

Apogee Enterprises(Q2 2026 Earnings)

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Corporate Speakers:

- Jeremy Steffan; Apogee Enterprises; Vice President, Investor Relations and Communications
- 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 Apogee Enterprises' Second Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes. I will now turn the conference over to Jeremy Steffan, Vice President, Investor Relations and Communications, to begin. Jeremy, please go ahead.

Jeremy Steffan^ Thank you. Good morning. And welcome to Apogee Enterprises' Fiscal 2026 Second Quarter Earnings Call. On the call today are Ty Silberhorn, Apogee's Chief Executive Officer; and Matt Osberg, our Chief Financial Officer. During this call, the team will reference certain non-GAAP financial measures.

Definitions of these measures and a reconciliation to the nearest GAAP measures are provided in the earnings release and slide deck, which are available in the Investor Relations section of our website.

As a reminder, today's call will contain forward-looking statements. These reflect management's expectations based on currently available information.

Actual results may differ materially from those expressed today. More information about factors that could affect Apogee's business and financial results can be found in our press release and in the company's SEC filings. With that, I'll turn the call over to Ty.

Ty Silberhorn^ Thanks, Jeremy. Good morning, everyone. Our team deferred solid second quarter results with sequential improvements in sales and adjusted EPS in what continued to be a dynamic operating environment. Our teams remain focused on what is in our control, while leveraging strategic actions to reduce the impacts from tariffs during the quarter.

Net sales improved by almost 5%, primarily driven by both inorganic and organic growth in Performance Surfaces. Architectural Services recorded another quarter of net sales growth and sequentially grew their backlog by over \$100 million.

Glass performed as expected on both the top and bottom line with margins normalizing within our long-term range. Metals showed significant sequential top and bottom line improvement as our tariff-driven price increases went into full effect.

However we did see volume falter as those prices took full effect, resulting in their sales and EBITDA being below our expectations for Q2.

Finally, cash flow in the quarter was an area of strength and a testament to our ability to generate cash in a dynamic macroeconomic environment. Looking ahead to the remainder of the fiscal year, we are updating our outlook for both net sales and adjusted EPS to reflect developments since last quarter.

First, we are lowering expectations for Glass volume and price as the competitive environment has not improved. A bid activity for our Glass business remains up versus last year. Price pressures are impacting their ability to secure volumes without giving up significant margin.

Second, we are seeing higher aluminum costs that will put more pressure on pricing and volume in Metals. As they work to maximize EBITDA dollars, volume, and market share, we expect their margins to drop, particularly in Q3 from their Q2 results.

While we are disappointed that these changes have impacted our guide for the year, we remain positioned to drive year-over-year net sales and adjusted EPS growth in the second half of the fiscal year. This will primarily be driven by growth in Performance Surfaces, which has been consistently strong, and we continue to see upside for that business long term.

As we navigate the complexity of our current macroeconomic environment, we are also building a stronger Apogee for the future, and I'd like to highlight some examples that we believe are enhancing our ability to deliver sustained long-term value for shareholders.

Our leadership bench is strong as demonstrated by the recent changes for Metals and Services. UW Solutions continues to be on track to deliver the expected financial and synergy targets in addition to expanding our reach and broadening our product offerings.

Our tariff mitigation efforts and Project Fortify 2 actions illustrate the strength and agility of our organization as we address a challenging macro environment. AMS continues to drive productivity improvements across our manufacturing footprint. And finally, our strong cash flow and balance sheet provide us with significant flexibility to continue to be active on M&A opportunities while managing through the current market dynamics.

We remain focused on acquisitions that fit our strategic and financial objectives, ones that will add differentiated products, leverage our core capabilities, provide accretive margin and growth rates while expanding our geographic reach. With that, I'll 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 second quarter and then follow with commentary on our outlook for the rest of fiscal '26.

Beginning with our consolidated results, net sales increased 4.6% to \$358.2 million, primarily driven by \$24.9 million of inorganic sales from the acquisition of UW Solutions. This was partially offset by lower price and volume in Glass and a less favorable mix in Metals.

Adjusted EBITDA margin decreased to 12.4%. The decrease was primarily driven by lower price and volume, unfavorable mix and higher material, tariff and health insurance costs, partially offset by lower incentive compensation expense. Adjusted diluted EPS declined to \$0.98, primarily driven by lower adjusted EBITDA and higher interest expense.

Turning to our segment results. Metals net sales declined slightly, primarily reflecting a less favorable mix partially offset by higher volume and price. Adjusted EBITDA margin decreased to 14.8% primarily driven by a less favorable mix and higher aluminum and tariff costs partially offset by lower incentive compensation expense.

Our Services segment delivered its sixth consecutive quarter of year-over-year net sales growth with sales increasing 2.5%, primarily due to higher volume. Adjusted EBITDA margin decreased to 5%, mostly driven by project mix, partially offset by lower short-term incentive compensation costs. Additionally, backlog for Services sequentially grew 16% to \$792 million.

For the Glass segment, as expected, net sales declined and adjusted EBITDA margin moderated from elevated levels in Q2 last year, primarily due to reduced volume and price and lower end market demand, partially offset by lower short-term incentive compensation expense.

Performance Surfaces net sales increased driven by the inorganic sales contribution from the acquisition of UW Solutions and strong organic growth of 18.6%, primarily from improved retail channel distribution. Adjusted EBITDA margin increased primarily driven by favorable price and volume.

Turning to cash flow and the balance sheet. As Ty mentioned, we generated strong cash flow in the second quarter with net cash provided by operating activities of \$57.1 million compared to \$58.7 million in the prior year.

On a year-to-date basis, cash from operating activities was \$37.3 million compared to \$64.1 million a year ago due to lower operating cash flow in the first quarter. Our balance sheet remains strong with a consolidated leverage ratio of 1.5x, no near-term debt maturities and significant capital available for future deployment.

Turning now to our outlook for fiscal '26. As Ty noted, we are updating our outlook for both net sales and adjusted diluted EPS. We now expect net sales in the range of \$1.39 billion to \$1.42 billion and adjusted diluted EPS in the range of \$3.60 to \$3.90.

This outlook includes an estimated EPS impact from tariffs of \$0.35 to \$0.45. Our updated outlook assumes an adjusted effective tax rate of approximately 27% and capital expenditures in the range of \$35 million to \$40 million.

During the second quarter, the One Big Beautiful Bill Act was passed. We expect that this bill will not have a material impact on our effective tax rate but will provide a cash tax benefit that will primarily impact fiscal '26 with a smaller impact on fiscal '27.

Looking at the cadence of the year. As expected, we delivered sequential improvement on our financial results from Q1 to Q2. For the second half of the year, we expect year-over-year net sales and adjusted diluted EPS growth, primarily driven by Performance Surfaces.

Additionally, we expect net sales to be generally evenly distributed between Q3 and Q4 and we expect Q3 adjusted diluted EPS to be similar to Q2 and then sequentially improve in Q4. Despite our solid performance in the second quarter, we are lowering our outlook for the second half of the year.

This is primarily driven by increased pressure on volume and price in Glass and expectation of higher aluminum costs that will further challenge pricing and volume in Metals.

For Glass, in our previous outlook, we expected a sequential improvement in both sales and EBITDA in the second half of the year as compared to the first half of the year. We are now expecting second half Glass results to be more in line with first half results.

We see a highly competitive market, putting pressure on price and our Glass team is working to maximize EBITDA dollar contribution while protecting their premium margins.

For Metals, during the first quarter, we saw aluminum prices subside, only to increase on average by approximately 20% during the same quarter, and we are incorporating the expectation of higher aluminum costs in our outlook for the remainder of the year. The impact is more pronounced in our longer lead time products, where we have less ability to raise prices to match current cost trends.

For our shorter lead time items, we are also expecting increased pricing pressure in the second half of the year with competitors seemingly less likely to raise prices. This is putting more pressure on volume and margins as we work to maximize margin dollars, in a more competitive pricing environment.

We also experienced higher-than-expected health insurance costs in the second quarter and are forecasting that trend to continue for the second half of the year which is a new headwind in our outlook as compared to last quarter. Despite the macroeconomic challenges, I'm pleased with the momentum generated through the first half of the year and our outlook for year-over-year growth in the second half of the year.

Additionally, our strong cash flow generation and healthy balance sheet position the company well for sustained future success. With that, I'll turn it back over to Ty for some concluding remarks.

Ty Silberhorn^ Thanks, Matt. The first half of our fiscal '26 has been challenging, and I'm very proud of the work the team has done, navigating challenges and further positioning the company to drive long-term shareholder value.

As we look ahead to the second half of the fiscal year, despite macroeconomic headwinds, we are positioned to drive year-over-year net sales and adjusted EPS growth in the second half.

While Metals and Glass faced challenges on volume and price, both businesses are in stronger positions than they were the last downturn.

As an example, even with sales for Glass being down significantly year-over-year, we expect that they will finish the year in the mid-teens for EBITDA versus mid-single-digit margins the last downturn.

And we continue efforts to build our M&A pipeline to add strategic capabilities to enable long-term growth.

In closing while the macro creates challenges near term, we remain focused on executing our strategy, investing to strengthen the company and building a more resilient portfolio that delivers higher growth and higher margins. With that, we will 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^ Yes. I guess, maybe just the first question focused on Performance Surfaces. Could you sort of expand on the organic growth that you saw through the quarter?

How much might be related to internal initiatives around distribution relative to just market growth behind that? I'd be curious around the organic growth profile in that segment.

Ty Silberhorn^ Yes, Brent, it's a great question. So if you look at kind of ex UW Solutions, the old LSO, that core part of the business, that's where we saw probably the strongest growth within the portfolio. And it was really -- if you remember last year, they did lose some distribution.

Think of it as shelf space at some of the retail outlets. They've regained that, and they've also picked up momentum at adding some additional products. They're also leveraging some cross-selling opportunities for overlapping customers between the UW solutions business, in the original core old LSO business.

So that's giving them some momentum in that space. And then within UW, while it's tracking as expected, we're seeing the flooring side of that portfolio actually outperform, and we do expect that to continue based on awards and order rates.

Brent Thielman^ And Ty, maybe just following on that, what's moving the needle on the flooring side of that business?

Ty Silberhorn^ I'd say a couple of things. So there remains demand for that product as manufacturing and distribution centers, warehouses look to bring more automation in. So that product's best value proposition is when a distribution center is going to put in AGVs, automated guided vehicles, robotics to move inventories around. So we're seeing a push there.

We are actually seeing a pull of that product into Europe based on a large global e-commerce retailer that has had tremendous success with that product and is actually asking us to pull that business into Europe as they build out some additional distribution centers and retrofit existing ones with mezzanines.

So those are things that are not only feeding that business right now but give us confidence that, that's going to continue over the next few quarters.

Brent Thielman^ And then on the Services backlog uptick here in the second quarter, maybe sort of a similar question, Ty.

Is this indicative of maybe some different outreach by the business into new markets? Is it reflective market conditions? Maybe you could just expand on that increase in backlog quarter-over-quarter.

Ty Silberhorn^ Yes. It's a combination of both. I would tell you what drove the largest portion of that backlog growth were projects in the Northeast. So that part of the country has been relatively soft for a couple of years.

So we alluded in the last call we were seeing a pickup in bid activity. The Northeast was an area where we saw that picking up materially in terms of activity, and the good news is that team has been able to bring some of those projects across the finish line.

The work that the team has done to expand out West, that continues as well. So the work that they have been able to put sales office and teams on the ground in the Western United States is also helping them continue to build out that backlog and take share.

That business, when we look at that result in the quarter, while it is a signal, maybe some positive things that are coming. I think it's a testament to what the team has done in this environment to take share in what still is a relatively soft market.

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

Julio Romero^ On the Glass segment, the lowered expectations for Glass in the second half, I guess, you're tempering the sales guide there.

It sounds like the competitive environment has gotten a bit tougher. Do you still kind of expect to post margins in the targeted EBITDA margin range for the next two quarters? And then secondly, what's your sense of how long the softness should or could persist?

Matthew Osberg^ Yes, Julio, good question. So as Ty and I have talked about the Glass segment and just more broadly about how we think about our longterm margin ranges. I think we said in years that we've got more top line challenges, you look to the bottom end of that range and (inaudible) you got some tailwinds, you look to the top end of that range.

I think this is a great example of even though they've got some headwinds on the top line, as Ty said, we're expecting mid-teens.

And yes, I would say that expecting mid-teens for the year and for the next couple of quarters. And I think that's a testament to the shift to premium strategy and what we've been able to build in that business and just the quality of the business that we have.

And then we're also very hopeful as we're looking at some of the headwinds that we have to not destroy what we've built and to be really selective about how we pursue other volume opportunities to still preserve that margin. So I think that it's definitely looking at that mid to high teens for the next couple of quarters in the year.

Ty Silberhorn^ Yes. Julio, I'll just -- maybe I'll add in here that as we worked with the team, we talked about last quarter staying on top of the teams in terms of what's driving their sales pipelines, et cetera. The bid activity in Glass continues to be up over year-over-year.

So that's a positive sign. The negative that really started to show in the quarter, and we think now is going to continue in the back half is price pressures from competition. So even though bid activities, we're seeing some pickup, the aggressiveness of competition to win some of those jobs is putting downward pressure.

We worked with the Glass team, and they've been very thoughtful. They've done a lot of work to really reposition the premium side of their portfolio. And while they are giving some price to win business with premium products, they are really working to preserve a pricing floor on those product offerings to maintain those margin levels.

So I guess you could look at it and say, would they have had the potential to maybe step into some more sales? Probably, we also looked at that and said, you're going to take a pretty hefty margin hit and they are concerned about kind of resetting at a much lower price rate for those premium products.

So they're navigating this, I think, the right way. They want to maximize the EBITDA dollars. They want to win the business that they can, but they don't want to destroy the two-plus years of work they've done to really reposition and build out the premium side portfolio.

Julio Romero^ Got it. Very helpful answer there. And then kind of similar, it sounds like you're seeing some similar dynamics within the Metals segment, although it sounds like it's maybe a little bit more cost pressure than maybe competitive pressure there. And can you maybe just speak to how much of the lower guide for Metals in the second half is kind of based on cost pressure versus kind of a decision on your end to maximize EBITDA dollars and share in that segment?

Matthew Osberg^ Yes. I would say they're connected, right? So as we saw in the first quarter, we started to see price -- aluminum costs start to abate a little bit from the rise that they've been on. And then during the second quarter, we saw those step up on average now about 20% compared to the first quarter.

So you've got that element of higher costs. And as you look at the right moments to take price, you're all measuring okay, how am I going to fare in the market against my competition with those prices and am I going to be able to maintain volume, right?

So there's kind of that triangle of the cost, the price and the volume that you're trying to balance out, as we've said, to try and maximize our EBITDA dollars.

So I would say the pressure is mainly coming from the higher aluminum costs, then we're trying to work through the price and volume impacts of what we want to do in the market, what our competition is doing in the market, but I think it's being generated. That pressure is being generated by the higher aluminum costs that we're experiencing now and we expect for the second half of the year.

Ty Silberhorn^ Yes. And I'll add -- let me add into that, Julio, as we looked -- it's a little bit there's similarity there with Glass, but a little different in that with the price pressure.

So if you look -- you can go out and look at aluminum spot pricing, we saw about a 20% increase from the beginning of our Q2 through the end of Q2, and that's stabilized for now but we're looking at our outlook and factoring in what we need to do there in terms of price and how it might impact us from margin.

Metals at the same time as I said in the opening, we did expect them to do better on top and bottom line and they didn't. And part of that is our second round of price increase. Remember, there's a 25% tariff in February, second 25% tariff in June. That really started to flow through pricing for aluminum on the spot price basis in June, July, and August.

As we push through that second round of price increases, we saw order volumes starting to hit. And here we're trying to balance holding on to some share, regaining some share from some of the operational challenges, again, trying to maximize EBITDA dollars.

But with that rise in aluminum and some of the longer-lead products that are in the portfolio. They're going to have to swallow some higher costs in Q3, which is why we expect them to step backwards on margin and have some margin erosion in Q3.

Julio Romero^ Got it. Very helpful there. Last one, if I could, is just on Performance Surfaces. It sounds like you're seeing some good momentum within the UW within both legacy and UW.

But within UW, can you maybe speak to where the mix of flooring stands at percentage of UW or maybe give us a sense of where that mix has -- how the mix has evolved since UW has been under the Apogee umbrella?

Ty Silberhorn^ Yes. If you recall when we announced the acquisition, we said it was a little less than half of the portfolio, given the healthy double-digit growth rates, it's trending to be comfortably over half of the portfolio, and we think that trend is going to continue over the next several quarters.

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

Gowshihan Sriharan^ My first question is on the customer shift. Across your businesses, have you seen any shift towards smaller or nontraditional engineering-only projects? And if there are any kind of marginal delta differences between those and the historical businesses?

Matthew Osberg^ Yes. I think you've seen that with the increased competition in the market and some of the lower levels of activity, you start to expand the reach and what you want to look at. And particularly, I would say, in our Glass business, we're

expanding the scope of where we can participate and how we can pick up some margin volume dollars.

So definitely looking at it. I think it's a more competitive environment, across the board. And so as you look at those, typically, they're lower-margin projects.

But like we said, we're trying to create margin dollars and specifically in our Glass business, we're trying to protect the premium products that we've built over the past two and a half years, protect some of the margins there.

So it's a job-by-job evaluation of where we will participate, but we're trying to expand our reach to see where we can strategically pick up some volume dollars.

Ty Silberhorn^ Yes. I think as Matt said, Gowshi, it's really within Glass and Services, if you look at their average project size, that has come down in the last 18 months as they work to maximize volume as best they can.

So they're going downstream a bit. A lot of those projects, whether it's glass or curtain wall through architectural services, tend to be less complex, which means it opens up to some more of the smaller regional players and that does put some price pressure to win those jobs.

Gowshihan Sriharan^ And on the downside of the EPS, if there is continued end market softness maybe slower than expected Fortify realization and no additional tariff relief. What is the realistic downside for FY '26? And what could be the levers you could pull to defend that flow?

Ty Silberhorn^ Yes. So we put out a range of \$3.60 to \$3.90. So that's what we're looking at in terms of our analysis. Some of the big things that can impact that would be, continued upward cost pressure on aluminum. We've factored into the second half of the year, an expectation that aluminum costs basically stay where they are today.

So if things worsen from there, that can put pressure on it. And we're doing things like within our Project Fortify Phase 2, we're looking at cost actions so that we can be proactive and responsive to what we're seeing and make sure we're doing the right things to control costs at a corporate level to offset any of the further pressure we might be.

Gowshihan Sriharan^ And just for modeling purposes, on the tax reset, I know you're modeling for 27% for the full year assumptions. Was this driven so far -- for Q2 to -- for the rest of the year, how are we supposed to model or think about the tax rate setup?

Matthew Osberg^ Yes. So I mean obviously we had a higher tax rate in Q1. We had a much lower operating income. So we guided for 27% for the year. I think that tax rate in Q3 is pretty close to that and then dips down a little bit in Q4 and you end up at close to 27%.

Gowshihan Sriharan^ And my final question, on the Surfaces that we are modeling 23% adjusted EBITDA margins for multiple quarters now. How sensitive is that segment to a potential slowdown? Or is there any inventory correction in the channel partners in the next year?

Ty Silberhorn^ I think if you look at historically, Q2 and Q3 on the retail side is really when the business flows and we've got decent visibility in that business one or two months out, and we're a month through our Q3.

So I think any slowdown -- dramatic slowdown that they might see on the retail side of that business is probably a Q4, Q1 and it's more likely Q1 as folks reset inventories after the holiday season.

So I think what might drive any shifts in our outlook for that business is probably just more of a mix as opposed to a dramatic fall off on the retail side. Reminder on a large portion of that business, it's really targeting kind of upper middle class upper income households, which are a little less susceptible.

And I just listened to the spending report on the drive-in and that part of the consumer market actually spending was holding up think the number is about 4%. So that's kind of a positive reflection for how that business might look as we work through the end of our fiscal year.

Operator^ At this time, I'm showing no further questions. I would like to turn the conference back over to Ty Silberhorn for closing remarks.

Ty Silberhorn^ Thanks, Gigi. Thanks for joining our call today. We look forward to updating you on our progress in a few months. Hope everyone has a great weekend.

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