

Apogee Enterprises (APOG)

\$23.34 (As of 07/22/20)

Price Target (6-12 Months): **\$25.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/02/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: B

Summary

Apogee's fiscal 2021 earnings have been stable of late. The company expects to report solid results in the upcoming quarters driven by the stabilization in its end markets as well as in the economy. This is likely to deliver improved top- and bottom-line results across its business segments in the fiscal second quarter. Moreover, the company is poised to gain from its efforts to increase market share, expand into new geographies, introduction of new products, solid bidding and order activities going forward. The company's cost-reduction initiatives will likely deliver significant margin growth in fiscal 2021. However, the company has not issued any guidance for fiscal 2021 given the coronavirus pandemic-related uncertainties in the end markets and economy. Further, resurgence of the pandemic might hurt the company's results.

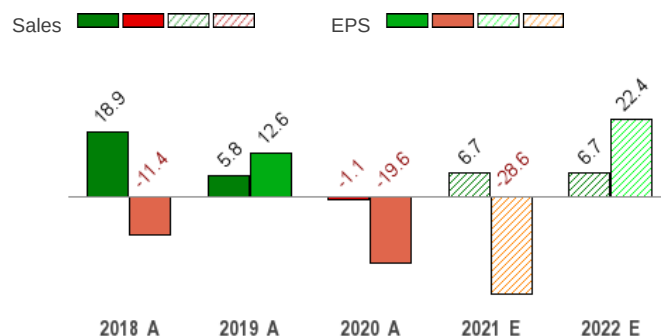
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$46.70 - \$13.77
20 Day Average Volume (sh)	263,429
Market Cap	\$615.2 M
YTD Price Change	-28.2%
Beta	1.44
Dividend / Div Yld	\$0.75 / 3.2%
Industry	Glass Products
Zacks Industry Rank	Bottom 1% (249 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-55.9%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-23.1%
Expected Report Date	09/15/2020
Earnings ESP	0.0%
P/E TTM	12.0
P/E F1	13.7
PEG F1	1.4
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					1,579 E
2021	289 A				1,480 E
2020	355 A	357 A	338 A	337 A	1,387 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$2.08 E
2021	\$0.15 A	\$0.34 E			\$1.70 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, including the Zacks Consensus EPS and Sales estimates, is as of 07/22/2020. The reports text is as of 07/23/2020.

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.

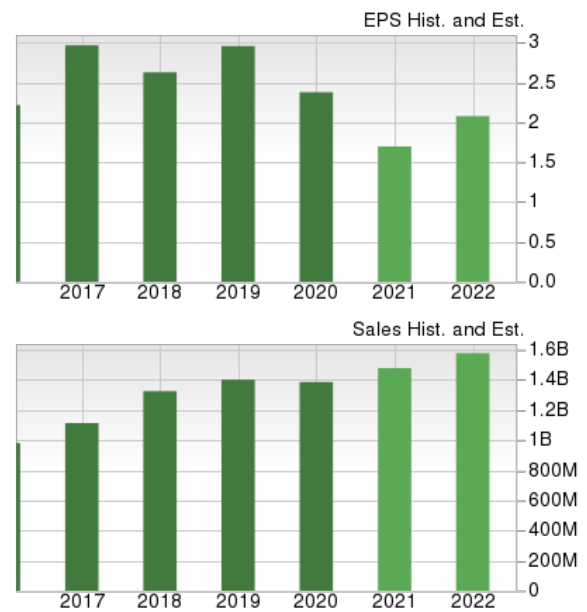
The **Architectural Services** segment (20%) is involved in designing, engineering, fabricating and installing walls and windows of glass constituting the outside skin of commercial and institutional buildings which are being constructed or renovated. The segment consists of Harmon, one of the largest 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 Buy:

- ▲ Apogee expects to report solid results in the upcoming quarters with the stabilization in its end markets as well as in the economy. The company's Architectural segment continues to ship products and meet customer requirements. These segments are likely to gain from strong backlog in long lead-time business. Moreover, the company expects moderate project delays and disruptions in the upcoming quarters as the economy gradually reopens. In Large-Scale Optical segment, customers are gradually resuming operations as evident from its recent positive orders and sales trend. Consequently, Apogee expects to report improved top- and bottom-line results across its business segments in the fiscal second quarter. Apogee's cost-reduction initiatives and procurement savings will also deliver significant savings in fiscal 2021.
- ▲ The Architectural Services segment continued to have a strong order flow in first-quarter fiscal 2021. The company has won several new projects during the quarter, increasing the segment's backlog to a record backlog of \$685 million, up 42% from the prior year quarter. Backed by its strong pipeline, the company expects backlog growth in the fiscal second quarter as well. This is likely to drive top and bottom line for at least the next two years. The company's segments have the potential to increase market share, expand into new geographies and markets, and introduce new products. Framing Systems will continue to benefit from the optimization of operations, solid execution and cost removal in the fiscal second quarter. Significant efforts to integrate and optimize Framing Systems segment expect to deliver cost savings through fiscal 2021.
- ▲ Apogee has broader exposure in various projects across different sectors, including healthcare, education, and government and multifamily housing, as well as a growing renovation business. The company is witnessing strong demand from new construction activities. Following lower numbers in April, improved unemployment report, rebound in retail sales and pick up in industrial production in May instill hope for the company's business. Apart from this, the various government stimulus measures provide support for the company's construction end markets.
- ▲ 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. The company is likely to deliver more than \$40 million savings during fiscal 2021. The company plans to utilize these savings to improve overall operating margins. Additionally, the company expects the cost reduction plan will significantly improve working capital and cash flow performance.
- ▲ The company's solid liquidity position coupled with strong free cash flow place it well to sail through the current turbulent situation. . The company has lowered its capital expenditure and has temporarily suspended share repurchases in order to preserve cash. During the first quarter of fiscal 2021, the company reduced total debt to \$211 million from \$218 million at the end of fiscal 2020. Apogee will utilize excess free cash flow to further reduce debt. The company's total debt to total equity stands at 15.3%, much lower than its industry's 849.4%. Over the past few quarter's Apogee's times interest earned ratio has gone up. The ratio was 10.8x in the fiscal first-quarter 2020, better than the industry's 0.2x. This further underscores Apogee's ability to meet debt obligations.

Apogee will benefit from strong backlog across its Architectural segments, improving efficiency and productivity of operations, roll out of new products as well as cost-reduction initiatives.

Reasons To Sell:

- ▼ Given the coronavirus pandemic-related uncertainties in the end markets and economy, the company has not issued any guidance for fiscal 2021. In the Architectural business, some of Apogee's projects were temporarily halted due to government restrictions and production disruptions on account of the pandemic. Even though the company expects moderate project delays in the fiscal second quarter as the economy resumes operations, resurgence of the pandemic might hurt the company's results. Architectural Glass revenues have been impacted by lower project volumes resulting from increased competition from overseas competitors. Moreover, in the longer term, Apogee expects to witness downturn in its end markets.
- ▼ The Large-Scale Optical segment is bearing the brunt of the coronavirus pandemic. It has witnessed a complete shutdown of its customer base to comply with government's stay-at-home orders. In response to significant decline in demand and to comply with state government mandates, the segment has closed two of its primary manufacturing locations in the fiscal first quarter. These facilities are expected to resume operations late in the fiscal second quarter. However if pandemic situation worsens, it might impact the segment's operation. 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.

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.

Last Earnings Report

Apogee's Earnings Miss Estimates in Q1, Down Y/Y

Apogee reported first-quarter fiscal 2021 adjusted earnings per share of 15 cents, missing the Zacks Consensus Estimate of 34 cents. Also, the reported figure plummeted 74% from the prior-year quarter.

Including one-time items, the company reported earnings per share of 11 cents compared with the 58 cents recorded in the year-ago quarter.

Apogee reported revenues of \$289 million during the quarter, marking a year-over-year decline of 18.6% on lower volumes across all of the company's segments on account of the coronavirus crisis.

Quarter Ending **05/2020**

Report Date	Jun 26, 2020
Sales Surprise	NA
EPS Surprise	-55.88%
Quarterly EPS	0.15
Annual EPS (TTM)	1.95

Operational Update

Cost of sales in the fiscal first quarter was down 17% year over year to \$229 million. Gross profit declined 26% year over year to \$60 million. Gross margin came in at 21% compared with the year-earlier quarter's 23%.

Selling, general and administrative (SG&A) expenses decreased 7% year-over-year to \$54 million. Adjusted operating income slumped 65% year over year to \$8 million. Operating margin in the reported quarter was 3% compared with the prior-year quarter's 6%.

Segment Performance

In the fiscal first quarter, revenues in the Architectural Framing Systems segment slid 17% year over year to \$150 million on dismal lower volume due to several COVID-19-related project delays and disruptions. The segment's operating income plunged 41% year over year to around \$7 million.

Revenues in the Architectural Glass Systems segment dropped 23% year over year to \$77 million, reflecting lower volumes due to coronavirus outbreak. The segment reported an operating loss of \$0.5 million as against the operating profit of \$6.4 million registered in the prior-year quarter. This decline resulted from lower volume and the coronavirus pandemic-related costs.

Revenues in the Architectural Services segment slipped 2% year over year to \$64 million on project delays due to the pandemic. The segment's operating profit increased 17% year over year to \$5.3 million. This was driven by strong project execution and effective cost management.

Revenues in the Large-Scale Optical Technologies segment tanked 70% year over year to \$6 million as most of the segment's customers were closed for a large part of the quarter. In response to the lower demand, and to comply with state government mandates, the segment closed its two primary manufacturing locations for most of the fiscal first quarter. These facilities are expected to resume operations late in the fiscal second quarter, as customers reopen. The segment incurred an operating loss of \$3 million as against the prior-year quarter's operating profit of \$4 million, reflecting lower volume.

Backlog

The Architectural Services segment's backlog rose 42% year over year to a record \$685 million in the reported quarter. Backlog in the Architectural Framing segment amounted to \$423 million, down 2% from the prior quarter's \$432 million.

Financial Position

Apogee had cash and cash equivalents of \$12 million at the end of fiscal first quarter compared with the \$29 million witnessed at the end of prior-year quarter. Cash generated from operating activities were \$24 million in the reported quarter compared with cash utilization of around \$10 million in the prior-year quarter. Long-term debt was \$56 million as of May 30, 2020 compared with \$213 million as of Feb 29, 2020.

In fiscal first quarter, Apogee returned \$4.9 million of cash to shareholders through dividend payments and repurchased 231,000 shares for \$4.7 million before announcing the temporary suspension of its share-repurchase program.

Fiscal 2021 Guidance

The company expects to report solid results in the upcoming quarters with the stabilization in its end markets as well as in the economy. Apogee's Large-Scale Optical customers have started to gradually reopen, while Architectural segments expect moderate project delays. The company is also poised to gain from strong backlog. Apart from this, the company expects to benefit from cost-reduction actions in the fiscal second quarter. However, given the coronavirus pandemic-related uncertainties in the end markets and economy, the company has not issued any guidance for fiscal 2021.

Valuation

Apogee's shares are down 28.2% in the year-to-date period and down 43.2% over the trailing 12-month period. Stocks in the Zacks Glass Products industry and Zacks Industrial Products sector are down 18% and 7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 42% and the sector is down 0.3%.

The S&P 500 index is up 1.4% in the year-to-date and 8.7% in the past year.

The stock is currently trading at 12.61X forward 12-month earnings, which compares to 8.26X for the Zacks sub-industry, 21.92X for the Zacks sector and 23.0X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.23X and as low as 4.92X, with a 5-year median of 12.49X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$25 price target reflects 13.50X 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	12.61	8.26	21.92	23
	5-Year High	22.23	11.32	21.92	23
	5-Year Low	4.92	4.19	12.55	15.25
	5-Year Median	12.49	8.24	16.81	17.52
P/S F12M	Current	0.41	0.22	2.83	3.61
	5-Year High	1.56	0.7	2.83	3.61
	5-Year Low	0.25	0.19	1.52	2.53
	5-Year Median	0.91	0.53	2.01	3.02
EV/ EBITDA TTM	Current	7.08	2.85	16.87	12.12
	5-Year High	16.08	7.85	17.46	12.86
	5-Year Low	4.7	2.33	10.73	8.25
	5-Year Median	8.77	5.99	14.9	10.88

As of 07/22/2020

Industry Analysis Zacks Industry Rank: Bottom 1% (249 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
AAON, Inc. (AAON)	Neutral	3
Armstrong World Industries, Inc. (AWI)	Neutral	2
Acuity Brands Inc (AYI)	Neutral	3
Comfort Systems USA, Inc. (FIX)	Neutral	3
Hubbell Inc (HUBB)	Neutral	2
Lennox International, Inc. (LII)	Neutral	3
Gibraltar Industries, Inc. (ROCK)	Neutral	3
Encore Wire Corporation (WIRE)	Neutral	3

Industry Comparison Industry: Glass Products				Industry Peers		
	APOG	X Industry	S&P 500	AWI	AYI	HUBB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	2	3	2
VGM Score	C	-	-	B	A	A
Market Cap	615.16 M	3.52 B	22.74 B	3.85 B	4.05 B	7.18 B
# of Analysts	1	1	14	4	5	3
Dividend Yield	3.21%	2.17%	1.81%	0.99%	0.51%	2.75%
Value Score	C	-	-	C	A	B
Cash/Price	0.02	0.23	0.06	0.04	0.13	0.04
EV/EBITDA	5.53	5.53	13.19	10.63	7.24	11.43
PEG Ratio	1.38	0.59	3.05	5.38	1.47	2.84
Price/Book (P/B)	1.22	1.22	3.14	10.40	1.93	3.74
Price/Cash Flow (P/CF)	5.61	3.81	12.31	12.53	9.12	12.11
P/E (F1)	13.83	11.28	22.34	19.20	14.69	19.18
Price/Sales (P/S)	0.47	0.47	2.40	3.69	1.20	1.56
Earnings Yield	7.28%	9.31%	4.27%	5.21%	6.81%	5.21%
Debt/Equity	0.19	0.34	0.75	1.83	0.21	0.83
Cash Flow (\$/share)	4.16	4.16	6.94	6.43	11.20	10.95
Growth Score	C	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	3.50%	3.55%	10.82%	20.32%	8.30%	10.91%
Proj. EPS Growth (F1/F0)	-28.57%	-35.07%	-9.08%	-12.24%	-27.38%	-14.90%
Curr. Cash Flow Growth	-16.96%	-16.96%	5.51%	15.31%	6.99%	8.75%
Hist. Cash Flow Growth (3-5 yrs)	8.48%	8.48%	8.55%	3.83%	15.70%	8.09%
Current Ratio	0.87	1.36	1.30	2.03	2.40	1.99
Debt/Capital	16.04%	25.43%	44.41%	64.69%	17.10%	45.30%
Net Margin	3.74%	2.78%	10.46%	-4.86%	8.02%	8.77%
Return on Equity	10.21%	10.21%	15.29%	71.34%	15.57%	23.43%
Sales/Assets	1.18	0.67	0.54	0.64	1.01	0.92
Proj. Sales Growth (F1/F0)	0.00%	0.00%	-2.27%	-7.41%	-11.52%	-7.28%
Momentum Score	B	-	-	C	F	B
Daily Price Chg	1.79%	-0.37%	0.60%	2.83%	1.40%	0.72%
1 Week Price Chg	3.18%	3.65%	3.82%	5.62%	11.97%	5.82%
4 Week Price Chg	9.37%	11.17%	7.55%	13.21%	19.01%	11.39%
12 Week Price Chg	9.17%	19.44%	7.51%	-1.59%	13.86%	4.51%
52 Week Price Chg	-43.20%	-27.36%	-3.37%	-19.42%	-24.45%	3.90%
20 Day Average Volume	263,429	137,652	2,037,153	365,368	759,082	303,951
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-23.08%	-14.14%	0.14%	4.42%	-0.31%	1.12%
(F1) EPS Est 12 week change	-23.08%	-28.09%	-3.51%	-12.10%	-3.09%	-3.81%
(Q1) EPS Est Mthly Chg	NA%	9.88%	0.00%	12.01%	0.00%	2.16%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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.

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.

Value Score	C
Growth Score	C
Momentum Score	B
VGM Score	C

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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