

Apogee Enterprises (Q1 2026 Earnings)
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Corporate Speakers:

- Nicholas Manganaro; Sharon Merrill Advisors; Vice President
- Ty Silberhorn; Apogee Enterprises; Chief Executive Officer
- Matthew Osberg; Apogee Enterprises; Chief Financial Officer

Participants:

- Brent Thielman; D.A. Davidson; Analyst
- Julio Romero; Sidoti & Company LLC; Analyst
- Gowshihan Sriharan; Singular Research; Analyst

PRESENTATION

Operator^ Good day and thank you for standing by. Welcome to the Q1 2026 Apogee Enterprises Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Nick Manganaro. Please go ahead.

Nicholas Manganaro^ Thank you. Good morning and welcome to Apogee Enterprises' Fiscal 2026 First Quarter Earnings Call. Please note there are slides to accompany today's remarks. These are available in the investor relations section of Apogee's website.

During this call the team will reference certain non-GAAP financial measures. Definitions of these measures and the reconciliation to the nearest GAAP measures are provided in the earnings release and slide deck that were issued this morning.

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 today's press release and in the company's SEC filings.

On the call today are Ty Silberhorn, Apogee's Chief Executive Officer, and Matt Osberg, the company's Chief Financial Officer. Ty will start the call with a review of the company's Q1 results then discuss the outlook for fiscal 2026. Matt will then provide additional details on the quarter and the full year outlook.

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

Ty Silberhorn^ Thanks, Nick. Good morning, everyone. Our first quarter results exceeded our expectations, demonstrating that we are building positive momentum through our operational actions and renewed focus on growth. Revenues came in stronger

than we expected, led by Glass and Services, which also contributed to the bottom line. Services had significant net sales growth for the fifth consecutive quarter as we continued to leverage our recent capacity investments to enable growth.

Metals gained top line momentum as we progressed through the quarter. While increased tariffs did impact our results in both Metals and Services, we continued to successfully execute our mitigation plans. Barring any material change in trade policy, we expect to substantially mitigate the impact of tariffs on the second half of our fiscal year. During the quarter, we also took aggressive actions under the second phase of Project Fortify, which will drive \$13 million to \$15 million of annualized savings.

Looking ahead, we are raising our fiscal year outlook for both revenue and earnings as we're building positive momentum in three key areas. First, Metals made solid sequential improvement from Q4 and we expect continued sequential improvement in our Q2, raising margin performance with operational improvement, cost and price actions. Second, the revenue pipeline for Glass is picking up and positioning that segment for revenue growth beginning in Q3 and into Q4. Third, Performance Surfaces not only grew in Q1 as we continued to benefit from the inorganic contribution of UW Solutions, but also continues to execute well and is driving their sales pipelines across the portfolio.

We expect Performance Surfaces to deliver strong inorganic and organic growth during the rest of our fiscal year. This will be driven by industrial flooring and renewed distribution gains for their legacy glass and acrylic products. Additionally, our recent investments in capacity expansion and the acquisition of UW Solutions leverage our core technical strengths to expand our market reach and broaden our product offerings.

Now from a macro perspective, while market challenges remain, we continue to focus on what we can control. We are improving our outlook through the success of our tariff-mitigation efforts. We continue to drive productivity through AMS. We are taking aggressive actions on Fortify Phase 2, and we continue to work our acquisition pipeline to expand our reach through new offerings and new geographies. We continue to see solid M&A opportunities that support our strategy and would be accretive to our long-term financial profile.

Based on the Q1 results and our forecast for the rest of the year, we are pleased to raise our fiscal year outlook for net sales and EPS as we build momentum for what we expect will be a strong second half. This will likely be driven by Performance Surfaces inorganic and organic growth, as well as improved Glass results. We remain focused on sustaining the progress we've made executing our enterprise strategy, and we are striving to deliver near-term results while continuing to invest in long-term growth opportunities.

With that, I will turn it over to Matt.

Matthew Osberg^ Thanks, Ty. And good morning, everyone. First I'll begin with a review of the results for the first quarter and then follow with commentary on our revised outlook for fiscal '26. Beginning with our consolidated results, net sales increased 4.6%

to \$346.6 million, primarily driven by \$22 million of inorganic sales from the acquisition of UW Solutions. This was partially offset by lower volume in Glass and a less favorable mix in Metals.

Adjusted EBITDA margin decreased to 9.9%. The decrease was primarily driven by a less favorable mix and higher aluminum costs in Metals as well as higher tariff expense in Services, partially offset by lower long-term incentive compensation expense. Adjusted diluted EPS declined to \$0.56 primarily driven by lower adjusted EBITDA, higher interest expense, and a higher adjusted effective tax rate.

Turning to our segment results, Metals net sales declined 3.4%, primarily reflecting a less favorable mix, partially offset by higher volume. Adjusted EBITDA margin decreased to 7.3%, primarily driven by less favorable mix, higher aluminum costs, unfavorable productivity and unfavorable sales leverage, partially offset by the impact from higher volume.

Our Services segment delivered its fifth consecutive quarter of year-over-year net sales growth, with sales increasing 7.6% primarily due to higher volume. Adjusted EBITDA margin decreased to 5.7% primarily driven by higher tariff expense, partially offset by a more favorable mix of projects and favorable sales leverage. Excluding incremental tariff expense, adjusted EBITDA margin for the segment improved versus Q1 last year. Glass net sales declined and adjusted EBITDA margin moderated from the elevated levels in Q1 last year as expected, primarily due to reduced volume from lower end-market demand.

Performance Surfaces net sales increased driven by the inorganic sales contribution from the UW Solutions acquisition. Adjusted EBITDA margin declined to 18.8%, primarily driven by the dilutive impact of lower adjusted EBITDA margin from UW Solutions, unfavorable mix and increased corporate allocation expense.

Turning to cash flow and the balance sheet. Net cash used in operating activities was \$19.8 million compared to \$5.5 million of net cash provided by operating activities a year ago. The change was primarily driven by lower net earnings and an increase in cash used for working capital including a net payment of \$13.7 million for the settlement of an arbitration award. Our balance sheet remains strong, with consolidated leverage ratio of 1.6, no near-term debt maturities, and significant capital available for future deployment.

Turning now to our outlook for fiscal '26, we've raised our outlook for both net sales and adjusted diluted EPS. We now expect net sales in the range of \$1.40 billion to \$1.44 billion and adjusted diluted EPS in the range of \$3.80 to \$4.20. This outlook includes an updated estimate of the unfavorable EPS impact from tariffs of \$0.35 to \$0.45, which will primarily impact the first half of the fiscal year before our mitigation effect -- efforts take full effect. This range is favorable to what was provided in our April call, as our team has done great work to reduce the anticipated impact of tariffs on the year.

We expect our second quarter results to sequentially improve as compared to our first quarter results with year-over-year net sales and adjusted EPS growth expected in the second half of the year. Our updated outlook assumes an adjusted effective tax rate of approximately 27.5% and capital expenditures between \$35 million to \$40 million.

Overall, I am pleased with the way we were able to deliver results ahead of our expectations for the first quarter and raised our outlook for the year while continuing to execute our strategic initiatives that will set us up for growth in the second half of the fiscal year. Also as Ty noted, we continue to actively build a pipeline of strategic M&A opportunities to utilize our strong balance sheet to add offerings and capabilities that could further diversify our business mix and provide vectors for accelerated growth.

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

Ty Silberhorn^ Thanks, Matt. I'm really proud of the way the team is executing on our approach to fiscal '26 with a focus on balancing near-term performance while driving long-term growth opportunities. To sum up our revised outlook, we see momentum building for our second half driven by continued improvement in Metals, growth in Glass revenues, and strong organic growth in Performance Surfaces.

We continue to focus on what we can control, driving tariff mitigation, delivering on Fortify Phase 2 and continuing to build our growth prospects both organically and inorganically. Thanks to our team's efforts, we are raising our fiscal '26 outlook for net sales and adjusted diluted EPS as we build momentum for what we expect to be a strong second half.

With that, we'll now open the call to questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Brent Thielman from D.A. Davidson.

Brent Thielman^ I want to start -- just if you could elaborate on the Glass business. You mentioned revenue pipeline seems to be picking up. Love to get maybe more of a -- any more detail in terms of what you're seeing there that's giving you the confidence for maybe a pickup here in the second half of the year?

Ty Silberhorn^ Yes. As we look at the work the team's doing, when we look at that business, pretty good visibility six months out. It starts to get a little fuzzy as we get nine and 12 months out. The team has really done some great work in building the rigor around their opportunity pipeline, and while they're still focused on shift to premium, recognizing that softness in the market, they pivoted nicely to be able to go after some smaller jobs, jobs that they typically would not chase, so smaller square footage per job. But that has allowed them to fill in some of the gaps that otherwise would be seeing the

softness in the market. And the productivity they continue to drive in their facilities allows them to do that and still effectively stay within their margin range.

So we're -- we have a regular rhythm now where monthly and quarterly, we're going deep with each of the businesses on their sales opportunity pipelines, and that team has done a really great job of building that up. So we like the momentum, and we've seen them each month as we move through our first quarter gaining more confidence on what they were seeing both in terms of quote activity as well as their award rates.

Matthew Osberg^ Yes. I'd just add to that, Brent -- this is Matt. I'd just add on that as we've talked about before, we're really working with that team and all our teams to look at how they're trying to build EBITDA dollars, right, and so titrating price and opportunities in the market. Like Ty said, they're looking at a wider scope of opportunities and trying to get price right and stay within our long-term margin range to make sure we can get -- generate the most EBITDA dollars that we can.

Ty Silberhorn^ And in the Q3 -- just clarify it, too, it's a Q3, Q4. We think the Q2 still looks a lot like Q1. But as they're seeing award rates coming through, we see the growth in top and bottom line picking up in Q3 and Q4.

Brent Thielman^ Yes. Okay. Understood. That's great. Then in terms of the segment margin targets, I guess to the long-term targets for the different business groups, it sounds like you think you can stay within kind of that long-term range in Glass for this year. Could you speak to the other business segments and your ability to operate within these ranges that you've provided in the deck?

Ty Silberhorn^ Yes. I'll start and Matt can throw some color on it. I think the first thing to point out is, remember, Metals and Services have got some big headwinds with respect to tariffs. And so as they recover and our mitigation efforts, it's fully into place as we get into the second half, they've got a hole they got to dig out of in Q1 and Q2. So I think it's likely. We'd be pleased if they got to the bottom of those target ranges. So Metals was 13% to 18% adjusted EBITDA, Services is 8% to 10% adjusted EBITDA. I think because of the hole they're digging in the first half, they'll struggle to get to the bottom of that range, but that's kind of what we're hopeful and expecting as we look out.

As Matt said on Glass, we revised them. We want to grow EBITDA dollars in that 15% to 20%. So they're -- because of the types of jobs they're chasing, again we're probably -- they're probably in the range but towards the bottom end of the range. And then Services, depending on mix, I mean they're definitely in the range. It's a question of they -- are they closer to 20%? Or are they in the mid-20s from an adjusted EBITDA based on how the mix plays out? But they're -- again, they're gaining confidence in the organic growth outlook for the combined businesses, which we think will start to show up in Q2.

Matthew Osberg^ Yes. The only thing -- I'd echo what Ty said. The only thing I'd add on is, as we said -- or I said in my remarks, if you look at the results for Services for the quarter from a margin perspective, they would have been well within their range if it

were not for the impact of tariffs and showing margin improvement year-over-year. So [I'm just echoing] that does weigh on both Services and Metals this year from a margin perspective.

Brent Thielman^ Okay. Maybe last one for me, just on Performance Surfaces. I think you mentioned distribution gains for the legacy products? Are you essentially getting more shelf space market share? Can you just talk about what you're seeing there?

Ty Silberhorn^ Yes. It's -- think of it as shelf space in retail and custom framing shops distribution, which we had lost some of that last year. So they've regained that. And also adding product, so getting some of those retail outlets to add product as well.

Operator^ Our next question comes from the line of Julio Romero from Sidoti & Company LLC.

Julio Romero^ I wanted to talk about the Metals segment for a bit. You talked about month-to-month sequential improvement you saw in the first quarter. Can you talk a little bit about what's driving that momentum? Did that continue into June? And have you seen any change in demand from an end-market perspective at this point?

Ty Silberhorn^ Yes. Let me start, and again, Matt can weigh and add some color here, too. We saw month-to-month sequential improvement through the quarter. So they -- as we went through the quarter each month, we started seeing operational improvements carrying through. So if you remember, Q4, a big challenge they had on some operational issues and the consolidation in the footprint that we had done the year before and scaling that up effectively, we leaned hard into that in Q4 and kind of said, let's take our lumps and move to get this behind us. So we saw that starting to pay dividends as we went into the second and third month.

A core part of that business is really driven by their ability to have shorter lead times and have high on-time complete percentages. They had not been acting on that in Q4 for sure. And even towards the end of Q3, they started having some of those issues. So that team -- and I think our customers would tell us, they are not back to where they should be and where they historically have been with those service capabilities and lead times, but they are getting better each month. As we've seen them improve on lead time and that on-time completeness, we are seeing some sales trickle back, too. So they were building their weekly sales order rates. We're building back up.

Now I think some of that is a little bit of market, but probably a larger percent of that is they're doing what they say they should be doing to the customers and they're regaining some customer confidence that's throwing some additional orders back their way.

Matthew Osberg^ Yes. The only thing I'd add to that, Julio, is if you look at their sequential trend, sales and EBITDA margin Q4 to Q1, you obviously see improvements in both. And as Ty said, a lot of productivity improvements, operational improvements.

Q1 did have the weight of some higher aluminum costs that they weren't able to take pricing for. So as we think about those impacts, we call that an indirect tariff impact. We expected that in Q1. That's weighing on their margins in Q1. And as we think Q1 to Q2, we do expect sequential improvement again in Metals. And they'll have pricing in place that reflects some of the new costs as well as continuing to improve some of their operational metrics. So that will help generate in our estimate at improved sequential Q1 to Q2 for them.

Julio Romero^ Perfect. And just to clarify the improved sequential Q1 to Q2, that also includes the sales line as well?

Matthew Osberg^ Yes. That's our expectation, yes.

Ty Silberhorn^ Yes.

Julio Romero^ Okay. Great. And wanted to ask you about Project Fortify Phase 2. I think last quarter -- based on how I kind of took away last quarter, I don't think there was much savings expected from Phase 2 in the earlier part of the year. Just wondering if that held true or were you able to start seeing some of the Phase 2 savings in the May quarter?

Matthew Osberg^ No. I think you've got it right. We saw, I'd say, a pretty minimal amount in Q1, and most of that is starting to get in place during Q2 and on the other side of Q2 is a lot of that has to do with the closure of our Canadian facility, which is happening in the later stage of Q2.

Julio Romero^ Great. Then last one for me is just a clarification question. Was there in -- did you quantify the EPS impact from tariffs in Q1?

Matthew Osberg^ We did. In Q1, we said it was \$0.45 to \$0.55. We said a lot of that is first half-weighted. And the team's done a great job. We had some favorability versus our estimate flow through in Q1 and a little bit more favorability that we think. So our new range is now \$0.35 to \$0.45. And that's just the team doing a lot of hard work to knock down some of those costs that we were anticipating at the beginning of the year.

Julio Romero^ Sorry, I'm kind of misunderstanding that one part. So the first quarter, what was the impact for 1Q?

Matthew Osberg^ So we said in Q4 -- in our Q4 call we said the total annual impact for tariffs would be \$0.45 to \$0.55. We've now updated that range for the full year to be \$0.35 to \$0.45. And in both of those cases, we said the primary impact of that happens in the first half of our year. So some of that, we actually saw happen in Q1 as expected, but we saw it come in favorable to our original estimate, and we do see some favorable trends happening in Q2. That's why we took the annual range down and made it more favorable.

Ty Silberhorn^ We didn't break it out, Julio, to give specific quarterly guide on that.

Julio Romero^ Yes. That's what I what I'm getting to. So the -- still a little bit expected in second quarter perhaps in that full year guidance?

Matthew Osberg^ Yes. Yes. I mean, the majority of that range is happening in the first half of the year, fairly equally weighted between Q1 and Q2.

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

Gowshihan Sriharan^ Can you hear me?

Ty Silberhorn^ Yes.

Matthew Osberg^ Yes.

Gowshihan Sriharan^ You lowered your EPS impact to -- tariff impact to \$0.35 to \$0.40. Can you guys help me quantify how much of that reduction comes from the accelerated operational shift versus factors like commodity price repricing or normalization?

Matthew Osberg^ I'd say it's a bit of both. I think it's equally weighted maybe. You've got I think a number of things happening. The team is being more effective in how we're passing some of our operations through and trying to decrease the tariff impact. We are also looking at the input costs that we're getting. We're looking at how some of the costs that are coming in and flowing into some of our jobs. And so it's a bit of both. It's a bit of just, hey, we're able to not take those prices on, and we're able to be more efficient operationally and get through what we need to do better. So a little bit of both.

Gowshihan Sriharan^ Okay. Got you. (inaudible) On the Services backlog to a decline number to about [683], is that reflective of a general overall you guys selecting or rejecting lower-margin projects to preserve profitability amid these tariffs?

Ty Silberhorn^ I would -- Gowshi, I would characterize it more as it is reflective of the softness that's in the market right now. The Services team obviously wants to protect margin. But like we said with some of the other businesses, we've encouraged them, hi, as long as you're in that range of 8% to 10%, and we've even greenlighted some stuff that's a little weaker than that because we're looking at it on a full year basis to make sure that the volumes have flown -- are flowing through.

So I think it's more a reflection of softness. There's still choppiness. So we've had a couple of weak quarters of awards flowing through. There's still the possibility of all of a sudden, we have a big quarter with a bunch of awards hit. And if you heard my comments about Glass being a little more creative and willing to look at jobs of different sizes, our Services team is doing that as well.

So they've been actively quoting jobs that are typically smaller things that 18 months, 24 months ago, they would have never gone after because of the size. They're confident in

their ability to execute on those because of some of the productivity work that they've done in their facilities. And they've always had pretty strong productivity in the field when they're doing the installation work and better leveraging their engineering resources to support that work and which was part of the reason that we were able to, again tough decision, but be able to shut Toronto to mitigate the tariff impact and consolidate that into our two U.S. facilities.

They are also pursuing jobs that leverage their engineering and installation services but does not require them to fabricate the curtain wall. So they are looking at different ways, different avenues for them to grow their revenue and still deliver good margins and EBITDA dollars to the bottom line.

Gowshihan Sriharan^ Okay. Amid this tariff impact, especially on Services, any commentary on the kind of success rate you guys are having with existing contracts? Are clients accepting the cost adjustment mid-project?

Ty Silberhorn^ Yes. So the impact is really for the materials that were flowing out of Toronto and back into the Northeast United States. We really aren't able to pass that -- those costs on. Those jobs were well in flight, well underway. Actually, part of our ability to shut that facility is those jobs were winding down and new jobs were starting up, and we started those new jobs in either Cincinnati or Dallas to support that work. So for Services, it's pretty difficult for them to get price adjustments, and that's why they're taking it on the chin here in Q1 and Q2 and really having to absorb the tariff impact and look at what else they can do productivity or anything they can do to drive some cost savings on materials as well.

Gowshihan Sriharan^ Got you. And a final question on the M&A pipeline. Have you guys adjusted the multiples that you're targeting in this kind of environment?

Ty Silberhorn^ Well I would say I think everyone thought M&A was going to take off screaming in the first half of the calendar year. But then with some of the larger macro issues, the tariff environment, interest rates staying elevated, that has been slow going. So as we look at that, we've stayed focused on the strategic targets that we've identified over the last 2 years.

So we continue to work that pipeline. So you not only have to have a willing buyer, you have to have a willing seller. So I think sellers have been a little bit more cautious about wanting to make sure that they enter the market, and they're still going to get a good valuation. I wouldn't say we've seen a step down in multiples with the things that have come to market or have at least kicked the tires to come to market, but there's some reasonableness in those valuations. And I think right now strategic and a little bit more of a benefit because of the interest rate and the leverage models that private equity has, private equity is still sidelined a bit.

So we're active there. There's several things we like in the portfolio. We've taken I would say maybe a little bit broader look just in knowing the tariff environment has shifted

things, and so taking a little bit broader look on what that impact might have on international. We do have some international export sales. So we haven't changed our view on our target pipeline. We just continue to work the pipeline.

Operator^ At this time, I would now like to turn the conference back over to Ty Silberhorn for closing remarks.

Ty Silberhorn^ All right. Well thanks everyone for joining the call today. We look forward to sharing our Q2 results in a few months, and I wish everyone a great weekend and a fantastic 4th of July. Have a great day.

Operator^ This concludes today's conference call. Thank you for participating. You may now disconnect.