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Q4 2024 Apogee Enterprises Inc Earnings Call

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PRESENTATION

Operator

Good day. And thank you for standing by. Welcome to Q4 2024 Apogee Enterprises, Inc. 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, Jeff Huebschen, Vice President, Investor Relations. Please go ahead.

Jeff Huebschen ***Apogee Enterprises Inc - Vice President, Investor Relations***

Thank you, Gigi. Good morning, everyone. And welcome to Apogee Enterprises F2024 fourth 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. And 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 result can be found in today's press release and in our SEC filings.

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

Ty Silberhorn ***Apogee Enterprises Inc - President, Chief Executive Officer, Director***

Thank you, Jeff. Good morning, everyone. And thanks for joining us today. The fourth quarter was a strong finish to another great year for Apogee. Our team achieved tremendous success through executing our strategystrengthening our operational foundation and driving record financial results. Today, I'll comment on our key accomplishments in F24, how our strategy is driving sustainable improvements in our business, and our priorities as we move into the new fiscal year. Then I'll turn it over to Matt for more details on the quarter and our F25 outlook.

Three years ago, we embarked on a new strategic direction with the goal of building a stronger foundation for long-term profitable growth. An overview of that strategy as shown on page 4 in today's presentation. At its core, our strategy is focused on building differentiated businesses that provide compelling value for our customers and improving operational execution across our entire company.

During the past year, our team made strong progress on both fronts as highlighted on Slide 5. We delivered significant productivity gains through the continued deployment of the Apogee Management System or AMS. As a reminder, AMS is our operating framework based on the foundations of lean and continuous improvement. Our deployment of AMS has led to meaningful cost and productivity improvements while enabling us to meet or exceed customer expectations through improved quality, service and delivery. We also continue to grow our mix of differentiated products and services.

In Architectural Glass, we advanced our shift toward premium, higher value-added offerings. In Framing Systems, we further rationalized our product portfolio, completing our move away from less differentiated, lower margin products. And in Large Scale Optical, we increased the mix of our highest performing products. We also made progress towards strengthening our core capabilities. We continued to build out center-led functional expertise to better support the needs of the business. We added to our talent management programs. And we further strengthened our approach to governance and sustainability. These efforts were evident in our F24 financial results.

Full year adjusted operating income increased 16% to a record $146 million. Adjusted EPS grew 20% to a record $4.77. And cash flow from operations nearly doubled to a record $204 million. These results were particularly impressive given some of the headwinds we faced on the topline during the year with net sales declining by 2%. Throughout the year, our improved results were led by exceptional performance in Architectural Glass. The glass segment delivered double-digit sales growth every quarter this year. And segment operating margin doubled compared to last year. These terrific results reflect the strategic transformation of our glass segment. We've significantly improved our cost structure, delivered meaningful productivity gains through AMS and drove our sales mix toward higher, value-added premium products.

We made strong progress in F24 to achieving the financial targets we set out in November of 2021 as shown on page 6. Adjusted ROIC improved to 16.5%. Well above our 12% target. Adjusted operating margin also exceeded our target coming in at 10.3%. A 160-basis point improvement compared to last year.

On revenue growth, we fell short of our goal of outgrowing our industry. Some of this was a function of our purposeful strategy. At the outset of our strategic plan, we emphasized that our initial focus was to improve ROIC and operating margins while growing our overall profit dollars. We've had great success with all three of these goals. As part of our strategy, we've moved away from some lower return product and service offerings and are doing so again with Project Fortify. All of which created a headwind for revenue.

Revenue was also impacted by the dynamics in our end markets. Overall growth in non-residential construction was very strong last year. However, much of this growth was driven by mega projects in infrastructure and manufacturing along with warehouse and data center buildouts. These are sectors of the market where Apogee has a relatively low participation with our current product offerings. Many parts of the market where we play saw decelerating growth rates, which impacted the shorter cycle parts of our business. We remain committed to our target of outgrowing the market. And this is the primary focus for our team as we move forward.

In addition to our enterprise financial targets in November 2021, we established margin targets for each of our segments, which are shown on page 7. Three of our four segments performed within or above the target adjusted margin ranges this year. Earlier in the fiscal year, we increased the target range for Architectural Glass from 7% to 10% to a new range of 10% to 15%. With the strong performance of Framing Systems the past two years along with the strategic actions we announced in January, we are also increasing Framing's target range to 10% to 15%. Architectural Services margin level was below the target range but did improve sequentially throughout the year. We see the opportunity for further progress in Services this fiscal year. As we move into F2025, we intend to build on the gains we've achieved while positioning the company for stronger long-term growth.

Over the next 12 months, we see a mixed picture for our end markets as shown on Slide 8. We do see some headwinds in the market as do the leading market research firms especially in some of the key segments in which we play. Most industry forecasts call for further deceleration in non-residential construction over the next year even if the overall growth level remains in positive territory. The commercial segment of the non-resi construction market has been impacted by higher interest rates, tighter lending standards and increased costs. This includes sectors such as office and retail.

On a more positive note, institutional and infrastructure projects appear poised for continued growth over the next year. This includes sectors such as health care, education and transportation. Our team has had good success diversifying our business into these end market verticals. This will remain a focus in the coming year as we mitigate those larger segment headwinds and positioned ourselves for a strong revenue rebound in F26. Regardless of the macroenvironment, we have driven sustainable improvements across our business that puts us on a solid foundation. Our company is well positioned to continue delivering strong results as we move forward.

I'd like to elaborate on a few of our priorities in the coming year. Let me start by discussing Project Fortify on page 9. Project Fortify further advances our company's strategy. It builds on the success we've achieved further improving our cost structure, enabling productivity gains and allowing our team to focus on higher growth higher return opportunities. These actions were primarily focused on

Framing Systems. Framing has achieved strong performance gains moving from mid-single digit operating margin in F21 to a 12% range over the past two years. Project Fortify positions Framing for further margin gains, which is reflected in our increased margin target for the segment. It also brings more clarity to our go-to-market strategy positioning the business for future growth.

I spoke earlier about the Apogee Management System. Driving further productivity gains through the deployment of AMS will remain a focus in F25. We view AMS as a multiyear journey building a culture of operational excellence as outlined on page 10. In F25, we will continue to broaden the scope of AMS across our company. We believe AMS will generate incremental cost and productivity gains, improving margins and helping us offset potential market headwinds.

Next, I'd like to address our increased focus on growth which is outlined on page 11. We are driving a growth mindset in everything we do, given that we serve a very large and diverse set of end markets. That means there are always opportunities for growth. We are focused on seizing those opportunities to outperform the overall market. Our combination of leading brands, deep customer relationships and differentiated offerings positions us to gain share in a fragmented industry. We are pursuing geographic expansions particularly in Services and in Framing Systems.

Expanding our reach in portions of the US and Canada where we are underrepresented today. We also see opportunities for share gains by continuing to improve our service levels and our product performance. With the recent growth in Services backlog, we may already be seeing some flight to quality with customers seeking to de-risk their projects by working with industry leading suppliers like our Harmon brand. We also continued to diversify our sales mix. Focusing on higher growth sectors of the market. This includes expansion into attractive adjacencies particularly within Large-Scale Optical.

Finally, we will continue to evaluate investment opportunities that will accelerate our growth including both organic investments and acquisitions. To wrap up, we are very proud of the progress that we've achieved. We have established a stronger foundation for our company. And we have significantly improved our financial performance. Our team is focused on building on these gains, driving organic and inorganic growth opportunities to further accelerate our earnings and margins in the years ahead.

With that, let me turn it over to Matt.

Matthew Osberg ***Apogee Enterprises Inc - Chief Financial Officer, Executive Vice President***

Thanks, Ty. And good morning, everyone. First, I'll begin with a review of our results in the quarter. Then I will summarize some of the highlights of the full year. Finally, I'll discuss our outlook for F25. The fourth quarter was a strong close to F24 as we delivered adjusted operating margin expansion, adjusted EPS growth and continued to generate exceptionally strong cash flow. We also achieved meaningful backlog growth in the longer lead time parts of our business. As a reminder, the fourth quarter and the full year included an extra week of operations compared to F23.

Looking at the results for the fourth quarter, net sales grew 5% to $362 million. This growth was driven by improved pricing and mix especially in Glass. This was partially offset by lower volumes primarily in Framing. Fourth quarter results included $12.4 million of restructuring charges related to Project Fortify, of which $5.5 million was included in cost of goods sold and $6.9 million was included in SG&A. Including these charges, fourth quarter gross profit increased 13% and gross margin improved by 170 basis points driven by improved pricing and mix and the benefits from cost saving initiatives.

SG&A expense increased $14.2 million to 18.4% of net sales compared to 15.2% of net sales in last year's fourth quarter. The increase was primarily due to restructuring charges associated with Project Fortify along with higher compensation related costs.

Operating income was $21.9 million or 6% of net sales. Excluding the impact of restructuring, adjusted operating income grew 33% and adjusted operating margin expanded 200 basis points to 9.5%. This was primarily driven by improved segment operating margin in Glass. Diluted EPS was $0.71. And adjusted diluted EPS grew 33% to $1.14. This was primarily driven by higher adjusted operating income.

Turning to the segment results for the quarter. Framing net sales declined 6.3% due to lower volumes reflecting the deceleration in commercial construction activity that Ty described. Framing results included $6 million of restructuring charges related to Project Fortify. Excluding these charges, adjusted operating margin for Framing contracted 130 basis points to 9.2% primarily due to the impact of lower sales volume and a less favorable mix of projects.

Framing backlog increased 9% compared to the third quarter to $201 million. As a part of Project Fortify, we are phasing out some of the longer lead time work within the Framing segment. Going forward, most of the projects in Framing will be completed in six months or less making backlog a less relevant measure for the segment. As a result beginning next quarter, we will no longer report backlog for the Framing segment. The Glass segment continued to outperform our expectations driven by improved pricing and mix. Net sales for Glass grew 18%. And segment operating income nearly doubled to $18.9 million. While segment operating margin expanded 800 basis points to 19.7%. Services sales grew 8% to $106 million. And adjusted operating margin increased by 210 basis points to 5.8% primarily driven by a more favorable mix of projects partially offset by higher compensation costs.

Services backlog ended the quarter at $808 million. This is 4% higher than the third quarter and 11% above last year. This reflects our strong market position as we've significantly increased backlog even in a more challenging market environment. Importantly, the backlog growth in Services reflects our continued efforts to diversify our project mix with significant wins in the hospitality, healthcare and transportation sectors. LSO sales were essentially flat year over year with improved mix offsetting lower volume. However, operating margin improved by 450 basis points to 25.6% reflecting improvement in mix. Corporate expenses increased primarily due to $3.9 million of restructuring charges related to Project Fortify and higher compensation related costs.

Turning to cash flow, we had another strong result. Generating $75 million of cash from operations in the quarter compared to $52 million in last year's fourth quarter. Our primary use of cash in the quarter was debt reduction as we paid down $39 million of debt. This brought our net leverage ratio down to 0.1 times trailing 12 months adjusted EBITDA.

Looking at the full fiscal year, we are very proud of the results we delivered. Adjusted operating margin increased 160 basis points to 10.3%. Adjusted diluted EPS grew 20% to a record $4.77. Cash flow from operations nearly doubled to $204 million. The best cash flow in the company's history. During the year, we paid down our debt by $108 million and invested $43 million in capital expenditures, which funded a capacity expansion in LSO and other projects to enhance productivity through automation. We also returned $33 million of cash to shareholders through dividends and share repurchases. Adjusted ROIC continued to improve as well reaching 16.5%. For the segments, Glass grew net sales by 20% and operating income by almost 140% while doubling operating margin. Despite lower sales in Framing, the segment delivered adjusted operating margin at the top of the 9% to 12% target range. Services sales decline and margins remain below our 7% to 9% target range. But we expect both top and bottom line improvements in F25. LSO sales declined, but margins remain very strong at over 24%.

Moving to our outlook for F25. We expect net sales to decline 4% to 7%. This range includes approximately two percentage points of decline related to F25 reverting to a 52-week year and approximately one percentage point of decline related to the actions of Project Fortify to eliminate certain lower-margin product and service offerings. Also as Ty discussed, we expect decelerating end-market growth this year to put pressure on volume and pricing in the Framing and Glass segments. We expect sales declines in Framing and Glass to be partially offset by growth in Services as we execute a strong pipeline of projects in our backlog with LSO sales approximately flat as a retail channel headwinds offset new channel adjacency growth.

Looking at adjusted operating margin trends, we expect our F25 consolidated margin to remain approximately flat to F24. We expect Framing margins to improve and be within the new elevated target range of 10% to 15%. We expect the Glass segment will moderate compared to F24 and back into the 10% to 15% target range with higher margins expected in the first half of the year and sequentially declining as the year progresses. We expect Services margins will improve and move closer to the 7% to 9% target range. We expect LSO margins to decline as we expand into new adjacencies and begin to depreciate the capital assets for our capacity expansion but still be above the 20% target range.

Finally, we expect corporate costs to return to levels approximating what we incurred in F23. We are forecasting adjusted diluted EPS in a range of $4.35 to $4.75 with the impact of the reversion to a 52-week year expected to reduce adjusted diluted EPS by approximately $0.2 with no expected material EPS impacts related to the adverse net sales impact of Project Fortify. We expect an average tax rate of approximately 24.5% and anticipate $40 million to $50 million of capital expenditures during the year.

Finally, we expect lower cash flow from operations as the working capital changes that impacted the past two years begin to normalize. Looking at the quarterly cadence of the year, we expect the first quarter to be our lowest level of sales and EPS for the year with the fourth quarter comparison to prior year being impacted by the additional week in F24.

In closing, this was another strong quarter to finish a great year. Over the past three years, we have built a stronger financial and operational foundation for the company. And we believe there are opportunities to continue to make organic and inorganic investments in the business to build on what we have already achieved.

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

Ty Silberhorn ***Apogee Enterprises Inc - President, Chief Executive Officer, Director***

Thanks, Matt. To wrap up, I want to thank our team for delivering another strong quarter. I'm really proud of what we've accomplished. And more importantly, I'm excited about the opportunities ahead for our business as we focus on growth. Execution of our strategy has driven sustainable operating improvements across our business. We've achieved meaningful cost and productivity improvements, grown our mix of differentiated products and built a stronger set of core processes and systems.

These operational improvements have led to a step change in financial performance and created a solid foundation for us to weather any slowdown and creating a strong profit leverage as volume increases as we saw with glass in F24. Our team is focused on building on these improvements and delivering another successful year in F25 while positioning us for a strong F26.

With that, we're ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Julio Romero, Sidoti & Company LLC.

Julio Romero ***Sidoti & Company LLC - Analyst***

Thanks. Hey. Good morning, Todd. Good morning, Matt and Jeff.

Matthew Osberg ***Apogee Enterprises Inc - Chief Financial Officer, Executive Vice President***

Good morning, Julio.

Julio Romero ***Sidoti & Company LLC - Analyst***

Hey, guys. I wanted to talk about Project Fortify for a second and some of the things you're doing within Framing.

Can you maybe give us a quick refresher of what the current sales mix is within Framing, between shorter cycle work and the longer lead time work and maybe ballpark what that looks like post the phasing out of some of the longer lead time stuff within framing?

Ty Silberhorn ***Apogee Enterprises Inc - President, Chief Executive Officer, Director***

Yes. Julio, let me start by just kind of talking about the product lines and kind of the services that we're moving away from with Project Fortify within that.

So if you remember in the strategy we laid out at the end of calendar '21, we consolidated a lot of those separate business units, but we kept kind of a 2-business-unit structure from a commercial go-to-market. So our storefront and finishing business and then our window and wall business. A part of our window and wall business included what would look like a supply of manufactured curtain wall and window wall for small projects. So our Services segment is typically doing $25 million to $45 million type of projects, and that's all encompassing end-to-end, including installation. We were doing, let's call it, $5 million to $7 million, $5 million to $8 million type of supply side projects for window wall and some lower end curtain wall in that business. That is a part of the product line that was underperforming margin-wise, but we saw a path that we feel could improve those margins.

We have been working on that. They have made some improvements, but at the same time, we saw we were going to have to get more price on those offerings to really make that business sustainable and get it closer to being accretive to our overall margins and our margin goals. As we see the market slowing down and as we've tended to be more aggressive on that pricing, we saw those volumes start to erode throughout F24. And so we made the decision that, that's part of the business that we will move away from. In doing that, it also allowed us to kind of revisit footprint and look at some consolidation. We had already been working to basically run framing systems from a manufacturing operations and supply chain side as a single entity.

But this allows us to really do that completely. And it allowed us to leverage some open capacity with the exit of some of those products in one of our Wausau, Wisconsin facilities and take some cost synergy opportunity as a result of that.

Matthew Osberg ***Apogee Enterprises Inc - Chief Financial Officer, Executive Vice President***

And yes, Julio. This is Matt. I'd just add on to that in terms of kind of how to size that. We called out this year that there's about a 1 percentage point headwind as we start to step away from some of that longer-term project, unitized curtain wall business that Ty mentioned. And as you think about continuing to phase out, those are longer-term projects. So some of that will span into F26, but it would be less than the headwind that we've got this year as we kind of continue to phase that out. By the end of F26, that project flow would be out of our revenue.

Julio Romero ***Sidoti & Company LLC - Analyst***

Got it. That's really helpful, the color you gave there. And then maybe earlier, you guys spoke about diversifying the end market mix. I love what you showed on Slide 8, I believe, the work you've done, moving the mix towards healthcare, education, transportation, etcetera. Any way you can kind of help us think about where the end market exposure stands today, just in the name of helping us kind of track the sales diversification and where the portfolio is moving. Maybe you want to tell us like how much healthcare and education will make up X number of years from now? Just any way you could -- maybe help us (inaudible) and overall.

Ty Silberhorn ***Apogee Enterprises Inc - President, Chief Executive Officer, Director***

Yes, this is Ty. Let me give a little bit of color. So that data, we just chose to use some of the most recent data from FMI. One of the things, I think it's important to highlight, is if you look at the market research firms and the projections for calendar '24 non-resi construction, it is actually a pretty wide range from anything from down 1% to up 11%. That's just for the current calendar year. That's the widest range I've seen since I've been at Apogee 3.5 years now. So I think that bodes for a little bit of uncertainty in the market, and it's probably from a broader market perspective, it's probably a back half of the calendar year, more than it is the front half, although, as Matt said, we've got some puts and takes in Framing and some other businesses that I think first quarter will be our toughest, toughest quarter just from a top line perspective. When you look at those segments, one of the things we wanted to highlight is those building types. We have been working to get more healthcare, to get more education, to get more recreation.

Transportation really for us is airports. So those are segments of building types that we have been focused on for almost 3 years now to really diversify and we've made a nice step change in that. If you look at and kind of pull the full FMI report and you looked at - - if you want to define as addressable market, the building types that we currently play in and supply, FMI would still say that our addressable market is probably going to grow a little bit, maybe call it a couple of percentage points. And then we have to deal with our 53rd week, the exit of some of that supply curtain wall and window wall which kind of puts us to just being slightly negative and then kind of the further end of that downside range. So ex the 53rd week, we're kind of looking at a minus 1% to minus 4%. That's just us kind of, with that uncertainty we're seeing in some of these forecasts, hedging a little bit on how that might play out through the course of the year.

Matthew Osberg ***Apogee Enterprises Inc - Chief Financial Officer, Executive Vice President***

And Julio, the only thing I would add to it is we really tried to call out in Q3 and in this quarter, Services, in particular, has made improvements in their backlog and the mix of projects that we've been winning there has been very diverse, right? So I think that there's obviously lots of stuff in that backlog. But I see, as we continue to focus on these segments of the market that are growing and helping us diversify, we're seeing that show up in our more recent project wins.

Ty Silberhorn ***Apogee Enterprises Inc - President, Chief Executive Officer, Director***

I mean, again, we don't share that as a big reason is for competitive reasons. But as we've commented before, office, which was a huge part of our backlog reports across our businesses or our award mix, three years ago is down significantly and it was down again sequentially in the quarter and for this fiscal year compared to last fiscal year yet, if you look at services and that's the easy one to point to there. The backlog is actually up so that that for us is a positive signal. We're getting the diversification and it still will allow us to grow the business, both in the medium and long term.

Julio Romero ***Sidoti & Company LLC - Analyst***

Got it. Really helpful. And I appreciate the last comment, Ty, on Office being down sequentially. I think that really helps us think about things. Maybe just the last one for me would be one of the things you talked about in terms of diversifying the end market mix is the geographic expansion in Services.

Can you just give us a quick update on how that's progressing in terms of the westward expansion there?

Ty Silberhorn ***Apogee Enterprises Inc - President, Chief Executive Officer, Director***

Yes. So they continue to be very active on pursuing projects west of the Rockies. They have had - - we talked last quarter, they had a nice win. There are some other things that came through in the current backlog. There was some addition of work out West as well. We'll be making some investments, kind of expanding an existing facility in the Texas market, to help us create some additional capacity to supply that. And then one of the things we started working on is what do we want to do from a footprint perspective west of the Rockies, both for Services and for Framing. And when we look at those addressable building types, that's one of the challenges we have with Framing. I mean the Southwest and the West had some nice growth last year.

Our Framing business really has difficulty reaching those markets without having a footprint out there. So we have been working on building a plan that has kind of both an organic and inorganic. It's either buy or build to get a footprint there or likely some combination of those 2 things to really look at how we can allow Framing to truly play across all of North America, which today were -- they're pretty limited to east of the Rockies. And even when we look at Canada, they're pretty limited to the greater Toronto area today with their footprint. So that's an area we're looking to make some additional investment in both, again, organic and inorganically.

Julio Romero ***Sidoti & Company LLC - Analyst***

Very helpful. I'll pass it on. Thank you very much.

Ty Silberhorn ***Apogee Enterprises Inc - President, Chief Executive Officer, Director***

Thanks, Julio.

Operator

Brent Tillman, DA Davidson.

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

Congrats on a great year. I guess first would just be, Ty, you have the slide in here around objectives to outgrow the market kind of moving forward. And I guess my question is just, among the 3 categories that you have in the slide deck for to capture share focused on high-growth opportunities and investments, where is the low-hanging fruit in your view? And what do you think is going to be most impactful in terms of your ability to sort of accelerate growth regardless of market conditions?

Ty Silberhorn ***Apogee Enterprises Inc - President, Chief Executive Officer, Director***

Yes. It's a great question, Brent. I would say as we see the market softening, I'd like to say there's a lot of low-hanging fruit there, but I think it's going to take good effort because, as you know, as the market softens, competition gets a little bit stiffer and tighter with respect to that. Now we have seen, like we commented on in the script, that we've seen Services, they're picking up some business and what we're seeing, we believe, is maybe a little bit of a flight to quality to make sure that, okay, if I'm a developer contractor, and I've got a limited number of projects, I want to make sure they go really well. And so we're seeing some signals of that, that we think that plays well for, frankly, all of our businesses for Glass, Services and Framing. So we're digging to understand that better and how we might promote that more strongly. And that becomes a share gain opportunity for Services and for Framing in particular. So I think that's the one area that we're focused in that we potentially could see some short-term benefits with respect to that.

I think really being able to reach more deeply geographically, that's a bit more of a medium long term that's going to take either or a combination of build, buy to get us the footprint that we can step into that. And as we've talked about, with a very active M&A pipeline, we were very active in the fiscal year. Even though the market for acquisitions has been relatively slow, you can see and read that data, because of interest rates, because of private equity being a bit sidelined, that doesn't mean we didn't engage and look at a number of opportunities, and we'll continue to do that. But as part of that, we're also being very diligent and strategic in our focus. So we want something that has a great strategic fit, that we're confident we can add value and generate more value owning that asset and that's going to help us accomplish our financial goals, including our growth objectives over the long term.

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

Okay. That's helpful. And then I guess with some indications that murkiness in corners of the market today, at the same time, you guys are looking to potentially deploy some capital, you're clearly underlevered right now, but if your views around leverage changed at all as you continue to kind of monitor the macro picture and what you can see coming in the pipeline?

Matthew Osberg ***Apogee Enterprises Inc - Chief Financial Officer, Executive Vice President***

No. I think you're right, Brent. I mean, obviously, we'd like to be able to invest more in growth initiatives. Like Ty said, we've made some investments in growth, both in F24 as we invested in some capacity for LSO that should come online this year. And as Ty mentioned, expanding some of our services capabilities to help them continue to move west -- and like Ty said, we're very active in the M&A market, and we'd love to find an opportunity to invest there. So we're looking to try and make some investments that are going to help put us in a good path from a growth perspective and that would definitely add some leverage and we'd like to be able to do that with the right asset.

Ty Silberhorn ***Apogee Enterprises Inc - President, Chief Executive Officer, Director***

Yes. We've got -- I mean, 16% ROIC. I mean that's the business. Three years ago, it was at 7%, well below our cost of capital. So we're looking for those investment opportunities to drive value for our shareholders and we do see those opportunities. So that's the area of focus that we're really going to drive the organization to. That's not to say we're going to take our eye off the ball in terms of managing our margin profile and generating cash.

But especially with Fortify kind of cleaning up the last tail of some of the product offerings, we're really in growth mode and that regardless of what the market is doing. So both organic and acquisition wise, that has been the message to the team in the last couple of months as we stepped into F25. It's go get growth, go outperform the market. So if the market does end up being down, we got to be down less or find a path to grow and as the market is up, we've got to find a path to outgrow that market. And so that is the message and the focus for the team for our F25.

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

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

Operator

BJ Cook, Singular Research.

BJ Cook ***Singular Research - Analyst***

Thanks, Mark. Thanks for taking my call. You guys announced some higher pricing in Q4. Just wondering if there's an indicator of some pricing power? Or is it more correlated to eliminating some lower-margin projects.

Matthew Osberg ***Apogee Enterprises Inc - Chief Financial Officer, Executive Vice President***

Yes. I think some of the benefits we got in Q4, B.J., were from some of the pricing initiatives that we had put in place earlier in the year and as well as, especially in Glass, the way we are trying to shift to higher value-add strategies, so just improving the mix and the price. We didn't take any specific pricing actions in Q4. I think it is a carry forward of a lot of things that were put in place earlier in the year. And then as we looked at F25, we do see some pressure coming in both Glass and Framing on volumes, and you will have to have some pressure on price probably as well. And that's why we looked -- called down those 2 from our revenue perspective in F25. So no new pricing initiatives that we put in place in Q4.

BJ Cook ***Singular Research - Analyst***

Got it. Appreciate it. You mentioned expanding into some adjacent markets. I just wondered if you could talk a bit about your strategy, maybe that there's any significant changes to what you guys are doing currently or any additional investment there?

Ty Silberhorn ***Apogee Enterprises Inc - President, Chief Executive Officer, Director***

Yes. I'd start on the immediate front is with Large-Scale Optical with the new coater coming online later this year that will allow them to be more aggressive at pursuing some adjacent applications where they can leverage the coating capabilities that they have for both glass and acrylic for different market applications. That we see our ability to offer some really strong differentiated product offerings in those markets. So that's not going to move the needle in F25, but it will set us up as we go into F26 and beyond, but we've got a nice healthy pipeline that they're starting to build as they look at those adjacencies. And then we've talked about just trying to further diversify the building types in our project backlogs that the team has done, and we'll continue to focus on that. And then geographic, right, that becomes another avenue for us to further diversify and kind of strengthen our reach out west.

And again, that can be organic or inorganic in how we approach that. And then certainly, as we look at our acquisition pipeline, we are looking at different products, materials that allow us to move into some adjacencies for our business as well, that kind of expands our product portfolio, our service offering, but again, doing so in a way that's accretive to our current and long-term margin goals as well.

BJ Cook ***Singular Research - Analyst***

Great. Thanks, guys. Appreciate it for me.

Ty Silberhorn ***Apogee Enterprises Inc - President, Chief Executive Officer, Director***

Thanks, BJ.

Operator

Jon Braatz, KCCA.

Jon Braatz ***KCCA - Analyst***

Morning, everyone. Hi. A question regarding Project Fortify all the actions you're taking and the things you're doing especially within the Architectural Framing segment. How will that -- will you be able to level out the margins in that cycle in that segment across the cycle? What are some of the things you're doing that, I guess, would help achieve that goal?

Ty Silberhorn ***Apogee Enterprises Inc - President, Chief Executive Officer, Director***

Well, thanks for the question, Jon. I'd say there's a couple of things. So one, we're being fully transparent. We had some products in there that we took a hard look at three years ago and decided to keep in the portfolio because we felt we saw a path that we would get it where we wanted it from a margin perspective, and we haven't been able to achieve that.

And I think that just demonstrates good leadership from our business teams to say yes, that path isn't really there. And if the market softens, it makes it even more difficult. So let's kind of peel that bandage off and move forward. That, for me, is kind of the last piece of what we had to do in the portfolio to kind of clean up where we want to be and put us on solid ground to kind of reset our margin floor.

At the same time, then it allows us to take cost out. So Framing has had -- probably would have, if not for 53 week and some order pull-through in Q4 probably would have been down double digit in Q4. And so that's something we're looking at kind of setting them up for probably a bit of a rougher Q1 and we're going to look at it as how did Framing perform over Q4 and Q1 together. But by taking those actions, it gives us some additional cost opportunity to manage even with some softer volumes that still gives us confidence they're going to stay in that 10% to 15% range.

And then our -- we feel confident we're positioning that business much in the same way as glass that as we get volume starting to flow through there, we expect we're going to see a fair amount of leverage, which pushes us to the top end of that new 10% to 15% range.

And yes, then maybe in a great quarter or something like we saw in Glass, they might even exceed that. But we feel really good about where that business is. And as they consolidate that footprint, which they expect to be done by the summer that puts them in a strong position to have volume flow through and really start to drop some meaningful dollars to the bottom line as a result.

Jon Braatz ***KCCA - Analyst***

Okay. Okay. And then secondly, when you announced back in January, these actions Project Fortify -- you talked a little bit about annualized cost savings of $12 million to $14 million, 60% in '25 and the remainder in '26. Can you talk a little bit about whether you're ahead of schedule. Do you think you can do more than that? Where do you stand on those annualized cost savings?

Matthew Osberg ***Apogee Enterprises Inc - Chief Financial Officer, Executive Vice President***

Jon, it's Matt. Yes, we're on track for both kind of the total amount of charges related to Fortify and the amount of annualized cost savings.

Operator

Thanks, John. (inaudible) Thank you. At this time, I would now like to turn the conference back over to Ty Silberhorn, CEO, for closing remarks.

Ty Silberhorn ***Apogee Enterprises Inc - President, Chief Executive Officer, Director***

All right. Well, thanks for joining us today. We look forward to connecting at an upcoming investor conference or at our next earnings call. Everyone, have a great day.

Operator

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