Apogee Enterprises (Q3 2026 Earnings)
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Corporate Speakers:

- Jeremy Steffan; Apogee Enterprises; Vice President, Investor Relations and Communications
- Donald Nolan; Apogee Enterprises; Chief Executive Officer
- Mark Augdahl; Apogee Enterprises; interim Chief Financial Officer

Participants:

- Brent Thielman; D.A. Davidson; Analyst
- Jon Braatz; KCCA; Analyst
- Gowshihan Sriharan; Singular Research; Analyst
- Julio Romero; Sidot; Analyst

PRESENTATION

Operator^ Good day and thank you for standing by. Welcome to Apogee Enterprises' Third Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes.

I will now turn the conference over to Jeremy Steffan, Vice President, Investor Relations and Communications, to begin. Jeremy, please go ahead.

Jeremy Steffan^ Thank you. Good morning. Welcome to Apogee Enterprises' Fiscal 2026 Third Quarter Earnings Call. On the call today are Don Nolan, Apigee's Chief Executive Officer, and Mark Augdahl, our interim Chief Financial Officer.

During this call, the team will reference certain non-GAAP financial measures. Definitions of these measures and the reconciliation to the nearest GAAP measures are provided in the earnings release and slide deck, which are available in the Investor Relations section of our website.

As a reminder, today's call will contain forward-looking statements. These reflect management's expectations based on currently available information. Actual results may differ materially from those expressed today. More information about factors that could affect Apogee's business and financial results can be found in our press release and in the company's SEC filings.

With that, I'll turn the call over to Don.

Donald Nolan^ Thanks, Jeremy. And good morning, everyone. We're glad you could join us for our third quarter earnings call. Before I begin my prepared remarks, I want to acknowledge the announcement made earlier today. Matt Oseberg has informed us of his decision to leave the company to pursue an opportunity elsewhere. I want to thank Matt for his many contributions over the past 3 years and wish him continued success in the future. Stepping in as the interim CFO is our Chief Accounting Officer, Mark Augdahl, who has been at Apogee for over 25 years. I look forward to partnering with him as we begin our search for the company's next CFO.

Next, I'd like to start by saying it's a real privilege to have the opportunity to lead the company through this period of transition. While I've served on Apogee's Board since 2013, the past two months as CEO have given me a deeper perspective, strengthening my confidence in Apogee's future, and I'd like to share a few observations. First, our customers consistently tell us how much they value the quality and reliability of our products and services. That feedback of energizing and underscores a core principle of mine: companies that delight their customers win in the market. Apogee has built that reputation over 76 years and continues to raise the bar.

Second, across Apogee, we have exceptional talent individuals who are passionate, resilient and relentlessly focused on exceeding the expectations of customers. Their ability to deliver tremendous value, especially in this dynamic environment reinforces the strength of this company and gives me tremendous confidence in our future.

And third, the Apigee management system continues to drive value across our manufacturing footprint. The returns on our AMS investments are fueling margin benefits and reinforcing the operational excellence that helps define our organization.

I'd also like to highlight the UW Solutions acquisition which celebrated its 1-year anniversary this quarter. We're pleased with the initial results and the team is on track to deliver our fiscal 2026 expectations of $100 million in net sales and approximately 20% in adjusted EBITDA margin. UW Solutions expands our market and geographical reach, adding substrate capabilities in coating technology, and provides a platform for potential growth in fiscal 2027 and beyond.

Now turning to our results for the quarter. I am pleased with the team's ability to deliver in a dynamic environment. This performance reflects not only disciplined execution, but also the strength of our culture and the dedication of our people. It reinforces my confidence in the strategies put in place and our ability to adapt and win in dynamic markets.

Although macroeconomic factors remain challenging, Apogee is well positioned because of three key strengths: operational excellence through AMS driving continued productivity improvements across our manufacturing footprint, our proven cost-out execution with four to five Phase I, Phase II, and a strong balance sheet and healthy cash generation, giving us flexibility for future M&A. These fundamentals, combined with the talent of our team, enable us to navigate near-term challenges and capitalize on long-term opportunities.

In the near term, our priorities remain clear and unchanged. We first become the economic leader in our target markets with differentiated product and service offerings and competitive cost structures. Number two, managing our portfolio through pursuing accretive M&A opportunities aligned with our strategic and financial objectives. And number three, strengthening our core by driving more efficient operations, greater scalability and enabling sustained profitable growth. I'm confident in our strategy and excited about what's ahead. Together we have the opportunity to create significant value for all stakeholders.

With that, I'll turn it over to Mark.

Mark Augdahl^ Thanks, Don. And good morning, everyone. First, I'll begin with a review of the results of the third quarter and then follow with commentary on our outlook for the remainder of fiscal 2026 and some early insights into fiscal 2027. Beginning with our consolidated results, net sales increased 2.1% to $348.6 million, primarily driven by $18.4 million of inorganic sales from the acquisition of UW Solutions as well as favorable product mix. This was partially offset by lower volume, primarily in Metals.

Adjusted EBITDA margin decreased slightly to 13.2%. The year-over-year change was primarily driven by lower volume and price and higher aluminum and health insurance costs. These were partially offset by lower incentive compensation expense and benefits from the cost savings related to Fortify Phase 2. Adjusted diluted EPS was $1.02, in line with our expectations and down year-over-year, primarily driven by higher amortization and interest expense as a result of the UW Solutions acquisition.

Turning to our segment results. Metals net sales declined primarily due to lower volume, partially offset by favorable price and product mix. Adjusted EBITDA margin improved to 13.5%, primarily driven by increased productivity including cost savings from Fortify Phase 2, lower incentive compensation expense and favorable price and product mix. These were partially offset by lower volume.

Our Services segment delivered its seventh consecutive quarter of year-over-year net sales growth primarily due to increased volume. Adjusted EBITDA margin increased to 9.7%, mostly driven to lower incentive compensation expense, partially offset by unfavorable project mix. Additionally, backlog for services ended the quarter at $775 million, down slightly from Q2, but up over 4% compared to Q3 of last year.

Glass net sales increased slightly to approximately $71 million, primarily driven by increased volume and favorable mix, partially offset by lower price driven by end market demand softness. Adjusted EBITDA margin moderated from last year, primarily due to lower price and higher material costs, partially offset by higher volume, favorable product mix, and lower incentive compensation expense.

Performance Surfaces net sales increased, driven by the inorganic sales contribution from the acquisition of UW Solutions, inorganic growth primarily from price. Adjusted EBITDA margin decreased primarily driven by the dilutive impact of lower adjusted EBITDA margin from the UW Solutions and unfavorable productivity, partially offset by favorable product mix and price.

Turning to cash flow and the balance sheet. For the third quarter, net cash provided by operating activities was $29.3 million, down slightly from $31 million in the third quarter of prior year. On a year-to-date basis, cash from operating activities was $66.6 million compared to $95.1 million a year ago, due to lower operating cash flow in the first quarter. Our balance sheet remains strong with a consolidated leverage ratio of 1.4x, no near-term debt maturities, and significant capital available for future deployment.

Turning now to our outlook for the remainder of fiscal 2026. We are updating our estimates for both net sales and adjusted diluted EPS. We now expect net sales to be approximately $1.39 billion and adjusted diluted EPS in the range of $3.40 to $3.50. This outlook includes an updated estimate of the EPS impact from tariffs of approximately $0.30. Our updated outlook assumes an adjusted effective tax rate of approximately 27% and capital expenditures between $25 million and $30 million.

The current macroeconomic backdrop remains challenging, in both our Metals and Glass segments, competitive market dynamics continue to put a significant pressure on pricing and volume. Additionally, in our Metals segment, average aluminum prices in the third quarter rose approximately 13% compared to the second quarter and are up over 50% compared to the third quarter of last year. These factors are driving volume pressure and margin compression and we anticipate this dynamic will continue to impact us through the fourth quarter, and to some extent, into fiscal 2027.

Additionally, as we look ahead to fiscal '27, we expect cost headwinds from the normalization of incentive compensation expense and higher health insurance costs. In order to offset a portion of the anticipated impact of these headwinds, we have expanded the scope of Project Fortify Phase 2 to include further restructuring actions primarily in metals and corporate. Based on the expected benefits of the expanded scope of Fortify Phase 2, we now expect to incur a total of approximately $28 million to $29 million in pretax charges and deliver an estimated annual pretax cost savings of approximately $25 million to $26 million, with approximately $10 million of that benefit to be realized in fiscal 2027. In addition, we expect the majority of the tariff impact of fiscal 2026 not to repeat and to be a benefit to fiscal 2027.

Although we are in the initial stages of our planning for fiscal 2027, we are taking proactive measures such as the expansion of Fortify Phase 2 to manage near-term headwinds as well as position us to be more agile and better equipped to capitalize on growth opportunities as market conditions stabilize.

Finally, I want to recognize and thank our employees for their resilience and dedication. Their commitment is critical to our success. By executing with rigor today we are laying the groundwork for long-term value creation opportunities for our shareholders.

With that, we will now open the call to questions. Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And our first question coming from the line of Brent Thielman with D.A. Davidson.

Brent Thielman^ Don, I mean a lot has changed here since the last earnings call. And maybe if you could just start off and talk about what the Board is looking for terms of new leadership on a go-forward basis? And is there any different view on the strategic direction of the company going forward versus what's been vocalized is the strategy before particularly sort of scaling the Performance Services business?

Donald Nolan^ Brent, thanks for that question. No. No change in strategy. We remain focused on the existing strategies, the strategies that, quite frankly, were working before my tenure, focused on becoming the economic leader in our target market, continue to manage the portfolio, and pursuing accretive M&A opportunities in faster-growing markets, UW Solutions being the best example. Then strengthening our core, driving more efficient operations, greater scalability, and enabling sustained profitable growth. So no, it's strict. There's no change whatsoever.

Brent Thielman^ Okay. And sorry, Don, in terms of what you're looking for in terms of new leadership as you're out with CEO search here?

Donald Nolan^ Yes. So look, we started our process. And clearly, we're looking for someone who has deep growth and operational excellence experience, M&A integration, the things that are called out in our strategy.

Brent Thielman^ All right. Then, I mean in terms of the updated outlook, it looks to me like the big impact there is just this continued inflation and aluminum that we continue to see post-first quarter, I assume, is predominantly impacting the metals [segment and is that just] -- yes.

Donald Nolan^ (inaudible) I'll let you follow up with your -- the rest of your question.

Brent Thielman^ No, just in regard to the outlook and the updated outlook looks like it's primarily the metals segment, I presume. If that's the case, looks like you're sort of embedding a more severe impact to margins in metals in the fourth quarter relative to what you saw in the third quarter? Is that the right way to think about this?

Donald Nolan^ Yes, Brent, good observations. So yes, both -- I would say both in Metals and in Glass, the market dynamics continue to be very -- they continue to evolve. So yes, back on Metals, the primary issue there is the aluminum prices continue to increase. In our prepared comments we commented that between Q2 and Q3 aluminum prices went up 13%. Then even here in December, we're seeing continued increases in that price. So the margin pressures continue to build.

Then maybe a little bit in Glass as well. We have about a 60-day window on what we can see for orders. At the end of Q3 -- or excuse me, at the end of Q2, we thought that we would kind of maintain that level, but we're seeing slightly declines there. So we're, again, seeing a little bit of an impact both on volume and price going into the fourth quarter. I would tell you, though, that we remain focused on managing our margin dollars. So as to the best of our abilities, we're controlling costs and implementing things that we can control those costs, Fortify Phase 2 expansion as an example.

Brent Thielman^ And I guess notwithstanding some of the short-term pressures that you are seeing in the market, are the long-term kind of EBITDA margin targets that you laid out before to sort of appropriate to think about? Again, know there's going to be some nuances in the near term for some of the things you called out.

Donald Nolan^ That's exactly right, Brent.

Operator^ Our next question in queue coming from the line of Jon Braatz with KCCA.

Jon Braatz^ Oh, I'm sorry. I missed my cue. Don, I just want to go back to the sort of the strategic direction of the company. And how much emphasis you might place on M&A activity because let's face it, in the past, it just -- it hasn't turned out -- M&A activity hasn't been that positive for Apogee. It seems to me that focus should be almost exclusively on running the business as profitably as possible and returning cash flow to shareholders in terms of dividends and share repurchases. So I want to get a better sense from you as where you see M&A going forward?

Donald Nolan^ Well, look, our pipeline for M&A is robust. It's very active right now. We have spent a great deal of time and energy building all the processes and systems in the company to continue to drive M&A. UW Solutions was a great acquisition for us. 12 months in, we have achieved or beat all of our objectives. So -- it's a business that's growing robustly. Our Performance Services business, that segment, was able to successfully integrate the UW solutions almost doubling the size of the business and deliver organic growth at the same time. So we've demonstrated that we can execute. We can select a great acquisition that works for -- in our strategy. We have the discipline to execute on the integration, and we continue to work our pipeline aggressively.

Jon Braatz^ Okay. Another question. In the fourth quarter of last year when Project Fortify was announced, you mentioned $26 million in costs that will be incurred and savings of $13 million to $15 million. This quarter, you said cost of $28 million to $29 million, a little bit higher, but savings of $25 million to $26 million. What's the difference between the fourth quarter savings and what you said here in the first quarter? Am I -- did I have something wrong there?

Donald Nolan^ No. Jon, I'll take that. Yes. The ranges that you provided were accurate, the increases in costs are primarily headcount-based and holding our cost structure tight. We did incur some footprint-related matters in the fourth quarter here, which was the primary cost in the fourth quarter. But again, we're focusing on things that will drive cost savings going forward.

Jon Braatz^ So the cost savings, $13 to $15 to $25 million to $26 million, that's -- I'm correct with that number?

Donald Nolan^ Yes. That's what we're showing.

Operator^ Our next question coming from the line of Gowshi Sri with Singular Research.

Gowshihan Sriharan^ My first question is on the Metals and Glass. I know you guys have mentioned some pricing discipline with keeping the plans efficiently utilized. How are you thinking about the bid approval process threshold and hurdle margins over the six months? I mean, have you walked away from any large projects or packages that might recently that might leave kind of underabsorption risk in early fiscal '27? And are you willing to -- or when will you start considering the flexibility around the pricing discipline?

Donald Nolan^ I'll start off and then turn it over to Mark. But look, Glass is a highly competitive market, but the Glass team has been working hard to maximize EBITDA dollar contribution while protecting their premium margins. They face significant challenges on volume and price, true. But look, the business is in a much stronger position than during the last downturn. Even with the market challenges that we face today, Glass is still operating in the teens EBITDA margin versus mid-single digit in the last downturn. So yes, we're going to continue to focus on maximizing EBITDA dollar contribution as we move -- as the market shifts.

Mark Augdahl^ Don, I don't really have anything to add. I think you covered off what I thought was important, which is we implemented some really, really nice and solid pricing strategies as we were executing our -- initiating our current strategy, and we intend to continue on that process. Of course volume matters. So we need to look at every project and every opportunity when they come across.

Donald Nolan^ The other thing I would mention is, as was pointed out, Fortify 1, Fortify 2, we continue to actively manage our cost structure to mitigate these short-term headwinds. So in addition to making sure that we hold on to our margins and manage the top line appropriately, we're also managing our cost structure.

Gowshihan Sriharan^ Got it. And are you seeing any noticeable pricing differences between [you say your] strategic repeat customers as opposed to your more transactional work? Has that gap kind of widened or narrowed since we spoke in Q2?

Donald Nolan^ No. I don't think so. I think -- look, we're seeing higher volume of projects in Glass for sure. On average, a little smaller than what we've seen in the past (inaudible) It's a very challenging environment. (inaudible) Thank you.

Gowshihan Sriharan^ Yes. On the Performance Services side, can you kind of unpack on how much of that growth is coming from the high-margin SKUs versus kind of mid-tier offerings? And with the current mix, would you adjust your long-term margin aspirations for that segment?

Donald Nolan^ Well we've -- so -- and we mentioned this in past quarters, we took some share over the past few quarters in our distribution business. So these are -- think of it as a retail shelf space. okay? So we've expanded our shelf space. A couple of years ago, we lost some, and we gained that back. And that is a very attractive business.

The other area that I might mention is, look, the UWS Solutions is -- one of the reasons why we thought this was such an attractive acquisition is because it allowed us to enter a part of the flooring market that serves warehouses and manufacturing facilities. So this is a growth area and has demonstrated some nice organic growth for us.

Mark Augdahl^ In our highest performing segment. (inaudible)

Gowshihan Sriharan^ I'll make this my last question. I know you've highlighted the lower incentive compensation as a tailwind to margin across several segments this quarter. I know -- I think you've alluded that there will be some kind of normalization in the incentive compensation. But how should we think about, from a sustainability and talent standpoint, are you structurally resetting some of that incentive programs? Or is this paying below as a tough year? Are you -- as you look at the labor market in your key regions, are you comfortable with the overall comp structure remains competitive enough to execute Project Fortify and your growth plans?

Donald Nolan^ Yes. We believe our structure is fine. We just entered into a more difficult year, and we're not meeting our targets. So our compensation will be less this year, but we expect that to normalize into the future.

Operator^ Our next question coming from the line of Julio Romero with Sidot.

Julio Romero^ Don, could you help us think about how you view the company's growth trajectory and opportunity set? Then also, how does the next leg of growth in your view for the company translate to any change in ROIC hurdles or metrics?

Donald Nolan^ Well first of all, we'll be -- the strategy that we're focused on hasn't changed. So we remain focused on becoming the economic leader in the target markets we serve, managing our portfolio and strengthening the core. So no change, Julio, in how we think about where we're going to grow and how. The addition of UW Solutions certainly opened up new markets, new products that will enable us to grow faster. And as part of our managing portfolio strategy, we continue to look for new opportunities along those lines. So looking for acquisitions that will enable faster growth and at higher margins. We're going to talk a lot more about that on the next call when we talk about fiscal year '27.

Julio Romero^ Okay. Understood. I guess maybe can you dig into a little bit into the priorities that are more near term in nature? Obviously you have Project Fortify expansion, but any other kind of quicker turn wins or low-hanging fruit that you're looking to kind of achieve early on?

Donald Nolan^ Well delivering the results -- delivering our results will be critical. We're focused on delivering the year right now. I mean that's front and center.

Mark Augdahl^ Julio, I would just add. Yes, Project Fortify Phase 2 is probably the most important. But I would suggest that we're amping up AMS, again as we think about how we're trying to drive cost structure down, our best tool to do that is through the Apogee management system. So that's our -- that's going to be our tool to get there.

Donald Nolan^ Yes. [I mean to be frank], Julio. So AMS, I mean that's one of my observations for my first 60 days. The operational excellence and productivity improvements that we've been able to deliver through AMS are truly extraordinary, especially in the Glass business, where we're seeing strength across the board, safety, quality, on-time delivery, you name it. And by the way that was the birthplace of AMS. So they're leading the way and it shows what we can do with the rest of the company. So it will be a key focus for us.

The last thing is, I think I mentioned a couple of times, but accretive M&A, it's front and center, too. We have a very robust pipeline and we're active.

Julio Romero^ Got it. I guess just going back to my first question a little bit more, and it ties into your comment about robust M&A pipeline. Do you see any kind of viewpoint difference with regards to yourself versus the last management team with regards to kind of kind of IRR hurdles or rate of return hurdles when you look at that M&A and kind of moving forward with that?

Donald Nolan^ No. I don't think any difference in the -- in the financial analysis, but I would say move faster. With discipline, of course, but also faster.

Julio Romero^ Got it. That's helpful. I appreciate it. Then last one for me would just be on -- you gave some preliminary commentary on your fiscal ’27, you talked about you don't expect the tariff impact to reoccurring in fiscal '27. But any other kind of high-level thoughts with regards to how you see the possibility of revenue or profit growth in '27?

Donald Nolan^ Yes. I guess I'll reiterate kind of in the process right now of our doing our [AOPs], we highlighted what I view are the key tailwinds and headwinds that we have in front of us, tailwinds being Project Fortify Phase 2 and the tariffs not repeating and the headwinds of course we've covered now several times with normalization of incentive comp. And certainly, aluminum prices will continue to be monitored as we go through the fourth quarter and as we scenario-plan our AOP.

Operator^ And I'm showing no further questions in queue at this time. I will now turn the call back over to Donald for any closing comments.

Donald Nolan^ Well thank you for joining us today. We look forward to sharing the fourth quarter and full year results in April, along with our fiscal 2027 outlet -- outlook, I hope you have a great week. Thanks.

Operator^ Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. And you may now disconnect.