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APi Group Corp. (APG)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to APi Group's First Quarter 2026 Financial Results Conference Call. All participants are now in a listen-only mode, and until the question-and-answer session. We ask that all participants limit themselves to one question and one follow-up during the answer and – during 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 Walters, Senior Director of Investor Relations at APi Group. Please go ahead.

Adam Walters

Senior Director-Investor Relations, APi Group Corp.

Thank you. Good morning, everyone, and thank you for joining our first quarter 2026 earnings conference call. Joining me on the call today are Russ Becker, our President and CEO; and David Jackola, our Executive Vice President and CFO.

Before we begin, I would like to remind you that certain statements in the company's earnings press release 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, April 30, 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 first quarter financial performance on the Investor Relations page of our website. Our comments today will also include non-GAAP financial measures and other key operating metrics. The reconciliation of and other information regarding these items can be found in our press release and our presentation.

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

Russell A. Becker

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

Thank you, Adam. Good morning, everyone. Thank you for taking the time to join our call this morning. I want to start by thanking our 29,000 teammates for their dedication to APi, the safety, health, and well-being of each of our leaders is our number one value. We remain deeply committed to investing in their growth and development. This is at the heart of our purpose building great leaders. Our people are what set this company apart, and I'm truly grateful for everything they do.

In 2026, APi is celebrating its 100-year anniversary by embracing the theme of gratitude. APi was founded in 1926 as a small plumbing business in Saint Paul, Minnesota. Today, we are a global, market leading business services company with more than 500 locations around the world. When I think about that journey where we started and where we are today, I am truly humbled. We have so much to be grateful for. We are honoring this milestone by giving back to the communities that we serve, and by celebrating with our teammates, customers and communities that helped us along this journey. We are off to a strong start in 2026.

Before we get into the financial results, I wanted to touch on a few first quarter highlights. From an M&A perspective, we closed the acquisition of CertaSite in February, an inspection-first provider of comprehensive fire and life safety services across the Midwest. Earlier this month, we announced an agreement to acquire Ireland-based Wtech Fire Group, which adds to our fire sprinkler and suppression capabilities across Europe. A key strategic growth area for our international business. And just last week, we announced an agreement to acquire Onyx-Fire Protection Services, a leading provider of fire and life safety services in Canada with an inspection-first mindset and a strong recurring revenue base. This acquisition positions US well in Canada, which we view as an attractive fire and life safety and electronic security market.

We expect Onyx-Fire to close in the second quarter and Wtech Fire to close in the third quarter of this year. We will update our full year guidance on future earnings calls after these transactions closed.

In total, these three acquisitions represent an investment of more than \$1 billion to further build out our safety services segment across the US, Europe and Canada. Each of these acquisitions is accretive to our 10/16/60+ financial targets. And equally important, these businesses are all excellent cultural fits, and we are excited to welcome our new teammates to the APi family.

We also completed four bolt-on acquisitions during the quarter, and we remain on track to deploy approximately \$250 million in bolt-on M&A at attractive multiples this year, including opportunities within the international business and the elevator and escalator services businesses. Our systems and business enablement program continues to advance well. Earlier this month, our first pilot company went live on our new business systems. Our

teams have done a tremendous amount of work to get to this point, and while there is still work ahead of us, we are tracking in line with our expectations.

Now turning to our strong first quarter results. The business continues to build momentum, delivering robust top line growth while expanding margins. We continue to deliver solid growth in inspection, service and monitoring revenues while capitalizing on the robust project environment. We expanded our adjusted EBITDA margins. And as I mentioned earlier, we continue to drive our M&A strategy to further strengthen and expand our global platform.

For the quarter, net revenues increased by 15%, approximately 10% organically, with strong growth across both segments. In our Safety Services segment, revenues grew organically by approximately 5% while expanding segment earnings margins by 60 basis points. Our Specialty Services segment continued its momentum, delivering approximately 25% organic growth while expanding segment earnings margins by 50 basis points. Importantly, we continue to see solid growth in inspection revenues, and we remain confident in our ability to sustain that momentum.

Our team continue to focus on margin expansion, with adjusted EBITDA margins expanding 70 basis points year-over-year. We expect to see continued margin expansion for the year, largely driven by the same initiatives that we that we have been executing. These include the following: first, consistent organic growth; improved inspection, service, and monitoring revenue mix; disciplined customer and project selection; pricing; branch and field optimization; procurement, systems and scale; accretive M&A and selective business pruning; and as I always like to say, we can always just be better.

The first quarter was another strong quarter for cash flow, as the business generated \$125 million in adjusted free cash flow. In addition, we ended the quarter with a net leverage ratio of approximately 1.8 times, well below our long-term target. Our consistent free cash flow generation and strong balance sheet continue to provide us flexibility to pursue a range of value enhancing capital deployment opportunities to support our 10/16/60+ financial targets.

As a reminder, these targets are the following: \$10 billion in net revenues by 2028, supported by consistent mid-single digit organic growth and accretive M&A; 16% plus adjusted EBITDA margin by 2028; 60% plus of our revenues from inspection, service, and monitoring over the long-term; and \$3 billion of cumulative adjusted free cash flow through 2028. I am proud of our team for the strong momentum we have built to start the year. Our inspection, service, and monitoring business continues to expand. Our backlog is robust and healthy, and our balance sheet provides us with the flexibility to continue executing on our capital deployment priorities.

I'd now like to hand the call over to David to discuss our first quarter 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 net revenues for the three months ended March 31 were \$1.98 billion, a 15.3% increase compared to \$1.72 billion in the prior year period. Organic revenue growth of 10.4% was driven by solid growth in inspection, service and monitoring revenues, growth in project revenues, and pricing improvements. Adjusted gross margin for the three months ended March 31 was 31.3%, representing a 40-basis-point decrease compared to the prior year period, primarily driven by business mix, partially offset by disciplined customer and project selection and pricing improvements.

Adjusted EBITDA increased by 21.8% for the three months ended March 31, 18.1% on a fixed currency basis, with adjusted EBITDA margin coming in at 11.9%, representing a 70-basis-point increase compared to the prior year period. Growth in adjusted EBITDA was driven by strong revenue growth and favorable SG&A leverage.

Adjusted diluted earnings per share for the three months ended March 31 was \$0.32, representing a \$0.07 or 28%, increase compared to the prior year period. The increase was driven by strong revenue growth, adjusted EBITDA margin expansion and a decrease in interest expense, partially offset by an increase in the share count.

I will now discuss our results in more detail for the Safety Services segment. Safety Services reported net revenues for the three months ended March 31 were \$1.42 billion, an 11.7% increase compared to \$1.27 billion in the prior year period. Organic growth of 5.4% was driven by solid growth in inspection, service and monitoring revenues, growth and project revenues and pricing improvements.

Adjusted gross margin for the three months ended March 31 was 37.2%, representing a 20-basis-point increase compared to the prior year period, driven by disciplined customer and project selection and pricing improvements, resulting in margin expansion in inspection, service and monitoring revenues and project revenues, partially offset by mix. Segment earnings increased by 15.6% for the three months ended March 31 or 11.7% on a fixed currency basis. Segment earnings margin was 16.3%, representing a 60-basis-point increase compared to the prior year period, primarily driven by adjusted gross margin expansion and favorable SG&A leverage.

I will now discuss our results in more detail for the Specialty Services segment. Specialty Services reported net revenues for the three months ended March 31 were \$569 million, an increase of 25.6% or 24.8% organically, compared to \$453 million in the prior year period, driven by growth in both product and service revenues. Adjusted gross margin for the three months ended March 31 was 16.3%, representing a 50-basis-point decrease, compared to the prior year period, primarily driven by mix. Segment earnings increased 34.5% for the three months ended March 31 and segment earnings margin was 6.9%, representing a 50-basis-point increase, compared to the prior year period, primarily due to favorable fixed cost absorption, partially offset by net.

As Russ mentioned in his remarks, Q1 was another strong quarter for adjusted free cash flow. For the three months ended March 31, adjusted free cash flow was \$125 million, up \$39 million versus last year, representing an adjusted free cash flow conversion of 88% on adjusted net income. Free cash flow generation has been and continues to be a priority across APi. We are pleased with our first quarter adjusted free cash flow while continuing to drive strong, consistent revenue growth. We remain on track to achieve our adjusted free cash flow conversion target of approximately 115% for the year, in line with prior guidance.

At the end of the first quarter, our net debt to adjusted EBITDA ratio was approximately 1.8 times significantly below our long-term target of 2.5 to 3 times. Our consistent free cash flow generation and strong balance sheet position us well as we evaluate financing options for the previously announced Wtech and Onyx acquisitions, which we plan to fund with a combination of cash on hand, cash flow from operations and incremental debt. As a reminder, our long-term capital deployment priorities remain unchanged, maintaining net leverage and stated long-term goals, strategic M&A at attractive multiples and opportunistic share repurchase.

I will now discuss our guidance for the second quarter and full year 2026, which, as a reminder, is based on current foreign currency exchange rates and acquisitions closed to-date. We expect increased full year net revenues of \$8.475 billion to \$8.675 billion, up from \$8.4 billion to \$8.6 billion, representing organic growth in net revenues of 5% to 7% for the year.

Moving down to P&L, we expect increased full year adjusted EBITDA of \$1.15 billion to \$1.21 billion, up from \$1.14 billion to \$1.20 billion, representing an adjusted EBITDA margin of 13.8% at the midpoint and adjusted EBITDA growth of 11% to 16% for the year.

As a reminder, the impact of the CertaSite acquisition, which closed on February 2, was fully reflected in our prior guidance and we will update our guidance for the Wtech and Onyx acquisitions after those transactions have closed. Our increased full year revenue and EBITDA guidance is due to the strong business performance to start the year, offset by the headwind of the strengthening US dollar since our February guidance. More information on our revised guide can be found on our earnings presentation that is posted on our Investor Relations website.

In terms of the second quarter, we expect reported net revenues of \$2.175 billion to 2.225 billion, representing organic net revenue growth of approximately 7% to 9%. We expect adjusted EBITDA of \$300 million to \$310 million, representing an adjusted EBITDA margin of 13.9% at the midpoint and adjusted EBITDA growth of 10% to 14%. For 2026, we continue to anticipate interest expense to be \$130 million, depreciation to be \$90 million, capital expenditures to be \$105 million, and our adjusted effective tax rate to be 23%. We expect corporate expenses to be approximately \$35 million per quarter, with some timing variability throughout the year, and our adjusted diluted weighted average share count to be 441 million for the year.

With that, I will now turn the call back over to Russ.

Russell A. Becker

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

Thanks, David. We begin the second quarter with positive momentum and strong demand for our services. We continue to deliver robust organic growth, expand adjusted EBITDA margins, and build on the strength of our backlog. That, and the continued strength of our M&A execution and pipeline position us well for the remainder of the year. We remain focused on creating sustainable shareholder value by delivering on our 10/16/60+ targets.

With that, I'd 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. Please limit yourself to one question and one follow-up. [Operator Instructions] Your first question comes from the line of Andrew Kaplowitz with Citi. Your line is open. Please go ahead.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Good morning everyone.

Q

Russell A. Becker

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

Good morning.

A

Glenn David Jackola

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

Good morning.

A

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Good morning. Russ, could you give us a little more color on what you're seeing in Specialty Services obviously continues to be very strong, a different level of strength, I think, over the last few quarters. I know you've got tougher comps moving forward, but do you see the momentum continuing as the majority of the uptick coming from data centers, or is it more broad based, would you say?

Q

Russell A. Becker

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

Thanks, Andy, and I hope you're well. I would say that their backlog is super strong and they are seeing some benefits from data centers, but I would classify the work in their portfolio to be more broad-based than just data centers. As a reminder, we're doing industrial maintenance and service work. In our Specialty Services segment, we're doing infrastructure work. We do potable water, replacement work, and so – the telecom work, and so they're definitely benefiting from data centers. And the opportunities that are presented with the data center expansions in North America, but I would also just classify their backlog as being really diverse, just with their service offerings as well as from a geographic standpoint.

A

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Very helpful. And then, it seems like you've accelerated acquisitions quite a bit this year with the \$1 billion you mentioned and continued optimism to get to the \$250 million per year bolt-on M&A activity. Any reason for the uptick, maybe valuations better, just more companies willing to sell. Just more color on what you're seeing, do you expect this uptick of modestly bigger deals to continue?

Q

Russell A. Becker

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

A

Well, you broke the rule already with multiple questions. But...

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

[indiscernible] (00:20:19)

Q

Russell A. Becker

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

A

...I expected that from you, Andy. And so you know what, to be honest with you, Andy, I would just say it's the opportunities presented themselves at the right time. So I don't know that it was anything that was necessarily purposeful. It's just that, sometimes things have to present themselves at the right time. As an example, Onyx presented itself 18 months to 2 years ago. We've known the business for a long time. I've known their CEO for probably 10 years plus. And but when it presented itself to first time around, we were in the middle of an integration – a lot of integration work with our existing business in Canada alongside the Chubb Canada business. And we didn't feel like we had the bandwidth to do it. And so we remain disciplined and basically stayed on the sideline and this opportunity presented itself. And so we're able to capture it and take advantage of it.

Wtech is another example I think I first met Ted Wright there CEO who's a great leader. Just like the Onyx CEO is a great leader. I think I met Ted a couple of years ago. And we've just stayed in touch and got to know his business. And I think, our culture in everything – the investment we make and people really lined up with what he was looking for as relates to the people, on his team and the opportunity presented itself. And so again, we took we took advantage of it. And so, the CertaSite acquisition came along that was more of a process driven transaction. But I think it's more just the opportunities came right time, great fit for us. We have a great team here that was able to jump in and execute and super excited about these businesses.

I mean they – not only are they center of the fairway for us as it relates to like the services that we want to offer our customers, but very strategic for us, but great leadership, great, great people in those businesses and just can't be more excited to have them join the APi family. And I was – you didn't ask me this, but I actually got a chance to be in Portugal last week with the Wtech team, and they kind of did their annual planning process. And like I came out of that just like even more excited about the fit. So just right opportunities, great time, probably the best way to put it.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Great. I appreciate the color, Russ.

Q

Operator: Your next question comes from the line of Jon Tanwanteng with CJS securities. Your line is open. Please go ahead.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Hi. Good morning. Thank you for taking my questions. I was wondering if you could...

Q

Russell A. Becker

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

Good morning, Jon.

A

Jon Tanwanteng

Analyst, CJS Securities, Inc.

...talk a little bit. Good morning. If you could talk about input cost inflation what you're seeing there number one. And if you're seeing any pushback from customers or any sensitivity of pricing as you put those price increases through to them.

Glenn David Jackola

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

Yeah. Good question. Thanks, Jon. Good morning. So, on the pricing side, we continue to be able to get pricing on the inspection, service and monitoring streams in our business. That hasn't changed over the last couple of quarters. In terms of input costs, so we're seeing the impact of rising fuel costs and some material inflation in our business as a result of tariffs and the conflict in Iran. Our teammates and our leaders have done a really great job of protecting themselves at the time of proposal, which means that we're able to capture the dollar impact of rising fuel costs and material costs as they come through. As a reminder, about 53% of our revenue comes from inspection, service and monitoring, and we're able to price that revenue on nearly in real-time. So if material costs increase, we're able to price through that almost in real-time. We've done a great job of being able to protect ourselves and capture the dollar value, and may have had a slight nick on the margin, but we've been able to protect ourselves from a dollar basis.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

And are you seeing any sensitivity from customers?

Glenn David Jackola

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

No, we've been able to continue to capture price.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Okay. Great. Thank you.

Operator: Your next question comes from the line of Tim Mulrooney with William Blair. Your line is open. Please go ahead.

Tim Mulrooney

Analyst, William Blair & Co. LLC

Yeah. Good morning, Russ and David, thanks for taking my questions. So back to the acquisitions. Curious how far along are your recent acquisitions of Wtech and Onyx down this inspection-first journey. We think of APi as being very forward leaning on focusing on inspections and service versus the install valves, but unclear how many other companies out there have a similar go-to-market strategy, or at least how well develop their systems and protocols are, I guess as it relates to being aligned with your strategy.

Russell A. Becker

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

Yeah. Tim, thank you. Good morning. And what I would tell you is like, I'm going to include CertaSite into the mix here. I would tell you CertaSite was like way down the line. And like 95% of their revenue came from inspection and service work. And so, I would put them like even ahead of APi. And that goes back to when Jeff Wyatt founded the business, he founded the business with this inspection-first mindset.

I would say Onyx is kind of in a similar spot that APi is at currently today. And so they are super focused on building a really robust inspection, service and monitoring business. But I'd put them in a similar spot that we are. And I would say that Wtech is probably more – what I would consider the more traditional, where they're probably a little bit heavier on the project side today. And there's opportunity for us to really build a robust inspection service business inside that current business. So, they're all three and kind of different phases of their evolution. And but – so it's – they're in a good spot and I think they're all going to be really accretive to what we're trying to accomplish as a company.

Tim Mulrooney

Analyst, William Blair & Co. LLC

That's a really good color. Thank you, Russ. And then, if I just stick in kind of along those lines, if I'm looking at Wtech in particular, just curious how you think about the margins potential of that European business in totality. So, you take Chubb, adding Wtech what – I think what you had originally SK Fire you put all this together. You streamline the operations. But obviously the mix is a little bit – is different. The markets are a little bit different than the US. But you take all this into account, what does that look like three to five years down the line relative to your US fire and life safety business? Thank you.

Russell A. Becker

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

Well, I got to give you a little bit of hard time to – everybody's breaking the rules. So, I gave Andy Kaplowitz a little bit of a hard time. So I got to make sure I give Jon from CJS and I got to give you Tim a hard time about it...

Tim Mulrooney

Analyst, William Blair & Co. LLC

Apologies.

Russell A. Becker

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

...but anyways. Yeah. No, it's all good. You got to had a little bit of fun with this stuff too. The expectation is that it will be in line with our North American safety business. And there's no reason that from a margin perspective that they won't be. And it's just it's – a big part of it is setting expectations and creating the right belief that it's achievable. But that's the expectation. We believe that every one of our branches has the opportunity to be a 20% EBITDA branch. And that's the goal and that's the target. And we feel the same way about Wtech. We feel the same way about Chubb that's integrated with SK as we do about our business in Paducah, Kentucky.

Tim Mulrooney

Analyst, William Blair & Co. LLC

Got it. Thank you.

Operator: Your next question comes from the line of Kathryn Thompson with TRG. Your line is open. Please go ahead. Kathryn, your line is open. Please go ahead.

Kathryn I. Thompson

Analyst, Thompson Research Group LLC

Q

I'm sorry about that. Thank you for taking my questions today and good to see that guidance was raised, seeing good underlying business performance. But if you could just give a little bit more color on that in terms of what you're seeing, is it – just to clarify, is it increased demand or pricing or just timing and has there been any change in the variety of work, you noted earlier in your – in the Q&A that it's not just data centers but it's other projects too. So just maybe sussing out a little bit more the color on that improved performance.

Russell A. Becker

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

A

Well I would start – good morning Kathryn and thanks for participating this morning. Well I would say, yes. And what I mean by that is that it's a combination of everything. It's – there's demand in obviously the conversation everybody's talking about is around data centers, right. And data centers is really the primary pusher of demand. So, there's demand opportunity. But there's other end markets that continue to create robust opportunities as well like advanced manufacturing. We're seeing some really great opportunities in the healthcare space. Even higher education, there's opportunity there. Critical infrastructure continues to create opportunities for us. So there's demand. There's playing in the right end markets contributes to it. Price contributes to it. So, it's a combination of everything.

And we've been very consistent in our messaging that, we are not over indexing on the data center space. We want to make sure that we're taking advantage of the opportunities that are presented, but we're not pushing all the chips onto the come line as it relates to data centers. And we'll take advantage of it. But we need to continue to keep our customers that we have in the healthcare space and advanced manufacturing, et cetera. So it's a combination of everything that you mentioned.

Kathryn I. Thompson

Analyst, Thompson Research Group LLC

Q

Great. Thank you. And the follow-up question relates to the inspection-first businesses that you acquired. Does the integration timeline differ between kind of your two broads inspection or inspection and servicing businesses and just is it easier ramping, just any other color on the ramp up of this type of business? Thank you.

Russell A. Becker

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

A

Yeah. I mean all three of them are like slightly different if you will, like CertaSite is kind of its own business. It will continue to operate as an independent business inside our North American safety business. Their service offerings are a little bit different. It's a business that has, does a lot of extinguisher work. And so, the integration will look different for that business than it would say look for like a more traditional bolt-on.

Our Canadian, the Onyx acquisition, we're going to operate that business as an independent portfolio business for the time being until we can figure out the exact, we know where their strengths are, where their weaknesses are, and how that's complementary to our existing footprint in the Canadian operations. And we'll kind of address that market by market as we continue to go forward after we get through the different regulatory filings and everything that we need to get done to close on the acquisition.

And then Wtech will be a stand-alone business inside our international business. And I think most folks have heard me talk about the difference between, say, North America and our international business. And what Wtech brings to our international business is strong strength and capability in the suppression side of the fire life safety

space, which hasn't been a significant strength for us. And so we plan to operate that as an independent business inside our international operations. And so the integration will look different there as well. So they all will have their own variations and levels of like integration as you would potentially define it.

Kathryn I. Thompson

Analyst, Thompson Research Group LLC

Great. Thanks so much. Appreciate, and good luck.

Russell A. Becker

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

Thank you.

Operator: Your next question comes from the line of Julian Mitchell with Barclays. Your line is open please – your line is now open. Please go ahead.

Good morning. This is [indiscernible] (00:34:32) from the Barclays team on for Julian. Thank you for taking my question. Understand that [indiscernible] (00:34:38) is quite broad based across your markets but specifically on data centers, could you provide a bit more color on the funnel and pipeline over the next few quarters and is the company still on track to reach around 10% of sales from data centers this year?

Russell A. Becker

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

Well, you're choppy in – so I think I heard your question and it was around data centers and about around the funnel and around the opportunities that are – that we're seeing. And if we think that approximately 10% of our revenue will come from the data center space at the end of the, so to speak, year. And I would say yes. And I would say that the funnel of opportunities continues to be robust. And we're being selective about which opportunities that we pursue and that we want to deploy our teammates to. I tell our business leaders that like the men and the women that do the work in the field, we need to treat them like they're like precious gems and making sure that we put them on the right opportunities where we can maximize the opportunity that's in front of us. And so we're trying to be really selective.

There's a lot of partnering opportunities that have presented themselves because of the demand in the data center space. So we're being very selective with, who we work with and the clients that we choose to align ourselves with. We also want to make sure that we're super focused on the project side with companies and businesses, that we have the opportunity to do the inspection, service and monitoring after that project opportunity is completed. And we do believe that approximately 10% to 11% of our revenue will come from data centers, by the end of the year. I think that's fair, isn't it, David?

Glenn David Jackola

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

Absolutely, absolutely. And that was the result in the first quarter in the evolution of the backlog as we went through the quarter as well.

Q

Perfect. Thank you very much. And a quick one on Safety Services. Is the 5.4% organic sales growth rate relatively good run rate for the year.

Glenn David Jackola

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

A

Yeah. So, a little choppy again. But I think the question was, was the mid-single digit organic revenue growth a pretty good run rate for the year in the Safety segment. And the answer is, yes.

Q

Great. Thank you very much.

Operator: Your next question comes from the line of Ashish Sabadra with RBC. Your line is open. Please go ahead. Hi. Good morning.

David Paige

Analyst, RBC Capital Markets LLC

Q

This is David Paige on for Ashish. Just following up on the last question, Specialty Services seems to be also tracking above your mid-term organic growth target. So I was wondering, how should we think about that in the back half of the year, or even just given demand and project strength, does that organic growth target need to be revisited? And then as a follow-up within Specialty, some of the sub segments infrastructure, fab, and specialty contracting, can you just give some color on how those performed in the quarter? Thank you.

Glenn David Jackola

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

A

Yeah, I'll take the first half of the question, which is around the progression of the Specialty segment. So a really strong first quarter, expect that [ph] business to perform (00:38:16) strong level throughout the year. As we get deeper into the year as you know we'll be coming up against more difficult comps. So I would expect that there'll be the strength in that business. But as you start comping against more difficult comparisons, the revenue growth rate will slow in the back half but still be a really strong performance. And then a little bit of color around fab and infrastructure, is that the second part of your question?

David Paige

Analyst, RBC Capital Markets LLC

Q

Yeah. Yeah, just some of those, yeah, fab, infrastructure and then specialty contract with I think grew around 45% in 4Q, so I was curious what was the – how those businesses performed in the quarter?

Glenn David Jackola

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

A

Yeah. I mean, really pleased with the performance of all three of those. Our growth in the Specialty segment was really diverse and well spread across all of the reportable segments with strength in a variety of end markets, including data centers. And as Russ mentioned, critical and national infrastructure and others. So really pleased

with the performance of all three of those and the backlog of all three of those reporting segments, as strong and robust as well.

David Paige

Analyst, RBC Capital Markets LLC

Great. Thank you.

Q

Operator: Your next question comes from the line of Tomo Sano with JPMorgan. Your line is open. Please go ahead.

Tomohiko Sano

Analyst, JPMorgan Securities Japan Co. Ltd.

Good morning, everyone.

Q

Russell A. Becker

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

Good morning. How are you?

A

Tomohiko Sano

Analyst, JPMorgan Securities Japan Co. Ltd.

Thank you. Doing well. Thank you. I forgot in your international business I think you mentioned that backlog remains strong overall in today's volatile market, competitive dynamics can present both risk and opportunities given ongoing geopolitical and supply chain challenges. How have you adapted your international operations over the past couple of months, and do you see any new opportunities emerging globally?

Q

Russell A. Becker

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

Well. I think that when I look at the international business, like our backlog is basically on par with where it was the previous year. So like, we feel good about the opportunities that we see. Our presence in the Middle East is pretty small. And I think that – they're definitely seeing more impacts from the conflict in the Middle East. Just – I think just general temperature and proximity is going to have some level of impact on that. But we feel good about our international business and the leadership inside the international business and the opportunities that are coming forward. And from an M&A perspective, we've said that we have opened up the aperture and we think there's opportunities for us to continue to expand our business internationally. And we're seeing the opportunities come forward. So it's a good – we're in a good place there. But they're definitely – they definitely feel the impacts of the conflict more so than we do here. There's no question about that.

A

Tomohiko Sano

Analyst, JPMorgan Securities Japan Co. Ltd.

Thank you, Russ. I appreciate it. Thank you.

Q

Operator: Your next question comes from the line of Andrew Wittmann with Baird. Your line is open. Please go ahead.

Andrew John Wittmann

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

Q

Great. Thanks for taking my questions. And good morning, guys. Most of my questions have been asked and answered, but just a couple of here, maybe one for David, would just be with these larger acquisitions until you have to close, could you just give us a view of where the net leverage stands kind of pro forma for those after those close, just so we can kind of gauge where the balance sheet is and how much more dry powder you have.

And then Russ, it's kind of a question for you just on the safety inspection, service and monitoring environment right now. There's been I don't think it's just the APi that's been more focused on the inspection, service and monitoring portion of this market. I'm just wondering, obviously you're still getting pricing, I feel like that the industry is getting pricing, but is the a competitive environment both for customers in that segment of the market as well as for acquisitions noticeably different than what you would have seen two years or three years ago or would you say it's unchanged?

Russell A. Becker

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

A

I'll go first. And just because I can't remember the second half of your question, and David is younger than me, and hopefully he can remember the first half of your question, even though I do remember the first half of your question, Andy. So anyways, good morning and thank you. I would say it's really unchanged. And I go back to even like for the most part, you know like we continue to see organic growth in our inspection business on par with previous quarters and you really take and share there and I think that that's really primarily driven by the highly fragmented market that we operate in.

And like I've commented to this in the past that if you really go in and analyze, the major metropolitan markets across the United States, there's not one firm that has, 10% market share in that market. And even I don't think most companies don't have more than 5% like the largest players. And that includes us. And so, to me, like the highly fragmented nature of the markets that we serve, continues to create opportunities for us to take share as it relates to growing our inspection and service business.

From an M&A perspective, Andy, we continue to see really our funnel and our pipeline are really robust even including the bolt-on M&A opportunities that we're seeing. And I would just tell you that, we're looking for sellers who are really interested in finding the forever home, for their people. And if all they're interested in is finding the highest price, then they should sell their business to a private equity backed firm. And what we can offer these companies is forever home for their people. We can, respect the legacy that they've created. Most of these businesses are family-owned, family-run businesses. And we have something different that we can offer these people. And that creates a unique opportunity for us.

And, even Wtech, which was a private equity backed business. Number one, it was is probably one of the best private equity firms that I've been associated with like just they actually care a lot about their people. But in a conversation I had with Ted, their CEO in front of his key business leaders, the conversation was around, people and finding the right spot. And he actually turned and looked at his group and he said, we found our forever home. And I think that's something that's unique and a unique – provides us with a unique opportunity as we continue to look to build out our portfolio and to build out our business.

And so I would say it's really the same, Andy, that's maybe a little bit more than what you were looking for. But I would just tell you it's the same. And I think it just creates opportunity and the more momentum we get on, the more opportunity that it will create for us. And we get a lot of really good things happening in that front. And we'll

have as we work our way through this year, we're going to have a lot more to share and that will take you into – you can, David, can answer your question about our balance sheet and the dry powder we have, because we have a lot of flexibility.

Glenn David Jackola

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

A

Yeah. I appreciate you reminding me of a question too, Russ. So as we mentioned in the script, we ended the first quarter with a net leverage ratio of about 1.8 times. By the time we finance and close on the two announced acquisitions we'll be at or below the low end of our target net leverage ratio, and I expect that we'll work that down to kind of the ballpark of where we are today by the end of the year. Does that does that help?

Andrew John Wittmann

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

Q

Yes. We can do the math on that. Good enough. Thank you.

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

Jasper Bibb

Analyst, Truist Securities, Inc.

Q

Thanks for the question, guys. I'll keep it to one really nice organic growth this quarter. Obviously, you mentioned a mixed impact on gross margins for both segments. Could you just provide a bit more detail on the mix factor this quarter and clear up if there was any, like material purchase pull forwards due to uncertainty from the war or maybe the support the upcoming project in the next three quarters that could have a, I guess, boosted revenue event and diluted margins.

Glenn David Jackola

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

A

Yeah, I can cover that one. I think about mix is, kind of two factors. And they're both really mass driven versus the growth in project revenue in the quarter, which on average comes at about 10 percentage points, lower gross margins than are inspection service and monitoring work. And then, second is the growth in the Specialty Services segment vis-à-vis the Safety segment and the impact that had on margin in the quarter as well. So, those are really the two mix factors, just the ratio of service and project work in the quarter in the segment mix. And to answer your other question, no real material pull forward impact in the quarter.

Jasper Bibb

Analyst, Truist Securities, Inc.

Q

Thank you. Appreciate it.

Operator: Your next question comes from Curtis Nagle with Bank of America. Your line is open. Please go ahead.

Curtis Nagle

Analyst, BofA Securities, Inc.

Q

Great. Just, I want to go back to that that point you made on kind of the [ph] 5%, 4% (00:48:47) run rate, will that being a good run rate for the year. Just wanted to confirm that given [indiscernible] (00:48:54) compares are

obviously higher. So if that's the case, I mean that's obviously a pretty positive statement. So just, wanted to confirm that, that's what you said.

Glenn David Jackola

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

Yeah. I think [indiscernible] (00:49:07) your question, this is around the anticipated growth rates in the Safety segment for the full year in the back half. I continue to refer back to our long-term organic revenue growth algorithm. In that segment, we expect our service revenue to grow mid- to upper-single digits each and every quarter, each and every year. And we expect our project work to grow low- to mid-single digits with sketch to a mid-single digit organic revenue growth. That was really the playbook that we saw in the first quarter. Little heavier, maybe on the project revenue, but we expect that to play out through the course of the year.

Curtis Nagle

Analyst, BofA Securities, Inc.

Okay. And then just one quick one on gross margins should mix continue to be a headwind, how should we think about gross margins for the back half of the year?

Glenn David Jackola

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

I continue to expect to see our gross margins and our adjusted EBITDA margins expanding year-over-year as we target 60 to 70 basis points of margin improvement in the year.

Curtis Nagle

Analyst, BofA Securities, Inc.

Okay. Appreciate it.

Operator: Your next question comes from the line of Josh Chen with UBS. Your line is open. Please go ahead.

Joshua K. Chan

Analyst, UBS Securities LLC

Hi. Good morning, Russ and David. On that Safety Services growth point, I guess you grew 5.5% in Q1 and it was a little heavier on project, could you just talk about the trajectory on the inspection, service and monitoring and whether there's any change there or was it more of a timing in the quarter? Thank you.

Glenn David Jackola

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

No, I mean, there really hasn't been any change in the trajectory of our inspection, service and monitoring revenue growth, Josh. That business consistently grows mid- to upper-single digits across the business. And there might be quarters where it ends up a little closer to mid there might be quarters where it ends up a little closer to upper. But that has been a consistent mid- to upper-single digit revenue growth stream for the Safety segment. It was in the first quarter, and we expect that it will continue to be in the back half of the year.

Joshua K. Chan

Analyst, UBS Securities LLC

Okay. Great. Thank you for the color and congrats on a good quarter.

Operator: There are no further questions at this time. I would now like to turn the call back to Russ Becker, President and CEO for closing remarks.

Russell A. Becker

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

Thank you. In closing, I'd like to thank all our teammates 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 are 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 again, everybody for joining the call.

Operator: This concludes today's call. Thank you for attending. You may now disconnect.

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