API Group

NYSE: APG

Implied Upside: 25%

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API Group Overview

Company History

1926 – Company was founded by Rueben Anderson as a small insulation contracting and distribution company

1964 – Lee Anderson takes over from father and company continues to slowly grow and business expands to fire safety

1980 – Anderson launched a strategic initiative to diversify within the construction and construction-related industries. The company went on to expand into key markets beyond the Midwest

2010's – Business has exceptional growth as it continued to expand domestically and internationally against the backdrop of increasing fire regulation

2019 – J2 Acquisition Corporation, a SPAC, merges with API Group to take it public at a transaction valued at $2.9bn

Share Price

Representative Customers

API Group Overview

Segment Overview

Safety

- Safety Segment focuses on end-to-end integrated mechanical systems (fire protection solutions, HVAC and entry systems), including design, installation, inspection, and service of integrated mechanical systems

Specialty

- Installation, maintenance and repair of critical infrastructure such as underground electric, gas, water, sewer and telecommunications systems. They are a single source provider of project-based services throughout the lifecycle

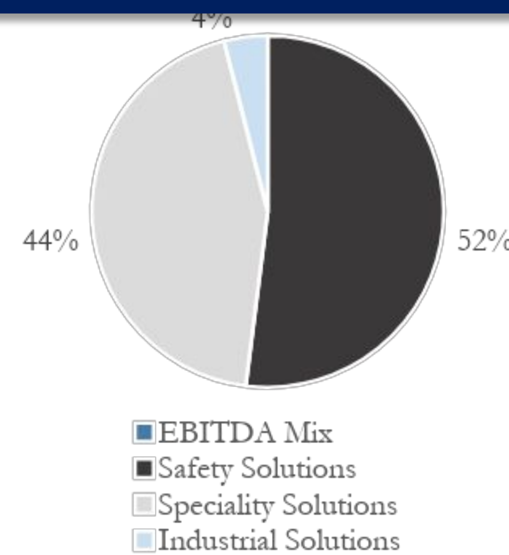
Industrial

- Provides a varietyof contracting services and solutions to the energy industry, including designing and building, or upgrading existing, oil and gas pipeline infrastructure and supporting facilities, and performing ongoing maintenance services

Industry Overview

- Safety inspections are an acyclical service as installation is mandated by law and is performed at regular intervals. The industry is highly fragmented with many local operators. API Group is the largest provider of safety inspections in the U.S. as a result of years of rollups
- Specialty services remains highly competitive as it is project-based work, where competitive bidding occurs, therefore margins are tighter, but API's end markets of infrastructure and telecom are ripe for growth
- Industrial remains troubling as the end markets of energy have been struggling but management divested most of segment

EBITDA Mix

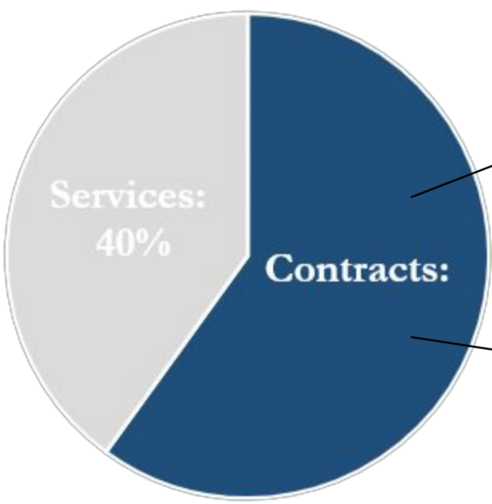


- Focuses on end-to-end integrated mechanical systems (fire protection solutions, HVAC and entry systems), including design, installation, inspection, and service of integrated mechanical systems
- Safety inspections are an acyclical service as installation is mandated by law and is performed at regular intervals. The industry is highly fragmented with many local operators. API Group is the **largest provider of safety inspections in the U.S.** as a result of years of rollups

Organic Growth Normalized Post-COVID

- Management's guidance expects revenue to be flat y/y due to APG's limited ability to gain access to customer sites
- As economies continue to re-open, organic growth will need some catching up to do in 2021 before it can return to normal levels in 2022

Revenue Breakdown

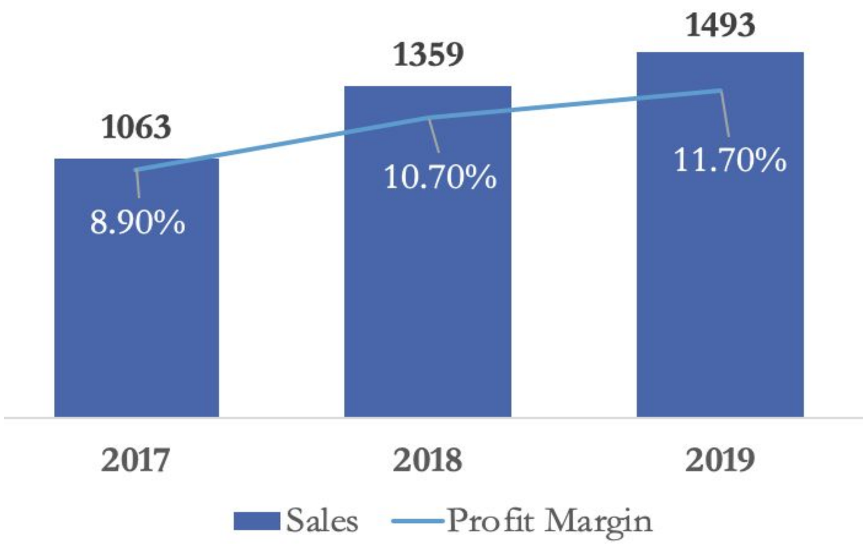


- Roughly ~5200 contracts of projects completed in 2018 were over $100,000
- Service portion of the business generates **gross margins ~10 points better** than the contract portion
- Margins stand to benefit from management's objective to undertake more selective project selection process, but this might negatively affect top-line growth

Specialty Segment

- Installation, maintenance and repair of critical infrastructure such as underground electric, gas, water, sewer and telecommunications systems. They **are a single source provider of project-based services** throughout the lifecycle
- Specialty services remains highly competitive as it is project-based work, where competitive bidding occurs, therefore margins are tighter, but API's end markets of infrastructure and telecom are ripe for growth
- **Recurring revenue** from multi-year, unit priced or time & material contracts with several long-term customers representing the largest gas, electric, water, and sewer utilities in U.S

Sales and Profit Margin (in mm)



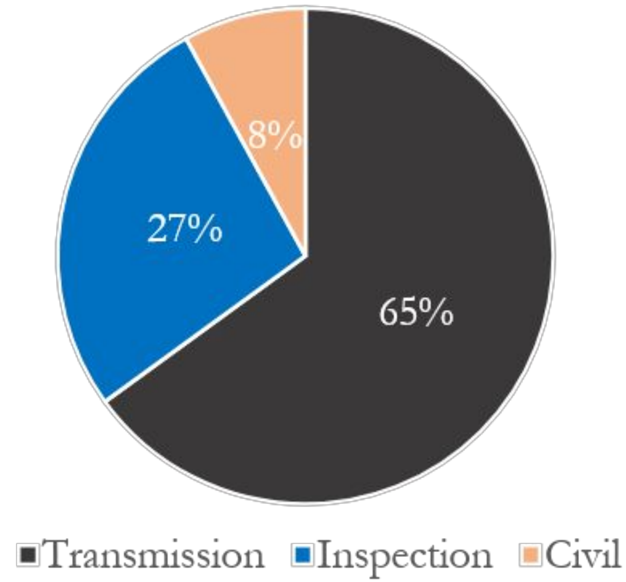
Revenue Breakdown

- 58% comes from telecom and utility infrastructure, with secular growth going to be driven by multi-year capex programs for 5G rollout and bolstered demand for broadened coverage as remote work becomes more prevalent. UBS projects wireless capex to grow >10% y/y in 2020 and 2021.
- 42% comes from Specialty contraction and fabrication, driven by non-residential construction which is facing pressure from economic downturn

Industrial Segment

- Providing a variety contracting services and solutions to the energy industry, including designing and building, or upgrading existing, oil and gas pipeline infrastructure and supporting facilities, and performing ongoing maintenance services
- Industrial remains troubling due to the cyclical nature of its end markets, such as energy which is facing headwinds from low commodity price environment that could potentially result in project deferrals and more competitive bidding.
- However, **management divested most of segment,** and management **is prioritizing margin expansion**, which stands to benefit from the **better resiliency of midstream capex** than the upstream oil & gas industry.

Revenue Breakdown

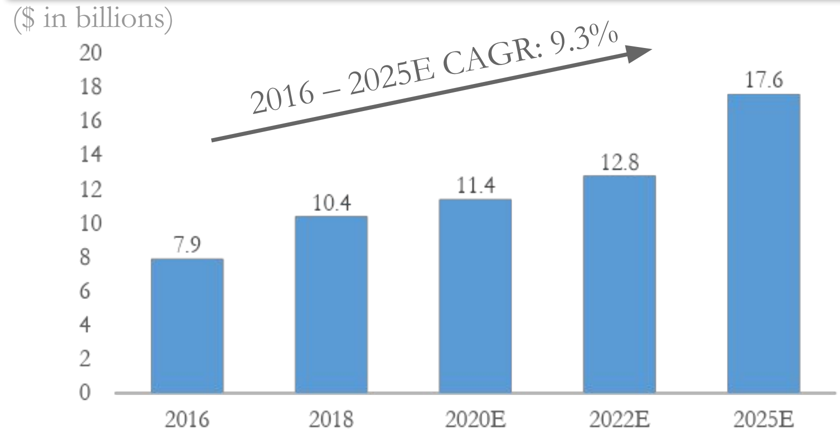


- Segment services include designing and building new or retrofitting existing oil and gas pipeline infrastructure and supporting facilities
  - **Earthwork**: right of way clearing
  - **Installation:** design and installation of energy pipeline transmission and distribution systems
  - **Maintenance:** pipeline inspection and cleaning, maintenance, rehabilitation and compression

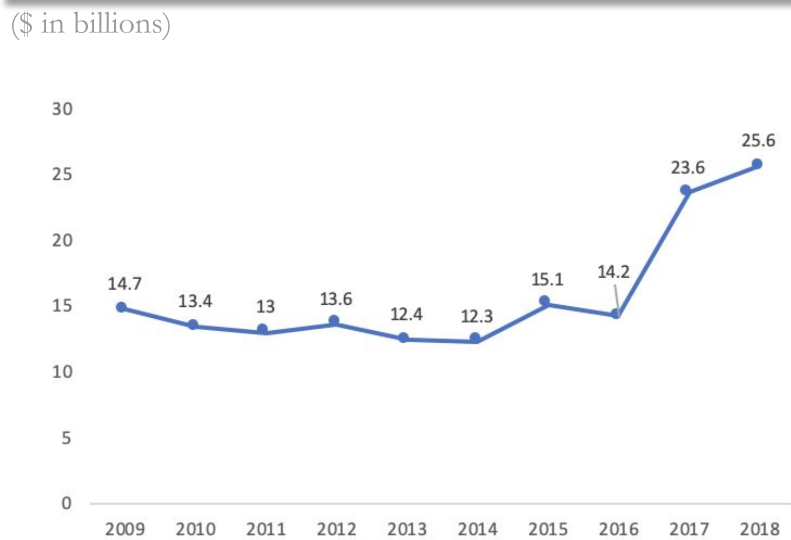
Market Growth Drivers

- **Statutory Drive:** Rigid building codes and inspection/maintenance requirements increase demand for API's services.
- **Fire Damage Risk:** Increasing financial, operational, human costs associated with fire incidence and damage.
- **Industry-Driven Demand:** Increasing demand for chemical agents/non-water solutions for tech related businesses.
- **Building Complexity:** Varying regulations due to geography, building type, and building design, leading to a highly fragmented systems integrator market.
- **Next Gen Tech:** New fire safety devices with IoT (smart smoke/gas sensors, video-enabled smart receiver).

U.S. Fire Safety Market



Fire Dollar Loss (via USFA)

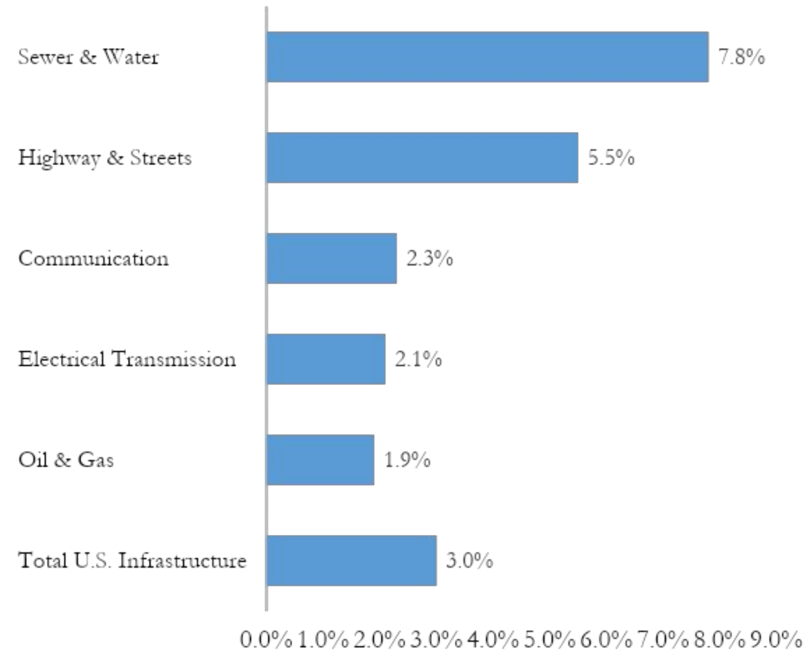


Market Growth Drivers

- **Aging Infrastructure:** U.S. earned "D+" rank from the American Society of Civil Engineers, in need of up to $4 trillion investment by 2025
- **Growing Population:** Population growth straining existing public/private infrastructure resources
- **Urbanization:** Continued growth in top 20 cities call for urban infrastructure upgrades
- **Public Spending:** Re-priority in public spending and public/private partnerships help to address funding gap.

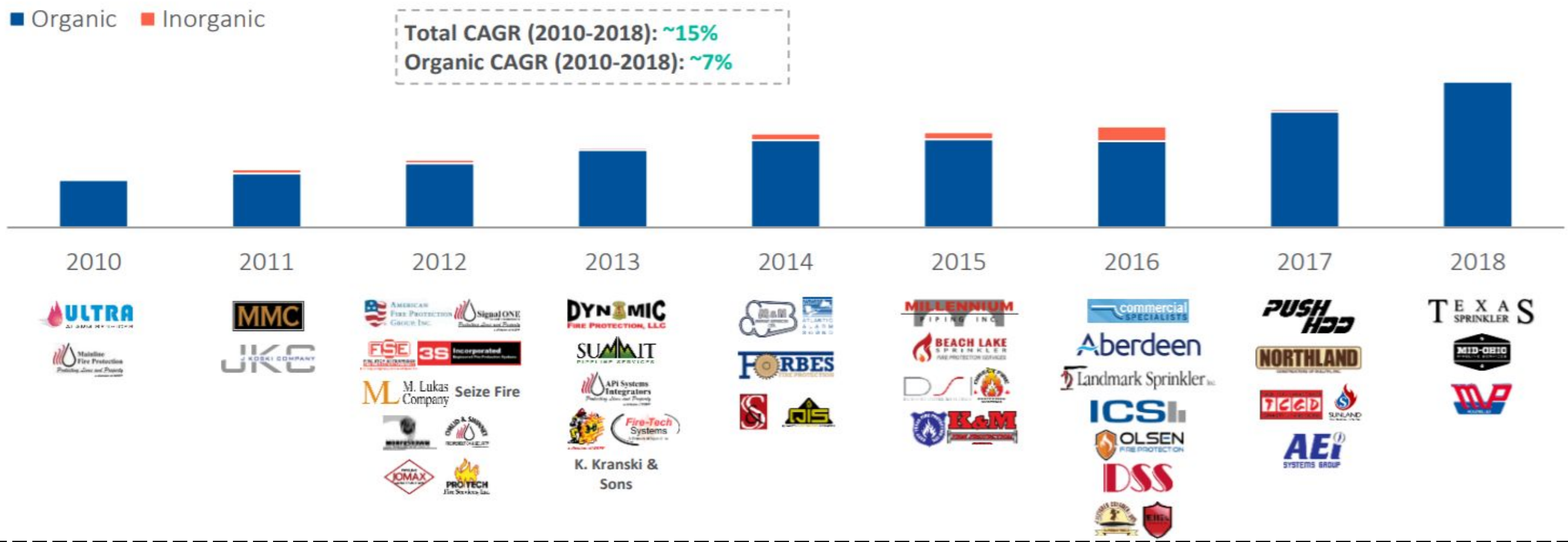
U.S. Infrastructure Spending Growth

2018 – 2022E CAGR



API's core segments, despite being very mature, still grow at significant rates driven by the ever-growing necessity of meeting fire safety standards and maintaining and rebuilding aging infrastructure.

Continued M&A to Grow Topline



- Company has done M&A with a high level of success for the past 15 years as they closed 50 transactions
- APG has often grown organically at 10%+ in years following "substantial" acquisitions, evidence of the company's ability to buy smaller regional players and leverage its national platform to accelerate growth
- Company is able to win new business as it is uneconomical for local operators to compete for small business, but API has the back-office consolidation to make it economically feasible
- It also enables API to be sole provider for large enterprises which decreases cost and hassle
- Management is ready to pounce 2H 2020 with target leverage at 2.5x and 300mm in cash

Investment Thesis - I

Continued M&A to Grow Topline

API's strategy is to sell inspection/installation work first and then upsell for more specialty services later on in the building's life cycle, which will output to $3 - $4 of incremental revenue with relationship-based construction opportunities

API Model

Target inspection work at existing facility

Get $3 to $4 of services based of upselling

Maintain and extend relationship to new opportunities

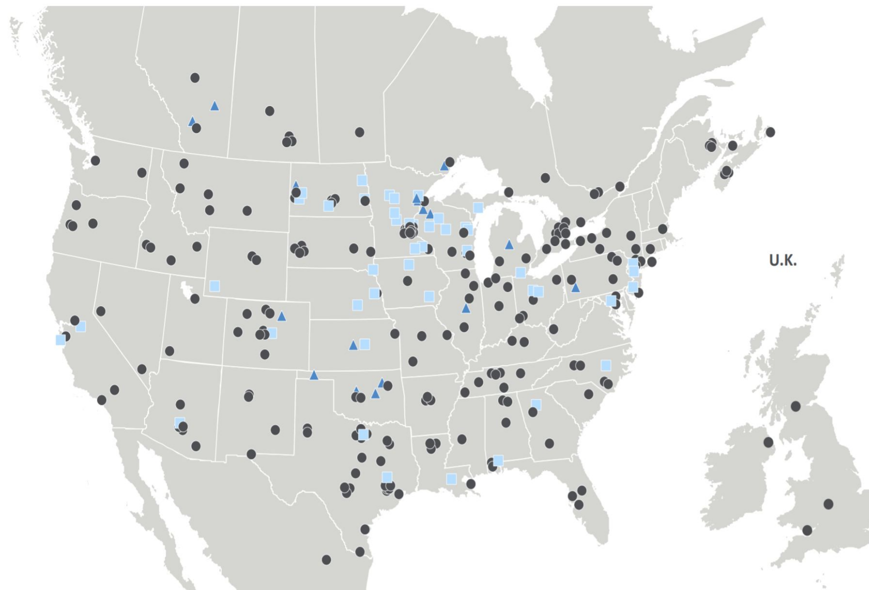
Competitor Model

Proposals submitted to general contractors hired by building owners for new construction opportunity

Subcontractors begin work on new construction opportunity

Begin targeting service and inspection work on building that is nearly complete

National Scale

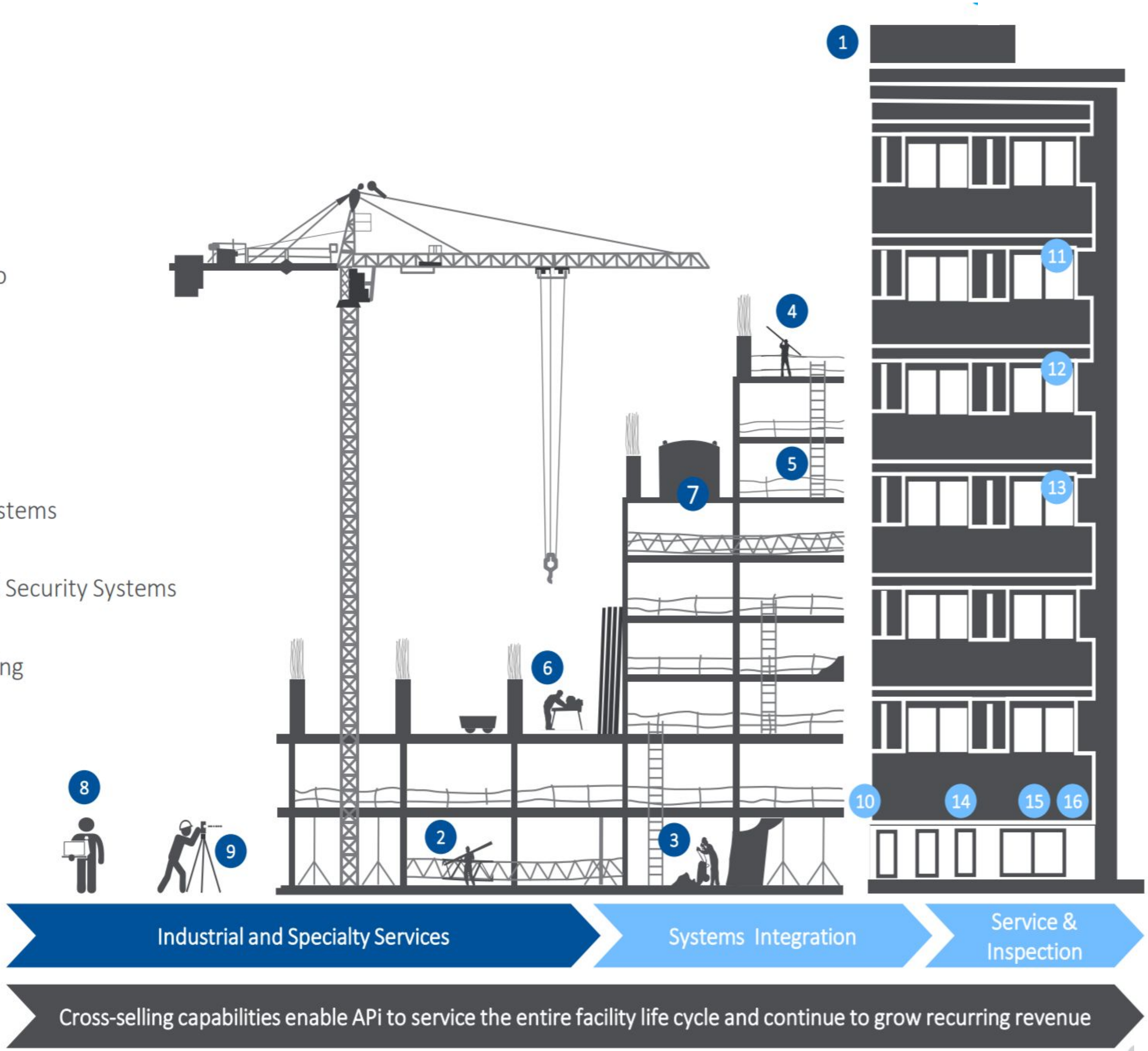


Safety Offices
Specialty Offices
Industrial Offices

Cross Selling Scale

Representative Services

Specialty Services	Safety Solutions
1 Architectural Metals	10 Commercial Audio
2 Building Materials	11 Fire Alarm
3 Excavation	12 Fire Sprinklers
4 Metal Contracting	13 Special Hazard Systems
5 Scaffolding	14 Entry Control and Security Systems
6 Specialty Contracting	15 Systems Monitoring
7 Structural Steel	16 HVAC
8 Project Design	
9 Right-of-Way Access	



Investment Thesis II

Opportunity For Cost Cutting and Margin Improvement

Management has stated their goal is to increase EBITDA Margin to 12% from current 10%

Reprioritizing

- Company has changed goal to focus on not doing low margin contracts and is working from going from 1.5% contract loss rate (percent of contracts with negative margin) to **.7%**
- That percentage is very low to the nature of the work being mostly short term therefore preventing long term cost overruns

Exiting Industrial Businesses

- The Industrial businesses were challenging as being tied to energy construction was tough on margins, after acquisition, management divested two of the industrial business to drive revenue from the segment from **25% to 10%**
- Company is seeking to continue shift away from this area and current **7%** oil & gas exposure is comprised mostly of statuary work

Shift to Inspection Services

- Company has made it a focus to increase share of inspection revenue to **50% from 40%**, which will equate to margin improvement as gross margin is 1000 bps higher compared to traditional services of the company
- The inspection revenue is reoccurring and should help reduce SG&A costs in the long run as well and tends to be sticky

Investment Thesis III

Shift to Inspection Services will lead company to trade more in line with building services providers

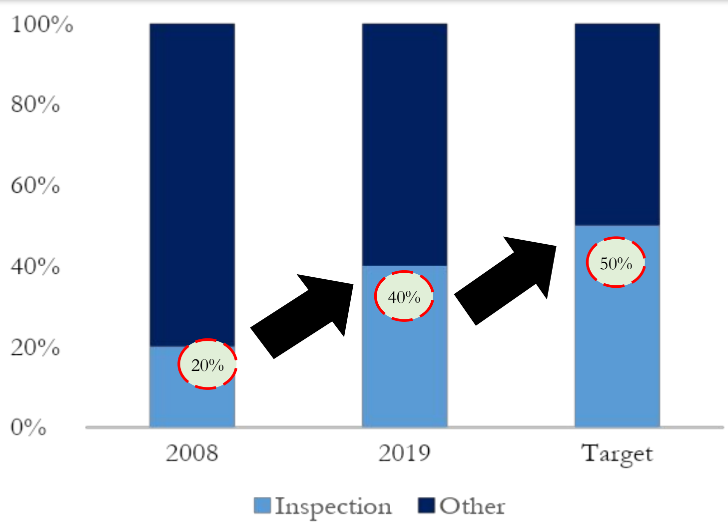
Reflection on Building Services Multiple

- Business has successfully increased mix of recurring revenue from 20% from 2008 to 40% in 2019 through acquisitions and plans to increase to 50% plus
- Inspection business is acyclical and recurring, reducing risk of project-based work
- Business hasn't been trading like building services provider, but rather more like some of the project, energy-based peers
- Many building service providers trade at 12x, and recent transactions have gone at 16x

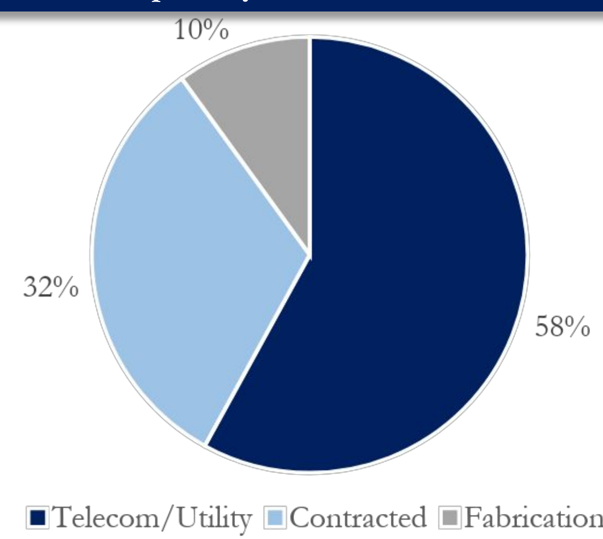
Specialty Multiple Warrants Expansion

- Believe the specialty services segment should be trading at a premium compared to comparable as projects are tied to mostly telecommunications and utilities segments
- In addition, much of the remaining industrial services is statuary work or integral to midstream maintenance
- Projects are multi year and somewhat more secure than traditional project-based competitors as company faces positive tailwinds in telecommunications and utilities segments

Business Mix Shift



Specialty Services Mix



Building Services Comparables

Services Business Should Trade Like It

MARLOWE PLC

Provides fire safety, water safety, air hygiene, health and safety, and risk and compliance software services in the United Kingdom. The company operates through two segments, Risk Management & Compliance, and Water Treatment & Air Quality. It provides health and safety, HR compliance, occupational health, and risk management software; designs, installs, and maintains fire protection and security systems; and provides integrated water treatment, hygiene, testing, monitoring, wastewater, and engineering services. The company is also involved in the provision of testing, inspection and risk assessment, ventilation hygiene compliance, ductwork management and fire safety, extract cleaning, asbestos consultancy, air monitoring and clearance testing, and bulk identification and sampling services. Similar rollup strategy present with this business.

35% of Revenue is Fire Safety, with 80% of entire business recurring type revenue and it trades at 14x EBITDA

EMCOR knowledge in action™

Very similar to the API's total business in a sense they operate in the same segments including electrical, mechanical, buildings services, and an industrial services that is primarily serving oil & gas. 60% of revenue is construction based, while only 28% is from building services, although very little revenue is reoccurring on their end unlike the API group. Margins overall are worse as they are mostly project based work and little inspection mix.

Even then, Business trades at 8.5x overall, and historically traded at a bit higher

COMFORT SYSTEMS USA

Provide comprehensive mechanical contracting services, which principally includes heating, ventilation and air conditioning ("HVAC"), plumbing, piping and controls, as well as off-site construction, electrical, monitoring and fire protection. They install, maintain, repair and replace products and systems throughout our 35 operating units in 84 cities and 91 locations throughout the United States

75% of Revenue is HVAC, and inspection type revenue is only around 20%, even then business trades at 11x EBITDA

Business should trade more in line with Jacobs rather than Energy Comps

Energy Comps

- Customers are squeezed, and cost pressure gets transferred over to operators
- Business is highly cyclical and cost overruns are frequent
- All of this is reflected in the margins, as they generally don't stick up to the non project-based peers

Business is primarily oil & gas and trades at 6x EBITDA

Dycom is mostly telecommunications and trades around 8x EBITDA

Quanta receives 41% of its revenue from pipeline & industrial infrastructure and 59% from its electric power. Quanta trades around 7.5x EBITDA

Jacobs Engineering

- Jacobs Engineering, in the past had significant energy exposure, but shifted their business away to more utilities and less cyclical businesses as they spun out business for $3.2 bn
- Critical Mission Solutions line of business provides a full spectrum of cybersecurity, data analytics, software application development, enterprise and mission IT, systems integration, while their People & Places line of business provides solutions for mobility, water, smart cities, advanced manufacturing or the environment
- Doing this helped overall growth of their business and this reflected in their multiple as they trade around 12x EBITDA

Current management under Russ Becker has executed the rollup strategy for 18 years and Franklin & Lillie come with the expertise to do larger transactions to accelerate the rollup

Sir Martin Franklin - Co - Chairman

- Founder and CEO, Mariposa Family Office
- Founder and Executive Chairman of Element Solutions and Co-Chairman of Nomad Foods
- Director of Restaurant Brands International
- Former Founder and Executive Chairman of Jarden Corporation

James Lillie - Co - Chairman

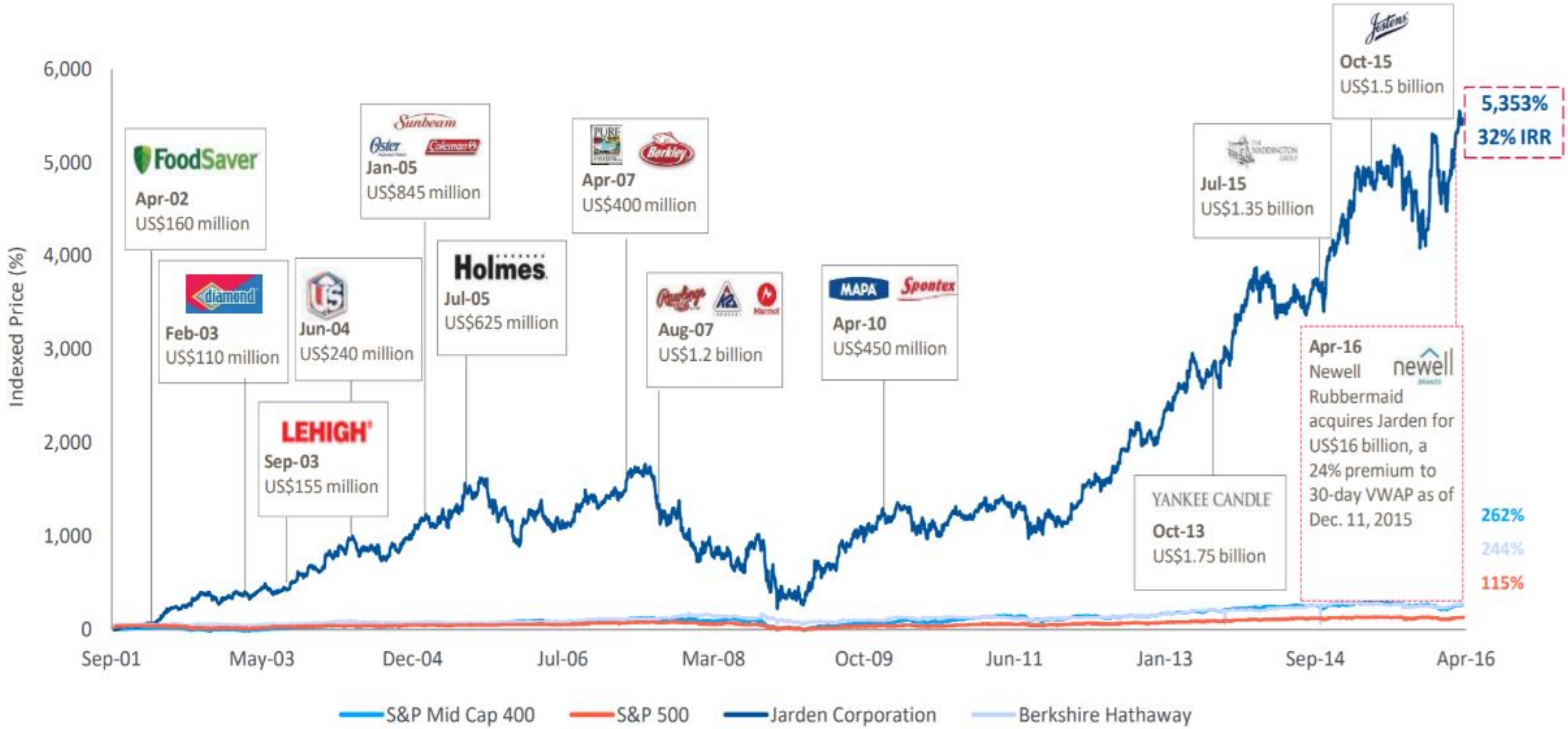
- Director of Nomad Foods, Tiffany & Co., and Royal Oak Enterprises
- Former Chief Executive Officer and Director, Jarden Corporation
- Former Executive Vice President of Operations, Moore Corporation Ltd.
- Former Director of Radio Prisa

Russ Becker - CEO

- CEO and President of APi since 2002
- Former Manager of Construction and President of The Jamar Company
- Served as Project Manager for Ryan Companies, before joining The Jamar Company, a subsidiary of APi
- Began career working within Cherne Contracting as a field engineer

Martin Franklin Record

Same Playbook that was used on Jarden



Over the course of 16 years, Martin Franklin rolled up consumer goods brands into Jarden which was sold to Newell Brands with a return of 32% IRR. He brings the same strategy and potential to the API Group

DCF

Comparable Companies Analysis

DCF					
EBIT	$ 144	$ 338	$ 355	$ 372	$ 391
(-) Taxes	30	71	74	78	82
NOPAT	114	267	280	294	309
(-) Capex	(18)	(35)	(35)	(35)	(35)
(+) D&A	35	70	70	70	70
(-) Change in NWC	(45)	(23)	(32)	(33)	(34)
UFCF	86	279	283	297	310
PV of FCF	$ 83	$ 250	$ 236	$ 230	$ 224
Period	0.5	1.5	2.5	3.5	4.5

WACC Calculation	
Rf Rate	0.7%
Beta	1.2
ERP	5.10%
CoE	6.82%
CoD	5%
Value of Debt	1,163
Value of Equity	2,368
% Debt	33%
% Equity	67%
WACC	5.87%
WACC Used	7.5%

Assumptions

($ in millions)	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
Statement of Operations data:						
Revenues	$ 3,960	$ 3,507	3,752	3,940	4,137	4,344
% Revenue Growth	*6%*	*-11%*	*7%*	*5%*	*5%*	*5%*
Cost of revenues	3,089	2,700	2,814	2,955	3,103	3,258
% of Revenue	*78%*	*77%*	*75%*	*75%*	*75%*	*75%*
Gross profit (loss)	$ 871	$ 807	$ 938	$ 985	$ 1,034	$ 1,086
% of Gross Margin	*22%*	*23%*	*25%*	*25%*	*25%*	*25%*
Selling, general and administrative expenses	$ 594	$ 526	$ 563	$ 591	$ 621	$ 652
% of Revenue	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*
Amortization of intangibles	40	35	38	39	41	43
% of Revenue	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*
Operating income (loss)	308	307	$ 338	$ 355	$ 372	$ 391
% Margin	*8%*	*9%*	*9%*	*9%*	*9%*	*9%*

Multiples Method	
Terminal EBITDA	461
Discounted	333
Exit Multiple	9.0x
PV of FCF	1,023
Terminal Value	2,996
EV	4,019
(-) Debt	1,300
(+) Warrant Payout	247
(+) Cash	300
Equity Value	3,266
DSO	195
Implied Share Price	$ 16.75
Implied Upside	17%

Perpetuity Growth Method	
PV of FCF	1,023
Terminal Year Cash Flow	224
Growth Rate	1%
Terminal Value	3,441
Enterprise Value	4,464
(-) Debt	1,300
(+) Warrant Payout	247
(+) Cash	300
Equity Value	3,711
DSO	195
Implied Share Price	$ 19.03
Upside	33%

Comparable Companies Analysis & Sensitivity Tables

Safety Services Comp Set Company Name	Market Capitalization	Enterprise Value	TEV/Forward EBITDA	NTM Forward P/E	LTM Gross Margin %	LTM EBIT Margin %	LTM EBITDA Margin %	LTM Net Margin %	2020 Rev Growth %	2021 Rev Growth %
Comfort Systems USA, Inc. (NYSE:FIX)	1,863.7	2,142.5	10.57x	18.72x	18.7%	6.3%	8.2%	4.4%	13.7%	4.1%
Marlowe Group (AIM:MRL)	378.3	440.1	13.75x	23.65x	35.0%	5.8%	8.5%	-2.0%	3.8%	9.7%
Emcor Group	4,012.0	4,092.6	7.88x	13.58x	14.8%	3.8%	6.0%	3.5%	-5.2%	0.4%
APi Group Corporation (NYSE:APG)	2,486.8	3,408.8	8.64x	13.23x	23.0%	10.0%	12.5%	5.2%	-10.0%	7.5%
					Segment	Segment	Segment			

Speciality Services Comp Set Company Name	Market Capitalization	Enterprise Value	TEV/Forward EBITDA	NTM Forward P/E	LTM Gross Margin %	LTM EBIT Margin %	LTM EBITDA Margin %	LTM Net Margin %	2020 Rev Growth %	2021 Rev Growth %
Quanta Services, Inc. (NYSE:PWR)	7,092.9	8,235.9	8.71x	13.13x	13.7%	5.0%	8.4%	4.3%	(7.3%)	7.2%
MasTec, Inc. (NYSE:MTZ)	3,363.4	4,773.0	5.94x	9.20x	15.2%	6.7%	10.3%	4.1%	(2.5%)	6.9%
Dycom Industries, Inc. (NYSE:DY)	1,819.6	2,532.6	7.77x	18.11x	17.6%	3.8%	3.6%	5.0%	(5.0%)	5.7%
Jacobs Engineering Group Inc. (NYSE:J)	11,648.4	13,462.5	12.12x	15.95x	19.3%	7.1%	7.7%	5.1%	5.8%	4.3%
AECOM (NYSE:ACM)	6,292.1	8,078.9	10.41x	15.05x	4.6%	4.2%	5.5%	2.6%	(32.0%)	(2.0%)
APi Group Corporation (NYSE:APG)	2,486.8	3,408.8	8.64x	13.23x	16.0%	8.0%	10.0%	4.0%	-10.0%	7.5%
					Segment	Segment	Segment			

		Perpetuity Growth Rate				
		0.0%	0.5%	1.0%	1.5%	2.0%
WACC	6.0%	53%	66%	81%	100%	124%
	6.5%	39%	50%	62%	77%	96%
	7.0%	27%	36%	46%	59%	73%
	7.5%	16%	24%	33%	43%	55%
	8.0%	7%	14%	21%	30%	40%

		Exit Multiple				
		8.0x	8.5x	9.0x	9.5x	10.0x
WACC	6.0%	12%	19%	25%	32%	38%
	6.5%	10%	16%	22%	28%	35%
	7.0%	7%	13%	19%	26%	32%
	7.5%	5%	11%	17%	23%	29%
	8.0%	2%	8%	14%	20%	26%