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APi Group Corp. (APG)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to APi Group's Second Quarter 2025 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 second quarter 2025 earnings conference call. Joining me on the call today are Russ Becker, our President and CEO; David Jackola, 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, 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 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, July 31, and we undertake no obligation to update any forward-looking statements we may make except as required by law. As a reminder, we have posted a presentation detailing our second quarter financial performance on the Investor Relations page on our website. Our comments today will include non-GAAP financial measures and other key operating metrics. A reconciliation of and other information regarding these items can be found in our press release and our presentation.

It's 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 this morning. Before we get into our record second quarter results, I wanted to thank our 29,000 leaders for their hard work and dedication to APi. The safety, health and well-being of each of our leaders remains our number one value. When I say safety, I don't just mean job site safety, we owe it to every one of our teammates to create an environment that's safe for them to do their job, not just physically, but also mentally and emotionally.

At APi, we believe that culture drives results. We included a slide in our earnings presentation that highlights our culture and our investment in people as human beings, a key ingredient in our progress to becoming a \$7 billion, 13% adjusted EBITDA margin company in 2025. It also includes two opportunities to learn more about our culture, which is centered on our purpose of Building Great Leaders. I encourage you to take advantage of these if you haven't done so already.

I also wanted to spend a minute on one of our foundational beliefs, The Care Factor. To win and achieve our new long-term financial targets, we need to care about and invest in our APi teammates as human beings. A couple of months ago, at our Investor Day, we announced the start of The Care Factor Fund, an initiative designed to support APi team members and their children in offsetting the expense of unexpected mental health treatment. This is something that is important to both me and our Board of Directors, and I'd like to thank our team members for their generosity in contributing to the fund. I'm happy to share that we have approved the first grant from the fund to one of our teammates. This is just one small way we show our teammates that the APi family cares during an important time of need.

Over the last several years, our team has remained relentlessly focused on our long term 13/60/80 value creation targets we created in 2022. With our 13% or more adjusted EBITDA margin targets in our sites for 2025, we are shifting our focus to the new 10/16/60+ shareholder value creation framework we introduced in May at our Investor Day. As a reminder, these targets are the following: \$10 billion plus in net revenues by 2028, supported by consistent mid-single digit organic growth; 16% plus adjusted EBITDA margin by 2028; 60%-plus of our revenues from inspection, service and monitoring over the long term; and \$3 billion plus of cumulative adjusted free cash flow through 2028.

Our leaders rallied behind our 13/60/80 targets to deliver on our commitments, and they have done the same with respect to these new targets. We have clear plans for how we intend to deliver on our 10/16/60+ targets. Fortunately, we don't need to reinvent the wheel. The main initiatives that enabled us to achieve our 13/60/80 targets will also enable us to hit our new 10/16/60+ targets. These initiatives are pricing, improved inspection, service and monitoring revenue mix, disciplined customer and project selection, procurement, systems and scale, accretive M&A and selective business pruning. And as I like to say, we can always just be better. We will augment these initiatives with our continued focus on building great leaders and the technology necessary to support our growth.

Now turning to our record second quarter results, the business continued to accelerate its momentum, delivering strong top line growth, while expanding margins. Some highlights include the following: consistent margin expansion in Safety Services; a growing inspection, service and monitoring business; a return to organic growth in Specialty Services; record backlog in both segments; and finally, an acceleration of accretive bolt-on M&A activity, all of which I will detail shortly.

For the quarter, net revenues increased by 15%, up over 8% organically, with strong growth across both segments. In our Safety Services segment, revenues grew organically in line with expectations by approximately 6%, while delivering 80 basis points of segment earnings margin expansion. Within Safety Services, we delivered strong organic growth across the North American Safety business. Importantly, and in line with our strategic initiatives, the North American Safety business achieved double-digit inspection growth for the 20th straight quarter.

The international business delivered another solid quarter of organic growth, along with high-single digit order growth, as that business continues to build momentum under APi's ownership. As expected, Specialty Services returned to growth in the second quarter, delivering 13.3% organic growth, as steady increases in backlog dating back to 2024 was converted to revenue growth.

The momentum across the business is significant, with our record backlog eclipsing \$4 billion for the first time in APi history. Importantly, the double-digit organic growth in backlog includes contributions from our cross-sell efforts, focuses on our target end markets and is healthy from a disciplined customer and project selection perspective.

Our continued focus on our margin improvement initiatives allowed APi to deliver year-over-year improvements in adjusted EBITDA margin in the second quarter, with a 30 basis point increase versus last year. Our continued strong free cash flow generation and balance sheet provide us with flexibility to pursue value-enhancing capital deployment alternatives.

In the second quarter, we accelerated our M&A activity, completing six acquisitions, including our second elevator business. We have now closed seven acquisitions year-to-date and we have several more opportunities under letter of intent. We remain on track to deploy approximately \$250 million in accretive bolt-on M&A at attractive multiples this year. We also undertook some selective pruning of a small business in our Specialty segment that was not accretive to our new 10/16/60+ financial targets, which is the lens we'll use to continue to evaluate businesses in both segments going forward.

In summary, we moved to the second half of 2025 with great momentum. Our inspection, service and monitoring business continues to expand. Our backlog is at a record high. Our balance sheet remains strong, and we are confident in our leaders' ability to execute our strategy and deliver against our 2025 plan.

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

Glenn David Jackola

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

Thanks, Russ, and good morning everyone. Reported revenues for the three months ended June 30 were \$2 billion, a 15% increase compared to \$1.73 billion in the prior-year period. Organic growth of 8.3% was driven by strong project revenue growth, pricing improvements, and continued growth in inspection, service and monitoring revenues. Adjusted gross margin for the three months ended June 30 was 31.2%, representing a 50 basis point

decrease compared to the prior-year period, driven by mix, partially offset by pricing improvements across the business.

Adjusted EBITDA increased by 17.7% for the three months ended June 30, with adjusted EBITDA margin coming in at 13.7%, representing a 30 basis point increase compared to the prior-year period. Growth in adjusted EBITDA was driven by an increase in adjusted gross profit. Adjusted diluted earnings per share for the second quarter was \$0.39, representing a \$0.06 increase or 18.2% compared to the prior-year period, primarily driven by strong adjusted EBITDA growth.

I will now discuss our results in more detail for Safety Services. Safety Services reported revenues for the three months ended June 30 increased by 15.8% to \$1.36 billion compared to \$1.18 billion in the prior-year period. Organic growth of 5.6% was driven by pricing improvements and strong growth in both service and project revenues. Our North America Safety business continued its momentum with double-digit inspection revenue growth. Adjusted gross margin for the three months ended June 30 was 37.2%, representing a 70 basis point increase compared to the prior-year period, driven by disciplined customer and project selection and pricing improvements leading to margin expansion in both service and project revenues.

Segment earnings increased by 22.1% for the three months ended June 30, and segment earnings margin was 17%, representing an 80 basis point increase compared to the prior-year period, primarily to the increase in adjusted gross margin.

I will now discuss our results in more detail for Specialty Services. Specialty Services reported organic revenues for the three months ended June 30 grew 13.3% to \$629 million compared to \$555 million in the prior-year period, driven by strong project revenue growth. Adjusted gross margin for the three months ended June 30 was 18.1%, representing a 350 basis point decrease compared to the prior-year period, driven by increased project starts, rising material costs and weather. Segment earnings decreased 2.7% for the three months ended June 30, and segment earnings margin was 11.3%, representing a 190 basis point decrease compared to the prior-year period, primarily due to the decrease in adjusted gross margins, partially offset by favorable fixed cost absorption.

Turning to cash flow, for the first six months of the year, adjusted free cash flow was \$186 million, reflecting an improvement of \$52 million versus the prior-year period and an adjusted free cash flow conversion of 40%. Free cash flow generation has been and continues to be a priority across APi and we are pleased with our strong performance in the first half of the year as the business accelerates revenue growth.

During the second quarter, we increased our revolving credit facility from \$500 million to \$750 million and extended its maturity to 2030. At the end of the quarter, our net debt to adjusted EBITDA ratio was approximately 2.2 times. As a reminder, the back half of the calendar year is seasonally stronger from a free cash flow generation perspective. We expect that trend to continue this year, providing us with significant opportunities for continued value-enhancing capital deployment, leveraging our strong balance sheet.

I will now discuss our guidance for the third quarter and full-year 2025, which as a reminder is based on current foreign currency exchange rates. We expect increased full year net revenues of \$7.65 billion to \$7.85 billion, up from \$7.4 billion to \$7.6 billion, representing organic growth in net revenues of 4% to 7% for the year. Moving down the P&L, we expect increased full year adjusted EBITDA of \$1.005 billion to \$1.045 billion, up from \$985 million to \$1.035 billion, representing adjusted EBITDA growth of approximately 15% at the midpoint.

Our increased full year revenue and EBITDA guidance is driven by updates to our business outlook, including the impact of post M&A during the quarter, our second quarter over-deliveries and our latest outlook for the rest of the year. Based on most recent rates, the impact of foreign currency is immaterial to our change in guidance.

In terms of the third quarter, we expect reported net revenues of \$1.985 billion to \$2.035 billion. This guidance represents reported net revenue growth of approximately 9% to 11% and organic revenue growth of 5% to 7%. We expect Q3 adjusted EBITDA of \$270 million to \$280 million, which represents adjusted EBITDA growth of approximately 9% to 13% on a fixed currency basis.

For 2025, we anticipate interest expense to be approximately \$145 million, depreciation to be approximately \$90 million, capital expenditures to be approximately \$100 million, and our adjusted effective tax rate to be approximately 23%. We expect our adjusted diluted weighted average share count for the year to be approximately 424 million, reflecting the completion of our three-for-two stock split on June 30.

We continue to expect adjusted corporate expenses to be between \$30 million to \$35 million per quarter, with some timing variability throughout the year. Overall, we are pleased with the team's execution of our strategy in an evolving macroeconomic environment during the second quarter and first half of 2025. I look forward to sharing more updates on our progress throughout the year.

I will now turn the call back over to Russ.

Russell A. Becker

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

Thanks, David. We entered the second half of 2025 with continued positive momentum across our global business platform. We continue to accelerate organic growth while expanding adjusted EBITDA margins, growing our recurring inspection, service and monitoring business, building on our record backlog and improving our free cash flow generation. We believe our proven operating model built on an inspection and service-first strategy, purpose-driven leadership and a disciplined approach to capital allocation positions APi for sustained organic growth, margin expansion and value-accretive M&A. We are confident in our leaders' ability to execute our strategy and deliver against our new 10/16/60+ long-term financial targets, creating value for all our stakeholders.

With that, I would now like to turn the call 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] And your first question comes from the line of Tim Mulrooney of William Blair. Please go ahead.

Tim Mulrooney

Analyst, William Blair & Co. LLC

Russ, David, good morning.

Q

Russell A. Becker

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

Hey, Tim, how are you?

A

Tim Mulrooney

Analyst, William Blair & Co. LLC

Doing well. Thank you. So two quick ones for me. On the second quarter, the revenue in your second quarter was, well, it was more than \$60 million above the high end of the guidance range that you provided for the second quarter. Just curious what business or businesses outperformed your own internal expectations in the quarter?

Q

Glenn David Jackola

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

Yeah. Hey, Tim, I'm happy to take that one. So, breaking down the quarter, I'd say our inspection, service and monitoring businesses performed largely as expected. We saw really strong contract and project activity across both of the segments during the second quarter. And we did see a little bit of an impact from rising material costs in the pull-forward of materials in the quarter that took us over the top end of the range.

A

Tim Mulrooney

Analyst, William Blair & Co. LLC

Okay. Yeah. Thanks, David. And following up on that, in your Specialty business, obviously, revenue looked great, but the gross margins, 350 basis point decline. How much of that was due to rising material costs? So I know you have pricing escalators and other things, but curious how much of that was maybe project specific or specifically on the rising raw material costs? And do you expect that gross margin pressure in Specialty to carry into the back half of the year, particularly as some of these tariffs potentially start to hit on things like copper? Thank you.

Q

Glenn David Jackola

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

Yeah. Great question again, Tim. So, when we think about our Specialty margins in the second quarter, they were down year-over-year really driven by increased project starts and the front end of a project that tends to be more material-driven, which is lower margin. And as you work your way through a quarter or a project, you typically start working your margin up. Rising material costs and the impact of weather did play a role on our margins in the quarter. And I don't know if we can quantify the precise amount. What I would say about margins on the Specialty segment is we do expect them to improve sequentially as we work our way throughout the year.

A

Tim Mulrooney

Analyst, William Blair & Co. LLC

Got it. Thanks so much.

Q

Operator: Next question comes from the line of Andy Wittmann of Baird. Please go ahead.

Andrew John Wittmann

Analyst, Robert W. Baird & Co., Inc.

Yeah. Great. Thank you. I think, David, you addressed this question a little bit in your prepared remarks, but I just wanted to drill into the guidance a little bit more. I'm looking at the increase here. Obviously, the revenue here in the quarter above expectations, very good. A little bit of incremental M&A helps your guidance as well. So I'm just trying to see if the forward outlook for the base businesses is changed or unchanged. I heard pull-forward mentioned in the previous answer to the question. So I'm just trying to get my arms around, have things improved from your outlook for the balance of the year or not on an organic basis?

Q

Glenn David Jackola

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

Yeah. Hey, good morning, Andy. Thanks for the question. [indiscernible] (00:32:03) big high level round numbers, you can think of our EBITDA raise as a third of it driven by our Q2 over-delivery, maybe a third of it due to M&A in the quarter and maybe a third of it due an increase or improvement in our second half business outlook.

A

Andrew John Wittmann

Analyst, Robert W. Baird & Co., Inc.

Okay. That's helpful. And then just as it relates to, I guess, capital deployment, I heard kind of the comments about you've got a number of – under LOI, still targeting \$250 million. And you're kind of well over \$100 million here this year. You're on track at least. Does it feel like the M&A capital deployment, Russ, has the potential to be maybe above that, given where you sit today with what's under contract and heading forward?

Q

Russell A. Becker

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

I would say – hey, Andy, good morning, by the way, and welcome back. I would say that the potential is there. M&A is kind of like no different than just one project and customer selection. We need to continue to be disciplined in the companies and the businesses that we invite to join the APi family. So I would say the pipeline is robust. I would say the potential is there for us to over-deliver on the \$250 million kind of commitment, if you will. But in the same breath, we're going to be really disciplined. And so, if it's \$250 million, it's \$250 million, if it's \$235 million, it's \$235 million, and if it's \$290 million it's \$290 million.

A

Andrew John Wittmann

Analyst, Robert W. Baird & Co., Inc.

Yeah. Okay. That's all I have for today. Thank you.

Q

Russell A. Becker

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

Thanks, Andy.

A

Operator: Your next question comes from the line of Julian Mitchell of Barclays. Please go ahead.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. I think, first off, just wanted to try and understand the Safety business. Are we expecting that kind of 6%-ish organic growth in the back half as well, pretty steady sort of run rate now? And maybe flesh out a little bit more how satisfied you are with your elevator market share and sort of top line push efforts, please?

Glenn David Jackola

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

A

Sure. Hey, I'll take the first part, Julian, and maybe I'll hand the second part on elevators over to Russ. So I'd say our outlook for the Safety Service segment in the back half of the year is really consistent with where we've had it for the year-to-date. We continue to target mid- to upper-single digit revenue growth in the Service side of the business, low- to mid-single digit on the project to get to that mid-single digit, 5% to 6% revenue growth in the back half of the year.

Russell A. Becker

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

A

And Julian, just to add a little bit of color on the elevator business, I'll talk about the existing business that we acquired about this time last year, Elevated, that business is really performing as expected. They're showing kind of mid- to upper-single digit organic growth, and the performance of that business is really as expected. The new acquisition that we just made is really a, what we're calling a tweener. I know that's just a really good use of vocabulary, but it's kind of – it's not necessarily a bolt-on, but it's not the size of Elevated either. But it's a really good company and it positions us in the Northeast that we think will be super-additive to our business.

We have a number of additional opportunities that we're continuing to do some work on from a bolt-on perspective. So we remain super optimistic, but we've got a long ways to go to building out this billion-dollar elevator and escalator platform that we stated that we believe we have the potential to do. So, we're just getting going. But I'm really optimistic and really excited about the direction that we're headed and the opportunities there in front of us.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

That's helpful. Thank you. And then, I just wanted to follow up on the acquisition front. And clearly you've made good progress already this year. Sorry if I missed it, but would you mind sort of fleshing out the profile sort of in aggregate of the acquisitions that have been announced and/or closed in terms of sort of aggregate organic growth rate, any sort of margin profile, how much EBITDA dollars are dialed into the guide now from acquisitions that have closed in the last 12 months or expected to close this year?

Russell A. Becker

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

A

Well, David can talk about the numbers, but I'll talk to you a little bit about the profile of the deals. Obviously, one of them is an elevator company. And that's kind of because we said that. And then five of the seven are in our North American Safety business in the fire and security space. And one of the businesses was a very, very profitable HVAC service business that was a bolt-on to one of our existing companies. And every one of these acquisitions is accretive. They're either at fleet average or better. So they're all accretive to really our long term results.

Regarding what's included in the guide, I think David already said it was about a third of our increased guidance was through M&A. I don't know if you have any specific numbers you want to share?

Glenn David Jackola

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

A

[indiscernible] (00:38:00) over the course of the year, from Q1 to the end of Q4, we expect M&A to contribute north of \$200 million of revenue in the business.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

Russell A. Becker

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

A

Thanks, Julian.

Operator: Your next question comes from the line of Ashish Sabadra of RBC Capital Markets. Please go ahead.

David Paige

Analyst, RBC Capital Markets LLC

Q

Hi, good morning. This is David Paige on for Ashish. Thanks for taking our questions. I was wondering if you could give an update on the international business, Chubb, just how that performed in the quarter and how you're looking at it for the rest of the year. Thank you.

Russell A. Becker

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

A

Well, we are like super fired-up about the business and where that business is performing. It showed organic growth again in the quarter. I think that business has grown now organically every quarter since we've owned it. We shared a data point in I think my prepared remarks about we saw high-single digit order growth in the business, which really speaks to the health of their inspection and service business. So we continue to see really good momentum in our international business. And we still have some work to do, they're still optimizing. We have an integration going on in Benelux that's fairly significant that got great leadership handling. We're still continuing to do some work in our monitoring centers to optimize those. But like business as usual there, and I would tell you that they're doing a great job.

David Paige

Analyst, RBC Capital Markets LLC

Q

Thank you.

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

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Q

Hi. Good morning, guys. Thank you for taking my questions. Nice quarter and nice to see the progress on the M&A front. I was wondering if could drill down on the Elevated acquisition that you did. If I recall correctly, Elevated itself had a very high EBITDA margin compared to your corporate average. And I'm wondering if the business that you acquired was similar to that or if it was more closer to your corporate average and you think you can maybe get closer to what Elevated does over time?

Russell A. Becker

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

A

I would say, it's kind of funny because we were joking around about this as we were getting prepped that it's really closer to fleet average. Obviously we think that the potential for the business to get to, so to speak, the profile where Elevated is, is there. But we feel that way with actually every one of our businesses, it's no different than how we're looking at our life safety and security businesses. We're the kind of the new normal from a brand perspective is 20%. And that's where we're pushing all of our businesses. So – but at the time of the acquisition, it's really on par with fleet average and there was the potential to go and improve.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Q

Okay, great. Thank you. And then I noticed that the seven acquisitions you did, I don't believe any one of them was international. I was wondering if you could speak to the opportunity there, the opportunity set that you're seeing, if any of the LOIs that you mentioned previously are in the international space and what we can expect there going forward?

Russell A. Becker

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

A

So we do have one small business under LOI in our international business as we sit here. And our team is doing diligence on that company as we speak. So, there is no question that we've opened the aperture up to the international business. I would say that it's on a country by country basis, just like it is for us in North America on a company by company basis. In the international business, the country has to be able to kind of accept and integrate that business. And not every one of our businesses internationally is progressed to the point where we feel like they're ready for a bolt-on. But a number of them are. And we're certainly doing work and looking at a number of opportunities. But we do have one small business under LOI in the international business.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Q

Got it. Thanks, Russ.

Russell A. Becker

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

A

Thank you.

Operator: Next question comes from the line of Jasper Bibb of Truist Securities. Please go ahead.

Jasper Bibb

Analyst, Truist Securities, Inc.

Q

Hey, good morning, everyone. Wanted to ask a two-parter about Specialty projects. Just hoping you could provide a bit more detail on the new business pipeline there. And then also, how your project selection initiatives might

impact the margins for that business once you get through the ramp-up phase you talked about on some of these new wins?

Russell A. Becker

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

A

Well, I would say that the new pipeline backlog is really solid. I mean, in our prepared remarks, we stated that our backlog eclipsed \$4 billion for the first time. And that's really kind of distributed across all aspects of our business. And I would say all aspects of our business are at record levels. So it's very, very good and it's very, very, very healthy.

So we feel good about where we're at. David mentioned that we expect to see sequential growth in gross margins as we work our way through the back half of the year. And that's the expectation that we have on the business and we think that the margins in our backlog are strong.

Jasper Bibb

Analyst, Truist Securities, Inc.

Q

Got it. And then Specialty really surprised this quarter, but I guess wondering how we should think about the composition of segment organic revenue growth and margins in your third quarter outlook?

Glenn David Jackola

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

A

Yeah. I can give you some color on that, Jasper. So I expect in the third quarter, I think we answered a question earlier on the Safety business, mid-single digit organic revenue growth in the third quarter there. I expect high-single digit organic revenue growth in the Specialty business in the third quarter.

Jasper Bibb

Analyst, Truist Securities, Inc.

Q

Okay. Got it. Thank you for taking the questions.

Operator: Your next question comes from the line of Andy Kaplowitz of Citi. Your line is now open.

Andrew John Wittmann

Analyst, Robert W. Baird & Co., Inc.

Q

Hey, good morning, everyone.

Russell A. Becker

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

A

Hey, Andy. Are you can ask us seven questions in one question?

Andrew John Wittmann

Analyst, Robert W. Baird & Co., Inc.

Q

I'll try not to Russ. I just wanted to ask you about Specialty in one sense. You've been focused on sort of higher-margin projects, sort of getting rid of the loss-leading projects. How would you sort of assess that progress here? Like, is any of that impacting the quarter or is it more just, as you talked about sort of materials and mix?

Russell A. Becker

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

A

Yeah. I mean, Andy, as you know, business isn't linear and not everything necessarily flushes itself out in a perfectly straight line. And if you look at like our Q2 of last year, we had a number of projects coming to completion. And you typically have gross margin improvement as your projects finish. And we have, so to speak, more project starts going on right now. And typically that's at a lower gross margin. And so, and then you factor in, you have a little bit of cost inflation, we have some weather impacts and all that stuff, kind of put us where we are sitting in this quarter. And we think it'll only get better as we work our way through the second half of the year.

Andrew John Wittmann

Analyst, Robert W. Baird & Co., Inc.

Q

Appreciate that, Russ. And then, obviously, non-res markets have been kind of all over the place, but your Safety business is doing really well. Maybe just talk about sort of what you're seeing out there, inspection and service kind of continue to grow double-digits for the foreseeable future?

Russell A. Becker

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

A

Well, we are really, I guess, pleased with the way our – again, our bellwether always is inspection growth. And we stated that inspections grew for the 20th straight quarter at a double-digit clip. So we don't see really any let off in that. And that's been really positive and has lead into good strong organic growth in our Service business. That's primarily in North America.

And what we're seeing internationally with high-single digit order growth is, I guess, really sending us a message that the sales transformation that has been initiated by our leadership there is really taking hold and taking shape. So that's all really focused on the service side of our business in Safety. And that's really positive and that gives us good comfort in direction that we're going.

Then you layer in really the strong project opportunities in the end markets that we pursue. And that's just a really good combination and that's what we're seeing. And data centers, semiconductors, advanced manufacturing, all are really providing robust opportunities for us. And we're just trying to make sure that we're being smart, so that we can get the gross margins on the work that we really need to get for that work to be beneficial to the company and ultimately to our shareholders.

So, there's a lot of opportunity out there. And proposal activity, even with all the noise around tariffs still, the proposal activity is very, very robust. And we're just trying to be smart about what work we take and what work we pursue.

Andrew John Wittmann

Analyst, Robert W. Baird & Co., Inc.

Q

Very helpful. Thanks, Russ.

Russell A. Becker

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

A

Thank you, Andy.

Operator: Your next question comes from the line of [indiscernible] (00:48:39) of JPMorgan. Please go ahead.

Q

Hi. Good morning, everyone. Thank you for taking my questions.

Russell A. Becker

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

Good morning, [indiscernible] (00:48:47).

A

Q

My first question is the North America inspection revenues have another 20 consecutive quarters double-digit growth. And wanted to get more color on the pricing improvements as well as your inspection-first strategies including technology standpoint that AI fuels productivity tools. How you see the improvement of the margins in addition to the volume side of this business, please?

Glenn David Jackola

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

Yeah. So, I'm happy to take it, and if Russ has any commentary at the end. So we continue to be able to capture low- to mid-single digit pricing in our inspection, service and monitoring revenue streams. And your question then on margin and the impact of AI and digital on margins going forward, I would say our expectation on all of our revenue streams is that we're going to continue to be able to expand margin into 2026, 2027 and 2028 as we pursue our 10/16/60 (sic) [10/16/60+] (00:49:55) strategic goals, and the technology and the use of technology will be a part of that.

A

Russell A. Becker

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

Yeah. And what I would say, [ph] Tom (00:50:04), was that, I think actually the technology and AI and all of that stuff that comes together is probably going to be more of providing leverage from an SG&A perspective and making us more efficient. And when you think about the labor market that's out there, we need to – our efforts around artificial intelligence and technology need to enable us to continue to scale our business, because we're going to have less people to be able to do the work. And so that's really where the focus is.

A

But we have a team that is focused basically on AI on an international basis. And the reality of it is, is just like most every other company, we're probably in the bottom of the first inning in our efforts there. But we actually are resourcing and have a kind of an AI task force for lack of better words.

Q

Thank you. And just one follow-up on innovation side in international business and in Safety Services. Could you talk about leveraging digital with [indiscernible] (00:51:23) how actually you see customer reaction there? And could you talk about the – how you're excited about [indiscernible] (00:51:33) in terms of the developments in margin in international business, please?

Russell A. Becker

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

A

[ph] Tom (00:51:45), could you repeat your question, please?

Q

Yes. So I would like to get more color on digital strategies in international business, especially [indiscernible] (00:51:58) that you showcased at the [indiscernible] (00:52:00), if you see any, the customer feedback in the second quarters and some expectation in the second half, please?

Russell A. Becker

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

A

Well, I mean, the work with [indiscernible] (00:52:16) is really just in its infancy as well and just really getting cranked up. I mean, we see a lot of opportunity with the work that that team is doing. I mean, I think there's a lot of really good stuff happening there, but I think we're too early to, like, declare victory or anything like that [indiscernible] (00:52:44). I think there's tremendous amount of opportunity. I would tell you that in a lot of ways our international business is further along in that journey. Our leader there, Andrew White, is a bit techie himself. And I think he has a really broad vision for where that can go. And that's something that we're working on, making sure that we can take across the entire breadth of our portfolio, not just in the international business. But I'd say it's too early to declare victory.

I don't know, David, you worked there for, you know. So do you have any other color?

Glenn David Jackola

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

A

[indiscernible] (00:53:27). The only thing, it's too early to declare victory, but it's an incredible opportunity. I mean, in our international business, we've got 50 million connected devices. And the more that we can use technology to serve our customers, the better our business will be.

Q

Thank you for the color. Looking forward to it. Thank you very much.

Operator: Your next question comes from the line of Kathryn Thompson of Thompson Research Group. Please go ahead.

Kathryn I. Thompson

Analyst, Thompson Research Group LLC

Q

Hi, thank you for taking my question today. Just one observation. Despite all the gloomy headlines, I think it's worth noting that a third of your EBITDA growth is from an improved outlook. So, definitely separating from a few other companies. My question to you, when you look at these, I just want to pull the trigger a little bit more on how APi wins with AI. You look at companies like Meta, how their guidance were \$66 billion to \$72 billion for this year. And they're raising and they're looking at reaching \$100 billion next year. And you've touched briefly on a few, like, on how APi can win, but could you give us few examples in terms of either how you win with new projects or with the ongoing maintenance and operations of the AI's behemoth network? Thanks so much.

Russell A. Becker

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

A

Well, when you're doing the inspection and service work at whether it's Meta or Microsoft, whoever, but when you're doing the inspection and service work at those facilities, and they come along and expand at that existing site, the opportunity for you to win that expansion, the business associated with that expansion rises dramatically, because of the relationships you have. And the client is interested in consistency, in service and follow-through and all of that other stuff. Then when you have other larger opportunities that are, say, more greenfield sites like, say, [ph] Meta's 10x site (00:55:52) in Louisiana, then it's really relationship-based and your ability to man work in some of these remote locations. And that's I think something that we have really adept skill set and have the capacity and the workforce that we can bring to bear on those types of project opportunities.

And those opportunities, the selection criteria is usually around your ability to work safely, your ability to provide the right high-quality, skilled field leaders to actually execute the work. Your Ability to get the work done on time [indiscernible] (00:56:44) very aggressive schedules. And so there's all these other gates and price is a very small factor that comes into to the equation.

I'd also say on the fire, life safety and security side of it, there's only a handful of firms that have the capacity and the skills to tackle projects of that magnitude. And that's an element of complexity that's a positive for a firm like ours. And so – but in the same breath, we still have to be selective and be smart about which projects we pursue, so that we don't overextend ourselves, and therefore, don't deliver on the commitments that we make to that customer. So, I don't know, does that make sense, Kathryn?

Kathryn I. Thompson

Analyst, Thompson Research Group LLC

Q

Yeah. Yeah, no, and so, but it sounds to me that you can win business both at the build-out, but then on an ongoing basis with the ongoing typical services that you would do for any complex commercial building and structure. Is that correct? Am I hearing you correctly on that?

Russell A. Becker

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

A

That's correct. And the more complex the opportunity, the better off we're going to be. We don't want to find ourselves in positions for, say, project-related work where, let's just say we're not doing the inspection and service work for that customer, we don't want to be in a position where we're just competing on price. Like, that's just not our model. We don't do well...

Kathryn I. Thompson

Analyst, Thompson Research Group LLC

Q

Yes.

Russell A. Becker

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

A

...when we just compete on price. And if it's just – if that's what it is, if somebody is going to – and especially in today's world, if somebody is just going to treat it as an auction, if you will, we're just – we're not going to do well in that environment. So it's like why then waste your time pursuing it. And that's why we have a fairly robust go-no-go kind of checklist that we put our businesses through, because we want them to actually think about should I even pursue this? And the reality of it is, if it's just going to be a price-driven decision, [ph] they shouldn't (00:59:04).

Kathryn I. Thompson

Analyst, Thompson Research Group LLC

Yeah. Excellent. Thanks so much and best of luck going forward.

Q

Russell A. Becker

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

Thanks, Kathryn.

A

Operator: Your next question comes from the line of Josh Chan of UBS. Please go ahead.

Joshua K. Chan

Analyst, UBS Securities LLC

Hey, good morning, Russ, David. Just two quick ones for me. So on the guidance raise that was for the rest of the year, I guess the one-third of the guidance raise, what got better? Was it primarily the Specialty side of things?

Q

Glenn David Jackola

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

Josh, I think I'd attribute that to the really strong backlog that we were able to generate during the quarter and the strong margin and strength of the backlog gave us comfort in the back half of the year.

A

Joshua K. Chan

Analyst, UBS Securities LLC

Okay, great. Thank you. And then, on the backlog margin, it sounds like you're pleased with the backlog margin. I guess, when it comes to realizing that backlog margin over time, obviously, you can control your own execution. But can you talk about other factors that you have to think about as that converts, you know, things that may or may not be outside your control and what you could do to kind of ring fence those?

Q

Russell A. Becker

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

Well, obviously, Josh, the material cost escalation is something as prices go up, whether it's because of tariffs or inflation or whatnot or a combination thereof, that's out of our control, but it's in our control. I mean, like, we have been talking very openly since President Trump won the election that he's going to use tariffs as a lever for him to level the playing field from a trade perspective. And so you knew that it was coming. And so we've been working hard to protect ourselves during the time of our proposals. I'm sure we're not perfect and I'm sure there's some gaps and some places where we didn't do as well as we should. That would be one area. Weather is, you know, could be a significant issue and challenge for us, because obviously when you have poor weather conditions, you're not going to be as efficient with the deployment of your field leaders. And so that's another area that could be challenging.

A

So those would probably be the primary two contributors. Obviously, we have to execute. That's an aspect of it. Availability of labor and things like that is – could be a challenge as well. But the reality of it is, everybody is knowing that there's going to be work, you know, availability of labor issues and challenges and shortages. And so, as you are making decisions to take on whether it's master service agreements or other project related opportunities, you should be factoring that into the equation. And that really should not be an excuse.

Joshua K. Chan

Analyst, UBS Securities LLC

Okay. Thank you for the color, David and Russ, and congrats on the quarter.

Q

Russell A. Becker

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

Thank you, Josh.

A

Operator: And we have one more question from Stephanie Moore of Jefferies. Please go ahead.

Stephanie Moore

Analyst, Jefferies LLC

Hi. Good morning. Thanks, everybody.

Q

Russell A. Becker

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

Hi, Stephanie.

A

Stephanie Moore

Analyst, Jefferies LLC

Maybe just I want to go back to the margin performance in the quarter, it was very good across both segments obviously you've seen – or for the consolidated levels. But as we look at both segments, I was hoping maybe you could talk a little bit about the puts and takes of the margin performance. I know at your Analyst Day you walked through several levers to achieve ultimately your 16%-plus target, pricing, project selection and the like. So maybe if you could just talk about the underlying puts and takes and your path to achieve some of those – to achieve that target and the levers to get there? Thank you.

Q

Glenn David Jackola

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

Yeah. Happy to give you a little bit of color there, Stephanie. Puts and takes around margin in the quarter, so our margin performance on inspection, service and monitoring was strong, continues to be we're able to get margin-accretive price in that part of the business. We were able to get good leverage out of our fixed cost base during the quarter, partially due to the strong organic revenue growth. So that was a positive. We talked a little bit about rising material cost, and we've talked a lot over the last couple of quarters about how our business is able to protect itself at the time of proposal and being able to capture the dollar value of rising material cost. And we believe the business did a good job of doing that during the quarter, but that did have a little bit of margin erosion during the quarter.

A

So I think when you talk about the service mix, you talked about disciplined project and customer selection, getting leverage, we're seeing progress in all of those areas and our path to 13% and now 16% adjusted EBITDA margin.

Stephanie Moore

Analyst, Jefferies LLC

Q

Great. Very helpful. And then just one quick follow-up. Is there any chance you can give a bit of an update on the systems investments that you called out at the Analyst Day? How it's progressing thus far? And anything you can call out on that? Thank you.

Glenn David Jackola

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

A

Yeah, absolutely. I'm sure you saw in the release the spend on the system and business enablement in the quarter. What I'd say is, those are difficult, challenging business-led projects. But the team is performing and executing well. And I've been particularly impressed with the way that that team is working closely to make sure that the voices of our branch, company and field leaders is heard each and every step along the way. So really good progress on that. The team is committed, they're executing well and we feel good about where that work is.

Stephanie Moore

Analyst, Jefferies LLC

Q

Got it. Thank you. Appreciate it.

Russell A. Becker

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

A

Thanks, Stephanie.

Operator: And that concludes our Q&A session. I will now turn the conference back to Russ Becker, our President and CEO for closing remarks.

Russell A. Becker

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

Thank you. In closing, I would like to thank all our team members for their continued support and dedication to our business. I'm truly grateful for what each and every 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 look forward to updating you on our progress throughout the remainder of the year. Thank you, everybody.

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

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