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2023 Annual Guide to Equipment & Machinery

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Make Ready

It was an unusually hot day in late May when **USGlass** magazine met with Apogee Enterprises president and CEO Ty Silberhorn at his office in Minneapolis. The 55-year-old CEO arrived at Apogee a little more than two years ago, after spending the majority of his career at 3M Company. Speaking with him were **USGlass** magazine publisher Debra Levy (see related story page 8) and editor Ellen Rogers.

USG *Thank you for the warm welcome. Let's start by asking what you would like to make sure we discuss today.*

TS I hope our customers and investors see that Apogee is transforming itself as a company. We're on a journey with a new strategy we launched in the summer of 2021; we've been executing it [successfully], and it's showing in our results.

USG *Can you talk about some of the strategic changes you have implemented and where you're seeing results?*

TS We're a more focused business, and we're investing in the organization. We're strengthening the talent of our team through talent development and hiring when we have the opportunity to replace positions when people retire or go on to other opportunities.

We relaunched leadership development programs last year, which has been a huge hit with our employees.

And there's a third key point—we are working to position ourselves to serve our customers better. So you take those three components together, and that's what we do to create peak value for our stakeholders.

How Ty Silberhorn is Transforming Apogee for the Future

USG *What strategic changes have you implemented that are bringing strong results?*

TS We changed the operating model of the company. If you looked at Apogee Enterprises when I came in, it ran more as a holding company model.

We are now running the business more as an operating enterprise through the new strategy. If you look at the four segments we report—Architectural Services, Architectural Glass, Large-Scale Optical, and Architectural Framing Systems—we’ve integrated within these segments. While each segment carries its brands forward, each has a certain perception and value promise to the customer. Suppose you step back and look at how each segment runs its sales organizations and, most importantly, how they’re running manufacturing operations, along with all the back office work. In that case, you’ll see each segment is strategically integrated into a single operating unit. That gives us more efficiencies and helps us stay cost competitive.

USG *Many of your senior managers and most of your board members are relatively new, arriving within the last few years; most of them took their posts after COVID. Has that been a challenge?*

TS I’d say the company had undergone a Board refreshment before I got here. Our Board has been consistent since I joined; there were some retirements and departures at the company even before COVID; but if you look at my core direct reports, there are only a handful of changes. A lot of that was getting alignment on the strategic direction of the business and where we want to focus. So that operating model is a big change. The other thing I would point to is our operational execution. We created the Apogee Management System, and the foundation is lean and continuous improvement. The company had been doing that before, but I’ve lived through several iterations of that in past lives. It’s normal that after three, four, or five years, it starts to get a bit stale, and you need to restart it. We relaunched that in a big way with training and

development and brought in new talent with experience and an understanding of those programs. That’s had huge dividends starting in our Glass segment from a productivity, quality, and efficiency perspective. We’re putting a lot of emphasis on that in our Framing Systems segment this fiscal year.

USG *One of the things I’m sure of is that your pricing increase significantly contributed to the record revenue for the year. Some of those price increases were painful for customers. I want to give you a chance to respond to those who might say, ‘Of course, revenue was high; they raised prices so much.’ So how do you respond to those customers? Is there a benefit for them on the other end of that also?*

TS Pricing, as with most businesses across the industry, was a driver from a revenue perspective. I think that’s true of the broader economy. We had the most significant price increases in Framing Systems, which was really materials-driven.

A couple of things happened. One, we launched our new strategy. We stepped back and said, ‘You know what? We’re trying to be everything to everybody. And that doesn’t lend itself well to efficient and strong operational execution.’ We had to say we needed to exit some product lines and businesses. We don’t see these as being viable in our portfolio long term. So, we walked away from some chunks of revenue that, frankly, we had to replace.

We had other parts of the portfolio that we said, ‘Okay, we need to get at least [to a certain] level of margin. We can get some of that through productivity, but some will have to come from price. If the business goes away because we can’t price it or it’s not competitive, it goes away.’

We saw some of it go away, but a lot of it stayed. I was very impressed by how much remained. That might be an indicator of broader things going on in the market. Our team learned that, in some cases, we were underpricing the value we were delivering. But the big drivers on that were material costs. We think that’s stabilized now. ➔

“If you look at what’s happening with Viracon as a brand and our Glass segment in total, I would say they’re getting back to their roots.”

—Ty Silberhorn

USG *We’re seeing a lot of changes in the architectural glass realm. And [historically] Viracon has been seen as that top-tier [fabricator]. What will the company be doing to ensure it keeps that status, especially as new fabricators enter the market?*

TS If you look at what’s happening with Viracon as a brand and our Glass segment in total, I would say they’re getting back to their roots. When I came in and understood the history and looked at where the business was, two things struck me in my first 100 days. One was that it’s a great facility. Yet when I looked at productivity and yield coming through the operations, I stepped back. That’s when I started to question, are we really practicing lean? I saw a lot of opportunities there based on my past manufacturing experiences. Second, as I heard the story of Viracon and the premium position it holds in the marketplace, I looked not only at what we were billing and selling in the current quarter but looked backward. We had fallen into chasing volume. There was a rationale and reasons for that at the time. Still, as we started to peel that apart and went through our strategy—and in our strategy work, we spent a lot of time getting the voice of customers—that helped us come out of that saying, ‘Okay, first off, we can actually be a lot more productive and efficient, and generate higher yields and better quality in our flagship glass facility, which is Owatonna.’ Second, we really aren’t focusing on the value proposition that made Viracon successful. One of the things we did in the restructuring, we took some capacity out. We said, ‘Listen, we want you guys to be able to focus on what you do best. Whether that means you’re a \$300, \$400, or \$500 million business, I’m not worried about that right now. I’m worried about your ability to deliver value for the customer and get paid for that value at the end of the day.’ So that’s where Viracon is headed.

Glass closed out its fourth quarter very well; a lot of that was due to productivity and efficiency. We think the value of the premium offerings is going to play out this year, and it’s further going to get them back to the performance levels that our customers expected. We want to see this from a financial perspective so that we can continue to invest in that business.

USG *Is that where Halio comes into play and brings more of a premium and value-added option?*

TS Halio is a great example of another area (besides coatings) that brings the value

our customers are asking from our insulating glass units. Rather than having a ‘it must be invented here’ mentality, we asked how to work with others. How could we accelerate what we bring to market in an integrated solution from a glass perspective? Halio was one of the first areas with the interest in dynamic glass. Tax credits are available for those types of products and applications. If we can find strategic partners to work with and get us to market faster, that allows us to deliver value for the customer.

USG *Do you see the interest in the tax credits? Because electrochromic glass has been around for a long time. Do you think we’re finally going to start getting more projects?*

TS We’re seeing more requests to include it in quotes. We’ve been active, and we’ve got some projects coming through with Halio. Architectural Services, Harmon, is seeing more project requests to include electrochromic glass. People want both options so that they can look at the cost differential and the value of the building. Some developers and building owners are committed, saying, ‘We’re doing this, and we’re going to figure out how to make this work.’

USG *That ties into another thing we’ve been talking a lot about right now, and that’s the increasing focus on high-performance glazing products, not just in new buildings, but also improving [lower performing] existing buildings. Since Harmon has a segment devoted to retrofitting, can you talk a little bit about what you’re seeing there?*

TS A lot of that flows through in our business, and there’s an effort to educate [on how] we can help solve [issues] and make sure architects and building owners are looking at that as an option. There’s a natural pull-through from a customer perspective. We’re certainly seeing it pick up demand-wise. If you look at a large building that’s, in essence, being reskinned, our Services business would probably target a project like that. They would look at it almost like it’s a new construction project. It fits very well into what they do already.

USG *Speaking of Harmon, can you tell us about the integration between Harmon and Sotawall and the next steps?*

TS We have got a great business in our Harmon brand. They can do everything ➔

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Viracon PLUS™ Smart Glass powered by Halio® is nothing less than the most state-of-the-art smart dynamic glass on the market today. Faster, more uniform tinting. Cloud-based manual or automated control. And beautiful neutral gray aesthetics throughout the tinting phases. This revolutionary smart glass reduces heat gain and glare and helps to fight climate change by lowering carbon emissions. And with a 30% or greater Incentive Tax Credit for smart glass, the time is now for the glass of the future. Better for buildings. Better for occupants. Better for the planet. Viracon Plus Smart Glass powered by Halio doesn't just change tints, it changes everything. Get your project started at [Viracon.com](https://viracon.com).

#THISCHANGSEVERYTHING

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AND **HALIO®**
A PARTNERSHIP IN INNOVATION



Photo: Viracon

Viracon's operations in Owatonna, Minn., fabricate a variety of high-quality architectural glass products.

from upfront engineering support all the way through the design and engineering of the curtainwall and then installing and enclosing that building as part of that process. We think they are uniquely positioned from a value proposition standpoint, and we see opportunities for that business to continue to grow. Sotawall was targeting large curtainwall facade projects as a supplier. We saw the opportunity to bring that business and its manufacturing and engineering resources under the Harmon operating model as an integrated service project service provider.

USG *I noticed one of the three prongs of your strategy is to position for further acquisitions. Can you give me an idea of the type of company or capabilities that would fit you well in the future?*

TS We look at acquisitions as one of the growth levers we can pull to grow the business. They will be part of our growth strategy as we go forward. We are a commercial construction company; that's the bulk of our business outside of our Large-Scale Optical segment. So, it's likely, as we look at acquisitions, they are going to be construction-related. We are looking for businesses that have strong positions in the marketplace, are performing well, and line up strategically with what we think are long-term positive industry trends. Those businesses give us a chance to add more product and service differentiation to our portfolio.

USG *One of the biggest trends is having a single source, whether it's the installer or supplier of the façade material. So*

would alternative façade materials—alternatives to glass—be one of the possibilities you might explore?

TS In a broad sense, we're looking at all product materials that would strategically fit the value chain from a construction perspective. When we look at trends on different buildings and building types, we've been on a focused effort to diversify the types of building projects that we can supply or support. That would open that aperture up for us to be looking at different types of products and materials.

USG *The industry has been challenged to find people who want to work, and we're seeing a lot more robotics and automation in fabrication facilities. What new technologies are you exploring to help you work more productively and efficiently?*

TS Our focus has been on our manufacturing operations. We've discussed Harmon and what they see on jobsites. There might be some potential, but where we're focusing our energy and investments is within our manufacturing operations. As we make investments in new equipment within our facilities, we're looking for automation opportunities to improve our operations, attract more workers with improved ergonomics, and improve the type of work our people are doing. There are examples of this in the capital we approved for our business investments this year.

USG *You're doing a lot of work with Halio, but you don't have a presence in solar. What were some of the factors that made you decide that it wasn't for you? ➔*

TS It's an area we looked at. We felt that there were [other] things that we could focus on to start. When we looked at where we could have the biggest impact in the immediate term, [we saw] our work with Halio as a bigger near-term opportunity. We'll continue to monitor what's happening with solar and how that could play from a facade perspective. It's not to say that we aren't looking at it, we are, and it's being evaluated strategically.

USG *And with jumbo glass, there continues to be more and more movement toward bigger and bigger glass. Have you looked at that for the future, where the problem becomes transportation?*

TS We've made investments to handle some pretty large sizes. And we've seen that show up and work. We're comfortable with where we're at now. This gets back to 'Where can we deliver the most value? Where can we be competitive from that standpoint?'

We don't have plans right now to expand the sizes, but it's an area we'll keep looking at.

USG *Apogee has been in and out of the international market several times. How do you see that presence in the future?*

TS All of our businesses are shipping internationally, even if it's just within North America, crossing into Canada or Mexico, or South America. We think there's still a ton of opportunity for us in North America, when we look across all our businesses. That's been our primary focus at this point. If the opportunity arises for us to do something, we will look at that, but it's unlikely we would make an organic investment. And it's unlikely that we would specifically target an acquisition that would give us a footprint. That doesn't mean we wouldn't acquire something with some footprint or revenues in another part of the world, but it's not a focus for us right now. There's enough opportunity in North America.

USG *DEI is the buzzword of the day, and I noticed your workforce is still 73% male and 11% African American. Are you actively making efforts in that area?*

TS Absolutely. We publicized our data in our 10K this year. Unfortunately, it looks like the industry, so there's a broader industry challenge here. As I talk with other CEOs and presidents in the industry, this is a challenge that everyone's trying to tackle. We're building it into our programs. We want this to be a welcoming,

inclusive environment and for people to feel comfortable and we're committed to that.

I'm really proud of our board; it's very diverse. I would love for my executive team to have that diversity play out in the rest of the organization. That's a long-term vision and goal.

USG *I'm going to ask you a question I've asked in every one of these CEO interviews with all of the Apogee CEOs. How do you personally define success at this job?*

TS I look at it and ask, 'Are we building something sustainable long-term? Are our employees engaged in, embracing, and energized about the work that we're doing?' I think that speaks volumes about where we believe the company will be headed. In the financial performance, my concern is really years two and three. Yes, we have to deliver this year. Any shareholders who will read the article will know, yes, we absolutely know we have to deliver the year. But we also want to make sure that we're building something sustainable.

USG *What were some of the most significant differences and maybe even some similarities between the operation you came from at 3M and Apogee?*

TS Obviously, the size difference is impactful, and understanding [Apogee is] a much smaller company, from an employee base and from a revenue perspective. In a large corporation, even if it wasn't within your own organization, you could reach out to other parts of the organization and say, 'Hey, I have an opportunity,' or 'I have a problem, and I need some additional support or help for the next couple of quarters to work through.' With the small company, you're relying on a smaller team.

That makes it even more important to prioritize and focus on what's most important for you, for your customers, where you will derive the most value long-term, and stay focused on that. That was a big change.

The positives are you can be very agile. You can see the impact of your work and the team's work in a much shorter time period, and you can connect it directly to those results. In a large company, there are so many moving pieces that the team could have done some phenomenal work, and it just gets washed out with all the noise. I think the ability to see the good and bad of your work and course-correct or amplify it positively is the opportunity in a small business.

I spent almost 25 years at 3M and did a ➔

dot-com start-up. I started my career in a small oil company. That mixture, as well as running some wholly owned subsidiaries with 3M, prepared me for the kind of environment that I came into at Apogee. Even when it was nine or ten different independent business units running their own brands, we have connectivity through market construction and product and technology, with glass and glazing being foundational elements similar to a 3M.

One thing I saw as an opportunity is that our employees didn't feel connected to the broader enterprise. A company like 3M, whether you were in consumer, healthcare, or industrial, had its own unique cultural elements, but those employees still felt some connection to the broader enterprise. We've worked on that, making employees feel part of a larger organization. That opens their eyes up to different career path opportunities as well.

USG *What was it like for you to join Apogee at the beginning of 2021 when we were still in the pandemic?*

TS I loved my time at 3M. I learned a lot but wanted to get into a smaller company. I was looking for a smaller company for the reasons I alluded to before. If I looked at what drove my career success at 3M, it was around helping a team cultivate a strategic vision and executing that strategy. So some folks will talk about how you can be strong in strategy, but then you're weaker on the operational side. I have found a way to connect both areas and ensure we build a team with the right muscle to bring those to reality.

I was looking for a company that was stepping back and saying that we need to rethink our strategy, where we're going and why, and how we'll get there.

There was an opportunity not just to do a better job of running operations. Still, if you're not running your operations well, you'll probably have a hard time executing that strategy. I was looking for businesses that provided that opportunity; Apogee had that. My predecessor embraced that, but he also knew it was a multi-year journey and probably better left to someone who would be here for a while. Our board was ready to take that on as well. Those things lined up for me, and it happened to be in my backyard since I was living in St. Paul.

USG *Our readers always like to know a little bit about the person. So what kinds of things do you like to do?*

TS My kids are all older, but I love doing activities with them. I have three daughters, and the youngest started a father-daughter event trip. It's nice, and just the two of us. She started that, and the other two have latched on. So I look forward to those and spending time with my family. I enjoy playing golf; I just never can find the time. And I'm active on several nonprofit boards.

USG *So, how do you handle stress? What is your coping mechanism?*

TS It's trying to stay focused on our solution path. If I went back 20 years in my career, I would get caught up in how did we get here? How did this problem happen? Or why are we facing this shortfall or whatever the case might be? The ability to redirect my brain to start thinking about our path forward deescalates that concern.

USG *What do you think is the biggest misperception out there about Apogee?*

TS Glass is a great core part of our foundation, but we still get pegged by investors and prospective investors, saying, 'Well, you're a glass company.'

But we're a much broader, different company than just glass. Glass was about 20% of revenue last year. If you went back several years, it was nearly 40% of sales. And that's not just because Glass got a bit smaller; it's because we've grown in other areas and are much larger than glass. It's important that our customers and [investors] understand that. We have other things to offer from a solution perspective. When I came in, we were operating as nine business units, each with their own brand doing their own thing. The customers said, 'I know you all own these, but I don't understand or see the connectivity.' We've been working on that.

USG *Is there anything else you wanted to convey that we didn't touch upon?*

TS We're really proud of the team and the work the team has done. We're a different company, but we're still closer to the beginning than we are to the end. There's still a lot of opportunity for us to deliver on that promise and create peak value.

USG *Thank you.*

TS I enjoyed it.

USG

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