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Last night, APG announced and priced an 11 million share secondary offering at \$37.50 per share; maintain \$40 per share fair value

- Last night, after the market close, APi Group (APG) announced (and subsequently priced) a secondary offering of 11 million common shares at \$37.50 per share.
- Proceeds from the offering are expected to be ~\$412.5 million (excluding fees/expenses) and be deployed toward “general corporate purposes”, including “capital expenditures, working capital and acquisitions”. [Note: the company has granted its underwriters, led by Citigroup and UBS, a 30-day overallotment option for an additional 1.65 million shares.] The offering is expected to close on April 19th.
- For context, recall that earlier this week, on April 15th, APG announced an agreement to acquire Elevated Facility Services for ~\$570 million in cash; the transaction is expected to close in 2Q 2024.
- As previously described, Elevated provides APG entry into the ~\$10 billion elevator & escalator services market, and generates ~\$220 million of annual sales, of which ~70% comes from inspections, services & repairs (compared with APG’s consolidated mix of ~52% in 2023) with a ~20% adj. EBITDA margin profile (versus APG’s consolidated margin profile of 11.3% in 2023),
- By implication, the deal could be expected to add ~\$44 million of incremental annual EBITDA and was priced at ~12.95x.
- In our view, the pending transaction looks accretive toward APG’s previously articulated 2025E goals of generating ~60% of consolidated sales from inspections, services & repairs as well as its 13%-plus adj. EBITDA margin and ~80% free cash flow conversion targets.
- Concurrent with the acquisition announcement, APG adjusted its previous/initial 1Q 2024 guidance, which currently calls for March-quarter sales of \$1.59-\$1.61 billion (versus its previous range of \$1.56-\$1.61 billion) with adj. EBITDA of \$172-\$177 million (versus initial guidance of \$165-\$180 million; see Exhibit #1 on page 2). Adj. free cash flow is expected to be “ahead of last year”, in-line with seasonality.
- Management made no adjustment to its initial (i.e., pre-Elevated acquisition) full-year 2024E guidance, which called for consolidated sales of \$7.05-\$7.250 billion with adj. EBITDA of \$855-\$905 million and an adj. FCF conversion ratio of ~70% (see Exhibit #1 on page 2).
- Our base case fair value estimate for Api Group (APG) remains ~\$40 per share, reflecting a blended multiple of ~12.5x on F2025E adjusted EBITDA of

UPDATE

Api Group Corporation NYSE: APG

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Price: \$37.26/share (at the open)

Market capitalization: ~\$10.0B

Safety Services: \$41/share

Specialty Services: \$9/share

Corporate, Net Debt & Other: (\$10.50)/share

SOTP: \$40 per share*

*SOTP may not add due to rounding

(See the report dated 3/31/2023 and updates from 5/4/2023, 7/11/2023, 10/6/2023, 2/28/2024 and 4/15/2024 for more info.)

NOTE: This publication could be considered as advocating for corporate restructurings. Authors select companies for this report based on the potential for a future value-unlocking transaction. In many cases, these companies have or could come under activist investor pressure, media scrutiny, or general market speculation that a spin-off or asset sale is possible.



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~\$1.01 billion along with projected net debt of ~\$1.4 billion (previously \$1.835 billion) and a diluted share count of ~281.5 million (previously 270.5 million; see Exhibit #2 on page 2).

Exhibit #1 APi Group: Initial 4Q 2024 Guidance and Full-Year 2024E Financial Guidance Progression

(\$ in millions, except per share figures)

	<u>1Q 2024E</u>	<u>1Q 2024E</u>	<u>2024E</u>
	<u>Initial</u>	<u>Current</u>	<u>Initial</u>
Net Sales	\$1.560 - \$1.61 billion	1.590 - \$1.610 billion	\$7.050 - \$7.25 billion
% Y-o-Y growth	(3)% - 0%	-	2% - 5%
% Y-o-Y organic growth, ex-currency	(4%) - (1%)	-	2% - 5%
Adjusted EBITDA	\$165 - \$185 million	\$172 - \$177 million	\$855 - \$905 million
% Y-o-Y growth	13% - 23%	-	6% - 16%
% Y-o-Y organic growth, ex-currency	9% - 20%	-	9% - 15%
Adj. free cash flow (FCF) conversion	-	-	~70%
Restructuring costs	-	-	\$55 - \$65 million
Interest expense	-	-	~\$150 million
Depreciation	-	-	~\$85 million
Capital expenditures	-	-	~\$95 million
Adj. tax rate	-	-	~24%
Adj. diluted share count	-	-	~273 million

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Exhibit #2 APi Group: Sum-of-the-Parts Fair Value Estimate

(\$ in millions, except per share figures)

	<u>Safety Services</u>	<u>Specialty Services</u>	<u>Corporate & Other</u>	<u>Enterprise Value</u>	<u>Net Debt</u>	<u>Market Cap</u>
2024E Revenue	\$5,406	\$2,182				
Revenue growth est.	5.4%	2.5%				
2025E Revenue	\$5,697	\$2,236				
EBITDA margin	<u>14.7%</u>	<u>10.9%</u>				
2025E EBITDA	\$895	\$244	(\$124)		(\$1,411.2)	
Applied multiple	<u>13.0x</u>	<u>10.0x</u>	<u>12.4x</u>		1.0x	
Enterprise value	\$11,633	\$2,438	(\$1,537)	\$12,534	(\$1,411)	\$11,123
Diluted shares	<u>281.5</u>	<u>281.5</u>	<u>281.5</u>		<u>281.5</u>	<u>281.5</u>
Per share basis	\$41.33	\$8.66	(\$5.46)		(\$5.01)	\$39.52
Bull	\$47.68	\$10.39	(\$5.90)		(\$5.01)	\$47.16
Base	\$41.33	\$8.66	(\$5.46)		(\$5.01)	\$39.52
Bear	\$34.97	\$6.93	(\$5.02)		(\$5.01)	\$31.87

Source: Company reports, Bloomberg, and Institutional Research Group estimates.