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APi Group Corp. (APG)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to APi Group's Second Quarter 2026 Financial Results Conference Call. All participants are now in a listen-only mode until the question-and-answer session. We ask that all participants limit themselves to one question 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 second 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

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may cause our future results to differ from our expectations. Our statements are as of today, July 30, 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 second 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 begin by thanking our 31,000 leaders for their dedication to APi. The safety, health and well-being of each of our leaders remains our number one value. We are proud that APi has once again been certified as a great place to work, marking our fifth consecutive year on the list.

This achievement reflects the culture our leaders have built, one where we care for our teammates and empower them to do their best work. Our enduring purpose of building great leaders defines that culture and allows us to attract, develop and retain exceptional leaders across APi.

We believe our culture will continue to be a competitive advantage for us over the long term. The strength of our business model and disciplined execution drove another impressive quarter as we continue to deliver robust growth and margin expansion. Net revenues increased 13%, including 10% organic growth with growth across both segments.

Our North American Safety Business maintained its momentum and delivered another strong quarter, growing organically by high-single digits, with robust growth in both project and service revenues. This business has consistently outperformed our mid-single digit long-term growth algorithm, underscoring the sustained strength of the business and the execution of our inspection-first strategy.

We continue to see a healthy pipeline in both project and service work, much of which is with existing customers, reinforcing our inspection first flywheel and creating attractive recurring revenue opportunities in the future. International safety was flat for the quarter. However, we saw a return to organic growth in the back half of the quarter.

Improvements in underlying commercial indicators give us confidence that the business will continue to grow as we move through the balance of the year. Investments in our international global accounts capability are gaining traction. Both pipeline and booked backlog increased during Q2 and include a number of meaningful new project awards in the data center space, which, as many of you know, has laid the US market in both the pace and magnitude of growth.

Order intake grew mid-single digits in the quarter, and portfolio additions were at their highest level in more than two years. Longer term, there is a significant opportunity ahead in the international business as we double down on our recurring revenue in inspection-first go to market strategy, supplement growth through bolt on M&A and capitalize on the cross-sell opportunity that exists through WTech's complementary fire sprinkler and suppression capabilities.

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The Specialty Services segment outperformed expectations in the second quarter. Net revenues increased 22% organically with robust growth in both project and service revenues. Momentum was broad based. Demand continues to be strong across our targeted end markets. Data centers were a notable contributor, where our businesses offer a variety of services, including HVAC and mechanical, structured cabling, structural steel and insulated paneling, among others.

Our team has remained selective in its approach to customer and project selection and has executed at a high level, translating top line growth into a 60-basis-point increase in segment earnings margin. We ended the second quarter with a record backlog, surpassing $5 billion for the first time in APi's history. End markets matter. We remain focused on data centers, semiconductors, advanced manufacturing, health care and critical national infrastructure.

Within the data center market, activity remains a meaningful source of strength across both segments, and we see a healthy pipeline of opportunities. Our size, scale, technical expertise and established customer relationships position us well to support the data center and related infrastructure build out while creating long-term opportunities for recurring high margin in inspection, service and monitoring revenue once the data centers are operational.

I am pleased with the portfolio of offerings across our segments which positions us well to capture current demand in this dynamic market. Adjusted EBITDA margins increased 10 basis points despite the near-term mix impact from the robust project environment. As a reminder, gross margins from project work is typically 10 percentage points lower than those on service work. These attractive projects meet our disciplined customer and project selection criteria and position us well to capture the recurring inspection and service work following project completion.

Cash flow was once again strong in the quarter, with the business generating $228 million in adjusted free cash flow year-to-date. We ended the quarter with a net leverage ratio of 2.2 times below our long-term target.

During the quarter, we repurchased approximately 1.6 million shares for $66 million, the first share repurchase under our existing $1 billion program. Our consistent free cash flow generation and strong balance sheet continue to provide us flexibility to pursue acquisitions, share repurchases and reinvestment in the business through capital expenditures, supporting our 10/16/60 plus financial targets.

As a reminder, these targets include the following. $10 billion plus 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 plus of cumulative adjusted free cash flow through 2028.

We continue to flex our M&A muscle this quarter. In June, we closed the acquisition of Onyx-Fire, followed by WTech in early July. It has been great to welcome both teams to the APi family. These businesses are excellent strategic fits for APi, add valuable capabilities in important geographies and most importantly, align well with our culture.

Integration is progressing and we are excited to see both businesses continue to grow as part of APi. We also remained active on the bolt-on front, completing three acquisitions during the quarter. This included the first bolt-on acquisition completed in our elevator and escalator services business as well as one completed in our international safety business. These are important milestones as we build out our M&A pipelines in both businesses.

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The industries we serve remain highly fragmented and our bolt-on pipeline remains robust with a broad range of opportunities at attractive multiples. Our value proposition as a forever home continues to resonate with sellers and their teams. Our strong balance sheet provides the flexibility to pursue larger acquisitions when the right opportunities arise and we remain on track to deploy $250 million in bolt-on M&A this year. Looking forward, we are building the capabilities needed to support a higher volume of bolt-on M&A as we work to scale annual deployment towards $350 million.

Lastly, APi was named to the Fortune 500 list for the first time. This is a meaningful milestone which coincides with our 100-year anniversary and reflects the dedication of our leaders, the strength of our business model and the consistent execution of our strategy. We are proud of how far APi has come and remain focused on continuing to build a durable business for the long term.

I believe the best is yet to come. The business is executing at a high level and our financial results are strong, reinforcing our confidence in our long term targets. We are encouraged by the strength in the inspection, service and monitoring business; the robust project environment; record backlog and the disciplined execution of our M&A strategy. We are well-positioned to build on this momentum in the second half of the year.

I would now like to hand the call over to David to discuss our second 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 June 30 were $2.25 billion, a 13.3% increase compared to $1.99 billion in the prior year period. Organic growth of 10.1% was driven by solid growth in inspection, service and monitoring revenues; robust growth in project revenues; and pricing improvements.

Adjusted gross margin for the three months ended June 30 was 31.2% unchanged compared to the prior year period. Margins increased in both project and service revenues, driven by disciplined customer and project selection and pricing improvements, offset by project and business mix. Adjusted EBITDA increased by 14.3% for the three months ended June 30, 13.1% on a fixed currency basis with adjusted EBITDA margin coming in at 13.8%, representing a 10-basis-point increase compared to the prior year period.

Growth in adjusted EBITDA margin was driven by strong revenue growth, resulting in favorable SG&A leverage. Adjusted diluted earnings per share for the three months ended June 30 was $0.44, representing a $0.05 or 12.8% increase compared to the prior year period. The increase in adjusted diluted EPS was driven by strong revenue growth and adjusted EBITDA margin expansion, partially offset by an increase in the adjusted diluted weighted average shares outstanding. I will now discuss our results in more detail for the Safety Services segment.

Safety Services reported net revenues for the three months ended June 30 were $1.48 billion, an 8.8% increase compared to $1.36 billion in the prior year period. Organic growth of 4.7% 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 June 30 was 37.4%, representing a 20-basis-point increase compared to the prior year period, driven by disciplined customer and project selection and pricing improvements, which resulted in margin expansion in inspection, service and monitoring revenues and project revenues partially offset by mix.

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Segment earnings increased by 8.6% for the three months ended June 30, or 7.7% on a fixed currency basis. Segment earnings margin was 17%, unchanged compared to the prior year period, driven by adjusted gross margin expansion, offset by increased SG&A.

I will now discuss our results in more detail for our Specialty Services segment. Specialty Services reported net revenues for the three months ended June 30 were $773 million, an increase of 22.9% or 22% organically, compared to $629 million in the prior year period, driven by robust growth in both project and service revenues.

Adjusted gross margin for the three months ended June 30 was 19.3%, representing a 120-basis-point increase compared to the prior year period, driven by disciplined customer and project selection and pricing improvements resulting in margin expansion in service and project revenues. Segment earnings increased by 29.6% for the three months ended June 30, and segment earnings margin was a 11.9%, representing a 60-basis-point increase compared to the prior year period driven by adjusted gross margin expansion, partially offset by SG&A expenses including variable compensation expense.

As Russ mentioned, adjusted free cash flow generation remained strong. For the six months ended June 30, adjusted free cash flow was $228 million, up $42 million versus the prior year period, representing adjusted free cash flow conversion of 68% on adjusted net income.

Free cash flow generation remains a priority across APi and I am pleased with our improvement in net working capital rate, allowing us to grow adjusted free cash flow while our [indiscernible] (00:16:05) organic revenues increased double digits. We remain on track to achieve our adjusted free cash flow conversion target of approximately 115% for the year in line with our prior guidance.

We ended the quarter with a net leverage ratio of 2.2 times below our long-term target ratio of 2.5 times to 3 times. As anticipated, we completed a series of well executed capital markets actions during the quarter. We issued $500 million of 5.75% senior unsecured notes due 2034, expanded our revolving credit facility to $1 billion and proactively extended the maturity of our Term Loan B to 2033 while maintaining SOFR plus 175 basis points pricing. Collectively, these actions improve our liquidity, extend our maturity runway and provide continued balance sheet strength and flexibility.

As a reminder, our long-term capital deployment priorities remain unchanged, maintaining net leverage at stated long-term targets, strategic M&A at attractive multiples and opportunistic share repurchases. I will now discuss our 2026 guidance for the third quarter and full year, which as a reminder is based on foreign currency exchange rates and acquisitions closed to date.

We are again raising our full-year guidance for revenue and adjusted EBITDA based on our strong first half performance and improved outlook for the remainder of the year. We now expect full year net revenues of $8.875 billion to $9.025 billion, up from the guidance provided on July 2, 2026 of $8.66 billion to $8.86 billion, representing 7% to 9% organic revenue growth.

Moving down the P&L, we now expect full year adjusted EBITDA of $1.205 billion to $1.245 billion, up from $1.177 billion to $1.237 billion, representing an adjusted EBITDA margin of 13.7% at the midpoint and adjusted EBITDA growth of 16% to 20% for the year. Our increased guidance offset estimated foreign exchange headwinds of approximately $30 million to net revenue and $5 million to adjusted EBITDA relative to our prior guidance.

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As a reminder, our prior guidance issued July 2, 2026, fully incorporated the anticipated 2026 contributions from the Onyx-Fire and WTech acquisitions. Additional information can be found in our earnings presentation posted on our Investor Relations website. For the third quarter, we expect reported net revenues of $2.375 billion to $2.425 billion, representing organic net revenue growth of approximately 8% to 10%.

We expect adjusted EBITDA of $325 million to $335 million, representing an adjusted EBITDA margin of 13.8% at the midpoint and adjusted EBITDA growth of 16% to 19%. For the full year 2026, we anticipate interest expense of $150 million, which reflects the incremental interest expense associated with the $500 million senior unsecured note issuance completed during the quarter. We expect depreciation expense of $90 million, CapEx of $105 million and adjusted effective tax rate of 23%, corporate expenses for the year of approximately $140 million with some variability across quarters, and in adjusted diluted weighted average share count of 439 million, reflecting the repurchase of 1.6 million shares during the second quarter.

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. As we look ahead to the third quarter, we see sustained momentum across the business and continued demand for our services. Our teams continue to look to deliver strong organic growth, expand adjusted EBITDA margins and grow the backlog. At the same time, our disciplined M&A execution and robust pipeline support our long-term growth strategy. This positions us well for the back half of the year as we remain focused on creating sustainable shareholder value and delivering on our 10/16/60 plus 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. [Operator Instructions] Your first 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. Excuse me. Thanks for taking my questions this morning. Russ, I guess I just wanted to ask about the project business here. Maybe you could just comment. It's obviously a big driver of the growth you're realizing here in not just this quarter, but in recent quarters. And as a result of that, I was hoping you could comment on the average size of those projects. I have to imagine it's going up.

What can you tell us about that? And how it relates to other margins that are available because you're getting some margin leverage, but you've got big long-term margin goals. And I'm wondering if the mix of all this project work, which is great, is a inhibitor to achievement of those goals, recognizing that your profit dollars are growing nicely with it. So hoping you could just talk about the project size, margins associated with them and how that relates to your long-term margin goals. Thank you.

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

A

Yeah. Thanks, Andy. I hope you're well. There's no question that the project sizes are larger and we're seeing significant increases. You know, like when I think about the fire protection, life safety space, and you think about the data center, four, five years ago, a large data center job might have been $7 million or $8 million. And today, you consistently see fire projects pushing $20 million.

But the – I would say the difference is, is that, that you're able to price that work accordingly and get better gross margins on that larger project work just because of the complexity associated with it, the location where these projects are at, it makes it more difficult for some firms to, to be able to pursue that work. And so you can really price accordingly. And it's positive. You know, is it – like we commented in our remarks about typically we – our project work has 10 percentage points less gross margin than our inspection service and monitoring. I would say that, that is true in most cases, but on some of this larger work, we're able to get higher gross margins on it and close that gap more. And we believe that we're still on track to achieve our 16% long term 2028 margin expansion objective.

Operator: Your next question comes from...

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

A

You want me to keep going.

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

Stephanie Moore
Analyst, Jefferies LLC

Q

Great. Good morning. Appreciate the time. I was hoping you could touch a bit...

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

A

Good morning, Stephanie.

Stephanie Moore
Analyst, Jefferies LLC

Q

Good morning. I was hoping you could touch a bit on what you're seeing actually on the safety side of your business. You maybe bifurcating between performance in North America as well as in Europe and maybe any strategic actions you've made as of late to either accelerate margin performance or any other actions that might help give a little bit more color out within Safety. Thank you.

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

A

Well, our Safety business continues to perform very well, and we're actually quite happy with what we're seeing in our business. You know, we still like in the international safety business, we still have work to do to, so to speak,

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convert to the mindset of like recurring revenue first service, inspection work first. And that is something that – I wish you could click a light switch and, and change mindset, but that's just not the case.

And so we continue to push that hard in the business. And we're actually seeing some really positive results coming from that. So but we still have work to do there. And but, in general, our inspection-first strategy continues to, to pay dividends and we continue to optimize branch performance and see – we continue to see upward results from that. And it's good. And then you got the robust project environment sitting on top of it. And we're really just seeing that come forward in the international business. You know, I think that especially from a data center and market perspective, it's been lagging what we've experienced here in the US and now we're really starting to see those opportunities produce positive results in the international business as well.

Stephanie Moore
Analyst, Jefferies LLC

Q

Thank you. Appreciate it. And then just one, one follow-up here. And I think M&A is a question that you guys get asked quite a bit. You know, quite frankly, this has been a very active M&A year for you guys. So it's always helpful, maybe just to get a sense of what you're seeing in terms of M&A activity as we think through the second half of the year, was it kind of a pull forward of the first half on timing or could we expect this momentum to kind of continue? And then on that, Russ, I think you've always are pretty vocal about maybe areas you would like to expand into from an M&A standpoint. So any change in strategy in terms of maybe end market or services that you would like to go after over the medium term? Thank you.

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

A

So I would say no change in strategy as it relates to the disciplines that we serve. You know, we're going to continue to focus on fire life safety. Security, elevator and escalator would be probably our top three priorities. And we do like the HVAC service space as well. And if the right opportunity came along there, we would certainly take the – interested in taking a look.

I think what you saw just with the M&A activity that they've so to speak, we've been really active in is that the right opportunities came along at the right time and we – because of the strength of our balance sheet, we're able to pass. And to me, that was something that, that's always been important, is that, when we look at M&A is like we want to be, be in a position to be opportunistic. And because of our balance sheet, we are and there's some interesting things that we would certainly be willing to roll up our sleeves on it. That will probably come in the latter half of this year that we're keeping our eye on.

But you will for sure see the bolt-on M&A are the work – our corporate development teams doing on bolt-on M&A. You're going to see that carry forward through the second half of the year and right into 2027. And as I said in my prepared remarks, we've set our kind of our annual goals to do $250 million of bolt-on M&A a year. And we're in the process right now of working with our corporate development leader to build out his team and our capabilities and taking advantage of artificial intelligence to assist us on things like financial due diligence so that we can do $350 million of bolt-on M&A because we see that – we see the opportunity there.

So, again, going back to strong balance sheet going to be opportunistic and you should expect to see continued activity.

And that was two questions, Stephanie.

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

Curtis Nagle
Analyst, BofA Securities, Inc.

Q

Great. Great. Thanks so much for taking the question. I'll keep this one fairly short, sweet. Just on the guardrails, I guess, in terms of just, what changes does incorporate in terms of or gross expectations for Safety Services versus Specialty? Just if you can unpack that. Thank you.

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

A

Yeah. Hey, good morning, Curtis. I'll take that one. You know, as you're looking towards the back half of the year, what I would say is we're continuing to see solid strength in our North America safety segment and a modest improvement in our international safety segment. And that will be reflected in the guide, as well as a continuation of the robust project in service growth in our Specialty Services segment into the back half of the year.

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

Hey, good morning, guys. Yeah, I think you said backlog is now north of $5 billion. I believe on the Q2 call last year, you told us here the eclipse $4 billion in backlog for the first time. I guess it is like 25% growth in the backlog year-over-year, the right way to think about it and then looking forward, I guess I'm just wondering how we should think about what sounds like pretty healthy backlog growth converting to revenue. Thanks.

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

A

Well, I mean – yeah, I mean, that's the math. I mean – and so, you know, that backlog growth is across every aspect of the business. And so that's a positive, the quality of the backlog is positive, i.e. we should generate better gross margins with our backlog today than we did say a year ago. So that's all, all positive, right. You know, I'm always reticent to talk exact figures on our backlog and everything else because if all of a sudden, it goes from $5.1 million to $5 million, everybody's like the sky is falling, Chicken Little, and the reality is our backlog is really strong, but these large projects are longer in duration in general.

And so our average, project duration that was probably at 1.6 months to 9 months is probably more like 9 to 12 months. And that would be something that we could have Adam actually do some work on and follow up on. So we're seeing that. But our backlog coverage is in really good shape and we continue to be pleased with the discipline that our teams are showing from a project and a customer selection perspective. I don't know, David, did I hit everything to Jasper's...

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

A

No. You got it [indiscernible] (00:32:55).

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Jasper Bibb
Analyst, Truist Securities, Inc.

Q

Makes sense. Thanks for taking the question, guys.

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

A

Sure. Thank you.

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

Tomo Sano

Q

Good morning. This is [ph] Evan (00:33:13) on for Tomo. Thanks for taking my question. When looking at M&A, specifically the WTech and then Onyx-Fire, you mentioned it was well aligned with the culture. And can you go into a little bit more on the specifics of how these were strategic fits well aligned with your culture? And then looking at the M&A pipeline, how those acquisitions in the future could potentially fit this criteria?

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

A

Sure. Well, I mean, I'll start with the Onyx. So the CEO of Onyx is a guy named Bryan Chew. And I actually met Bryan Chew in probably like 2017 when he was still with Brookfield. And so I've known Bryan for a long time and from the time that Bryan showed up at Onyx-Fire, he was super focused on inspection service first and with project work being sort of speak the gravy, very, very similar to us. And so it's very, it increases our presence in the Canadian market, makes us a, a strong, strong, strong player in the Canadian market combined with our existing business there. And we have great leadership and confidence in Bryan. And then he's built a great team.

So from a cultural fit, that goes all the way back to 2017. Regarding WTech, we first met Ted Wright two years ago. I was invited to participate actually at an M&A conference in London. And we were fortunate to have a meeting, before the meeting, with Ted Wright. And it was uncanny really just about how quickly, we connected and meshed. And while we do some fire suppression work in the Western European market, I wouldn't have categorized it as a strength of ours. And WTech, Ted has built WTech into a very, very strong fire suppression business. They do other stuff as well. They do fire alarm, but their other core competency is sprinkler and suppression work.

And they operate in a number of different countries throughout Western Europe. And so from that first meeting two years ago, then Andrew White, who is leading our international business, started spending time with Ted and Andy McCleery, he's been spending time with Ted and [indiscernible] (00:35:52) has been spending – and everybody, it's just like a great, great fit. And I think Ted recognized on his own that APi would be a tremendous forever home for him and for his team. And so it was just one of those things that just when you spend time with people, you can tell and it's just a great, the services that they offer are so complementary to our business there. Like, it was just like a slam dunk that we have to figure out how to get this done. And we were fortunate that the private equity firm that owned WTech, they recognized that it was a great strategic fit for us and everything just kind of came together in the line. So every aspect of it is really positive.

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Regarding kind of going forward, I mean, those are the types of opportunities that we continue to look for. You know, like when – we've talked about this in the past, but when the gates that we look at, when we're looking at a business to potentially acquire, geography matters, geographical fit matters, that doesn't mean that we can't be in overlapping markets, but geography matters. The services, the business offers matters. The company that we're going to bolt the business on to has to have the bandwidth to accept it, that matters. The financial profile of a business matters. It doesn't have to be achieving and meeting all of our goals currently, but we have to see a path to it being accretive to our long-term margin expansion goals. And then most importantly and the gate that matters the most is culture, values and fit. And we're super focused on finding businesses that match our culture. And I hope that was helpful.

Q

Thank you.

Operator: Your next question comes from the line of Kathryn Thompson with Thompson Research Group. Your line is open. Please go ahead. A gentle reminder to unmute locally.

Kathryn I. Thompson
Analyst, Thompson Research Group

Q

Good morning. Thank you for taking my question today. On the Specialty Service side, you see big growth in trends there. How much of this is price versus points of new projects? And then really kind of the follow on with that, new project work is great, but clarifying how meaningful the ongoing maintenance piece is going to be for the new builds, particularly, in markets like data centers and energy. Thank you.

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

A

Yeah, Kathryn. I hope you're great.

Kathryn I. Thompson
Analyst, Thompson Research Group

Q

Yeah. All good.

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

A

You know, I would say that – I would say the majority of the organic growth that you're seeing in Specialty is coming from share in volume. You know, you're pricing a lot of that work, other than your MSA work, which is typically year-on-year pricing and you're probably getting 4% or 5% escalation built into those – into your MSAs.

So I would say the lion's share of that organic growth that we reported is coming from share, which is positive and there's a lot of continued opportunity there. And we did continue to grow the service side of the Specialty Services segment, just not as rapidly as the project side of it. So the opportunity really is on both fronts and our team continues to be really focused on growing the service side of their business as well.

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

A

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And maybe I'll take the second part of your question, Kathryn, which is around service attachment to the project work is difficult to quantify because the size, magnitude and the scope of the projects are also different. But what I would say is that so much of the project work that's driving the growth in the second quarter has come from existing customer relationships, where we already do the inspection service and monitoring work, which improves your likelihood of getting the follow-on service work after the project is complete.

And what I'd say is, is the average say inspection size of a large data facility – data center facility is going too far exceed our typical, say, $1,000 to $2,000 estimate that we talk about for a typical inspection in a facility. So that's something we'll do some work on and sharpen our pencil. But it's a really attractive opportunity for both, two of our segments.

Kathryn I. Thompson
Analyst, Thompson Research Group

Q

Okay. Thank you so much.

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

Q

Yeah, good morning. Sticking with the Specialty business here, gross margins were up 120 basis points over last year. Can you just go into a little more detail around what drove that strong margin expansion? And if you think that momentum of gross margin expansion, if you expect that will carry into the second half of this year. And I'm asking about the Specialty segment specifically. Thank you.

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

A

Yeah, I'll take a first stab at this, Tim. And if Russ has anything to add, he can chime in. So really pleased with the gross margin in the Specialty Services segment in the second quarter. And I think that business is going to continue to expand their gross margins year-over-year into the back half of the year. When you think about the specific drivers that drove the margin expansion in the second quarter, I'm going to go back to the language that we talked about, about being highly disciplined, about the, the customers that we choose to do work within the projects that we choose to do work with.

And the point that Russ made during our opening comments about how end markets matter. Our field leaders are the most valuable resource that we have in our organization, and we owe it to them to point them at the highest dollar, highest margin activity and Specialty did a great job of doing that. So they're getting good price, if you will, on the project work that they're doing. And I'd say that we've also had a significant improvement in our contract loss rate in the quarter, which is margin as well.

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

A

Yeah, I don't know. Tim, I would have simplified the answer. I would have said project selection, customer selection, which means we're focused on the right end markets, execution has clearly been better. And we've pruned some – pruned and improved pricing in some of our kind of lower performing MSAs, if you will. So.

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Tim Mulrooney
Analyst, William Blair & Co. LLC

Q

Okay. Thank you.

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

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Q

Hi. Good morning, guys. And thank you for taking my question. Just looking for a little more detail here on the moment of data center. And I apologize. There are a couple of subquestions here, but one, it's still a relatively small portion of the business, but what percentage is data center contributing to growth in both revenue and backlog this year. That's number one. And number two, how do you see that evolving going forward, just given a lot of local opposition into the data center going up and consternation over leverage and returns and CapEx and things like that.

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

A

You know, what, we will kind of answer your multipart question. In multiparts, Jon. You know, when you talk about like how much data center contributed to growth in the second quarter, it was a contributor. We don't do our end market revenue analysis on a quarterly basis, so I can't pin it on a precise number. But it was a contributor to growth in the second quarter.

When you think about backlog, our backlog and the growth that we saw in the quarter and the $5 billion where we're at is diverse across a number of end markets, including data centers. You know, if I had to ballpark, it maybe 15%. 20% of the increase in the backlog came from data centers, but that's a ballpark. We've talked earlier this year about how we think data centers will be 10% to 11% of our revenue in 2026. It may be 10%, 11%, 12% of revenue in 2026. And then I think the opportunities in the market will dictate where it goes from there.

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

A

Yeah, Jon, I mean, I think that to build a little bit on David's comment and kind of maybe close out a little bit of your question where you talked about our position in CapEx spending. I mean, I think all of that – we've been doing our share of homework to make sure that we're educated on the CapEx spending in the outlook. And what does that look like through 2030? And if you look at the demand curve versus the capacity curve, the demand curve is going too far outweigh the capacity curve.

And so, strength will continue through 2030. And we will continue to be disciplined in making sure that we're pursuing the project opportunities on the data centers that we have a high degree of confidence are going to continue to, to move forward. And there's certain strategic regions in the country where you're going to see continued growth. And you think about like there is a certain corridor through central Iowa that you're going to see a tremendous amount of activity in Texas areas. You know, you're going to see a tremendous amount of activity, Wyoming. And then, like even our home state of Minnesota, we're seeing some, some opposition to data centers. And all we can do is be good advocates and try to support the build out of some of these data centers and making sure that they're – that they are being done on an environmentally, socially responsible fashion. And that's our

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obligation to the communities that we serve. And so – but there is going to be a tremendous amount of opportunity. It's going to continue to come forward in that end market.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Q

Great. Thank you very much.

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

Joshua K. Chan
Analyst, UBS Securities LLC

Q

Hi. Good morning, Russ, David. I was wondering about the international safety side of things. You know, I guess could you give us a background on like what led to this relatively flat growth? And is this slower growth primarily on the inspection service monitoring side, or is that mainly project? And you know what would be the successful outcome kind of as we exit 2026?

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

A

Well, we expect to see some organic growth on a, so to speak, year-over-year basis in that business. I mean, I think that there's a number of things that contributed to where they're at right now, today. You know, first, obviously the macro, the conflict in the Middle East is not helping the situation there. We've had some project work that's slipped out to the right that hasn't helped.

We've had some intentional pruning of lower performing customers on the service side that we need to continue to, in reality, always do. And as we said earlier, like we're seeing some really positive momentum building in that business with new orders as well as our backlog building on the project side. So our global account strategy is taking root and we're seeing some really good, good – the pipeline is really full. And we've had some really good bookings in our global accounts business as well.

So I think everything is pointing to positive second half of the year from an organic growth perspective. And like I remain very optimistic. Our team is busting their [obscenity] (00:48:51) and I have a lot of confidence in that group. And we're moving the ball forward.

Joshua K. Chan
Analyst, UBS Securities LLC

Q

Great. Thank you, Russ, and congrats on a good quarter.

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

A

Thanks.

Operator: Your next question comes from the line of David Paige with RBC Capital Markets. Your line is open. Please go ahead.

David Paige
Analyst, RBC Capital Markets LLC

Q

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Hey, good morning. Thank you for taking my question. It seems on current trends, you're punching well above your mid-single digit organic growth target by 2028. I know the world has changed since you provided that target. The data centers, some of the increased M&A activities. So I just, more broadly, obviously not looking for guidance, but how are you thinking about, staying above the mid single digit growth rate over the next like just 12 to 24 months? Thank you.

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

A

Well, I mean, I think – I mean, I think that what you're seeing – like we continue to guide our businesses that we want to see high single-digit growth in our inspection service and monitoring business. And we want to see low-single digit growth in our projects business, which points to our long-term growth algorithm of mid-single digits. Right. And but what's happened is that the project environment is strong and robust. And so we're just trying to take advantage of that.

[indiscernible] (00:50:26) making the assumption that, that the right projects with the right clients remain available. Then we should see better project organic growth than kind of this algorithm that we continue to, to talk about, which would be additive to, to our numbers. And so but we need to continue to be super focused on project selection and customer selection and make sure that we're pursuing the right opportunities. This is a services business first and that does project work. And that's – and we need to continue to, to keep that mindset so that we're building a very, very resilient business for the long haul. And I think that's something that's really important for everybody to hear. That this – why we're taking advantage of the project environment. We are a services first business and we will not lose track of that.

David Paige
Analyst, RBC Capital Markets LLC

Q

Okay. Thank you.

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

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

Awesome, Jen, thank you. In closing, I would 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 have recently joined us for their support. We appreciate your ownership of the APi and we look forward to updating you on our progress throughout the remainder of the year. Thank you for taking the time to join our call today.

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

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