with $29.2 million at the end of the prior fiscal. Cash flow from operating activities were $107 million in fiscal 2020 compared with the $96 million reported in the prior fiscal. Long-term debt was $62.5 million as of fiscal 2020-end compared with $245.7 million as of the end of fiscal 2019.

In fiscal 2020, Apogee has returned $43.9 million of cash to shareholders through share repurchases and dividend payments.

Fiscal 2020 Results

Apogee reported adjusted earnings per share of $2.38 in fiscal 2020, down 20% from the prior-year reported figure of $2.96. Earnings beat the Zacks Consensus Estimate of $2.22 and management's guidance of $2.15-$2.30. Including one-time items, the bottom line came in at $2.32, up 42% from $4.63 in fiscal 2019.

Sales dipped 1% year over year to $1.39 billion from the prior-year figure of $1.40 million. The top line missed the Zacks Consensus Estimate of $1.44 billion.

Withholds Fiscal 2020 Guidance

The company has not provided any guidance for fiscal 2021 citing the uncertainty related to the COVID-19 outbreak. The company added that it remains focused on safeguarding its employees. All of Apogee's architectural segments continue to operate, ship product and meet customer's requirements. However, the Large-Scale Optical segment is witnessing a significant reduction in near-term customer demand. Meanwhile, the company is assessing the potential impact on its business and evaluating actions to react to changing market conditions.

Valuation

Apogee's shares are down 53.3% over the trailing 12-month period. Over the past year, the Zacks sub-industry was down 59.4% and the sector was down 19.2%.

The S&P 500 index has lost 4.6% in the past year.

The stock is currently trading at 6.12X forward 12-month earnings, which compares to 4.30X for the Zacks sub-industry, 13.24X for the Zacks sector and 16.99X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.52X and as low as 4.92X, with a 5-year median of 12.95X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our $15 price target reflects 5.10X forward 12-month earnings.

The table below shows summary valuation data for APOG:

Valuation Multiples - APOG

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	6.12	4.3	16.24	16.99
	5-Year High	25.52	12.6	19.93	19.34
	5-Year Low	4.92	4.19	12.55	15.19
	5-Year Median	12.95	8.66	16.47	17.44
EV/EBITDA TTM	Current	5.01	2.51	13.19	9.1
	5-Year High	18.48	7.85	17.37	12.87
	5-Year Low	4.33	2.33	10.71	8.27
	5-Year Median	8.9	5.99	14.75	10.78
P/S F12M	Current	0.32	0.31	2.21	2.94
	5-Year High	1.62	0.75	2.72	3.44
	5-Year Low	0.25	0.3	1.52	2.54
	5-Year Median	0.93	0.53	1.99	3

As of 04/08/2020

Industry Analysis **Zacks Industry Rank:** Bottom 6% (239 out of 253)

Top Peers

AAON, Inc. **(AAON)**	Outperform
Armstrong World Industries, Inc. **(AWI)**	Outperform
Gibraltar Industries, Inc. **(ROCK)**	Outperform
Acuity Brands Inc **(AYI)**	Neutral
Comfort Systems USA, Inc. **(FIX)**	Neutral
Hubbell Inc **(HUBB)**	Neutral
Lennox International, Inc. **(LII)**	Neutral
Encore Wire Corporation **(WIRE)**	Underperform

Industry Comparison Industry: Glass Products

Industry Peers

	APOG Underperform	X Industry	S&P 500	AWI Outperform	AYI Neutral	HUBB Neutral
VGM Score	B	-	-	C	B	B
Market Cap	477.14 M	2.82 B	19.05 B	3.77 B	3.55 B	6.54 B
# of Analysts	1	2.5	13	4	5	5
Dividend Yield	4.17%	3.01%	2.23%	1.02%	0.58%	3.03%
Value Score	B	-	-	C	A	C
Cash/Price	0.02	0.24	0.06	0.01	0.13	0.03
EV/EBITDA	3.93	4.58	11.47	10.48	6.61	10.59
PEG Ratio	0.90	0.54	2.00	1.97	1.19	2.46
Price/Book (P/B)	0.92	0.92	2.56	10.43	1.74	3.34
Price/Cash Flow (P/CF)	4.32	0.79	10.14	12.21	8.01	10.97
P/E (F1)	9.05	3.61	16.97	15.66	12.54	16.62
Price/Sales (P/S)	0.34	0.34	2.01	3.63	1.00	1.42
Earnings Yield	11.06%	27.72%	5.81%	6.38%	7.97%	6.01%
Debt/Equity	0.12	0.36	0.70	1.66	0.21	0.77
Cash Flow ($/share)	4.16	9.35	7.01	6.43	11.20	10.95
Growth Score	D	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	8.39%	6.25%	10.92%	18.60%	10.79%	9.92%
Proj. EPS Growth (F1/F0)	-16.39%	-7.69%	-0.64%	4.81%	-25.29%	-11.03%
Curr. Cash Flow Growth	-16.96%	53.48%	5.93%	15.31%	6.99%	8.75%
Hist. Cash Flow Growth (3-5 yrs)	8.48%	10.48%	8.55%	3.83%	15.70%	8.09%
Current Ratio	0.89	1.25	1.24	1.57	2.29	1.86
Debt/Capital	10.79%	26.24%	42.36%	62.36%	17.67%	43.44%
Net Margin	4.46%	4.28%	11.64%	20.66%	8.43%	8.72%
Return on Equity	12.60%	12.60%	16.74%	76.46%	17.18%	23.55%
Sales/Assets	1.22	0.67	0.54	0.61	1.09	0.92
Proj. Sales Growth (F1/F0)	0.00%	0.33%	0.61%	3.28%	-10.73%	-7.58%
Momentum Score	B	-	-	D	F	F
Daily Price Chg	6.19%	0.88%	4.33%	3.43%	3.58%	3.24%
1 Week Price Chg	-17.86%	-14.54%	-4.40%	-14.79%	-9.33%	0.78%
4 Week Price Chg	-20.21%	-13.19%	-1.70%	-14.30%	-7.96%	-1.65%
12 Week Price Chg	-46.45%	-42.10%	-20.64%	-23.89%	-26.06%	-17.91%
52 Week Price Chg	-53.64%	-44.79%	-12.97%	-6.92%	-35.89%	-2.77%
20 Day Average Volume	451,920	314,186	4,016,075	531,395	527,834	408,263
(F1) EPS Est 1 week change	-32.31%	0.00%	-0.26%	-1.09%	-8.62%	-4.62%
(F1) EPS Est 4 week change	-32.31%	-3.04%	-5.64%	-5.20%	-24.19%	-16.25%
(F1) EPS Est 12 week change	-32.31%	-18.09%	-7.49%	-2.29%	-24.64%	-15.61%
(Q1) EPS Est Mthly Chg	NA%	0.00%	-9.90%	-6.00%	-43.75%	-30.08%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Value Score	B
Growth Score	D
Momentum Score	B
VGM Score	B

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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