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APi Group Corp. (APG)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to APi Group's Third Quarter 2024 Financial Results Conference Call. All participants are now in a listen-only mode until the question-and-answer session. Please note this call is being recorded. I will be standing by, should you need any assistance.

I will now turn the call over to Adam Fee, Vice President of Investor Relations at APi Group. Please go ahead.

Adam Fee

Vice President-Investor Relations, APi Group Corp.

Thank you. Good morning, everyone, and thank you for joining our third quarter 2024 earnings conference call. Joining me on the call today are Russ Becker, our President and CEO; Kevin Krumm, our Executive Vice President and Chief Financial Officer; and Sir Martin Franklin and Jim Lillie, our Board Co-Chairs.

Before we begin, I would like to remind you that certain statements in the company's earnings press release announcement 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 or 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 our press release and 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, October 31, and we undertake no obligation to update any

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forward-looking statements we may make except as required by law. As a reminder, we have posted a presentation detailing our third quarter financial performance on the Investor Relations page of our website. Our comments today will also include non-GAAP financial measures and other key operating metrics. The reconciliation of and other information regarding these items can be found in our press release and presentation.

It is now my pleasure to turn the call over to Russ.

Russell A. Becker

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

Thank you, Adam. Good morning, everyone. Thank you for taking the time to join our call. Before we get into our results, I would like to thank our approximately 29,000 leaders for their dedication to ABi. The safety, health and well-being of each of our teammates is our number one value. While I mention this every quarter, the events of the last few months, including the impact of the hurricanes on our teammates in the Southeast, has given our organizations the opportunity to put that value to practice. I'm happy with the way our teammates stepped up to help each other and the impacted communities in which we operate.

Back in 2021, we detailed our 13%-plus adjusted EBITDA margin target by year-end 2025 as part of our broader 13/60/80 shareholder value creation framework that you can find on slide 5 of our third quarter presentation. In addition to the 13% target, the 60 and 80 financial goals are long-term revenues of 60% from inspection, service and monitoring, and long-term adjusted free cash flow conversion of approximately 80%.

Over the past few years, we have communicated and executed our strategy and its key initiatives intended to achieve these goals, with a specific focus on expanding margins to reach 13% or more in 2025. The team has made excellent progress this year, executing on our margin expansion initiatives, with expected adjusted EBITDA margins up approximately 150 basis points.

This has been accomplished by focusing on the following: first, pricing; second, improved inspection, service and monitoring revenue mix; third, disciplined customer and product selection; fourth, Chubb value capture; fifth, procurement, systems and scale; sixth, accretive M&A and selective business pruning; and finally, as I always like to say, we always have the opportunity to just be better. The team's work over the last few years executing our 13/60/80 strategy has resulted in APi being the strongest it has ever been.

On slide 6, we highlight the progress we have made as a business from 2021 to 2024, with 2024 expected to be a year of record net revenues, profitability and free cash flow generation. The third quarter marked 17 quarters in a row of double-digit organic growth in inspection revenues in US Life Safety. This performance has been a key contributor to our steady progress towards our long-term target of 60% of revenues coming from inspection, service and monitoring. As we prepare to set new and increased financial goals for the next three years in 2025, it is gratifying to reflect on our progress since we first became a publicly traded company in late 2019.

In our first year as a public company, we generated $393 million in adjusted EBITDA. This year, we expect to deliver about $900 million and we have $1 billion of annual adjusted EBITDA closed in our sights. As we prepare to enter 2025, we plan to continue to execute our strategy, accelerate organic growth, increase margins and expand our bolt-on M&A program.

Before Kevin gets into the third quarter results, I wanted to address our disciplined customer and project selection initiative on slide 7, which has been a significant contributor to the improvements we have made towards our 13/60/80 financial targets.

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We are focused on disciplined customers and project selection for some time now and made it a point of emphasis in our planning cycle in early 2023. We challenged our business leaders to evolve away from large, lower margin, higher risk opportunities and focus on allocating our valuable field leaders to the best opportunities to position the business for long-term profitable growth. Our leadership team has done an excellent job executing this strategy and it is positively impacting our financial results, allowing us to deliver adjusted EBITDA margins ahead of our expectations.

We've been consistently setting new records as it relates to margins and cash flow generation as we evolve our business towards higher margin, more recurring service revenues. It is encouraging to note that our backlog is growing and healthy, with work that comes to us with a higher expected margin, lower expected risk and smaller project sizes. This gives us confidence in re-accelerating growth in 2025 and beyond in these businesses. Equally important during this time, APi's underlying core service business has grown steadily as we continue to take market share. More recently, in the second and third quarters of this year, we have faced temporary tiny revenue headwinds due to unexpected timing delays in certain customer projects.

We expect the total impact of these headwinds on our 2024 net revenues to be approximately $150 million, with this impact predominantly driven by the Specialty Services and HVAC businesses. In Specialty Services, the delays were primarily with certain telecom and utility customers and were driven by the following. Higher than expected permitting and engineering delays and slower-than-planned execution of federal rural broadband program. We believe these headwinds are limited to 2024 and primarily related to certain portions of our Specialty Services business.

Our core Life Safety business, which includes our fire protection, electronic security and elevator businesses, and excludes the more project heavy HVAC business has made excellent progress as highlighted on slide 8. Core Life Safety represents over 65% of total APi net revenues, and has consistently demonstrated strong overall organic growth led by high-single-digit organic growth in inspection, service and monitoring revenues. The Life Safety business has a record high backlog of approximately $2 billion, up 5% organically versus prior year and is the healthiest we've seen it.

From 2022 to 2024, adjusted gross profit and EBITDA margins in Life Safety have improved considerably, with adjusted EBITDA margins expanding more than 300 basis points. We expect the flywheel, which is underpinned by our inspection first strategy, driving outsized growth in service revenues will continue to allow the businesses to be more selective on project revenues and drive further margin expansion across the branch network in 2025 and beyond.

Starting in 2025, you will see our core Life Safety businesses more clearly as we have made the decision to realign the HVAC business under our Specialty Services segment. This change will put our HVAC business into a segment with other operating companies that serve similar customers in similar end markets to create synergies and efficiencies, which we highlight on slide 9.

We enter 2025 with a lot of momentum. Organic growth of our inspection, service and monitoring revenue streams and safety services remains strong. Organic growth in backlog and proposal activity is trending positively, providing support for a return to organic growth in project revenues. The international business is nearly finished working through its subpar inherited contracts and branch consolidation plans.

On slide 10, the bolt-on M&A engine continues to accelerate and support future organic growth, with 10 bolt-on acquisitions, excluding Elevated, closed at reasonable multiples through October. We expect this momentum to continue in 2025 and beyond.

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And on slide 11, you can see the long-term benefits which really accelerated through M&A of executing the initiatives behind our 13/60/80 shareholder value creation framework. Our business continues to evolve into a more asset-light, services focused, branch led operating model with an increased mix of recurring, higher margin revenues. During this evolution, our contract loss rate, which measures the dollar loss on projects as a percent of total revenue, dropped from approximately 1.5% in 2019 to less than 0.4% in 2024, reflecting more disciplined customer and project selection and strong execution in the field.

I'm proud of the team's execution of our strategy. We have built a strong foundation, improved the quality of our business and backlog, and expect to return to margin accretive organic growth in 2025. We are well positioned to achieve our 13%-plus adjusted EBITDA margin target in 2025 and set new meaningfully higher targets for the following three years, which we will review during our Investor Day next year.

I would now like to hand the call over to Kevin to discuss our financial results and guidance in more detail. Kevin?

Kevin S. Krumm

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

Thanks, Russ. Good morning, everyone. Reported revenues for the three months ended September 30 increased by 2.4% to $1.83 billion, compared to $1.78 billion in the prior year period, driven by strong organic growth in service revenues up 9% in our Safety Services segment and modest benefits from favorable foreign currency exchange rates and M&A. This was partially offset by a 7.7% organic decline in our Specialty Services segment.

On an organic basis, total company revenues were essentially flat for the quarter. Adjusted gross margin for the three months ended September 30 grew to 31%, representing a 200 basis point increase compared to the prior year period, driven by price increases, outsized growth in higher margin services revenue, margin expansion for both project and service revenues, as well as Chubb value capture savings.

Adjusted EBITDA increased by 9.4% for the three months ended September 30, with adjusted EBITDA margin coming in at 13.4%, representing an 80 basis point increase compared to the prior year period. This was primarily due to the factors impacting gross margin, partially offset by lower fixed cost absorption in our Specialty and HVAC businesses due to lower-than-expected revenues. Adjusted diluted earnings per share for the third quarter was $0.51 per share, representing a $0.03 per share or 6.3% increase compared to the prior year period. The increase was driven primarily by growth in adjusted EBITDA, partially offset by increases in interest expense and adjusted diluted shares outstanding.

I will now discuss our results in more detail for the Safety Services segment. Safety Services reported revenues for the three months ended September 30 increased by 9.7% to $1.34 billion compared to $1.22 billion in the prior year. This quarter, growth was led by the US Life Safety businesses, which posted double-digit organic growth in inspection revenues, as well as double-digit organic growth in broader inspection, service and monitoring revenues. This was partially offset by a low-single-digit organic decline in project revenues, driven by planned customer attrition in our international business and project delays in our HVAC business.

On an organic basis, Safety Services revenues increased by 3.1%. Adjusted gross margin for the three months ended September 30 was 35%, representing record third quarter adjusted gross margin and a 170 basis point increase compared to the prior year adjusted gross margin, driven by price increases, improved business mix of inspection service and monitoring revenue, as well as margin expansion in both our project and services revenues. Adjusted EBITDA increased by 24.3% for the three months ended September 30 and adjusted EBITDA

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margin was 15.7%, representing a record for the third quarter and a 180 basis point increase compared to the prior year period, primarily due to the factors impacting adjusted gross margin.

I will now discuss our results in more detail for our Specialty Services segment. Specialty Services reported revenues for the three months ended September 30 declined by 13.4% or 7.7% on an organic basis to $493 million compared to $569 million in the prior year period, driven by divestitures, and a decline in project and services revenues. The decline in revenue was primarily driven by the exited customer relationship mentioned in the first quarter, higher than expected permitting and engineering delays, as well as slower-than-expected execution of federal rural broadband programs. Our adjusted gross margin for the three months ended September 30 was 20.1%, representing a 40 basis point increase compared to the prior year period, driven by the impacts from our disciplined customer and project selection strategy.

Adjusted EBITDA declined by 19.3% for the three months ended September 30, and adjusted EBITDA margin was 13.6%, representing a 100 basis point decrease compared to the prior year period. This was primarily due to lower fixed cost absorption on lower-than-expected near-term revenues. We continue to focus on driving strong free cash flow conversion improvements year-over-year. For the three months ended September 30, adjusted free cash flow came in at $227 million, reflecting an adjusted free cash flow conversion of 93%.

For the first nine months of the year, adjusted free cash flow was $361 million, with conversion of 56%, representing an improvement of $124 million or slightly over 50% when compared to the first nine months of 2023. Free cash flow generation has been and continues to be a priority across APi, and our performance in the first nine months of the year puts us in a position to increase our full year 2024 cash flow guidance. We now expect to finish the year at or above 75% adjusted free cash flow conversion, which is up from our prior guide of 70%. As a reminder, the fourth quarter is traditionally our strongest free cash flow conversion due to seasonality.

At the end of the third quarter, our net leverage was approximately 2.4 times, below our long-term target of 2.5 times, even as we accelerated margin accretive bolt-on M&A. As we look forward to 2025, we will remain laser focused on cash generation and expect to grow our free cash flow, providing us with significant opportunity for value enhancing capital deployment. Our long-term capital deployment priorities remain maintaining net leverage at stated long-term targets, M&A at attractive multiples and share repurchases where, as a reminder, we have $400 million remaining under our current authorization levels.

I will now discuss our guidance for the full year 2024. We expect full year reported net revenues of approximately $7 billion revised from the low end of our prior guide, which was $7.15 billion. The $150 million reduction in revenue expectations for the year reflects the impacts of the project delays in our Specialty and HVAC businesses discussed earlier in the call. We now expect full year adjusted EBITDA of $890 million to $900 million, representing a narrowing of the prior range on the top and bottom end. This range reflects adjusted EBITDA growth of approximately 13% and 15% on fixed currency basis and adjusted EBITDA margin of 12.8% at the midpoint.

For 2024, we anticipate interest expense to be approximately $145 million, depreciation to be approximately $82 million, capital expenditures to be approximately $90 million and our adjusted effective tax rate to be approximately 23%. We expect our adjusted diluted weighted average share count to be approximately $280 million for the fourth quarter and $279 million for the full year. As we look forward to 2025, we have great confidence in the business and its momentum. We plan to share our outlook early in the New Year and more details about our long-term strategy at our Investor Day, which we expect to host in May in New York.

I'll now turn the call back over to Russ.

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

Thank you, Kevin. We believe we can create sustainable shareholder value by focusing on our 13/60/80 long-term value creation targets with a near-term laser focus on delivering adjusted EBITDA margins of 13% or more in 2025. As we look to 2025 and beyond, we have great confidence in the business, our backlog, our balance sheet and our ability to continue to evolve APi into an even lower CapEx, asset-light business, focused on high margin, statutorily mandated services.

With that, I would now like to turn the call back over to the operator and open the call for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Julian Mitchell with Barclays. Your line is now open.

Kenyon C. Pelletier
Analyst, Barclays Capital, Inc.

Q

Hi, this is Kenyon Pelletier on for Julian. Thanks for taking my question. Maybe to start earlier on the call, you guided to just under $900 million in EBITDA at the midpoint. And you mentioned that you have $1 billion of EBITDA in your sights. Could you provide any color on what the timeline might be to get there?

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

A

Well, Kevin, do you want to take that one?

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

A

Yeah, sure. So our current guide – I can. This is Kevin. Our current guide is $890 million to $900 million, which is down from our prior guide of $885 million to $915 million. Okay. So just to clarify there. The question on the $1 billion, that comment is directed towards the near term, with no specific date or time at this point. It's just the near term benchmark we have internally. And as Russ mentioned, we believe we have the momentum in the business to get there in the near term.

Kenyon C. Pelletier
Analyst, Barclays Capital, Inc.

Q

Okay. Thank you. That's helpful. And then may be as a quick follow-up, I was wondering if you could just talk a bit about the M&A environment and what your current pipeline looks like at present.

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

A

Sure, I will take that. I mean, we have if you recall, last year we shared that we did approximately a $100 million of bolt-on M&A and we said that we were going to move into 2024 and accelerate that. And we feel like we have done a really good job of that and that really excludes the acquisition of Elevated. And our pipeline remains really

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full, we have a number of targets that we're continuing to work on to – through the fourth quarter of this year. And we expect to have similar capacity and momentum as we go into 2025. So it's been really good.

Our corporate development team has done a really nice job and our pipeline is really robust and the opportunities are plentiful.

Kenyon C. Pelletier
Analyst, Barclays Capital, Inc.

Q

Great. Thanks for the color.

Operator: Your next question comes from the line of Stephanie Moore with Jefferies. Your line is open.

Stephanie Moore
Analyst, Jefferies LLC

Q

Hi. Good morning. Thank you. I guess just as a follow-up, I wanted to touch on the project side of your business a little bit. I think you called out some of these permitting and delays last quarter and throughout the quarter. And I think you noted today you think these are limited to 2024 and confidence on full year guide. May be just give us a little bit of color on why you feel confident that these should kind of – these should return that and rebound here by year-end. Thank you.

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

A

Yeah, sure. Stephanie, thank you, and good morning. Well, when you look at the project delays, essentially everything is moving forward. It's just moving forward in a more herky-jerky fashion, if you will. I don't know if that's really actually a proper grammar, but the opportunities are continuing to move forward. Like we cited, we've got a large government utility client that has a significant winterization program that went on pause and the work basically was going to restart in the third quarter. And it has and we have boots on the ground. It's just that the engineering work associated with really kicking off the installation components of it, it's just slower to get moving than was originally expected. And we will see, potentially see that work pull through in the first half of next year.

We have another one of the larger project-related opportunities that I think we shared some color on this. It's a high voltage power distribution, transmission coming down from – in the Northeast and the work has started there as well. But we had originally anticipated having probably five crews going, right now doing duct bank and vault work. And due to some interference issues with existing electrical distribution and natural gas distribution systems that are in the ground, they've got kind of like right-of-way issues that was nobody anticipated. And so they're going through, re-engineering to get those issues resolved, so that the work can ramp-up and move forward.

And some of that stuff is just, you can't plan for it. And it's unfortunate and it's difficult, but all of those opportunities are moving forward. And we cited, again, in our remarks, the increase in our backlog, our backlog is up roughly 5% organically. And that basically moving into 2025 gives us great confidence that we've got good coverage for growth to return to the business. And so as we work our way through some of these short-term temporary challenges, we have great, great confidence in where the business is moving to as we move into the end of the year and really next year.

Stephanie Moore
Analyst, Jefferies LLC

Q

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Got it. So just – and herky-jerky is perfectly fine word, in my opinion. I think that sums it up pretty well. So, effectively what you're saying, really not much it's not that there was any kind of deterioration from 3Q. It was about as you expected, but a lot of this is outside your control. It's just kind of the timing of this, there can be some changes on when things start and the ramp. It's not as if there's anything really that changed since 3Q, although that the ramp is happening maybe a little bit slower, which is really outside your control. Is that fair?

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

A

That's fair. The only place I would say that we've seen any significant pullback would be in the telecom space, and it's pretty, pretty well known that like the federal government's rural broadband program, the way that government is administering that program in delegating and basically delegating the distribution of those funds to the states, and how the states are allocating those dollars to get that program going. It's well known that that's a challenge right now. And so you're seeing like proposal activity remains really strong, but you see delays in the work actually getting started because they're having some of these administrative issues associated with it.

So, that would probably be the only place that you could really point to, where there's maybe some other core underlying issues. But like these other opportunities, the work is moving forward. It's just moving forward slower than anticipated due to unforeseen issues.

Stephanie Moore
Analyst, Jefferies LLC

Q

Got it. And to be greedy here, I do want to switch over real quick to the Specialty Services side . Could you just talk a little bit about the drivers of the margin expansion that you've seen kind of this year and kind of what and drivers that should continue into 2025? Thank you.

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

A

Yeah, I'll start maybe and then Kevin can add may be more detailed color if he would choose. But number one, this inspection first strategy that we've incorporated and we continue to talk about double-digit inspection growth in our core Life Safety business. And that's like our key. And we continue to see really good growth in inspection revenue, which leads to really good service pull through, which is really manifesting itself and we didn't really – I don't know that we really called that out, specifically in our remarks. But we get on average 10% higher gross margins on our inspection, service and monitoring, while even more on our monitoring than we do on our project work. And I think one thing that gets lost in the mix -in the shuffle is that when you have a really robust inspection in service business, that allows you to be even more selective on the project portion of your business. And you get to be more selective and picky with where you're going to deploy those field leaders and your margins go up ultimately on your project work.

So, that would be the first component of it that drives increased margins. And we've grown the mix of our inspection, service and monitoring business to 54% of total revenue now, which is we continue to make progress towards that 60% goal. Then if you look at our international business, they continue to do a really nice job of, number one, pruning poor performing contracts in customers as well as optimizing their branches and improving the performance of their branches. And we've made tremendous strides in eliminating lossmaking branches in our international business. I think when we originally bought Chubb, we had like 47 lossmaking branches and we're down into single-digits now and expect that to be really very, very close to no lossmaking branches by the end of the year.

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I don't know that we'll quite make that, but we're continuing to make significant progress there and all of that stuff is additive to our margins and we're seeing really good progress in the international business. So, you can see like if you look at our contract loss rate, there's a – as that has declined, there's a direct relationship with improved gross margins, which ultimately lead to improved EBITDA margins. And like our team is really doing a great job of being selective in the work that they're choosing, and the programs that they're choosing. So, Kevin, I don't know if you want to add anything.

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

I don't, Russ You highlighted the project execution that we now see in our contract loss rate, the Chubb value capture, which continues to contribute to Safety Services segment and nothing else on my end.

Stephanie Moore
Analyst, Jefferies LLC
Q

Thank you, guys. Appreciate it.

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

Thanks, Stephanie.

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

Thanks, Stephanie.

Operator: Your next question comes from the line of Andy Wittmann with Baird. Your line is now open.

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

Yeah, great. Thanks for taking my question, guys. I guess I just wanted to start off by checking in on the early days of Elevated. Maybe, Russ, you could talk about the level of customer and employee retention that you've seen here so far. If you could talk about any progress you're making on integrating in terms of your ability to cross-sell or maybe even how the company's revenue and margins are coming out compared to the way you expected them to come out?

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

Well, number one, I would tell you that from, say key leader retention and everything else, like we couldn't be happier. We'd like – I think I can honestly tell you that, Andy, that I appreciate the leadership of that business more and more as we continue to get to know them. And we were also starting to look at potential bolt-on M&As, M&A opportunities in that space. And so it's – what that's done, it supported us to spend more time with some of their key leaders and taking advantage of their expertise as we look at some of these other businesses and like there's some really, really – there are some really good people. We lost one leader on that brand, a small piece of our business. But that was – I guess that was more anticipated than anything.

So, we feel really good about where we're at with that – with the business. And I really like the long-term prospects of what we're doing there. Cross-selling, we're just, so to speak, getting started. And like we've had

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some joint sales meetings with them, they have a large hospital client that they brought our national accounts group in a meeting and so we're just really – we're just really scratching the surface as it relates to the cross-selling opportunity. We had by – it's is a great example, we had all of our safety professionals on campuses wait for their annual kind of collaboration and meeting where they're getting together. And we had people from our international business there as well. And our Elevated team was well represented and as we continue to bring our leader development capabilities to them, it's been well-received inside their business. So it's been good.

We expect that business to perform just as we shared when we first announced the acquisition, going all the way back to I guess probably June now. And so, we have seen no reason why the business hasn't. It's not uncommon for some of these acquisitions to have a little dip in their results, in the near-term period after the deal closes, because the team is so focused on trying to get the deal across the finish line. And I think I shared this on the last [audio gap] (00:35:25) when we had a call is that, there's – there was no real surprises with the acquisition. It was kind of a typical private equity kind of owned transaction, where they start the business from a CapEx perspective, they didn't – they weren't invested in the rolling fleet and things like that.

None of that's unexpected, though. You just – you kind of know that going into these transactions when the owner is a private equity firm and we're making the requisite investments in the business. So, I remain super optimistic about the long-term prospects for us building a broader platform in the elevator and escalator space.

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

Q

Great. I wanted to follow-up my next question here, probably with Kevin. And I guess, I want to try to understand the 10 bolt-ons that you've done this year for which you've paid $211 million. I was just wondering, Kevin, if you could just give us the aggregate annual revenue from those, just so we can get a sense of how those are factoring into your outlook and give us a better sense of how meaningful those have been.

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

A

Thanks, Andy. So listen, so you're right. We've done about 10 deals that excludes Elevated and the purchase price has been at or around today, at around $200 million. We don't disclose revenue exactly on all these deals. But I would say just directionally to help you, the average annual revenue on transactions today is going to be north of $100 million.

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

Q

Got it. Okay. And then my final question, Kevin is just on the adjustments between GAAP and your adjusted results, I was just wondering what your outlook is for the convergence of those two numbers. Obviously, there's some things that are just definitional, like you're always going to exclude the intangible amortization on your adjusted EPS and things like that. But for the things like business transformation costs and restructuring, I mean, most of Chubb has been integrated now, but – and the bigger bucket for your adjustments as in the business transformation, is 2025 a cleaner year, where those numbers come down or what other things are you investing in that might cause that to be higher as we move forward?

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

A

Yeah. So we said pretty consistently that the restructuring expense with respect to – so there's you highlighted on the two buckets, the two material buckets, there's some non-service pension and a few other things in there,

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change in consideration for deals we closed really prior to being a public company. But the two big buckets that are in there, that are driving the largest gap at this point, Andy, are the BPT and restructuring. We said restructuring is related to the value capture work we're doing in Chubb, which will largely be done at the end of 2025. And that's still our expectation.

The other bucket of business process transformation, that bucket is really focused on integration work associated with primarily Chubb and now Elevated and other deals we've done. I would expect that bucket to continue as we do larger sort of deals, platform deals and some things like that. But as you look at 2025, absent that, I would expect that bucket, like the restructuring bucket to subside.

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

Q

Thank you very much.

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

A

Thanks, Andy.

Operator: Your next question comes from the line of Kathryn Thompson with Thompson Research. Your line is open.

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

Q

Hi. Thank you for taking my questions today. Just first on the – you've gained great pricing over the years, including in the quarter just reported. But given that inflation is abating somewhat, can you discuss ability to gain pricing in that moderating inflation environment?

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

A

Well, I'll start and then Kevin can add some color to it, Kathryn. Good morning and thank you for joining the call. But we continue to take price, I mean, and in our business especially like if you look at our inspection and service business, which is predominantly labor, you are continuing – in our business, we're continuing to see wage rates increase at reasonable levels, don't get me wrong. I mean, we're not seeing anything crazy happen there. And so, we continue to take price across really the broader portfolio of our business.

So and we see really actually good stickiness in that price. I think earlier in the year, we talked about we had a business in our Specialty Services segment that we struggled to raise our prices and we came to a mutual agreement and walked away from a client relationship and we've actually already started to do work for that customer. We haven't returned to the levels that we had, say in 2023, but we are returning to work and doing executing on different programs for this particular customer at increased prices.

So, we continue to focus on price and take price, and we want to continue to work for clients that value the services and the skills that our field leaders bring to the table. And that's – that's – those are the right customers for us. And that's where the focus has continued to be. So, it's been positive for the business. I don't know, Kevin, do you have anything more to add, just maybe in more detail?

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

A

No. I mean, we've talked about where we're going to consistently take price to drive margin, and that's on the service side of the business. And when you look at it this year, our teams in North America and internationally, I would say internationally where they had some room to run as they came into APi Group and have continued to take pricing on the service side of the business to drive margin. And I think as we go forward here, it's going to be a lever, we're going to be – continue to be able to pull. We've talked about ticket size and some things like that that allows us to do that. And then, of course, the value we bring on site. And so, I think as we go forward here, even then and as inflation could subside, we're going to be able to continue to work our pricing mechanics as we have.

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

Q

Okay, great. That's very helpful. Just wanted to – a little bit, this is – it's earnings season. So you pick up some great nuggets from companies that have already reported, including a large exterior building product distributor that mentioned that their non-res repair model activity is picking up after COVID delays. And it's been better than expected this year, and given APG's services are largely non-discretionary, how does APG fit into that non-res R&R activity that was delayed? There really, what are the opportunities?

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

A

And, good question, Kathryn. I mean, I feel like our business-related activities kind of in a world post-COVID, have essentially returned to normal. So, I'm not quite sure what this other firm is necessarily citing. And our business continues to see really, really ample opportunities and the growth in inspections, I mean, again, double-digits for – in this quarter again. And that just continue, that I'll add is just continued since COVID and really we had a dip when COVID first hit, which when nobody knew what was going on and then it bounced back. And we've just continue to see double-digit inspection growth. And so I guess I'm a little bit of a lost as it relates to what this other company is citing. I don't know. Kevin, can you help me out?

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

A

Well, what I would point to just on general momentum, we added it to the presentation. You can look at our backlog, it's up. Our proposal activity remains robust. We track that. Our proposal activity is up. As Russ hit on inspections, we continue to see double-digit growth there. And in our service portfolio, which would be sort of not statutorily required, but work we're doing on the security side, our service portfolio work is up as well. So we continue to see – and what we look at, we continue to see good momentum across those areas.

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

Q

Yeah. But it seems like from our perspective is it's only a – it can only be a positive thing for APi. Thanks very much for taking my questions today. Good look.

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

A

Thanks, Kathryn.

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Operator: Your next question comes from the line of Andy Kaplowitz with Citigroup. Your line is open.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Good morning, guys.

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

A

Hey, Andy.

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

A

Good morning.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Okay, how are you? So you're still recording 3% organic growth in safety. And if inspection service are growing double-digit, it means your project business is declining. So, I know a lot of the issues with HVAC services and you're going to comp that weakness now and you're moving into specialty anyway. But how should we think about your projects business going forward in safety? Can you get back to, let's say, mid-single-digit growth in the current market? Or is there not enough good work out there for that?

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

A

There's plenty of good work out there. There's plenty of good work out there, Andy. I mean, if you look at our – if number one, we're focused on project selection and customer selection in that business as well. We had a large hospital project in our Asian business that that kind of pushed from the commencing in the first half of the year, into the second half of the year. And that work is now moving forward. We actually recently booked another large hospital project that literally when you're standing in our office in Hong Kong, you can look out the window and look down on the project site.

And we just recently put that project into – I don't think it shows up in our backlog figures as of yet. So, we have a business that's based in the South that – there's a lot of warehouse and distribution work. And that business has been slightly impacted by the high interest rate environment. And as interest rates continue to come down, we expect to see that business take off and really have a positive impact. It's a highly profitable business, but their revenue is down some, and then you cited some of the general pruning from a project selection perspective that we've had in the HVAC business. But I think I said it in my remarks that the backlog in our North American safety business or in our Safety business is at $2 billion and it's the highest it's ever been.

So, we have really good visibility into what this next year is going to look like and we're really optimistic and it's positive.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Got it, no, that's helpful. And then, Russ, I know obviously you don't want to give out those new three-year targets on margin, but you're already delivering over 13% over the last couple of quarters. I know it's a seasonal

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business. So, but still, I guess inspection services are much higher, project margins. As you look forward, what stops you from delivering sort of mid- to high-teens or at least how do you think about what you could be telling us next year?

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

A

Well, come to our Investor Day in May and then we'll share our targets with you. But I mean, directionally, you're correct. I mean, we're not saying that we're done when we get to 13%. And just like anything, when you set a goal and you set a target, the first thing you need to do is deliver on that target. And we haven't done that yet, and we expect we will do that in 2025. We will be within a stone's throw. If you look at the guidance that we provided, as we finish out this year, so we've made a really, I think, fantastic progress in expanding our margins. And there's – we're not going to stop. So again, when we get to 13%, we're not going to stop. There continues to be upside for us and we're going to share that next May. And we're doing a lot of work right now on, call it, 2025 and beyond. And what does that look like? Not just margin expansion, but where can we go from a revenue perspective and what are the growth opportunities in the business?

And we feel just really, really good about the long-term prospects and the viability of where we're taking the business.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Got it. And just one more quick one from me like backlog, I know you don't love to talk about backlog, Russ, but is it still growing sequentially? And if you think about sort of core markets, whether it's been data centers or semiconductor, LNG, whatever it is, like, generally, are those markets still giving you more opportunities? Has there been any delays in some of those bigger markets? And how do you think about that?

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

A

Yeah. I mean, so, yes, our backlog continues to grow and it continues and when we talk about it growing, it's healthier. And I think that's a really important component for folks that are joining the call today to take away is that yes, it's growing and it's much more healthy than it was, say, 12 months ago or 24 months ago. And so, it's very positive. Our core end markets, I mean, you don't even need to talk about data centers. I mean, the data center market is so hot and there's so many opportunities, in the space. We still see good opportunities in the semiconductor space. Healthcare continues to remain positive. The infrastructure space, critical infrastructure remains, there continues to rip down and have a lot of opportunities in that sector as well.

Probably the place and I think when Stephanie from Jefferies was asking a question and I cited the only place that we've seen any sort of kind of pullback from some of – is in the telecom space. And a lot of that has to do with the administrative issues that the federal government has. And administering the funds with the rural broadband program, BEAM, I think is what the acronym is. And that's really the only place where we've seen any sort of true difficulty, if you will. But our backlog is super strong.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Helpful. Thank you.

Operator: Your next question comes from the line of Josh Chan with UBS. Your line is open.

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Joshua K. Chan
Analyst, UBS Securities LLC

Q

Hi. Good morning, Russ, and Kevin, thanks for taking my question.

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

A

Good morning.

Joshua K. Chan
Analyst, UBS Securities LLC

Q

When you talk about accelerating organic growth in 2025, is the primary driver there the absence of the project delays that you're seeing today? And I guess could you talk about kind of the composition between service and project and whether both can kind of grow in 2025? Thank you.

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

A

Well, Kevin, why don't you – you want to grab this one?

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

A

Yeah. Yeah. Yeah. So as we think about 2025, going into 2025, obviously with strong backlog and the activity that I referenced earlier in the call, we feel like it's going to – we believe it's going to be more of a – what I'd say is a normal year, Josh. And so, as we look at the project side of the business, we'd expect that to perform in that low- to mid-single-digits and service which is held up this year at that mid-to high-single-digits that would be our expectation as we go through 2025 as well. Now, there'll be a ramp up period in the first half of the year, but in general, we see 2025 setting up as that normal year with projects low to mid and service mid to high.

Joshua K. Chan
Analyst, UBS Securities LLC

Q

Yeah, okay.

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

A

That's on an organic basis. Yeah.

Joshua K. Chan
Analyst, UBS Securities LLC

Q

Okay. Organic basis, okay, yeah. Thank you. And then on your three-year targets, obviously , you guys have done a great job expanding margins and likely to reach your existing target, kind of going forward, will there be a kind of an organic growth component to the next round of targets as well? Just curious how you're thinking about what metrics are important. Thank you.

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

A

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Well, for sure. I mean, like there is – for sure, there is an element of organic growth in like this long-term planning that I talked about 2025 and beyond. Organic growth is a component of that. I guess, Josh, I guess we haven't really thought our way through exactly how – I think it's good feedback for us and something for us to think about as we start to establish some of these targets and goals. And what we share with folks like yourself, as we go forward. But there's no question that organic growth is part of the algorithm as we think about what does the business look like in 2025 and beyond or like through 2028, we think about it from an organic growth. We think about it from a bolt-on M&A perspective. We think about it from a transformational M&A and what does a business look like, and how much of that is service, and is there another leg under the stool, and all of those things come into play as we think about 2025 and beyond.

So, yes, organic growth is a component of that. We understand the importance of organic growth and the health of our business. And we'll have to think about how we establish and publish from a target perspective. So I don't know, Kevin, you got any thoughts on that?

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

Nothing to add, Russ.

Joshua K. Chan
Analyst, UBS Securities LLC
Q

Great. Yeah, thank you both for the color and the time. Appreciate that.

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

Thank you, Josh.

Operator: Your next question comes from the line of Jon Tanwanteng with CJS Securities. Your line is open.

Jon Tanwanteng
Analyst, CJS Securities, Inc.
Q

Hi. Good morning, guys. I was just wondering if you could give us a little more color on the M&A pipeline and kind of the timing and size of opportunities there. Do you expect some of these to close earlier in 2025 or maybe late in 2024? And maybe that has an effect on the accretion for the year or is it more spread out or is it more back half weighted? Just help me understand what you're looking at in your pipeline today.

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

Well, the reality of it is, is when you think about bolt-on M&A, Jon, we want that to happen consistently throughout the year. And not – and the reality of it is that, we don't have like – I'm talking specifically bolt-on M&A now. Most of these sellers sell their business one time. And that's it. And so, sometimes and they don't have usually a lot of resources. And so sometimes transactions move relatively quickly, sometimes they move relatively slowly. And some of it's based on, do they have the resources? Can they pull in the information together that we need, et cetera. And so you don't have a 100% control about the timing of some of these transactions. But the goal is to have them happen consistently throughout the year so that you're balancing your workload. We're not killing our team and our people or getting their work done, and we just – it's kind of like, you just like clicking away and clicking away and clicking away and clicking away. And you continue to do some transactions.

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So, we expect to get – have some deal activity, get completed up here. Yet in the fourth quarter, and we'll continue and we'll just continue right – pushing right through into next year. Now, the next Elevated when that comes along, we're always kind of digging in and looking at the next opportunity and doing a little bit of work and there's some – there's always something going on. And it doesn't mean, though, that we're going to move forward. We are very disciplined in how we value these businesses and whether the business is the right fit for us. And so, it's – whether we have one happen, yet this year, I would say probably, probably doubtful.

I suspect anything's possible, but it's probably doubtful. And most likely there'll be – it would be something – well, if something were to happen, it would happen in 2025.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Q

Got it. And to follow on an earlier question, are you expecting to provide something like an inorganic growth target or aspiration or perhaps a target for capital deployment towards M&A at your Investor Day?

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

A

Again, I don't know that we've worked our way through exactly what we're going to publish in target. But bolt-on M&A is part of our playbook. And we've always been an acquisitive company and it's really a big part of our DNA in who we are. And so it will be part of the playbook. There's always going to be an element of hesitation about saying we're going to do X amount of M&A a year, because if it's not the right – if it's not the right opportunity for us, then we need to be disciplined and we need to not do it. And I don't want to get into a situation where we're doing deals just to do deals that would not be good for our shareholders for the long-term. So, it'll be part of our playbook. It will be part of our planning, it will be part of how we're thinking about what the business looks like long-term and in the future. But I would – I would be reticent say we're going to do X amount of M&A each year, just I don't know if that would make much sense.

Operator: That concludes our Q&A session. I will now turn the conference back over to Russ for the closing remarks.

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

Thank you. In closing, I would like to thank all of our team members for their continued support and dedication to our business. I'm truly grateful for what each one of you do on a daily basis. I would also like to thank our long-term shareholders, as well as those that have recently joined us for their support. We appreciate your ownership of APi and we look forward to updating you on our progress throughout the remainder of the year. Thank you, everybody. Appreciate your time this morning.

Operator: Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.

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