

Apogee Enterprises (APOG)

\$33.97 (As of 02/24/20)

Price Target (6-12 Months): **\$36.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/23/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: C

Summary

Apogee's earnings estimates for the fiscal 2020 have been stable lately. The company anticipates revenue growth between flat to down 1% for fiscal 2020 while earnings per share is estimated at \$2.15-\$2.30. Apogee's segments will gain in the days ahead backed by efforts to increase market share, expand into new geographies and markets and new products. The company continues to invest in a number of good-return projects to drive strategic growth and focus on improving productivity and efficiency, which will aid growth. However, the company's margins in fiscal 2020 are expected to be affected by increased corporate costs and higher start-up costs for the Architectural Glass segment. Further, delays at customer end and heightened competition from foreign players pose a threat to the Glass segment.

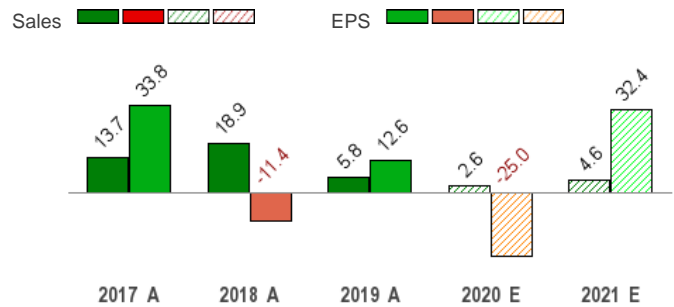
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$46.70 - \$30.16
20 Day Average Volume (sh)	125,717
Market Cap	\$900.5 M
YTD Price Change	4.5%
Beta	1.65
Dividend / Div Yld	\$0.75 / 2.2%
Industry	Glass Products
Zacks Industry Rank	Top 45% (114 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-25.0%
Last Sales Surprise	-5.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/09/2020
Earnings ESP	0.0%
P/E TTM	12.5
P/E F1	15.3
PEG F1	1.5
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	369 E	384 E	380 E	390 E	1,505 E
2020	355 A	357 A	338 A	370 E	1,439 E
2019	337 A	362 A	358 A	346 A	1,403 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.94 E
2020	\$0.58 A	\$0.72 A	\$0.57 A	\$0.35 E	\$2.22 E
2019	\$0.54 A	\$0.72 A	\$0.80 A	\$0.85 A	\$2.96 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 02/24/2020. The reports text is as of 02/25/2020.

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 2019) 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.

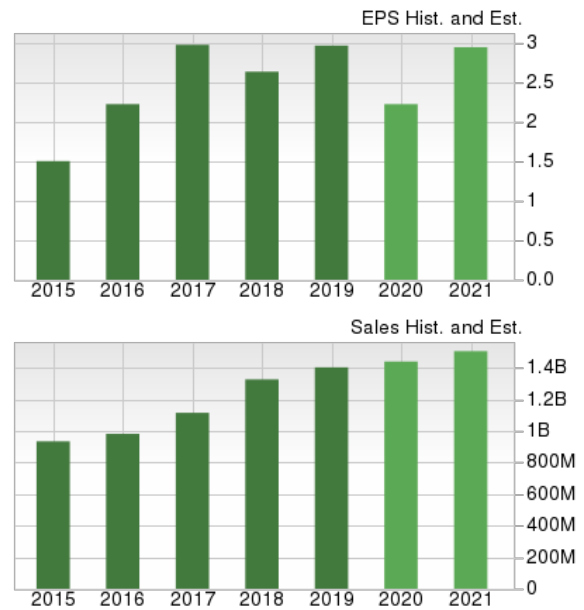
The **Architectural Services** segment (20%) is involved in designing, engineering, fabricating and installing walls and windows of glass constituting the outside skin of commercial and institutional buildings which are being constructed or renovated. The segment consists of Harmon, one of the largest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

▲ The Large-Scale Optical segment continues to be a high performing business, delivering margins in line with targets. Notably, in the fiscal third quarter, operating margins came in at 28%. The Large-Scale Optical segment is expected to witness revenue growth in low to mid-single digits in fiscal 2020 and operating margin is expected at around 25%. The Architectural Services segment reported several order wins in third-quarter fiscal 2020. The segment ended the quarter with a record backlog of \$607 million, up 21% from the prior year. Backed by its strong pipeline, the company expects backlog growth in the fourth quarter. This is likely to drive top and bottom line for at least the next two years.

Apogee will benefit from focus on its strategy to diversify revenue streams, improving efficiency and productivity of operations, acquisitions and roll out of 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. To address the issues in Architectural Framing Systems segment, the company is taking proactive steps. In addition to leadership change, it has initiated a plan focused on several operational and commercial improvements, including cost savings, 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 also opened a new glass fabrication facility in Texas that will be focused on the short lead-time segment of the architectural glass market.

▲ Apogee's segments have the potential to increase market share, expand into new geographies and markets, and introduce new products. The company believes the North American commercial construction markets will grow throughout fiscal 2020, as market activity continues to reflect solid growth in all U.S. regions and sectors, in particular, office and institutional building segments, both of which are core markets for Apogee. With internal market visibility from backlog, commitments and bidding activity, along with external metrics moving in the right direction, the company foresees continued market growth for the next few years.

▲ Apogee is deploying capital to drive shareholders value, which will continue in fiscal 2020. So far this fiscal, the company returned \$33.8 million of cash to shareholders through share repurchases and dividend payments. Moreover, the company is making investments in order to drive organic growth and margin expansion. Apogee expects capital expenditures for fiscal 2020 at \$55 million. During the third quarter of fiscal 2020, the company also reduced total debt to \$251 million from \$273 million at the end of the second quarter. Through the balance of fiscal 2020, Apogee will utilize excess free cash flow to further reduce debt and repurchase shares.

▲ Apogee continues to integrate the acquisition of EFCO Corporation, a U.S. manufacturer of architectural aluminum, windows, curtainwall, storefront and entrance systems for commercial construction projects. The EFCO acquisition expands the U.S. geographic penetration and product offerings of the Architectural Framing Systems segment.

Reasons To Sell:

- ▼ Apogee lowered fiscal 2020 guidance to reflect lower-than-expected sales volumes in Architectural Framing Systems and Architectural Glass, and operational difficulties in Architectural Framing Systems. The company now expects revenue growth between flat to down 1% compared with previous growth of 1-3%. Adjusted earnings per share are anticipated in the band of \$2.15-\$2.30 compared with the previous estimate of \$3.00-\$3.20. The mid-point of the guidance reflects a year-over-year decline of 25% from the prior fiscal. Costs associated with supply chain initiatives, and increased corporate costs from higher legal and other advisory expenses will hurt the company's margins in fiscal 2020.
- ▼ In the Architectural Framing Systems, revenue growth is projected to be down mid-single digit in fiscal 2020, primarily owing to lower-than-expected revenues in the fiscal third quarter. Moreover, in the current quarter, the company noted higher-than-normal customer schedule delays. In the fourth quarter, operational improvements in Framing Systems is expected to be offset by lower revenues from increased customer-driven schedule delays, lower orders and some seasonality. Operating margin is projected between 5% and 5.5% in fiscal 2020, which includes the impact of manufacturing cost issues in the third quarter and lower-than-expected volumes in the fourth quarter.
- ▼ Architectural Glass revenues have been impacted by lower volumes resulting from increased competition from overseas competitors and some customer-driven delays. For the segment, Apogee expects revenue growth in the mid to upper-single digits in fiscal 2020. The company lowered full-year margin outlook for the segment to approximately 6% from prior expectation of 7%, primarily due to reduced leverage on lower volumes. Apogee is likely to incur approximately \$4 million to \$5 million of total start-up costs for the new Architectural Glass growth initiative. So far this year, the company has incurred \$2.9 million of start-up costs for this initiative. Consequently, the segment's margins in fiscal 2020 are anticipated to be affected by 100 to 150 basis points. Further, the segment's revenues are being impacted by a stronger U.S. dollar. With the strengthening of the dollar compared to other currencies, this disadvantages Apogee's U.S.-based glass operations and increases competitive pressure, particularly from European competitors.
- ▼ The Large-Scale Optical Technologies' 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. 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.

While Apogee's Architectural Framing Systems segment will be hurt by lower volumes, increased competition, customer-driven delays and startup costs will impact the Architectural Glass segment.

Last Earnings Report

Apogee Misses on Q3 Earnings & Revenues, Trims View

Apogee Enterprises delivered third-quarter fiscal 2020 (ended Nov 30, 2019) adjusted earnings per share of 57 cents, which missed the Zacks Consensus Estimate of 76 cents by a margin of 25%. The reported figure also declined 27% from the prior-year quarter.

Apogee reported revenues of \$337.9 million, missing the Zacks Consensus Estimate of \$357 million. The revenue figure also dropped 6% from the prior-year quarter.

Quarter Ending **11/2019**

Report Date	Dec 19, 2019
Sales Surprise	-5.38%
EPS Surprise	-25.00%
Quarterly EPS	0.57
Annual EPS (TTM)	2.72

Operational Update

Cost of sales in the fiscal third quarter was down 4% year over year to \$263.6 million. Gross profit declined 12% year over year to \$74.3 million. Gross margin came in at 22% compared with the 23% recorded in the year-ago quarter.

Selling, general and administrative (SG&A) expenses came in at \$52.7 million, flat compared with the prior year quarter. Adjusted operating income plunged 30.8% year over year to \$21.7 million. Operating margin in the reported quarter was 6.4% compared with the prior-year quarter's 8.7%.

Segment Performance

In the fiscal third quarter, revenues in the Architectural Framing Systems segment declined 9% year over year to \$165.5 million. The segment's operating income slumped 51% year over year to \$6.3 million.

Revenues in the Architectural Glass Systems segment slipped 9% year over year to \$89.4 million. Operating income came in at \$4 million, reflecting year-over-year decline of 30%.

Revenues in the Architectural Services segment were down 5% year over year to \$69 million. The segment's operating profit fell 25% year over year to \$6.5 million.

Revenues in the Large-Scale Optical Technologies segment climbed 4% year over year to \$24.4 million. Operating income improved 2% year over year to \$6.8 million.

Backlog

The Architectural Services segment's backlog went up 21% to a record \$607 million in the reported quarter from the last quarter's \$502 million. Backlog in the Architectural Framing segment amounted to \$378 million compared with the prior-year quarter's \$388 million.

Financial Position

Apogee had cash and cash equivalents of \$10.5 million at the end of the fiscal third quarter compared with \$41.4 million at the end of the prior-year quarter. Cash flow from operating activities were \$53.6 million as of Nov 30, 2019 compared with the \$70.6 million reported in the prior-year period. Long-term debt was \$95.8 million as of Nov 30, 2019 compared with \$245.7 million as of Mar 2, 2019.

So far in fiscal 2020, Apogee has returned \$33.8 million of cash to shareholders through share repurchases and dividend payments.

Tepid Fiscal 2020 Guidance

The company has lowered its fiscal 2020 view due to lower-than-expected sales volumes in Architectural Framing Systems and Architectural Glass, as well as the operational difficulties in Architectural Framing Systems. These factors are likely to impact the fiscal fourth-quarter results.

Apogee now expects revenue growth between flat to down 1% compared with previous growth of 1%-3%. The company expects capital expenditures of \$55 million compared with the prior guidance of \$60-\$65 million. Adjusted earnings per share are predicted in the band of \$2.15-\$2.30 compared with the previous estimate of \$3.00-\$3.20.

Valuation

Apogee's shares are down 6.6% over the trailing 12-month period. Over the past year, the Zacks sub-industry was down 26.2% while the sector was up 5.8%.

The S&P 500 index has gained 18.6% in the past year.

The stock is currently trading at 11.59X forward 12-month earnings, which compares to 7.35X for the Zacks sub-industry, 17.75X for the Zacks sector and 18.44X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.98X and as low as 7.14X, with a 5-year median of 13.09X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$36 price target reflects 12.28X 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	11.59	7.35	17.75	18.44
	5-Year High	30.98	12.6	19.89	19.34
	5-Year Low	7.14	5.26	12.6	15.18
	5-Year Median	13.09	8.69	16.62	17.47
EV/EBITDA TTM	Current	8.7	2.98	16.9	12
	5-Year High	17.86	7.84	17.42	12.87
	5-Year Low	5.81	2.71	10.89	8.48
	5-Year Median	8.94	6	14.73	10.77
P/S F12M	Current	0.6	0.38	2.69	3.39
	5-Year High	1.62	0.77	2.74	3.43
	5-Year Low	0.49	0.3	1.51	2.54
	5-Year Median	0.94	0.54	1.98	3

As of 02/24/2020

Industry Analysis Zacks Industry Rank: Top 45% (114 out of 255)



Top Peers

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

Industry Comparison Industry: Glass Products				Industry Peers		
	APOG Neutral	X Industry	S&P 500	AWI Neutral	AYI Neutral	HUBB Neutral
VGM Score	B	-	-	C	B	A
Market Cap	900.47 M	3.60 B	23.50 B	5.15 B	4.47 B	7.69 B
# of Analysts	1	1	13	4	5	5
Dividend Yield	2.21%	1.37%	1.83%	0.75%	0.46%	2.58%
Value Score	A	-	-	C	B	B
Cash/Price	0.01	0.16	0.04	0.02	0.06	0.02
EV/EBITDA	8.85	7.44	13.56	15.78	8.42	12.14
PEG Ratio	1.50	1.67	2.02	1.71	1.14	1.85
Price/Book (P/B)	1.75	1.75	3.20	14.02	2.25	3.93
Price/Cash Flow (P/CF)	6.95	1.43	13.05	19.46	10.07	12.90
P/E (F1)	14.98	6.34	18.56	20.70	12.02	16.32
Price/Sales (P/S)	0.64	0.48	2.60	4.96	1.25	1.67
Earnings Yield	6.54%	15.75%	5.38%	4.83%	8.32%	6.13%
Debt/Equity	0.28	0.36	0.70	1.77	0.20	0.77
Cash Flow (\$/share)	4.89	9.35	7.03	5.46	11.20	10.95
Growth Score	C	-	-	C	C	A
Hist. EPS Growth (3-5 yrs)	12.81%	8.46%	10.85%	16.19%	13.02%	9.92%
Proj. EPS Growth (F1/F0)	-25.00%	-4.80%	6.90%	7.27%	-1.90%	6.60%
Curr. Cash Flow Growth	-7.76%	53.48%	6.78%	7.22%	6.99%	8.75%
Hist. Cash Flow Growth (3-5 yrs)	19.50%	19.50%	8.38%	3.47%	15.70%	8.09%
Current Ratio	0.99	1.25	1.22	2.09	2.11	1.86
Debt/Capital	21.90%	26.24%	42.37%	63.91%	16.63%	43.44%
Net Margin	2.71%	2.71%	11.57%	20.66%	8.61%	8.72%
Return on Equity	14.60%	14.60%	16.80%	80.83%	18.07%	23.55%
Sales/Assets	1.24	0.67	0.55	0.58	1.14	0.92
Proj. Sales Growth (F1/F0)	2.62%	1.64%	4.03%	7.31%	-4.43%	1.67%
Momentum Score	C	-	-	D	B	C
Daily Price Chg	-0.67%	-1.79%	-2.98%	-0.27%	-2.49%	-2.28%
1 Week Price Chg	0.83%	0.41%	-0.94%	2.50%	-1.03%	-2.05%
4 Week Price Chg	2.69%	-1.60%	-0.94%	4.52%	-6.44%	-2.98%
12 Week Price Chg	-9.87%	-0.70%	1.75%	12.58%	-13.66%	-3.79%
52 Week Price Chg	-7.19%	-11.32%	10.97%	43.93%	-14.29%	17.06%
20 Day Average Volume	125,717	73,344	2,001,782	279,812	292,800	346,721
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-0.42%	-0.05%	0.00%	0.00%	1.12%
(F1) EPS Est 12 week change	-26.91%	-14.53%	-0.21%	0.24%	-5.77%	1.12%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.49%	0.00%	0.00%	-5.25%

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	A
Growth Score	C
Momentum Score	C
VGM Score	B

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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