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APi Group Corp. (APG)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to APi Group's Third 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. Adam, please go ahead.

Adam Walters

Senior Director-Investor Relations, APi Group Corp.

Thank you. Good morning, everyone, and thank you for joining our third quarter 2026 earnings conference call. Joining me on the call today is Russ Becker, our President and CEO; and David Jackola, 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, October 29th, 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 third quarter financial performance on the Investor Relations page of our website. Our comments today will also include non-GAAP financial measures and other key operating metrics. Reconciliations and other information regarding these items can be found in our press release and presentation.

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

Russell A. Becker

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

Thank you, Adam. Good morning, everyone. Thank you for taking the time to join our call this morning. I would like to thank our 32,000 leaders for their dedication to APi. The safety, health and well-being of each of our leaders remains our number one value. Our culture is foundational to our business and drives results. It differentiates APi and allows us to win every day with our customers and in our communities.

As we celebrate our 100-year anniversary with the theme of Building Great Leaders who Build Great Communities, we have asked all of our teammates to retake our I Am a Leader online development course. At APi, we believe leadership is the single biggest differentiator between average and excellent. This investment in our teammates will reinforce the leadership behaviors and culture that have shaped APi and will support our next 100 years of growth.

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I would also encourage those joining us on the call today to take the course by following the link in our earnings presentation. It's a 30-minute commitment and I am confident you will find it worthwhile.

Our business continues to perform at a high level and that is reflected in our record third quarter results. Net revenue increased 23% and 16% on an organic basis, our fourth consecutive quarter of double-digit organic growth. Organic growth in Safety Services accelerated meaningfully, up 9% compared to Q3 2025. Our inspection-first strategy continues to deliver, driving consistent mid- to upper single-digit growth in highly recurring and statutorily required inspection, service, and monitoring revenues while positioning us to capitalize on a robust project environment.

Our backlog remains at record levels, up double digits year over year, consisting of high-quality work that is accretive to current gross margins and diversified across a variety of end markets. Adjusted EBITDA margins expanded 20 basis points despite a dynamic inflationary environment. This marks our 16th consecutive quarter of margin expansion and demonstrates our ability to improve profitability regardless of market conditions.

Diving a little deeper into the business. The North American Safety business delivered another outstanding quarter with double-digit organic revenue growth, despite a challenging prior year comparison and meaningful margin expansion. Inspection, service, and monitoring remain at the core of our business, with inspection revenue growing at a double-digit rate in Q3.

The large project environment remains robust. Our record backlog continues to grow. Proposal activity is strong, and we have seen no meaningful delays or cancellations. Demand spans multiple end markets, including semiconductors, advanced manufacturing, data centers, healthcare and warehouse and distribution. Our large project success demonstrates the strength of our inspection-first strategy. These opportunities come from long-standing customers whose relationships began and grew through inspection and service work.

We are winning this work at attractive margins supported by the technical capabilities and scale that few competitors can match. Our national branch network and strong customer relationships position us well to capture recurring inspection and service revenue after project completion. As expected, International Safety improved sequentially and returned to organic growth in the third quarter. Inspection, service and monitoring continue to grow and remain at the core of our international business. Leading commercial indicators continue to strengthen. Order intake and customer additions increased, while project backlog reached a multi-year high in both value and book gross margin.

Our playbook emphasizes branch-level fundamentals, recurring revenue and inspections and empowering branch leaders to drive improved business outcomes. It has driven results in North America and we'll do the same in international. Looking ahead to 2027, we expect International Safety to return to its historical mid-single digit growth rate.

Specialty delivered another impressive quarter with organic net revenue growth of 30%, its sixth consecutive quarter of double-digit growth. The project environment remains robust, driven by demand across targeted end markets, including data centers, critical national infrastructure and healthcare. Our record backlog in this segment continues to grow.

Like Safety Services, Specialty is a service business first. Nearly half of its revenues come from [ph] required (00:07:25) and recurring services provided to long-standing customers. Service revenue grew at a double-digit rate in the quarter, and today's projects create attractive service opportunities across multiple APi companies

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upon completion. We continue to improve collaboration across APi companies, enabling us to offer customers multiple service offerings under one proposal. This contributed meaningfully to revenue growth in the quarter.

Across our business, our teams remain focused on driving margin expansion and I'm confident in the work we are doing to continue moving margins. Both North American Safety and Specialty Services drove meaningful segment earnings margin expansion this year, even as elevated project volume was a headwind to gross margin expansion.

We continue to see stronger pricing on new project opportunities with higher-margin work entering the backlog. As this higher-margin project work converts to revenue over the remainder of the year and into 2027, it will become an increasingly meaningful contributor to margin expansion. As International Safety continues to gain momentum and returns to normal levels of growth, we expect it to become a stronger contributor to margin expansion as well.

We continue to be active on the M&A front. During the quarter, we closed the WTech acquisition and completed three bolt-on acquisitions, including adding Evergreen Fire and Security to the APi family. Evergreen, a systems integrator based in Washington, expands our North American electronic security capabilities, which has been a key strategic area of focus. We have closed 13 transactions year-to-date and remain on track to spend $250 million on bolt-on M&A in 2026.

Importantly, the multiples paid for both bolt-on and larger platform type transactions remain consistent with historical valuations. The average EBITDA multiple paid for a highly complementary bolt-on acquisition continues to be 5 to 6 times. For larger strategic or platform acquisitions, we are acquiring businesses at an average EBITDA multiple in the low teens. As always, we will continue to be disciplined in our M&A approach with five important criteria that must be met: geographic fit, the services that are offered, financial profile, this has to have a near-term path to be accretive to our 10/16/60+ targets, our ability to integrate the business and most importantly, culture, values and fit.

Our M&A pipeline remains robust and we are building the capabilities to support $350 million of annual bolt-on spend. We see significant opportunity to add fire and life safety, electronic security, elevator and escalator, and niche specialty services businesses to the APi family. The industries we serve remain highly fragmented and our value proposition as a forever home for sellers and their teams continues to differentiate us and position us well to capture these opportunities.

Before I hand the call to David, I want to step back from the quarter and talk about where this business is heading. Three quarters into our 100th year, the picture is very consistent, double-digit organic growth, margin expansion, record backlog and disciplined capital deployment. That consistency is not an accident. It is the result of the choices we have made about which customers we serve, which projects we take, and which businesses we bring into the APi family. And it is why, as we look towards 2027, we do so with strength and real confidence.

Momentum. The momentum from the first half continued through the third quarter. We delivered double-digit organic growth in each of the first two quarters, raised our full-year outlook three times based on business performance, and raised it again following acquisitions. Inspection, service, and monitoring revenue continues to grow. Our project businesses continue to win and pricing discipline remains strong. We see no reason for that to change as we turn the calendar.

Backlog and visibility. We enter the second half with backlog exceeding $5 billion for the first time and it continues to grow. The backlog is diversified across both segments, service lines and targeted end markets, providing

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meaningful visibility into 2027. It is also weighted toward the work we want, well-selected projects with the right customers and margins that create recurring inspection, service and monitoring opportunities upon completion.

End markets. End markets matter and we are positioned in the right ones; semiconductors, advanced manufacturing, data centers, healthcare, critical national infrastructure, our multi-year builds, not single-year events, our scale, technical expertise and long-standing customer relationships position us to support this build-out across fire and life safety, electronic security, HVAC and mechanical, structured cabling and structural services, and then serve these facilities for decades through statutorily required inspection and service. The demand we see today is the recurring revenue we will be serving in 2027 and well beyond.

Margins. Our margin levers remain consistent and they are not exhausted. 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, including the build-out of our Global Capability Center, accretive M&A and selective business pruning. And as I always like to say, we can always just be better. We expanded adjusted EBITDA margin in every quarter this year despite elevated project volumes and rising material costs. We expect continued margin expansion in 2027 with our 2028 adjusted EBITDA margin target of 16% firmly in view.

Acquisitions. 2026 has been one of the most active years in our M&A history. We closed CertaSite in February, Onyx-Fire in June, WTech in July and Evergreen in September, along with several smaller bolt-ons. Together, these acquisitions add well over $500 million of annualized revenue, every one of them accretive to our 10/16/60+ framework.

Importantly, 2026 only reflects a partial year contribution from these businesses. In 2027, we get the full-year contribution. We also get the benefit from a full year of ownership and ongoing integration, including cross-selling, inspection and service into their customer bases, procurement scale and the operating discipline that has driven margin expansion across APi. This creates a built-in tailwind before any new acquisitions and our pipeline remains robust.

In closing, as we look towards 2027, we see a business growing organically at a double-digit rate, a record backlog in the right end markets, margins expanding with more to come, four acquisitions moving from partial year to full-year contribution, and a balance sheet and cash flow that allow us to keep investing and keep returning capital to shareholders. We intend to give you our budget and guidance for 2027 in February as we traditionally do. But I want you to hear it from us now. We are entering next year from a position of strength and our 10/16/60+ framework remains our North Star.

With that, I'll turn the call over to David. 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 September 30 were $2.55 billion, a 22.5% increase compared to $2.09 billion in the prior year period. Organic revenue growth of 15.7% was driven by solid growth in inspection, service and monitoring revenues, robust growth in project revenues and pricing improvements.

Adjusted gross profit margin for the three months ended September 30 was 30.3%, representing a 120-basis point decrease from the prior year period driven by project and business mix and rising material, fuel and other expenses. Adjusted EBITDA increased by 24.6% for the three months ended September 30, and adjusted

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EBITDA margin was 13.7%, representing a 20-basis point increase compared to the prior year period. Adjusted EBITDA margin expansion was driven by strong revenue growth and the resulting favorable SG&A leverage, partially offset by factors impacting adjusted gross profit margin. Adjusted diluted earnings per share for the three months ended September 30 was $0.50, representing a $0.09 or 22% 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 increases in interest expense and 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 September 30 were $1.66 billion, an 18.5% increase from $1.40 billion in Q3 last year. Organic revenue growth of 8.8% was driven by solid growth in both inspection, service and monitoring revenues and project revenues as well as pricing improvements. Adjusted gross profit margin for the three months ended September 30 was 36.2%, representing a 110-basis point decrease compared to the prior year period. The decrease in adjusted gross profit margin in the quarter was driven by project and business mix and rising material, fuel and other expenses. Segment earnings increased by 19.1% for the three months ended September 30. Segment earnings margin increased 10 basis points to 16.9%, driven by strong revenue growth and favorable SG&A leverage, partially offset by factors impacting adjusted gross profit margin.

Turning to our Specialty Services segment. Specialty Services reported net revenues for the three months ended September 30 were $893 million, an increase of 30.7% from $683 million in the prior year period. Organic revenue growth of 29.9% was driven by robust growth in both project and service revenues. Adjusted gross profit margin for the three months ended September 30 was 19.4%, representing a 10-basis point increase compared to the prior year period. This increase was driven by disciplined customer and project selection and pricing improvements, partially offset by rising material, fuel and other expenses. Segment earnings increased by 38.3% for the three months ended September 30, and segment earnings margin was 12.5%, representing a 60-basis point increase compared to the prior year period. The increase in segment earnings margin was driven by adjusted gross profit expansion, strong revenue growth and favorable SG&A leverage.

Adjusted free cash flow generation remained strong. For the nine months ended September 30, adjusted free cash flow was $468 million, up $34 million versus the prior year period, representing adjusted free cash flow conversion of 84% on adjusted net income. Free cash flow generation remains a top priority across APi, and I am pleased with the improvement in our net working capital rate and our ability to grow free cash flow in a robust organic revenue growth environment. We ended the third quarter with a net leverage ratio of 2.4 times, approaching our stated long-term target of 2.5 times to 3 times. We have deployed $1.7 billion of capital through the first nine months of this year, supported by our healthy balance sheet and strong, consistent cash flow.

As of the end of the third quarter, we repurchased $252 million of shares and have bought back an additional $143 million so far in the fourth quarter, leaving approximately $607 million remaining under our authorized share repurchase program. Our strong cash flow, liquidity profile and access to credit markets provides us with significant flexibility to pursue attractive capital allocation opportunities, support our growth strategy, and create long-term shareholder value.

I will now discuss our 2026 guidance for the full year, which reflects continued momentum across our business and marks our third increase to guidance this year, excluding the impact of acquisitions. As a reminder, our updated guidance is based on current foreign currency exchange rates and includes all acquisitions closed to date. We now expect full-year net revenues of $9.20 billion to $9.25 billion, up from our previous guidance of $8.875 billion to $9.025 billion, representing 11% organic revenue growth at the midpoint.

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Moving down the P&L, we now expect full-year adjusted EBITDA of $1.235 billion to $1.255 billion, up from our previous guidance of $1.205 billion to $1.245 billion, representing an adjusted EBITDA margin of 13.5% and adjusted EBITDA growth of 20% at the midpoint. The increase to our net revenues and adjusted EBITDA guide reflect our improved outlook for the remainder of the year and include estimated unfavorable foreign exchange headwinds of $30 million to net revenue and $5 million to adjusted EBITDA relative to our prior guidance. Additional information including bridging our prior guidance to our new guidance can be found in our earnings presentation posted on our Investor Relations website.

For 2026, we expect full-year adjusted free cash flow conversion of approximately 110% of adjusted net income, which reflects our increased organic revenue growth expectations for the fourth quarter and full year. We anticipate interest expense of $155 million, depreciation of $90 million, capital expenditures of $105 million, and adjusted effective tax rate of 23%, corporate expense of $145 million and an adjusted diluted weighted average share count of 437 million, reflecting the year-to-date repurchases during the third and fourth 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 head into the fourth quarter and look ahead to 2027, we see sustained momentum across the business and continued demand for our services. Our teams are capitalizing on that demand and are delivering strong organic growth and margin expansion. At the same time, our disciplined approach to capital allocation is driving value for our shareholders. This momentum positions us well to close out the year strong and gives us real confidence in our ability to deliver on our 10/16/60+ targets.

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

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QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. Please limit yourself to one question. [Operator Instructions] Your first question is from the line of Jon Tanwanteng with CJS. Your line is now open, please go ahead.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Q

Hi. Good morning, guys. Thank you for taking the question and congrats on a really nice quarter and outlook.

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

A

Thanks, Jon. How are you?

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Q

Good. I was wondering if you could talk a little bit more about your long-term targets. I mean, you're tracking at this quarter already at the revenue run rate required to achieve that $10 billion. Admittedly, it's a seasonally strong quarter, but given the strong performance, the backlog that you're generating – the rising margins and backlog, do you think there are other elements of that target that you might be able to hit earlier maybe from a profit perspective, if not the margin?

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

A

Well, I mean, without getting ahead of ourselves, Jon, and providing guidance into our 2027, you can do some math pretty quickly to see where we're standing on, say, the $10 billion revenue target. And if you just protract out our organic growth rate, you look at the run rate of the acquisitions that I talked about in the script, when you annualize that, and then you say, all right, they're going to do another $300 million or so of bolt-on M&A, you can see where that visibility into that $10 billion figure comes into view very, very, very quickly. That math is really pretty simple to do, making the assumption that we're going to be able to continue to push forward with bolt-on M&A and everything else.

So, we feel really good about that. And, obviously, the 60%, the long-term target and the 16% EBITDA margin target is one we've got work to do on and we are laser focused on it. And we have line of sight and we know what we need to do to get there.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Q

Great. Thanks, Russ. If I could ask another one. Just what is your visibility into larger acquisitions after doing three or maybe four of them this year? I know you have that $350 million tuck-in target, but I'm wondering if the mid or larger size pipeline looks just as promising.

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

A

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Well, I mean, we have really good visibility into what's out there. It's a matter of vetting it and making sure that it's the right opportunity for us. I mean, Jon, every investment bank I think in the free world is calling on us on a regular basis and putting different ideas in front of us. And I think that, in general, our familiarity with the space helps us kind of know what we think is the right fit to join the APi family. And like our corporate development team, and David and I are constantly kind of doing a little bit of work, kind of what's the next larger opportunity for the business. And as we're doing that work, it's always around, is it the right fit for us to make sense for – is it going to be a good fit for our culture and for the APi team? And is it going to be meaningful to our shareholders and accretive to the value proposition that we're trying to bring forward to our shareholders every day? So, we have really good visibility and it's just a matter of like, what's the right fit for us. And you don't see it, but we're always doing something and we're always churning on something behind the scenes.

Jon Tanwanteng
Analyst, CJS Securities, Inc.
Q

Got it. Thanks, Russ, and congrats again.

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

Thank you. Appreciate it, Jon.

Operator: Your next question is from Jason Haas with Wells Fargo. Your line is now open, please go ahead.

Jason Haas
Analyst, Wells Fargo Securities LLC
Q

Hey, good morning and thanks for taking my question. Truly encouraging to hear you're expecting double-digit organic growth in 2027. Can you just talk about what gives you that confidence to get that target? And then I'm also curious for 4Q, does that framework apply as well that it'll be in the double-digit range? Thanks.

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

Yeah, Jason, just one point on organic revenue growth. So double-digit organic revenue growth for full year 2026, to be clear, we haven't placed guidance out for 2027.

Jason Haas
Analyst, Wells Fargo Securities LLC
Q

Okay. I thought in the prepared remarks there was a comment about double-digit growth for 2027. But maybe I misheard.

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

What was the second part of your question? Sorry.

Jason Haas
Analyst, Wells Fargo Securities LLC
Q

Yeah. I thought in the prepared remarks there was a comment about double-digit growth in 2027. So what was that referring to?

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

A

Jason, we were just saying, as we like look forward to 2027, we've been growing double digits this year. That's what Russ mentioned in his remarks.

Jason Haas
Analyst, Wells Fargo Securities LLC

Q

Okay. Okay. No problem. I'll leave it there then. Thank you.

Operator: Your next question is from Jasper Bibb with Truist Securities. Your line is now open, please go ahead.

Jasper Bibb
Analyst, Truist Securities, Inc.

Q

Yeah. Morning, guys. Really nice acceleration in Safety this quarter. I think kind of last time we heard from you, you were kind of framing a mid-single digit organic pace on Safety each quarter of the year. I guess, did anything, kind of positively surprised you relative to last quarter? And then if you had any detail on the split of Safety organic growth, inspection, service versus projects in North America versus international would be really helpful.

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

A

Yeah. I'd be happy to answer that for you. Great question. Thanks for joining us this morning. So, a great strong quarter from the Safety Services segment. When you think about the breakdown between service, inspection and monitoring revenue and contract revenue, the ISM or inspection, service and monitoring continues to grow at that mid- to upper-single digit pace. That's been the growth trajectory for the first two quarters of the year. That continued into the third and we expect that to continue into the fourth as well. Project environment continues to remain robust and we did see a tick up in the growth rate in the contract side in the third quarter. I would say that excitedly the international business returned to organic growth in the third quarter and we feel confident that that's continuing to move in the right direction with mid- to upper-single digit growth on the inspection, service and monitoring, and the algorithm growth on the project side.

Jasper Bibb
Analyst, Truist Securities, Inc.

Q

Okay. Thank you. And I'll get back in the queue. Thanks, guys.

Operator: Your next question is from Stephanie Moore with Jefferies. Your line is now open, please go ahead.

Stephanie Moore
Analyst, Jefferies LLC

Q

Hello. I wanted to maybe touch on the opportunity you see over the medium term in terms of being able to convert some of the specialty project work, and specifically, once that work is complete, as you're able to maybe migrate those relationships to some of your other services within the APi family group, and that could provide more so recurring business in the future. So I guess that's simply clearly benefiting right now for so maybe more project-focused work, and then how that can translate into a more so recurring revenue stream in the future? Thank you.

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

A

Well, Stephanie, I think – good morning, by the way. I'm sorry. Good morning. And I think what we are seeing is like, if you look at some of the project-related work and talking about how does that convert to inspection, service and monitoring opportunities after the project work is finished, number one is that for the most part, the project-based work that we are winning is with long-standing customers already. And it's those sticky relationships that came from that inspection, service and monitoring relationship that are creating these robust project opportunities for us. So we already have a relationship.

And then if you look at the services that we provide in the different segments, they all kind of hit these projects at different periods of time. So like, the structural services that we provide are usually on the very, very front end of a project. And I would say the HVAC mechanical is right behind and then fire life safety comes behind that, and then the structured cabling component of it is more towards the end of it, if you will. And we have a business development leader that has really taken the point on connecting the dots across all aspects of our business with our customers in these large project opportunities and has been extremely beneficial in helping bring multi-service opportunities to our clients on these larger project opportunities.

And because of the nature of these large project opportunities, we're also seeing many of our clients wanting us to bundle our services upfront, which creates bigger, more robust opportunities for us. And for us, that's a good thing. Because it's – we're not like loading up one of our operating companies or operating business units with, so to speak, too much project work. We're spreading it out across multiple businesses and that's a really, really positive thing for us. So there's a lot that goes into how we are collaborating and sharing opportunities and sharing these leads and winning. And there's not just one thing that's adding to that. But what I would say is that the concerted effort that we've made from a business development perspective is something that's really aiding that work.

Stephanie Moore
Analyst, Jefferies LLC

Q

Thank you. I'll just leave it at that and jump into the queue if I have another question. Appreciate your time.

Operator: Your next question is from Tomo Sano with JPMorgan. Your line is now open, please go ahead.

Tomohiko Sano
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning, everyone.

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

A

Good morning.

Tomohiko Sano
Analyst, JPMorgan Securities LLC

Q

Maybe just on demand and strategies, given the strength you're seeing across the business and the growing backlog, how do you think about maintaining discipline as APi gets larger? Are there any areas that where you are becoming more selective about the customers and projects or markets you wanted to pursue? Thank you.

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

Well, I think in this environment, customer selection and project selection is key. And you have a really great opportunity to be super selective on where you're going to put your people to work. And, at APi, we consistently talk about our field leaders that they are like precious gems and that we should only put those precious gems to work in places that our clients and customers really value them and are going to appreciate the amazing work that they do. And so we have found that the environment that we're in today affords us that opportunity and people just – we need to make really good choices about that. We have a really robust kind of go, no go process checklist that we put any of our large not just project opportunities, but our large MSA and service opportunities through to make sure that we are validating that these are the right customers and the right projects and the right customers for us to be putting our people to work on. And so, it's a unique environment and it's one that being disciplined about the work that you take on is really important, and I feel like we're doing a great job.

Tomohiko Sano
Analyst, JPMorgan Securities LLC
Q

Great. Thank you, Russ.

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

Thank you.

Operator: Your next question is from Tim Mulrooney with William Blair. Your line is now open, please go ahead.

Tim Mulrooney
Analyst, William Blair & Co. LLC
Q

Yeah. Good morning, Russ and David. My question is on the Safety Services gross margin. It looks like it was down about 110 basis points year-over-year. How much of that was from sales mix versus rising material and fuel costs? I thought you were able to pretty much pass on the materials costs in your contracts and inspection obviously doesn't have materials costs. So, I'm curious, where in the business you're seeing a little bit of impact on the material cost side and what that breakdown is in impact?

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

Yeah. Hey, good morning, Tim. Thanks for your question. This is David. So, focusing on Safety gross margins. you nailed it when you mentioned the impact of project mix, and that's the biggest driver of the margin I would say margin performance versus last year. There's a couple of elements that I'd kind of point you to. One is the increased growth of project mix relative to service mix in the quarter. But the second, with that acceleration on the contract side comes an increase in projects that are at the early stage, which as we've talked about a couple of times on these calls, tend to start at a lower margin as you work your way through the work. They actually become opportunities for gross margin expansion as you get deeper into the work. And I'd expect that dynamic to play out as we go from the third quarter into the fourth quarter.

Material costs, generally, we are able to pass those on and capture the dollar value, but not necessarily the margin value in the first year. And I'd say in the Safety segment too, we had a little bit of a gross margin hit from near-term M&A, which over the medium term is absolutely accretive to gross margin. But we see this time and again that when we buy a business, bring it into APi, they've been spending the last few months focused on the

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sale and then getting accustomed to their new home and the integration and so margins can take a small step backwards before they take a step forward. That was at play. But underlying everything, I think on the gross margin story is one. We're continuing to be able to deliver price in the Safety segment and we're executing the work that we're doing at a very, very high level.

Tim Mulrooney
Analyst, William Blair & Co. LLC

Q

Got it. Thank you.

Operator: Your next question is from Curtis Nagle with Bank of America. Your line is now open, please go ahead.

Curtis Nagle
Analyst, BofA Securities, Inc.

Q

Great. Thanks very much for taking the question. So, yeah, I think you've mentioned this a couple of times on the backlog, improving margin structure and pricing, and that specifically going into 2027. Maybe in terms of just potentially sizing, how much of a pricing or a margin tailwind that could be next year?

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

A

Next year? I mean, we expect our margins to improve sequentially as we move into the fourth quarter, which is normal for us. Some of it is the improved pricing associated with the project environment that we're in. Some of it is just conservative reporting as it relates to working our way towards to the end of the year. And we expect our margins to improve as we move into 2027, and we'll share that with you when we provide our plan and guidance for the full year 2027 in February.

Curtis Nagle
Analyst, BofA Securities, Inc.

Q

Okay. And then I guess just as a follow-up, in terms of just again, very, very strong acceleration in project work just by end market, anywhere you saw particular strength relative to the second quarter?

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

A

I wouldn't point you to anything in particular, Curtis. The breadth and the strength that we in the business was spread broadly across the end markets that Russ referenced in his opening comments.

Curtis Nagle
Analyst, BofA Securities, Inc.

Q

Okay. Understood. Thank you.

Operator: Your next question is from Kathryn Thompson with Thompson Research Group. Your line is now open, please go ahead. Kathryn, your line is now open. Please go ahead with your question.

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

Q

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Good morning and thank you for taking my question today. Going to focus on Specialty. This has been a great vehicle for growth, 30% growth in that segment. One broadly is, how are you adjusting to that, managing effectively that growth? Because particularly when you look at large projects, if they're at data centers or other very large construction projects, being on time is even more important. You would argue it is always important, but even more so. And then along with that, I'd appreciate if you could give any color on, in particular, your fabrication and distribution really around your structural steel fabrication and erection, because that's another area based on our work that is a strong opportunity, and would just love a little bit more color in terms of what you're seeing in that segment, which is within your Specialty Services. Thank you.

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

A

Well, I agree with you, Kathryn. I mean, speed to market on most of these large project opportunities, whether it's advanced manufacturing, semiconductors or data centers matters. And for us, it goes back to this whole project selection, go, no-go checklist and number one for us is that if we commit to a project opportunity, we need to have people to do it, to do the work and properly lead the work. And so we are very selective in which projects and opportunities that we actually pursue. And we're only pursuing projects that we know are going forward so that if we make a commitment to put our resources on that opportunity, that we're going to go forward. So we're making sure that we're not getting out in front of ourselves and taking on more work than we potentially have the capacity and the capability to execute on. So I feel like our team has done actually an amazing job at that and being very, very smart about where they're putting their field leaders and their leadership teams to work. And I think if you're smart about it, you can navigate that and make sure that you have the resources and people to do the work.

Second part of your question was around the structural manufacturing. That's a relatively small piece of our business in the overarching scheme. But they're seeing the exact same plethora of opportunities that not only are other Specialty Services companies seeing, but they're also seeing those opportunities in our Safety Services segment. I would say the one end market that's providing them additional opportunities that we didn't talk about would be the aviation space. And I suspect that should include the sports and entertainment end market as well. So they have a broad base of end markets to pursue the right opportunities for and they're just taking advantage of that and doing a great job.

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

Q

And to clarify, on the aviation, is this airports or is it more aviation companies that are repurposing certain parts of their value chain to meet data center demands like mobile – modular energy backup services?

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

A

I would say that it's more airports as well as like individual private hangars and things like that, just in the aviation space, not necessarily tied to the data center space. And we're seeing more of these airport projects delivered on a kind of a value-added design build basis. So, it's not like the traditional bid build, whatever, delivery model that was, the worst word in the industry is bid. And...

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

Q

Yes.

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

A

...and so, we stay away from that type of delivery model. But some of these best value delivery models where the opportunities are design, build, create a different opportunity for you to actually add value to the process and they're taking advantage of that.

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

Q

Okay, perfect. Thank you very much. Good luck.

Operator: Your next question is from Andrew Wittmann with Robert W. Baird & Co., Incorporated. Your line is now open. Please go ahead.

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

Q

Oh, yeah, great. Thanks for taking my question and good morning, guys. I wanted to just understand a little bit, try to investigate the fourth quarter guidance a little bit to try to understand what's happening underneath the business a little bit more. So you beat the third quarter by $20-ish million. The guidance is up by $25 million. In the quarter, there's obviously a lot of M&A over $500 million. But most of that had closed by the end of the – by the time you held your conference call. So there's only like [ph] $100 not only (00:48:28), but $150 million, $180 million of incremental M&A that you've announced since. Evergreen obviously closed at the end of the quarter, but it still feels like there should have been, I don't know, at least $5 million of EBITDA, maybe $10 million that you would have gotten from the acquisition contributing to this year.

So I understand the revenue guidance is up and maybe the answer is simple is like, you've got the inflation from the materials and the fuel that's hitting in the fourth quarter. That is why the margin rate is down and the margin guidance isn't up more. But, David, are there other factors at play that we should be considering? Obviously, you talked about mix, so maybe that's what it is as well. But maybe more importantly, when do you expect that you'll be able to kind of get on the right side of these factors, getting the margin back on the material and the fuel? As you look at the scheduling of your jobs, when do these ones that you have to carry the cost a little bit more kind of end and the new ones begin? Recognizing also here that you've got some larger projects that probably last a little bit longer, and I want to kind of have you specifically talk about that. Thank you.

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

A

Okay. Thanks for the question, Andy. Thanks for being on the call today as well. So in terms of the fourth quarter margin, our fourth quarter margin reflects continued, sustained momentum in inspection, service and monitoring growth. It includes a project growth rate that's above our long-term algorithm. That's really what drove the increase in the fourth quarter guide. And as you know, early-stage project work and project work in general comes at lower margin than inspection, service and monitoring.

Rising material costs are weighing a bit on the quarter and on the guide. We're doing a great job of getting out and pricing for those in proposals. I would expect that would become less of a topic as we get into 2027, and the gross margins will continue to move upward from there. Does that help?

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

A

Andy, I'd also add there's an element, like you underpromise and overdeliver and make sure you can deliver on your commitments. And like we continued like – the way I am looking at it like we're kicking ass and our business is, like we're doing some really good things and we continue to raise our guidance. And we really haven't seen the benefits of the M&A come through. We fully expect to, don't get me wrong. We're very excited about the businesses that we brought into the APi fold. But there is a period of adaptation where they put their heart and soul into getting the business sold and to a certain degree lose a little bit of focus and their focus is getting the business sold. And so we really haven't – don't see the full benefits of that for 6 months, 9 months, 12 months after the transaction closes. So like I feel really good about our business and the trajectory of our business and where our business is going.

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

Q

Okay, great. Thanks for the perspectives, guys.

Operator: Your next question is from Josh Chan with UBS. Your line is now open, please go ahead.

Joshua K. Chan
Analyst, UBS Securities LLC

Q

Hi, morning Russ and David. Congrats on a good quarter. I wanted to ask about the data center opportunity. Obviously, new buildings of data centers have been strong for a year or two now at least. And are you starting to see some of those completed data centers having ISM opportunity for you in the Safety business?

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

A

Yes. No question about it, Josh. I mean, I think that our team is doing a good job of – well, let me take a step back. Number one, all of these firms that we're doing this data center work for, and quite frankly, it doesn't matter if it's data center or semiconductor or advanced manufacturing. Like I would say, in almost all cases, we already have an inspection, service and monitoring relationship with the firm. And so it's just a matter – and oftentimes what's happening with some of these, especially in the data center space, is that they're building new campuses. So there is an element where you have to, so to speak, make sure that you're converting that new project opportunity into an inspection, service and monitoring account. But our team is engaging at the 50%, 60% level of construction completion and getting engaged with the client at a very early level.

So, our goal is to convert 100% of those. And will we convert 100% of them? Probably not. But I like our chances and I like the proactive nature that our team is taking about getting out in front of it and engaging with the client at a very early stage.

Joshua K. Chan
Analyst, UBS Securities LLC

Q

That's great to hear and congrats on the quarter. Thanks, Russ.

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

A

Thanks, Josh.

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Operator: Your next question is from Ashish Sabadra with RBC Capital Markets. Your line is now open, please go ahead.

Ashish Sabadra
Analyst, RBC Capital Markets LLC

Q

Thanks for taking my question and good to see the strong top line momentum in the business. A follow-up question on data center. You had expected it to be 10% to 12% of revenue this year with more visibility there. I was just wondering if you have a view on how big data center is going to be a percentage of revenue this year? And any color on how big of a percentage of the bookings that is? Also, there are just some concerns around data center moratorium. Have you seen any pushback? Any color on that front would be helpful. Thank you.

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

A

Yeah. Hey, good question. Thanks for joining us this morning. So the first part was around how much of our revenue in 2026 do we see coming from the opportunities in the data center world? We've been talking 10% to 12%. It'll probably be 12% or a little bit higher as we go into 2027. And exit 2026, we see really good opportunities in the backlog. But as Russ mentioned in his earlier comments that the service, inspection and monitoring opportunity there is starting to really bear fruit. What's the second part?

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

A

So regarding the moratorium component of your question. Again, I'll just go back to my earlier, like, we're watching that for sure, right. And like our home state of Minnesota is one of those states. And so we're watching that, and to make sure that, again, it goes back to making sure that you're dedicating your teams and your field leaders to opportunities that you know are going to move forward. So there's certain locations, I'll just Iowa, Wyoming, I could keep going that are, so to speak, welcoming these data centers and hyperscalers into their communities.

And so you just have to be smart about which opportunities. We're not trying to take on the world and we're trying to make sure that we're looking at the right opportunities that we know that are going to move forward. We're also taking on a different role and that role is in the form of advocacy. And that is being active in the communities where some of these data centers are proposed and demonstrating to those communities that these opportunities can be constructed and constructed in an environmentally safe and a community safe fashion. And so, we've actually taken on a broader role from an advocacy perspective in trying to support that work and those opportunities and that you can do both. And that's a big piece of it as well, and I think that's something that the industry is learning.

Ashish Sabadra
Analyst, RBC Capital Markets LLC

Q

That's great color. Congrats once again.

Operator: Your next question is from Andy Kaplowitz with Citigroup. Your line is now open. Please go ahead.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Good morning, everyone.

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

Good morning.

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

Good morning.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.
Q

Russ, I just want to go back to your international business. I think you've got a leader in there who is focused a little differently than in North American Safety, focused on service first and maybe a different in evolving strategy for you guys. So it's good to see you returned to growth and you talked about getting back to mid-single digits next year. But maybe you can update us on the progress that you're making there, given it's, I think, a bit of a different strategy for you guys.

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

Yeah. I mean, good morning, Andy, and we didn't forget about you, by the way. So thanks for hanging with us.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.
Q

No problem.

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

The individual that's leading that business now is a long-standing APi team mate and so this person has seen it tried and true the strategy inspection, service and monitoring first. And I would say that he is having an impact in the business. I'll also tell you that we moved to kind of a regional leadership structure where we have a leader leading the UK, Ireland, Spain and France, another individual leading Benelux, the Nordics, the DACH region, and we have another person who is leading Asia Pacific. And so we're getting better [ph] touches (00:59:00), if you will, on our country-level leadership and driving this service work strategy, forward. And we are definitely seeing some green shoots not just on the project side. We alluded to that we're seeing an increase on our backlog in our project work in the international business, but we're also seeing an increase in orders on the service side.

And that mindset takes time and it took time in our North American business. So where are we at, to ultimately answer your question, in that journey? I don't know. I'm going to say that we're in the bottom of the fourth, maybe the top of the fifth inning. And we're probably never get to the bottom of the ninth. It's just kind of the nature of the beast. And we're all kind of happy that the Brewers won the World Series. Adam is from Wisconsin. So, we got to give him a little – some props here. So, we're gaining on it. We still have a lot of work to do there. We are collaborating at a higher level between the international businesses and the North American business, but still have a lot of work to do, Andy.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.
Q

Appreciate the color.

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Russell A. Becker

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

A

Thanks, Andy.

Operator: We have reached the end of the Q&A session. 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.

Thank you. In closing, I would like to thank all our teammates for their continued support and dedication to APi. 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 APi and look forward to updating you on our progress throughout the remainder of the year. Thank you for taking the time to join the call. I hope everybody has a great day.

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

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