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- **Ty Silberhorn** *Apogee Enterprises Inc - President, CEO, & Director*
- **Matt Osberg** *Apogee Enterprises Inc - CFO & EVP*

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- **Operator**
- **Brent Thielman** *D.A. Davidson & Company - Analyst*
- **Julio Romero** *Sidoti & Company, LLC - Analyst*
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PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the Q2 2025 Apogee Enterprises' earnings conference call. (Operator Instructions) Please be advised, today's conference is being recorded.

I would like to turn the call over to your speaker today, Jeff Huebschen, Vice President of Investor Relations. Please go ahead.

Jeff Huebschen *Apogee Enterprises Inc - VP - IR and Corporate Communications*

Thank you, Kevin. Good morning, everyone, and welcome to Apogee Enterprises fiscal 2025 second-quarter earnings call. With me today are Ty Silberhorn, Apogee's Chief Executive Officer; and Matt Osberg, Chief Financial Officer.

I'd like to remind everyone that there are slides to accompany today's remarks. These are available in the Investor Relations section of Apogee's website. During this call, we 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 we issued this morning.

I'd also like to remind everyone that our call will contain forward-looking statements. These reflect management's expectations based on currently available information. Actual results may differ materially. More information about factors that could affect Apogee's business and financial results can be found in today's press release and in our SEC filings.

And with that, I will turn the call over to you, Ty.

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

Thanks, Jeff. Good morning, everyone. I'm very excited to share the highlights from another solid quarter and provide further insights into our recently announced acquisition of UW Solutions. I'll then hand it over to Matt to provide more details on the quarter and our outlook.

Let's start with the quarter highlights on page 5 of our presentation. As we expected, revenue declined compared to last year. Similar to the first quarter, this was partly due to our strategic shift away from less differentiated lower-margin product lines and a reflection of the continued softness in some of the end markets that we serve, particularly non-residential construction.

Even with the lower volume, our team continued to drive strong, adjusted operating margin expansion and delivered adjusted EPS growth. Adjusted operating margin was 12.6%, our second consecutive quarter with margins above 12%. And we had exceptionally strong cash flow from operations in the quarter.

As you'll see on page 7 of our presentation, results in the quarter were once again led by outperformance from architectural glass. The glass team continues to exceed our expectations due to strong pricing and mix despite pressure on volume. Architectural services was also a meaningful contributor to our year-over-year profit gains. Services delivered double-digit sales growth and achieved their sixth consecutive quarter of sequential adjusted operating margin expansion, moving closer to the 7% 9% target range.

Framing systems and large-scale optical both continued to deliver solid profitability despite lower sales volume. And importantly, both segments made progress on key strategic initiatives. Framing systems made further progress executing Project Fortify. keeping us on track to deliver our cost savings targets. They also continue to improve their service levels while positioning the business to outgrow the market.

In LSO, we made continued progress on our capacity expansion project, which we expect to come online during the second half of the fiscal year. Given the strong earnings results in the second quarter, we are increasing our adjusted EPS outlook for the full year as shown on page 9 to a range of $4.90 to $5.20. Our results continue to demonstrate the sustainable operating improvements we've achieved through the execution of our three-pillar strategy.

Following on the heels of this solid quarter, we were excited to announce our agreement to acquire UW Solutions, which we highlight starting on page 11 of our presentation. Before I get into the specifics of the transaction, I'd like to recognize the team at Apogee that has been directly involved in this process to bring it across the finish line.

UW Solutions is a strong strategic fit for Apogee, and this deal is an example of the focus, patience, and diligence of our M&A process and the supporting teams. This is a business we identified some time ago as a potential fit with our strategy. Our team worked directly with the seller, Heartwood Partners, to find a win-win path that will benefit everyone involved, most importantly, UW's employees and their customers.

This deal checks all the boxes we are looking for in an ideal acquisition. It brings differentiated solutions with leading positions in attractive markets. It complements our portfolio while expanding and diversifying our growth opportunities. And it is a strong performing business that will be accretive to our long-term financial profile.

UW Solutions operates around three product lines: HD printable materials, which has many similarities to our LSO segment, applies high-performance coatings to create premium products for the graphic arts market; industrial flooring, which applies high-performance coatings to engineered wood used primarily in warehouses, distribution centers, and industrial facilities; and engineered coatings, which formulates and produces a variety of high-performance coatings that are used internally, as well as sold to third-party customers for other applications.

This acquisition is very well aligned with our strategy to create peak value. UW Solutions is an economic leader in their target markets. They bring differentiated capabilities, well-established brands, and leading market positions. They also have an impressive record of execution and profitability with strong EBITDA margins. Adding UW Solutions will complement our current portfolio and expand our offerings into new segments.

The ResinDEK brand expands their offerings for non-residential construction, providing a meaningful entry into manufacturing, warehousing, and distribution projects with significant exposure to R&R versus new construction. The HD printable materials business accelerates our efforts to grow and diversify LSO's core business. And RDC Coatings brings in R&D capability to drive new product development and enable expansion into new applications and markets.

Importantly, the deal will leverage Apogee's core capabilities to drive value through the integration. We will enable cost synergies by leveraging areas like HR, procurement, IT, and finance. And we will deploy the Apogee management system to further enhance the manufacturing operations.

As shown on page 17 of our presentation, UW Solutions brings unique capabilities and process technology that are a strong complement to what we do in our LSO segment. Both businesses have expertise in developing and applying high-performance coatings to a variety of substrates.

LSO's current capabilities are centered around deposition and roll coating for glass and acrylic substrates. UW Solutions will add complementary capabilities in roll coating, curtain coating, and spray coating used on metals, wood, plastic, and other substrates. Together, these businesses will offer a broad range of manufacturing process capabilities that can provide a wide variety of coating types and high-performance substrates for a diverse set of market applications.

We plan to fully integrate the business into our LSO segment. The combined strength of these businesses will create a powerful new engine for growth. We will bring together a portfolio of leading brands that will serve a diverse set of customers and applications. The deal will also provide cross-selling opportunities and will accelerate growth drivers in both businesses. And as I described earlier, we will leverage the Apogee management system and our back-office capabilities to drive meaningful cost synergies.

We expect the acquisition to close sometime in our fiscal third quarter, and we plan to move quickly to execute a rigorous and comprehensive integration plan. This is a great business that strongly complements our strategy. We are excited for the opportunity to welcome UW Solutions employees to Apogee and look forward to working together to build a powerful new growth engine for the company.

With that, I will turn it over to Matt to comment about the quarter, our outlook, and the acquisition.

Matt Osberg *Apogee Enterprises Inc - CFO & EVP*

Thanks, Ty. And good morning, everyone. Before I begin with a discussion of our second-quarter results and outlook, I want to say how excited I am about the acquisition of UW Solutions. I want to reiterate Ty's comments on the strategic benefits of this deal and the opportunities for growth that it creates.

This transaction also demonstrates our ability to deploy capital for assets with accretive financials that build on the momentum that we have created in our existing business. I will provide more information on the acquisition toward the end of my comments.

Starting with our second-quarter results, net sales were down 3% year over year but improved sequentially compared to a decline of 8% in the first quarter. The sales decline in the quarter was primarily driven by lower volumes in framing, glass, and LSO. Similar to the first quarter, the volume decline was primarily driven by our strategic decision to exit some lower-margin product lines in framing as part of Project Fortify and by softness in parts of our end markets.

The lower volumes were partially offset by improved pricing and product mix in glass and favorable project mix in services. Despite lower sales, we delivered another strong quarter of profitability. Adjusted operating margin improved 110 basis points to 12.6%, driven by improved pricing and mix, favorable material costs, and lower insurance-related costs. Adjusted diluted EPS grew 6% to $1.44, which equaled the record adjusted EPS we reported in the first quarter. Adjusted diluted EPS growth was primarily driven by higher adjusted operating income along with lower interest expense.

Turning to the segment results, framing net sales declined 11% primarily due to lower volume related to our strategic shift away from certain lower margin product lines as part of Project Fortify. However, framing sales did improve sequentially compared to the first quarter. Despite the lower volume, framing continued to sustain adjusted operating margin within its 10% to 15% target range as the unfavorable leverage impact of lower volume and a less-favorable mix were partially offset by favorable material costs.

Net sales in glass declined 4%, primarily due to lower volume driven by softening end-market demand. This was partially offset by strong pricing and mix. Once again, glass operating margin exceeded our expectations, improving by 490 basis points to a record 23.4%. This margin overperformance was primarily driven by stronger-than-expected pricing and mix.

Moving to services, net sales grew 11%, primarily due to a more favorable mix of projects and increased volume. Adjusted operating margin improved 250 basis points to 6.5%, making this the sixth consecutive quarter of sequential margin expansion for services. Services backlog ended the quarter at $792 million, down from $867 million last quarter. Although backlog declined in the quarter, the overall trend remains positive, with backlog up 17% compared to a year ago, as prior to this quarter, services had experienced three consecutive quarters of sequential backlog growth.

LSO sales declined 16% primarily due to lower volume in our retail channel, partially offset by a more favorable mix. The volume decline was primarily driven by the impact of lower distribution at one of our retail channel customers. Operating margin declined 60 basis points to 19.1%, reflecting the impact of lower volume, partially offset by improved mix and cost savings. Corporate and other expenses were flat compared to the prior year, with higher compensation and benefit costs offset by lower insurance-related expenses.

Turning to cash flow and the balance sheet, cash from operations in the quarter was very strong at $59 million, up 42% compared to last year's second quarter. This brings our year-to-date cash from operations to $64 million, which is in line with the strong cash flow we generated in the first half of the prior year. Our balance sheet remains in a very strong position with low debt and no near-term maturities.

Additionally, during the quarter, we refinanced our credit facility. The new credit facility significantly expanded our borrowing capacity at favorable terms. The new facility provides up to $700 million of capacity through a $450 million revolving credit facility and a $250 million delayed-draw term loan. The increase in this facility gives us additional committed capacity to support our growth strategy. We expect to utilize the $250 million delayed-draw term loan, as well as cash on hand, to finance our acquisition of UW Solutions.

Moving to our outlook for the full fiscal year, we continue to expect net sales to decline 4% to 7%. This range continues to include approximately 2 percentage points of decline related to fiscal '25 reverting to a 52-week year and approximately 1 percentage point of decline related to the actions of Project Fortify to eliminate certain lower-margin product and service offerings.

We expect sales declines in framing, glass, and LSO to be partially offset by growth in services as we execute a strong pipeline of projects in our backlog. We now expect full-year consolidated adjusted operating margin will improve to approximately 11%, primarily driven by the strong margin performance in the first half of the year. We continue to expect adjusted operating margin to decline sequentially in the second half of the year, primarily due to lower volume and pricing pressure in glass.

As I mentioned, glass operating margin exceeded our expectations in the first half of the year, primarily driven by stronger-than-expected pricing and mix. Due to the high variable contribution margin in our glass business, operating margin is highly sensitive to changes in assumptions of price and mix. Our forecasts are based on price and mix data in our pipeline, as well as assumptions on when work will flow through production.

During the first half of the fiscal year, we saw workflow with favorable pricing and mix, which drove the margin improvement. Based on current visibility into our pipeline and end-market trends, we expect glass margins will moderate in the second half, moving into the top half of the 10% to 15% target range, with full-year operating margin in the high teens.

We continue to expect full-year framing adjusted operating margin to improve compared to fiscal '24 and be within the target range of 10% to 15%. For services, we continue to expect sequential adjusted operating margin improvement in the second half, with full-year adjusted operating margin approaching the 7% to 9% target range. We continue to expect LSO operating margin will decline compared to last year, primarily due to lower volume. Finally, we expect corporate and other expenses to be approximately $8 million per quarter in the second half of the year.

We are increasing our full-year outlook for adjusted diluted EPS to a range of $4.90 to $5.20, reflecting our stronger-than-expected second-quarter performance. As a reminder, we anticipate the reversion to a 52-week year will reduce adjusted diluted EPS by approximately $0.20. We continue to expect an effective tax rate of approximately 24.5% and full-year capital expenditures of $40 million to $50 million. We expect another strong year for cash flow, with cash from operations higher than our historical averages but below last year's record level.

Let me wrap up with some additional comments about the acquisition of UW Solutions. We are very excited to acquire a growth business and expect that the transaction will be accretive to our long-term financial profile, including revenue growth rate and adjusted EBITDA margin. We expect to achieve $5 million in annual run rate synergies by the end of fiscal '27.

Including these synergies and net of the $27 million tax step-up benefit, the purchase price represents approximately 8.5 times fiscal '26 estimated adjusted EBITDA. We expect to finance the transaction with cash on hand and borrowings under our current credit facility. At the close of the transaction, we expect our consolidated leverage ratio, as defined in our credit agreement, will be approximately 1.5 times. This leverage ratio still provides further capacity for us to continue to deploy capital for growth.

In fiscal '26, we expect the acquisition to contribute approximately $100 million in revenue at an adjusted EBITDA margin of approximately 20% and to be accretive to our adjusted diluted EPS. For fiscal '25, assuming the acquisition closes on November 1, we expect approximately $30 million of incremental net sales, and we expect adjusted diluted EPS will be reduced by approximately $0.10 due to increased interest costs and amortization expense. These potential fiscal '25 impacts are not included in the outlook we provided today.

In conclusion, this is a very exciting time for Apogee. Our team continued to execute at a high level in the first half of the year, delivering strong earnings results and positioning the company for improved long-term growth. Our healthy financial position and expanded credit facility provided us the opportunity to make an accretive acquisition while also investing in the business and returning cash to shareholders.

And we are positioned to acquire a business that we expect will create new growth opportunities for us in the future. We believe these outcomes are the result of tremendous efforts by the entire Apogee team to execute our strategy, and we intend to build on this momentum in the future.

With that, I'll turn it back over to Ty for some concluding remarks.

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

Thanks, Matt. To wrap up, our team delivered another strong quarter. We are continuing to build positive momentum as we execute our strategy, achieving significant margin expansion and adjusted earnings growth despite some softness in our end markets. We can do so given the stronger operating foundation we've built over the past three years. The acquisition of UW Solutions is an important milestone for our company as we point to both organic and inorganic growth, positioning the company for continued success as we move ahead.

With that, we are ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Brent Thielman, D.A. Davidson.

Brent Thielman *D.A. Davidson & Company - Analyst*

Hey, thanks. Good morning. Congrats on the transaction.

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

Good morning, Brent. Thank you.

Brent Thielman *D.A. Davidson & Company - Analyst*

Yes, maybe just to start on that, Ty, I was curious just on the cross-selling opportunities, maybe what you see there and how quickly do you think you can leverage that?

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

Yes, if we look at the HD printable materials, I would say the good news is there is not a significant customer overlap. We actually saw that as a positive. There are commonalities in the market, particularly in that HD printable material side of the UW Solutions business. So as we dug into that, both our team within LSO and the UW Solutions team see some really nice opportunities, and we've actually already had some outreach from customers with respect to that.

So that's a complementary offering to what we already provide into that custom framing and museum art business. So that's where I think we see the biggest opportunities. The flooring side of the business, which goes to market under the ResinDEK brand and is really recognized as a leader in that industrial flooring, where you're going to put robotics or automated solutions into those distribution centers, manufacturing facilities, it is a different go-to-market.

So I think we're being cautious in terms of how much crossover we see into some of our building products channels. But we do see opportunity to continue to build on the momentum within that business where they've built a strong partnership with some of those robotics companies and have some good inroads with some of the larger retailers as well as online and brick-and-mortar retailers in the market to drive that business growth.

Brent Thielman *D.A. Davidson & Company - Analyst*

Okay, I appreciate that, Ty. And then just because a lot of these areas are new, I'm wondering if maybe you could speak to some of the categories that UW brings to the company, more so just around from kind of the market share that these different businesses have, and would it be fair for us to think that these might be areas you're going to look to consolidate further?

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

Well, I'd say as you look at the business from an overall market percentage, there's -- we won't talk about shares in general, but they are very focused on premium parts of the market, both in that HD printable materials, which they go to market under the ChromaLuxe and Unisub brands, and then very much so again on the ResinDEK side as well, very focused on premium parts of the market.

So as we look at those, both of those markets are actually significantly large, but then as you get into kind of an addressable or core market focus, they become smaller as we drive that focus to be able to sell differentiated solutions.

As we look at our M&A pipeline, I think we've talked about still being focused on where we can add additional differentiated products into our portfolio, not just building materials products, although that is a core driver since that is the bulk of where our business sets. But we also continue to look at things that can continue to build out the capabilities we have within the LSO segment. So both areas will remain a focus for us in our M&A work.

Brent Thielman *D.A. Davidson & Company - Analyst*

Okay, and maybe just one on the core business. I mean, architectural glass just continues to be extraordinary contributions here from a profitability perspective. Matt, I caught your comments about the expectations into the second half of the fiscal year. Maybe just you could talk around what the inbound orders tell you, inform you. And as you are starting to see maybe some normalization or pressure on pricing, are you also seeing any indications that maybe that's leveling off at this point?

Matt Osberg *Apogee Enterprises Inc - CFO & EVP*

Yes, Brent. So yes, I mean, look, I love being wrong in the right way, and I've been wrong a few times on glass, but thankfully in the right way. As I tried to call out really just to give people some insights into that business, it's such a high variable contribution margin that as you look at what's in our pipeline and how that work will flow, it can really have a significant impact.

And the good news for us is we've seen an extended hold-up of price and mix that's really buoyed those margin rates over the past couple of quarters. So as we look into the pipeline that we see now, which is limited, we've got some insights, but we can't still see the rest of the year, there's always variability on what work flows through that pipeline, and there's variability on the pricing and mix in that pipeline too.

So as some of that is the expectation of what work will flow in and at what margin, that can have big changes. But we do see a more uniform profile in terms of lower price and lower margin mix in that pipeline than what we've seen in the first half of the year. That's why the outlook for the second half of the year is much lower than the first half of the year.

Like I said, we've got some visibility in there, but definitely not the rest of the year. We do expect that to moderate, like I said, in that upper half of that 10% to 15% margin rate for the back half of the year and ending somewhere in the high teens based on what we can see today.

Brent Thielman *D.A. Davidson & Company - Analyst*

Okay. All right. Very good. I'll pass it on. Congrats again on the transaction in the quarter.

Matt Osberg *Apogee Enterprises Inc - CFO & EVP*

Thanks, Brent.

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

Thanks, Brent.

Operator

Julio Romero, Sidoti & Company.

Julio Romero *Sidoti & Company, LLC - Analyst*

Thanks. Hey, good morning, Ty, Matt, and Jeff. Congrats again on the UW Solutions deal.

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

Thanks, Julio.

Matt Osberg *Apogee Enterprises Inc - CFO & EVP*

Thank you.

Julio Romero *Sidoti & Company, LLC - Analyst*

Hey, I was hoping maybe also staying on the deal a little bit, just if you could give us a sense of kind of the historical growth rate. I know you said on the press release that it was accretive to legacy Apogee, but just if you could give us maybe better granularity into maybe the historical growth rate that UW has had in the years prior.

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

Well, I think the key driver to that business over the last couple of years has been the industrial flooring segment. And just to give you a rough idea, we don't really want to break out the details, but that's about half, call it approximately half of their revenue base.

So that has seen some strong growth over the last few years, certainly had some significant growth as it came out of COVID or going into COVID and all the online increase. But then they've been able to kind of build upon that and then continue to have some very strong growth approaching double digit.

So we look at that part of the business. We see good momentum in that business going forward, a little lower growth rates in the rest of the business, and I would look at the coatings as being mostly internally consumed. They do sell to third parties for different applications, and so they have had some growth there. But most of that coatings business is consumed internally. So they're doing formulations that are then used on the other products that UW Solutions produces in the flooring and the HD printable materials.

Matt Osberg *Apogee Enterprises Inc - CFO & EVP*

Yes. The only thing I'd add, Julio, this is as Ty pointed out in his comments. This is a better-together acquisition, right? We talked about the additional capacity that we've got coming online in LSO, the R&D capabilities that come with this kind of acquisition, and some market crossover but some new markets. So I think that there is an opportunity to even improve on what they've been able to do with a better-together solution here in LSO.

Julio Romero *Sidoti & Company, LLC - Analyst*

Got it. That's really helpful. I appreciate that, guys. And that flooring business does seem pretty interesting, just given the exposure to some good secular growth themes like on-shoring, e-commerce, et cetera. Can you maybe just talk about that piece a little bit more, how the product offering is a bit differentiated? And then secondly, can you maybe speak to how the go-to-market strategy or the sales strategy, I guess, is a little bit different than your legacy business?

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

Sure. I mean, I'll start, and Matt can add additional comments if I miss some things. But if you look at that business, it really differentiates itself on the coating that's applied to the wood substrate. So it is an engineered wood product that is procured from a third-party supplier. Then UW Solutions has created and then applies its own proprietary coating on that engineered wood product to create not only a very durable surface, but also a surface that has very smooth and consistent thickness properties.

That becomes very important when you start to run different robots and automated equipment over that flooring. So the smoother, flatter that surface is, the easier it is for that robot to move around on that flooring, and it simplifies some of the software that has to be developed to make those automated robots effective.

The other piece is -- basically, think of it as sold in panels. That makes it easy to install. Most of the business or a large portion of the business goes into mezzanine flooring. So think of a distribution center that wants to add a mezzanine to basically create more inventory capacity, which has been a big driver even in some of the micro-fulfillment centers that have popped up over the last few years.

But because it's also a panel, in some cases, some of the customers have chosen to put metal strips in between those panels, which also can act as a way to charge the robots as they work across the floor, so there's some additional productivity and efficiencies that that solution brings to those customers.

The different go-to-market is really around, I would say, both the channel and who's driving the selection process. UW has really worked to create some strong partnerships with some of the robotics companies. When they're selling their robotic equipment, they're actually calling out for ResinDEK to be specified as the flooring solution to be put in place.

Now they also do sell straight out to other system integrators and even through some contractors that are just putting -- either replacing flooring or putting in mezzanine flooring. And we think there's an opportunity there to maybe tap into some of our relationships on the building product side. But it is a different go-to-market. We haven't really had a focus, as we've talked about before.

We know we sell some entrance systems and punch out commercial windows into, say, a new manufacturing plant or distribution center, but that's such a small dollar sale for us. It's not a focus area. So this brings some more attention for our teams to look at manufacturing, distribution centers, warehouses, and potentially even data centers. There's some work to do on the flooring in terms of fire rating, but data centers provide a long-term opportunity as well.

Julio Romero *Sidoti & Company, LLC - Analyst*

Very cool business. I'll be interested to dig into it a little bit more. And then maybe just last one for me is just on Project Fortify. Can you just make it easy for us and let us know how much restructuring is left for the next two quarters?

Matt Osberg *Apogee Enterprises Inc - CFO & EVP*

Yes, so from -- I'd comment two things. From a charges perspective, we're looking -- I think we've got, project to date, charges of about $14.7 million, and we ranged that between $15 million and $16 million. So not much more, I would say, coming in Q3. And then from a savings perspective, we raised our range. We were previously at a $12 million to $14 million annual operating -- or annual run rate.

We moved that range to $13 million to $14 million. So we're seeing ourselves coming in a little bit towards that high end of that range on savings and still on track. We said we'd deliver 60% of that in fiscal '25, the rest in 26. So I think it's still panning out to be on that kind of a cadence. I'd say on track, a little bit favorable from our perspective, in how we're executing Project Fortify.

Julio Romero *Sidoti & Company, LLC - Analyst*

Excellent. I'll pass it on. Thanks very much.

Matt Osberg *Apogee Enterprises Inc - CFO & EVP*

Thanks Julio.

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

Thanks Julio.

Operator

Jon Braatz, KCCA.

Jon Braatz *Kansas City Capital Associates - Analyst*

Good morning, everyone.

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

Good morning, Jon.

Matt Osberg *Apogee Enterprises Inc - CFO & EVP*

Hey, Jon.

Jon Braatz *Kansas City Capital Associates - Analyst*

Ty, going back to UW, would it be fair to say that most of their coatings are proprietary or custom solutions?

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

Yes, I would look at -- let me characterize it this way, Jon. So RDC Coatings has some meaningful R&D capacity, deep coating expertise. You're talking even some PhDs in that operation. So they have worked to not create new molecules but find the right blends of different materials that they can put together that not only maximizes the performance of the coating itself, but then working directly with UW Solutions, the process manufacturing engineering team, to really maximize both the quality of the coating through the manufacturing process as well as the performance and also help drive higher throughput and yield.

So it's a great combination from that standpoint. The business historically has operated mostly on a -- think of it as on a trade secret model. They really are careful about disclosing anything specific on the recipe of the coatings or even the specificity of how the coatings are blended together. And then the same goes for the manufacturing process, they're very careful about disclosing the different steps they do in the process to really get down the best coating possible that gives them the durability and the quality of that performance.

Jon Braatz *Kansas City Capital Associates - Analyst*

So they enjoy higher margins than obviously some type of maybe commodity type of coating?

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

Absolutely, for sure.

Jon Braatz *Kansas City Capital Associates - Analyst*

Okay, okay.

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

And again, Jon, I would point to what I had said earlier. They do sell coatings externally. RDC Coatings was a standalone business, and Heartwood had worked to acquire and bring that into the fold because the significant volume for them was coming through UW Solutions, but the majority of the work they do is consumed internally now.

Jon Braatz *Kansas City Capital Associates - Analyst*

Okay, okay. Do you anticipate, or was there any -- when you look at the performance of UW, were they capital constrained at all? Was there a constraint to their growth and that maybe with your balance sheet you can advance that a little bit further?

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

Well, I think the good news is Heartwood Partners, the private equity firm that had acquired them, was really focused on positioning that business for long-term growth. So they've made some significant capital investments. So they saw the double-digit growth being driven in that flooring business. And in the last 18 months, they had done a significant capacity expansion. So we actually have a lot of runway to grow that business.

Jon Braatz *Kansas City Capital Associates - Analyst*

Okay, okay. And maybe going back to a previous question, can you talk a little bit about the performance of UW across the cycle? And obviously, there are some things that have happened over the past couple of years that may have moved the needle a little bit, maybe more so than is typical. But can you talk a little bit about, like I said, across the cycle, how you see the revenues and the profitability?

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

Yes, if you were to look at those financials, clearly, in 2020-2021, there was a healthy bump as everything went to online and there was a need to quickly build out additional capacity in distribution centers. So they certainly enjoyed a very healthy jump and kind of drove the need to put additional capacity or have the wherewithal to know that that was going to be a need going forward.

That of course settled back down. But then kind of with that big bump year behind them, they were able to start to get that business back onto a double-digit growth rate. It is significant. Again, we're not going to share the percentages from a market competitive standpoint, but it is significant exposure to R&R.

So they are not relying on new manufacturing or new distribution centers to be built. Those certainly provide opportunities, and they certainly have sold into new construction. But we like the fact that when we look at the stuff that they have sold over the last three years it is -- the majority of it has gone to R&R. So someone in an older existing distribution center or manufacturing facility that they want to put mezzanine flooring or they're moving to robotics and they want to put that flooring in to simplify the robotic solution.

Jon Braatz *Kansas City Capital Associates - Analyst*

Okay. All right, Ty. Thank you very much. Appreciate it.

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

Thanks, Jon.

Matt Osberg *Apogee Enterprises Inc - CFO & EVP*

Thanks, Jon.

Operator

Gowshihan Sriharan, Singular Research.

Gowshihan Sriharan *Singular Research - Analyst*

Good morning, guys. Can you hear me?

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

Yes, we can. Good morning.

Gowshihan Sriharan *Singular Research - Analyst*

Good morning. Congratulations on the acquisition. Just a question on the $100 million forecast for 2026 on the UW solutions. Does this projection primarily reflect the existing product offerings, or does it include the potential revenue from new products, cross-selling, if you could just give us some color on that.

Matt Osberg *Apogee Enterprises Inc - CFO & EVP*

Yes -- so yes, I think the $100 million, that's what we can see today with the current product offerings. Obviously, we want to -- we're still at a stage where we're learning more and more about that business and what we can do. And we've done a lot of diligence, obviously, through the acquisition process.

So the $100 million is what we can see is something that we can do with the business today. We're, of course, going to get into that business and look for further opportunities. But it takes time to develop new products, new relationships, cross-selling opportunities. And while we'll pursue them, I would say there's not much of those built into the fiscal '26 number.

Gowshihan Sriharan *Singular Research - Analyst*

Okay. And a CapEx guidance for $40 million to $50 million dollars for this. Does that include any kind of additional CapEx for UW, or that's an additional on top of that?

Matt Osberg ***Apogee Enterprises Inc - CFO & EVP***

No, it doesn't, but I wouldn't expect that to be very material. As Ty said, I think they're coming into this acquisition in a good state. We'll continue to look at their CapEx needs as we roll into fiscal '26, but I wouldn't expect our CapEx spend for this year to be impacted materially by the acquisition.

Gowshihan Sriharan ***Singular Research - Analyst***

Okay, and do you have any color on the kind of CapEx that will be required to fully leverage the UW acquisition beyond '25?

Matt Osberg ***Apogee Enterprises Inc - CFO & EVP***

I think that's something we can get into as we start looking into fiscal '26. As we look at it, we have to balance those investments against the other priorities in our business and just make sure we're striking the right returns on our investments. So something as we get into fiscal '26, we'll be looking at.

Ty Silberhorn ***Apogee Enterprises Inc - President, CEO, & Director***

Yes, I would just add what I said earlier. Heartwood Partners had made a significant investment in coating capacity, and that was our question going in, double-digit growth on flooring, what's capacity look like? And the good news is a brand-new coater that's been running for over a year with really great yields and productivity and plenty of runway to add volume.

Gowshihan Sriharan ***Singular Research - Analyst***

Okay. I think you mentioned that the $30 million is not reflected in your sales forecast, or is that because you're still forecasting a decline of 4% to 7%? Is that you're seeing extra softness in the market or is that just not included in the sales forecast?

Matt Osberg ***Apogee Enterprises Inc - CFO & EVP***

So the sales forecast that we gave does not include any fiscal '25 impact for the UW Solutions acquisition, just because at this point it's not closed, right? And we have to think about that to get closed and the timing of it. But I wanted to provide kind of an order of magnitude of what might happen if that acquisition was to close on November 21 so that from an EPS or revenue perspective, our current guidance does not include any fiscal '25 impact from UW Solutions acquisition.

Gowshihan Sriharan ***Singular Research - Analyst***

Okay, and just one last question. On your last call, I think you mentioned that you'd be venturing beyond the west of the Rockies. Does the backlog reflect -- how much of the backlog is reflecting that transition out into the west of the Rockies?

Matt Osberg ***Apogee Enterprises Inc - CFO & EVP***

Yes, I would say it's promising. We're seeing a lot more activity west of the Rockies. We obviously don't break out our backlog into that amount of detail, but I would say the team's making progress, and we're seeing a lot more activity in the west side of the US.

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

Yes, particularly for services. They've won some stuff out there. They have some nice projects that are in queue that they're waiting to get greenlighted to move them into their backlog that would boost their revenue for west of the Rockies as well.

Gowshihan Sriharan *Singular Research - Analyst*

Okay. That's it for me. Thank you.

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

All right. Thank you.

Matt Osberg *Apogee Enterprises Inc - CFO & EVP*

Thank you.

Operator

And I'm not showing any further questions at this time. I'd like to turn the call back over to Ty for any closing remarks.

Ty Silberhorn *Apogee Enterprises Inc - President, CEO, & Director*

All right. Well, great. Thank you very much for joining us today, and I look forward to providing another update in January. Have a great weekend.

Operator

Ladies and gentlemen, this concludes today's presentation. You may now disconnect, and have a wonderful day.

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