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APi Group Corp. (APG)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to APi Group's Fourth Quarter and Full Year 2024 Financial Results Conference Call. All participants are in a listen-only mode until the question-and-answer session. Please note this call is being recorded. I will be standing by should you need any assistance.

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

Adam Fee

Vice President-Investor Relations, APi Group Corp.

Thank you. Good morning, everyone, and thank you for joining our fourth quarter 2024 earnings conference call. Joining me on the call today are Russ Becker, our President and CEO; David Jackola, our Interim Chief Financial Officer; and Sir Martin Franklin and Jim Lillie, our Board Co-Chairs.

Before we begin, I would like to remind you that certain statements in the company's earnings press release announcement and on this call are forward-looking statements which are based on expectations, intentions and projections regarding the company's future performance, anticipated events or trends, and other matters that are not historical facts. These statements are not a guarantee of future performance and are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. In our press release and filings with the SEC, we detailed material risks that may cause our future results to differ from our expectations. Our statements are as of today, February 26, and we undertake no obligation to update any forward-looking statements we may make except as required by law.

As a reminder, we have posted a presentation detailing our 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. A reconciliation of and other information regarding these items can be found in our press release and our presentation. Additionally, we'll be posting an investor update presentation on the Investor Relations page of our website later today.

It's 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. 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. As a side note, we are very thankful that our four teammates that were involved in the Toronto plane crash last week have returned safely to Minneapolis and are recovering well. I'd like to thank our APi teammates who supported these individuals on their return to Minnesota.

I'm also proud that APi has, once again, been recognized as a Military Friendly Employer for 2025. We remain committed to providing opportunities for veterans and their spouses to build careers and develop as leaders. 2024 was another solid year for APi with record net revenues, record adjusted EBITDA, record adjusted earnings per share and record adjusted free cash flow in an evolving macroenvironment. As I mentioned on the last call, the team's work executing our 13/60/80 shareholder value creation framework, shown on slide 5, has resulted in APi being the strongest it has ever been from a revenue, profitability and cash flow generation standpoint, which is highlighted on slide 6.

In 2024 specifically, our leaders delivered progress against each of our 13/60/80 financial targets. First, adjusted EBITDA margins – expanded adjusted EBITDA margins, 140 basis points to 12.7%, putting us in a position to surpass our 13% or more adjusted EBITDA margin target for 2025. Second, we increased the mix of inspection, service and monitoring revenues from 52% in 2023 to 54% in 2024 on our way to our long-term target of 60%. And last, and we improved adjusted free cash flow conversion from 69% in 2023 to 75% in 2024.

Now, I will highlight our 2024 full year results. Net revenues grew by 1.3% in 2024, finishing the year at a record \$7 billion. This growth was driven by acquisitions, strong organic growth in inspection, service and monitoring revenues in life safety and pricing improvements, partially offset by divestitures and an organic decline in project revenues driven by a purposeful focus on disciplined customer and project selection and higher than expected delays in certain customer projects in our HVAC and specialty businesses.

Importantly, we achieved double-digit growth in inspection revenues in our US Life Safety business for the year and in the fourth quarter, representing the 18th quarter in a row as we make progress towards our goal of 60% of our total net revenues coming from inspection, service and monitoring. In line with our strategic initiatives, we continue to see strong improvements in adjusted gross margin for the year, up 250 basis points. The strong performance in gross margin led to full year 2024 adjusted EBITDA margin of 12.7%, representing margin expansion of 140 basis points.

We expect to see continued margin expansion in 2025 and beyond, largely driven by the same initiatives we have been executing for the past several years, including improved inspection, service and monitoring revenue mix, disciplined customer and project selection, Chubb value capture, pricing improvements, procurement, systems and scale, accretive M&A and selective business pruning. And as I always like to say, we can always just be

better. Regarding Chubb and our international business, as we exit 2024, we have realized more than \$90 million of the \$125 million value capture target, and we remain on track to realize the rest of the savings in 2025 and early 2026.

2024 was another year of strong free cash flow with record adjusted free cash flow of \$668 million, representing approximately 75% conversion of adjusted EBITDA. Our strong free cash flow generation helped us to repay \$100 million of our term loan on December 31, 2024, and delivered on our commitment of reducing net leverage to under our target of 2.5 times, ending the year at 2.2 times. The strength of our balance sheet allows for flexibility to pursue value-enhancing capital deployment alternatives, such as continuing our track record of disciplined M&A or opportunistic share repurchases. As a reminder, we have approximately \$400 million of authorization remaining on our share repurchase program.

In 2024, we expect – we accelerated our spend on accretive bolt-on M&A to approximately \$250 million, building on our long track record of integrating businesses and supplementing organic growth through M&A at attractive multiples. In addition, during the first half of the year, we entered the complementary and adjacent \$10 billion plus elevator and escalator services market with the acquisition of Elevated. We have long viewed the fragmented elevator and escalator service market as an attractive adjacency due to the highly recurring nature of the business driven by non-discretionary statutorily-driven demand. We expect to build a \$1 billion plus elevator and escalator services platform over the long-term through a combination of strong organic growth, a long-term cross-sell opportunity with our existing life safety businesses, and a robust M&A pipeline.

Looking ahead, we are excited about the pipeline of M&A opportunities we see across fire protection, electronic security and elevator and escalator services. Our team remains hard at work prioritizing the most attractive opportunities, both from a business quality perspective, but most importantly, from a culture, values and fit perspective.

In summary, I am proud of our team and the record financial results achieved in 2024. As we begin 2025, I have great confidence in our ability to continue to expand margins and grow free cash flow, but importantly, return to traditional rates of organic growth, driven by the following: continued strong organic growth in inspection, service and monitoring revenues; pricing improvements; accelerating growth in our backlog; up high-single digits in total and up double-digits organically in Specialty Services with the focus on the right projects for the right customers in the right end markets; positive progress working through project delays; annualizing the impact of disciplined customer and project selection, including the exited customer relationship mentioned in the first quarter of 2024 for Specialty Services.

And finally, our international business begins 2025 with less than five lossmaking branches after having over 50 at the time of the acquisition. I'm grateful for our international teammates for their great work transforming our business over the past three years to position it for long-term profitable growth. In 2025, we began operating in our newly aligned – newly realigned segments with our HVAC business moving from Safety Services to Specialty Services. This change will provide opportunities to enhance our shared service capability in the Specialty segment and allow the HVAC business to receive increased focus from the leadership team, putting it in the best position to win with its customers. Additionally, the change also sets us – the change also sets up the Safety Services segment as more of a pure play life safety business focused on fire protection, electronic security, and now, elevator and escalator services.

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

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Glenn David Jackola

Interim Chief Financial Officer, APi Group Corp.

Thank you, Russ, and good morning, everyone. Reported revenues for the three months ended December 31, 2024 increased by 5.8% to \$1.86 billion compared to \$1.76 billion in the prior year, driven by organic growth of 4.7% in Safety Services and benefits from M&A. This was partially offset by a 7.6% organic decline in Specialty Services. And on an organic basis, total company net revenues grew by 1.3%. Adjusted gross margin for the three months ended December 31, 2024 increased to 31.1%, representing a 100 basis point improvement compared to the prior year, driven by planned disciplined customer and project selection, pricing improvements and value capture initiatives in our international business.

Adjusted EBITDA increased by 16.3% for the three months ended December 31, 2024 with adjusted EBITDA margin coming in at 13%, representing a 120 basis point increase compared to the prior year, driven primarily due to the factors impacting gross margin, partially offset by lower fixed cost absorption in the Specialty Services segment. I'm also pleased to report that adjusted diluted earnings per share for the fourth quarter was \$0.51, representing a \$0.07 or 16% increase compared to the prior year period. The increase was driven primarily by strong adjusted EBITDA growth and was partially offset by increased interest expense and adjusted diluted weighted average shares outstanding.

I will now discuss our results in more detail for Safety Services. Safety Services reported revenues for the three months ended December 31, 2024 increased by 13% to \$1.40 billion compared to \$1.24 billion in the prior year period. Organic growth was 4.7% driven by double-digit inspection revenue growth in our US Life Safety business and 7% organic growth in inspection, service and monitoring revenues across the segment. Project revenues grew low-single digits in the quarter. Adjusted gross margin for the three months ended December 31, 2024 was 35.7%, representing a 60 basis point improvement compared to the prior year period, driven by planned disciplined customer and project selection, pricing improvements, value capture initiatives in our international business and improved business mix of higher margin inspection, service and monitoring revenues.

Going forward, we will be reporting segment earnings for each segment, which aligns to our historical reporting of adjusted EBITDA by segment. Segment earnings increased by 18.5% for the three months ended December 31, 2024, and segment earnings margin was 16%, representing a 70 basis point increase compared to the prior year period, primarily due to the factors impacting adjusted gross margin.

Now, I will discuss our results in more detail for our Specialty Services segment. Specialty Services reported revenues for the three months ended December 31, 2024 decreased by 11.8% to \$463 million, compared to \$525 million in the prior year period. This was driven by divestitures and a decline in project and service revenues driven by delays, as well as the impact of the exited customer relationship that we first mentioned in the first quarter. Adjusted gross margin for the three months ended December 31, 2024 was 17.3%, representing an 80 basis point decrease compared to the prior year, driven primarily by lower fixed cost absorption and stranded costs from delays, partially offset by the favorable impact from planned disciplined customer and project selection. Segment earnings decreased by 22% for the quarter and segment earnings margin was 9.9%, representing a 130 basis point decrease compared to the prior year period, primarily due to the decrease in adjusted gross margin and lower fixed cost absorption.

Turning to cash flow. As we've highlighted throughout the year, the fourth quarter is our strongest quarter for free cash flow generation due to seasonality, and 2024 was no different. For the three months ended December 31, 2024, adjusted free cash flow was \$307 million, reflecting an adjusted free cash flow conversion of 127%. For the full year, adjusted free cash flow was \$668 million with conversion of approximately 75%, representing a \$131 million improvement or 24% when compared to 2023.

Free cash flow generation has been and continues to be a priority across APi and we are pleased that we were able to meet our increased adjusted free cash flow conversion target of 75% for the year. At the end of the year, our net leverage ratio was approximately 2.2 times well below our long-term net leverage target of 2.5 times even as we continue margin accretive bolt-on M&A. As we look forward to 2025, we expect to continue to grow our free cash flow, providing us a significant opportunity for value-enhancing capital deployment.

Finally, we are happy to announce that we have successfully remediated all prior year material weaknesses and have concluded that our internal control over financial reporting was effective as of December 31, 2024. And maybe I'll go off script for a second to express my gratitude to all of our leaders in our branches, in our companies, and the central team that did just a great job to get us there. I am grateful.

Turning to our 2025 guidance. Based on current foreign exchange rates, we expect full year reported net revenues of \$7.3 billion to \$7.5 billion, representing a return to traditional rates of organic growth in net revenues driven by high-single digit organic growth in inspection, service and monitoring revenues in Safety Services and a return to mid-single digit organic growth in our Specialty Services segment following the first quarter, which is impacted by challenging weather-related comparables. We expect full year adjusted EBITDA of \$970 million to \$1.02 billion, which represents adjusted EBITDA growth of approximately 10% to 15% on a fixed currency basis and adjusted EBITDA margin of 13.4% at the midpoint, which is up 70 basis points versus 2024. In 2025, we expect to continue to make progress in terms of free cash flow growth with the 2025 adjusted free cash flow conversion target of approximately 75% while returning to organic revenue growth.

In terms of the first quarter, we expect reported net revenues of \$1.625 billion to \$1.675 billion. This guidance represents reported revenue growth of 2% to 5% and a low-single digit organic net revenue decline at the midpoint. We expect first quarter adjusted EBITDA of \$185 million to \$195 million, which represents adjusted EBITDA growth of approximately 7% to 13% on a fixed currency basis and adjusted EBITDA margin of 11.5% at the midpoint, up 60 basis points versus last year.

For 2025, we anticipate interest expense to be approximately \$145 million, depreciation to be approximately \$90 million, CapEx to be approximately \$100 million and our adjusted effective cash tax rate to be approximately 23%. We expect corporate expenses to be between \$30 million and \$35 million per quarter with some timing variability throughout the year. We expect our adjusted diluted weighted average share count to be approximately \$284 million for the year.

I will now turn the call back over to Russ.

Russell A. Becker

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

Thanks, David. Nice job. Our record results in 2024 once again demonstrates the strength of our recurring revenue, services-focused business model and the ongoing execution of our strategy by our teammates. We begin 2025 with positive momentum and the demand for the services we offer is strong across the global platform. We remain relentlessly focused on growing inspection, service and monitoring revenue. With that, combined with the accelerating growth in our backlog, provides a solid foundation for returning to traditional rates of organic growth in 2025 while continuing to expand our margins.

We remain focused on creating sustainable shareholder value by delivering on our 13/60/80 targets with the near-term focus on generating adjusted EBITDA margins of 13% or more this year. As a reminder, we will be hosting

an Investor Day on May 21 in New York for professional investors where we will be detailing new meaningfully higher long-term financial targets and updates to our strategic plan.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Thank you. Your first question comes from the line of Ashish Sabadra with RBC Capital Markets. Please go ahead.

David Paige

Analyst, RBC Capital Markets

Q

Hi. Good morning. This is David on for Ashish. Congrats on the good results here. I'm just curious if you could double click on some of the key variables that will drive margin – EBITDA margin expansion to 13%, 13% plus going forward. Thank you.

Russell A. Becker

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

A

Good morning and thank you for joining us and thank you for your question. I would say that it's – we're pounding the same drum. And the different levers that we continue to pull, we'd start with disciplined customer and project selection. And as I like to share with people, it's really customer selection and making sure that we're working with people that really value the services that we provide and the field leaders that we are going to deploy to their sites.

Next, I would say, is improved mix as we continue to improve the percentage of our revenue that comes from inspection, service and monitoring. If you remember in our prepared remarks, we have grown that from 52% of total net revenues in 2023 to 54% in 2024 on our way to our target of 60%. Price continues to be a lever for us to stay focused on. I would say procurement is another opportunity for us that we feel like we're still in the early innings of, and we think that there's tremendous opportunity for us there.

I would also say, Chubb value capture. We're getting to the point where we're going to stop talking about Chubb value capture and be talking about it like it's business as usual. But we're \$90 million into our \$125 million target and we continue to make really good progress there. I would say, what we call business process transformation, which is basically working towards more shared services and utilizing the scale of the company, that would be another lever.

Strategic M&A is a lever. And like I always like to tell people, we have the opportunity to just be better. And I saw a report just yesterday that showed kind of branch performance across our – the portfolio of our business. And we continue to pull our branches forward and we've got branches that are well north of 20% from a EBITDA margin perspective, which means we've got other branches that are kind of mid-single-digit and we need to continue to bring those branches along and there's – and we know what the playbook is there. So – but the levers that we're going to pull and the drum we're going to beat is going to be the same.

David Paige

Analyst, RBC Capital Markets

Q

Great. That's very helpful. I appreciate it. Have a good day.

Operator: Your next question comes from the line of Kathryn Thompson with Thompson Research Group. Please go ahead.

Kathryn I. Thompson

Analyst, Thompson Research Group LLC

Q

Hi. Thanks very much for taking my questions today and very nice job on the year and achievements since going public. I wanted to step back and look at the forest for the trees. This is something that you have focused on early on as a public company in terms of recurring revenues, in particular how to manage through various cyclical downturns. As we look at the re-segmentation going forward, where are we today in terms of how you think about managing your business in light of some concern about economic slowdown? And how is your business model set up to manage these fluctuations? Thank you.

Russell A. Becker

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

A

Thanks, Kathryn. Good morning and I always appreciate the perspective that you bring to the calls and to your questions, actually. I feel like if you look at the evolution of the business, every year, we continue to build a greater sense of resilience into our model. And it really starts with that whole idea of driving inspection, service and monitoring to 60% of our total net revenues. And that's where the resiliency component of it comes in, in which, it becomes – provides the opportunity for us to be more immune to any sort of fluctuations that you're going to see in the economy.

I mean, that includes even potential costs increases associated with tariffs. We price our inspection and service work in real time, so we're able to pass those increased costs on very, very quickly to our clients. And so, that's one of the more significant opportunities for us. We also feel like being focused on inspection, service and monitoring allows us to be more selective in the project work we do. And in one of Adam's slide decks, we have a typical branch or a branch that we really imposed the inspection first mindset on. And one of the things that you can see is that the project gross margins improve as your inspection, service and monitoring revenue mix improves because it gives you the opportunity to be more selective on the project work that you do and that helps build resiliency. So, like I look at our business today versus where our business was in 2008, 2009 and we've made a tremendous amount of progress and I'm – I feel like we're in a really good place.

The last thing I would say about our ability to manage any sort of fluctuations in the economy is that our cost model is basically 75% – 70%-75% variable, which means that if needed, we have the opportunity to flex very, very quickly. And I think if you go back and look at our results in 2020 when COVID landed, you saw us exercised that muscle and really showed a positive result as we worked our way through a very, very much an unknown time. So, I hope I addressed your question adequately.

Kathryn I. Thompson

Analyst, Thompson Research Group LLC

Q

Yes. Thank you very much. I appreciate that. And one follow-up, just more tactically about the commentary about project delays. Is it more weather permitting financing or is it more related to large projects or more a kind of a localized market, small project issue? And just really bigger picture, trying to understand, is this more one time or more – and something that will be managing throughout the year? Thank you.

Russell A. Becker

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

A

Yeah, Kathryn. So, what I would say is that the project delays and everything else that we cited last year are mostly behind us. We have a government client that, I would say, continues to kind of get in their own way to a certain degree. But what I would also tell you is that we are smarter than we were last year, and I think we have built that into our plan, understanding that it was – it would be more herky-jerky. So, I think that we learned a lesson to a certain degree about how to plan for that work and to make sure that we're deploying our resources so that we can just do a better job of forecasting and budgeting and how we lay out the work and how we're deploying our resources probably more than anything.

And as we move into this year, I would say that Q1 is more normal this year than it was last year. Last year, if you recall, was an extremely positive year as it relates to weather. Q1 has always been our, so to speak, quietest quarter of the year because of seasonality in weather, and that's proven to be true as we dealt with more, I guess what I would consider, normal weather conditions in this year and we're just dealing with that.

Kathryn I. Thompson

Analyst, Thompson Research Group LLC

Q

Great. Thank you so much and good luck.

Russell A. Becker

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

A

Thanks, Kathryn.

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

Tim Mulrooney

Analyst, William Blair & Co. LLC

Q

Yeah. Good morning, Russ. Thanks for taking my questions. I just want to build on Kathryn's question a little bit. Can you just level set us where we stand with respect to those project delays that you're experiencing late last year? I think there were three that you called out publicly for a headwind of \$150 million in 2024, and we get a lot of questions on those. So, I'm curious on those specific three, have those moved forward? And then are there any other large specialty projects out there where you are seeing unexpected delays early on here in 2025? Is there a fourth? Is there a fifth? Thank you.

Russell A. Becker

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

A

No. So, of the three, I guess. And this is built into our plan already. But of the three, I would say that one is done, one is this government entity that I mentioned and we've built it into the plan. We're doing the work as we speak. And so, that is proceeding forward. And the third was started off as a permitting issue and then became a right-away issue. And there was, I guess, natural gas lines running into duct bank and things like that. And so, that slowed things down but we have people on the job site, and I would say that the seasonality associated with winter work has slowed it down, but the work is progressing.

And as kind of the winter season gets behind us, we expect the work to ramp up, but that's all been appropriately factored into our plan. And do I know like what four or five is? There's stuff happening all the time and I like – we had a semiconductor customer in our North American safety business that went through some changes on one of

their large expansions that delayed that project last year as well. We just don't happen to talk about that as much. And there's always – on the project side of your business, there's always delays and things that happened. So, is there anything like what we experienced last year that we're anticipating this year? No. We feel like we're more prepared as we move into 2025. So, as I sit here right now, there is no number four.

Tim Mulrooney

Analyst, William Blair & Co. LLC

Q

Okay. That's really helpful and I think really helps kind of put that conversation to the side. Just building on that a little bit more, you did mentioned that one federal project. I guess, I'm curious, this is something else we get questions on, how much of your specialty business – so, I guess, how much of your business overall is driven by projects that are funded even partially by federal funds like that federal rural broadband project? Just curious if there's any notable government exposure risk that you could highlight in investors given everything that's going on in the headlines. Thank you.

Russell A. Becker

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

A

Yeah, I don't – I mean, as it relates to us, I mean, it's not material in our total revenue. I'd have to have Adam circle back with you and try to give you more specific figures. I would just be guessing as I sit here. I mean, the BEAD Act or whatever you want to call that, that had some impact and some uncertainty, but that's, I think, more about the government getting in its own way than about whether the funding is not there. We don't do a tremendous amount of federal government work that, so to speak, if your question is directed towards those and whether some of that could get cut, that wouldn't have like a direct impact on us. But like I said, when – even going all the way back to when the infrastructure bill was originally signed, whatever, two years ago now, a rising tide floats all boats. And if a bunch of stuff gets cut and that would have probably more of a negative effect on the overarching industry, which you would expect to have some trickle-down effect that would at a much later date as people continue to work through their backlogs and everything else.

So, I'm not sitting here super concerned about it. We obviously – I think from my chair, what we are watching more closely is tariffs in the effect that tariffs could have on inflation, making sure that we're protecting ourselves in our proposals today for potential increases in the cost of the products that we provide to our customers. The most notable commodity that we continue to watch is steel pipe prices. And we've seen a small increase in steel pipe prices but this is something that we actually anticipated when the elections were over. And we saw that the new administration would be taking over, we knew that President Trump, he likes these tariffs. And so, it's not like it was a surprise and not like it was something that we didn't see coming, it's just a matter of making sure that we're protecting ourselves.

Tim Mulrooney

Analyst, William Blair & Co. LLC

Q

Got it. Thank you very much.

Russell A. Becker

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

A

Thanks, Tim.

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

Joshua K. Chan

Analyst, UBS Securities LLC

Q

Hi. Good morning, Russ and David. Thanks for taking my question. Maybe one quick question on guidance. You did mentioned that Q1 is impacted by weather. I guess, does that mean it has a disproportional impact on specialty? And could you just kind of talk to whether the 5% type organic growth you had in safety in Q4 is roughly sustainable for the year?

Glenn David Jackola

Interim Chief Financial Officer, APi Group Corp.

A

Yes. Thanks, Josh. Thanks for the question. I guess what I'd say about our Q1 guidance and the impact on weather is Q1 is going to look a lot like Q4. And as we get into Q2, Q3 and Q4, we'll start seeing the specialty business return to more traditional rates of growth. But the growth formula in safety will be largely the same in Q1 and all of 2025 as it was in the fourth quarter in 2024.

Joshua K. Chan

Analyst, UBS Securities LLC

Q

Great. That's great to hear. And then a question for Russ on branches. So, you mentioned obviously a certain branch is at 20% plus margins and others at mid-single digit. What would you say are the key factors that kind of differentiate whether a branch is in that high versus the low profitability bucket? Thank you.

Russell A. Becker

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

A

Thanks for that softball. And I would say that, number one, it starts with the branch leader. And we need to have really good and quality branch leaders leading all of our branches. And inside those branches, we have multiple departments and we need to have really good people leading those departments. And I think that's something – that's where it starts.

And second, it would be adopting this inspection first mindset and making sure that we're developing and bringing on inspection sales leaders in those branches to start selling the inspection because we know we're going to get to \$3 to \$4 of pull-through service work that's going to come alongside that, and that takes a lot of energy and effort. And then I would say that the second component of that, following that recipe, is making sure that you're disciplined from a customer and a project selection perspective. But it's going to 100% start with the branch leader and then it's going to be adopting that inspection first mindset and really putting that playbook to work.

Joshua K. Chan

Analyst, UBS Securities LLC

Q

Great. Thank you for that and thanks for the color and good luck in 2025.

Russell A. Becker

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

A

Thank you.

David Paige

Analyst, RBC Capital Markets

A

Thank you.

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

Harold Antor

Analyst, Jefferies LLC

Q

Good morning. This is Harold Antor on for Stephanie Moore. So, just wanted to talk about M&A expectations for the year. Leverage is pretty in check. I guess, what are you guys seeing on the M&A front? How competitive is the space? And as you think about M&A, are you looking to do it in the legacy safety space or do a bit more on the elevator space? Just any comments around there. And I guess the last thing is any willingness to do another large platform deals? I guess, I'll leave it there.

Russell A. Becker

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

A

Yeah. Thank you so much. And so, there's a lot of ground to really cover there. So, we shared that we've spent roughly \$250 million on bolt-on M&A at really mid-single digit multiples. That has been a key tenant of our M&A playbook, if you will. Our plan and our goal is to execute kind of similarly this year. So, we plan to spend hopefully another \$250 million on bolt-on M&A through the course of this year.

I would say that the priorities there would be in the fire life safety space, the security space and the elevator and escalator space. That doesn't mean that we wouldn't – if we found a really highly profitable, say, HVAC service business or something like that, that we wouldn't take a peek at it, but our priorities are primarily going to be in those three buckets.

I'm going to say that from an international perspective, we feel like we continue to make progress in our – with our international business. And so, we are opening up the aperture a little bit and we're looking at some opportunities internationally where we've been – I don't know, if reluctant is the right word, but we just didn't feel like we were necessarily ready to be doing bolt-on M&A in our international business. We've done one to date and – but we are really looking at some opportunities internationally right now as we speak that we think would be great bolt-on opportunities. So, we're going to spend some time there, and I suspect that we'll get a couple of things accomplished internationally this year.

As it relates to the elevator and escalator space, what I've been sharing publicly is that our goal is to do one first and do it really well. And what I mean by that is that when we do bolt-on M&A, the company that's going to receive that bolt-on, if you will, needs to be able to integrate it. And we have an integration team here led by a very strong leader and – but she's more of a quarterback and a coach and a facilitator and she basically helps the business.

So, the business has to be able to really receive it and integrate it. And we haven't done any bolt-on M&A with Elevated since the acquisition. So, we need to do one, see how the company does with that. And if they do well, then we'll turn around and we'll do another one. And I think the worst thing that we could do would be overwhelm them with two or three bolt-ons right out of the gate. So, we're going to take a measured approach and make sure that we're being smart about how we approach that.

And then, I guess maybe the last comment I would say is that our pipeline remains robust and we see a lot of opportunity for us to continue to do bolt-on M&A across the breadth of our business, and really specifically in the United States. The market remains highly fragmented and we think that there's a lot of opportunity for us to continue to complement our geographic footprint through bolt-on M&A.

From a transformational M&A perspective, we continue to do work on a number of different opportunities in the space. We are very, very disciplined and we need to make sure that there's the right opportunity. Do I think that we're in a position where we're going to put another leg under the stool like we feel like we did with the elevator and escalator space? I'm not so sure about that. I mean, we just really got into the elevator and escalator space, so I feel like there's just a lot of work for us to do. We've said it today again that we think that's a \$1 billion platform for us, and I think we have a lot of work to do to demonstrate to yourself and to others that this is something that we can execute on.

And so, the focus will be on the verticals that we're operating in today. And I don't want to say that we wouldn't because that's a – that would be a little bit of putting ourselves in a corner. But right now, as we sit here, I think the focus is on what we have. Are there some bigger things out there that are of interest to us? For sure. And – but it needs to be at the right valuation for us. And specifically in the fire life safety space, you're seeing some of the larger companies. The multiples that these businesses are trading for are, in our opinion, much too high and we feel like we're going to stay disciplined and stay focused, and if the right opportunity comes along, we'll do the work and we'll dig in and we'll make sure that we're doing right by our shareholders.

Harold Antor

Analyst, Jefferies LLC

Q

Great. Thank you for all the color. And I guess just on the revenue guidance. I guess, to achieve the high end of the guidance, could you talk about some of the drivers that you would need to see there? I know you talked about FX. So, if you could just – I guess, based on the FX today, what does that imply for a currency impact pricing expectations? Are you expecting that to continue running mid-single digit in the year? I guess, just any drivers that would get you to the high end of the guidance would be helpful. Thank you.

Glenn David Jackola

Interim Chief Financial Officer, APi Group Corp.

A

Yeah. Hey. Thank you for that question. I guess what I'd say on that is our revenue guide for the year is largely based on the flywheel that we've talked about in the past, which is mid-to-upper single-digit growth in service revenue, low mid-single-digit project revenue growth, and that really gets you to the midpoint of our guide. So, when you think about what are the factors that could get you more to the top end, obviously, it's continued acceleration in progress on the service side. But I'd say it's probably looking more towards that project book and how quickly or if that gets over to low to mid-single digit, that's the foundation of our guide and our growth story.

Russell A. Becker

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

A

The only thing I would add to David's remarks is price will obviously play a factor in that for us. And we need to make sure that we're diligent about taking price where we can and also the end markets that we play in. And one of the things – when you think about even my remarks about our branch leaders and the importance of our branch leaders, one of the areas that our branch leaders need to be the most strategic is in the – with who they choose to deploy their people to, i.e., who their customers are going to be, which is a direct relation to the end markets that they choose to play. And there are certain end markets that are much stronger and much more resilient to some of the macros that are going out there.

And then last thing, and David kind of touched on this, but we could open the spigot if we wanted to and – but that would be at the expense of margin. And we need to demonstrate to you and to our investors that we can grow in that mid-single digit organic rate and still expand our margins simultaneously. And we believe that, well, we're going to do it and we're going to show you that we can do it.

Harold Antor

Analyst, Jefferies LLC

Q

Thank you for all the color. I'll turn it over.

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

Andrew John Wittmann

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

Q

Oh, great. Good morning and thanks for taking my questions. So, Russ, I mean, you've been asked this question I'm about to ask several times. So, I wanted to just see on the strategic outlook for your business, and you noted that the multiples for pure-play fire life safety companies are trading at multiples that you're not interested in paying for your shareholders. I mean, these are reportedly in the high teens or maybe even a little better than that. So, just with the benefit of some of these trades happening in the marketplace, does that change how you're looking at the composition of your business in the Specialty business in particular strategically with some of these trades having happened?

Russell A. Becker

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

A

Thanks, Andy. I was wondering when we're going to get to you. So, I hope you're well. And we continue – and I think I alluded to it in my remarks. I mean, we continue to look at – I'm telling you, we really look at all aspects of our business, not just Specialty. Like if we have a branch that's in our North American safety business that's not performing, I'm thinking of one actually that we closed last year. And so, we look at every aspect of our business and we have expectations that it's going to be additive to our long-term margin expansion goals.

And there's a direct correlation between EBITDA margin and the valuation that our shares will ultimately trade at, and we understand and we know that. So, we're taking the approach as we sit here today that we are going to do selective pruning across our business, including Specialty if we have businesses that don't fit our long-term margin expansion goals, and we have some work that we know that we have to continue to do there. And we will continue to evaluate all options for our business and make sure that we're making the best decisions for our shareholders long term. But as it sits right now today, that's the tack and that's the approach that we're taking.

Andrew John Wittmann

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

Q

Okay, fair enough. Then I just wanted to kind of get a little bit more detail on the transformation costs in the quarter. They were a market step-up this quarter over any other quarter really in your company's history. And so, I was wondering what drove that in the quarter so high. The budget for this number is in 2025 given that its relatively significantly here in the fourth quarter, I don't know, if there's going to be a continuation of this level of transformation costs going forward.

David Paige

Analyst, RBC Capital Markets

A

Yeah. Hey. Thanks for the question, Andy. I'll handle this one. So, when you look at what we've got in our adjustments, contingent consideration will largely carryover into 2025. We've got non-service pension costs and benefit that can be a good guy in some years, that can be a bad guy in some years and we're going to continue to adjust that out because we believe that doing so gives us and investors a clearer view of the underlying performance of our business.

We had restructuring costs in the quarter. Those are largely related to our Chubb value capture program. Those did increase in the fourth quarter versus the rest of the year and we expect that to come to an end in 2025 as we close out that program. And then BPT costs, as we mentioned, were up in the quarter. Now, that's costs where we include integration costs for the Chubb business, the Elevated transaction. It's also a bucket where we include costs for our stocks deployment, the final steps of our cyber build-out and things like that. And so, as we go into 2025, we largely – we expect the stocks deployment work now is behind us. We're in the very last inning of our cyber rollout. And so, I guess what you could expect to see in 2025 is integration cost, should we do a larger platform type deal or any system IT investment costs as we look towards the opportunities to capture our benefits from our global scale and our global platform.

Andrew John Wittmann

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

Good. Thank you.

Q

Russell A. Becker

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

Thanks, Andy.

A

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

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Hi. Good morning and thank you for taking my question.

Q

Russell A. Becker

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

Hey, Jon.

A

Jon Tanwanteng

Analyst, CJS Securities, Inc.

My first question – good morning – is just you mentioned the semiconductor project that pushed out. Obviously, one part of your customers has had difficulties with management and kind of profitability in the last year. And we know that the CHIPS Act may have some issues as well in terms of funding with what's going on in the Trump administration. I'm just wondering if you see any risk there and what kind of exposure you might have for that customer or semiconductor in general?

Q

Russell A. Becker

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

This slippage had nothing to do with money. It had everything to do – I mean, they – I mean, I'm just trying to think of what I can't say or not say. I mean, I want to be respectful to our client. And – but this had nothing to do with funding or money. I mean, everything is moving forward. They just made – they made some changes in the leadership. It's probably the best way for me to put it, and they made some changes in the leadership of the project. And when you make of these major projects, when they make changes like that, it just is going to be – it's going to take some time to smooth things out. And that's all done and that's all behind them and moving forward. And I would say that they're committed and regardless of what happens with the CHIPS Act.

A

So, I'm not worried about it, I'm not concerned about it. I mean, I think that's one of the things that is positive about our business versus some of the peers that folks want to compare us to. So, on some of these larger, whether it's data centers or semiconductor facilities or even some of these advanced manufacturing facilities, we're – for us, like on the fire side or fire life safety, like a large project-related contract is \$8 million, \$9 million. It's not \$400 million. You know what I mean? So, that if something gets delayed, it's material. I mean, that \$400 million, say, HVAC MEP contract gets delayed, that's going to cause a hole in whoever's doing that work. And for us, if we're doing the fire, it's \$8 million. And so, that's not material and it's much easier for us to just kind of move past that and kind of keep the train moving down the tracks. And I mean, that's one of the reasons that we're building our business the way we're building it.

I mean, I don't really – I mean, I love the fact that the data center market is as hot as it is, and we want to make sure that we're doing everything to take advantage of it. But at the end of the day, we still want the inspection, service and monitoring more than we want the project work. And that's how we're building our model. And we want to do project work for our clients where we're doing the inspection, service and monitoring. And that is just a violent difference in our approach compared to some of our peers in the industry. So, I don't feel like we've got that same level of risk as, say, other firms would have.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Q

Got it. That is very helpful, Russ. Thank you. And then a question for David. I think I heard you say you expect interest expense to be \$145 million this year, which would be flat. I was wondering how that lines up with your expectation for free cash flow and capital allocation for acquisitions and other things.

Glenn David Jackola

Interim Chief Financial Officer, APi Group Corp.

A

Yeah. Thanks for the question, Jon. Yeah, you did hear it right, we expect our interest rate guide for the full year 2025 to be \$145 million. That feeds into our adjusted free cash flow conversion guide of 75%, which is still going to give about 10% – more than 10% year-over-year increase in adjusted free cash flow for the business. I guess, what I'd say about our adjusted free cash flow guide is it will be invested in net working capital to grow the business organically in 2025 and we'll improve our working capital rate in order to fund that.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Q

I'm just wondering why the interest expenses isn't expected to go down if, I don't know, if you're spending it all on other things.

Glenn David Jackola

Interim Chief Financial Officer, APi Group Corp.

A

Yeah. Hey, Jon. It's as much of an accounting question as it is anything else. We had a prior period, I'd say, good guy to interest expense in 2024 that we don't expect to repeat in 2025.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Q

Got it. Thank you.

Operator: That concludes our question-and-answer session. I will now turn the call back over to Russ Becker, President and CEO, for closing remarks. Please go ahead.

Russell A. Becker

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

Thank you so much. In closing, I would like to thank all of our team members for their continued support and dedication to our business. We believe our people are the foundation on which everything else is built. Without them, we do not exist. I would also like to thank our long-term shareholders as well as those that are new or 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 everybody for taking the time to join our call.

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

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