

Apogee Enterprises(Q2 2027 Earnings)

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Corporate Speakers:

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

Participants:

- Julio Romero; Sidoti & Company; Analyst
- Gowshi Sriharan; Singular Research; Analyst

PRESENTATION

Operator^ Good day and thank you for standing by. Welcome to Apogee Enterprises' second quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (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 2027 Second Quarter Earnings Call.

On the call today are Don Nolan, Apogee's Chief Executive Officer, and Mark Augdahl, our Chief Financial Officer.

During this call, the team will reference certain non-GAAP financial measures. Definitions of these measures and a 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.

Don Nolan^ Thanks, Jeremy. Good morning, everyone.

We appreciate you joining us today. I'm pleased to report strong second quarter results that exceeded our expectations and continued the momentum we established in the first quarter.

Revenue was \$391 million, up more than 9%, and adjusted EPS was \$1.17, reflecting disciplined execution across the business.

We benefited from swift pricing actions, productivity improvements, and the favorable contribution from our recent acquisition of Kalwall.

Based on our stronger-than-expected first half performance, we are raising our fiscal 2027 outlook for both net sales and adjusted diluted earnings per share. Across our segments, we continue to make meaningful progress on pricing disciplines, productivity, and operating improvements, demonstrating our ability to execute effectively despite evolving macroeconomic conditions.

We're advancing our strategic priorities through the acquisitions of Kalwall and GroGlass, expanding our differentiated product offerings and technical capabilities while increasing our exposure to attractive end markets. We are also building on the successful integration of UW Solutions, and the first-year performance as Apogee delivered on our deal model targets. This proven execution strengthens our confidence in successfully integrating these businesses and achieving their first-year financial objectives.

In metals, revenue and profitability improved year-over-year as pricing actions, productivity initiatives, and Fortify Two cost savings continued to gain traction.

We also continue to enhance operational execution through improvements in quality, on-time delivery, and customer engagement.

Services delivered their 10th consecutive quarter of top-line growth while increasing their backlog again this fiscal year. Strong award activity resulting in continued backlog expansion demonstrates our ability to consistently win new business and supports our confidence in the segment's long-term growth potential.

Performance surfaces delivered another strong quarter of revenue growth, reflecting continued demand for our differentiated products, and reflects positively on our strategic initiative to acquire businesses that have a greater growth profile.

As material inflation increased, we maintained pricing discipline and realized the benefits of pricing actions implemented earlier this year.

We will continue to actively manage pricing to preserve margins and offset inflationary pressures.

In our legacy glass business, while market conditions remain challenging, we made meaningful progress during the quarter against the action plan we outlined previously.

We have advanced several commercial initiatives aimed at increasing demand, implemented productivity improvements across our operations, and remained disciplined on costs.

While we still have work to do and the broader market remains pressured, we are encouraged by the progress achieved to date and believe the actions underway are helping position the business for improved performance and stronger profitability over time.

Across the company, we are seeing the benefits of the actions we've taken over the last year reflected in our results. While market conditions remain mixed, our focus on pricing, productivity, operational execution, and disciplined cost management continues to strengthen the business and supports our confidence in the increased outlook we announced today.

In September, we announced our second acquisition of the fiscal year as we continue to execute our growth strategy while maintaining a disciplined approach to capital allocation. With GroGlass, we are adding a highly differentiated business with leading technology, strong customer relationships, and compelling growth opportunities.

The acquisition supports our strategy of investing in higher-value products and capabilities that improve the quality and durability of our portfolio, and we are excited about the opportunities ahead as we welcome the GroGlass team to Apogee.

As part of performance surfaces, GroGlass will expand our technical capabilities and further increase our exposure to attractive, higher-value end markets. This will strengthen our presence in Europe while supporting broader global opportunities.

We believe the business will enhance our profitability profile and accelerate value creation over time.

As we begin integrating GroGlass, our focus will be on disciplined execution and delivering the strategic and financial benefits that supported our investment thesis.

Turning to Kalwall, I continue to be pleased with our progress following the acquisition.

As discussed last quarter, our focus has been on preserving the strengths that made Kalwall successful while thoughtfully integrating the business into Apogee.

Integration activities across finance, human resources, sales and marketing, and other key functions are progressing as planned, and collaboration between Kalwall and Apogee teams has been very strong. Importantly, our confidence in the strategic and financial rationale remains high.

Kalwall continues to perform in line with our expectations, and we remain on track to achieve the first 12-month financial targets.

We continue to see opportunities to leverage Kalwall's differentiated daylighting solutions and specification-driven business model while expanding relationships with architects, designers, and glazing contractors across the broader Apogee portfolio.

Overall, I'm encouraged by the progress we're making across the organization. Strong execution, continued advancement of our strategic priorities, and disciplined capital allocation are strengthening Apogee's growth and profitability profile and positioning us well to create long-term shareholder value.

With that, I'll turn the call over to Mark to provide additional detail on our financial results and outlook.

Mark Augdahl^ Thanks, Don. Good morning, everyone. Let me begin with a review of our second quarter performance and then discuss our updated outlook for the remainder of fiscal 2027, which reflects our strong first half performance and confidence in the business.

Beginning with our consolidated results, net sales increased 9.2% to \$391.1 million. The improvement was primarily driven by inorganic growth from the Kalwall acquisition, favorable price across most segments, and positive mix.

This was partially offset by lower volume in metals and glass, as challenging market conditions persisted during the quarter. Adjusted EBITDA margin increased to 12.7% from 12.4% a year ago, driven by favorable price, productivity improvements, Fortify Phase Two cost savings, and the accretive impact of the Kalwall acquisition.

Those were partially offset by higher material and manufacturing costs and the impacts from lower volume. Adjusted diluted EPS improved over 19% to \$1.17, exceeding our own expectations and reflecting improved operating performance across the business along with lower interest expense.

Turning to our segment results, metals net sales increased 1.8% to approximately \$144 million, largely due to favorable price, partially offset by lower volume. Adjusted EBITDA margin expanded to 15.4%, driven by favorable price, increased productivity, cost savings from Fortify Phase Two, and favorable mix.

Partially offsetting these benefits were higher aluminum costs and lower volume. The services segment delivered its 10th consecutive quarter of net sales growth, improving by almost 8%, primarily driven by volume.

Adjusted EBITDA margin increased to 5.8% due to project mix and higher volume. Backlog ended the quarter at \$833 million, up 5% year-over-year and 13% sequentially, reflecting continued success with project awards in a highly competitive environment.

Glass net sales increased over 21% to \$87.4 million, primarily driven by a \$16.4 million contribution from the Kalwall acquisition and favorable mix that was partially offset by lower volume and price as end-market demand softness persisted.

Adjusted EBITDA margin declined to 14.9% but greatly improved sequentially from 8.7% in the first quarter. The year-over-year change was due to lower price, higher manufacturing and freight costs, and lower volume, partially offset by the accretive contribution of the Kalwall acquisition and favorable mix.

As Don mentioned, we are pleased with the progress of the Kalwall integration, and the business continues to perform in line with our acquisition expectations.

We remain on track to deliver the first 12-month financial targets of approximately \$85 million in revenue and a 15% adjusted EBITDA margin.

Turning to performance surfaces, the segment delivered another strong quarter with net sales increasing by over 14% to approximately \$55 million, driven by higher volume and favorable price. Adjusted EBITDA margin decreased to 22.5% due to higher material costs, partially offset by price and higher volume.

Looking at cash flow and the balance sheet, year-to-date, net cash provided by operating activities was \$43.3 million compared to \$37.3 million a year ago. In the second quarter, we repurchased \$6.4 million of stock and returned \$5.5 million to shareholders through dividends.

Our balance sheet at the end of the quarter was strong, with a consolidated leverage ratio of 1.7 times, no near-term debt maturities, and significant capital available for the GroGlass acquisition and other future deployments.

Before turning to the outlook, I'd like to briefly comment on our recent acquisition of GroGlass.

We are excited about the opportunities this acquisition creates for Apogee, adding highly differentiated technology, broadening our reach into attractive end markets, and further expanding the capabilities of our performance surfaces segment.

Based on our current expectations, we anticipate approximately \$30 million in revenue and a 25% adjusted EBITDA margin in the first 12 months.

We believe GroGlass is a highly complementary addition that will enhance our long-term growth and profitability profile of both performance surfaces and Apogee as a whole.

Turning to our outlook, we are raising our fiscal 2027 net sales and adjusted diluted EPS guidance. These revised expectations reflect our strong first half performance, continued

execution across the business, the anticipated contributions from Kalwall and GroGlass, and current market conditions.

We now expect net sales between \$1.46 billion and \$1.5 billion and adjusted diluted EPS in the range of \$3 to \$3.40. Kalwall and GroGlass are expected to contribute meaningfully to revenue growth, while their impact on adjusted diluted EPS is expected to be modest in fiscal 2027.

We anticipate both businesses will further strengthen Apogee's strong cash flow generation profile this year and beyond. Additionally, we now expect interest expense of approximately \$15 million, an adjusted effective tax rate of approximately 26%, with capital expenditures between \$35 million and \$40 million.

Looking ahead to the second half, we expect both net sales and adjusted diluted EPS to be relatively balanced across the third and fourth quarters.

Overall, we are pleased with our first half performance and the progress we continue to make across the business.

The momentum we have built, together with the continued execution of our strategic priorities, reinforces our confidence in the increased fiscal 2027 outlook we are providing today.

We will now open the call to questions.

Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Please stand by while we compile the Q&A roster.

Our first question is coming from the line of Julio Romero with Sidoti & Company. Your line is now open.

Julio Romero^ Great. Thanks. Hi. Good morning, Don, Mark, and Jeremy.

Don Nolan^ Good morning.

Mark Augdahl^ Good morning.

Julio Romero^ Good morning. To start, maybe on the glass segment, it held up a little bit better than we expected. The organic sales declined to a much lesser degree than the previous two quarters. Can you speak to how that segment's performing?

You know, is some of that related to the new segment president that I believe was installed a couple of months ago?

You know, how much is it related to improving mix or any other segment initiatives there?

Don Nolan^ Yes, sure. Yes, the conditions haven't changed, quite frankly, in the marketplace.

We continue to see soft conditions out there and there's fewer jobs at lower volumes to chase, so.

And we're also seeing some delay in projects.

But I would attribute this to significantly improved execution.

But at the end of Q1, we talked a little bit about an action plan that we put in place. Well as a result of that, we are seeing increased order rates, enhanced operational productivity, and certainly strengthened cost management.

And all of those contributed to the improved performance in the segment. I mean don't get me wrong, we have some work to do yet, but we're making progress. I'm happy with that progress.

Julio Romero^ Excellent. Very helpful there.

On the metals segment, can you help us think about the split between structural price increases and the surcharges you've implemented to date, and then how much of the -- or does the updated adjusted guidance range embed any giveback as some of those surcharges unwind?

Mark Augdahl^ Julio, I'll start off.

So, first of all, within the metals segment, the impact of surcharges is probably a little bit less. What we typically do from a pricing perspective is, as aluminum prices go up, we build those actually into our -- into our pricing structure, not our surcharges.

So, it is built into the overall price. I would tell you that metals performed well in the quarter.

We were really pleased with their operational performance.

Then if you kind of look at it from a year-over-year perspective, certainly the impact of project Fortify Two has had a significant impact on it overall and the overall cost structure.

Don Nolan^ Yes. I mean just to emphasize, Julio, look, very happy with the pricing actions that they took. It contributed significantly to the quarter. Productivity improvement, though, is also a big part of the story, and as Mark mentioned, Fortify Two

cost actions. The other thing we think we had as a result of the pricing actions, we think we pulled ahead some of the volume.

So, that's also a contributor.

Julio Romero^ Great, that's helpful there.

Then last one for me before I pass it on is just thinking about where you are in the leverage here. A little bit above, I think your historical, your one and a half times target.

You've been active with the portfolio here. You've repurchased some shares, I believe, \$16 million year-to-date. Just help us think about how you rank capital allocation priorities. And does the M&A pipeline remain active here?

Mark Augdahl^ Yes, a couple of points there, Julio. I'll start off. You know, first and foremost, we feel -- we feel really confident about where we're at from a leverage perspective. Don't think there's any issues there.

Yes. We might be a little bit higher, but obviously that came with a couple of acquisitions in the quarter. We're confident in the amount of cash that we're going to be able to derive over the remainder of the year.

So, to the extent that -- to the extent that we don't identify another acquisition, we feel like that's going to be coming down throughout the remainder of the year. To the M&A point our pipeline remains active, and we believe there's still a very full funnel to do any kind of acquisition.

But obviously we're going to be very selective at this point. If the right acquisition comes around at the right price we'll have to consider executing on that.

But as of right now, we're really focused on delivering our results and delivering that cash flow.

Julio Romero^ Excellent. I'll turn it over. Thanks very much.

Operator^ Thank you.

Our next question is coming from the line of Gowshi Sriharan with Singular Research. Your line is now open.

Gowshi Sriharan^ Yes, hi, can you hear me?

Don Nolan^ Yes. Hi, Gowshi. Good morning.

Gowshi Sriharan^ Hi. This is [Garlet Anthony] for Gowshi. (inaudible). First question on the surfaces segment. Just trying to understand the margin trajectory here. Are you seeing

margins recover as you increase prices or as input costs get passed through, or are customers sort of pushing back?

Don Nolan^ Gowshi, would you mind repeating the question?

Maybe we didn't -- I'm not sure we caught the whole thing.

Gowshi Sriharan^ Alright. I was just trying to understand the price increases that you've taken in the surfaces segment.

So, are you seeing sort of margins recover as you pass on the input costs, or are the customers sort of pushing back?

Don Nolan^ Yes.

So, we have been -- we have been implementing pricing now for a couple of quarters, and I would say doing what we needed to do in order to recover margins.

So, it's a balance, though. You know, we mentioned in metals, for instance, it's a combination of productivity, cost out, and pricing. In between the three, using that to drive margin recovery.

But it's not all pricing.

Gowshi Sriharan^ Understood.

Don Nolan^ So maybe I'll hand it's

Gowshi Sriharan^ I got it.

Don Nolan^ Oh, thank you.

Gowshi Sriharan^ Yes. Okay.

Operator^ Thank you.

I am showing no further questions in the queue at this time. I will now turn the call back over to Mr. Don Nolan for any closing comments.

Don Nolan^ Thank you, everybody. In closing, I continue to be encouraged by the progress we are making across the business.

Our strong first half performance reflects the dedication of our employees, whose commitment to our customers and operational excellence drives our success every day.

We're delivering strong results in the current environment while continuing to strengthen our business through disciplined capital allocation and strategic investments. The progress we've made this year, including the acquisitions of Kalwall and GroGlass, and the continued execution of our strategic priorities, reinforces our confidence in the path ahead and our ability to create sustainable long-term value for shareholders. Thank you for your continued interest and support.

Operator^ This concludes today's conference call. Thank you for your participation. And you may now disconnect.