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# APi Group Corp. (APG)

Q4 2023 Earnings Call

## CORPORATE PARTICIPANTS

### Adam Fee

*Vice President-Investor Relations, APi Group Corp.*

### James E. Lillie

*Co-Chair, APi Group Corp.*

### Russell A. Becker

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

### Kevin S. Krumm

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

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## OTHER PARTICIPANTS

### Julian Mitchell

*Analyst, Barclays Capital, Inc.*

### Jon Tanwanteng

*Analyst, CJS Securities, Inc.*

### Andrew John Wittmann

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

### Kathryn Ingram Thompson

*Analyst, Thompson Research Group LLC*

### Andrew Kaplowitz

*Analyst, Citigroup Global Markets, Inc.*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, ladies and gentlemen, and welcome to APi Group's Fourth Quarter and Full Year 2023 Financial Results Conference Call. All participants are now in a listen mode only until the question-and-answer session. Please note that this call is being recorded. I will be standing by should you have any questions or any – or needed any assistance.

I will now turn the call over to Adam Fee, Vice President of Investor Relations at APi Group. Please go ahead.

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### Adam Fee

*Vice President-Investor Relations, APi Group Corp.*

Thank you. Good morning, everyone, and thank you for joining our fourth quarter 2023 earnings conference call. Joining me on the call today are Russ Becker, our President and CEO; Kevin Krumm, our Executive Vice President and Chief Financial Officer; and Sir Martin Franklin and Jim Lillie, our Board Co-Chairs.

Before we begin, I would like to remind you that certain statements in the company's earnings press release announcement and on this call are forward-looking statements which are based on expectations, intentions, and projections regarding the company's future performance, anticipated events or trends, and other matters that are not historical facts. These statements are not a guarantee of future performance and are subject to known and unknown risks, uncertainties, and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

In our press release and filings with the SEC, we detail material risks that may cause our future results to differ from our expectations. Our statements are, as of today, February 28, 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 fourth 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's now my pleasure to turn the call over to Jim.

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## James E. Lillie

*Co-Chair, APi Group Corp.*

Thank you, Adam, and good morning, everyone. 2023 was another tremendous year for APi with record net revenues, record adjusted EBITDA, record reported and adjusted earnings per share, and record adjusted free cash flow. As I mentioned on the last call, our strategy of evolving away from lower-margin, higher-risk opportunities while focusing investments on service revenue expansion continues to yield the desired results, margin expansion and stronger free cash flow generation.

Under Russell's leadership, APi has successfully acquired and integrated over 100 companies over the last 20 years, helping supplement organic growth as the business scaled from approximately \$600 million in revenues over 20 years ago to nearly \$7 billion globally in 2023. With the progress made in reducing our net debt to adjusted EBITDA to 2.3 times, we are excited to build on our track record of disciplined, predictable, and thoughtful decisions regarding capital allocation as we keep our focus on bolt-on M&A at accretive multiples and margins.

We have great confidence in the business, as demonstrated by our stock buyback, and we believe that our laser focus on our longer term 13/60/80 value creation targets will generate continued exceptional performance through 2025 and beyond. As a reminder, our financial goals include adjusted EBITDA margin of 13% or more in 2025; long-term organic revenue growth above the industry average; long-term revenues of 60% from inspection, service and monitoring; and long-term adjusted free cash flow conversion of 80%. Our confidence in the leadership team and the foundation for long-term value creation is stronger than ever.

And with that, I'll hand the call over to Russ. Russ?

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## Russell A. Becker

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

Thank you, Jim. Good morning, everyone. Thank you for taking the time to join our call this morning. We remain grateful for the hard work of our 29,000 leaders and their dedication to APi. The safety, health, and well-being of each of our teammates is our number one value. I used the word teammates intentionally instead of employees, which, like the word bid, is another one of the words I try not to use.

I'm proud that APi has once again been recognized as a military-friendly employer for 2024. We remain committed to providing opportunities for veterans and their spouses to build careers and develop as leaders. As many of you know, we have hired thousands of veterans over the years and thank them not only for their service but also for helping to drive APi forward.

In January, we shared our 2023 Sustainability Report on our website, a significant milestone in our commitment to building a more sustainable business. Our Sustainability Report serves as a comprehensive overview of our ESG activities to-date, highlighting key strengths, opportunities and strategic priorities, which include leadership, safety, environment, inclusion and governance. APi Group's commitment to our values as an organization and our

purpose of Building Great Leaders positions us to be successful as we broaden the scope of our opportunities to develop a more sustainable business.

2023 was a year of record financial results for APi. We delivered strong organic growth, record adjusted EBITDA margins, and improved adjusted free cash flow generation in an evolving macro environment. Net revenues grew organically by 5.4% in 2023, finishing the year at a record \$6.9 billion. This growth was driven by approximately 10% organic growth in service revenues, partially offset by consciously controlling organic growth in project revenues, as we continued our disciplined customer and project selection in our HVAC and Specialty businesses. Importantly, we achieved our goal of double-digit growth in inspection revenues as we make progress towards our goal of 60% of our total net revenues coming from inspection, service and monitoring.

US life safety once again posted solid organic growth of approximately 10% for the year, following over 20% organic growth in 2022. In line with our strategic initiatives, we continued to see strong improvements in adjusted gross margin for the year, up 180 basis points. The strong performance in gross margin led to full year 2023 adjusted EBITDA margin of 11.3%, represent margin expansion of 100 basis points. The team has made strong progress this year, executing our margin expansion initiatives and remains committed to building on that execution as we push towards our 13% or more adjusted EBITDA margin target in 2025.

As a reminder, these initiatives include the following: pricing; improved inspection, service and monitoring revenue mix; disciplined customer and project selection; Chubb value capture; procurement systems and scale; accretive M&A and selective business pruning. And as I like to say, we can always just be better.

In December, we announced an increase in the Chubb value capture target from \$100 million to \$125 million. Exiting 2023, we have realized approximately \$40 million of the \$125 million value capture target, and we remain on track to realize the remaining \$85 million. 2023 was the first year in APi history with adjusted free cash flow over \$500 million. We ended the year with record adjusted free cash flow of \$537 million, representing approximately 69% conversion of adjusted EBITDA. Our strong adjusted free cash flow generation helped us deliver on our commitment of reducing net leverage to under 2.5 times by the end of 2023.

Moving on to M&A. Over the last 12 months, we returned to accretive bolt-on M&A with approximately \$100 million spent on acquisitions in our Safety Services segment this year, building on our long track record of integrating businesses and supplementing organic growth through acquisition. As we entered 2024, we are excited to accelerate our M&A activity; and the team continues their hard work prioritizing the most attractive opportunities in our pipeline, which are strong cultural fits. In December, we closed the previously announced sale of a traditional design-bid-build heavy civil contracting company without a complementary service opportunity. This business generated \$73 million of revenue in 2023 while under APi's ownership.

In summary, while we remain focused on executing our strategy in 2024, I am proud of our team and the record financial results achieved in 2023. Today, we announced we reached an agreement with Blackstone and Viking to retire all of the outstanding shares of their Series B Perpetual Convertible Preferred Stock. I'll let Kevin provide more details related to the transaction. However, I'll highlight that the Series B transaction represents another step in our journey to drive value for our investors by simplifying our capital structure, reducing our adjusted diluted share count, and providing immediate accretion to adjusted earnings per share, while having no expected impact on our focus on opportunistic M&A.

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

## Kevin S. Krumm

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

Thanks, Russ. Good morning, everyone. Reported revenues for the three months ended December 31, 2023 increased by 3.3% to \$1.76 billion compared to \$1.7 billion in the prior year period. Organic growth of 1.5% was driven by strong services revenue organic growth of 5%, partially offset by disciplined customer and project selection and lower material costs, leading to a 3% organic decline in our projects business versus the prior year.

Adjusted gross margin for the three months ended December 31, 2023 grew to 30.1%, representing a 230 basis point increase compared to the prior year period, driven by continuous price increases, outsized growth in higher margin services revenue, as well as the significant margin expansion in our projects business across both segments.

Adjusted EBITDA increased by 13% on a fixed currency basis for the three months ended December 31, 2023, with adjusted EBITDA margin coming in at 11.8%, representing a 110 basis point increase compared to the prior year period, primarily due to the factors impacting gross margin, partially offset by investments to support revenue growth and the investment in building our global capabilities and infrastructure.

I'm pleased to report that adjusted diluted earnings per share for the fourth quarter was \$0.44 per share, representing an \$0.08 or 22% increase compared to the prior year period. The increase was driven primarily by strong margin expansion in both Safety and Specialty Services and decreased interest expense.

I will now discuss our results in more detail for Safety Services. Safety Services reported revenues for the three months ended December 31, 2023 increased by 3.1% to \$1.24 billion, compared to \$1.2 billion in the prior year period. Organic growth of 1% coming off an 18-plus percent growth – comping off an 18-plus percent growth in Q4 2022, was in line with expectations and was driven by double-digit core inspection revenue growth in our US life safety business and 5% organic growth in inspection, service and monitoring in US life safety. This was partially offset by flat organic growth in the projects business, driven by planned customer attrition in our international business, as well as disciplined customer and project selection and lower revenue from declining material costs through costs – declining material cost pass-through in our HVAC business.

Adjusted gross margin for the three months ended December 31, 2023 was 35.1%, representing a 270 basis point increase compared to the prior year adjusted gross margin, driven by continued price increases, improved business mix of inspection, service and monitoring revenue, as well as a significant margin expansion in our projects business.

Adjusted EBITDA increased by 18.8% on a fixed currency basis for the three months ended December 31, 2023, and adjusted EBITDA margin was 15.3%, representing a 210 basis point increase compared to the prior year period, primarily due to the factors impacting adjusted gross margin, partially offset by investments made to support revenue growth.

I will now discuss our results in more detail for Specialty Services segment. Specialty Services reported revenues for the three months ended December 31, 2023 increased by 2.9% to \$525 million, compared to \$510 million in the prior year period, driven by 12% growth in service revenues, partially offset by a 10% decline in projects revenues due to disciplined customer and project selection and lower revenue from declining material cost pass-through.

Adjusted gross margin for the three months ended December 31, 2023 was 18.1%, representing a 140 basis point increase compared to the prior year period, driven primarily by disciplined customer and project selection,

driving significant margin expansion in our projects business. Adjusted EBITDA increased by 11.3% for the three months ended December 31, 2023, and adjusted EBITDA margin was 11.2%, representing an 80 basis point increase compared to the prior year period, primarily due to the factors impacting adjusted gross margin, primarily offset by timing of year end incentive true-ups.

Cash flow – as we have highlighted throughout the year, the fourth quarter is our strongest quarter for free cash flow generation and 2023 was no different. For the three months ended December 31, 2023, adjusted free cash flow was \$300 million, reflecting an adjusted free cash flow conversion of 144%. For the full year, adjusted free cash flow was \$537 million, with conversion of 69%, representing an improvement of \$125 million or approximately 30% when compared to 2022. Adjusted free cash flow generation has been and continues to be a priority across APi, and we are pleased that we're able to exceed our adjusted free cash flow conversion target of 65% for 2023.

On December 19, we paid down \$175 million of our term loan debt, resulting in total repayment in 2023 of \$475 million, and leaving \$330 million outstanding on our term loan due 2026, which leaves our weighted average maturity at approximately five years. At the end of the year, our net leverage ratio was approximately 2.3 times, even as we continued margin accretive bolt-on M&A. As we look forward to 2024, we expect to grow our adjusted free cash flow, as well as improve our adjusted free cash flow conversion, providing us a significant opportunity for value enhancing capital deployment.

As Russ touched on earlier, we have reached an agreement with Blackstone and Viking to retire all the outstanding shares of their Series B Perpetual Convertible Preferred Stock issued at the time of the Chubb transaction. Blackstone and Viking will each exercise their respective right to convert all their Series B Preferred Stock into common stock, resulting in approximately 32.5 million shares of common stock. Upon conversion, APi will repurchase one half of the converted shares from Blackstone and Viking for an aggregate purchase price of approximately \$600 million. The transaction is expected to be financed by an incremental term loan of \$300 million plus cash on hand and available credit.

As part of the agreement, Blackstone and Viking intend to effect a coordinated secondary public offering with the goal of selling approximately 8.1 million shares of APi's common stock. Following the sale, it is expected that any remaining common shares owned by Blackstone and Viking would be subject to a 90-day lockup. We are pleased to proactively agree to a holistic approach to retire our Series B Preferred Stock with only a modest expected increase in net leverage ratio to approximately 3 times, preserving the strength of our balance sheet.

Throughout 2024, we'll continue to focus on generating strong free cash flow, allowing us to accelerate M&A spend versus 2023 while reducing our net leverage towards our long-term target of less than 2.5 times. This transaction, collectively, is expected to provide some substantial benefits to APi and its common stockholders as it simplifies our capital structure, preserves our strong opportunistic balance sheet, reduces adjusted diluted share count by 16.3 million shares, provides immediate accretion to adjusted earnings per share, eliminates preferred dividend payments of \$44 million annually, and has no significant impact on our re-acceleration of bolt-on M&A.

I will now discuss our guidance for Q1 and full year 2024. Based on current exchange rates, we expect full year reported net revenues of \$7.05 billion to \$7.25 billion, representing mid-single digit organic growth in net revenues driven by expected double-digit core inspection organic growth and high-single digit service growth mixed with low-single digit project growth as we remain focused on disciplined customer and project selection in our Specialty and HVAC businesses, primarily in the first half of 2024.

We expect full year adjusted EBITDA of \$855 million to \$905 million, which represents adjusted EBITDA growth of approximately 9% to 15% on a fixed currency basis and adjusted EBITDA margin of 12.3% at the midpoint. In 2024, we expect to take another step forward in terms of adjusted free cash flow conversion with a 2024 target of approximately 70% as we move towards our long-term target of 80%.

In terms of the first quarter, we expect reported net revenues of \$1.56 billion to \$1.61 billion. This guidance represents an organic net revenue decline of approximately 4% to 1% as we lap our strong organic growth of 12.1% in Q1 2023, and as we continue to build a smaller but healthier backlog in our HVAC and Specialty Services businesses. We also expect to see a continuation of lower material costs, resulting in declining price pass-through versus the first quarter 2023, which results in lower reported net revenues. However, those impacts, as seen in 2023, will allow us to continue to expand adjusted EBITDA dollars and margin, which is reflected in our first quarter adjusted EBITDA guide of \$165 million to \$180 million. This represents adjusted EBITDA growth of approximately 9% to 20% on a fixed currency basis, and adjusted EBITDA margin expansion of 180 basis points at the midpoint.

For 2024, we anticipate interest expense to be approximately \$150 million, depreciation to be approximately \$80 million, capital expenditures to be approximately \$95 million, and our adjusted effective cash tax rate to be approximately 23%. We expect corporate expenses to be approximately \$30 million per quarter with some timing variability throughout the year. We expect our adjusted diluted weighted average share count for the year to be approximately 270 million, taking into account the Series B transaction announced earlier today. Finally, we expect to end 2024 with our net leverage ratio at approximately 2.5 times.

I will now turn the call over to Russ.

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## Russell A. Becker

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

Thanks, Kevin. As I said on our last call, I'm confident in our leaders' ability to build on historically strong execution by delivering consistent double-digit core inspection organic growth, as well as consistently driving margin expansion across the business. As we look to 2024, we have great confidence in the business, our backlog, and our balance sheet. We believe we are well-positioned to improve our free cash flow generation, giving us significant flexibility to pursue value creative capital allocation, alternatives including but not limited to accelerating our bolt-on M&A strategy. Longer term, we are focused on creating sustainable shareholder value by delivering on our 13/60/80 targets with a near-term focus on generating adjusted EBITDA margins of 13% or more in 2025.

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

## QUESTION AND ANSWER SECTION

**Operator:** Opening the session for the question-and-answer portion. [Operator Instructions] Our first question comes from Julian Mitchell from Barclays. Your line is now open.

**Julian Mitchell**

*Analyst, Barclays Capital, Inc.*

Hi. Good morning.

Q

**James E. Lillie**

*Co-Chair, APi Group Corp.*

Good morning.

A

**Russell A. Becker**

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

Good morning, Julian.

A

**Julian Mitchell**

*Analyst, Barclays Capital, Inc.*

Well, good morning. Maybe just to start with the free cash flow guidance around conversion. So, it looks like you're aiming for about sort of 70% conversion, so fairly steady year-on-year conversion ratio. Maybe help us understand what you're assuming within that for sort of working capital movements and what's the confidence that perhaps you could approach or move up towards that sort of 80% target in 2025? Or is it more of a sort of medium-term aspiration?

Q

**Kevin S. Krumm**

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

Hi, Julian. Yeah. So, on free cash flow, you're right. Our current guide is to be at approximately 70%. The transaction that we announced this morning probably cost us versus our run rate somewhere around 3% to 5% in free cash flow conversion primarily due to the leverage.

A

Adjusting for that, we would have had that more material increase to somewhere closer to 75%, which is the step we've been talking about as we continue to move to 80%. That up – that 75% increase, sort of on a like-for-like basis would have come and will come from net working capital rate which you will see us continue to focus on this year and continue to drive improvements in net working capital rate as we move through the year.

On 2025, I will only say, in 2024, that's our guide, is to step up to 75% and we believe that positioning ourselves there on that like-for-like basis puts us in a really good position to continue to make improvements into 2025.

**Julian Mitchell**

*Analyst, Barclays Capital, Inc.*

That's helpful. Thank you, Kevin. And maybe just my second question is around the organic sales outlook. So, you have that slight decline starting the year with a tough comp and the unwind of some project work. Should we think about the slope of the sales recovery year-on-year as being fairly sort of gradual as we go through the year?

Q

So, each quarter would have a stronger year-on-year growth rate than the prior quarter? And for 2024 overall, is there any way of quantifying the project unwind headwind or what we should expect project-related revenue to do this year?

**Kevin S. Krumm**

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

A

Yeah. So, just made a note here. Make sure I answer all your questions, Julian. So, on growth rate. Yes, our – the implied guide there for the first quarter is to be down in the first quarter as we comp it against a strong quarter in prior years. Underlying what you're going to see there is in the Safety Services business, we expect to see continued mid- to high-single digit growth on the service side of the business, and we expect to see growth probably close to the lower-single digits in the projects side of the business in the first quarter. Again, a piece of that is just comping against a strong quarter in prior year.

On the Specialty side of the business, while we'll see growth on the service side of the business, as we continue to focus on backlog and getting that portfolio healthier, and to a lesser extent, comping against a mid-single digit growth in the prior year, we're going to see a reduction in the projects side of the business, especially in the first quarter, which is really a continuation of what we saw in the back half of the year.

Underlying drivers in there is – in Q1, is going to be consistent with what we're seeing in the back half of 2023, which is lower material costs, which results in a revenue drag due to lower material cost pass-through, and then a focus on disciplined customer and project selection, which is really rightsizing our portfolio. The thing I will highlight as we talk about organic growth in the first quarter for Specialty is that we still expect these efforts to improve EBITDA dollars year-on-year and EBITDA margin year-on-year in the first quarter. So, the work we're doing there is paying off from a profitability standpoint.

Just to conclude, you asked about sort of growth profile first half, second half. On the service side, we expect to see consistent organic growth in our service businesses throughout the year. On the projects side, we just talked about the first quarter. That's really a first half thing we'll be working through as those projects business sort of annualize against the work we started on disciplined customer and project selection and a healthier projects backlog. So, what you're going to see is subdued growth on the projects side of the business, primarily in Specialty and HVAC in the first half of the year, turning around to growth as we annualize against that in the back half of the year, resulting in back half growth rates that will be above first half growth rates.

**Julian Mitchell**

*Analyst, Barclays Capital, Inc.*

Q

That's great. Thank you.

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

**Jon Tanwanteng**

*Analyst, CJS Securities, Inc.*

Q

Hi. Good morning. Thank you for taking my questions and congrats on the strong quarter and the outlook. I was wondering if you could talk about your total capacity for M&A this year, just given the cash used and leverage going back up to 3 times, how far are you willing to [ph] lever up (00:29:50)? That's my first question. Thank you.

**Kevin S. Krumm**

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

A

Hi, Jon. Thanks for the question. I would say on a -- from an M&A standpoint, the transaction we announced this morning will not impact our planned M&A campaign for 2024, which was really focused on bolt-ons. We've done over \$100 million over the last 12 months. And our plan, as we went into 2024, was to increase that meaningfully; and this transaction will not impact that -- those plans in 2024.

You referenced that the transaction does move our net leverage up to 3 times. We talked about de-levering back inside 2.5 times by the end of the year. That is assuming that we continue to do the M&A as we planned. And the only thing I'll say is that 3 times, we still think we have ample balance sheet capacity to stay opportunistic and agile as opportunities present themselves.

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**Jon Tanwanteng**

*Analyst, CJS Securities, Inc.*



Got it. And then, could you just comment on buying back the shares of the converted shares at the \$36.75 price? Just help me understand your thoughts on future prospects and kind of if that's a vote of confidence in performance, given you're buying above the market here.

31:15<A – [0GSPVY-E]Kevin Krumm – APi Group Corp.>: Yeah. So, just to highlight, the price is a mechanism that was in the Series B that allows for us to force conversion at \$36.90. So, that was the reason we landed on that price. To your question, what I would say on the buyback is, the transaction was pulled together holistically. And the way we've thought about this is looking at it holistically.

So, there's one part we like, the value of our shares relative to our long-term prospects, for sure. There's also one part that this overall transaction allows for orderly transition of the shares, which we think benefit our common shareholders as well. But when you look sort of at our prospects going forward, we're confident that we have a clear path to make the most of the opportunities in front of us focused on 13/60/80. We think we took a meaningful step this year. We're going to take a meaningful step, as you can tell, in 2024.

And so, although our shares are trading near all-time highs, our views are that the shares are attractively valued with additional upside potential given our long-term growth prospects and margin goals. And we also think that when we look at that, we couple that with leadership's proven track record of execution, which all of that went into sort of the structuring of this transaction.

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**Jon Tanwanteng**

*Analyst, CJS Securities, Inc.*



Got it. Thank you, guys.

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**Operator:** Our next question comes from Andy Wittmann from Baird. Your line is now open.

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**Andrew John Wittmann**

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



Yeah, great. Thanks for taking my questions. Russ, I thought I'd ask you a little bit on the strategy around customer and project selection. Obviously, this has been a big driver second half of last year. It's going to be a factor here in the first half of this year. And you've talked a lot about this since the de-SPAC. So, this is nothing new.

But I'm just wondering, as you look at the demand environment today for your services and your project-related services in particular, it seems pretty robust as you look at some of the peers out there, even some of the comments that you've made about the projects business, it seems like it's there. You're choosing not to do it.

So, it's allowing you to really drive the margin performance today. But what happens to the strategy if the demand for project services slows down? Can you sustain the high bar that you're setting today in that kind of environment, or do you have to pivot? I guess I'd just like to hear some of your thoughts on that.

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**Russell A. Becker**

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

A

Well, I mean, I guess, I'm just going to start by saying that end markets matter, Andy. And that the end markets that we've chosen to play in show robust opportunity through – for an extended period of time. And so, we feel confident that we have the – we have a kind of a runway in front of us that is going to allow us to remain focused on customer and project selection.

There's a few things that I would also say to that is that, our diversity in the service offerings that we have, like we're not doing these massive telecom programs and things like that. We do get telecom work, but the programs, they're small and they're in different geographic areas. And so, I think that allows us to be more nimble. I also think that this is a – remains to be a relationship-based business, and your ability to execute and focus on building relationships matters. And that helps – you drive better results for your business in both good times and in bad.

And so, I am not worried about it. I look at it as it's the right thing for us to do from a business perspective. And I remain very, very impressed with the discipline that our teams are showing. And where they're going to continue to allocate their resources.

And in an environment where resources and skilled resources especially, and I'm talking predominantly here about field leaders, is constrained, companies like ours that are making the investments in the men and women that are actually doing the work in the field, I believe it's going to be a significant difference maker for us and allowing us to continue to attract the right people to our workforce that is going to allow us to continue to provide the services that our customers need. So, I think that there's a lot in that question, but I really believe that our business is positioned better than most to continue to win in the environment that we're in.

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**Andrew John Wittmann**

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

Q

Okay. That's helpful perspective. Thanks for that. I guess, maybe Kevin, my follow-up question is probably for you. I just wanted to get kind of the updated view on the Chubb value capture. You talked about the remaining portion. How much of the \$85 million that you expect to get in the future do you think can be realized in 2024? And then, I guess, maybe just from a process point of view, I wanted to kind of check in. I know that the last several months, as you went through the fourth quarter and maybe into January, I don't know, a lot of actions were taken. I was just wondering how much more – how many more actions need to still be taken here in 2024 to realize that? Or has the bulk of it been done? Thanks.

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**Kevin S. Krumm**

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

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Thanks, Andy. Yeah, so as we – just to back up, as we announced in Q4, we've increased our overall target to \$125 million. We've secured \$40 million of that to the P&L. There's another \$85 million left to deliver. So, your question on how much of that \$85 million should we secure to the P&L in 2024, I'd say, approximately half of it.

And the actions that we've taken to-date have already secured \$70 million of the total \$125 million, meaning there's still work left to do to deliver that number in 2024, and there's still work left to do to deliver the number that would roll over. So, the other half into 2025. I'd say, probably, half of the 2024 work is behind us. And so, there's a little work left to do in 2024, and that work will accrue to 2024 as well as 2025.

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**Russell A. Becker**

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

A

So, Andy, I'm just going to add a little bit of color to Kevin because the work there is – when you think about the work that needs to be done there, if you remember, we started by addressing, so to speak, our corporate structure and expenses, and then we moved to kind of a country-level leadership, and then we said that we were going to move into branch optimization and we're really in branch optimization mode.

And as part of that, we have a significant sales force optimization effort going on where, as part of that work, we need to, I guess, switch or convert to that inspection first mindset and that's a different sales force. So, you – there's a tremendous amount of work that's going to continue to go on through this year and into next year for us to continue to optimize in the business and really move.

We – and we started work to move towards that branch-based operating model that we employed here in North America. So, the work to a certain degree like is never done. But we are continuing to, I think, see significant improvements in the overarching business. And I, to be totally honest with you, couldn't be more pleased with the leadership of the company.

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**Andrew John Wittmann**

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

Q

Thanks a lot. Have a great day.

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**Russell A. Becker**

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

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Thank you.

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**Kevin S. Krumm**

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

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Thanks, Andy.

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**Operator:** Question comes from Kathryn Thompson from Thompson Research Group. Your line is now open.

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**Kathryn Ingram Thompson**

*Analyst, Thompson Research Group LLC*

Q

Hi. Thank for taking my questions. And just following on kind of the optimization initiatives you discussed in the previous question, I'm tagging in on that. As you focus on adding with accretive M&A on the inverse, are there any portfolio assets that make sense to [ph] cull (00:40:30) to help structurally from a margin standpoint and overall strategy standpoint?

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**Russell A. Becker**

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

A

Yeah. Good morning, Kathryn. Thank you for joining our call and I appreciate it. And yeah, we – we're always looking for – looking at our businesses and making sure that we're evaluating the businesses as it relates to being additive to our long-term goals. And we held a very small business for sale in the fourth quarter, and expect to move forward and get that business sold here hopefully early in the first part of this year.

And we continue to evaluate our portfolio every single day, just like we evaluate our branches. And from a branch perspective, the reality of it is, is we really don't need to be anywhere, even though we may want to be someplace. If we don't have the right leadership and can't solve for that leadership, we're not afraid to close down a branch. And that, all of that kind of comes into the calculus as we look across the broader aspects of the entire company.

And we like to – from a branch perspective, we like to look at branch – our branch performances on a rolling five-year average. And so, we can see the trends – which businesses are growing, which ones are flat, which ones are declining, so we can evaluate leadership and make sure that we have to have the right business leaders at each individual branch level. So, there's a lot that goes into it when you have as many branches that we do, but we're not afraid to make changes as necessary, whether that's a branch or whether that's an existing business that's inside the portfolio.

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**Kathryn Ingram Thompson**

*Analyst, Thompson Research Group LLC*

Q

Okay. And just to clarify, today's transaction doesn't really change that strategy either for culling, but also, does it change your overall M&A strategy?

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**Russell A. Becker**

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

A

Not at all. Not at all. We feel that the transaction gives us the flexibility with our balance sheet to continue to move forward with our bolt-on M&A strategy. So, nothing changes as it relates to what we're trying to accomplish there.

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**Kathryn Ingram Thompson**

*Analyst, Thompson Research Group LLC*

Q

Okay, perfect. Thanks so much.

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**Russell A. Becker**

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

A

Thanks, Kathryn.

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**Operator:** Our next question comes from Andy Kaplowitz from Citigroup. Your line is now open.

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**Andrew Kaplowitz**

*Analyst, Citigroup Global Markets, Inc.*

Q

Hey. Good morning, everyone.

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**Kevin S. Krumm**

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

A

Hey, Andy.

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**Russell A. Becker**

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

Good morning. How are you?

A

**Andrew Kaplowitz**

*Analyst, Citigroup Global Markets, Inc.*

Good. How are you? Russ, can you give more color into your verticals in Safety, is the slowing of growth that you have basically all your own actions, comps or lower pass-through as you guys said or are you seeing any market related delays? And then, you previously talked about data center, semiconductors, EV and health care markets. Are you seeing any change in the pacing of growth in those end markets? Like, for instance, have you seen an uptick in data center demand and or a downtick in EV demand?

Q

**Russell A. Becker**

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

Yeah, so I would say that we saw more of that pacing in 2023, specifically in the data center space with a couple of the hyperscalers. And we're – now, you're seeing that kind of reverse itself in 2024. And with just the opportunity, as you know, we have a number of different data center facilities that we're under design contract, and we don't have the project-related or installation component of it yet. The semiconductor space continues to provide robust opportunity.

A

You saw Ford forward pull back a little bit on the EV space. But in general, the EV space remains very, very strong with demand really outpacing capacity. It's just a matter of being disciplined with where you're going to potentially put your resources. So, we see – I believe that the outlook is really robust. And I think there's going to be plenty of opportunity as we work through the year.

**Andrew Kaplowitz**

*Analyst, Citigroup Global Markets, Inc.*

Russ, just to be clear to that commentary, do you want to get the project-related work for the hyperscalers? Like, how do you think about that? Just out of curiosity.

Q

**Russell A. Becker**

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

Yeah, for the right ones. And we have certain customers in that space where we have the inspection and service, we're doing the inspection and service work. And again, knowing our model, Andy, that we want to use the inspections first that's going to drive service work for us, and then building that sticky client relationship through doing a great job executing, which is going to create opportunities for you to position yourself where you're not competing for that business on price.

A

And if you're competing for that business just on price, we're not going to be able to achieve our margin expansion goals. And the best part about the hyperscalers, if you will, is that in – as a general statement, you have a fairly sophisticated owner who is making decisions based on value. Price is obviously always a component of that, but essentially it's your ability to execute and get the work done, get the work done safely. That's all a big part of the calculus that they use when they're selecting their partners to do the work.

So, I think, you have – just have it – again, it goes back to this customer selection, project selection, and making sure that you're choosing the right places to work. A lot of the project-related work also goes through the general

contractor community. And there is the significant projects or customer selection criteria that goes into that as well.

**Andrew Kaplowitz**

*Analyst, Citigroup Global Markets, Inc.*

Q

Very helpful. And then, Russ, maybe kind of a similar question for the Specialty markets. As you know, organic growth has been lumpy in that business. You mentioned your diversification. When you look at the organic guide for 2024, does Specialty grow roughly at the same rate as Safety or how are you thinking about that? When you think about the 2% to 5% for both segments?

**Russell A. Becker**

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

A

No. I mean, Specialty, we guide to organic growth in Specialty to be lower than we expect to be in Safety. And it's really because of this disciplined customer. It's really in that space, it's really disciplined customer selection [ph] more so (00:47:16) that it is even project selection, to be honest with you, Andy. And even with – like even with some of your telecom customers, there's – you have to be selective by geographic region because they're not all the same. You might have great success with somebody in, say, New Jersey, but not New York. And so, making sure that you're evaluating those different master service agreements and work programs that you're taking on really matters.

And I would tell you that the segment leadership in Specialty has done really quite an amazing job with bringing customer selection into the mix there. And again, I'll just go back to the fact that our business is very diverse, not only from a geographic perspective, but it's also very diverse in the service offerings and different components of that have better gross margin opportunities than others. And so, understanding your customers, understanding the geography, and making sure that you're being thoughtful on how you approach it is what really matters at the end of the day.

**Andrew Kaplowitz**

*Analyst, Citigroup Global Markets, Inc.*

Q

Appreciate all the color.

**Russell A. Becker**

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

A

Thanks, Andy.

**Kevin S. Krumm**

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

A

Thanks, Andy.

**Operator:** We are now closing the floor for question-and-answer. I'd now like to hand back over to Russ Becker, Chief Executive Officer and President. Please go ahead.

**Russell A. Becker**

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

Thank you. In closing, I would like to thank all of 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'd 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 we look forward to updating you on our progress throughout the remainder of the year. Thank you again for joining the call this morning.

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**Operator:** Thank you for attending today's conference. Have a wonderful day. You may now all disconnect.

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