Ingersoll Rand Capital Allocation Strategy Conference Call Transcript

Thursday, 02 September 2021

Chris Miorin Thank you, and welcome to Ingersoll Rand's Capital Allocation Strategy Update. I'm Chris Miorin, Vice President of Investor Relations, and joining me is Vicente Reynal, President and Chief Executive Officer, and Vik Kini, Chief Financial Officer. Today's presentation is available on the Investor Relations section of our website www.irco.com. In addition, a replay of this conference call will be available later today.

Before we start, I want to remind everyone that certain statements on this call are forward looking in nature and are subject to the risks and uncertainties discussed in our previous SEC filings, which you should read in conjunction with the information provided on this call. Please review the forward-looking statements on Slide 2 for more details.

At the end of our meeting, we will open up the call for Q&A. We ask that each caller keeps to one question and one follow-up to allow time for other participants. At this time I'll turn the call over to Vicente.

Vicente Reynal Thanks, Chris, and good morning to everyone. Turning to Slide 3, at Ingersoll Rand, we're very focused on delivering outsized growth and returns for our shareholders. To achieve this we continue to reinvest organically and focus on reshaping our portfolio to serve higher growth sustainable end markets.

Today we're communicating an updated capital allocation strategy that continues to be principally focused on highly accretive M&A transactions that increase the quality and growth rate of our portfolio. In addition, we are supplementing our strategy through our plan to initiate a quarterly dividend and a share repurchase programme, both of which we expect will create value for our shareholders. We will also continue to execute our capital allocation priorities in a very disciplined returns-focused manner with prudent balance sheet management in mind.

Turning to Slide 4, we've recently provided an update with regards to several strategic pillars including talent deployment through our 2025 Diversity, Equity and Inclusion goals, including also the recent leadership team addition. We also provided an update on our Operate Sustainably pillar through our 2030 and 2050 Environmental goals, the issuance of our 2020 Sustainability Report and our subsequent ESG Conference call.

Given the rapid transformation of our portfolio and the liquidity that the produced, we wanted to communicate about how we are thoughtfully approaching deployment of capital for Ingersoll Rand moving forward, which we view as a competitive advantage for our company.

Moving to Slide 5, I'd like to take a moment to highlight some of the key transactions that have enabled us to transform the portfolio into its current component. In the first half of 2021, we completed the majority sale of our high pressure solution segment securing approximately $300 million in cash and retaining 45% common equity interest in the business, and also materially removing our exposure to the cyclical upstream oil and gas market.

We also completed the sale of our specialty vehicle technology segment or Club Car for $1.68 billion representing a premium multiple of an all-time high EBITDA performance in 2020. Utilising IRX to accelerate the sale of both of these businesses we have rapidly focused our portfolio on flow creation technologies which are mission critical in nature, represent a low cost relative to the overall system in which they operate, serve niche applications in high-growth, sustainable end markets and have strong after-market reoccurring content.

On Slide 6 we have made significant investments to support the thesis I just described to drive outsized organic growth. And we have recognised significant achievements over a short period of time as a result. First, in talent and engagement, we strongly believe that engaged employees deliver outsized performance for our company. And have instilled an ownership mindset in our employee base by first making them all owners through equity grants, both of the IPO of Gardner Denver, and again, at the merger of Gardner Denver and Ingersoll Rand in September of 2020.

And second, leveraging IRX into our organisation with over 250 IMPACT Daily Management teams across the globe, highly engaged in serving our most pressing objectives through setting and measuring against aggressive goals in every facet of our business from pricing to M&A to sustainability.

We have also accelerated a cadence of new product introduction. For example, our IPA's America's business increased the number of new product launches by 132% since 2020 with introductions in compressors, dryers, blowers, vacuum and after-market products. Additionally, more than 20% of the global oil-free portfolio revenue has been generated from new products launched since 2020.

So, we're putting significant investments into ensuring we're serving our customers with higher efficiency, technologically differentiated products. After-market and digital revenue are strong drivers of future growth. And we have invested in a partnership with Google Cloud to even further expand connectivity of our products.

The results are already starting to show as the numbers of connected machines are up 67% year to date and are expected to be upped 250% by the end of the year as compared to 2020.

Another key differentiator for our company is the Commercial Excellence organisation we have built since 2016. Through the leadership of Cesare Trabattoni, our VP of Demand Generation, his team is now generating three times the marketing qualified leads as compared to 2018, an incredible growth engine.

We have also focused on e-commerce as a critical channel expansion opportunity across our business and realised already approximately 70% year-over-year growth in total company e-commerce revenue.

Finally, investments in high-growth sustainable end markets supports our aspiration to be a leading ESG company, not just in theory but also in practice. The investments we're making in hydrogen, agritech, animal health, water, environmental and food and beverage end markets will not only deliver more energy-efficient sustainable product to our customers, but also outsized top-line growth for Ingersoll Rand. In addition, the efforts we are making in manufacturing footprint, wage reduction, energy savings, carbon footprint, will directly impact the bottom line.

Turning to Slide 7, to communicate how we plan to further compound the returns generated by our organic investments, today we're establishing a comprehensive capital allocation policy to fuel outsized growth. M&A will remain the principal focal point of our strategy with a robust M&A funnel supporting that. Our board has also approved a $750 million open-market share repurchase programme which we will leverage opportunistically.

We have also planned to initiate a quarterly dividend programme expected to begin in Q4 of 2021. We anticipate this to materially expand addressable markets for our potential shareholder base and [unclear] as another way to enhance total return for our shareholders over time.

This capital allocation and leverage will be deployed while targeting a net leverage ratio of less than two times, maintaining an appropriate debt level to ensure optimisation of our balance sheet, all while prudently managing our growth debt levels. We do desire to achieve investment grade credit ratings as we continue to deliver on performance and prudently manage our balance sheet.

At this point, I'd like to turn the call over to Vik who will provide more detail on each lever of our strategy.

Vikram Kini Thanks, Vicente. Turning to Slide 8, given M&A is the focal point of our strategy, I'd like to highlight the framework we utilise to screen opportunities as they enter our funnel. Similar to how Vicente described our current portfolio, we remain primarily focused on mission critical flow creation technologies and data gathering and digital solutions.

As a secondary focus, we will very selectively acquire strategic channel partners with a focus on improving market share in critical geographies. Looking at the framework, we first screened for strategic fit. Each acquisition must have a very clear strategic value proposition to improve the quality of the portfolio, and our ability to create value for our customers.

We target market leaders with strong historical organic growth profiles and applications that serve sustainable end markets and command high after-market and recurring revenue potential.

Additionally, we look for opportunities to leverage our current technologies, channel, operational excellence and footprint to create significant synergies and an ability to buy down the upfront purchase multiple over time.

Finally, given the criticality of digital revenue as a source of future growth, we seek companies that improve connectivity and digital capabilities that we can leverage across the IR portfolio.

For our financial framework, we target businesses with strong growth margins of approximately 40% or better as we view growth margin as a strong indicator of the mission critical nature of the products and their differentiation in the marketplace. We look for capital-efficient businesses with working capital requirements of less than 20% of revenue and CapEx less than 3% of revenue.

Finally, we target businesses with an ability to support a business plan that delivers mid-teens return on capital by Year 3 of investment with a minimum threshold of exceeding our weighted average cost to capital by Year 3.

Moving to Slide 9, with these criteria in mind, we've deployed over $800 million since the GD-IR RMT to acquire companies that very much align with both the strategic and financial profile that we look for. From MD-Kinney in our Industrial Technologies and Services segment, to Albin Pump, Maximus and SEEPEX in our Precision and Science Technologies segment, they're individual and collectively accretive to the portfolio from both an asset quality and returns perspective.

These four business combined are expected to deliver on a run-rate basis approximately 50% of the EBITDA lost from the divestitures of the HPS and SVG segments.

Ingersoll Rand Capital Allocation Strategy Conference Call Transcript

Thursday, 02 September 2021

Yesterday we announced the closing of our acquisition of SEEPEX. As a reminder, this provides the addition of progressive cavity pump technology into our positive displacement pump portfolio in the Precision Science Technologies segment. A market leader with a strong historical organic growth profile, SEEPEX have created digital solutions around the pump and has more patents granted in the past four years than any of its competitors.

The new product pipeline has been quite strong. The team conducted a virtual day one yesterday, and the integration IDM has already begun. We're very excited about the potential for this business.

Looking at Slide 10, as we noted in our Q2 earnings calls, our M&A funnel remains very strong even after excluding the 32 deals we passed on in Q2, as well as SEEPEX and Maximus and SPX Flow.

You may have noted that we issued a press release yesterday stating that we have elected not to participate in SPX Flow's Strategic Alternatives process that it announced on July 26. As we noted on the earnings call, we have pivoted to focusing on the remainder of the very active funnel after both our offers were rejected, which is a reminder it occurred more than two months ago.

At this time, the funnel remains approximately five times the size it was in Q2 of 2020, and we are excited about the quality, growth profiles and value creation opportunities of the assets that comprise the funnel. We continue to utilise IRX to accelerate speed through the funnel while remaining highly disciplined with the capital deployment decisions we make.

Turning to Slide 11, we plan to initiate a quarterly dividend of two cents per share, which is expected to begin in Q4 of 2021, and which must be declared by our board. The dividend increases the total addressable market for potential shareholders, and we view this as an opportunity to return incremental value to shareholders.

Our board has also authorised a $750 million open-market share repurchase programme, which we anticipate executing over a three-year period. At a minimum, we expect that this programme will cover the annual dilution from our employee equity compensation programmes.

We are targeting a net leverage ratio of less than two times, but given an extraordinary circumstance to achieve a strategic objective, mostly notably a highly strategic acquisition, we would be willing to exceed that if a clear path exists to deleverage back in line with our target.

And finally, looking at our current debt stack, we took out an approximately $400 million term loan during COVID to ensure adequate liquidity. The interest on this tranche is 100 basis points higher than the rest of our dollar term loans. Given our current liquidity and the elevated interest rate of this tranche, we expect to repay this by the end of this year as we continue to prudently manage our balance sheet in line with our desire investment-grade credit ratings. I will now turn it back to Vicente for some closing remarks.

Vicente Reynal Thanks, Vik. On Slide 12, you may have seen from our press release, we're very excited to host our first investor Day as the new Ingersoll Rand on November 18, 2021 at Langham Hotel in Boston, Massachusetts. We look forward to outlining our loans and growth strategy, providing detail on our markets and technologies and

further discussing how our strong talent operational excellence, demand generation, M&A and a sustainable growth mindset create competitive advantage for our company. I look forward to seeing many of you at this event.

Moving to Slide 13, as we wrap up today's call, Ingersoll Rand continues to be well-positioned for outsized growth and return. After a strong first half and continued momentum into Q3, 2021 is still poised to be a great year. To our employees I want to say, thank you for how we come together every day to make life better for our customers, deliver on our commitments, lean on each other and collaborate.

We take our role as a sustainably-minded industry leader very seriously, and our employees eagerly embrace IRX to put us in that leadership position. And I'm very excited about the opportunity to continue investing in Ingersoll Rand through our comprehensive capital allocation policy. With that I'll turn the call back to the operator and open for Q&A.

Operator Of course, ladies and gentlemen, if you would like to ask a question, please press star followed by 1 on your telephone keypads. If you choose to withdraw your question, please press star followed by 2. When preparing to ask your question, please ensure that your phone is unmuted locally. Our first question today comes from Julian Mitchell of Barclays. Julian, please go ahead, your line is open.

Julian Mitchell Thanks and good morning, and thanks for the details. Maybe a first question just around the Flow news. Clearly Flow fit the criteria that you mentioned in Slides 8 and 9. But you announced last night that you're walking away from that one. Maybe give us any extra details that you can on the decision that was made on that point.

Vicente Reynal Julian, good morning and thanks. I think you have seen how disciplined we are. Back at the time we offer a significant premium in a private process, and that gave full value. But at that time, it was a pre-emptive offer price for us to better understand some of the key aspects around growth on those assets. And I think what you can see that we have pivoted to higher end-growth markets within our M&A funnel, and our strategic funnel continues to be really strong.

And so, we just pivoted and moved away. And basically, we now have assets in the funnel that when you look at them, they're 100% what I may call they're clean in the sense that contains technologies that increase our technology or increase our commercial presence in some end markets.

Julian Mitchell Understood. Thank you. Then my second question just around, you mentioned on one of the slides the ambition to enhance digital capabilities. Clearly that can be extremely expensive in the current M&A environment. Just wondered if you could flesh out what rough share of M&A dollar that type of deal could comprise. Or more broadly, perhaps, do you see a lot of targets in that digital and software realm that can meet the financial criteria that you've also clarified?

Vicente Reynal Julian, I think a great example of this one is Maximus. Maximus clearly fits that criterion of being... Digitally enhancing our technologies and products with even including the software as a service in terms of a revenue stream. And you saw how disciplined we were in terms of the multiple... How great the business was. It was already generating close to 30% EBITDA margin as a business. And we still see a great opportunity for us to even expand that.

And those are the type of assets that we look for. We look for assets that can really be there, a strategic value accretive to our story, and provide that enhanced capability that we're looking for in some niche end markets. You have seen that we have been very disciplined in not paying these crazy multiples that sometimes are in the software side of the business. And we will continue to remain disciplined from that perspective.

Julian Mitchell Great. Thank you. And we'll look forward to the Investor Day.

Vicente Reynal Thank you, Julian.

Vikram Kini Thanks, Julian.

Operator Thank you. Our next question today comes from Steve Volkmann of Jeffries. Steve, please go ahead. Your line is open.

Steve Volkmann Hi, good morning, guys. Thanks for doing the call. My question is just around some of the targets that you listed relative to the M&A targets, I guess. And I was curious that you didn't include any ESG-type discussion there. So, I was just wondering, are there acquisitions that you could envision that would improve or moving along relative to your ESG goals that might not quite hit these other hurdles that you would consider? Is that part of the way you look at this?

Vicente Reynal I'll say, Steve, I think when you think about some of these acquisitions, naturally, we don't call it ESG, but when you think about the sustainable end markets, we're looking for markets that are clearly less cyclical and more focused on sustainability-related aspects. We internally call it life plus markets. And so, we're definitely looking for assets that are basically playing in sustainable end markets but at the same time, technologies that are helping on the environmental side.

When you think about SEEPEX or even Maximus, basically those are at the core of ensuring that we improve environmental and sustainability targets on the specific end markets that they play.

Operator Thank you. Our next question comes from Jeff Sprague of Vertical Research. Jeff, please go ahead. Your line is open.

Jeff Sprague Thank you. Good morning, everyone.

Vicente Reynal Good morning.

Vikram Kini Hi, Jeff.

Jeff Sprague Good morning. Hey, two from me. First, back to the funnel question, if I could. Can you give us some colour in terms of how much of the funnel you're active engaged with the other party as opposed to internal analysis and screening and the like? Is this active engagement at some certain level between yourselves and the targets? Or is it a broader universe than that?

Vicente Reynal Jeff, it's 100% actively engaged. We have a weighted funnel, but it is, all of them... If we're not engaged, and it's a pie in the sky, we don't include that on the funnel. And the funnel numbers that you saw that we presented here.

Jeff Sprague Great. Good to hear. And I think a good move on the dividend. I think it does open up the stock to more people. And understand starting at relatively low level. Have you spent any time yet really thinking about what a normalised pay-out ratio might be and how you might gradually step this up over time?

Chris Miorin Yes, Jeff, I'll take that one. I think it's something we're going to revisit on an annual basis with the board. We're going to maintain regular communication with, both, the board, as well as the investor community with regards to the size of the dividend. Obviously at this point in time we don't necessarily have any intention to increase the dividend at any point in the imminent future. But it's something we're going to revisit on an annual basis in line, obviously, with the earnings trajectory of the company.

But as Vicente mentioned and as it was mentioned in the deck, clearly the focal point of the capital allocation strategy will continue to be M&A for the foreseeable future.

Jeff Sprague Great. Thanks for the colour. Good luck.

Chris Miorin Thank you.

Operator Thank you. Our next question comes from Andy Kaplowitz of Citigroup. Andy, please go ahead. Your line is open.

Andy Kaplowitz Hey, good morning, guys.

Vicente Reynal Good morning, Andy.

Andy Kaplowitz Vicente or Vik, obviously you mentioned that your funnel size was still about five times it was in Q2 2020. But you're pursuing a more balanced strategy now. So, is this a reflection that it does remain more difficult to find good deals? Or do you see a good probability of filling the rest of that gap that Vik mentioned from your divestitures in the short to medium term? And do you see enough out there in terms of deals that you could achieve your mid-teens ROIC target by Year 3 on the deals that you close?

Vicente Reynal Yes, Andy, we definitely see a lot out there. The reflection of what we have done here with the more balanced approach is just a significance in terms of how strong we and our board feel about our continued process of generating great free cash flow generation. And so, yes, we said it on the earnings call that we see a way to continue to deploy billion dollars or more of M&A over the next 12 months. So, you saw from the presentation here, deployed already $800 million, which that cover, that 50%. And obviously as we continue to deploy the rest, which will more than replace the rest here.

Andy Kaplowitz And, Vicente, as you guys know, a lot of your peers are also focused on finding more companies with digitisation, sustainability. So, maybe you could talk about your continuing ability to find targets in these areas using IRX. How does IRX maybe give you an advantage versus peers to find these kinds of deals?

Vicente Reynal Yes, Andy, I think IRX, as you would expect, we have a weekly process on that, specifically on the M&A funnel. And the digitisation, the way we think about it is it is obviously very important for us. When you think about all the assets that we have in the field now with not only ITS but also PST, it is, we're talking about millions of assets that are in the field. And that we're accelerating how we're connecting them organically at this point so far.

And now, as we think about some strategic end markets that we want to penetrate further and command a very good presence, those are the ones that we're putting more emphasis on the digitisation. Maximus was one because we wanted to penetrate further the agritech market. And you'll continue to see some very logical next steps that we continue to do on the digitisation of controlling our assets remotely so that we can enhance the energy efficiencies, but also more important, the recurring after-market that we can generate.

Andy Kaplowitz Appreciate it, Vicente.

Vicente Reynal Thank you.

Operator Thank you. Our next question comes from Josh Pokrzywinski from Morgan Stanley. Josh, please go ahead. Your line is open.

Josh Pokrzywinski Hey, good morning, guys.

Vicente Reynal Good morning, Josh.

Josh Pokrzywinski Vik and Vicente, just, first question, I guess, on Slide 10. I guess, any way that you can quantify what the right-hand side of the funnel may look like with the larger properties. I guess I don't know what direction the funnel goes. But, obviously, Flow probably would have been on the bigger end. Does what's left still have that dispersion, or is it lean, more small and midsize now stepping away from that?

Vikram Kini Josh, this is Vik. I'll take that one. I think it's much more like the latter what you said. The majority, not 100%, but a majority of the funnel is more towards the bolt-on, smaller to medium-sized assets, very much in line with what you've seen us actually do and execute here over the course of 2021, whether it be the MD-Kinney assets or the SEEPEX and Maximum assets that we just closed. So, I would describe them as probably less than a billion dollars in purchase price is probably the right way to think about it, and where we've seen, frankly, a great amount of value that we can create.

I would also tell you much in line with how we've described it historically, the funnel is probably a bit more overweight towards the PST segment. And we have indicated, obviously, that's clearly our strong focus from an M&A perspective. And again, even yesterday you saw the SEEPEX acquisition close, which is also in the PST segment. So, very consistent with how we've described it before, but I would call it smaller to medium-sized acquisitions is the majority of the funnel.

Josh Pokrzywinski Got it. And I think that helps to answer this question, but probably just bears noting anyway for strategy purposes. I think with the Ingersoll Rand's RMT and with the SPX Flow, looking at it you could have identified some non-core assets in each piece. I would imagine, on the larger side of things that you would look at you would find some non-core stuff that you'd be willing to put in a bit of a holding pattern. Any sensitivity around how much non-core you'd be willing to take on to get the assets that you really want inside of a deal?

Vicente Reynal I don't think that there is a specific weighting factor there, Josh. But as you said, we're not afraid of going into an asset that we need to divest some non-core assets. But that's what I was referring to before is that, I think the exciting piece is that what we have now here in our funnel is basically 100% clean. Meaning these are assets that are not requiring divestitures because they're really clean, great, solid technologies complementary to everything that we do from a technology, as well as a commercial side.

And that is, obviously, very exciting because then you put more work on to integrating and in reinvesting organically in the business versus having to spend time divesting. Which, again, we're not afraid, because we have done it, proven to be able to do it. But we prefer to spend more time on growing and improving the businesses and bringing assets that will continue to raise the total level quality of Ingersoll Rand profile.

Josh Pokrzywinski Great. Thanks for the detail. See you in a couple of weeks.

Vicente Reynal Sure. Thank you.

Operator Thank you. Our next question comes from Markus Mittermaier of UBS. Markus, please go ahead. Your line is open.

Markus Mittermaier Hi, good morning, everyone.

Vicente Reynal Good morning, Markus.

Markus Mittermaier Hi, good morning. I wanted to focus on the 32 targets that we passed in Q2. So, it shows how active the funnel is that effectively you passed on a transaction every second business day. So, I'm just wondering is this all or large evaluation or why do these deals then fall out of the funnel? Is there a common thread there?

Vicente Reynal I'd say that, Markus, it varies. Clearly valuation is an important threshold as it's how it screens against our financial matrix. But we're also very focused on future growth profiles. And in some cases, we have seen expectations of overinflated future growth due to expectations of ongoing COVID-related demand, for example, which we tend to very discipline, discount that.

So, I think it speaks really volumes about our solid due diligence process where we do a lot of market work including voice of customers and interviews to ensure we understand market trends, commercial possibilities and so on. But I would say it speaks really to the acceleration of how when we look at a potential deal, how we have a really robust, solid process behind it.

Markus Mittermaier Great. Thanks. And just a very quick second one on Slide 8. You showed the secondary focus there on channel acquisitions. Am I right to assume that these, if they're compared to the flow creation and digital targets, that those channel targets would be on the very small end of the size scale or are there some larger ones in some geographies that are out there?

Vicente Reynal No. On the smaller side, Markus, exactly, yes, but on the much more smaller side deal transactions. But obviously, dealer channel that can give us access to... Again, they have to be very strategy in terms of giving us access to geographies where we want to accelerate our market share and presence.

Markus Mittermaier Great. Thanks so much.

Vicente Reynal Thank you.

Operator Thank you. Our next question comes from Nathan Jones of Stifel. Nathan, please go ahead. Your line is open.

Nathan Jones Good morning, everyone.

Vicente Reynal Good morning, Nathan.

Nathan Jones Vicente, you talked about millions of assets in the field and the need to digitise and connect them. Is it possible for you to find them and retrofit that in order to connect them? Or is this more of you want to do that on new assets that will go into replace those over time?

Vicente Reynal Yes, Nathan, good question here. We're actually doing it on both. And so, these millions of assets, we actually have a very well mapped out with the team where we have found two million assets. So, we know specifically where these assets are co-located. And then, obviously, categorise and prioritise the ones that we want to go after, reconnecting first. And so, it is on both. It is on the ability to go now into the field and connect these assets in a very cost-effective way.

And the second factor is that today above certain horsepower for compressors we're already shipping them 100% enabled. And as they go into the field, we're able to remote connect them to our cloud, basically.

Nathan Jones And then, just on the share repurchase programme, it sounds like pretty low priority. And I would imagine there's not an intention of doing this. But are you intending to offset dilution or under what circumstance do you think you would actually deploy any capital into that share repurchase programme?

Vikram Kini Yes, Nathan, I think the way you described it is probably appropriate. As we mentioned, $750 million open market share repurchase authorisation intended to be executed over a three-year time frame at a minimum, to your point, offsetting the normal dilution from an annual equity programme perspective. And then we would deem it to be opportunistic thereafter.

So, to your point, it's not the main priority, as we mentioned. M&A clearly remains the focal point. And given the strength of the funnel and everything Vicente said, that's clearly the major component of our capital allocation

framework. But, obviously, we think it's prudent an authorisation available when and if we see opportunistic times to be able to go back in the market and repurchase shares.

Nathan Jones Great. Thanks for taking my questions.

Vikram Kini Thanks, Nathan.

Operator Thank you. Our next question comes from Nigel Coe of Wolfe Research. Nigel, please go ahead. Your line is open.

Nigel Coe Thanks. Good morning, everyone. Thanks for the detail.

Vicente Reynal Good morning.

Nigel Coe Good morning, guys. The messages here are very clear. I'd be very curious, what's driving the 5X increase in the funnel? Are you casting your net wider, increasing the [unclear] opportunities? Or is it more a case of you're seeing more willing sellers, given the valuations in the market? And I'm actually curious if you're seeing the proposed tax changes coming through the pipeline here, if that's causing some of these privately-held companies to consider taking somebody off the table here.

Vicente Reynal I will say that first of all I think it's really... Yes, it's increasing the aperture. And that's why you saw how, for example, SEEPEX gave us a $2 billion increase in addressable market, and same with Maximus. So, again, these were technologies that we didn't have in our portfolio, that as we... But obviously gave us that very core and strategic to what we want to do around end markets and technologies. So, that was, you could argue, ability to be able to see a bigger aperture in terms of technologies.

But it also, I'll tell you, Nigel, it speaks to the rigorous process that we have in leveraging IRX in terms of funnel creation. The amount of work that we do every year to strategically identify some of the end markets that we want to play, and the segmentation that goes behind it to really find these good, solid leaders in their niche segments or markets, it's extraordinary, the type of work that the team does to really find these little gems.

And then, the process that we do around cultivation. And I think, to your question, is tax one of the factors? We haven't seen that to be one of the factors, but it could be that maybe some owners are thinking about from a tax perspective. What I can tell you that it is definitely a good indicator that we see is how these family-owned companies, they view us as a great place for employee engagement and the ownership mindset that we drive.

And that has been what I would call an accelerator of a door opener to have those conversations with these family-owned companies. Because they see how much we value our employees, and how much we value this ownership and entrepreneurship mindset that we drive across our company every single day.

Nigel Coe That's a great point. And then the mid-teens' three-year return is the objective. But you mentioned minimum WACC return by Year 3. I'm assuming WACC in the current environment is about 8%, correct me

if I'm wrong. But what would be the big divide between mid-teens and WACC. Would it be primarily size? Obviously growth and software would be other factors. But would size be the major factor for a low return?

Chris Miorin Yes, Nigel, you're right in the sizing of the WACCs. I think you're very correct in that respect. I think there's obviously a number of factors. Size obviously is probably one of the bigger determinants. That clearly drives the synergy opportunity, which is probably the biggest swing factor in the context of whether you can get to that 10% threshold or maybe closer to that mid-teens, if you will.

And then, obviously, the biggest thing we clearly look for, and as Vicente mentioned here, the big determinant here is the growth profile. We're focused on those more sustainable, as Vicente said, life plus-type opportunities and end markets, clearly areas that we expect to have a higher growth profile over the medium to longer term.

Also, frankly, our rationale for what you saw, the divestitures that we did, frankly, towards the beginning of the year. So, I think we've been very explicit in that respect in terms of reshaping the portfolio and really targeting those sustainable end markets.

But I do think that, to your point, size is probably one of the most meaningful determinants in terms of that differential on the ROIC. And then, yes, there's obviously smaller factors just in terms of how mature the business is and things of that nature primarily with regards to things like cost synergies.

Nigel Coe Great. Thanks very much.

Operator Thank you, Nigel. That was our final question. We currently have no further questions. So, I'll hand the call back over to Vicente for any closing remarks.

Vicente Reynal Just want to say one more time, thank you, again, to our employees. Thank you to the investment community for your level of interest in Ingersoll Rand, and I can tell you that we're very excited about the opportunity to continue to invest in Ingersoll Rand through our comprehensive capital allocation strategy here. And look forward to speaking to many of you here over the next days, weeks, as we go into some investor meetings. Thank you.