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APi Group Corp. (APG)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to APi Group's First 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 of 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 first 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 detailed materially material risks that may cause our future results to differ from our expectations. Our statements

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are, as of today, May 1, and we undertake no obligation to update any forward-looking statement we may make except as required by law.

As a reminder, we have posted a presentation detailing our first quarter financial performance on the Investor Relations page of our website. This presentation includes historical quarterly financial information for realigned segments on slide 16. Our comments today will also 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.

Now my pleasure to turn the call over to Russ.

Russell A. Becker

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

Thank you, Adam. And good morning, everyone. Thank you for taking the time to join our call this morning.

Before discussing our results, I'd like to take a moment to officially congratulate David on being appointed the CFO of APi. I'm grateful to have him leading our global finance organization as we celebrate our fifth anniversary being listed on the New York Stock Exchange. The last five years have been both challenging and rewarding, and I'm grateful to each of our 29,000 leaders for their hard work and unwavering commitment to APi.

Over the last five years, we have made great progress since becoming a public company. We have navigated the impacts of a global pandemic, established our 13/60/80 shareholder value creation framework, completed and integrated over 50 acquisitions, including Chubb, and continue to evolve our business away from lower-margin, higher-risk opportunities while focusing investments on building our business around statutorily mandated recurring life safety services. While more than doubling our net revenues since becoming public, our leaders have executed our margin expansion strategy, putting us in a position to deliver on our 13% or more adjusted EBITDA margin target in 2025.

We are excited to host investors and analysts at our Investor Day in New York on May 21, where we look forward to detailing new, meaningfully higher financial targets and updates to our strategic plan.

Next week marks APi's 10th straight year of celebrating Safety Week. As I have said before, the safety, health and well-being of each of our team members remains our number one value. Our commitment to safety drives industry-leading safety outcomes across the organization. At the end of 2024, our total recordable incident rate, our TRIR was below 1.0. This is significantly below the industry average.

While we are proud of this, we continue to strive for zero incidents. We believe our commitment to creating a safer work environment and investing in every leader's development, makes APi a company where leaders are inspired to build long and fulfilling careers.

Turning to the first quarter, I'm again pleased with the record results delivered by our global team as we continue to see robust demand for the services we offer across the businesses in an evolving macro environment.

Net revenues grew organically by approximately 2% in the quarter, representing positive momentum as we returned to more traditional levels of organic growth. In our Safety Services segment, organic growth came in at 5.6% with high-single digit growth in inspection, service and monitoring revenues and low-single digit growth in project revenues. Importantly, and in line with our strategic initiatives, we saw a double-digit increase in inspection

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revenue in North America for the 19th straight quarter as we march towards our long-term goal of 60% of total net revenues from inspection, services and monitoring.

In our Specialty Services segment, our businesses performed in line with what we outlined last quarter. The decline in net revenues moderated from the fourth quarter, despite a headwind from the adverse weather we faced early in the first quarter. Backlog continued to grow, up 7% organically, and we expect this segment to deliver positive organic growth in the second quarter.

With another quarter of margin expansion, the team continues to make meaningful progress executing our margin expansion initiatives as we close in on achieving our 13% or more adjusted EBITDA margin target in 2025.

As a reminder, these initiatives include improved inspection, service and monitoring revenue mix, disciplined customer and project selection, Chubb value capture, pricing improvements, procurement, systems and scale, accretive M&A and selective business pruning. And as I like to say, we can always just be better. We believe we are also well positioned to navigate the evolving macro environment, including the impact of tariffs. I truly believe that APi is the safe harbor in the tariff storm. Our leaders have been proactive in working to get out in front of the tariff situation and implementing mitigation strategies since late last year.

We do not expect any material impact from tariffs on the 54% of our net revenues that comes from highly recurring inspection, service and monitoring. These services benefit from statutorily-driven demand and have a cost structure comprised predominantly of labor. Any parts and materials are sourced in real time with their cost passed on to the customer.

In our projects business, we are currently only seeing impacts from tariffs on the cost of our materials in our North American Safety business where pipe prices have increased. Our leaders have done a good job protecting our business from material cost increases through contractual provisions, and we expect to be able to pass along much, if not all, material cost increases that arise from these tariffs.

Longer term, we expect increased investment in US infrastructure and the onshoring of advanced manufacturing to be a benefit to the target end markets we serve.

As a reminder, shortly after becoming a public company five years ago, the world was in the midst of a global pandemic. While the pandemic caused many challenges, it also highlighted the strength and resiliency of our business model. Exiting the pandemic, we experienced a period of significant increases in pipe prices far greater than we are experiencing today.

Our leaders did a solid job protecting our margins and delivering on our commitments while being fair to our customers. We believe our robust backlog, variable cost structure, statutorily-driven demand for our services and the diversity of the global end markets we serve combined to provide a protective moat around the business. We believe this positions us well to navigate the dynamic tariff variables in the marketplace.

As we move through the year, we remain relentlessly focused on our long term 13/60/80 value creation targets, which include the following. Adjusted EBITDA margin of 13% or more in 2025; long-term revenues of 60% from inspection, service and monitoring; and finally, long-term adjusted free cash flow conversion of 80%. Our strong free cash flow generation and balance sheet strength provide us with the flexibility to pursue value-enhancing capital deployment alternatives, such as continuing our track record of disciplined M&A or opportunistic share repurchases.

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In the first quarter, we repurchased $75 million or 2.1 million shares of our common stock. Additionally, our board has authorized a new $1 billion share repurchase program, given us more flexibility to act as we expect to continue to increase our free cash flow generation in the years to come. I always joke that we don't have to do much diligence and we really like APi's leadership team, so it makes buying APG shares an easy decision.

In terms of disciplined M&A, we spent $250 million on bolt-on acquisitions at attractive multiples in 2024, and we are targeting a similar level in 2025. We expect that part of that spend will be on our first elevator service bolt-on under our APi elevator platform. We are taking a walk before we run approach to our expansion into the $10 billion-plus domestic elevator service market. We expect our ongoing expansion into the elevator service market to be accretive to our 13/60/80 value creation framework.

And importantly, this represents a continuation of our focus on building a robust line of businesses that provides statutorily mandated recurring life safety services. We remain committed to building a $1 billion elevator service market leader over the long term, as well as continuing to expand our fire protection and electronic security businesses.

In summary, we are off to a strong start in 2025, returning to traditional levels of organic growth after our thoughtful and selective pruning of certain low-margin customer accounts in 2024. We've also continued to expand margins and deploy capital on M&A and share repurchases to drive shareholder value. We are pleased with our leaders' execution across the business and I have great confidence in our ability to deliver on our near-term commitments while maintaining the focus on the long-term opportunities in front of us.

I'd like to hand the call over to David to discuss our first quarter financial results and updated guidance in more detail. David?

Glenn David Jackola

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

Thanks, Russ.

Reported revenues for the three months ended March 31 increased 7.4% to $1.72 billion, compared to $1.6 billion in the prior year period. Organic growth of approximately 2% was driven by pricing improvements and strong organic growth in Safety Services led by inspection, service and monitoring, partially offset by an anticipated decrease in Specialty Services revenue.

Adjusted gross margin for the three months ended March 31 grew to 31.7%, representing a 100-basis-point increase compared to the prior year period and driven by disciplined customer and project selection, pricing improvements and value capture initiatives in our international business.

Adjusted EBITDA increased by 10.3%, 11.5% on a fixed currency basis, for the three months ended March 31, with adjusted EBITDA margin coming in at 11.2% representing a 30-basis-point increase compared to the prior year period, primarily due to the increase in adjusted gross margin, partially offset by lower fixed cost absorption in the Specialty Services segment.

I am pleased to report that adjusted diluted earnings per share for the first quarter was $0.37, representing a $0.03 or 8.8% increase compared to the prior year period. The increase was primarily driven by strong growth in adjusted EBITDA, partially offset by an increase in interest expense and adjusted weighted average shares outstanding.

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Safety Services reported revenues for the three months ended March 31 increased by 13.4% to $1.27 billion, compared to $1.12 billion in the prior year period. Organic growth of 5.6% was driven by double digit inspection revenue growth in our North American Safety business and 7% organic growth in inspection, service and monitoring revenues for the segment. Project revenues grew 4% organically in the quarter.

Adjusted gross margin for the three months ended March 31 was 37%, representing a 90-basis-point increase compared to the prior year period, driven by disciplined customer and project selection, pricing improvements and value capture initiatives.

Segment earnings increased by 20.6%, 21.6% when measured on a fixed currency basis, for the three months ended March 31 and segment earnings margin was 15.7%, representing a 90-basis-point increase compared to the prior year period, primarily due to the increase in adjusted gross margin.

Specialty Services reported revenues for the three months ended March 31 decreased by 6.8% to $453 million, compared to $486 million in the prior year period. Organic revenue declined 6.6%, driven by an anticipated decrease in project and service revenues as well as adverse weather impacts. Adjusted gross margin for the three months ended March 31 was 16.8%, representing a 150-basis-point decrease compared to the prior year period, driven primarily by lower fixed cost absorption due to lower net revenues, partially offset by the favorable impact from planned disciplined customer and project selection.

Segment earnings decreased by 32.6% for the three months ended March 31, and segment earnings margin was 6.4%, representing a 240-basis-point decrease compared to the prior year period, driven primarily by lower fixed cost absorption due to lower net revenues.

Turning to cash flow. For the three months ended March 31, adjusted free cash flow was $86 million, representing a $74 million improvement compared to the first quarter of 2024 and reflecting an adjusted free cash flow conversion of approximately 45%. Free cash flow generation continues to be a priority across APi. We are pleased that we remain on track to achieve our adjusted free cash flow conversion target of approximately 75% for the year, while returning to more traditional levels of organic growth in the business.

At the end of the quarter, our net leverage ratio was approximately 2.3 times, below our long-term net leverage target of 2.5. Our strong balance sheet gives us flexibility to drive our margin accretive bolt-on M&A strategy while allowing for opportunistic share purchases like we executed in the first quarter. We expect to continue to grow our free cash flow in 2025, providing us with significant opportunities for continued value-enhancing capital deployment.

I will now discuss our guidance for the second 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 $7.4 billion to $7.6 billion, up from $7.3 billion to $7.5 billion, representing organic growth in net revenues of 2% to 5% for the year.

Moving down the P&L, we expect increased full year adjusted EBITDA of $985 million to $1.035 billion, up from $970 million to $1.02 billion, representing an adjusted EBITDA margin of 13.4% at the midpoint and adjusted EBITDA growth of over 10%. Our increased full year revenue and EBITDA guidance is due to the impact of the weakening US dollars since our February guidance and more information on our revised guide can be found on slide 10 of our earnings presentation on our Investor Relations website.

In terms of the second quarter, we expect reported net revenues of $1.875 billion to $1.925 billion, representing accelerating organic net revenue growth of approximately 3% to 6%. We expect adjusted EBITDA of $260 million

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to $270 million, representing an adjusted EBITDA margin of 13.9% at the midpoint and accelerating adjusted EBITDA growth of 13% to 17%. For 2025, we anticipate interest expense to be approximately $145 million, depreciation to be approximate between $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 282 million, reflecting our repurchase of 2.1 million shares in the first quarter, but not incorporating any potential future share repurchases. We continue to expect adjusted corporate expenses to be between $30 million and $35 million per quarter with some timing variability throughout the year.

You may also have noticed a new line in our earnings release tables called systems and business enablement. This represents a recently launched three-year investment in systems and technology that will equip our branches and field leaders with the data, modern tools and technology that they need to more efficiently and effectively serve our customers.

This is a business-led and leader-focused initiative and one that we believe is a key enabler to achieving the long-term financial target that we plan to share at our Investor Day in May.

I will now turn the call back over to Russ.

Russell A. Becker

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

Thanks, David.

APi's record first quarter net revenues and profitability speaks to the effectiveness of our strategy and the alignment in its execution by our global team of leaders. As you've heard from us, we have great confidence in the business and the direction we are heading despite the dynamic macroeconomic environment. We remain focused on creating sustainable shareholder value by delivering on our 13/60/80 targets, with a near-term focus on generating adjusted EBITDA margins of 13% or more this year.

As a reminder, we will be hosting an Investor Day on May 21 in New York for professional investors. I'm looking forward to seeing many of you there, but also encourage you to reach out to Adam to register if you haven't already done so, as space is limited.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Andy Kaplowitz by Citigroup. Your line is open.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.
Q

Hey, good morning, everyone.

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

Hey, Andy.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.
Q

Russ, I think you said publicly that combined backlog for APG at the end of last quarter was $3.5 billion. Can you give more color into what your backlog did in Q1? I think you said it was up 7% year-over-year in Specialty. And then can you talk about the visibility you do have toward growth in both of your segments. Despite the uncertain macro, would you say, you still have good visibility to a mid-single digit growth in Safety, I think you said Specialty to return to growth in Q2. Is that a function of project delays ending or new wins or both?

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

Well, that was a mouthful, Andy. So, that's – you had about seven questions in your one. So...

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.
Q

Only three. Only three.

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

It's all good. Yeah. I mean, our backlog is sitting right around $3.5 billion. It's up on a year-over-year basis. It continues actually – we continue to see momentum building in our backlog and we expect it to continue to build back actually as we work our way through the second quarter. We feel good about the end markets that we serve. We don't feel like we're overcommitted to any one end market, such as data centers, even though we're doing data center work, our focus remains on the – ultimately, we want to be doing the inspection, service and monitoring work for these facilities and the project work that come from the relationships that we've built with those particular clients. So, we feel like we're in a really good spot.

Regarding specific to Specialty, number one, it was a tough comp compared to Q1 from last year as the – we didn't really experience any adverse weather conditions like we did this year. This was more of a – what I would consider a normalized year. And we expect our Specialty Services business to see organic growth in the second quarter aided in part by their growing backlog. Their backlog was strong, I think, up 7% organic – on an organic basis. And I think that we're really well positioned as we are moving through the second quarter.

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Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Thanks for that, Russ. And then can you elaborate a little more on the tariff-related impacts on the business and what's embedded in the guide? I think you said your people are buying steel pipe up front. You're not seeing as much in the way of pipe increases versus during the pandemic. But how have you thought about any higher pricing in your unchanged guidance, or did you expect to see any impact from tariffs on volume?

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

A

Well, I mean – I guess first and foremost, number one, when President Trump was elected, all the way back in last November, we anticipated, like I'm sure everybody anticipated that he would use tariffs as a tool in his second term. And so we very proactively got out in front of that, including language in our proposals and ultimately our contracts that should we see rapid escalation due to – price escalation due to tariffs that we would be able to recapture that cost.

Now, we're only recapturing the cost, we're not recapturing the margin on that, we're just getting – we're able to pass the cost on, and that's primarily in our project work. So, I feel like our leaders did a fantastic job of really getting out in front of it, just because, we knew that, that it was potentially going to come. The commodity that we watch, the closest is hot rolled coil, and that's – because that's – directly affects pipe prices. We've seen pipe prices increase since the first of the year and we've actually seen them moderate and drop a little bit more recently. So, we feel pretty good about where we're at.

Yes, we did pull some material cost into the first quarter as the trade – as the tariffs kind of that whole conversation escalated and some of the tariffs – the size of the tariffs, so to speak, increased so dramatically. We definitely did do some pre-purchasing of material and pulled some of that material cost into the first quarter, which would be at a slightly lower margin than, say, what we were able to get from the labor that we – when we were executing our work, et cetera.

So, I don't know, David, do you have any extra color on that that you'd like to add?

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

A

No, I think that summarizes it clearly.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

All right. Appreciate all the color, guys.

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

A

Thanks, Andy.

Operator: The next question comes from Tim Mulrooney from William Blair. Your line is open.

Tim Mulrooney
Analyst, William Blair & Co. LLC

Q

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Yeah. Russ, David, good morning.

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

A

[indiscernible] (00:26:59)

Tim Mulrooney
Analyst, William Blair & Co. LLC

Q

Doing well. Thanks. So, on organic growth, I mean, you were guiding total organic growth to be down, I think, in the low-single digit range in the first quarter. And you ended up at a positive 2%. So I'm just curious, what was the primary driver of that, that variance, relative to your expectations?

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

A

Yeah, I think Russ probably answered that one in the last question, is we did pull some materials forward into the first quarter ahead of projected or potential price increases from the tariff, and that was really the main driver in our beat to our revenue guide in the first quarter.

Tim Mulrooney
Analyst, William Blair & Co. LLC

Q

Oh, okay. Thanks. Sorry, I missed that. But, got it. So, pulling forward the materials boosted your organic growth, is that correct, David?

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

A

Yeah, you captured that well.

Tim Mulrooney
Analyst, William Blair & Co. LLC

Q

Okay. And then just on projects, I mean, given the current state of macro uncertainty, what can you tell us about demand in the projects business? I mean, your guidance looks great, but – I mean, as you look into specific projects, are customers holding back at all on pushing forward new projects, kind of waiting to see what happens with the tariff situation? Curious what you're seeing with regard to proposal activity and the backlog generally within that projects business. Thank you.

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

A

Yeah. We have not seen any delays or – any significant delays or pullbacks due to all the noise associated with tariffs. I think I alluded to it in my earlier remarks, we've [ph] actually put it on (00:28:54) backlog right now. I mean, it's anybody's crystal ball to what happens if kind of the tariff noise continues for six months, nine months, three months, what happens from a demand perspective. But as we sit here right now today, we have not seen delays and our backlog continues to build.

Tim Mulrooney
Analyst, William Blair & Co. LLC

Q

Got it. Thank you.

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Operator: The next question comes from the line of Jasper Bibb with Truist Securities. Your line is open.

Jasper Bibb
Analyst, Truist Securities, Inc.

Q

Hey, good morning, guys. Wanted to ask some follow-ups on the tariff comments. I think you said the only exposure to tariffs is the project revenues and US Life Safety. So if I do some math, [ph] is the red part (00:29:54) of your revenue mix I guess directly exposed to tariffs, call it 15% to 20% of your total. And I guess separately with where rolled coil futures are now, are you seeing increased materials costs yet or is that kind of more managing a risk that you would see higher prices in the future?

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

A

Yeah. So, if I'm hearing you, Jasper, your comment was do we expect that our revenues exposed to potential tariffs are approximately 15% or so, I think that's a fair estimate.

Jasper Bibb
Analyst, Truist Securities, Inc.

Q

Got it. And then the second part of my question was, yes, rolled coil futures at least haven't moved all that much. So, are you seeing increased costs right now or with the materials you pulled forward into the first quarter, is that more managing risk that you could see increased prices in the back half of the year or over the next couple quarters [indiscernible] (00:30:52)?

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

A

So, if you look at hot rolled prices, I want to tell you from the first of the year it was up roughly – it peaked at like – what – 40%, and it's dropped over the course of the last week or 10 days. I don't have all the figures – exact figures in front of me, but it's dropped. So, we've seen it moderate which is really positive. We stay very close to our vendors to make sure that we're doing our best to try to anticipate what's going to potentially happen. But I would also go back to an earlier statement, I mean, that when President Trump was elected, we knew that tariffs were going to be a tool in his toolbox and we got out in front of it. And we should have good protection built into our proposals and our contracts that protect us from rapid increases in any sort of commodity prices.

Jasper Bibb
Analyst, Truist Securities, Inc.

Q

Yeah. That's helpful. And then, was hoping you could update us on your experience with the Rural Broadband Program in Specialty. It seems like maybe there's been some more delays as the states rework their proposals there. Maybe you could just frame for us how much revenue associated with the Broadband Program is assumed in your updated guide and how do you see the cadence of that over the [ph] next quarters (00:32:22)?

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

A

Yeah. So how we would frame that is it's choppy, for sure. And we feel like we've got it built into our forecast, in our guidance. And we knew it was going to be choppy. As we moved throughout the year and it's properly reflected in our forecast.

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Jasper Bibb
Analyst, Truist Securities, Inc.

Q

Got it. Thanks, guys.

Operator: The next question comes from Andy Wittmann with Baird. Your line is open.

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

Q

Great. Thanks. I just thought – so couple of questions here I guess. On the international business, that's underpinned by the Chubb acquisition, commented on North American inspection growth and talked consistently about what Chubb has been doing. But can you just talk, Russ, a little bit about what you're seeing in terms of the organic growth rates internationally and how the uncertainty is affecting those customers?

And then, David, maybe one for you. I know this is impossible, but I'm going to try anyway. Can you help us understand what the impact from the weather may have been on a year-over-year basis? You said – we heard more normal, so this is – that's just the base next year. But I'm just wondering, maybe it helps understand just how good last quarter was and how variable your business can be with the weather. Thanks.

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

A

So, I'll go first. And I would – I guess the way I would phrase it for you, Andy – good morning, by the way – is that we had organic growth in line with the expectations, again, in the first quarter in our international business. And I think the business has grown organically every quarter since we've owned it now for well over three years. And their organic growth was in line with our expectations. And if you recall, we have said that they're no different than the rest of our business. We've guided them to high-single digit growth in inspection, service and monitoring and low-single digit growth in the project work, which leads to roughly mid-single digit organic growth and that's right where they were.

And – so, we're very pleased with the trajectory that that business is on. I mean, just in general, I just – I'm really proud of that team. They've done a great job and they continue to make good progress in their business. Our sales leader has done a really good job of – I'll just say – realigning our sales team across the entire international business. And, we're really showing good progress in the work and improving the end markets that we're serving and everything – everything's headed in the right direction [ph] here (00:35:30).

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

A

Good. I'll take your second question, Andy, which I believe was on the impact of weather in our Specialty business in the first quarter. We look at weather days as a indicator of [ph] weather on a quarter – quarter (00:35:47), year-over-year basis. We think we lost around five days due to weather in the first quarter of this year versus last, which is approximately a mid-single-digit impact on organic revenue growth.

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

Q

Okay, great. And then maybe just for couple of quick follow-ups here. The comments on the systems and businesses investments that you're making, the three-year program, Russ. I was just wondering if you could just drill in a little bit more to that as to what this is going to enable your team to do in the future versus what it can do

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today? Is this an efficiency initiatives for the margin or is this more of a customer-focused to improved customer satisfaction to have benefits to growth? I suspect it's both, but maybe that would be helpful.

And then maybe I think a lot of people this morning were maybe – maybe surprised to see that you didn't report segment EBITDA. I was just wondering, David, if you could comment on that as well.

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

Yeah. So, David can add whatever color he wants, when we talk about the systems enablement and everything else. So, we have a – I don't know – it's a concept, I don't know if that's the right way to put it, Andy, or not, but we have a belief here. We call it Our Central Premise. And Our Central Premise means that every decision and every choice and initiative that we bring forward needs to put the men and the women that work in the field first. 65% to 70% of our workforce is the men and the women that work in the field. And those individuals are basically – they drive our profitability. And so giving them the tools that that allow them to be more efficient and productive in the work that they do is one of our key priorities just across the business and everything in the choices that we make. So that is a significant components of some of this.

And as we'll talk a little bit more about, at the Investor Day, is about where we think the business can go. If you do some simple math and you start thinking about, we finished last year at just north of $7 billion in revenue, you think about mid-single digit organic growth and you think about, there's $250 million of bolt-on M&A. And then you add in, say one or two larger transactions over the course of the next two or three years, you can really quickly see where this company can be, $10 billion-plus in revenue. And so some of that is, we need to have a foundation to be able to do that, to build systems and scale in that.

So it is a – really it's a combination of making sure that we're establishing a strong base to build on. But it's also to enable the men and the women in the field and make them more productive and efficient and get our tools state-of-the-art.

So, I don't know, David, do you want to add anything to that?

Glenn David Jackola
Executive Vice President & Chief Financial Officer, APi Group Corp.
A

I don't think there's anything I need to add, Russ.

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

[indiscernible] (00:39:06)

Glenn David Jackola
Executive Vice President & Chief Financial Officer, APi Group Corp.
A

All right, question two then, Andy, was around segment level adjusted EBITDA, and I would point you to maybe slide 9 in the presentation on our IR website. We've got segment earnings, which is a comparable metric to adjusted EBITDA at the segment level. And this is consistent with how we reported segment earnings at the end of fiscal 2024.

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

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Okay. Thank you.

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

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

Q

Hi, thank you for taking my questions today. I know there's a lot of noise around tariffs and changing landscape from a broad government standpoint, but what strikes me about APi is that, this seems to be your first kind of normal year since going public in 2020. You have digested your Chubb acquisition from three years ago. You've integrated your Elevated acquisition and you also have your division realignment behind you.

As we – the first part of my question, you're still throwing off a lot of cash. You've already – you've significantly increased your buyback program. Could you talk about your focus in terms of capital allocation between bolt-on acquisitions and stock buybacks and the color and flavor in terms of how we should think about acquisitions and 2025 in particular? Thank you.

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

A

So, from a capital allocation perspective, we've always said, first and foremost, we want to de-lever the company to inside our target of 2.5 times. So, we've done that. So, we don't get to use that as an option anymore. So, second would be M&A. And our preference would be to utilize and put our cash to work through accretive M&A. And I think we've demonstrated a solid track record on that front over the – not just the five years that we've been public, but we have a long history of M&A. And then, share repurchases is our third option. And we continue to look at share repurchase as an opportunity for us based on where the share price is at in whatever environment that we're in. And that's – when we bought back the $75 million worth of shares, we felt like our shares were undervalued. And as I said in my remarks, we actually like the leadership team of the company and don't have to do a lot of diligence. And so, we took advantage of that opportunity.

And as we move forward, and you're right, the cash flow generation, the capability that this company has is really, really strong. And I think you'll see a healthy mix and healthy blend between M&A and returning cash to our shareholders currently through share repurchases. So, from an M&A perspective, we see our pipeline and our funnel is very strong.

We see a clear path to being able to execute on that kind of target of $250 million, similar to what we did last year. We will be disciplined. We will not buy something just to buy something. We're going to make sure that we're buying businesses that are accretive to our long-term financial objectives. We continue to do some work on opportunities that you'd consider bigger than our bolt-ons, nothing Chubb ask, if you will, but we continue to do some work on other opportunities as well.

So, we see opportunities for us to potentially deploy capital from an M&A perspective on the – so, we feel like we're kind of a destination of choice for many sellers, and we want to make sure that we're taking advantage of that.

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

Q

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Okay, perfect. Appreciate the color on that. My second question is stepping back and just looking at how APG could potentially win with a reindustrialization of the US market. But, when we look at your verticals, we believe around 45% of your end markets benefit from this broad trend. Could you clarify what are different ways, and even if it's just a little bit of story time to be able to say how your – how APG's services benefit and support a broad reindustrialization of the North American market. Thanks very much and good luck.

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

Thanks, Kathryn. I mean, if I'm understanding your question, right, you're talking about the potential re-onshoring I guess – I don't know if that's a good grammar or not, but advanced manufacturing in the US. And what I've seen specifically especially in the life safety and security space is that a lot of these project-related opportunities are massive. And there's limited firms that have the capability to properly execute and manage some of these larger scale project opportunities. And there's an opportunity for companies such as ours to take advantage of that.

I would tell you that we are viewing a lot of these large – larger project related opportunities, as just that opportunities, and we want that to be complementary to our business and complementary to our strategy of really building a resilient business model around inspection, service and monitoring. So, we want our projects opportunities to come from the relationships we built from an inspection, service and monitoring perspective.

And I would tell you that that's the approach that we're taking with the really robust data center market is that – we want to take advantage of the opportunities that are there, but we don't want to overcommit to any one end market or any one specific customer, so that like you've seen some of the stuff with Microsoft going through – pulling back a little bit on a large scale data center project that they had in Ohio as an example. We didn't have any exposure to that. And that's a positive thing for us. And so, we want to make sure that we're viewing that as kind of gravy, if you will, and we want to take advantage of it, but we don't want to be overcommitted to it. I hope that was helpful.

Kathryn I. Thompson
Analyst, Thompson Research Group LLC
Q

Yes, it was. Thank you very much.

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

Thanks, Kathryn.

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

Stephanie Moore
Analyst, Jefferies LLC
Q

Hi. Good morning. Thank you. It would be helpful if you could maybe talk a little bit about your margin expansion opportunities for the year, kind of remind us what buckets are driving some of the improvement and at the same time maybe discuss the sensitivities to you achieving margin expansion and what is that – what could be a weaker demand environment? Thank you.

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

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Well, I think, Kathryn, I made a comment in our prepared remarks and it really – it really doesn't hurt, Kathryn – sorry – I'm sorry, Stephanie. Welcome back, by the way. And – but...

Stephanie Moore
Analyst, Jefferies LLC

Q

Thank you.

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

A

I made these remarks, but really it's continuing to improve the mix of – from a revenue mix perspective of inspection, service and monitoring, continuing to improve that, doing more of inspection, service and monitoring versus project work. I can't ever emphasize enough the importance of disciplined customer and project selection. This would probably be the last time you hear us talking this – in this context, but Chubb value capture, we have three really significant integration efforts going on right now. One in Benelux, one with our global monitoring centers and another with our Canadian business that we need to continue to execute on, which is – which our teams are doing a fantastic job, I mean, on executing on it but there's still work to do, and that is beneficial to the long-term profitability of the company.

Price is a big component of it. And especially with the macro environment that we're in right now, we need to make sure we're staying on top of price. Obviously, procurements and taking advantage of our scale is a big component of it. And accretive M&A all kind of work into it. And when we talked about just being better, we're talking about really improving the performance of our individual branches, across the breadth of our portfolio. And if you're able to attend the Investor Day, you will see a very similar message coming from us as it relates to this – what's next from a margin expansion. Because we do think it's meaningful where we think we can take the company from 13% where our target is today to what's next level. I think you'll see on May 21 that we think it can significantly improve from where we are today.

Stephanie Moore
Analyst, Jefferies LLC

Q

Great. And appreciate the color and looking forward to attending. So, just one follow-up on maybe some of the M&A questions that have already been asked today. Can you talk about your appetite of maybe doing a larger deal, whether it's a platform deal or even – if something even larger on top of that, were to emerge, your willingness or what it would take for you to maybe participate in something a little bit larger here. Again, not talking about necessarily this year or anytime soon, but general appetite. Thank you.

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

A

Well, I guess how I respond to that is by starting, I – we feel like we did – we've demonstrated our capabilities of doing something bigger since Chubb. And I think if you go back three years ago when we first announced the acquisition of Chubb, there were some folks that really took a show me that you guys can do it. And I feel like we've demonstrated that we are capable and able to execute on a larger scale acquisition.

So, I feel like we have the bandwidth to do it, should the right opportunity come along. And that's where what I would emphasize, it needs to be the right opportunity for us, so that we – we are good operators, and we have a lot of really good operators in this business. And if it's the right opportunity and the right fit, I would say – and the right valuation, I would say that there would be appetite for that. But it has to – it has to fit and it has to be the right fit for us.

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And I think if you look at the cash generation capabilities of the company, we're going to have a lot of wherewithal and a lot of strength in our balance sheet to be able to do something bigger, if it's the right opportunity and if it's the right fit.

Stephanie Moore
Analyst, Jefferies LLC

Q

Understood. Thank you.

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

A

Thank you.

Operator: Your next question comes from the line of Steve Tusa with JPMorgan. Your line is open.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Hi, good morning.

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

A

Hey Steve.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Can you just – I'm not sure if you guys said this before, but what is your price expectation for the year? I know that's kind of tough for the labor dynamic, but any color there?

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

A

Yeah. and good question, Steve. We didn't comment on it. I would expect our pricing, absent any significant material cost increase, to be consistent with the pricing that we've been able to deliver in previous years.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Okay. And did you guys comment at all on the backlog?

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

A

I don't think we added anything in our prepared remarks, but I think I commented that generally that it's – that's sitting roughly at $3.5 billion, which is up, I don't know, 5% or something organically.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Okay. Great. Congrats on execution in kind of an uncertain environment here. So, congratulation. Thanks.

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

A

Thanks, Steve. Appreciate it.

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

Joshua K. Chan
Analyst, UBS Securities LLC

Q

Hi, good morning, Russ, David, thanks for taking my questions. I guess how are you guys thinking about APi's positioning, if we were to go into a recession? I assume that the inspection, safety and – service and monitoring piece would be quite safe. But just curious how you're thinking about that, the project side of the business. Thank you.

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

A

Well, I mean, I guess first thing I'd point you – I'd point you to two things. Number one is like 70%-plus of our cost structure is variable by nature. So, if we do see anything that is alarming, we have the ability to flex very, very quickly. Second thing I'd point you to is our performance in 2020 right after the company went public and the pandemic landed, and we proved that we could flex quickly and we actually expanded margins in a very tough environment when people didn't know what the pandemic was going to bring.

Next, I would say that if we do run into – if there is any sort of a, so to speak, macro event that causes a slowdown, this company generates a ton of cash during the course of any sort of slower period. And that's a positive for us. 100%, our inspection, service and monitoring business will withstand any sort of a slowdown. And the other part is, is that typically if there is any sort of a slowdown, your projects business has booked backlog and it typically – it's going to take some period of time for you to work through that. So like I have just really good confidence in the resiliency of our business and our ability to take actions should we need to.

Joshua K. Chan
Analyst, UBS Securities LLC

Q

That's great to hear. Appreciate the color, Russ. And then, I have just a quick question on Specialty. I guess if the business returns to organic growth in Q2, does that mean margin can be at the similar level as last year? Is there any reason why margins could contract if growth is positive?

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

A

Yeah. Thanks for the question, Josh. Here's how I'm thinking about specialty as it goes through the year, return to organic revenue growth in the second quarter, margins will begin to expand year-over-year as we get into the back half. But we still expect them to be modestly down year-over-year for the full year and returning to accretive in 2026.

Joshua K. Chan
Analyst, UBS Securities LLC

Q

Great. Thanks for the color and thanks for the time.

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

Thanks, Josh.

Operator: Your next question comes from the line of Jack Cauchi with Barclays. Your line is open.

Jack Cauchi
Analyst, Barclays Capital, Inc.
Q

Hi. Good morning. You've previously mentioned that project pruning should be an ongoing process. Where do you see opportunities for further pruning? And at what point are you satisfied with the portfolio?

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

Well, I would say that – I would say like as I sit here today – I'm not sitting here worried about whether we've got some massive pruning left to do with our customers. I think it's – like you started in your remarks, it's just kind of an ongoing – it's an ongoing. So, I feel like we're there. And we will always continue to focus on making sure that we're – that we're working with the right customers and in the right type of work that we can win at. But I feel like we're in a good spot right now as we sit here today.

Jack Cauchi
Analyst, Barclays Capital, Inc.
Q

Helpful. And so just a follow-up. Gross margins are showing a decent increase. How is APi coping so well with wage inflation among its service technicians.

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

Well, I see in general, it's because we had pretty good visibility into what wage increases are going to be. So, especially on the fire side in North America, we're primarily a union firm, and so you have pretty good visibility into what's the union agreements are going to be. And so, it gives you a lot of – you've got plenty of runway to build the wage increases into your proposals and into your pricing. So I will say, just good visibility and good discipline by the individual business leaders.

Jack Cauchi
Analyst, Barclays Capital, Inc.
Q

Great. Thank you for the color.

Operator: At this point, I would now like to hand the call back over to Russ for the closing remarks.

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

Awesome. Thank you. In closing, I would like to thank all of our team members for their continued support and dedication to our business. We believe our people are the foundation on which everything else is built. Without them, we do not exist. I would also like to thank our long-term shareholders as well as those that have recently joined us for your support. We appreciate your ownership of APi and look forward to updating you on our progress

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throughout the remainder of the year. And hopefully we see many of you at our investor conference in New York on May 21. Thank you, everybody.

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

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