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APi Group Corp. (APG)

Investor Meeting

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CORPORATE PARTICIPANTS

Olivia Walton
Vice President-Investor Relations, APi Group Corp.

James E. Lillie
Co-Chair, APi Group Corp.

Martin Ellis Franklin
Co-Chair, APi Group Corp.

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.

Andrew White
Chief Executive Officer-Chubb, APi Group Corp.

Glenn David Jackola
Chief Financial Officer-Chubb, APi Group Corp.

Kevin Krumm
Chief Financial Officer & Executive Vice President, APi Group Corp.

OTHER PARTICIPANTS

Chris Snyder
Analyst, UBS Securities LLC

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.

Adam D. Wyden
Analyst, ADW Capital Management LLC

Julian Mitchell
Analyst, Barclays Capital, Inc.

Jonathan Tanwanteng
Analyst, CJS Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Olivia Walton

Vice President-Investor Relations, APi Group Corp.

Good morning, everyone. My name is Olivia Walton, and I am the Vice President of Investor Relations at APi Group. It's my pleasure to welcome you to the 2022 APi Investor Update event. Thank you to those of you who could join us in person in New York City today, and also to the many of you listening in on the webcast. We're excited to be here with you today.

Over the next couple of hours, you'll hear from Sir Martin Franklin and Jim Lillie, our Board Co-Chairs; Russ Becker, our CEO and President; Kevin Krumm, our Executive Vice President and Chief Financial Officer; Andrew White, our CEO of Chubb; and David Jackola, the newly appointed CFO at Chubb. For those joining via webcast, please feel free to submit your questions online through the webcast portal at any time throughout today's presentation, and we will get to as many as we can at the end.

During the presentation, we will be discussing various topics, which should be considered forward-looking for the purpose of the Private Securities Litigation Reform Act of 1995. You can refer to our 2021 10-K for additional details regarding risks and uncertainties. Our statements are as of today, November 17, and we have no obligation to update any forward-looking statement we may make.

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Our comments today will also include non-GAAP financial measures and other key operating metrics. The reconciliation of and other information regarding these items can be found in the presentation, which will be posted to the Investor Relations page of our website following the event.

It is now my pleasure to introduce Sir Martin Franklin and Jim Lillie, our Board Co-Chairs, for opening remarks.

James E. Lillie

Co-Chair, APi Group Corp.

Thanks. Olivia. Can everybody hear me because – oh, the AV guy says yes. Okay. So, welcome. Thank you, guys, for joining us today. The presentation after talking to a bunch of you at breakfast is actually going to be a little bit shorter. We're going to wipe out the whole cash flow presentation because apparently nobody cares about that, so pick up some extra time today.

So, look, we're really happy to have this day. It's something that we've talked about for a long time. It's great to see 90 or so people turn up in the room, and however, many are on the web. As you guys know, APi has had a strong year-to-date performance and we expect to finish the year strong. Our continued execution of our plan, our focus on driving shareholder value continues to demonstrate that the business model, which services growth, which is increasingly a function of controllable initiatives, is offsetting macro headwinds such as COVID, inflation, FX and the like.

Today, the team is going to discuss Chubb in great detail as that's the primary reason for meeting. But however, we also appreciate that based on where the market is today, where the world is today, you guys also want insight and comfort on our strong backlog across the installed base of our business. Importantly, cash flow, which we will spend a great amount of time on talking about, our continued path of deleveraging swiftly to our targeted range of 2 to 2.5 times net debt to adjusted EBITDA, and our continued focus on thoughtful M&A of scale and of tuck-in.

You'll see and hear today how the business continues to perform well and deliver on its commitments driven by strong organic growth across the board, solid operational performance, as well as our ability to mitigate margin pressures that exist on a macro basis through increasing high margin inspection service and monitoring revenue, our pricing initiatives, our disciplined cost controls and operational improvements in our legacy business as well as at Chubb.

And I said on our most recent earnings call with the continued [indiscernible] (00:03:55) progress made in 2022 across all aspects of the business, we believe that we're well positioned and well capitalized to continue to execute on our plan throughout today, the rest of this year, beyond next year, and the years to come. The leadership team will be presenting their budget and strategic plan to the board in early December, and we will like in prior years detail to all of you that outlook in Q1 next year.

Russ will discuss what we'd like you to take away from today. But, Martin and I want to assure you that we are very much focused on being adaptive and responsive to the needs and continuing to focus on creating sustainable shareholder value across the platform. As you know, our long-term targets are based on delivering long-term organic revenue growth above industry average across the platform, leveraging SG&A and COGS, expanding adjusted EBITDA margin to 13% by year-end 2025, targeting adjusted free cash flow conversion or approximately 80% on average, generating high-single-digit average earnings growth, de-levering down to that 2 times, 2.5 times that I talked about earlier, and executing on an accretive M&A strategy.

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So, there's a lot of great information both on Chubb, on the macro platform, and initiatives that are important. But also, as I said at the beginning, we respect everybody's desire to understand cash flow and de-leveraging and how we're going to look at incremental M&A. And so, you'll see great detail on that.

So, with that, I'll turn it over to Martin to make some opening comments, and then come back towards the end. But thank you for being here. I think you'll enjoy today.

Martin Ellis Franklin

Co-Chair, APi Group Corp.

Thanks, Jim. Good morning, everybody. It's a pleasure to be with you this morning along with my colleagues leading the APi Group today. These are exciting times. I'm excited for us to share the progression of the business and, in particular, a more thorough walkthrough of Chubb and its importance to APi's well presence.

When we acquired APi about three years ago, we believe that the leadership team and core business had all the components required to transition from a high quality private company to the one that would be a truly global company. We're extremely gratified with the evolution of this business and how it's gone so far. And we have all the pieces in place to achieve our 2025 targets with a healthy runway above and beyond that.

We've always looked to invest in market leaders with defensible moats, strong management teams with great culture and that have a long history of free cash flow generation. Not only has APi ticked all of these boxes, but has navigated all of the macro challenges Jim mentioned a few moments ago, in a way that underscores the strength and resilience of our business model.

We know that building a world-class organization is a marathon, not a sprint. Rest assured, that we are investing in this business as owners, not as renters, and putting all the building blocks in place to scale this business far beyond the relatively modest goals we've stated publicly. For what it's worth, this is my largest public investment, and that's the focus you might expect as a result. I believe this business has only just begun its journey. But Jim and I know from our past endeavors that there are no shortcuts but discipline, blocking and tackling every day. This is a very driven organization and I'm very proud to be a part of it.

So, with that, I'm going to hand over to Russ, the leader of our company of leaders. Here you go.

Russell A. Becker

Chief Executive Officer, President & Director, APi Group Corp.

Thanks, Martin. I was a little bit disappointed that yesterday when we were – we got here early and we did a little dry run and Martin and Jim did their initial remarks and we're practicing, and they said, back in their Jarden days after they made their opening remarks, they hugged and there was no hug today. And Kevin looked at me and said, there's no chance I'm hugging you tomorrow.

So, anyways, thanks, Martin, thanks, Jim. And thank you, everybody, for taking the time to join us today. And we really do appreciate you being here with us, and including those that have joined us on the phone. It's like really awesome to be together in person.

Starting with our agenda today. For those of you that may be new to the APi story, I will begin today's remarks by providing a brief overview of APi's evolution to a recurring revenue, services-focused business. As many of you know, we are here today to focus on the acquisition of Chubb, which closed at the beginning of this year. You will hear more about the significant growth and margin expansion opportunities from Andrew and David.

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After that, I will highlight opportunities, including our path forward as the world's leading life safety services provider. Before we turn to Q&A, following today's prepared remarks, Kevin will review our strong free cash flow generation, our deleveraging plans, what we believe is the attractive investment opportunity in APi relative to peers, and conclude by summarizing our margin expansion opportunities as we focus on APi achieving 13%-plus adjusted EBITDA margin by 2025.

This slide highlights our leaders speaking today during our presentation. We are confident that you will share our excitement about the future prospects for API after seeing the enthusiasm and energy they bring to driving growth, margin improvement, and delivering shareholder value.

I was talking to a number of folks before the meeting started today, and people were complimentary of our third quarter and our year to date results. And my comment was, it's really about our people and about our team and the quality of the people and individuals in the leadership that they bring to our organization. We really are fortunate and we have a lot of really, really good people.

There are five points of focus that we like to highlight today. First, Chubb is highly accretive and creates significant opportunities. We are the right owner of this business. The integration is occurring swiftly and the savings are significant. Chubb supports our overall 2025 targets. Our balance sheet is strong. And strong free cash flow allows swift deleveraging.

I will now provide a brief overview of APi for those that may be new to the story. We are a global market leading business services provider of life safety, security, and specialty services focused on the statutorily mandated recurring revenue. Our largest segment, representing 70% of total net revenues, is Safety Services. The statutorily driven demand for our services provides predictable, higher margin, recurring revenue opportunities. We liken this to a protective moat around APi.

Our go-to-market strategy in Safety Services is to sell inspection work first, because we estimate that for every dollar sold, we know that we're going to get $3 to $4 of follow-on subsequent service work. This strategy differentiates us from our peers and ultimately creates a sticker client relationship that we believe positions us as the preferred life safety and security services provider in the facilities where we perform the inspections.

In our Specialty Services segment, which represents approximately 30% of total net revenues, we are focused on growing service revenue through multi-year master service agreements, which provides us with a high degree of visibility and we believe helps to build a more protective moat around the business.

Our strong culture is defined by our commitment to leadership development and the investment we make in our people. This investment is unique in our industry, and we believe that it is a competitive advantage. Our employees, technicians and engineers have careers, not jobs, and we believe this investment reduces turnover, aligns communications and drives performance and productivity. This is a competitive advantage for APi, particularly when many companies see team members up for new opportunities. I'm not going to go through every point in this slide as many will be covered in detail later in the presentation.

To summarize, our ability to execute against our strategic plan and deliver results for our shareholders amidst COVID-19-related disruptions, supply chain disruptions, inflation, FX headwinds is a testament to the benefits of our relentless focus on growing high margin inspection, service and monitoring, our revenue diversification, the asset-light, low CapEx nature of our business and the relative variability of our cost structure to allow us to quickly flex with the changing market.

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We are confident in the resiliency, growth prospects and strong free cash flow generation of our business and remain focused on capitalizing on opportunities in front of us, while maintaining a conservative balance sheet and liquidity profile.

We are proud of what we've accomplished in our first three years as a public company, and are excited by the opportunities that we believe lie ahead for the business, both organically and through disciplined and accretive M&A. In addition to organic revenue growth and margin expansion opportunities, we believe there are also valuation, multiple expansion opportunities.

When I first met Martin and Jim in the spring of 2019, and that seems like a hell of a long time ago, inspection, service, and monitoring revenue represented approximately 40% of net revenues. We discussed the potential upside for the company, if we continued and accelerated our focus on growing the service and recurring revenue aspects of the business. We also discussed the advantage of transitioning APi from a private company to being a public company of having a permanent capital structure, and how that structure would allow APi to consider opportunities for growth and expansion that, historically, have been out of reach.

We believe that the company is showing the strength of its protective moat and its resiliency, despite a challenging macro environment over the past few years. The organization of APi continues to evolve and grow as we build strength as a public company. We've made significant progress in building up the depth of our bench to ensure that we are well-positioned to integrate and manage our ever-expanding global footprint, including adding several leaders with significant international and integration experience across all disciplines of our organization. It has not always been easy, but the change we have experienced has made us better equipped to continue forward on our journey.

As we look ahead to 2025, we will remain focus on driving towards our goal of inspection, service, and monitoring revenue, representing 60%-plus of total net revenues and achieving our targets of adjusted EBITDA margin of 13%-plus, adjusted free cash flow conversion of approximately 80%, and net debt-to-adjusted EBITDA of less than 2.5 times.

APi has proven its resiliency in managing the macro challenges presented over the past decade or so, with strong organic growth of approximately 7% augmented by cash flow funded acquisitions. Our business model has changed during that period of time, and we believe that we continue to be better positioned each year to manage volatility in the macro environment.

You can see how the business has performed over the prior downturns. There are two points to note when comparing the business today to 2008-2010 timeframe. We have significantly greater revenue diversification adding to the stability of our platform, a higher proportion of revenue coming from higher margin inspection, service, and monitoring. There has been an intentional evolution of the company from 2008 until now to drive towards a recurring revenue and services focused business.

In 2008, inspection, service, and monitoring represented approximately 15% of total net revenues. As I mentioned earlier, in 2019, it was approximately 40% and we had a goal of 50%-plus. Following the acquisition of Chubb, we achieved our goal of 50%, move the goalpost to the right and established a new goal of 60% plus. As a reminder, on average, inspection and service revenue generates approximately 10% higher gross margins than contract revenue. And our monitoring revenue generates approximately 20% higher gross margin than contract revenue.

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We remain focused on being disciplined on project and customer selection. And we'll continue to focus our efforts on growing the acyclical recurring service revenue aspects of our portfolio rather than growing for the sake of growth and risking profitability. We are not afraid to prune where needed, as we had demonstrated, most recently in 2020 with the divestiture of two underperforming industrial services businesses. We will continue to be opportunistic and won't hesitate if something isn't working. This goes for both of our segments.

I won't read through all of these, as they should be familiar to many of you, and Jim really covered them in his opening remarks. We are focused on making the right choices for the long-term health of the business, being opportunistic on M&A and remaining focused on creating sustainable shareholder value by focusing on our long-term value creation targets.

Now that I've provided you with a brief overview of our company in history, I would like to shift gears to focusing on our transformational acquisition of Chubb. The acquisition significantly expanded our geographical reach from 200-plus locations to approximately 500-plus locations and strengthened our protective moat through greater, statutorily required recurring revenue.

Our global footprint in approximately 20 countries allows us to maintain relationships with local decision makers, while also having the ability to execute multi-state services for national and international customers. The strategic rationale here is fairly straightforward. Chubb truly is a center of the fairway transaction for us. We provide many of the same services for the same types of customers in complementary geographies. We acquired an internationally recognized brand that has achieved success over a long period of time. We enhanced our service business mix, while capitalizing on cross-selling opportunities and synergies.

In our diligence, we recognize the attractive opportunity to amplify our organic growth and achieve meaningful margin expansion over the long term. This transaction is highly accretive and a unique opportunity to combine our independent, successful businesses into the world's leading life safety services provider.

Now, it's my opportunity to introduce Andrew White to you, the CEO of Chubb. And Andrew is going to take some time to talk a little bit about his background and himself. But what I'd like to share with you is that he is as advertised. He shares our values, he sees the business and he sees the opportunities in the business in a very, very similar fashion, and we're super fortunate that David Jackola is going to take the opportunity to move to London and take on the CFO leadership role, and be a good business partner to Andrew. And I really believe that this is a very, very strong leadership team that we're building there that's led by Andrew White. Andrew?

Andrew White

Chief Executive Officer-Chubb, APi Group Corp.

Thank you, Russ.

Russell A. Becker

Chief Executive Officer, President & Director, APi Group Corp.

Now, he's going to make fun of me being a hockey player just for everybody. So...

Andrew White

Chief Executive Officer-Chubb, APi Group Corp.

Many of you know that Russ is an ex-hockey player. I'm an ex-rugby player. So, that could have went either way. We both got sporting injuries. Firstly, thank you for being here. It's a real pleasure and it's an honor to stand here

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to talk about the Chubb business. I'm going to apologize now. I don't speak as well as Martin. I do come from the northeast of the UK, and there's no subtitles.

Martin Ellis Franklin

Co-Chair, APi Group Corp.

We were going to have subtitles.

Andrew White

Chief Executive Officer-Chubb, APi Group Corp.

We discussed subtitles, but we kind of decided we all speak a common language. That's numbers and value creation.

So, I've been with Chubb a little over six months, and it's been a real whirlwind. It's been fantastic to engage with the business. Prior to joining Chubb, I spent over a decade-plus with a company called Emerson Electric. Andrew, that's Emerson, not Amazon. Got it. And Julian, good to see you. Julian covered us at Emerson Electric when I was there.

So, for the past 10 years, I've been on the road. I've been working in Europe, Middle East, Africa, Asia, and for the last three-plus years in the US, running the systems and software, PSS business, working on a lot of things around leveraging acquisitions, bringing in technologies really around service-based businesses. And I really think that's a lot of value that we kind of come together with the Chubb business.

Okay. So, turn to chart 6 (sic) [chart 16] (00:22:52). 2022 priorities really has been focused around getting in there, really creating business focused targets. Separation has been a huge momentous effort. All the teams have been involved with separating that business out of our former owners, really truly creating a global leading edge-based, cloud-based enterprise for the next generation of the Chubb business.

We've had significant change in our leadership teams with the best-of-the-best-approach. So, what we did is we've taken leadership from within the Chubb business and elevated it, and created real strong robust regional structures. We've leveraged APi and brought on senior leadership within our business as well as some of country leadership. And again, we brought out some outside talent, real robust outside leadership from global service-related businesses.

Priority isn't just about cutting costs and isn't just about driving value. It's also about creating a team, creating a culture, and creating a belief that we can execute on this plan. Chubb is a world leading business that I really believe has been a detached asset in its former ownership for over a decade.

Turn to chart 17, please. In fact, let me just go back. Let me just go back. I want to draw your attention to the bottom charts of the chart, the 5,000 plus Chubb employees that have willingly engaged with the APi ethos of I am a leader and building great leaders. I won't want to be competitive with Russ, but I believe it took them many years to get to that number, and it took the Chubb business around seven, eight months to get to that level. So, 5,000 people out of that 12,000 is truly phenomenal. This is a subversive experience where people deal around their leadership development and attributes, so real good.

Next one, please. Some fun facts about Chubb. We got 200 branches worldwide, 22 monitoring centers. That's significant and we'll come back to that as we get through the deck. Over 10 countries, strategically located to best serve our customers. We have over 8,000 vehicles on the road every day, 12,000 employees. We have around

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$8 billion of active installed base. This is equipment that we've sold, we've installed and we serviced with our customers today, hardwired by nature generally, and really gives us a protective moat around our business across those 17 countries.

Next chart. Chubb really is a truly market-leading business. As I said, we're with 17 countries, 100 – sorry, 1.5 million customers, 90% of our revenue comes from our top six markets. We have over 200 years of experience in our markets.

You can see we are a service-led business. So, 60-plus percent is by service by nature, which is repetitive recurring revenues, which generally comes through multi-year agreements offering. And I'll go through that in a little bit more detail as we get through the deck around our fire detection alarms, through to our portable business. And then, you can see the regional structure that's out there as we create the regional business and structure and cadence.

Next chart. So, the Chubb business, as we look at it by revenue stream, as we look at it by business group and I'm going to try and walk through this as you would all see them in action today. Fire detection and alarms. So this is fire detection. Hopefully, we won't hear it today during today's session, but how do we detect fire, how do we create an alarm, how do we then potentially suppress that fire.

Electronic security, a lot going on in this space. This is a really, really neat area. Technology, AI intelligence. So, this is CCTV remote monitoring, integrates security solutions with some real end market specifics and access control. And then, we've got remote monitoring. This could be things about how do we access buildings, how do we egress buildings, how do we protect them as well. And then, we've got our portables and fire extinguishers business, which we've amplified out across emergency lighting and many others.

Turn to the next chart, please. So if you look at our revenue mix, we have a healthy split across diverse end markets. We have a low customer concentration. We've got no customer that is over 2% of our revenue. The average size of our project is around about $5,000, which helps us limit exposure to economic headwinds in terms of price/cost mix.

We service customers typically have one to five years high proportion of renewals. Chubb's strong customer loyalty and high quality of technicians and entrenched branch position and a trusted provider as result in a retention rate of 90% in our service contracts. This gives us great stability in our business.

We see resilience in our serve target markets. Those markets are robust and have significant spending plans and have unique drivers that we serve by nature. We will continue to outline these markets in further detail as we go through our revenue walk later in the deck.

Fire and security are large resilient markets, serve an entrenched customer needs, fueled by extensive regulatory requirements, whilst addressing severe continuing business risks. The top right of the page depicts our performance through the 2007-2009 recession, and we saw similar resilience as we walk through the COVID periods with some of our markets outperform and relevant to their end customers.

This speaks to the strengths of Chubb's recurring revenue services focused model, and the business provides stability through economic cycles. We have improved backlog from both a volume and a quality standpoint which serves our profit and revenue in going forward in good stead. We have high variable costs, which allow us to flex as we need to and as business cycles dictate.

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Chart 22 really looks at our historical net revenues. You can see we've got our arms around the business in the first half of 2021 Q1. We've really seen the fruits of our focus – of the team's focus as we've kind of drove that positive momentum. We see that continuing as we go forward.

Next chart, please. And we look at the five-year CAGR of the business, you can see revenue was flat in the prior ownership, and we think there's a potential to grow the level, the top line level beyond and above APi's traditional 7%. However, from planning, infrastructure and a G&A disciplined standpoint, we're modeling net organic growth in the range of 3% to 5% through our cycle of 2021 to 2025. We want a budget for what we think is meaningful, thoughtful growth.

It's important to note, it's not all about top line growth. We want to give you the ability to understand what the business would look like if we just targeted top line growth. We have a traditional selling focus, which we talk about, and then we have a service-led selling focus. We'll walk through in a bit more detail. We will leverage APi's proven track record around customer selection and prioritization. Each pillar of this walk has executive leadership that focus on delivering and beyond. And we have witnessed the initial effects of that as we went through the back end of 2022 and the robust outlook as we can [indiscernible] (00:30:40) for 2023.

Slide 24, firstly, we want to look at price. The business under prior ownership didn't really pan out their cadence around price, and you can see how we performed in 2021. 2022, we set a target of 3%. We're really tracking that and we're driving hard as we get through the back of 2022 around price, and we've got very much robustness around 2023 in our outlook as we look at dilutive contracts, supporting the teams with robust pricing management. We've got global price leadership now, and this is a top priority for the business. We've seen some double-digit growth in price in some of our key markets. This provides us confidence with our robust outlook for 2023. We are laser focused on pricing, that's top of mind and, as called out, in each and everyone's business plans as we go forward.

Next, I would like to discuss sales force optimization. This is a passion of mine. We have now got focused global sales leadership and brought in outside talent to drive that. This continues to enable us to drive SG&A reduction, optimize sales structure, segment our customers, which is hugely important because we can then segment our selling resources to optimize output and optimize outcome. The last column is around high growth verticals we mentioned earlier, namely data center infrastructure, pharmaceutical, critical national infrastructure, power, those sorts of projects where we have end market solutions. We've got global vertical sales leadership around those spaces now that talked industry acumen and fluency as they address in end market solutions. We believe that we can drive double-digit growth as we go forward through the cycle in these key growth markets.

Connected services. Again, I am a technologist by background. I'm an electronic engineer. Connected services at a digital ecosystem that supports our customers aspirations around that current and future digital transformation journey. We do live in an ever more digital world, and Chubb's vision enhances our position and platform that takes relevance, looks at data, technology and translates it in a meaningful information, actionable for businesses to succeed. They incorporate alarm management, they incorporate visual and audio monitoring, [indiscernible] (00:33:10) artificial intelligence, this platform supports safety applications and many more that we build out as we go forward, such as remote monitoring. Again, another lever for efficiency in the field.

We expect approximately 3% to 4% growth in this area in 2022. And as we plan to build a platform and the application to support it, we drive a double-digit growth through the cycle of 2025. We have an established cloud-based platform that is native to Chubb. This significantly enhances our extraction rates and gives us the unique ability to look and map our installed base as we go forward.

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Next, I would like to discuss inspection and service selling, which is significantly expands our addressable market by nature. We are really excited to leverage APi's proven model around selling [ph] inspections (00:34:01) first. We have already established robust programs, sales cadence from a global nature, and a coordinated inspections-led sales force.

We believe that inspection-led sales force drives enhanced margins. We believe that will further service revenue growth and ultimately inspection provides a stable, high performing margins and recurring revenue streams. We believe the strategy positions us well as a preferred fire and safety services provider, not just a vendor. This is in the buildings that we protect, and the life safety applications that we perform. We believe this is truly a key differentiator.

The third column is around disciplined project selection and customer selection. We have been driving price proactively and we've looked at underperforming contracts and we encourage the attrition of dilutive contracts. We've been very proactive that June 2022 to address that and we will be going forward. We will focus on around 5% de-selection or optimization on dilutive contracts. We are assessing customers not only from a price standpoint, but also from a digital maturity and aspirations as well and going forward.

With that, all the good work that the team has done, I want to hand it over to David Jackola. David will update everybody on how that translates to our value capture and how that translates to ultimately our EBITDA walk. So, with that, David?

Glenn David Jackola

Chief Financial Officer-Chubb, APi Group Corp.

All right. Thank you, Andrew. Thank you, everybody, for being here today. It's my pleasure to be with you and I'm excited to be joining the Chubb business. A couple of different pronunciations of my last name. It's the one that Russ said earlier, it's Jackola; that is the accent. And Andrew and I will work through that.

Andrew White

Chief Executive Officer-Chubb, APi Group Corp.

[indiscernible] (00:35:56)

Glenn David Jackola

Chief Financial Officer-Chubb, APi Group Corp.

All right. In terms of background, I've been with APi Group now for a little bit more than a year. I'll be transitioning into the Chubb role over the next couple of months. Prior to joining Chubb, I spent about 12 years at Ecolab and was fortunate to lead finance teams in North America, in Asia, in Latin America and in Europe. Spent a little bit of time, about a year, at James Hardie Building Products, where I was the finance leader for their North America business. And I'm excited to join the team on the ground and to move to London with my wife at the beginning of the year.

So, with that, we can go forward. We now see a clear path to value capture opportunities of approximately $100 million in run rate benefits that we expect to realize over the next three years. And when we think about that $100 million value capture opportunity, it really falls into four main buckets. The initial area of our focus has been on restructuring, which is really about removing a significant amount of G&A cost that exists above the branches of our business. Already through Q3 of this year, we have taken more than $20 million of cost out of the business, and we have identified another $10 million to $15 million of costs that we expect to action in the fourth quarter.

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On top of that, we have line of sight to an additional $30 million to $35 million of cost reductions that will action in 2023. Not only will these restructuring actions help the bottom line, they will significantly reduce the organizational complexity in our business and make it easier for the teams in the field to service customers and focus on driving organic growth and mix.

The second bucket of value capture opportunity is around branch and footprint optimization. By the end of 2022, we will have exited or downsized 10 facilities across the Chubb network. We also have a robust facility rationalization program in place that will deliver further savings in 2023 and beyond, whether that's through continued exiting or downsizing of facilities, co-sharing sites with other APi businesses or selling facilities when it makes sense to do so.

The third value capture area is around improving our employee retention rates. Chubb is approximately 12,000 employees worldwide and the cost to identify, hire, on board and retain is worth approximately $40 million in 2021. So, reducing our attrition rate by 2 percentage points, which is our goal, has a potential to really move the needle and drive significant savings in the business.

The final bucket I will talk about is country and branch optimization. And when we talk about value capture, we really talk about cost out. And this is really about value creation and how we look at the bottom to top quartile of our operating model and how do we move [ph] about (00:38:56) $500 million of business and improve it. We have key actions to drive it. We know where the businesses sit in terms of profit and maturity, and we understand where we need to be focused and concentrate on driving value creation on the top line.

We have increased our estimate of savings from $20 million pre-close to $40 million in May, to our current estimate of approximately $100 million of value capture opportunities. We haven't presented Chubb's 2023 budget to the board. We're not going to present it to you guys first. However, we are confident in our ability to go from $12 million of savings in 2022 to $100 million of annualized run rate savings in 2025. And our goal is to do it on a one to one basis, which we've been able to accomplish so far.

Next slide. The Chubb business ended 2021 with a baseline EBITDA margin of approximately 9%. And we expect about 100 basis points of margin improvement in 2022. And our goal by the end of 2025 is 15%-plus adjusted EBITDA margin.

Andrew discussed earlier accelerating organic growth and some of the key end markets that will be driving that for us, including data centers, pharma and C&I. And we will continue to focus on driving improved mix in the business through service growth led via inspections and we expect that this will drive 200 basis points of margin expansion between now and 2025. And the value capture opportunities that I shared earlier, reduction in above the branch cost, footprint optimizations, reduced complexity, better retention rates and improved productivity will drive an additional 400 basis points of margin towards our goal of 15%-plus by the end of 2025.

And so, with that, I'll turn it back to Andrew who will discuss opportunities relating to our branch profitability.

Andrew White

Chief Executive Officer-Chubb, APi Group Corp.

Thanks, David. The path to 15% EBITDA growth – 15%-plus in margins by 2025 starts and ends at the branches. When we – when APi acquired the business in January, Chubb had 55 non-performing branches that represent around 25% of the total, generating a loss of around $36 million of EBITDA. By the end of the year, we should have 85% of our branches in a profitable position, and we should reduce that EBITDA headwind by about half. This is a tremendous effort by our teams and continue to be worked [ph] in the store (00:41:42).

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The plans are in place to shut down and consolidate approximately 10% of our locations and are well underway. And these plans are expected to be actioned during 2022 to 2023. And as we get through 2023 and beyond, 95% of our branches in 2024 – sorry, as we exit 2023 will be profitable and zero branches will be negligible or negative in 2024 as we get through into that lens. I'm confident with the team's ability to execute on this and the robust plans around it. Driving branch profitability is not just about non-performing branches. As David articulated, it's about taking that large part of our business and driving incremental value creation to some of the higher performing branches as well. We've got robust plans around that and diligent approaches.

Next chart, please. Before I turn it back to Russ, I just want to articulate some key takeaways. Integration is occurring swiftly and our savings are significant. Value capture opportunities will be $100 million-plus and we will not stop at that. The [ph] shift moves (00:42:58) from integration to harmonization. And we really are excited about being our own company and detaching from our prior owners. We're on track for 2025 targets, net organic growth of 3% to 5% and adjusted EBIT margins of 15%-plus. Chubb really does meet all of the target of M&A criteria for APi.

With that, I'll turn it back over to [ph] coach (00:43:23) Becker to finish out.

Russell A. Becker

Chief Executive Officer, President & Director, APi Group Corp.

Oh, thanks, Andrew. Thanks, David. Great job. Well, today is focused on organic growth, cash flow generation, and deleveraging plans. As many of you know, we view M&A as an important complementary tool to increase and accelerate shareholder value over time. In addition to M&A, we believe there's a tremendous amount of organic growth opportunities between the two companies. These include expansion into new markets and channels with complementary service offerings, and APi Group companies have an ability to cross-sell products and services among sister companies.

We are truly just scratching the surface as we get – as we continue to move the business forward together as one company. We believe that the markets in which we operate are highly fragmented and we are keeping a close eye on the opportunity set, which Chubb has significantly expanded. We have an extensive pipeline of potential bolt-on opportunities across our global markets.

If you look at the mid-single-digit multiples APi is able to pay for the smaller bolt-on opportunities, we are essentially self-funding in perpetuity as we continue to grow. As the opportunities become larger, multiples tend to increase. While more established businesses may require a higher multiple, if you look at the weighted average multiple of our acquisitions over the past few years, including J2's acquisition of APi, it is less than 10 times. We expect to stay in the high-single-digit range on a consolidated basis as we continue to grow the business. It creates an arbitrage opportunity given where we are trading today, in a discount compared to our peers.

The bottom half of the page shows you an illustrative example that highlights the value creation for a typical APi bolt-on. If we buy a business for 4 to 7 times EBITDA at $10 million, running at approximately 7% margin today, over the next two years, we believe that improving mix from contract focus to service focus can add 300 basis points of margin improvement. In addition, we would expect 150 basis points of margin improvement via purchasing power, 150 basis points via shared services consolidation and 200 basis points via strategic pricing increases. Combined, you'll see that margin is expected to get to 15%. We have a proven track record on this front.

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APi is now a truly global platform providing fully integrated, seamless service to multinational corporations on a worldwide basis. Our enhanced platform is already driving wallet share gains with APi/Chubb overlap customers, and we are excited about the opportunity to expand cross-selling of services offerings. Anecdotally, one of Chubb's 25-year-plus customers with over 400 locations in Europe is starting to open locations in the US and has recently started dialogue with our legacy APi business regarding potential security opportunities. Services that will be needed include intrusion detection, access controls, CCTV and monitoring.

One other representative example would be the global data center opportunities with Meta. Even though they're pulling back on capital spending to a small degree and head count, the work that we do for them is statutorily required inspection and service. We've already started dialogue ensuring leads across the ocean with the Chubb team.

The focus today has been on our core segment of Safety Services. However, we thought it was important to briefly touch on our Specialty Services segment since it represents approximately 30% of our total net revenues. In our Specialty Services segment, we are focused on growing service revenue through multiyear master service agreements, which provides us with a high degree of visibility and, we believe, helps to build a more protective moat around the business.

We are focused on partnering with well-capitalized customers who have projects that are more macro and economically resilient on services that are [ph] aimed (00:48:06) cyclical in nature. Our largest end market is telecom and utilities, which you'll see on the next slide, represented nearly 40% of the segment's revenue in 2021. An example of the work in this category is our work with private and public utility customers with large committed capital programs for the replacement of existing natural gas and potable water distribution systems.

We are excited about the opportunities associated with the Infrastructure Investment and Jobs Act in areas such as rural broadband, roads, electrical grid and drinking water infrastructure. We will remain focused on disciplined project and customer selection, and higher margin opportunities. End markets matter. We believe that the diversity of the end markets we serve and the regulatory-driven demand for our services provides predictable recurring revenue opportunities and helps to build a protective moat around the business. We are focused on the already built environment such as high tech where we do sustainable work on a daily basis.

We are focused on partnering with well-capitalized customers who have projects that are more macroeconomically resilient. Our largest end market is telecom utilities, which represented approximately 20% of our total net revenues in 2021. Now, that we've covered the evolution of APi towards a recurring revenue services-focused business, provided an overview of Chubb and the exciting opportunities ahead, we will now move into the financial perspectives and highlights section.

We are confident that our relentless focus on growing statutorily required, high margin inspection service and monitoring revenue combined with our robust backlog and variable cost structure positions us well to prosper even if the macro environment continues to be volatile. Approximately 75% of costs are variable, which Kevin will get into more detail on, on the next slide.

As many of you have heard us say previously, while our business is not immune to macro marketplace [ph] disruptions (00:50:17) related to supply chain disruptions and inflationary cost pressures, we believe we have more tools to mitigate these issues than our competitors. The acquisition of Chubb has enhanced our overall competitive position and our protective moat around the business.

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Our average project size in our largest segment, Safety Services, is now approximately $5,000; in Specialty Services, it's $70,000. And the average duration of our projects is very short, which we believe will allow us to reasonably control inflationary variables and reasonably manage our supply chain. We believe these are competitive advantages as they allow us to stay focused on real-time pricing and operational efficiency to ensure true costs are reflected in the services we provide.

Another competitive advantage for us is that, over 50% of our field workforce is covered by collective bargaining agreements. These agreements provide up to five years of visibility and predictability, which allows us to be able to offset increases with price and productivity. While we do not know if we are headed into a recession or not, we remain disciplined, proactive and preemptive in how we operate our business. As many of you know, it's part of our annual budgeting process, we challenge each of our operating companies to develop a long-term plan that addresses the opportunities, as well as a downturn plan that addresses any potential challenges unique to their market and operation.

We believe preparation is critical not only on paper through our downturn plans, but also in preparing our business leaders to take definitive and early action if needed. Whatever the challenge, we intend to build on our successes over the last three years to achieve the goals that we have set for ourselves over the next three years. We continue to benefit from the accretive acquisition of Chubb and believe that it will continue to enhance APi by strengthening our resiliency and the protective moat around our business.

I'll now turn the presentation over to Kevin. He already told me he wasn't hugging me, so.

Kevin Krumm

Chief Financial Officer & Executive Vice President, APi Group Corp.

Thanks, Russ. Good morning, everyone. Yeah. That's nothing personal with Russ. I'm just not a hugger. But after the last couple of days, I think it's something I'm going to have to get used to around here maybe. It's good to see some familiar faces this morning after 14 months, I can comfortably say that. For those of you I haven't yet met, I look forward to meeting you at some point, yeah, this morning.

So, as Russ highlighted earlier, APi has built a very resilient operating model that has historically demonstrated the ability to just preserve profits and cash flow through various business cycles. This resiliency is aided by our variable cost structure, which we've outlined here in the center of the slide. Also, it's aided by our small project side – size and our high conversion, low CapEx cash flow profile.

As many of you know, in March 2020, following the onset of the pandemic, APi initiated a cost reduction plan to counteract potential negative impact of the COVID pandemic. This included reducing labor costs, eliminating discretionary spend, freezing the company's nonessential capital spending, and working with our vendors to improve pricing.

While the pandemic did have a negative impact on our net revenues as expected, our proactive approach to managing risk across our platform and the strength of our business model yielded results, which you see on the right side of the slide here. Q2 2020 adjusted EBITDA actually expanded 190 basis points in the face of 14% revenue declines due to COVID shutdowns. Our business also delivered strong free cash flow during this period of time and free cash flow conversion. You can also see on the far right that how APi performed for the year, which is a year where we delivered solid EBITDA and strong free cash flow. So, I'm going to transition and talk a little more about cash flow now.

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So as many of you know, one of APi's historical strengths is our strong free cash flow, creates opportunities to drive organic and inorganic growth, as well as flexibility to make the best capital allocation decisions possible, whether that be debt repayment, share repurchase, M&A or otherwise. We are committed to driving strong free cash flow and have an adjusted free cash flow conversion target of approximately 80%, which I'm going to cover here in an upcoming slide.

On the far right of this page you'll see that our average adjusted free cash flow conversion over the last three years is approximately 86%. We saw an increase in cash flow driven by changes in working capital levels – oh, sorry, in 2020, as you see on here, we saw an increase in cash flow driven by changes in working capital levels due to the decline in net revenues I referenced earlier. This resulted in related working capital reductions as well. In 2021, as we got back on growth, you can see organic revenues required an increase in working capital investment as we ended Q4 2020 with fairly suppressed levels.

So, in 2022, we started the year with a significant investment from a working capital standpoint, both in terms of dollars and rate [indiscernible] (00:56:03) on securing product in front of what was very robust demand and a very choppy supply environment. We've continued to make significant improvements in our working capital rate throughout the year and expect cash flow conversion to improve sequentially in Q4 off of what was a strong delivery in Q3. This trend, the Q3 to Q4 trend, is very consistent with our historical trends.

While we're not ready to give 2023 guidance today as a general comment, I know that as we go into next year, we expect to continue to harvest the working capital investment we made in the first half of this year and return to more traditional free cash flow levels as we continue to work towards our long-term target of approximately 80%.

The matrix on the left-hand side of this chart helps illustrate the point I made earlier in my remarks regarding growth or contraction and its impact on free cash flow. Our target of 80% assumes growth in organic net revenues around our historical average of 5% to 7%. If we were to grow at approximately 10%, which you see in the bottom right side of that left chart, we would expect adjusted free cash flow conversion to be somewhere around 65%. And if organic revenues were flat, we would expect adjusted free cash flow conversion to be, as you see there in the middle of the page, around 80% to 85%.

And on the far left, you see extraordinary sales reductions, which, could potentially show up in a recession. But as we saw in COVID and you see in an environment like that, our business model is going to generate pretty significant cash flow growth, most likely north of 90% from a conversion standpoint.

We have built a strong balance sheet that provides us the flexibility to pursue attractive capital allocation. During Q2 2022, we entered into a forward starting swap effective January 2023 that will shift our fixed versus floating mix to approximately 70% fixed and approximately 30% floating. Our weighted average maturity of debt as of the end of September sits around five years with our earliest maturity being in 2026 and our average cost of debt is estimated to be approximately 5.5% as of January 2023.

On the right side of the page, you'll see that our net debt to adjusted EBITDA ratio was approximately 3.9 times at the completion of the acquisition of Chubb, and we anticipate being below 3.5 times by year-end 2022. As we look ahead, we will plan to de-lever around 1 time annually towards our target leverage ratio of 2 times to 2.5 times. We think this level of leverage positions us extremely well to capitalize on any growth opportunities that will present themselves.

I'll now walk you through our path from our current sort of free cash flow conversion baseline to our adjusted free cash flow conversion target of approximately 80%. There are four key drivers that are fundamental to our

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improved free cash flow conversion. The first driver, as we talked about earlier, is working capital normalization. We expect this to contribute somewhere in between 6% and 8% from a conversion standpoint. Approximately two-thirds of that is going to come through a continued focus on operational excellence, which will result in working capital rates more in line with our historical levels. And about another third of this gain is expected to come through a normalized organic growth rate as we exit out of this period of robust growth. And again, we've assumed 5% to 7% for that normalized growth rate.

The second driver is going to be deleveraging to a target net leverage ratio of 2 times to 2.5 times. The third driver is business mix, which we expect to contribute around 4% to 6%. This assumes outsized growth in Safety Services, which is less capital intensive in nature, and it also includes the impact of continued growth in inspection, service and monitoring revenue, as Russ and Andrew highlighted earlier, that gets us towards our goal of 60-plus-percent of net revenues on the service side of the business.

The fourth and final bucket is M&A, which we expect to contribute as well. This includes deploying capital towards our life safety service businesses, which have traditionally been accretive to APi's overall free cash flow profile.

We are at investor conference. So next, it's important to highlight to everyone that we believe APi is a very attractive investment opportunity. We believe we have both earnings opportunities and margin expansion opportunities as we've highlighted today, which will bring and generate multiple expansion. As many of you know, we trade at a significant discount relative to our peers across various measures which we've highlighted on this slide. And we think this makes APi a compelling investment opportunity. Not only are we a compelling investment opportunity today, but we've been one, as you can see how our performance has shown up since our listing on the NYSE on April 29, 2020. Our stock has outperformed relative to the S&P 500, relative to the Russell 3000 and the Bloomberg De-SPAC indexes, all by a considerable margin.

So before we recap and move into Q&A, I'd like to discuss why we are confident in achieving our goal of 13%-plus EBITDA margins by 2025. As we've said previously, it is a combination of singles and doubles that are going to get us there. This slide highlights four main categories. The first is improved mix of service revenue, which we expect to contribute approximately 50 basis points. We are laser-focused on growing higher margin inspection, service and monitoring, and driving towards our goal of 60-plus-percent of total net revenues. Russ mentioned this earlier, but on average, inspection and service revenue generates approximately 10% higher gross margins than our contracts business; and monitoring revenue generates approximately 20% higher gross margins than our contracts business.

The second category is procurement savings and inflation offset where we expect to contribute approximately 100 basis points. This includes developing procurement capabilities across our global platform to leverage our aggregated spend at a greater level. As it relates to inflation reduction, as we've noted throughout the year, the significant step-up in revenue related to pass-through pricing on the project side of our business has compressed margins this year in the short term. As we come out of this period of heightened material inflation, we expect that compression that has occurred over the last 12 months to flip.

The third category is the impact of the value capture opportunities of approximately $100 million that were highlighted by Andrew and David earlier in this discussion. We expect this to contribute approximately 100 basis points to our margin walk. And the fourth and final bucket, I'll discuss is system scale and leverage. This includes capitalizing on our global economies of scale and driving a shared services platform across some of our similar business models. Our powered by APi structure provides us with an excellent ability to leverage our scale while also being nimble and opportunistic at the local level and reducing bureaucracy and overhead at the branch level.

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Our acquired businesses benefit from the resources of direct access to the APi network, which facilitates organizational sharing of knowledge and best practices. It also increases our collaboration across our businesses, which ultimately drives excellent cross-selling opportunities.

So, I'm going to turn it back over to Russ to summarize some of the key takeaways from today's discussion.

Russell A. Becker

Chief Executive Officer, President & Director, APi Group Corp.

Thank you, Kevin. I'd like to once again thank all of you for participating in today's event. We appreciate your interest in the company. Before I turn it over to Martin and Jim for closing remarks followed by Q&A, I'd like to summarize key points of focus discussed today relating to Chubb and also for APi overall.

First, Chubb is highly accretive and creates significant opportunities. We expect Chubb to be approximately $0.20 accretive to 2022 estimated APi adjusted diluting – diluted earnings per share based on a share count, including the Blackstone and Viking converts.

Second, the integration is occurring swiftly and savings are significant. As you heard from Andrew and David, we see a clear path to 2025 run rate value capture opportunities of at least $100 million, which I'll cover momentarily. We have a goal of 1:1 ratio for spend versus savings, which we've been able to achieve thus far. When David mentioned $100 million, I saw a lot of people writing stuff down and hitting the keyboards on their on their laptops.

Third, as I mentioned, value capture opportunities of at least $100 million. As a reminder, our initial assessment prior to closing of the acquisition was that we believed we could capture $20 million in savings in a business that had been historically underinvested in. If you're having our team on the ground for 90 days and working with local leadership, we increased our target to $40 million in May. We expect this figure to continue and – to grow and to evolve.

Fourth, as we look ahead, the shift moves more from integration to harmonization, coupled with focused organic growth. The business is performing in line with our expectations. We've had no negative surprises. And more importantly, what we have found has only reinforced our excitement about the acquisition. Chubb delivered 3% 2022 year-to-date organic growth during COVID-19, supply chain disruptions, inflation, potential recession environment compared to a five-year CAGR of 0% pre-COVID.

Fifth, Chubb is on track to deliver its 2025 targets. As you heard Andrew discuss earlier, Chubb is on track to achieve a 2021 to 2025 target net organic revenue CAGR of 3% to 5% and adjusted EBITDA margin of 15%. We really haven't talked about our focus to a branch-led operating model, and we are well on our way to bringing the much similar approach to how we've built our core APi business to the Chubb business as well.

The final point I'll note on this slide is that Chubb meets all of APi's targeted M&A criteria. Chubb strengthens the resiliency and protective moat around our business and supports APi's 2025 targets, which I'll remind you of on the next slide.

Next, I'd like to summarize key points of focus for APi overall. First, our recent full year 2022 guidance absorbs FX headwinds and delivers. In spite of FX, we were able to hold the top end of our range and bring up the lower end of our range on our Q3 call, which means our updated full year guidance reflects improved constant currency performance across our businesses. Second is that the overall business is performing in line with expectations. Our backlog remains at record levels and is approximately – is up approximately 8% year-over-year.

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Third, as I covered on the prior slide, Chubb is highly accretive and creates significant opportunities. Chubb supports our overall 2025 targets. These include 80% – approximately 80% targeted adjusted free cash flow conversion, 13%-plus of adjusted EBITDA margin, and less than 2.5 times net debt to adjusted EBITDA. Fifth, our balance sheet is strong, which provides us with flexibility to pursue attractive capital allocation.

And sixth, strong free cash flow allows swift deleveraging. As you heard from Kevin, we expect to be below 3.5 times by year-end 2022 and remain laser-focused on cash generation and deleveraging at approximately one turn annually as we move towards our stated targeted net leverage ratio of 2 times to 2.5 times. We hope that following today's event, you better understand the clear path we have to make the most of the opportunities in front of us and achieve our 2025 goals as we continue to focus on shareholder value creation.

With that, I'll turn it over to probably Jim – Martin and Jim for closing remarks before we move to Q&A.

James E. Lillie

Co-Chair, APi Group Corp.

I just noticed this morning that we're all wearing the same vest. I ran out of my house, I grabbed something because it was chilly and then I show up and everybody's got the same vest on. So, apologize for that.

For those of you who don't know or don't remember, you have to think about the M&A process. When we first found Chubb, it was during the middle of COVID. We weren't able to travel to London to meet with people when Russ did travel to meet with people in Spain, because that was a country we could get into, he tested positive once he landed. And so he ended up doing a Zoom call in Madrid, across the street from where the actual meeting was occurring. And then we had to [ph] air back (01:10:08) him out of the country to get him back to Minnesota.

But we – when we approached the closing in January, I just want to remind everybody that we didn't have the opportunity to go in and build a robust plan. Carrier wasn't overly interested in us spending a lot of time trying to design a budget for 2022. They kind of pushed us off. That was part of the process. And so, when January 4 occurred or whenever the actual closing was, it was really the first opportunity we had to get our boots on the ground, get in the door, have honest, thoughtful conversations with people about what are the issues in the business, start beginning to evaluate the leadership team. So we hit a little bit of an anchor going at it.

And if you recall, we said, look, we're going to take 90, 100 days figure out where the bathrooms are, figure out where the opportunities are, figure out who the leaders are and aren't, and begin planning a change. We hired a headhunting firm. We attracted Andrew. We were able to get Emerson to let him out of his European contract and start a little bit earlier than perhaps they wanted him to. He started on the ground May 1. And so that really was kind of the solidification of building a leadership team.

And so really, since Andrew joined really five months ago, we've accelerated these plans. I think that they have a thoughtful, robust plan. They have the right leaders in place. Changes will always continue. Evolution will always occur. But the nice thing is that, there really haven't been negative surprises that we found at Chubb. We see a lot of opportunity. It's all about prioritizing those opportunities, keeping the team focused on four or five things rather than 50 things, and making sure we do the four or five things meaningfully and thoughtfully and that we execute on those and that our plan together – that we're doing something that is meaningful.

Martin and I are dedicated. As Martin said, this is both of our largest public company investment and we see lots of opportunities. We're committed to this process, but we're committed to doing it in the right way. As Martin said,

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it's a marathon, not a sprint. And we want to make sure that we're doing the right thing, not only for the culture and the population, but also you, our shareholders. But we feel that we're off to a great start.

And, Martin, do you want to add incremental comments?

Martin Ellis Franklin

Co-Chair, APi Group Corp.

As usual, Jim, you say it. So I don't have to add much. The – I'd say a couple – no, I'd say a couple of things. First of all, our first follow-up meeting when we actually did met Andrew in London at Chubb's facilities, that was actually when I first got COVID. So yeah, we've made our commitments [indiscernible] (01:13:00).

I'd say a couple of things. First of all, we're three years into this journey from our perspective and you've heard a lot about the progress and I hope you really do get the impression that this is a very, very solid bench with a very thoughtful plan. But more than that, in terms of convincing investors and the analyst community and I look at some of the research that's done, we still have a lot of work to do. And it's on us, not on you. It's on us to really convince the analyst community that this is a business that is worthy of, if you like, a loftier opinion than I think some of the opinions that have been out there.

But it's early. We went through this with Jarden. When we were building Jarden over the years, if I told you some of the [indiscernible] (01:13:57) that was written about the company, it would blow your mind. And we just kept our heads down and said, look, at the end of the day, the business is going to do the talking and we're going to let the business, give people the comfort to actually raise their head above the parapet and be supportive of what we were doing, and obviously that all paid off.

I'm probably 50% more comfortable than I probably was in the Jarden days. I was younger. We were younger, less experienced. We've been through this dance before. And so I'm very comfortable, we're very comfortable that this is the right kind of business. If I was ever going to be in a business at this stage of my life and this stage of – this phase of the economy, being in businesses that are mandatorily required services, it's a great place to be. And so, I feel very privileged by the group. We're very happy to be able to present the business to you today.

And we're happy to answer any questions that you have.

James E. Lillie

Co-Chair, APi Group Corp.

And I think there's some people with microphones, so the guys online. So just raise your hand and we'll get a microphone to you.

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QUESTION AND ANSWER SECTION

Q

Hey, guys. Thank you for the presentation, very thorough. So, I just wanted to ask, maybe for Andrew, like the risks to the 15% EBITDA Chubb, like you talked about, for instance, country and branch optimization. Transition of $500 million of lower quartile staff. You working in the European business, you know it's somewhat difficult sometimes to close things. So how did you sort of factor that in? And then the pricing aspect of it going to 5% next year from 3%, I think, this year. Chubb, I would guess, not really part of their DNA to sort of focus on price and it's still competitive market. So how do you get there to that higher pricing?

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.

A

Go ahead, Andrew.

Andrew White
Chief Executive Officer-Chubb, APi Group Corp.

A

I'll kind of answer that in a few different parts. I'll take the price part first. I guess, as I alluded to in the charts, price focus was something that was very new to the business. 2021 cannot recall what a lot of businesses start to think about price and how do we kind of get back our margins. When I came to the business, we had very little focus around leadership and price, fluency, how do you sit and talk to customers about outcome-based rather than cost plus pricing. So we see a very robust pricing plan. We were already in discussions for next year's pricing with a lot of our customers' multiyear agreements. So, I'm pretty robust around the price.

In terms of the value creation plans that we've got [ph] aligned (01:16:51) out in Europe and the rest of the business, we don't need a certain growth in some of our markets. When I look at the [ph] internals so far (01:17:04) we've got to move the needle, David articulated that $0.5 billion where we plotted our businesses across maturity and margin accretiveness. It's in our destiny. We've got to do the right building blocks that we've multiplied and we've done in other areas and drive it in that fashion. So, in terms of risk, every plan has got risk. Every number that we put up there, there's a variance on that. But I'm pretty robust with the team to execute on that, and I always said plus after the 15%.

Q

We noticed that.

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.

A

Andy, I would add to that, like Chubb has – over the course of 2022, Chubb has done a really good job of taking price. Some of it has to do when you've got poor performing customers, it's pretty easy to be aggressive and go take price. And if they don't like it, they don't like it. And I would actually say that compared to, say, our core business, Chubb has been maybe out in front of our core business as it relates to taking price. When you travel around this business like you talked about that 15% margin, like you can see it. Like, you can see it. Like, we're

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going to be over in London next week. And like every time we are there, you can see it. And it's just – it's a matter of us executing.

We know what a really good branch-led business model looks like. We started to benchmark their branches. They never did any benchmarking of their branches. So, we're benchmarking branches. We're making comparisons. So, if you're sitting in the bottom of the heap, we color code them. If you're meeting our goals, you are in green. If you're kind of generally kind of trending in the right direction, you're in yellow. And if you're not meeting expectations, you're in pink. The only reason you're in pink because if we put it in red, you couldn't see the numbers. And so that healthy competition is positive. And Andrew and the team, they've already – we've started to do that inside of Chubb, and – like it's there.

James E. Lillie
Co-Chair, APi Group Corp.

A

I would just add to that, Martin and I have a lot of experience in restructuring European operations over the last 30 years or so. So, the plan looks at both timing and certainty relative to – certain countries take longer, other countries take less amount of time. Certain countries push back harder. And so that's all built into the equation as opposed to, oh, you're just going to make it happen.

Q

Got it. Just a quick follow-up that's kind of related, like, I think we noticed the 10% backlog growth year-over-year at Chubb. Growth has been accelerating here. So, when you think about your forward forecast, how do you factor in market volatility into sort of that 3% to 5%? Do we expect – the backlog growth is pretty good. So, do we expect continued acceleration? We saw the 8% to 9% that you built in, but sort of near to medium term, is Chubb actually accelerating based on sort of what you guys are doing?

Andrew White
Chief Executive Officer-Chubb, APi Group Corp.

A

Yeah. We're accelerating. I think as you look at the 3% growth that we drove this year, there's an element of price as an element of de-selection as well. And we've got [ph] some modality of (01:20:16) contracts. I think going forward, the markets for us are there. And it's – the plans are robust and I see a clear line to it.

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.

A

You've got to remember, like, we don't necessarily want to grow contract backlog, all right? So, like that is – we share that probably to a certain degree because you guys care more about it, all right? And you want to know what the stability of our revenue stream is and everything else. Like, we want to continue – we want to be growing like inspection and service by 10%, 15% and we want to be growing our contract business 2% to 3%. And obviously, when the contract opportunities are there, we want to make sure that we're capturing it. And – but we want to make sure we're capturing it at a really good margin. And so, I just – I want to make sure we stay centered on where we really want to focus our growth and accelerate our growth.

James E. Lillie
Co-Chair, APi Group Corp.

A

I would also just supplement that. If you look at the 7% growth they had this past quarter, we – by saying 3% to 5%, we want to make sure our G&A cost structure is in line with thoughtful growth to the extent that we have 7%

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opportunities. Let's not budget that spending today. Let's wait till those opportunities come and then we can spend against it. But we don't want to create a cost structure that assumes 7% growth. It's – and I think with Europe in a recession, that just doesn't make sense, but we do see kind of those robust opportunities. But we're going to be very conservative on spending to make sure the growth actually comes before the spending does.

Andrew White
Chief Executive Officer-Chubb, APi Group Corp.
A

I guess, I'll add to that point as well. I said quite clearly from a quantitative standpoint and a qualitative standpoint, we've been very robust in our backlog, how are we looking at margin accretion, how are we looking at the content of that backlog as well. It's been key focus.

Chris Snyder
Analyst, UBS Securities LLC
Q

Hey. Chris Snyder, UBS. I just want to follow-up quickly on the financials. And I had another higher level question. So the financial one for Andrew as well. On that Chubb 3% to 5% organic growth, when I looked at the quarterly chart of the organic growth, it didn't seem like it came above that level to Q3. So I'm assuming like 2021, 2022 are below the 3% to 5%. And I think you guided 2023. I didn't get jotted down. But if so, could you remind us what the Chubb guidance for 2023 was? And is that like more of the go-forward rate and 2021, 2022 is kind of like bringing that average down?

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.
A

I think Kevin should start, and then Andrew can add color to it.

Kevin Krumm
Chief Financial Officer & Executive Vice President, APi Group Corp.
A

Yeah. We – there was no guidance for 2023 in those numbers. Go ahead.

Andrew White
Chief Executive Officer-Chubb, APi Group Corp.
A

There you go. There is no guidance.

Chris Snyder
Analyst, UBS Securities LLC
Q

Sorry, I was trying to write it down.

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.
A

Well, I could have said that. There was no guidance.

Chris Snyder
Analyst, UBS Securities LLC
Q

Okay, sorry. I thought I saw something. And then on the follow-up, I want to ask about labor. The service business is obviously very labor intensive. We're in a very tight labor market. Can you just maybe talk a little bit about what that means for the business? Obviously, you guys are highly unionized. The competitors are generally very small. I would imagine that they're having more trouble with that. And maybe can you just talk about what that means for

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your level of share gains? And then even just kind of longer term, if the macro goes a different way, how should we think about the labor component here? Thank you.

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.

A

I think that's an advantage that we have. Like we – our purpose as a company is building great leaders, and we strive to provide the opportunity for every single one of our teammates to grow and develop as a leader. Andrew alluded to it a little bit in – when he was talking about this online learning opportunity that we call I Am a Leader. And in like 12 weeks from the time we rolled it out, like we had to translate it into six different languages after the transaction closed. And so we got through that work, and then they rolled it out. And in 12 weeks, they had 5,000 of their Chubb teammates participate in this learning opportunity. That's men and women that work in the field, just like men and women that work in the office just like in our business.

And so like this investment in people that we're making is a differentiator. We treat the men and the women that are working in the field, like they're part of our family. And the industry, as sad it is for me to say, has traditionally not done that. The industry has in its own way created this divide between the field and the office. And like every day I go to work, I'm trying to break down that wall because the men and the women in the field, that's how – they are everything, that's how we generate margin. If they – they're warriors. Like, they showed up for work every day during COVID. And every decision that we make as a leadership team needs to be with them in mind. How do we make their job more efficient? How do we make their job more productive? How do we create an environment that they want to be with us?

And I think – truly think that, that is a competitive advantage for us. We started to roll out our learning and development tools in the Chubb organization and bring in leadership development to them. This is a business that's been stuck underneath Carrier and United Technologies for years. These people have not been invested in. And like, we actually care. Like we show up, we care, and we shake hands and we spend time with those people. And it's a difference maker in that business. So, is it a challenge? 100% it's a challenge. Do I like our odds? 100% I like our odds.

James E. Lillie
Co-Chair, APi Group Corp.

A

So, Chris, I would just add quantitatively. You really have to think about if 50%-plus of our employees are in a union and let's just say we work in Chicago. If you're working in a union shop, there's no motivation to go across the street for more wages because that union shop is paying the same wage. And so, you have to think about the low probability of somebody leaving a union shop, their pension, their healthcare, all the benefits that come with that, and the job security and the departure costs, etcetera. And I'm going to go walk across the street to a non-union shop and give up my pension rights, and my vesting, and all of that, you really have to be treated poorly.

So, our technicians make around $100,000, including overtime. These aren't $15 an hour jobs. These are kind of $40 – 2,080 hours in a work year, $40 an hour. These are people with boats in their driveways. And so, how we treat them is really the differentiator and the opportunity we give them to grow is the differentiator. But we're not going to lose somebody walking across the street unless we're quite the non-employer of choice.

Andrew White
Chief Executive Officer-Chubb, APi Group Corp.

A

Hey, Chris, I guess I'll build on that two comments. From a Chubb perspective, we've heavily invested in apprenticeships across the whole of Europe and [ph] further afield (01:27:33). I mentioned earlier the chip

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connected services model, which allows us to have remote services, which allows us to support our technicians in the field to a great extent, which allows multi-skilling. And we're seeing that in Australia, we're seeing that in Europe, where technicians can now go and address a multitude of tasks. That's how we're addressing the [indiscernible] (01:27:52) workforce with technology as well, so.

Q

Hi. I had two questions. The first is when you look at the Chubb business you acquired from a market end structure, the end market and the economic model of the business, how similar and different is it to your US safety business in terms of how you see it? That's my first question.

And the second question is, I think you said that about 35% of the safety business is in electronic security and alarms. And I want to understand, is there a large overlap with the safety business in terms of customers, or is it really a separate business. And then in the [ph] Qs (01:28:38) you called out the HVAC business. So, it seems like you have an HVAC business, an electronic business, and a safety business, and I know where the HVAC business fits into that. So, those are my questions.

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.

A

Well, I'll – I'm going to let Andrew ultimately talk about the percentage of the business that's security because that's primarily from Chubb. So if you look at, say, our core business versus Chubb business, all right, they were built – this branch-led model, it works. It's like it doesn't matter. It's agnostic about the services that are being provided. But our core North American business was originally built around sprinkler as part of the life safety solutions. And then we added fire alarm, we've added monitoring and, to a much lesser degree, we've added security, all right?

So, we've – there's an opportunity for us now to learn from Chubb from – and bring their expertise from a security perspective for us to really scale that and add that to our offerings in our branches. If you look at Chubb, Chubb started off in the early 1800s as really a security company when the Chubb brothers invented a lock. And then their business grew, they added, fire alarm, they've added the PFX business, which is fire extinguishers, hose reels, etcetera, monitoring, and they broadened their experience. They do some sprinkler work, but they do much less sprinkler work than, say, our core APi business. So, there's opportunities for us to really cross-pollinate knowledge across each business and learn from each other, and ultimately, expand our offerings. Most – all of our customers, if you have a fire alarm system or a fire suppression system in your facility today, have security systems in well – as well.

Now, inside of Chubb, just with the way they've structured their branch model, there hasn't been a tremendous amount of, so to speak, cross-selling, even between individual departments. So when Chubb talks about a branch, they talk about a branch – they might be in the same city, they might have three branches. One branch might be doing PFX, one branch might be doing fire alarm, one branch might be doing security. And they don't necessarily talk to each other. And that's a change that needs to be made and that's something that Andrew and the team have already started to break down these barriers between countries, these barriers between branches, so that we can really function more as one entity in one organization.

And, [ph] Glenn (01:31:14), from my perspective, like I've seen this movie before, like when I started at APi Group, we were a siloed organization as well. And we had to go about breaking down those walls so that we could share those best practices and that knowledge and really start to create a much more collaborative

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environment and that's what we have. And we're starting to bring that same mindset and that same mentality to Chubb and Andrew's leadership is a big a big part of that.

So, Andrew, I'll let you add some color to that.

Andrew White
Chief Executive Officer-Chubb, APi Group Corp.
A

You put a lot of context into that, Russ. What I would say is, Chubb was part of a global conglomerate, very country-led, country-focused. I've had the pleasure of getting around all the countries. And I'm a technologist and I talk about technology and how their solutions work. And that was mind blowing to think we had software solutions that we'd derived and built out in Asia that was unbeknown in Europe. So back to your point, yes, we're agnostic by nature of our business, but what we do bring is the value of putting a layer over the top of that to allow all those platforms to come together to give us a value differentiate in the marketplace. So, hope that gives you a little bit more [ph] structure (01:32:32).

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.
A

And one thing, [ph] Glenn (01:32:34), you had talked about the HVAC services component of Safety Services. That's a relatively small piece of the overarching segment. And what our focus there, even though, HVAC service isn't naturally – statutory by nature, if your air conditioning goes out and it's 90 degrees out, you're going to have somebody come in and provide that service work associated with it. So, we like the service component of the HVAC business and we're migrating those businesses towards this 60%-plus of revenue goal, just like our life safety businesses and trying to get away from, say, the larger contract installation work as we continue to evolve the business.

Martin Ellis Franklin
Co-Chair, APi Group Corp.
A

To go back to your question [ph] though Glenn (01:33:23) at the very beginning, which was the margin profile versus the United States. If you look inside components of Chubb, their businesses are already make over 15% EBITDA margins. So, it's the same in the US. There's no difference in the overall margin profile but those – both those businesses can operate at. And as you know, the business in the US already operates at that level.

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.
Q

Excuse me. Andy Wittmann from Baird. I guess, my first question is on profit margins with some of the information that you disclosed today. I guess, you said that your top six countries represent 90% of the Chubb revenue, but you're in 17 countries. So, it just feels like in an industry and services businesses, addition by subtraction is historically proven to be a pretty powerful value driver. Is it possible that just exiting some of these countries that have usually overhead is part of the margin driving strategy?

And then, related to that, you also disclosed today that 20% of your revenue is paid to subcontractor. And I was just wondering if part of the longer term strategy as you grow and scale and do bolt-ons and other things would be to in-source more of some of that outsourced work and how much that could add to your potential margin over time?

Andrew White
Chief Executive Officer-Chubb, APi Group Corp.
A

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I guess I'll take the first part and you want to take the second part? So, I'll take the first part around the 90% in six of our major countries. I think that gives us a lot of opportunity to expand in other markets. You mentioned will we exit some? We look at every business opportunity and we'll act accordingly. I'm not going to sit here today and tell you what that may look like. We've got firm plans in place.

If you look at the brand position of where we are across fire, security and the other areas, we're number one or two in every one of our markets we operate in the big six. And I think there's a lot of headroom to grow in those remaining countries as well. So, we've got some key growth plans. We mentioned cross-pollination of different business units. We're standing up with Center of Excellence approach. So, that will be data centers that will globally go and drive common practices as we kind of go across borders with our global clients. And again, that will build out some of those markets we've just touched on the balance of the remainder.

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.

A

I think, Andy, just to add a little bit more color to it, the – this whole concept of pruning, right, is we get questions all the time about how are you viewing the Specialty Services segment of the business and everything else. And it's no different than many of the investors that are sitting in this room today, right? They own X amount of stocks. They're constantly evaluating their portfolio, looking at which stocks should we sell, where should we reinvest? That's no different than us. Like, we look at every component of our business and evaluate, does it make sense for us to be here? Does it make sense – should we look at potentially selling this piece of the business? Everything is open for conversation. We have a lot of robust dialogue around, should we prune this? Should we sell this? Should we close this? And we make decisions that are based in the long-term best interest of the business.

And so, there are things that we are actively looking at, are there markets we should exit? We are 100% in that same mindset, okay? The 20% subcontract component of it, that is a way for them to give them flexibility to flex their labor force up and down. All right? It's easy – like in the – in North America, as an example, and UK is pretty similar, but in North America, as an example, if like we run out of work, so to speak, on Friday for one of our technicians, we essentially can send that individual back to the union hall. We don't have severance expenses. We don't have any trailing costs along those lines.

Obviously, you get into certain European markets and you – it's not as easy to say I don't have work for you on Monday without having extensive severance requirements. And so, by having some element of your workforce that's subcontracted and a lot of that's like almost like independent contractors, if you will, it gives you flexibility to say, I don't have any work for you, Mr. subcontractor, because you're – but you're on your own. And so, it gives them more flexibility to flex their workforce up and down. And that's something that's super important.

And you've seen that resiliency in our business especially like if you look at the slides we had during COVID, like our business continued to perform during a very, very difficult period of time when nobody knew what the hell was going on in the world. And, I mean, I attribute a lot of that to our individual business leaders, and I mean, on the challenges that we put in front of them deflects their workforce and they delivered. And that's one of the beauties of our model.

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.

Q

That makes sense. Thanks for that.

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Andrew White
Chief Executive Officer-Chubb, APi Group Corp.
A

I guess just a little bit to that as well. We can all sit here and talk about what markets that we exit in, there's also what markets we enter in as well. So there's key markets I'll look at. In terms of [indiscernible] (01:38:46) on the subcontract world as well. It's critical that you'd, in certain contracts, you've got a fixed non-cost around some variable and that's how you manage that as well.

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.
Q

Okay. That's helpful perspective. Just a quick clean-up question maybe for Kevin. You guys talked a lot about free cash flow today. You've significantly increased the cost synergy outlook that you have on for Chubb. But I was just wondering if you can help us at all with what the cash costs might be with that – I think you guys, I mean, in 2022, the costs that you've had for various transition restructuring have been relatively material. Do you expect those to be kind of running at the rates we've seen this year increase, decrease? I'm not expecting a number but directional guidance, I think, would be helpful at this point.

Kevin Krumm
Chief Financial Officer & Executive Vice President, APi Group Corp.
A

Yeah. So on that chart, actually, at the bottom, we highlighted two categories of costs, Andrew. There was – the first was just the costs that we're incurring to stand up, the Chubb infrastructure incurred outside Carrier that was about $100 million that we had for 2020. And we showed on there that there's probably going to be about $10 million of that spill over into the first quarter of 2023. Let's call that $110 million plus or minus. That's done as of the end of the first quarter.

Then, we talked about the $100 million value capture opportunity. And David highlighted on that slide that there's going to be approximately that amount of costs associated with delivering it. That number is a 2025 run rate number and we would expect to incur those cash costs. We actually had it broken out on that slide too between now and, largely, 2023 with maybe a little spillover into 2024.

Martin Ellis Franklin
Co-Chair, APi Group Corp.
A

Yes. Before we take another question, Olivia, if you want to – if there are any questions online, you can pull from that, too?

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.
A

Are there any online, Olivia?

Olivia Walton
Vice President-Investor Relations, APi Group Corp.
A

Yeah. There are some.

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.
A

Just ask it, I can repeat it.

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Olivia Walton
Vice President-Investor Relations, APi Group Corp.

Okay. Congrats on the integration upside. Can price accelerate for Chubb as inflation [indiscernible] (01:40:51)? Separately, will acquisitions be focused on the core safety market or are there opportunities for another leg?

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.

So, the question was around price at Chubb and Chubb's ability to take price during more of a recessionary economically challenged time. And then, the second part of the question is around M&A and around will M&A focus on the Safety Services segment. So, Andrew, why don't you take the first one...

Andrew White
Chief Executive Officer-Chubb, APi Group Corp.

Yes.

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.

...and then I'll take the M&A question?

Andrew White
Chief Executive Officer-Chubb, APi Group Corp.

I think we articulate earlier, price is something that is kind of was a new concept in this business. As we are more focused on end markets, taking content through our solutions that allows us to drive price more of a outcome based rather than a product discussion. We're seeing that across our key end markets and really robust. We've already had discussions with some of our key clients, and set the price boundaries there and they've been reasonably well received as far as price conversations can go. So yeah, for me, I think the 5% is there in certain markets. I actually said that we've actually had double-digit price increment in 2022. That tells you that price was not a topic of debate in this company and the prior leadership.

Martin Ellis Franklin
Co-Chair, APi Group Corp.

I have to say, as most of you know, I'm – we're involved in other businesses that are in Europe where price is a big factor. And the whole conversation in terms of understanding the price is something that's going to go up. It's a totally different dialogue in every country in Europe than it was probably two years ago. So I think, in a way, shifting culture into focusing on price in an environment, where people know that price increases are coming actually makes that transition easier.

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.

Yeah. We mean across the organization, we pound price all the time, like tomorrow we have a leadership call. We'll have 200-plus of – about 200 of our key business leaders across the globe now with Chubb. And we talk about price all the time. We talk about fuel surcharges. We talk about what can we do to mitigate some of the inflationary effects. So – and again, I think Andrew and the Chubb team have done a really nice job.

Regarding M&A, number one, we have stayed super focused on Chubb during the course of the year with very, very little of our incremental bolt-on M&A, which I know is something that is attractive to many of the folks in this

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room. And as we continue to move forward, we're excited to kind of turn that engine back on in 2023 as we potentially look at what opportunities are in our pipeline. Our focus will be 100% on Safety Services, specifically the life safety and the security market. If we did something else, it would have to be something that's super intriguing and would really add intrinsic value to the organization. Western Europe, specifically, is as – provides as fragmented of a M&A opportunity as really North America does.

So, we – there will be no shortage of opportunities for us as we continue to move into 2023. But our focus needed to and needs to be focused on Chubb getting separated, making sure that we are positioning the business, so that it can continue its path in evolution and really have a bright future as part of the API family. And that's where the focus has been.

Who's got the mic? Go ahead, Adam.

Martin Ellis Franklin
Co-Chair, APi Group Corp.
A

Pass the mic. Pass it.

Adam D. Wyden
Analyst, ADW Capital Management LLC
Q

Hey. So, this question for Andrew first and I think I have a question for Russ and Martin. You said you think you can get to 15%, and then you, sort of, [indiscernible] (01:44:56) said plus. And when you look at like Chubb's gross margin structure, it's materially higher than the US based business because it's broad based, because you have fire alarm and monitoring. And I guess, my question to you is like, I would think that there are stations within that organization that are very well run that are running at 25%. I mean, what do you think a really, really optimized sort of Chubb network looks like in 2035 or something? Like what do you think the mature margin of this business is fully optimized?

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.
A

So, Adam, I appreciate your proactive nature and trying to get us to go someplace, like we need to get to 15% first.

James E. Lillie
Co-Chair, APi Group Corp.
A

I'll answer it, higher.

Andrew White
Chief Executive Officer-Chubb, APi Group Corp.
A

Plus.

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.
A

And when we execute and we get to 15%, then we'll share with you what the next bogey is. No different than – when we said we're going to – our goal is 50% of net revenues comes from inspection, service and monitoring, as soon as we got there, we shared the next bogey. And we will do the same once Chubb achieves 15%, once APi achieves 13%. There is no question that we think that we can be better, all right, in his business, in our business.

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The gross margins aren't wildly better in Chubb's business than they are in our core life safety business. They aren't. They're almost the same, aren't they, Kevin?

Kevin Krumm
Chief Financial Officer & Executive Vice President, APi Group Corp.
A

Yeah.

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.
A

And so, I mean, there's opportunity – there is tremendous amount of opportunity to improve. Martin said it earlier. Like there's businesses in Chubb's portfolio that's at 20%, which means there's businesses at 6%, no different than our core APi business. We know what we need to do to fix them and that will bring the fleet average for APi up to the 13% goal and ultimately Chubb to get to the 15% goal.

Adam D. Wyden
Analyst, ADW Capital Management LLC
Q

All right. This second question I guess is for Russ or Martin or Jim. In sort of the end of 2021 there was a flurry of platform activity, you had Sciens sold to Carlyle. You had Leonard Green sell half of their business to Altas Partners for 23 times. Everyone is saying that multiples are coming down for platforms. I'm just curious like obviously you see the books for the large platforms and you don't really participate in auctions, but I think it might be informative for other people around here to sort of hear your thoughts around platform multiples and sort of how the market has changed in the last six months if it is at all.

Martin Ellis Franklin
Co-Chair, APi Group Corp.
A

Well, it's no secret that capital markets activity particularly on the debt side isn't really there in any real sense today. So, I think that the kinds of transactions that you've seen, it's not a question of whether the multiple has gone up or down. There's just no activity at that level. I think that there's no question that the private market, and we've talked about this before, for the fire safety businesses, the multiples are significantly higher than the public multiples have been, maybe with the exception of [indiscernible] (01:48:02) is probably only example I could think of.

But the reality is I think – I'm a value guy. So, I think of reality always being somewhere in between, and I think that we're probably lower than we're going to be as a multiple as we continue our progression. I talked about that before as sort of part of the maturation of our business, which is relatively young in the public space. And I think that the sustainability of businesses being bought at 23 times is probably in a lower, a more of a free money kind of environment. The truth is somewhere in between. And that leaves an enormous amount of opportunity for us that's well worth working for.

So, I'm not aspirational to find the [indiscernible] (01:48:55). I'm really, we found in – and I go back to Jarden history, because there's so many similarities in the journey. We always felt that we knew where our appropriate multiple would be for our business at some point in its development. And it took us a number of years to get there, but we got there. And I don't think the story is going to be – it's going to be much different here. The multiple trends in this business for our kind of business are higher than where we trade today and over the long term.

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.
A

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I think the other part of it, too, Adam, is that some of these businesses, we know them. Like, I mean, we know them, we know most of the management teams in those businesses. And the – from a culture, values and fit perspective, there needs to be alignment there on top of it. And we've seen every single one of those transactions and have elected for various reasons to not participate in them. And we're very disciplined. We think there's other opportunities for us to pursue.

Martin Ellis Franklin
Co-Chair, APi Group Corp.
A

I want to say one other thing because I've never really said this before. And somebody said it in the room earlier, we don't participate in auctions. And I'll tell you why we don't, we're not very good at it. I mean, we don't have the resource to waste time chasing things that don't happen. So, picking spots where we can actually get something is very important for us. Having said all of that, Chubb was a competitive auction. There were three people at the finishing line at the very, very end, and we weren't the top bid. And that's important for people to understand.

It became down to a relationship that got developed with Dave Gitlin at Carrier as a level of trust. Carve-outs require partnerships and goodwill. We were chosen because we were seen as being the right people with the right culture and approach to dealing with the issues that will inevitably come up in that. And we bought a significant fire safety business with all the opportunity sets that one would hope for, for materially less than some of those private transactions that you mentioned before as a multiple. So, we're very happy with what we paid. We're very happy with the process of how it came out.

I will also say I'm very grateful to the finance teams at Blackstone and Viking quite frankly, who moved at lightning speed to help us bridge the financing, have the financing in place for a process that required absolute committed financing at the finishing line. If I told you the stories of what happened from Saturday morning when we got the phone call saying you need to be fully funded and in place by Monday at noon, and what happened in those three days, I mean, the dedication of work that took place by an army of people was – there were lot of all-nighters that took place to get from where we were to that. Then, obviously it's all history from here, but we're very happy that that took place.

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.
A

That was all while I had COVID, by the way, so. We have probably one -time for one more question. I don't know, Julian, why don't – since you're front and center?

James E. Lillie
Co-Chair, APi Group Corp.
A

There's a couple. So, why don't we do Julian – go ahead, Julian. And then...

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.
A

And Jon?

James E. Lillie
Co-Chair, APi Group Corp.
A

We'll do Jon, and then...

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Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Yeah. Sure. Thank you. So maybe first question is just around – you've got your medium term targets, I think 4 points of free cash margin expansion, 5 points at the Chubb EBITDA margin, 2 or 3 points at the firm wide margin. Any sense of linearity? The sort of pace, how back end loaded those targets are? Because I imagine they must be quite granular. Any weighting on any of those three or all of those three would be helpful.

And, Andrew, good to see you again. Maybe a question for you around Chubb, and the sales kind of head count element I found interesting, because I think it's a source of savings for you, but also a source of kind of revenue upside from changing around some things in the sales force. So maybe, help us understand the two sides of that. You've got the sort of the head count coming down, but it's, I think, a 2 or 3 point sales uplift from the sales force being rejigged as well.

Kevin Krumm
Chief Financial Officer & Executive Vice President, APi Group Corp.
A

I'll take the first one.

Andrew White
Chief Executive Officer-Chubb, APi Group Corp.
A

Sure.

Kevin Krumm
Chief Financial Officer & Executive Vice President, APi Group Corp.
A

You're talking about the EBITDA walk. Is that right, Julian?

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Yeah. Well, just saying that I think this year's 10.5% and you're going to 13%.

Kevin Krumm
Chief Financial Officer & Executive Vice President, APi Group Corp.
A

Yeah. Yeah.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

The free cash flow margin this year is 6.5% going to 10.5% and the Chubb EBITDA margin is going from 10% to 15%. So just trying to understand over those...

Kevin Krumm
Chief Financial Officer & Executive Vice President, APi Group Corp.
A

Yeah.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Any of those three what the pace is like 2023, 2024, 2025. Is it front loaded, back loaded?

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Kevin Krumm
Chief Financial Officer & Executive Vice President, APi Group Corp.

A

I mean, on that chart where we talked about the big drivers that are going to get us to 13% plus, we had value creation on there. We had, sort of, what I'll call inflation offset, procurement. And then we had the continued mix of service revenue. The practical thought is, I think, they're going to – it's going to play out sequentially. It's not like we're going to have this all show up in 2025. Our – even our value capture for Chubb, the $100 million, as we said, we're going to – we're starting to execute on that right now. We're going to see the benefits start to drop through in 2023 and 2024. So, it'll be sequential. I don't – it's definitely not going to be back half loaded. And we should start to – we should show that improvement next year and in 2024 as well.

James E. Lillie
Co-Chair, APi Group Corp.

A

So, what I would just add to that, Julian, because of – if you just think about the countries involved and notifications and theoretical, the European equivalent of a WARN notification, and so that process will begin in the beginning of the year. So you'll see the effect more towards the back half of the year, and then kind of the full run rate of that in 2024 and 2025. But I think it's balanced pacing, post notification.

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.

A

Andrew?

Andrew White
Chief Executive Officer-Chubb, APi Group Corp.

A

Yeah. Around the sales discussion, coming to this business was very interesting. In my prior organization, we were very much orders focused – driving from orders for an old pipeline management. Chubb has been coming out, really reaped their backlog, their installed base. Looking at how we've drove head count cadence, CRM, right [indiscernible] (01:55:30) in the right people's hands, allowing them to go to customers with the right tool boxes around sales.

If you think about end market solutions, industry fluency, that's really allowed us to drive a higher performance sales organization. It's still in the infancy. There's a long way to go, which tells you there's other upside as well. I think, I mentioned this company's been a detached asset for a number of years and to them, sales leadership and sales management has been every customer looks the same. Every dollar is the same. And we all know that's not right in terms of the approach, so.

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.

A

Jon?

Jonathan Tanwanteng
Analyst, CJS Securities, Inc.

Q

Yeah. Good morning. Thank you for taking my questions. It's been a great presentation. I was wondering about the 13% plus margin target. You've had that for a while now and you're uncovering more value creation at Chubb. I'm just wondering why that that isn't that pluses and more emphasizes a more conservative now. Maybe – I'm wondering maybe is there a bigger revenue component in the denominator or just an admission maybe there's more inflation or macro headwinds in your outlook. Just a little more color there, if you could?

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Kevin Krumm
Chief Financial Officer & Executive Vice President, APi Group Corp.
A

Yeah. So the drivers that are things that we're working on as we speak, Jon. So, do we think there's upside to the 13%, which is why we put the plus on there? Maybe. If you look at the buckets and look at what we think would be sort of probable and likely, you can maybe get to a higher number. All that said, we didn't anticipate the inflation we saw this year, right, which has been a significant headwind.

So because we don't exactly know what that is – what the next three years are going to look like, we know the drivers that are going to get us there. We know if we keep our head down and keep delivering against those, we'll get there. That's kind of why we're at 13%. And as Russ said earlier, as soon as we think that we made it or we're going to make it, we're going to move it again.

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.
A

We have high expectations of our organization like, I think it's a strength and a weakness all in the same breath, right, where I think – when I think about myself, even like I don't spend enough time celebrating the successes that our organization has, because I'd just like I'm never satisfied. And that's like – that's not – it's a strength and a weakness. And we have high expectations in our organization. And if you look at the 20-year history of APi, going back to when I first came to the parent company, we were a $600 million, 3% business. And the company's evolved and changed a lot over that period of time. And we will continue to improve and be better and better and better. When we get to 13%, we'll move the goalpost.

Jonathan Tanwanteng
Analyst, CJS Securities, Inc.
Q

Great. And second, I was just wondering...

James E. Lillie
Co-Chair, APi Group Corp.
A

Let me just add in. Remember, Chubb have lower margins, so Chubb pulled this back to go forward, which is fine. But – and we may do incremental M&A that may get us there faster or you may do incremental M&A that's opportunistic that may be a lower margin profile, but more savings opportunities. So, we haven't looked at M&A as we go forward in any of our planning or relative to these numbers, but it may influence the number at some point.

Russell A. Becker
Chief Executive Officer, President & Director, APi Group Corp.

So, we just want to reiterate our thanks for each of you coming today, for those of you that are online for participating and listening to our story. We're grateful for your interest in the company. We will be kind of hanging around here for a little bit. So, if you have any incremental questions, we'd be happy to answer those for you. But again, thank you for joining us here today. We appreciate it.

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