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APi Group Corp. (APG)

Investor Meeting

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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. Thank you for taking the time to join our first ever Investor Event. Joining me on the call today are Sir Martin Franklin and Jim Lillie, our board co-chairs; Russ Becker, our CEO and President; and several other members from APi senior leadership team.

Please note that certain statements in the company's presentation and on this call are forward-looking statements, which are based on expectations, intentions and projections regarding the company's future performance, anticipated events or trends and other matters that are not historical facts. These statements are not a guarantee of future performance and are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

In today's presentation and in our filings with the SEC, we detail material risks that may cause our future results to differ from our expectations. Our statements are as of today, April 22, and we have no obligation to update any forward-looking statement we may make.

It is now my pleasure to turn it over to our CEO and President, Russ Becker.

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

Thanks, Olivia. Thank you, everyone on the call for joining our first ever investor event. I'd like to stress first ever investor event. We want to make sure that we level set and we will continue to improve and get better as we

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continue our journey as a public company. We are excited to be here today and to have the opportunity to introduce several members of our senior leadership team. Our goal is to help those not familiar with the company to get to know us, and for those that are familiar, to deepen your understanding of key initiatives of our long-term growth proposition. We will be primarily focusing on our margin expansion opportunities in our path to 12%-plus while providing an update on the M&A environment. With that, let's get started with today's agenda.

I will turn it over to Martin momentarily for welcome remarks and a walkthrough of the original investment thesis relative to APi. After that, I will provide an overview of APi's journey from a privately held family owned business to a market leading publicly traded business services company. I will then switch gears by introducing the path forward before turning it over to Paul Grunau, our Chief Learning Officer, to provide an overview of our differentiated leadership culture and core purpose of building great leaders. You'll also hear from Velma Korbel, our Chief Diversity, Equity and Inclusion Officer.

Next, you'll hear from our segment leaders about the margin expansion opportunities and growth drivers within each of our segments before we take a deeper dive into the key initiatives driving margin expansion including the following, disciplined project and customer selection; growing recurring, inspection and service revenue; and leveraging our SG&A and cost of goods sold through areas such as shared services and procurement. After that, Martin, Jim and I will highlight opportunities to accelerate growth, service offerings and margin expansion through continued strategic M&A. Before we turn to Q&A following today's prepared remarks, Tom will review our strong free cash flow generation. Jim will discuss what we believe is the attractive investment opportunity in APi relative to peers, and I will conclude the presentation by summarizing our margin expansion opportunities.

Please feel free to submit your questions online through the webcast portal at any time throughout today's presentation. We will get to as many as we can at the end of the session. Thank you.

Slide 7 highlights our leaders speaking during today's 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. It is now my pleasure to turn the call over to Martin. Martin?

Martin E. Franklin

Co-Chairman, APi Group Corp.

Thank you, Russ. Since we completed the acquisition of APi in October 2019, much has transpired in the world. However, I am pleased to say that our original investment thesis remains intact. We are excited to be here today, nearly one year from the date we became a publicly listed company on the New York Stock Exchange. We are proud of what we've accomplished in our first year as a public company and are excited by the opportunities that we believe lie ahead for both 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. We believe that for those of you getting to know the company that it has to date shown the strength of its protective moat and its resiliency despite the challenging macro environment. The leadership team has shown its hands-on approach to proactively and preemptively addressing these challenges. It's a cultural approach that we're used to and proud of.

When we talk about key investment criteria, what you're going to see today, and Jim and I can relate to this, this is what I would call a very Jarden-esque company, if you know our backgrounds. We had always been very disciplined on our M&A. And when we came into the investments in API, we found that this was a company that

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we felt very comfortable with because culturally, and in terms of its structure, very similar to what we were used to in Jarden.

And if you look at the key investment criteria, and I'm not going to read specifically from the slide, you'll see that the core criteria tick the boxes for all of the things that we've always found important. But the one thing that's different is, this is a far larger overall market than we ever were able to enjoy in Jarden. So we're going to be – what you're going to hear today when you hear the M&A section, and I don't want to steal Russ's thunder on this, but we've got multiple opportunities on smaller transactions where you're going to find opportunities for us to tuck in businesses at single digit multiples in a very accretive way, and really a fairly wide array of larger transactions that albeit a little more expensive, still a very accretive and of a great fit to our overall portfolio.

So there's a lot to do. We've got a great team to do it. It's a large organization that has been focused on the M&A front and following up on the investment thesis we've had to-date. But overall, I couldn't be more pleased to proceed from where we were.

So with that, I'll pass it back.

Russell A. Becker

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

Thanks, Martin. Who we are? This is a great company. Obviously, I'm a little bit biased. I've been part of the organization for a long time now, and we're a $3.5 billion services-focused business. We love the statutory nature of our life safety in our Safety Services segment. We feel that, that aspect of our business really truly does build a resilient moat around the company.

Safety service or – excuse me, our – the work that we do in our Specialty Services segment is acyclical in nature. We feel that, that is very complementary to the other aspects of this company. This is a truly a relationship based business. We have 90% of our customers are recurring in repeat by nature. We think that, that is a testament to the quality and the character of our people. Paul and Velma will spend some time talking about our purpose of building great leaders. The culture of the company is very, very strong and permeates the entire organization. We believe that, that truly sets us apart.

The culture of our company, as seen on this slide, is supported by our enduring purpose of building great leaders. We believe great leaders drive shareholder value creation. Our cross-functional leadership development platform is designed to enable independent company leadership, cultivate broad management skills, enhance organizational flexibility and empower the next cohort of leaders across our businesses. We believe that building great leaders is the unifying principle that connects everyone within our business, regardless of their role.

In a people-centered business, individual growth, both personal and professional, is a key ingredient in our long-term success. Great leaders plus purpose plus values equals shareholder value creation. Following my remarks, you will hear from Paul and Velma, who will highlight why great leaders are a competitive advantage and create shareholder value.

Slide 12 highlights some key milestones in our company's history. The company traces its roots back to 1926 when Reuben Anderson established a small plumbing company in St. Paul, Minnesota. APi was incorporated in 1948. I joined one of our operating companies, Jamar, in 1995 before taking over as President of APi Group in 2002. There are certainly many factors that have contributed to our growth and success over the years, but it would be difficult to argue that leadership and leadership development have not had a significant impact.

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Since we started our leadership journey in 2003, revenue has grown by over 400% and profitability by over 1,200%. Our journey from being a privately owned business to the current newly minted public company began in the spring of 2019. Lee Anderson, the former owner of the company, took great pride and care to ensure that the company's future was placed in the right hands. We couldn't have found a better fit for the company and our employees.

We have over 250 locations worldwide, approximately 13,000 team members, and more than 30 operating companies across three segments. As you can see, our revenue split is essentially 90% in North America and 10% in Europe and the UK, with an expanding platform through our recent acquisition of SK FireSafety Group.

We are leader in the markets we serve. Our broad geographic footprint allows us to maintain relationships with local decision makers, while also having the ability to execute multi-site services for national account customers. In addition, we support margin growth by leveraging our scale to reduce SG&A and to benefit from procurement savings resulting from enhanced purchasing power.

Our diversification across geographies, end markets, customers and projects provides us with stable cash flows and a platform for organic growth. The average size of our projects, including all three of our segments, is less than $100,000, which helps to limit our exposure to increases in raw material costs. Our average project duration is relatively short, so we don't have inflationary exposure to cost of goods sold or changes in labor expense that many may experience in an inflationary environment, as we can price in true costs across our projects.

We provide statutorily mandated and other contracted services to a strong base of longstanding customers across industries. Our customers range from Fortune 500 companies with diverse worldwide operations to single location companies. We have low customer concentration, with no single customer accounting for more than 5% of our total net revenues in 2020. We are focused on partnering with well capitalized customers who have projects that are more macro economically resilient.

Our largest end market is telecom and utilities, which represents approximately 25% of our total net revenues. An example of this is our work with private and public utility customers with large committed capital programs for the replacement of existing natural gas and water distribution systems. Other end markets that we serve, such as high tech, which includes data centers and semiconductors, etcetera, fulfillment and distribution centers and healthcare, have continued to show their resilience through COVID-19, just like we feel our business has shown that resiliency.

We believe that our relentless focus on growing service revenue will drive enhanced margins, greater growth in recurring revenue and more long lasting sticky relationships with our blue chip clients. It is key to our long-term success. Service represented approximately 40% of our total consolidated net revenues in 2020. Our goal is 50% plus. You will hear more about this later in the presentation.

I'd like to take a minute now to talk about safety. The safety, health and wellbeing of each of our employees and the communities in which we serve is our number one priority. We believe that without a focus on safety, there is potential for margins to be negatively impacted. As we talk about our path to an adjusted EBITDA margin of 12% plus, safety has to be part of our foundational commitment. We have a safety culture that is grounded in our commitment to zero incidents. We will strive to continuously improve each year to reach zero. We provide and maintain safety training and onsite safety programs throughout our operations to help ensure that all employees comply with safety standards we have established, including those that are established under federal, state and local laws and regulations.

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On this slide, our commitment to zero, there's a couple of key beliefs that I want to highlight. Number one, zero is achievable. If you don't fundamentally believe that you can achieve zero, you will never get there and you will never continue to improve along that path. I fundamentally believe that number two is paramount for our success. We truly have to care about each other and care about the wellbeing of our teammates so that we're constantly on the lookout for unsafe conditions that could impact our fellow team members. Number six, all incidents are preventable. There is a root cause to every incident that happens. We need to be proactive and search out and find solutions so that our employees and team members are put into a safe working environment.

Moving forward to slide 16, the path forward – I would like to shift gears to the path forward, excuse me. Slide 17, driving long-term growth. Equally attractive is our organic growth prospects. We see multiple avenues to accelerate the growth, service offerings and margin expansion of our businesses through thoughtful and disciplined M&A. If you look at this slide, there's a few items that I want to highlight as we will spend some more time on them as we go forward in our presentation.

Under the left hand column grow, we talk about recurring service revenue. Our inspection first mentality that Courtney is going to share and talk about today is one of the key and most paramount priorities for us to focus on in the business. Improved project selection, we'll talk extensively about that later in the program as well. This is the low hanging fruit. This comes from being more disciplined in how we are looking at who we're going to work for and what types of opportunities we're going to continue to pursue.

Tom is going to spend some time on the investment we're making in our back office infrastructure, we call that work business process transformation. There's two key elements of business process transformation that you're going to hear more about today. The first is really moving the business towards a shared services model so we can truly leverage our SG&A; and the second is we're standing up a procurement office so we can really take advantage of the scale of the business and reduce our costs as the company moves forward.

Scale, one of the things that was really interesting as we started our diligence on SK FireSafety was the service component of their company that focused on defibrillators. We didn't do that and provide that service to our customers in the US. And so we are continuously looking for opportunities that we can expand the service offerings to our customers. We're already rolling out that service in three different locations here in the United States. We think that those types of opportunities in collaboration are key to the company's success going forward.

And regarding M&A, we continue to look at M&A through two separate buckets. The traditional APi approach to M&A, buying smaller, family owned businesses with revenues anyplace from $2 million to $100 million in sales. And we are starting to look at more transformational opportunities that Jim and Martin bring expertise to from their days at Jarden. It's a very exciting time. It's one of the things that was most attractive to me when we sat down and had our initial conversations about being acquired by J2.

As you know, 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. This slide is to remind you of our previously stated long-term value creation targets, which we'll dive into more during today's presentation.

Next, we're going to get into the path to 12% plus, and why we're confident on achieving our goal. I will come back to these buckets at the end of the presentation and fill in the numbers and likely probabilities of success that we expect will get us to our margin target of 12% and perhaps beyond.

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You will now hear from several of our leaders in different functional areas that will touch on drivers of margin expansion. First, it is my pleasure to introduce you to our Chief Learning Officer, Paul Grunau, who will cover how great leaders are a competitive advantage for us and create shareholder value. Paul?

Paul Grunau

Chief Learning Officer, APi Group, Inc.

Thanks, Russ. Hello, my name is Paul Grunau, and I'm the Chief Learning Officer of APi. In this role, I am responsible for helping the company execute against its purpose of building great leaders. From 1995 to the company's sale to APi in 2006, I was President and Owner of Grunau Company, which is now part of our Safety Services segment. Prior to my current role, I was one of APi's Chief Operating Officers, with reporting responsibility for approximately 15 of our operating companies.

In a few minutes, I'll introduce you to Velma Korbel, our Chief Diversity, Equity and Inclusion Officer, who joined our leadership team in November. As Russ mentioned earlier, we have a differentiated leadership culture which is predicated on our enduring purpose of building great leaders. Each of us can and should continually develop ourselves as a leader and support others in doing the same. We believe great leaders are a competitive advantage and create shareholder value. We believe that great leaders make better decisions, and those decisions drive incremental profitability and lead to enhanced margins across our platform.

Earlier in the presentation you heard Russ speak about safety and our commitment to zero incidents, and you'll hear from other senior leaders about their initiatives later in the presentation. I think it is important to note that these initiatives would be unachievable without a foundation of strong and thoughtful leaders. The reason that you're hearing from me first is because we believe a company and its forward progression is only and is strong – as strong and capable as its employees, or in our case, its leaders. An inherent belief underlying our purpose is that all of our approximately 13,000 team members have the ability to be leaders regardless of their role. We strive to invest in people as people, and look to develop our leaders to be not only high quality employees but also to be high quality citizens and family members.

As you can see on this slide, we provide leadership development opportunities that pave the way for retaining invested, loyal and quality employees. We have spent approximately $30 million on leadership development over the past five years, and plan to continue to invest in and support our leadership development culture, which we believe empowers the leaders across our businesses, drives business performance, and increases future cross-selling opportunities.

One of our leadership initiatives is our Accelerated Readiness Program, designed to accelerate the readiness of individuals to successfully lead business units, branch offices or large departments within APi Group operating companies, and APi Group. The program is 20 months in length and focuses on business acumen, group interaction and action learning project, and individual leadership development.

Another important initiative is our field based leadership programs. We believe our approach to field leadership is highly differentiated from our peers' field based programs, which tend to focus on technical competence, not leadership. We have sent more than 650 field leaders to the FMI Field Leadership (sic) [Leader] (00:23:55) Institute since 2014, and have a variety of learning opportunities specifically tailored to our field leaders. An example of this is our one day leading self-program, which focuses on building foundational leadership skills and has had approximately 2,500 attendees over the last few years.

I would like to wrap up this slide by touching on a few of our other leadership offerings. We provide our leaders with a proven coaching framework that we believe helps to accelerate employee performance and ultimately drive

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shareholder value. For company-sponsored formal education, our leadership compass internet accessible libraries contain hundreds of learning pieces covering a variety of leadership topics organized into our leadership pillars and their competencies.

We have a comprehensive purpose-built learning management system or LMS. Being a great leader means being a great learner as well. Our LMS provides a platform that delivers online learning and manages registration requests for in-person courses at both APi and at our individual companies. We also promote active succession planning at all levels. This leads us to find and retain the right people. We align compensation with targeted performance goals, and we deploy EQi, DISC and 360 assessments with debriefs and workshops to help participants understand their own behaviors, recognize and appreciate others' styles, and learn to adapt to gain commitment and cooperation.

We believe that our investment in leadership development drives increased productivity and ultimately, increased profitability. We strive to provide everyone at APi with diverse opportunities for leadership development. This includes formal in-person leadership courses. Our learning opportunities are designed as comprehensive developmental experiences rather than training events.

Each of our courses is focused on broadening participant world views and purposely transferring skills and knowledge that lead to real and consistent application of the learning. Each of our courses falls into one of three different leadership pillars; leading self, leading others and leading teams and businesses. Each pillar is aligned with a distinct set of leadership competencies that represent a different phase in the evolution of a leader at APi Group.

Slide 25 highlights two key recruiting sources for building our pipeline of leaders; our leader development program, and our veterans hiring initiative. These are not the only two programs, however, they are two key sources. And again, as we've said, great leaders create shareholder value. APi's leader development program was created for select employees to develop their leadership skills from mentors while broadening their understanding of APi's service offerings through seven rotations at individual businesses. The program's goal is to develop candidates for leadership within APi, representing a self-perpetuating pipeline of leaders deeply rooted in APi's unique culture and aligned with APi's vision.

Before turning it over to Jeff Daane, our Safety Services Segment Leader, I'd like to introduce Velma to discuss our veterans hiring initiatives and also provide more details on our diversity, equity and inclusion efforts. Velma?

Velma Korbel

Chief Diversity, Equity & Inclusion Officer, APi Group Corp.

Thanks, Paul. I joined the APi leadership team in the fourth quarter after spending more than 25 years focused on advancing equal opportunity in the public sector. I'm excited to be at APi to partner with our leaders to execute diversity, equity and inclusion, DEI, strategies across our organization and foster an environment where everyone feels welcomed, included and valued. This includes driving workforce diversity and developing leadership tools to promote DEI learning and an inclusive culture.

One aspect of this is a new leadership competency called cultural fluency. We believe that when employees feel invested in and valued, they are more likely to be invested in the company, their job, and more likely to go above and beyond in their job performance. By emphasizing the importance of hiring and maintaining employees whose values are in alignment with APi's, and in the importance of actively living those values, we are continuing to strengthen our culture and ultimately drive towards our margin expansion goal of 12% plus.

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As a veteran, I am proud to say that the values and culture at APi have long been influenced by our leadership's respect and reverence for the values of the military. We are committed to hiring our nation's veterans. We have a long history of hiring and supporting veterans and have hired an average of 450 veterans annually over the past three years.

Our Veteran's Rotational Program is designed to assist veterans in their transition to a civilian job with one of our operating companies. The program consists of four rotations over the course of the year. At the end of the rotation year, the candidate is placed in a position with one of our operating companies. We place an immense value on the leadership, loyalty and experience of military veterans, and are fortunate to be able to work alongside those who have served our nation. And as you've heard from Russ and Paul, we believe that great leaders create shareholder value.

I would now like to turn the call over to our Safety Services Segment Leader, Jeff Daane.

Jeff Daane

Senior Vice President & Segment Leader-Safety Services, APi Group Corp.

Thank you, Velma. Hi, everybody. My name is Jeff Daane and I'm the Senior Vice President and Segment Leader for our Safety Services segment. I began my career nearly 34 years ago as a designer and project manager. I was also [ph] newly promoted (00:30:27) to CEO and President at one of our operating companies, which is Western States Fire Protection in 2014. Beginning in January of 2020, I joined the APi team to lead our Safety Services segment.

Safety Services is our largest segment, generating approximately $1.6 billion of adjusted net revenues at 13.7% adjusted EBITDA margin in 2020. We have more than 150 locations worldwide, approximately 8,000 team members and more than 15 operating companies, including an expansion platform into Europe. We are leading services provider in all of our markets that we serve.

Our average project size in the segment is only $10,000, driven by our focus on inspections and service opportunities. The majority of our inspections and service work is done on a fixed price basis. Given the relatively small average project size, we anticipate being able to adjust prices to pass on raw material inflation to customers. We have the ability to embed raw material price movements into each new project, which occurs more frequently given our average project size, with our competitors pursuing the larger projects.

Before diving into the details on revenue diversification, margin expansion opportunities and growth drivers, I wanted to briefly cover what we do. I've listened to some of the investor meetings and know that this has been a question. Slide 28 provides a high level overview of the services we provide. Revenue in Safety Services is derived from two categories, life safety, which we expect to represent approximately 80% of our 2021 revenue; and HVAC or mechanical, which we expect to represent approximately 20%. We are confident in the growth prospects and margin expansion opportunities in both of these buckets.

Approximately 81% of revenue is derived from customers in the US and 19% is derived from outside the US, primarily in Canada, the UK and Europe. We believe that the diversity of the end markets we serve and the regulatory driven demand for our services provide predictable, recurring revenue opportunities and help to build a protective moat around the business. We're focused on the already built environment, such as high tech, where we do a sustainable work on a daily basis. Our number one priority in the segment is to grow inspections and service revenue. You'll hear from Courtney Brogard [audio gap] (00:32:59) drives the strategy later in the presentation.

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Other margin expansion opportunities include disciplined project and customer selection, which we measure through our contract loss rate; increasing cross-selling opportunities; and improve pricing. In addition to working closely with Courtney on driving recurring revenue through inspection sales, I work with Kristin and Tom to drive margin expansion through leveraging SG&A, as well as cost of goods sold in areas such as integration and procurement.

Key organic growth drivers include increasing regulation, HVAC COVID-driven opportunities, system complexity, and the expansion of national accounts and the expansion of cross-selling services across our organization. This includes increasing share with our individual customers. As an example, when we bought SK Group, they provided services to defibrillators. Russ touched on this earlier. But what we've done now in the US is we've springboarded off of what they're doing over there and we're using our customer list and upselling the defibrillator option to our customers.

I'll now turn it over to Joe Walsh to cover Specialty Services.

Joseph T. Walsh

Segment Leader-Specialty Services, APi Group Corp.

Thanks, Jeff. Hello, everyone. My name is Joe Walsh and I am Senior Vice President and Segment Leader. I joined J. Fletcher Creamer & Son, one of our APi's operating companies over 25 years ago as a general superintendent of utilities, and was ultimately promoted to CEO, COO and President. Beginning in January of 2020, I joined the APi Group team to lead our Specialty Services segment.

Specialty Services generated approximately $1.4 billion of adjusted net revenues at a 12.1% adjusted EBITDA margin in 2020. We have more than 40 locations across the US, approximately 3,000 employees and more than 10 operating companies. Our average project size in the segment is approximately $70,000. Given the relatively small average project size, we have some ability to adjust prices and pass on raw material inflation to customers. On projects that are longer term in nature, contracts typically have price escalators built into the initial proposal. We have to stay diligent, so we publish pricing [ph] movements (00:35:28) to all our teams on a consistent basis so that they all have current information.

Revenue in Specialty Services is derived from three categories, infrastructure and utility, which we expect to represent approximately 57% in 2021 segment revenue; fabrication, which we expect to represent approximately 12%; and specialty contracting, which we expect to represent approximately 31% of segment revenue. We are confident in the growth prospects and margin expansion opportunities in all three buckets.

100% of our revenue in the segment is generated from customers in the US. We are focused on partnering with well capitalized customers where projects are more macro economically resilient. Our largest end market is telecom and utilities, which represented nearly 60% of the segment's revenue in 2020. An example of work in this category is the work we do for private and public utility customers with large committed capital programs with the replacement of existing natural gas and water distribution systems.

The work in this segment is typically executed under master service agreements and provides us with a high degree of visibility. It's important to note that APi's version of what we consider infrastructure is not building a bridge over the Hudson River.

Our services include maintenance and repair of critical infrastructure, such as electric, gas, water sewer and telecommunications infrastructure. We are focused on growing service revenue through multi-year master service agreements, which we believe helps to build a more protective moat around the business. We expect growth in

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this segment to be supported by secular tailwinds, including 5G infrastructure build-out, natural gas distribution and grid modernization. I am sure there isn't anyone on the call that doesn't think we need infrastructure spending. While we do not have anything built into our budget, there are certainly aspects of our business, such as 5G fiber, renewable energy water and gas services that would benefit due to existing core competencies combined with incremental opportunities. In the event the bill is passed, we will remain focused on disciplined project and customer selection and higher margin opportunities.

I will now turn it back to Russ.

Russell A. Becker

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

Thanks, Joe. I'd like to briefly cover industrial services, which is our smallest segment representing less than 10% of net revenues. I want to help those of you not familiar with this segment to understand what it is we do. This segment is strategically focused on transitioning to integrity or service work. Revenue and industrial services is derived from two categories, transmission which includes maintenance of existing pipeline systems to protect our communities and the environment. This represents approximately 76% of segment revenue. And civil, which is focused on infrastructure services in the upper Midwest, this represents approximately 24% of the revenue in the segment. This revenue – 100% of the revenue in the segment is derived from customers in North America. We are focused on growing the integrity side of pipeline transmission, which is statutorily driven as transmission companies are required by law to maintain their existing pipeline systems to ensure they are safe.

A key driver of margin expansion in the segment is to improve margins through disciplined project and customer selection as opposed to growing the top line. We're also focused on growing service revenue, pricing opportunities and leveraging our SG&A and cost of goods sold. We completed the divestiture of two underperforming businesses in early 2020. With these projects behind us, the heavy lifting on pruning is completed. However, we will continue to be opportunistic and won't hesitate if something isn't working. This goes for all of our segments. As I mentioned, we are focused on growing the integrity side of pipeline transmission. We believe that there is increasing demand for maintenance and service related to aging energy infrastructure as customers try to prolong the useful lives of their pipelines and limit incidents.

Now that we've covered our three segments, I'd like to discuss the initiatives driving margin expansion in more detail, beginning with disciplined project and customer selection. We continue to focus on thoughtful and profitable growth rather than growing for the sake of growth and risking profitability. We are focused on reducing our contract loss rate, which refers to projects where we have a negative margin. Our goal is to reduce our contract loss rate to 0.7% or less in 2021. Once we reach that goal, we will continue to drive towards zero in 2022 and beyond. In partnership with our – with leaders across our individual businesses, we have evolved more robust formal go, no-go processes related to project selection which we believe will help us achieve our goals in this area.

Now, I'd like to introduce Courtney Brogard, our Vice President of Inspection Sales, to discuss our strategy of driving margin expansion through increasing inspection and service revenue. Courtney?

Courtney Brogard

Vice President-FLS Inspection Sales, APi Group Corp.

Thanks, Russ. I began my API journey as an inspection sales leader at one of our operating companies, Western States Fire Protection, in 2012 and joined the API Group Leadership Team in 2020 to lead inspection sales efforts across safety services. With Russ' and Jeff's support, I worked with our safety services companies to build a

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national and coordinated inspection sales force to drive our go-to-market strategy of selling inspection work first, which we believe will lead to further service revenue growth and ultimately drive margin expansion.

Our go-to-market strategy is to sell inspection work first because we [audio gap] (00:42:02) can lead to $3 to $4 of subsequent service work. In most cases, our inspection work is covered by statutory requirements. Nearly all facilities that have existing life safety systems are required by law to have that system inspected on an annual basis regardless of whether the facility is filled to capacity or empty. This strategy differentiates us from our peers and ultimately creates a stickier client relationship that we believe leads to reoccurring revenue, higher margins and growth opportunities.

Inspection revenue provides stable, high margins and reoccurring revenue streams. We believe this strategy positions us as the preferred fire and life safety services provider. We're not just a vendor. In the buildings, we perform the inspection. We eliminate the [ph] bad world (00:42:51), remove our competition barrier and are focused on negotiated work at higher margins. There has been an intentional evolution of the company from 2008 until now to drive towards [ph] a business-as-services (00:43:04) model. Inspections and service represented approximately 41% of our revenue for our life safety businesses in 2020. We have a goal of 50%-plus. On average, inspections and service revenue generates 10% higher gross margin than contract revenue.

Here, we have a strategic approach to sales through our inspection managed accounts program. Our corporate inspection sales leaders, or CISLs, and our inspection sales leaders [indiscernible] (00:43:37) sales leaders are focused on our common goal of expanding our relationships and ultimately driving growth and margin expansion. We have a goal of growing inspection revenue 10% plus on an annual basis. Our objective is to have 100% or more of our overhead paid for by the gross margin produced by non-contract revenue streams. By doing this, we will be better positioned in the marketplace to be selective when choosing our customers. In addition, contract revenue opportunities can be negotiated at higher margins as we do not want to take high-risk, low-reward jobs.

I would now like to turn it over to our Chief Financial Officer, Tom Lydon, to discuss margin expansion opportunities through leveraging SG&A and cost of goods sold.

Thomas J. Lydon

Chief Financial Officer, APi Group Corp.

Thanks, Courtney. We'll continue our focus driving margin expansion through what we refer to as our business process transformation project. This includes ongoing efforts to tie our technology platforms with improved business processes, which we expect will allow us to move closer to true shared service model and ultimately allow for better leveraging of our SG&A. This also includes efforts to further leverage purchasing and procurement scale to drive gross, operating and adjusted EBITDA margin expansion. We believe we are approximately 1/3 of the way through this significant multi-year design to complete the foundation for APi's transformation from a world-class private company to a world-class public company.

As we've mentioned on our fourth quarter earnings call, we spent approximately [ph] $30 (00:34:16) million in 2020 of the total anticipated spend of approximately $50 million. I would like to remind everyone, this is not an ERP project, what we are focused on the following five processes and the related IT-enabling technologies.

First, a single entity-wide payroll system we are partnering on with Ceridian, which will streamline our time reporting and allow our existing payroll teams to scale as we add more employees through growth; second, moving three of our businesses to Coins, a Tier 2 accounting platform, enhancing our processes and controls and positioning us to leverage our back-office in the future; third, OneStream, our consolidation and reconciliation tool, will speed our monthly closes and allow us to improve our buying power through identifying commonality of

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vendors across the organization to leverage our aggregated spend at a greater level; fourth, moving to – all of our companies to a common CRM platform to improve cross-selling and relationship capitalization; fifth, the implementation of a customer service portal and common business platform across our service businesses, improving our cost and pricing knowledge, back-office [ph] ordered cash receipt (00:46:36) efficiency and better customer experience driving further growth.

Lastly, each of these key projects will assist us in becoming SOCs compliant through common processes and control documentation and performance.

I will now turn it over to our Vice President of Integration, Kristin Schultes.

Kristin Schultes

Vice President-Integrations, APi Group Corp.

Thank you, Tom, and good morning everyone. I joined APi as the Vice President of Integration earlier this year. I began my career in finance and accounting before joining one of our businesses in the Safety Services segment, where I spent 12 years in various leadership roles, including Chief Financial Officer, Vice President of Operations and, most recently, the role of President. I am very excited to be leveraging my financial, operational and relationship experiences to help the APi team integrate both existing businesses as well as new acquisitions into the APi family to ultimately drive consistent long-term growth and value for our shareholders.

Our priorities are unified around maintaining business continuity while identifying and implementing operational efficiencies, cost synergies and integration of operational processes to drive margin expansion. Each one of our businesses maintains its identity, its reputation, customer relationships and culture following those acquisitions. And we invest heavily into cultivating leadership at each one of our businesses, as you heard Paul and Velma speak to earlier.

We have a family of market-leading service providers, each run by entrepreneurs with the backing of our large organization. Our powered by APi structure provides us with that ability to leverage our scale while also being able to be nimble and opportunistic at the local level with reduced bureaucracy and overhead burden. Our acquired businesses benefit from the resources of direct access to our APi network, which facilitates organizational sharing of knowledge, best practices. It increases our collaboration across businesses and ultimately drives cross-selling opportunities.

One of the value propositions for smaller companies joining the APi portfolio is on the procurement front. APi has national agreements with the main fire and life safety vendors in our space. And the ability to purchase that scale affords us significant savings on day 1 compared to smaller companies that may be purchasing regionally at lower quantities.

I'm not going to cover every item on this slide. However, I do want to hit on a few key points regarding our integration playbook. Our efforts are focused on driving and capturing cost savings, which obviously drives margin expansion for us. Prior to closing on each one of those transactions, I worked very closely with our M&A team on diligence efforts so that we can plan ahead and be ready to execute quickly at closing.

In the first 30 days, we focused on technical items prior to moving to the value creation areas, frankly the more fun areas of integration such as sharing best practices, economies of scale and other areas where it makes sense and doesn't take away from the business we bought. In partnership with Russ, Tom and our segment leaders, I also worked to drive margin expansion through procurement and pricing opportunities.

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I will now turn it back to Russ to discuss acquisition and M&A opportunities in more detail.

Russell A. Becker

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

Thanks, Kristin. As many of you know, we view M&A as an important complementary tool to increase and accelerate shareholder value over time. We believe that the markets in which we operate are highly fragmented and lend themselves to continued opportunistic acquisitions. We've completed 70-plus accretive acquisitions since 2005.

We have received a couple of questions on SKG, our largest acquisition since becoming a public company. SKG performed in line with our expectations in 2020. And we are pleased with how they've navigated the environment. The company has a services-focused business model which helps to drive higher margins and strengthen the resiliency of our business. SKG has performed well despite the more stringent lockdown activities related to COVID-19 still in place in Benelux and Scandinavia. SKG is almost a mini APi. They are M&A focused. And we are looking at several tuck-ins to supplement growth in Europe.

Our global pipeline of incremental M&A targets remains robust with opportunity sourced through multiple different channels. We have an M&A tracker. We keep this active all the time that – for both North America and Europe. We are reviewing approximately 15 potential, traditional APi M&A opportunities with businesses that range in revenue up to $100 million. In addition, we are looking at opportunities that are non-traditional to APi, working with Martin and Jim. Here, we are reviewing multiple opportunities ranging revenue from low-$100s up to $1 billion. As I've said before, our priority for our use of cash is to explore opportunistic acquisitions as we move through the rest of the year. We intend to continue to pursue small add-on acquisitions, which APi has had success with historically, while also working with Martin and Jim to opportunistically pursue larger acquisitions in our core segments and evaluate strategic adjacencies that we may enter through M&A.

We remain focused on the following criteria: alignment of culture, values and fit; history of strong free cash flow generation; experienced management team with proven record; a service component of their business; it must be accretive to APi's financial profile and margin expansion goal; equally attractive as our organic growth prospects we see multiple avenues to accelerate the growth, service offerings and margin expansion of our business through thoughtful and disciplined M&A. As we look at potential opportunities, areas of interest include fire and life safety, elevator and escalator repair and maintenance, HVAC services and utility and telecom services.

Martin and Jim, do you want to comment on what we're seeing in the macro M&A world today?

Martin E. Franklin

Co-Chairman, APi Group Corp.

Sure, Russ. I would tell you that – Russ – and we've talked about this and why we love being a public company. You have the luxury of time. And if you go back to the 25 years or so that we've been building public companies, one tends to be acquisitive in both frothy markets and buoyant markets a bit like we have today and much tougher markets. And I think that – I feel like, with APi Group, we have a running start. And this company has built a very strong reputation for being a great proprietor of the business. And I think that it's very important that when you heard earlier that the discussion about powered by APi Group. I think any company needs to have [ph] a raise on that (00:54:18). And I would argue that APi has made a very strong case and continues to build on that, that companies can actually be better being part of the API group. So, it's a very compelling story to employees because the culture of APi is very strong. The track record is very good. And the capitalization quite frankly of the company affords a great deal of room to be opportunistic.

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Jim, I almost always talk about the fact that, in the success of [ph] Jordan (00:54:52), where we had a 34% compound return over 15 years for shareholders, I don't think it was necessarily that we did anything particularly smart. It's that we really didn't do anything that was particularly stupid. And I think that, that discipline will continue to be the case here where we can help and advise and guide Russ and the team towards great M&A opportunities that are always going to be accretive, not just to the financial picture of the company but the cultural story of what building APi into a world-class organization is going to be. So, I think we're in a great position. I think that, if you like, we're probably best positioned for M&A. And I think that we're going to be very disciplined on how we approach these opportunities. But because this market is so wide, the opportunity set is very wide indeed.

James E. Lillie

Co-Chairman, APi Group Corp.

I will just supplement what Martin and Russ just said. It's important to remember, as you look at our numbers, as you look at our plan for this year, as we reinforce our guidance that we don't need to do deals to make our numbers. And I think that's when people get silly is when they're doing deals to try and catch up with some commitment that they've made to Wall Street. We couldn't be happier with the opportunities in front of us. APi has a very strong team in place. Obviously, with our personal investments and our role on the board, we're supplementing that activity. But we're seeing a wide swath of opportunity both, as Russ said, on the traditional level. I think the 18, 19 or so businesses that we're looking at that are traditional represent about $200 million in revenue opportunity with about a 13% margin. We're looking at larger opportunities.

With those larger opportunities, I want to remind people we paid double digit – low-double digit EBITDA multiple for SK. But historically, Russ has been able to cash flow the acquisitions that APi has traditionally made and paid multiples in the 5, 6, 7 times range. And so, right now, our fleet average, including the acquisition of APi itself, we're at about 7.3 times. So, there are going to be those that are larger that have perhaps a higher margin structure that we will pay up for and then the more traditional deals that Russ and the team have done at the more traditional level of value multiples. So, we couldn't be happier with the position where we are today.

You've heard a lot about the cash on our balance sheet. But more importantly, we've got teams that are focused on growing their businesses, that have their eyes and ears open out in the field, that are seeking out opportunities, that are building on our relationships and preaching the opportunities that APi has under the powered by APi concept.

Russ?

Russell A. Becker

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

Great. Thanks, Jim. Thanks, Martin. Now, we'll take the opportunity to turn it over to our CFO, Tom Lydon, to provide some financial perspective on our free cash flow generation.

Thomas J. Lydon

Chief Financial Officer, APi Group Corp.

Great. Thanks, Russ. We're committed to driving our strong free cash flow and have an average long-term adjusted free cash flow conversion target of 80%. With a target of an average of 80%, some years will be 70% and some maybe 90%. But on average, we think 80% is reasonable. We have an asset-light model, which allows us to increase the volume without the need for significant additional capital expenditures. Our 2020 adjusted free cash flow conversion was extraordinarily high, driven by the positive cash generation resulting from the decline in

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net revenues and the associated reductions of our accounts receivable and other fluctuations in our working capital balances. As revenue rebounds post COVID-19, we expect to use cash to fund working capital to drive increased service revenue and higher margins leading to increased shareholder value. We expect 2021 to be somewhat of a hybrid year since we are still dealing with the impacts of COVID-19. The right side of the slide notes our current initiatives to help us offset working capital needs as we drive increased service revenues and higher margins as I've mentioned.

With that, I'd like to turn it over to Jim to discuss APi as an investment opportunity.

James E. Lillie

Co-Chairman, APi Group Corp.

Thanks very much, Tom. Well, APi has performed well rewarding investors since our listing on the New York Stock Exchange. We truly believe that APi's best days are still ahead of us. And our current valuation presents what we believe is an amazing investment opportunity. As I've said before, we have – we had not expected to be stress tested this quickly as a public company with COVID-19 on the emergence rate when we became a public company a year ago. Well, we believe that our 2020 results support the investment thesis we had when we first met with Russ and the team.

The strong performance speaks to the leadership team, discipline and future opportunities for APi as we continue to focus on shareholder value creation. Our track record for organic growth and the earnings path are strong. You've heard about our strong free cash flow generation from Tom and margin expansion opportunities from several leaders across different functional areas. So, as this is an investor event, we do want to point out to everyone that we believe APi is a very attractive investment opportunity. We believe we have both earnings opportunities and margin expansion opportunities, which we believe will generate multiple expansion opportunities.

As many of you know, we trade at a significant discount relative to our peers across various measures, which we believe makes APi a compelling investment opportunity especially when coupled with our significant cash balance. As you know and as I spoke of earlier, we finished the year in 2020 with $515 million of cash on the balance sheet. And subsequent to yearend, we received approximately $230 million of cash proceeds from the exercise of warrants.

Our priorities, as Russ has said, is to utilize the cash for M&A. However, if we don't think there are opportunities that meet our acquisition criteria, we are content to buy back our shares because we know the most about APi and what its future offers. And as I've always said, we like the management team and the leadership team. And as I've said before, we had not expected to be stress tested this quickly. We believe our 2020 results support the investment thesis we have when we first met with Russ and the team. The strong performance speaks to the leadership team, discipline and future opportunities for APi, as we continue to focus on shareholder value creation.

Since our listing on the New York Stock Exchange on April 29 last year, our stock has outperformed relative to the S&P 500 and the Russell 2000. The building blocks we've established for long-term value creation helped deliver best-in-class shareholder returns. The foundational building blocks are rooted in revenue growth, EBITDA margin and free cash flow, which each have initiatives to drive further value creation, as you've heard today. With the changing landscape of our business, macroeconomic environment and investment opportunities, we continually revisit and refocus on these initiatives. These building blocks have a proven track record for long-term value creation. Martin and I have experience in our other investments across different businesses [ph] and industries (01:02:58) and have proven this out.

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Lastly, for those of you not familiar with what our guidance was for the year, we want to reiterate our expectations which reflect the initiatives you've heard about during today's presentation and drive long-term value creation. We expected adjusted net revenues between $3.65 billion to $3.75 billion as we focus on driving inspection and service revenue with solid project and customer selection. These in turn will drive organic revenue growth of approximately 8% in safety services and 6% in specialty services, while partially offset by a strategic decline of 30% in industrial services, as we continue our focus on solid project selection to drive margin improvement. That equates to 7% overall organic growth, excluding the decline in the industrial services group.

Again, I want to join Russ and thank you, everybody, for joining us today on the call. And with that, I'll turn it back over to Russ for closing remarks before we turn it over to the Q&A. Russ?

Russell A. Becker

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

Thanks, Jim. I'd like to once again thank all of you for participating in today's event. We appreciate your interest in the company.

Before we begin Q&A, I'd like to conclude the presentation by quantifying our key drivers of margin expansion. As I said earlier, it is a combination of singles and doubles to reach our margin expansion goal of 12%-plus. This slide shows the buckets and gives you an illustration of where they exist. Every part of our business can just be better. There are five major categories: improving the mix; [ph] road (01:04:50) inspection and service revenue. As Courtney mentioned in her remarks, we have a goal of growing inspection revenue 10% annually. This is a potential $55 million to $65 million opportunity for us.

Disciplined project and customer selection, as mentioned earlier, improving our contract loss rate to 0.7% or less in 2021, we need to continue to drive towards zero. This is – could be up to a $7 million opportunity. Pricing opportunities provide us an additional $4 million to $6 million of gain. Leveraging our SG&A and our cost of goods sold. Our procurement and shared services efforts could deliver between $10 million and $15 million of additional savings.

And operational excellence, as many of you who know the company, you've heard me say this before. We have the opportunity to just be better. This is another $5 million to $7 million of opportunity for the company. If you add all of these buckets up and haircut it by 50%, we still have approximately $43 million of savings. If you layer that on to potential M&A synergies from strategic M&A, you can find another $30 million to $50 million and can – and that will get you to approximately $83 million of true opportunity. We believe that these opportunities are real. The amounts that we've provided here are illustrative. And we will go to work and attack each one of these individual buckets.

Next, we want to share a new goal. We have great confidence in the organization and the direction that we're heading. And we're happy to share with you a 13%-plus adjusted EBITDA margin by the year-end 2025. We believe that this goal is achievable.

We will now turn to the question-and-answer session, which will be moderated by Olivia. If you have not already done so, please feel free to submit your questions online through the webcast portal. Thank you.

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QUESTION AND ANSWER SECTION

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

Thanks, Russ. Our first question is regarding our revenue breakdown. In the end market breakouts, can you please provide additional color on what's included in the commercial, education and entertainment bucket? Specifically, what's included in commercial? And how much is education on its own? And how much is entertainment on its own?

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

Tom?

Thomas J. Lydon
Chief Financial Officer, APi Group Corp.

Yeah. Thanks, Russ. Yeah. The slide shows that the aggregate of all of those is about 18% of our revenue. Education, 4% to 5%. And the other areas make – kind of equally make up and will flux year-to-year. But you'll split that off between the two of commercial and the entertainment. Commercial, generally office buildings and the like – and remember, we do a lot with existing structures, office buildings that need their inspections and their consistent work being monitored.

A

And entertainment, Russ, I believe is stadiums and the like?

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

Yeah. So, I think that – I think, number one, Tom made a really good point there that as we talked about our end markets, you do need to remember that a portion of that work is for sure in the inspection and service category, which is going to be recurring by nature. In the entertainment space, we actually have really one business that has a unique niche expertise and stadiums and arenas that that they have had a really solid track record over a number of years. We also do some – have some service and inspection opportunities for clients like Disney and such that would fall into that bucket as well.

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

Thanks, Russ and Tom. Next question. Can you confirm whether service accounts for 40% of total revenues or safety services segment revenues? And second what is included in the definition of service?

Thomas J. Lydon
Chief Financial Officer, APi Group Corp.

Yeah. So the answer to that is yes. It just happens to be 40% of safety services and it also happens to be 40% of total revenue of the company. And what's included in services as we've talked inspections, the maintenance that

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comes out of those, our MSA work where we're working on existing systems and that in the specialty area that Joe talked about.

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

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Yeah. The only thing I would augment Tom's response by adding that especially – again in specialty services, the work that we do under our blanket agreements for a number of our utility customers. A lot of that is emergency call out type opportunities would drop into that bucket. We also have a number of in two industrial clients where we're providing maintenance and service activities to while they're taking their facilities down for their annual turnarounds and outages and such.

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

A

Okay. Next question. Within safety services, how do margins compare between HVAC services, also known as mechanical and life safety?

A

May I take that?

A

Yeah.

A

All right. Yeah. So, in the service sector, they would be very similar. When you get to perhaps a larger contract aspect you would have some more equipment chillers, and HPAC units and you don't get the same markup on that material. But when we're strictly in service the margins are very complimentary.

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

A

Okay. Next, how is selling inspection work first? How is our selling and inspection, inspection work first approach differentiated from our competitors? Aren't they also selling inspections?

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

A

Well I'm going to – I'll take a quick shot at this and then I'm going to ask Courtney to jump in. But the short answer is no. And in the traditional sense our customers are selling inspections and service but they're typically trying to sell that work after a project that they're involved with is essentially 95% complete. And so with really Courtney's expertise and Jeff's support we've really changed that model so that our focus is on selling that inspection work first. So Courtney do you want to jump in?

Courtney Brogard
Vice President-FLS Inspection Sales, APi Group Corp.

A

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Sure. Yeah. Absolutely. So we just have a proactive approach to targeting inspections before. And we want to build that relationship and really focus on that and then cultivate that into future opportunities. But we are growing our service and from our inspections and then it creates opportunities for contracts because of the relationship.

Thomas J. Lydon
Chief Financial Officer, APi Group Corp.

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Thanks, Courtney. If I could just jump in, you have to remember this is a hugely fragmented (01:13:00) marketplace and so if you think about Westchester County,

this is a hugely fragmented [01:13:00]

marketplace and so if you think about Westchester County, there's dozens a little mom and pop operations and those companies would much rather focus on a new warehouse project than thinking about the investment that they would have to make in an inspection and a service model. Because if you're doing service, you're providing 24-hour service and so if you think about these small businesses, they would much rather do a $500,000 job at a lower margin than invest in a fleet [ph] of ants (01:13:33) that get called out do inspection work, do the service work that backs up behind it.

And so while we operate both like the small regional player being able to do new activity projects, we're also willing to invest the dollars. Remember the ticket that Russ talked about, our average project size is less than $10,000 and so there's a lot of collection activity, a lot of financing that goes on that these smaller regional players just really aren't interested in participating in. Is that right, Russ?

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

A

Yeah. For sure. I would say that a key advantage that we have in today's world is that we have built out that infrastructure. And when you think about the model that Courtney described on during her presentation today, you might go to the sacramental office and they might have four inspection sales representatives in that office alone. And you think about that the infrastructure in the investment that's required to build that out, it's really, really robust. And that's one of the things that is an advantage for us today as we look to continue to grow that aspect of the business and take market share. It's really exciting with where we're at.

And when you think about the momentum and the traction that Courtney's work is taking on as she continues to get more engaged in all aspects of our business, it's really, really exciting. I mean Courtney started this effort in the Sacramento office and then Jeff Daane, who spoke earlier, he recognized the great work she was doing and then they started to take it to their West Coast offices. And then the next thing you know, they're taking it to all 40 of their offices.

And all of sudden, we promoted individual to out of Western states to go run another one of our businesses. And he's like, Courtney, would you come out and visit my branches? And it's just become this huge flywheel that's created this opportunity for us. And we've never have built out the sales force deep enough. I mean there's always going to be opportunities, specifically if you think about the M&A opportunities that we'll continue to follow along. So it's very exciting for us.

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

A

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Thanks, Russ, and Courtney. Few questions that have come in on M&A, I'm going to consolidate here. Regarding larger transformational M&A, what areas would you be most interested in and why? And as we think about transformational deals, is the multiple that you paid for SK the right way to think about what those would cost from a valuation perspective?

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

A

So I'll start and then I'll turn it over to Martin and Jim. So, I would say that number one focus area would be in Safety Services, specifically in life safety. We really like the space. We see lots of opportunity to continue to build our business in that space. Second would be the elevator and escalator services space. We like the statutory requirements that come with that space. We believe there's an opportunity to potentially build out a platform that would greatly improve the performance of the overarching business is something that's really exciting for us.

Regarding the multiple that we paid for SK Fire when we bought it, we did pay up for that business. It was a low-teens multiple. We felt that it was a strategic opportunity to provide us with a platform for future growth in the European markets. And I'm really excited about those opportunities to continue to grow that business. We really like the leadership team in the company. They've already drank the Kool-Aid as it relates to [ph] our services-first (01:17:29) model. So it's kind of right down the center of the fairway for us and I think it's going to create abundant opportunities for growth for the company in the future. Martin? Jim?

Martin E. Franklin
Co-Chairman, APi Group Corp.

A

I would only add that the larger transactions particularly the ones that provide very good forward platforms are more expensive. And if we're not worried about paying an appropriate price, market price for the right kind of business and businesses particularly that have evergreen recurring natures to them and have very good management organizations that can enhance the management organization within APi Group. So again, this is a long game. It's a marathon not a sprint. So it sounds like we're going to do something irrational and we're very disciplined buyers, but we know what the market is for the larger transactions and some of them are more expensive than others.

Overall, however, we're absolutely certain that we're starting off as they say in life, happiness is a low basis. We're starting from the right starting point where we can create a lot of value for shareholders going forward. But we also think we're going to enhance the value of the overall portfolio by buying and growing businesses that are higher margin and higher recurring evergreen kinds of businesses that are not cyclical. That, I think at the end of the day, will enhance the overall multiple of the company over the long-term and we're driving towards that direction.

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

A

I think the only thing I would add is beyond the multiples and beyond the categories that Russ talked about, we look at the cross-selling opportunities and being a one-stop-shop solution for a building owner. So whether it's their HVAC system or their elevator system or the life safety systems, we see great opportunity in being a provider of all of these services such as defibrillators and adding out the spectrum in the menu of things that we can provide to building owners because we think that creates value on their side of the table as well. It would make us a more preferred partner.

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Martin E. Franklin
Co-Chairman, APi Group Corp.

A

I'd just mentioned one thing about SK and you called it earlier a mini APi and it really is, and the culture of the people we could tell even through COVID, doing these things it zooms at the beginning, were the cultural fit was ideal. But also the opportunity, if you like, buy down the multiple with forward small tuck-ins was very evident; and we're in full swing on that right now. And again over time, if you start with the right base from which to grow, the multiple becomes very modest over a period of time. And I think that's going to be the case with SK.

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

A

Okay. Can you, guys, talk about some of the opportunities in Europe and how you view the strategy compared to the US opportunities?

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

A

Sure. I would say that the strategies are very similar. The European market is really more fragmented than the US market. We think that there's ample opportunities for us to continue to grow the business on the service side. We actually just recently had a strategy session with Ewald and his team discussing what does their business look like through 2025, what are the growth opportunities, what levers can we continue to pull to advance the business; and it's pretty – it's a very, very exciting dialogue.

I flashed the acquisition tracker to the group when I was speaking about M&A. We actually have a separate tracker that we continue to refine [indiscernible] (01:21:35) maybe Ewald continues to refine on our behalf that has a robust list of opportunities for us to continue to pursue there as well.

The European market has a few nuances and some of it is just Jarden-related, talk about passive life safety systems versus active life safety systems. Our focus is on the active life safety component of the space more similar to the US. In some ways, their codes are catching up to the US and Canada. That creates opportunities. But their focus is really on growing the services side both [indiscernible] (01:22:16) and three areas – suppression; sprinkler, which is actually not a huge part of their business; and fire alarm. So there's a clear path to both organic growth as well as opportunities from an M&A perspective.

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

A

Thanks, Russ. Moving on to Specialty Services. Can you discuss in more detail some of the opportunities from infrastructure package?

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

A

Sure. Joe, I'm going to tee you up for this. So if you'd like to – I'll make maybe a couple of introductory remarks, but in Joe's presentation he talked about the bridge over the Hudson River isn't something that we would typically pursue and that's true and that's accurate. There's a number of places that the infrastructure bill could help the business, not just in Specialty Services but also in Safety Services. There's, I believe, $70 billion appropriated for the semiconductor space. We would benefit from that. The investment in healthcare, we would benefit from that. Healthcare is a nice piece of our business. And so there's a number of opportunities outside of Specialty that the business will benefit from. Joe, do you want to talk about on Specialty?

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Joseph T. Walsh
Segment Leader-Specialty Services, APi Group Corp.

A

Sure. So as Russ said, the infrastructure bill, first of all, we need the leadership in DC to do the right thing and see how much of that real money comes down to the market that we play in. Once it gets there, there's going to be some big Hudson River bridges, as an example, [ph] but (01:23:51) in tunnels and major projects that we will not get involved in, but there'll be a lot of service opportunities around those projects, which will allow us to support that, a lot of the utility relocation work, a lot of the support work. So I see a great opportunity as long as that money ends up finding its way down to where it's needed.

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

A

Awesome. Thanks, Joe.

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

A

Joe, while you're up here, another Specialty question. Do you have any exposure to the renewable space within the Specialty Services business?

Joseph T. Walsh
Segment Leader-Specialty Services, APi Group Corp.

A

Yes. We are – a couple of our operating companies are working in that space without putting up the turbines. But again, that's for other people to do and other companies to do. We work in the service area around those turbines, supporting the transmission underground, a duck bank systems, and then working in the distribution systems. So it's a great area. Again, we hope that there is support coming from D.C. on that. It appears that it will be there as part of this new bill. But we really look forward to servicing the larger projects that come out of there.

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

A

Thank you.

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

A

Thanks, Joe.

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

A

One on Industrial. How should we think about Industrial revenue beyond 2021? Is 2021 the low watermark and the business could get back to a growth profile next year?

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

A

I think that's fair. And it takes time when you transition a business more towards, say, the integrity side of the transmission space. You don't turn that ship 180 degrees overnight. And we want to get to a point where the business is growing and growing with the right customers with the right opportunities for us to service those customers. So, yes, I believe 2021 will be the low watermark for Industrial Services.

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

A

Thanks, Russ. Martin and Jim, in what ways will the APi playbook differ from the Jarden playbook. Obviously, they are in different industries, consumer versus industrials, but in what ways will the strategy or execution differ?

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

A

You can start.

Martin E. Franklin
Co-Chairman, APi Group Corp.

A

I love that question. I think there are a lot of similarities. But as I said before, I think the breadth of the market is so much wider here. I don't see the businesses as different as one might think. All of my career, I believe that businesses are simply made up of individuals and people, and the better your people and the better your leadership capabilities of people, the better your business is going to be. We used to say at Jarden, it was a company where brands and people met. And I think that here, it's a place where people and services meet. So there's a real overlap in how we view the businesses. I think that the opportunity here is multiple small add-ons to a company from a hugely fragmented market. And then some large scale opportunities and it's relatively asset light, so I'd say in that way it's a little bit different.

It's a little more – we're not dealing as much with foreign currency. We have a European business, but as a percentage of the overall [indiscernible] (01:27:33) currency fluctuations and foreign loan facilities and things those that we used to deal within Jarden with less of a factor. We don't do business, have operations in places like Asia, which can be more difficult to navigate as a public company. [ph] We've found or what we could find it in Jarden. (01:27:51) We don't have those challenges. It's actually good for us to have a company like this which is very much a North American business. But other than that, very similar.

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

A

So I would agree with Martin that the foundation of any business is the people. But if you go back to when we formed J2 and we raised money and we started looking for a business and we were somewhat industry agnostic, what we did learn at Jarden is you wanted a business – and I don't mean this in any disparaging way – that was Amazon resilient. And what I mean by that is that, there was a protective moat around the business.

And so we took our learnings from Jarden where at one time Walmart have been 16% of our revenue and then you had a bunch of 5% players, you really were somewhat held hostage to the scale of [indiscernible] (01:28:45) customers, here there was a slide that said there's one [indiscernible] (01:28:48) more than 5% of revenue, but I can guarantee you, it wasn't the same person from a year ago who was 5% or the year before that, it was somebody different; and so that creates opportunity. But what really attracted us to APi beyond the leadership team and the cultures and values of the organization is we saw this protective moat that we thought we could build up.

And I said in my prepared remarks earlier, we hadn't expected to be stress tested as a business with COVID-19 and I think this business fared much better than most. I remember back at Jarden, we had talked about we had this visibility curve for the business that everybody believed the rhetoric and then 2007, 2008, 2009 came along and the stock went down because people didn't believe in the visibility curve.

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Here we talked about the resiliency of the protective moat around the business. And granted we didn't expect to be challenged one week after becoming a public company and stress testing it, but now we have the fact pattern behind us. We've got you know our actual track record of results, and so if you compare 2020, where we did I think approximate $380 million of EBITDA versus the prior year where we did I think $392 million of EBITDA, but remember we got rid of two businesses, revenue was off including the businesses we sold by $400 million, margins grew; and so this company really demonstrated its ability to operate in headwinds. And I think we still have a tough comp in Q1 this year. We'll be during earnings release around May 12. But now, we have covered one year behind us, and so hopefully there's opportunity for some tailwinds as we move through the back half of the year.

But I think the fundamental difference is we were stress tested so early that people see our track record of performance. They see what Russ and Tom and all of leadership team did with not taking salaries, cutting salaries, suspending the 401k, freezing hiring and then bringing those expenses back into the business late last year. I think it's really the two fundamental differences. But I also think it creates a stronger foundation from which to grow the business. And people see how we ran the businesses. So as we go out and we do M&A, they're going to see how we've performed not only historically under Russ' leadership, but also during really tough times.

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

A

Thank you. Jim, one of your comments was on the two divestitures and industrials. One question we received, do you see any non-core businesses within APi that could potentially be divested over time?

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

A

In the near term future, and this is really a question for Russ, but I think we've got the platform where we want it. I think the assets we have are the assets we want. As we said at Jarden and as Russ has alluded to here, there isn't one aspect of the business that couldn't be better. And that's not a criticism of the business, but it's – as we raise the bar every year, our expectations get a little bit higher every year. And when we look back five years from now, we're going to be happy of the progress we've made. We've established a new 13% plus adjusted EBITDA margin for 2025. But, Russ, correct me if I'm wrong, but I think we love everybody in the family, you want to hold onto them.

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

A

Yeah. I think that's fair. In my remarks, I've stated that we feel like the pruning is complete at this stage of the game. I want to remind everybody that we will prune regardless of the segment. And if our businesses aren't performing, we are a very proactive leadership team. We are going to make the requisite changes so that we can continue to enhance the profitability and ultimately create greater shareholder value in this business. It doesn't matter if it's in Safety Services, Specialty Services or Industrial Services. So, but as of right now, Jim, fair statement; we feel like we're done pruning.

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

A

Okay. Thanks. One of the items mentioned was our new adjusted EBITDA margin. Can you talk about is that goal for the existing business without any M&A or does that incorporate an assumption on M&A?

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

A

Well, I think it doesn't have an assumption of M&A in it. Strategic M&A is for sure going to be additive to the overarching margin of the business. We have a current margin expansion goal that is right in line with the 13% EBITDA margin by 2025. So we have great confidence that if we didn't do, so to speak, any sort of transformational M&A, that the company could still achieve that margin expansion goal.

Martin E. Franklin
Co-Chairman, APi Group Corp.

A

I would say that based on experience that we had in building Jarden, the M&A is an opportunity to accelerate the timetable to achieve those objectives.

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

A

Agree. That's a good way to put it.

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

A

Thank you. We've got a few questions on slide 61. Maybe we could pull that one up, on the path to 12%. Okay. So first, on this slide regarding M&A, quote $150 million of EBITDA and $1 billion of sales. That is pre-synergy, correct? With synergy, that would imply those businesses should achieve 18% to 20% EBITDA margin, but realistically comparable EBIT margins given the relatively low capital intensity and services. Working backwards, is it fair to assume that this business can approximate 20% EBITDA margins pre-corporate as your mix skews upwards?

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

A

So let me speak to what this box is supposed to mean. Our experience at Jarden and elsewhere is we think that there's $30 million to $50 million of incremental savings, whether it'd be back office, COGS, other saving measures. So if you do $1 billion of acquisitions in the coming years, and let's assume they're at 12% or 13% margin, we think there's an incremental $30 million to $50 million that we can improve the bottom line by.

We're not going to talk about 20% or 18% goals, particular since we just got to 13%. Let's get to 13%, but if you noticed, that slide says 13% percent plus. So the bottom left corner of the slide is really meant to be illustrative that theoretically if you do $1 billion of M&A, you're presumably buying those businesses at or above fleet average margins and we see an incremental $30 million to $50 million of savings coming out of those acquisitions.

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

A

Okay. Thanks, Jim. Next on pricing. Can you talk more about the pricing opportunities? And is the $4 million to $6 million tailwind in EBITDA bridge a net or a gross number?

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

A

Let's go back to slide 61. [indiscernible] (01:36:27)

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

A

Did we lose Tom? You want to talk about pricing, Tom?

Thomas J. Lydon
Chief Financial Officer, APi Group Corp.

A

Yeah. Happy to. With regards to the pricing, that would be really a net number on the pricing. We do believe, as we grow Safety Services, the smaller numbers – the $10,000 and less of our average invoice price – we believe there's upside possibility there in those lower invoice items that we're servicing our clients on to expand, and as well as Courtney is rolling out the national team on sales for inspections making that a consistent look across the country and having it flex with the different marketplaces.

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

A

What I would add to Tom's remarks is that since we've become a public company and reorganized the business in different segments and Jeff has taken on the leadership of the segment as well as Joe with Specialty Services, there's been a greater emphasis put on pricing and making sure that we have the right levels of escalation built into our proposals, our master service agreements and such; and so, there's a real opportunity for us.

When Jeff looks at pricing, he really looks at it from a gross margin basis because cost of labor and the cost of inspectors varies greatly based on geographic region. And so, when we look at our pricing opportunities, we're really trying to make comparisons to the gross margin or what are we getting on an inspection of a similar type of hospital facility in Memphis Tennessee versus Seattle. And that's where that pricing opportunity comes in and will show up in a big way from a gross margin expansion inside the business.

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

A

I was just going to supplement by saying – and again, using Jarden as an example. When you're selling Mr. Coffee and it retails for $29, it's pretty hard to get a price increase. But remember the short duration of these projects; so every time a project ends after 30 days, there's always a pricing opportunity. It may not be a labor rate increase. It may not be a cost of a service. But there's always opportunities to make sure you're matching your costs and charging appropriate amounts, as Russ said, [indiscernible] (01:39:06) focused on a gross margin expansion.

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

A

Okay. Thank you. On the procurement side, can you update us – and the business process transformation project, can you update us on the return profile of the $50 million of spend to structurally improve the business. How much of the way and benefits do you expect to achieve from that and are you on target versus your original projection or do you see more opportunities in areas such as procurement or back office consolidation?

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

A

So I can start and then, Tom, you can supplement my response. So number one, we're going to put a target out there that we can deliver on. And I think that's very important. And for us to share something that's totally unrealistic, wouldn't make any sense for us and you would probably recognize that as we came right out of the

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chute. There's two aspects of the business process transformation where there's an opportunity for us to move to a shared services model, but it also is going to provide us with a really solid foundation as we continue to look to build the company.

And so a lot of that work is must be done in order for us to continue on our journey to being a $4 billion, $5 billion, $6 billion company as we march forward. And that was one of the things that I would say, Martin, Jim, Ian, Ashkan and the Mariposa team recognized right away is that we needed to accelerate that investment to create that foundation and that platform so the business could continue to move forward. So do we think that there's upside in that, in those figures? Yes we do. Tom?

Thomas J. Lydon
Chief Financial Officer, APi Group Corp.
A

I think that's well said, Russ. [ph] I don't know whether I'd (01:41:03) add a whole lot. We're comfortable that we would split what you see on the slide 50-50 between COGS and SG&A. We have national programs in place to-date. But what this is going to allow us to do is go deeper with those national programs to make sure we're consistently taking advantage of those across our whole organization.

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

Okay. Thank you. You've talked a lot about our focus on growing inspection service revenue. Can you please comment on how much of a competitive threat, OEMs, proprietary designs for fire and life Safety Services, which are meant to allow service only by the OEMs themselves are to APi service growth outlook?

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

We think that being a product agnostic is actually an advantage for the company. And we feel that we are better situated to continue to grow the inspection service component of the businesses because of that. So there's real opportunity from a performance. We have one data center customer that continues to struggle with the service capabilities of the large OEMs. And the way we're structured with that small company agility, I think really enhances our ability to service those customers at a level that's completely higher than what they get from potentially from the large OEM. So, being agnostic through some of those products is we think is an advantage for us.

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

Thanks, Russ. Have you seen the HVAC COVID opportunities turn into actionable projects and sales yet or is this an opportunity that is on the horizon but not yet going on?

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

I would say it's a both and when you think about our – the HVAC services piece of our business, it's relatively a small component of our total net revenues if you were to dig a little bit deeper into that. We have seen some opportunities really particularly in the Minneapolis St. Paul market that have already turned into service opportunities for the company, our local business here that provides those services, but we see more future opportunities.

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We have one of the largest companies in the world that's based here in the Twin Cities market and we are currently in the process of retrofitting their corporate facilities because of COVID and their request for additional filtration on the air intake side of their commercial office buildings at their corporate campus. So, we believe that that's going to continue to then get traction with a number of their other facilities. But I do want to point to the fact that it's not a huge piece of our business. It'll probably be a piece of our business that continues to grow into the future. But I see the opportunities as a both end, we have converted some existing facilities and we see more opportunities coming.

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

A

Great. Thanks, Russ. We have time for a couple more questions; one on Specialty. Can you explain your competitive positioning in Specialty Services, including how you compete with large national players, as well as at a local level with smaller players? Is this a locally competed business or does national scale matter?

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

A

Well, I don't want to sound like a broken record, but I believe it's a little bit of both end, and I believe that we see some larger competitors in the space. And I don't want to steal all Joe's thunder, but I think it's those local relationships and your ability to service those customers that truly make a difference. Joe, how would you respond to that question.

Joseph T. Walsh
Segment Leader-Specialty Services, APi Group Corp.

A

Yeah. I agree, Russ. It's a both end. Because we have locations throughout the US and we maintain MSAs or blanket contracts with a lot of the utility companies, we have the ability to service them from the very small projects. As we said earlier, the projects are typically less than $70,000. And we're very nimble and we move very easily with the partner, and we partner very well with the utility companies. So it definitely gives us the ability to compete with the larger players in the market, but at the same time stay very focused on the service opportunities in those markets.

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

A

Joe, would there be an element of your track record from a safety perspective that plays into that?

Joseph T. Walsh
Segment Leader-Specialty Services, APi Group Corp.

A

Yeah. Great point, Russ. Our safety, our EMR, our TRIR, all the numbers that matter, but making sure everybody goes home safe at the end of the day. Our partners, our utility company partners, they care about their people. They care about our people as we do. And it's a very important part of being able to work with those partners, with those utility companies.

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

A

Thanks.

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

A

Thanks, Joe. We will end with one on Safety Services. How should we think about the end market exposures you gave us for Safety Services in the context of the 8% growth forecast for the year? Which end markets are leading growth and which markets are lagging?

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

A

Well, I'll let Jeff respond to that, but I would say that the primary focus is just as we laid it out. Data centers, semiconductor, healthcare, more highly complicated COVID-resilient-type industries that value our services and not award us work because of price, such as retail and hospitality. Jeff, how would you respond to that?

Jeff Daane
Senior Vice President & Segment Leader-Safety Services, APi Group Corp.

A

I think you already did. I think that's perfectly said. I mean the semiconductor industry is going to get a lot of money from the government and we're going to have an opportunity there to take advantage of that. I think, we talked about that a little bit earlier. The distribution, we just spent some time down in Memphis; and the distribution that's going on in the construction industry is unbelievable. So I think, there's just an amazing opportunity there as well.

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

A

Okay. Thank you.

A

That was the last question.

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

Awesome. Thanks Olivia. So on in my closing remarks, I want to start by thanking Olivia. Olivia is our Vice President of Investor Relations. She has really taken the baton in organizing today's event. And Olivia, you did a great job, so thank you for that.

I'd like to thank all 13,000 of our leaders and the men and the women in this company are truly amazing; and they really allowed us to deliver the result that we delivered in 2020. And I'm really excited to move forward with each and every single one of those leaders.

I want to take the opportunity to thank Martin, Jim and the entire Mariposa team. One of the things – I've said this many times that we couldn't have found a better home. And there's a lot of talk about SPACs in the world today. And one of the significant differences with the vehicle that acquired APi is that the founders have rode shotgun with us every step of the way and it matters as we have become a newly minted public company.

I want to thank each of our investors. I want to thank our potential future investors for taking time to join us on the call today. This truly is a great company. And as you get to know us better, I believe that you'll be even more impressed. So thank you for your time and energy and being with us today.

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