RS Group plc Acquisition of Risoul

Lucy Sharma:
Good afternoon and good morning. This is Lucy Sharma, Investor Relations for RS Group PLC, formerly Electrocomponents, and I am joined on this call by Lindsley Ruth, our CEO, and David Egan, our CFO. Earlier today, we announced an agreement to acquire Risoul. Please find on the investor relations section of our website, rsgroup.com, a short presentation on Risoul and the opportunity this brings RS, which we will talk through before we answer your questions. So over to you, Lindsley.

Lindsley Ruth:
Thank you, Lucy, and thank you to everyone for joining this call today. I'm coming to you from Texas. I'm heading to Mexico to Risoul in a few hours for the next two days. Let me start -- if you can see the slide deck on our website, if you have copies of it, I'm going to start with slide three, which talks about the acquisition of Risoul, how much we're paying, the fit, et cetera.

Before I do that, I just want to address for those because -- we haven't done an acquisition of this size in a while, so this might be a rather long call for some of you. So I just want to hit up front now as to why now? And let me start by saying we've been working on this opportunity for four years. So Filipe Risoul founded the company 47 years ago. It wasn't something he had thought about transacting. This was something we unlocked. We've been building and nurturing the relationship with Filipe and his family for the last four years. They're nearly 50 years old. It's a phenomenal company. We're really excited about this company. Now let me first start by saying industrial distribution in the Americas fundamentally hasn't changed in the last 30 years. We see this as an opportunity to combine our capabilities with Risoul's capabilities to fundamentally change distribution and make it much more sufficient. And I'll touch more on that.

I also want to say, why now? Well, automation and controls is one of the fastest growing categories we have as more factories become automated. If you look at the [unintelligible] opportunities in Mexico, they are significant. If you look at the resiliency of this market, it's quite high. We've been taking share in this area, and Rockwell is the most profitable automation and control in the world. So, if we move on, and I'll touch on some of these aspects through the presentation, but why now? Well, family run business. We believe we've got a good evaluation pre-synergies, as well as post-synergies, that we'll talk through today. We're really excited about the business. The management team is being retained. They've got a very strong culture. It's a good financial, cultural fit. So if we move to slide three, this is the largest industrial distributor in Mexico. They are the leading industrial and automation products and service solutions provider in Latin America. It is a good, strategic, cultural and financial fit. In terms of the price we paid, its $275 million, which is equivalent to £228 million. And we are delighted to welcome Risoul into the group. 550 really highly skilled, trained employees. Low turnover. We expect to generate significant shareholder value through cross selling synergies, because we can bring our private labeled products into their business. We can bring adjacent products into the business that are synergistic to Rockwell. We can develop their digital capabilities, which they don't have a lot on that front today, and we can leverage their execution and expertise. So we see a lot of cross selling synergy opportunity as we move forward. And I'll tell you this, acquiring

Risoul, we expected it to be an accretive to adjusted EPS in the first full year of ownership, and to exceed our group cost of capital within the first three years.

So if you move to the next slide if you're following the slides, if not, I'll cover it. On slide four, it talks about the reputation of Risoul in Mexico. They are a highly regarded distributor in Mexico, not only by the Mexican market, but also by Rockwell, which is 70 percent of the business. They are family run. It was started by Filipe Risoul. His son-in-law is the CEO of the company now. His son-in-law has been with the company, [unintelligible], for 18 years. Very impressed with Gerardo. He fits into the culture of our company. He represents everything that we see in an amazing leader. He's got humility, he's got passion, he's got trust of his people. They have a strong and experienced management team that are all staying with the company, which is really important. We spent a lot of time in the last 12 to 18 months with their management team building that relationship. Not only in Mexico, but bringing them to Texas and working closely with them.

Risoul is the largest authorized Rockwell automation distributor in Mexico and also Latin America, and they are ranked number 10 globally. They've got the right to distribute Rockwell's products in five areas of primary responsibility. So, Rockwell calls their franchise agreements our APRs, which are areas of primary responsibility. So they've got the rights to distribute it in five areas in Mexico, which are the main industrial areas. They recently added an APR in Spain too, because Rockwell would like to take the Latin America model that's really technically driven to Europe to expand and grow their market shares. So they've recently added Spain. You have to understand that they do, Rockwell accounts for 70 percent of Risoul's revenue. Very important supplier to Risoul. We have renewed the APR. So those typically last three to five years, so we not at risk of losing that. I had a call with Rockwell this week, and over the last 18 months, I've worked closely with Rockwell at all levels. So 18 months ago, I flew to meet with the CEO and Chair, Blake Moret in Milwaukee. We worked closely with the executives across the board. What I'm really impressed with about Rockwell, not only the most profitable A and C automation and control manufacturer, but they're shifting to a solution sell. So they're moving from a product to a solution sell, which is exactly what we're doing as a company too. So our paths mirror each other. I think they've got a very impressive leadership team across the board, and we want to enhance their model. So the things we're doing, that we've been working on behind the scenes, from digital predictive maintenance, our products, our industrial -- how we can put that together with Rockwell to have one plus one equal three. So, really important for us.

The remainder, they've got plenty of other major brands beyond Rockwell, which are detailed in the appendix of this presentation. In terms of just raw numbers, at the end of their fiscal year September, 2021, the business generated $166 million in revenue and $19 million of EBITs. They do come with distribution and storage capabilities throughout Mexico as well as delivering their own product, and they generate seven percent or their revenue from services, which I'll talk more about, because I think there's a lot of exciting opportunities for us as we move into services with this acquisition.

So, slide five. On slide five, we talk about how Risoul fits into our growth strategy. This is what we've talked about before, right? We want to expand our value added services and solutions offered. Does it do that? Yes, check it. They've got control panel repair capability, build capability. We will enhance their services as we move forward. We'll have more available services, more digital capabilities, more maintenance capabilities. It also extends our product adjacencies. So it makes us a very important customer to Rockwell, but also expands into other products like wire and cable. And expands into Mexico, where prior to this acquisition, we only did $20 million in Mexico. And we talked about it being a very important market, certainly from a near shoring perspective. So it goes expand our geographic coverage as well.

So we talked about acquisitions. We talked about solutions, products, and geographic expansion. We hit all three in this acquisition. Now, next we talk about is it a good cultural fit? Is it a good financial fit? Is it a good strategic fit? And the answer to those three questions is yes. So we have walked away from a number of acquisitions, or discussions, over the last couple of years, because we didn't think it was a good cultural fit or financial fit or strategic fit. This checks all three boxes on that front as well. So, do the acquisition economics stack up? Absolutely. Return on investment is critical. We look to beat our cost of capital comfortably within three years. And there's also some ESG considerations across all work streams in our analysis, so we are -- if it's Mexico, you know, we need to focus on a mission in other areas. They do a great job of education and working with universities, providing support of universities. So I think they do more than most companies in Mexico, but we certainly will focus on ESG as we move forward with Risoul.

On slide six, slide six we really outline how aligned we are as a culture. So just to focus a little bit more on that, Risoul like RS has a huge focus on health and wellbeing. Training, driving innovation -- Gerardo actually even has -- he set up a studio to record podcasts to his people around the regions. They've got over 250 specialists with strong technical expertise, so they work closely with universities as well. They understand their products, their customers, their suppliers and their needs incredibly well. They do provide product and service solution options with their offer, which I'm going to go through some of the offerings. I talked about control panel building and repair, but they also give technical training for their customers on Rockwell products. They have the control board and panel assembly as I referenced, air conditioning, maintenance, specialist, tool repair, smart network infrastructure. They do have limited digital capabilities, as I touched on, but we will help them develop a transactional website, help them with content, and we'll do that from our Americas business, which they will be reporting into. So with that, we believe that with the website, we'll be able to expand the number of customers that we service in Mexico, and we'll provide revenue opportunity for complimentary products, including our own brand, private label, RS PRO.

Slide seven, if you're following along on the slides, if you don't, you can look at it later, but it just goes to the management team. And Gerardo, as I said, has been with the company for 18 years, working throughout the business in all areas. He's the CEO. He joined in 2004. Supporting Gerardo is a very strong management team with a wealth of industry expertise, including many years at Rockwell. So deep understanding of Rockwell; great relationships with the Rockwell team in Latin America. They really understand the products and the solutions quite well. They are highly focused on their people. And through the pandemic, I think they did a phenomenal job of supporting their people, working virtually where they had to, at protecting the health and well-being and mental well-being of their employees. And they've got highly engaged employees. Their engagement score is 85 percent and they've got top scores and leadership performance. So it's really -- it's a dynamic environment, but it's an environment where when you walk in and you get the feel that this is a special culture and they really care for their people and care for the relationships with customers and suppliers and their stakeholders.

So strong cultural overlap between Risoul and our RS, which is critical to us delivering the synergies that we expect. So we're very excited and I'm excited to tell you their management team has agreed to stay. We've got plans in place, so really excited. It's a high performance team and that aligns with our purpose led culture.

So turning to the next slide, which is slide eight. And I'll take a breather here for you to catch up. Slide Eight. Risoul provides a significant opportunity to sell to accelerate our growth ambitions in Latin America. So this is not the end; this is the beginning. So we're only getting started in Latin America. We see it as a huge market opportunity. Certainly Mexico, the nearshore in opportunity. Today, as I mentioned earlier, we've got about 20 million in revenue in Mexico under our other ally. And the automation and control market in Mexico, we've got valued at about 1.4 billion and that's a number from a report -- that's a number from 2019 that was reported with an 8.5 percent CAGR forecast over the next 10 years from 2019. So it's a region that's going to continue to grow. If you were to fly down there and look just around the border at all the building that's taking place today, whether it's automotive or other industries, there's quite a bit happening in Mexico. So we're very, very bullish on the Mexican economy over the next few years. So certainly the benefit of, as I said, near shoring owing to the globalization and a greater focus on improving sustainability through reducing distances, products travel, because it's not very far from Monterrey where these guys are headquartered. And that's a really important manufacturing region today across to the Texas border into the U.S. to be able to distribute products throughout the Americas without bringing in across from say China.

Mexico also by the way, has a young population. I was surprised by this with a median age of 28 which supports future growth. And I think the country is witnessing -- and when you go there you see it you feel it -- a rapid adoption of factory optimization, automation and digitization coupled with the implementation of industry for auto and an expanding manufacturing sector. So quite exciting from that perspective.

If you go to Slide nine, we detail the significant growth opportunity that Risoul provides within -- that Risoul provides within the RS group revenue synergies and margin development. So combining our presence in Mexico, which we will do, is going to make a huge difference from a customer standpoint. If you take our range of complementary products, including our own brand, and put it with what they have, we'll be able to drive an increase average order value and increase market share with our customers and increase revenue at hopefully a higher profit level as we move forward. And introducing some of Risoul's service solutions offer into RS America will be good as well, including some of their control panel building capabilities, repair capabilities.

So for us, they provide a stronger platform for growth through really five key areas, developing digital capabilities to widen the customer base and broaden our product range, sales collaboration across Risoul and the RS and our integrated supply business, which we can't we can't leave out here because there's great opportunity for integrated supply within the Mexican market as well. Expanding the RS group products and service solutions offer and expanding the Rockwell relationship further, which is really important, I think is -- I'm really, really focused on building this into a significant relationship globally as we move forward. And including Risoul's recent expansion into Spain, really helps strengthen that Rockwell relationship and improving our execution capabilities to drive efficiencies. So in short, on this slide, I'd just say we're very excited about the growth opportunity that Risoul brings to our RS.

So with that, I'm now going to hand over to David to talk to you through the financials.

David Egan:
Good morning. Good afternoon, everyone. So slide 10 details the financials. The acquisition [inaudible] $75 million, £28 million is on a cash free debt basis. The deal is subject to customary closing conditions in Mexico, and we hope to complete by the end of November 2022. Consideration will be funded from RS' [inaudible] with the acquisition multiple equating to circa 12 times adjusted EBIT [inaudible] 22. So that's on a 12 month trading basis. The multiple falls to single digit [inaudible] history net synergies. We see significant revenue synergies from cross-selling [inaudible] operational efficiencies and the acquisition is expected to be accretive to adjusted earnings in the first full year of ownership. And our return on investment exceeded the RS group cost of capital within three years of [inaudible]. Risoul's adjusted operating profit margin is slightly above that reported at RS for the year ended [inaudible] two. And due to some global supply challenges, there is an increased order book [inaudible] at this point in time, which should unwind over the next 12 to 18 months.

[inaudible] sheet remains very strong following the acquisition. Our pro forma net debt to adjusted EBITDA [inaudible] is under 0.8 times providing the capacity to support our growth ambitions as we [inaudible].

And with that, I'll hand you back to Lindsley.

Lindsley Ruth:
Alright. Thank you, David. Let me just summarize on the last slide. We remain focused on generating sustainable shareholder returns. And David and I and Lucy just finished an investor roadshow where we met with several of you on this call. Lots of questions on dividends in the U.K., on buybacks in the U.S. And hopefully we've signaled that, you know, we still have a lot of opportunity to invest in organically to drive organic growth. And for us, you know, we're -- we are not looking to pay a low price for poorly performing businesses. We're looking to pay a fair price for well-performing businesses. And that's exactly what we have here. And so why now? The opportunity presented itself. We unlocked the opportunity; we've been working on a long time. Critical supplier in Rockwell and very profitable business in Risoul and gives us that geographical solutions and product expansion. It's a business we've known, as I said, for four years, and we're strategically, culturally aligned. So we do have quite a few of these that we're talking to. It takes time, especially for family run businesses, to be able to build that trust and that relationship, because we're taking over something special from them and we want to maintain the same level of discipline and care for employees that these families have and employees for many years.

So just to summarize, the client result enables us to expand our acquisition execution expertise specifically in Mexico and Latin America as well as the Caribbean, and to drive cross-selling synergies across our products and service solutions officer [sic] -- offer. Sorry. And we're delighted to welcome results to the team. So in summary, I just say we're very confident that we're well-positioned to deliver the opportunities available to drive profitable market share gains and attractive returns in Mexico, in Spain and throughout Latin America, as we outlined consistently with our investor event in March. So with that, if we can, Alex [spelled phonetically], if we can open up for questions.

Male Speaker:
Thank you. As a reminder, if you'd like to ask a question at Star one on your telephone keypad. If you'd like to withdraw your question, please press Star two. Please ensure you unmuted locally when asking your question. Our first question for today comes from Rory Mckenzie from UBS. Rory, your line is now open.

Rory Mckenzie:
Good afternoon. Good morning, everyone. Three, please. First, can you talk about the organic growth track record of the business, perhaps split into the pre-pandemic period and then more detail on how much revenues were held back due to the supply chain disruptions? Then secondly, on the potential for revenue synergies, could you share some targets for number of SKUs you want to bring over from the wider RS group? I know a lot of the traditional Allied Wells is AMC as well, so does that maybe limit how quickly and easily you can import new product? And then thirdly, just on kind of due diligence and risks. Now you've done three larger deals that say, how quickly do you feel you can integrate this company and indeed future deals versus the past? And can you talk about what you did differently or extra in this case, given the key supplier that's involved? Thank you.

Lindsley Ruth:
Yes. So let me start and I'll let David touch on the organic growth because I know he's got the numbers in front of him. But just in terms of backlog, you know, they roughly had 27 million in backlog a few months ago, which they're waiting on product to come in. So there's a very healthy backlog, healthy book to bill. The last couple of months have been quite solid. The demand is unchanged in terms of what they're seeing in the market and their five regions where they have the APIs. And Rockwell is starting to free up some of the products and started improve their deliveries. So the outlook looks a little bit better. I'll let David touch on organic growth.

But in terms of revenue synergies, let's not forget, you know, Fort Worth is only, you know, four or five hour drive from the border. So we don't necessarily need to bring in a huge amount of stock to the warehouses within Mexico today, Rory. We can actually ship directly to the warehouse and then to customers with their own logistics network in Mexico quite rapidly. So they'll have access to more than 200,000 plus. We will not sell competing products to Rockwell, but we'll have all the synergistic products available. So, you know, they've got 18,000 parts or so still on the shelf, 80,000 or so they sell. They're going to have immediate access to a couple of hundred thousand products. So it's going to be pretty significant. We have -- and we have not --

we're not going to disclose at this point where we think there's revenue synergies. That will be because it's a little system, because we are working through integration, which we started the plans about a months ago. And that's part of the discussion that we'll have this week and next week. But I think the risks are quite low in terms of integration because we don't have a strong presence in Mexico. They become our Mexican business and we are not -- these this is a revenue and margin synergy play, not a cost synergy play. We're not coming in looking to take out people. We just want to make sure that, you know, from an ESG perspective, we're enhancing the cybersecurity. We bring it in the right resources. We're looking at IT and making sure their systems are protected and they're scalable.

So it's really more from that perspective, and I think we're much more experienced in that today, Rory. So I think the risks are quite low on that front, and for us it's really more about how we get the digital capabilities up and running and how we expand the customer base and how we work out the logistics to get those increased products flowing from our Fort Worth warehouse into their Monterrey, Mexico City warehouses to enhance that customer relationship and grow that market share.

David, do you want to touch on the organic side?

Male Speaker:
So organic, Rory has been typically pretty [inaudible] the mid-single digits pandemic and sort of supply chain has been [inaudible] but then what we've also seen is the order book. As Lindsey referenced, the order book has increased. And so again [inaudible] unwinds itself and improves, then we'll see that that order book unwind as we [inaudible] result customers going forward.

[talking simultaneuously]

Rory Mckenzie:
Sorry, go on.

Lindsley Ruth:
Rory, let me just touch on the last point of your question, which is the relationship with Rockwell and I started -- I started a month ago by flying in Milwaukee and having a one on one session. In fact, I was the first visitor during the pandemic to their headquarters in Milwaukee to meet with Blake Moret, the CEO and chair. And I got to tell you, Blake's been there a long time, I think since 1984, he's transforming that company to move into solutions cell. We're 100 percent aligned. I'm very impressed with him. But the leadership team he's bringing in with the team that's been there, have got a lot of experienced people. This is a good company and I've known -- you know, this isn't the old Alan Bradley [spelled phonetically] and I've known him for 30 years. And I started by programing Alan Bradley PLC's in college and this is an outstanding company, very distribution friendly. They've got a great position in the Americas in terms of market share growing globally. We've worked every aspect of the relationship in terms of what they call market access, which is their distribution channel globally in Europe, the Americas, Latin America. We've been meeting behind the scenes under NDA with their team now for about 12 months. So we're completely 100 percent aligned on the direction we want to go in and

how we both want to invest to enhance this relationship not only in Latin America, but on a global basis as we move forward.

Rory Mckenzie:
All right. Thank you both very much. And enjoy your trips to Mexico.

Lindsley Ruth:
[laughs] Thanks, Rory.

Male Speaker:
Thank you. Our next question comes from David Brockton of Numis. David, your line is now open.

David Brockton:
Good morning. And good afternoon. Two questions, please. I appreciate you just touched on how Fort Worth can help with the business in Mexico, but could you just talk around the capacity within the business to continue to expand? How well invested is the platform in the DC's to serve the wider Latin American region, please? And then the second question, I guess, unrelated to the transaction today, but could you just talk about what the pipe -- the M&A pipeline looks like post this deal? Should we expect a period of digestion or of the deals possible in the near a medium term? Thank you.

Lindsley Ruth:
Yeah. So on the M&A the pipeline, you know, we can't predict when deals will -- you know, some of these some of these deals, you can't predict when you're in market and when the company will be willing to sell. I will say this, you know, we've been very clear that with the market as it is right now, if we do head into a recession, whether it's in Europe, the Americas, globally, we do expect valuations to come down. So if it's piggybacks, we want to be careful clearly, because last year's multiple is not this year multiple. I think family run businesses are slightly different. But for us, the M&A pipeline is quite full, and we've got lots of discussions that are taking place, but we're being cautious, and David can add some color to that as well.

As far as the DCs, there's is room for expansion, there's room to bring in, and we're looking to bring in another vertical carousel. There's not a shortage of capacity today. It's more of let's sell the product first, then stock it. So we've got the product in Fort Worth. Once we get enough customers buying products in Mexico, we can then shift that product to Mexico. As we expand into South America longer term, we'll look at both inorganic opportunity as well as maybe expansion of warehouse capability, depending on how difficult it is logistically to get products to those locations. So there will be opportunities as we move forward. We're putting a warehouse into Spain under Risoul, and there will be other opportunities in the Caribbean as well. But we're not talking huge warehouses, more like three PL locations as we move forward in terms of this operation, but we definitely have, I think, enough capacity between Fort Worth as well as in Mexico and Monterrey to be able to double the cells that exist today without a huge incremental investment, from what I've seen. David, do you want to just add on M&A?

David Egan:

Just a quick [inaudible] as Lindsay said [inaudible] but our discipline remains strong. So we will continue to [inaudible] our teams are busy, but we're going to remain very disciplined in terms of those, you know, those strategi [inaudible] returns. In terms of the investment, again, we factored both OpEx and CapEx investment [inaudible] as we as we acquire it, you know, it's not it's not big dollars, it's sensibly priced investments, both OpEx and CapEx. You know, some of it's incentive related, some of it's technology related, some of [inaudible] sort of building out those services and solutions, but it's all in the ordinary course BAU activities.

David Brockton:
Thank you both.

Male Speaker:
Thank you. Our next question today comes from Oscar Val of J.P. Morgan. Oscar, your line is now open.

Oscar Val:
Yes. Good morning, Lindsey. Sorry, good afternoon, Lindsey and David. I have three questions. So the first one, I apologize, you might have touched on it at the beginning, but is there an earnout or a contingent consideration for the management team that is staying on? Then secondly, just could you give a bit more color on the business model? How much is digital or is it less digital and web shop than your historical or your existing allied business? How does the logistics work versus Allied? And then finally, you talk about Latin America as an opportunity. Do you see that developing with Rockwell, or is it more organically going into new regions in Latin America?

Lindsley Ruth:
Great questions, Oscar. So first of all, there is not an earnout, the -- Filipe has stepped out of the business and the ownership was with Philippe and his -- Filipe's family. And Filipe has stepped down or rather is running the company. What we do have, though, is retention packages then for all the leaders and they're committed to the company. This is an opportunity where this isn't about the money for this team. This is about actually building something special. You know, how do you take this business from 166 million to 500 million over the next few years? And how do you do that and do it profitably? And so that's what this team is committed to do and that's what we're committed to helping them do.

When it comes to digital, great, great question. Percentage of business is digital is zero. So they don't have -- it turns out they don't do digital business. Now they have some of the transactions, et cetera. But for the most part, this is a very manual business, and we think as digital capabilities are being enhanced within Mexico, it's a great opportunity for us to lead the way. Logistics versus allied, the difference is they've got their own fleet of trucks, they deliver their own products to customers. So there's advantages and disadvantages. Disadvantages, there's an emissions and ESG and carbon considerations and that we obviously have to consider. The advantages that are they control the delivery, so they can -- their on time delivery is quite good and they do an outstanding job at delivering to customers once the product gets across the border that they receive and bring in.

As far as growth within Latin or Latin America, it will be certainly, hopefully with Rockwell longer term, but also other adjacent lines and synergistic lines. And that will be a combination. Our first priority is always organic, but there'll also be some inorganic opportunities. There's some really good companies. There are other good companies in Mexico that we can look at, and there's good companies in Chile and Peru and throughout South America. I would say we probably won't look at Brazil in the short term because it's very difficult to do business there. But throughout South America and Central America, let's not forget, you know, places like Panama and Nicaragua and Costa Rica. Great opportunities throughout Latin America. So we're really excited about that opportunity. We've signaled that in the past, Oscar, where we talked about the importance of Mexico, the importance of countries like Germany, the importance of the U.S. and France and Italy and of Southeast Asia. Those are areas we're really focused geographically today and in organic opportunities because we see long term potential long term over the next 5 to 10 years being pretty significant with what's happening in the world today. So that's where we're looking.

Oscar Val:
Great. Thanks a lot.

Male Speaker:
Thank you. As a reminder, if you'd like to ask a question, that's star one on your telephone keypad. Our next question comes from Henry Carver from Peel Hunt. Henry, your line is now open.

Thanks. See how it goes. Just a couple of, I guess, the follow on now. But just with regards to that pipeline, is it fair to say that now, judging from your comments, that it is skewed towards Latin America and the near shoring opportunity there or there? Is it sort of spread more widely globally still? And then secondly, just on the digital, I mean, clearly a big opportunity there, but it is, you know, obviously something that is not straightforward or several companies historically have found it. It can be fairly disruptive to add digital and integrate that and develop it. I just wonder if you can give any sort of reassurance that, you know, that that is probably not going to be the case here and the opportunity over overcomes the potential, you know, rollout issues.

Lindsley Ruth:
Yeah so first question in regards to the pipeline. It differs by region. So we're very regionally oriented now as there are global companies that we're looking at. So we have a European pipeline or an immediate pipeline with an APAC pipeline. We've got an Americas pipeline. And, you know, it's not I would not say, I'd say still in the Americas, it's overweight to the U.S. There's a lot of opportunities in the U.S., but a lot of those are private equity backed deals. And we're taking a look at them and we're being very cautious in terms of multiples and valuations. And, of course, looking at, you know, what's the cyclicality if there is a recession. So we're doing what you would expect us to do on that front. So I wouldn't say we're overweighted necessarily to Latin America and the Americas, but there's more to the U.S. and still and in Europe, across the board. We're looking at more and in places like Italy and France and other countries outside the UK, Germany continues to be a focus and Southeast Asia, Australia, New Zealand. So really, it's around the world and I think it's -- we're still taking a global view with a

focus and priority still on organic growth and looking at how we can enhance that organic growth with solutions product and some geographical expansion

Digital, I think in terms of digital, we're talking less than probably a $2 million investment. We've been working on this behind the scenes for quite some time. There are distributors like [unintelligible] did do a great job in Mexico on the Web. And so there's opportunities that we can see that have been laid in the electronics area by those companies where customers have adapted to the Web. So being in Texas, we've got obviously proximity is great in terms of being able to get to their location from Dallas Fort Worth, direct flight, to be able to have our teams work together. Obviously skill set in terms of languages there. So, I think we're pretty optimistic. There's always risk, but that I think it's going to be something that we'll be able to resolve sooner rather than later. And then it's getting their sales force comfortable and getting customers to use the Web other than just for research. Right? So that's going to take some time to build over time, just like our own private label business. But we've been through it in other countries, as we've done with the Digital First Strategy, and it works. So we're confident that we'll be able to make this work.

Male Speaker:
That's great. Thanks. Just a very quick follow up. Where -- when digital is sort of fully where you want it to be for Risoul, where do you think the margins can get to for that business?

Lindsley Ruth:
Well, from a digital standpoint, you know, it's always going to be higher than the standard business because they're going to buy more broad array of products and be able to buy some of the products certainly from our private label brand at higher margins.

Henry Carver:
That's great, brilliant, thanks, guys.

Male Speaker:
Thank you. Our next question comes from Thomas Truckle of Jefferies. Thomas, your line is now open.

Thomas Truckle:
Yes. Thank you. And it's Thomas Truckle here on behalf of Kieran Marden [spelled phonetically]. I have three questions, if I may. The first of which is regarding the revenue -- the organic revenue growth rates mentioned mid-single digit pre-pandemic. And I noticed on the slide there was an 8.5 percent forecasted CAGR. Wondering if that would be more appropriate in terms of the trajectory from here, especially as we see the order book unwind. So any thoughts on that would be appreciated. My second question is, David, I appreciate you can't say much around revenue synergies currently, but I'd be keen to know if you have any thoughts on the shape of the revenue synergies to come through in the next three years. Should we assume that that would be stable in each year or would you expect it to be a slower start? And then we see those build up meaningfully in year two and three. And then thirdly, just regarding Rockwell. I appreciate there's a extremely experienced management team that I have

experienced from Rockwell, but is there any risk that the APR's could go to other distributors or the fact that Rockwell may just want to go direct to market? Thank you.

Lindsley Ruth:
Yeah. Let me take the third one first and then David can touch on the organic growth. By the way, the CAGR of automation and controls in general, I believe, are for that market at 8.5 percent. But -- and David can talk touch on revenue synergies. In regards to Rockwell, we just renewed the APPR in advance of the acquisition. That was something that was really important that we get done pre close -- or pre signing. We still have to go to the Mexican competition period and so we've still got to wait before close. But you know, for us it is that was really important to get that done. You know, with any supplier, it always comes down to performance. So I wouldn't say we're, you know, you're always at risk losing a supplier if you don't perform. I'll tell you this right now, we are going to perform for Rockwell. They have performed for Rockwell. And we're not going to do anything to stall that. If anything, we're going to do all we can to enhance that, to celebrate that, so that we can pick up APR's in other regions.

So I think the risk is quite low, but with the caveat that we have to continue to perform and you can never become complacent in this business and you can never take suppliers for granted, which is why it was so important in advance of this acquisition that we build a relationship, a much deeper relationship with Rockwell and have their assurance that we're not going to lose alignment, which was something that was important to me and why I spent so much time investing in the Rockwell relationship and will moving forward. So I think it's a low risk. I see it as an opportunity, not as a challenge or risk. I see it as a major opportunity on a worldwide basis, great company and great profit. And they work, work really closely with the distribution channel and they allow the distributors to make profit if they perform. So I'm really excited about the opportunity they present and have been for a while. And we've been looking at how we can work more closely with them, so this gives us a great opportunity. David, do you want to touch on the first one?

David Egan:
Apologies if my line is cut out a little bit. Revenue growth feature high single digits [inaudible] in terms of the shape of the synergies, we would expect it to sort of ramp up over the three years. So, we will with the greatest level of synergy we will be in year three.

Thomas Truckle:
Very clear. Thank you both.

Male Speaker:
As a reminder, if you'd like to ask a question about style one on your telephone keypad. I will now pass the call back over to Lucy for any questions via the webcast.

Lucy Sharma:
Hi there, we've got one question that's come in saying Do you see any regional risk in Mexico and how will the currency be managed?

David Egan:

So in terms [inaudible] you know, it'll be U.S. dollars and then we'll manage through hedging activities [inaudible] but also U.S. dollars conversions. In terms of any other regional risks [inaudible] as we see fit, as we do all of our other businesses around the world and the various [inaudible] this point in time, the order book remains strong. The near shoring activities are positive, and we certainly see good [inaudible] we look forward.

Lindsley Ruth:
You know, I tell you this, and Dave and I were talking about this on our last trip there. I was in Monterrey in 2002, and then when I went 18 months ago, it was as if I was in a different city. It's just amazing the infrastructure and the build and the modernization of that area. But not just that, but Mexico in general. You know, if you haven't been there a long time, I think you'd be surprised at the level of automation, at the level of sophistication, the level of technical expertise and competency that's being developed in Mexico. I think it's got I think it's got a long run ahead of itself in terms of opportunity from a manufacturing perspective and certainly serving the Canadian and U.S. markets as we move forward.

Lucy Sharma:
Alex, this says that there's no more questions online so I will turn it back to you.

Male Speaker:
Thank you. Just as a final reminder, if you'd like to ask a question, that star one on your telephone keypad. I think currently we have no further questions. So I will hand back to Lindsley Ruth for any further remarks.

Lindsley Ruth:
Okay. Thank you very much, Alex and Lucy. Thank you. I just want to say thanks to our team, our corporate development team, our team in the Americas for the hard work that they've done in due diligence and working closely. You know, this is this has been a lengthy process that we've gone through. And also working with the Risoul family and with this company, they've been incredibly professional. I'd like to compliment Citi on their involvement in helping us in Mexico. Great understanding of the market. It's been a team, a real team initiative. We've seen everything, Risoul's been very open, the family's been very open. And we're very excited about this opportunity. And I'm looking forward to being there in a couple of hours and spending time with the leadership team across Mexico tonight and then with the team at their headquarters tomorrow.

So if you do have any further questions, please let us know. But rest assured, you know, we've spent a lot of time doing our work on this and we're really excited about the opportunity. And just remember, we're not done yet. We're a small player in a big market. We've got a long way to go, but we're in the right direction and we're looking to make amazing happen for a better world every day. So thank you for joining us today and we'll talk to you soon.

[end of transcript]