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APOG - Q3 2017 Apogee Enterprises Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Apogee Enterprises, Inc. Q3 fiscal 2017 earnings conference call. (Operator Instructions). As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Ms. Mary Ann Jackson. Ma'am, you may begin.

Mary Ann Jackson - *Apogee Enterprises, Inc. - Director of IR*

Thank you, Crystal. Good morning and welcome to the Apogee Enterprises fiscal 2017 third-quarter conference call on Thursday, December 15, 2016. With us on the line today are Joe Puishys, CEO, and Jim Porter, CFO. Their remarks will focus on our fiscal 2017 third quarter and our outlook for fiscal 2017 as well as the acquisition we completed yesterday morning.

During the call we will discuss non-GAAP financial measures in talking about Apogee's performance. You can find definitions for these non-GAAP financial measures in our press release. Our call also contains forward-looking statements reflecting 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 our SEC filings.

Joe will now give you a brief overview of the results and then Jim will cover the financials. After they conclude Joe and Jim will answer your questions. Joe?

Joe Puishys - *Apogee Enterprises, Inc. - CEO*

Thank you. Good morning, everyone, and welcome to Apogee's fiscal 2017 third-quarter conference call. Once again we delivered strong quarterly results as we successfully executed our strategies to grow through new products, new geographies and new markets. At the same time our backlog, awards, bidding levels support our outlook for sustained growth in fiscal 2017 and beyond.

With our continued confidence in our ability to deliver strong financial performance in fiscal 2017, we have increased our earnings per share guidance for the full-year while maintaining our outlook for double-digit top-line growth.

Our growth strategies include pursuing acquisitions that expand our market opportunities. And to that end yesterday we closed on the acquisition of Sotawall, a premier curtainwall company with annual revenues of approximately $100 million. It is a great addition to the Apogee family and I will provide more color on this strategic transaction after my comments on the quarter. Of course our results are exclusive of this acquisition.

Our strong top- and bottom-line performance in the third quarter driven by our Architectural businesses which are executing strategies for long-term growth and operational improvement. Our Architectural businesses are operating well increasing productivity and maximizing pricing and margins while leveraging volume growth. Our results reflect the position of competitive strength we have established in the commercial construction markets.

Our six Architectural businesses in our three segments performed well in all aspects. Every business grew top line well above end markets with improved gross and operating margins. Our lean initiatives are contributing to solid profit conversion and adding to our volume leveraging resulting in triple-digit basis point margin improvement.

And although our LSO business is experiencing soft end markets, this business continues to drive impressive margins and has a terrific future as we expand into new markets with our intellectual property. And Q4 is shaping up to be a nice quarter for LSO.

Our strategic focus is to better position Apogee's performance over a cycle and achieve earnings stability in any market environment. Strategic successes in the third quarter that will help reduce cyclicality included growing our share of midsize projects in Architectural Glass and expanding penetration of our retrofit initiative.

Another accomplishment in the fiscal third quarter that will help us sustain our growth momentum was finalizing an increase in our credit facility to support our acquisition efforts, giving us substantial borrowing capacity.

Before I turn to our acquisition announced yesterday I would like to note that in our earnings press release and our discussion here we are now reporting backlog by segment. As our mix of businesses evolve backlog is a meaningful metric at the segment level. It is not a meaningful consolidated Apogee metric.

It is most important in our services segment, which has very lumpy input as our actual average project size is between $15 million and $20 million. And projects enter backlog in total on the day the contract is executed.

Although Q3 backlog in this segment declined from Q2, we have had substantial awards in Q3 and since quarter end. And I expect a very significant increase in our services segment backlog in Q4, which bodes well for our fiscal 2019 and fiscal 2020 in the services segment.

Regarding our acquisition of the assets of Sotawall Inc., I couldn't be more excited about concluding this deal for a very successful company with strong customer relationships, a stellar management team and an experienced employee group. The acquisition is a perfect fit for the M&A strategy goals we have outlined.

First, it supports our strategy to grow our business through geographic expansion and new products. The acquisition gives us growth in Canada and increased share of demand in certain US markets where we have not been strong. Sotawall has some proprietary curtainwall products that we look forward to leveraging into our framing system segment and we see longer-term potential supply chain synergies.

Second, the $100 million revenue company is respected in North America, the commercial construction industry and is well -- extremely well run by a management team that is staying with the business.

Third, Sotawall is focused on delivering curtainwall solutions that result in smooth, streamlined, on-budget projects, yields attractive operating margins. More on that in a moment.

And fourth, Sotawall is also an excellent cultural fit with Apogee. It is a business known for quality product and high integrity. We have known the Sotawall president, owner and leadership team as a customer of our Architectural Glass business for more than 20 years.

Sotawall will operate as a bolt-on separate business, now the eighth operating unit in the Apogee family. It is growing; it has EBITDA margins that will be accretive to Apogee and our Framing Systems segment in fiscal 2018. As Warren Buffett says about bolt-on acquisitions, more EBIT for you, less work for us.

We paid approximately $135 million using cash of approximately $65 million and debt from our recently expanded and previously untapped $175 million revolving credit facility. As we move quickly into integration we will be developing projections for the acquisition to incorporate into Apogee's fiscal 2018 goals and financial outlook.

Jim Porter will now cover the financials in more detail.

Jim Porter - *Apogee Enterprises, Inc. - CFO*

Thanks, Joe. Good morning. First I want to express that I too am very pleased with our acquisition of the assets of Sotawall, which we closed and announced yesterday.

We are excited to begin working with this very successful business which supports our strategies to grow through expanding our geographic presence and adding new product offerings. It gives us another great brand and management team and, as Joe noted, this business lines up nicely with the M&A criteria that we have previously discussed.

We had a great third-quarter. We are driving top-line growth as we continue to expand geographies served, introduce new products and penetrate new markets. Our quarterly revenues were up 15% as we again outperformed our architectural end markets.

Operating income of $33.3 million was up 19% on strength in our architectural segments and excellent operational performance across all four segments. Our outstanding operational results were somewhat offset by higher than normal healthcare and other insurance-related cost in the quarter.

Gross margin of 26.6% and operating margin of 12.1% were each up 40 basis points compared to the third quarter of fiscal 2016. Earnings per share of $0.78 were up 24%.

I will add a bit more detail on the quarterly segment results compared to last year. As Joe noted we are now providing our backlog discussion by segment since it is more relevant to our business today. Investors have been encouraging us to rethink how we present and discuss backlog. We have heard you and we agree.

Our mix of business today is different than it was when we started presenting consolidated backlog more than 15 years ago. Today almost two-thirds of our backlog is generated by our Architectural Services segment which represents approximately 25% of our revenues and is a business that we are deliberately growing more slowly as we focus on project selection and margin improvement.

Much of our business in the other two Architectural segments, Architectural Glass and Architectural Framing Systems, is now quicker turns with more book and bill within a quarter and therefore carries less backlog.

Turning to the segments, in Architectural Glass third-quarter revenues were up 25% on particular strength in US midsize projects, a market sector we are focused on expanding as we take advantage of our shorter lead times.

The midsize project sector also strategically increases our position in a less cyclical portion of the market. Operating income was up 40% to $11.7 million and the operating margin grew to 10.9% on solid volume growth, improved pricing and product mix as well as strong shop floor productivity. Segment backlog was $84.7 million compared to $90.7 million in the previous quarter.

With our regular interaction with architects, the Architectural Glass segment has the greatest visibility to future projects as we see what projects are on the drawing board well before they go out to bid in the marketplace. That said, as Apogee's Architectural Glass business has achieved shorter lead times, which is strategically important to serve midsize projects, we have more book and bill activity within quarters and don't require an increase in backlog to grow revenue.

In Architectural Framing revenues were up 19% as we had volume increases in all of the operating businesses in this segment. Operating income grew 28% to $11.8 million and operating margin increased to 13% as a result of volume growth and productivity. Architectural Framing segment backlog was $164.1 million compared to $130.5 million in fiscal 2017's second quarter as bookings increased significantly in the quarter.

As we noted in our press release, with the Sotawall acquisition we are expecting do add in the range of $75 million to $100 million in backlog to this segment in the fourth quarter. Over half of this segment's revenues will continue to be generated by smaller projects with shorter lead times that are generally more of book to bill business in nature.

Third-quarter Architectural Services revenues grew 5% and operating income grew 33% to $4.9 million. The operating margin increased to 7.6% on good execution of projects with better margins and volume growth. Segment backlog was $195.5 million compared to $236.1 million in the second quarter.

With substantial Architectural Services awards since the third quarter ended we are expecting that the fourth-quarter backlog for this segment will increase significantly from the current level. Despite our comments about confidence looking forward in this segment, we get a lot of questions and even concerns about the backlog volatility.

We regularly talk about the lumpiness of order flow for this segment, so I thought it might be helpful to provide one historical reference. From the fourth quarter of fiscal 2013 to the third quarter of fiscal 2014 we had three out of four quarters for this segment with book and bill below 1, yet we have had 9% compound segment revenue growth since that period. So it's just a lumpy order flow and we have learned to understand that. We feel good about the very strong pipeline of future project work that we are pursuing for this business going forward.

Backlog mix across the three architectural segments continues to reflect strong activity in the office sector with more than half of the overall work in backlog in the office sector. The remainder of the backlog is balanced across the institutional sector which is government, education and healthcare and multi-family projects as well as in the hotel, entertainment and transportation sectors combined.

Large scale optical revenues were down 9%. US custom picture framing end markets were softer than expected, but we are anticipating some recovery with year-on-year growth in the fourth quarter. Operating income was $5.9 million compared to $7.6 million in the prior year period. Operating margin was 26.8% compared to 31.5% as somewhat stronger product mix was more than offset by lower volume. Operational performance remained strong and we continue to work to develop newer markets for these high-margin products.

Our capital allocation strategy rooted in strong cash flow supports cash returns to shareholders and investments for future growth. In the quarter we had positive free cash flow of $16 million compared to $17 million in the prior year period with strong earnings and good working capital management. The current year capital expenditures are higher as we progress on our investments primarily related to new capabilities and productivity across our businesses.

Our cash and short-term investments, including restricted cash, totaled $97.1 million at the end of the third quarter. Our debt of $20.4 million at the end of the third quarter is primarily low interest industrial development bonds. Yesterday we used approximately $70 million of our cash and $65 million of our revolver debt for the acquisition of Sotawall.

Reflecting on Apogee's ongoing commitment to enhancing shareholder returns, in the third quarter the Company paid cash dividends of $3.6 million and we repurchased 250,000 shares of common stock at a cost of $10.8 million consistent with our approach to offset dilution from our compensation programs.

We continue to have strong days working capital management with our DWC at 46 days in the third quarter compared to 48 days in the prior year period. And the tax rate for the quarter was 32.1% versus 33.6% in the prior year period as the R&D credit is now recognized throughout the year.

I will turn to our outlook. Our fiscal 2017 full-year outlook continues to reflect expectations for increased growth, strong margins and a double-digit increase in earnings per share based on our performance trend and the visibility that we have in our markets.

The following guidance we are providing at this time for full-year fiscal 2017 does not include the impact of our Sotawall acquisition, which at this point is expected to add about $15 million to revenues in the fourth quarter at approximately breakeven margin with acquisition cost and the purchase accounting effect on intangible amortization.

So without Sotawall we are increasing our fiscal 2017 earnings per share outlook to a range of $2.85 to $2.95 per share as a result of solid operational performance and productivity expectations for the rest of the year in good nonresidential construction end markets. We have maintained our outlook for approximately 10% full-year revenue growth. We are expecting the full-year gross margin to be approximately 26.7% and the full-year operating margin to be approximately 11.5%.

For fiscal 2017 we expect depreciation and amortization of $33 million and we anticipate that our fiscal 2017 tax rate will be approximately 33%. At year end we will reconcile for you any impacts of Sotawall on these estimates.

For fiscal years 2017 and 2018 specifically we continue to expect mid-single-digit growth in US commercial construction markets as market activity, job growth, office vacancy rates and forward-looking indicators like the architectural billing index all show positive momentum. Specifically, the ABI has been at 50 or better for 20 of the last 24 months indicating sustainable growth in architectural activity.

There have now been 73 straight months of private sector employment growth in the United States driven by jobs in the office occupying, healthcare and hospitality sectors, all sectors important to us. And there is a good balance of new construction with existing office space without overbuilding. US office vacancy rates as reported by CB Richard Ellis continued to decline in the third quarter making it the 25th consecutive quarter in which it decreased or was unchanged.

At this time we are not providing a specific outlook for fiscal 2018 incorporating acquisition of the $100 million revenue Sotawall business. Sotawall's operating margin, not including intangible amortization from the purchase, is expected to be accretive to the Architectural Framing System segment operating margin. In fiscal 2018 on a reported basis, including intangible amortization, we are currently expecting the operating margins to approach that of the Architectural Framing Systems segment.

We feel good that our internal visibility from backlog, awards and bidding combined with the external marketing metrics supports our outlook for sustained growth into fiscal 2020. We have good momentum and solid strategies that we believe continue to position us to perform better over any economic environment. I will turn the call back to Joe.

Joe Puishys - *Apogee Enterprises, Inc. - CEO*

Thanks, Jim. Before I take your questions I would like to underscore that we feel very good about the future opportunities for Apogee based on our bidding, our awards and our backlog as well as the external metrics Jim highlighted. The ABI, lost employment, vacancy rates all support sustained growth for our Architectural segment.

At the same time the strategies we are executing are making Apogee a more diversified and stable Company than we have been historically. We are benefiting from our focus on midsize architectural glass projects, the retrofit market and expansion within the Framing Systems segment which generally serves small to midsize projects. In addition, our disciplined, reliable, repeatable business processes are driving continued improved margins.

We are not your father's Apogee. We are better positioned for longer-term growth as we leverage the current market strength and execute our acquisition strategy. As Jim mentioned, the Sotawall acquisition not only provided us geographic growth, but it has very attractive margins.

And his last comment I would like to repeat: Even with the amortization that results from purchase accounting, that business will still drive operating margins next year at the level of our high-margin Framing Systems segment. This is a terrific deal.

Crystal, I would like you to open up the call for questions now please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Chris Moore, CJS Securities.

Chris Moore - *CJS Securities - Analyst*

Good morning, guys. Just a couple questions on the Sotawall. So in terms of the kind of geographic footprint, can you be more specific there within the US areas that they have some strength that perhaps you don't at this point in time or where that will expand?

Joe Puishys - *Apogee Enterprises, Inc. - CEO*

So they are a Canadian-based company, but they do a significant amount of business in the Northeast United States where our share of demand is less than it is in other parts of the United States. We are very pleased with that. We have got an opportunity to expand our presence in the Canadian market.

I think you know we have a Canadian business, but that business focuses primarily on what is called windows and frankly primarily store entrance systems which is doors. This is a curtainwall product, meaning the larger size products for the windows and walls on buildings. So Canada and primarily Northeast United States where this will help us get -- leapfrog our share demand.

Chris Moore - *CJS Securities - Analyst*

Got you, okay. With respect to the growing share of the midsize projects, can you talk a little bit more about -- I know it is a kind of quicker turnaround -- the competitive dynamics there versus on the larger side? Are there different players that you are competing against or kind of help us understand what you are seeing there?

Joe Puishys - *Apogee Enterprises, Inc. - CEO*

Good question, Chris. So when I came here our largest business, our Viracon glass segment business, nearly two-thirds of their revenue and hence nearly a third of Apogee's revenue was concentrated in large office towers, Class A commercial towers of greater than 10 stories. Frankly most of that was greater than 20 stories. So think of very, very large metropolitan buildings. That is the most volatile or let's say has the greatest peaks and valleys within the commercial construction cycle.

Today that is approximately only a third of Viracon in our glass segment and less than 9% of Apogee. This bodes well for us, meaning we have moved down into these midmarket buildings, five to 10 stories. It is the same customer base; it requires consistent strong delivery of that six to seven week time, which half a decade ago we were not able to do.

With the investments we have made we are executing extremely well in that category with current customers, meaning existing customers. And it has been a very successful effort for us. It is also far more difficult for international players that are enjoying a very strong US dollar right now because the lead-times are nearly impossible to hit for non-domestic players.

So we have made great strides in this segment to not only offset any share loss in the massive towers, but to make us less dependent on the most volatile segment in commercial construction. So it bodes well for our future.

Chris Moore - *CJS Securities - Analyst*

And last question. Are the margins much different, midsize versus larger buildings, for the glass?

Joe Puishys - *Apogee Enterprises, Inc. - CEO*

Same exact margin profile.

Chris Moore - *CJS Securities - Analyst*

Got you, okay. Thanks, guys.

Joe Puishys - *Apogee Enterprises, Inc. - CEO*

(Multiple speakers) for high quality glass, these are really wonderful buildings, they just need faster lead-time and we are able to do that with our US footprint.

Chris Moore - *CJS Securities - Analyst*

Terrific. Thanks much.

Operator

(Operator Instructions). Sam Eisner, Goldman Sachs.

Sam Eisner - *Goldman Sachs - Analyst*

So can we talk a bit about the framing segment and the kind of significant acceleration that you've seen in the backlog there? Is there anything -- is that Alumicor that has been driving that up in Canada? Are there other things going on in that segment?

It just seems as though in the last three or four quarters here your order intake for that business has materially stepped up. And so, I'm curious if you can give some color on what is really happening beneath the surface because there are a couple businesses in that framing segment.

Joe Puishys - *Apogee Enterprises, Inc. - CEO*

Yes, Sam, there are four businesses, now five with the Sotawall acquisition. And there is no question we have strategically been focusing on expanding our presence and capabilities. It has been our largest investment thrust for us for a couple of reasons.

The margins are attractive, it is far more fragmented so the share of demand profile, there are many, many regional players. If you have a high quality company like the four, now five businesses under the Apogee umbrella you can gain share and we have been doing that. All four of the existing businesses are growing substantially on the top line and bottom line.

Your comment about backlog, again this is more of a faster turn business so the increase in backlog reflects real true long-term revenue growth potential in that business. Within the business our window business based in Wausau has the longest lead time and we have had tremendous success in growing that business in the United States. So Sam, all four businesses are growing significantly and that has contributed to the revenue growth and the backlog.

This business can be lumpy as well and we have that warning but it does not have that dynamic that our services segment has with the lumpy sales as Jim pointed out. And I tell you guys all the time, I have great visibility to what should be entering backlog.

We purposely highlighted our focus on the services segment, as Jim mentioned, it is two-thirds of the backlog. Right now I have I believe more work in contracts in review, meaning awards, that are going to go into backlog going into a quarter than I have seen since I started here. So unfortunately it wasn't a smooth year for services. When the year is over this business will have grown nicely.

I will simply say I expect a substantial increase in backlog, actual backlog entry and services segment in Q4. I'm telling you that now; I'm not going to brag about it when it happens. We have seen strong momentum in project bidding and award activity in the third quarter, more work is being released to the Street in both this segment and in Framing Systems.

So long way around the barn, all four businesses in Framing Systems are growing nicely. They backlog bodes well for F 2018. And in our services segment the backlog growth I am forecasting bodes well for F 2019 and 2020. I do wish we had a more smooth quarter-by-quarter flow to that, but when the year is over I think you are going to be impressed with our services segment backlog.

Jim Porter - *Apogee Enterprises, Inc. - CFO*

I will provide just a couple of other comments on the Architectural Framing Systems backlog, which is -- two things that are going on within those businesses is over the last two years we have been increasing and upgrading the sales force really in all of those businesses combined with you hear us talk a lot about project selectivity and really implementing targeted focused project selectivity. And those two aspects combined in terms of the people and the focus, we have seen an increase in our hit rate in those businesses which is helping us drive the increase in order flow.

Joe Puishys - *Apogee Enterprises, Inc. - CEO*

Sam, this is Joe again. I know you like to talk to me about backlog, and it is not like we are not providing the data. The only backlog we don't present is our LSO backlog which is frankly irrelevant. It is $1 million or $2 million every quarter because it has a three day lead time. So we provide that in the Q as well. So we are providing the full backlog but we prefer to discuss it by segment.

Sam Eisner - *Goldman Sachs - Analyst*

Maybe just continuing on that because that was extremely good color there. You guys used to give kind of the amount of the backlog that would be delivered in the current year and the upcoming year. Is there a way to parse that out on a per segment basis? Obviously understanding that the services backlog, you book the entire value of that business into backlog at the time that you sign the contract. So I'm just curious, how far out does your backlog extend. If we can just get a phasing of when you expect to deliver on -- I guess on a per segment basis on those backlog that would be great.

Joe Puishys - *Apogee Enterprises, Inc. - CEO*

Yes, think we're going to have to follow up on that. Nothing unusual, Sam. Let me go around the Horn. In the glass business most of our lead time -- most of our backlog ships within six, seven, eight weeks of when it enters. So we enter the quarter with six, seven weeks of backlog we'll exit the quarter. So most of that -- half of that ships in the quarter and the other half will be in the first quarter.

The services segment, the backlog is primarily for the next year and beyond. Most of the awards I am highlighting that will be extremely strong in Q4 will be for F 2019 and beyond. But again, we bring in roughly round numbers $60 million in revenue a quarter in services, it is not so lumpy. The backlog will be substantially higher than $60 million. So again, most of our backlog is for the future. In our Framing Systems it's probably half and half.

Jim Porter - *Apogee Enterprises, Inc. - CFO*

Yes, it is roughly half and half in the framing systems for this year and for beyond.

Sam Eisner - *Goldman Sachs - Analyst*

Got it. And maybe just a couple of quick follow-ups here. On the midsize initiative as well as movement into retrofit, can you guys give us a kind of flavor of how big those respective businesses are today, either percentage of revenue or in dollar terms, and how that compares to maybe two or three years ago?

Joe Puishys - *Apogee Enterprises, Inc. - CEO*

Yes, so let me today retrofit first. Three years ago I began -- three or four years ago I began our initiative on retrofit. As Jim and I have said to you and everyone else, we have always participated in renovation work of 25% of the revenues are buildings that are being renovated, a general contractor is hired, work is out for bid. It is just like new construction.

What we embarked on here are the new initiative retrofit to work with building owners, energy performance contract companies, facility maintenance firms to convince people to use our products and technology to drive energy and aesthetic improvements that are -- energy savings and aesthetic improvements to actually go and work with us for a solution to upgrade their building.

We expect to do about $40 million this year in orders from zero three years. We are on track to achieve that; we have amped that number up every year. I stated publicly I expect this to have three digits to the left of the second comma, so I expect this to be a $100 million opportunity for us in the future. It takes a long time. I had hoped to be there in three or four years. It is going to take longer than that, but every year we will do more than that $40 million. We've had great momentum and we have added to the team.

In the small project world, we virtually were an insignificant player in, I'm sorry, the midmarket segment in our glass segment. We had a strategic initiative to do more than $50 million in that segment this year. We are exceeding that goal for fiscal 2017. I would simply range it to say it is in the neighborhood of $50 million to $75 million, Sam.

Sam Eisner - *Goldman Sachs - Analyst*

Super helpful. I will hop back in queue. Thanks, guys.

Operator

Jon Braatz, Kansas City Capital.

Jon Braatz - *Kansas City Capital - Analyst*

Turning back to Sotawall, I was on their website yesterday, and you alluded to it, Joe, that they have some proprietary products that you might be able to leverage here domestically. And can you talk a little bit about that? And the other thing was on their website they show a facility in the Philippines. Can you talk a little bit about that too?

Joe Puishys - *Apogee Enterprises, Inc. - CEO*

Yes, I will let -- Jim may be able to address the Philippines. Listen, here's the bottom line. I mentioned the company, it's a wonderful company. They deal with some significant customers in the US that we are very familiar with. We are looking forward to that relationship continuing unabated.

We have a similar business in the US called Wausau; it is part of our Framing Systems segment. In other parts of the US where Sotawall is not competing we like to take their proprietary technology and leverage that with Sotawall potentially as the manufacturer, but through our existing businesses in the US, in parts of the United States where Sotawall is not competing today, and leverage that product technology for our existing businesses.

So it is a win-win scenario. We love the customers they have in the United States, that relationship will continue. I've talked and we've met with each of them -- all of them I should say -- and we are pleased that that will continue. And those are in geographic geographies where we have traditionally not been very strong, as I mentioned on the call.

So, we have some great technology products as well that we expect to introduce to the Sotawall organization where they can use with their existing customer base. So, we will be very careful not to overlap and get multiple bites of the apple as we expand our presence across the US.

Jim Porter - *Apogee Enterprises, Inc. - CFO*

It is Jim; I will address your second question as it relates to Sotawall activity in the Philippines. They had a strategic relationship with an entity that was based in the Philippines serving a few projects several years ago. They haven't done any business with that entity for years and it was not part of the transaction.

Jon Braatz - *Kansas City Capital - Analyst*

Okay, okay. Then lastly, in terms of capital requirements for Sotawall in terms of their facilities and so on, how do they stack up? Will you need to make any sizable capital investment into Sotawall?

Joe Puishys - *Apogee Enterprises, Inc. - CEO*

No, we won't. The owner has invested heavily. There factory frankly -- factories, but their primary factory in the Toronto area is state-of-the-art -- SOTA, state-of-the-art is that their name is (inaudible) appropriate. They have made significant investments in automation in their CNC operations.

It is a new facility, it is pristine, it is well-run, a long way around the barn. We do not see needing to make CapEx in their factory. Obviously we have the CapEx capacity and wherewithal to do such, but they have not needed help up until now and we believe they are fine going forward. We frankly could learn from some of the investments they have made and leverage that back to our factories south of the Canadian border.

Jim Porter - *Apogee Enterprises, Inc. - CFO*

And the existing capacity supports opportunities for growth.

Jon Braatz - *Kansas City Capital - Analyst*

Okay, all right. Thanks, much.

Joe Puishys - *Apogee Enterprises, Inc. - CEO*

It is a gem of a business, Jon.

Jon Braatz - *Kansas City Capital - Analyst*

All right, thank you.

Operator

I'm showing no further questions at this time.

Joe Puishys - *Apogee Enterprises, Inc. - CEO*

So everyone, listen, thank you for dialing in and hearing our story. You can tell from our results and my forward-looking comments that we will be looking forward to talking to you again following what I expect to be another terrific result in our next quarter, our fourth quarter. Thank you all. Have a terrific day and a safe holiday season. Thanks.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect. Everyone have a wonderful day.
