WSP Global Inc.’s Southern Expansion a Winner

Description

One of the places where Canadians don’t generate enough business is Latin America. Montreal-based **WSP Global Inc.** (TSX:WSP) just put a dent in that.

WSP announced July 18 that it was buying Poch, a professional services firm based in Chile with 750 employees spread across four different Latin American countries including Chile, Peru, Columbia, and Mexico.

“The acquisition of Poch, which was financed using our available cash and credit facilities, is aligned with our 2015-2018 Strategic Plan and represents a significant milestone in our ambition to become a top-tier pure player in Latin America,” said WSP CEO Alexandre L’Heureux. “Poch’s recognized expertise in other countries complements and enhances our range of services in the region.”

WSP’s plan is to build its business through a combination of organic growth and acquisitions like the one it just made in Chile.

At the beginning of 2015, WSP set out on a four-year strategic plan. It sought to recruit and develop the finest employees anywhere in the world (36,000 globally today) to deliver client service that’s unparalleled in the professional services industry, operational excellence that only a pure-play global professional services firm can provide, and the expertise to complete projects of any size for its clients.

About halfway through its four-year plan, WSP’s overall business appears to be doing well. Net revenues for the first quarter ended April 1, 2017, were up 9.8% to $1.3 billion compared to the same quarter a year earlier with adjusted EBITDA of $114.5 million, up 25.1% delivering a 9% margin.

The Americas just got stronger

As of April 1, the Americas segment, which includes the U.S. and Central and South America, accounted for 30% of the company’s overall revenue. Only its EMEIA (Europe, Middle East, India and Africa) region generated more at 37%.

The Poch acquisition should change that.

Currently, its Central and South American business employs 750 people. The Loch acquisition doubles that to 1,500. The Americas segment generates 60% of its revenue on a fee-for-service basis — much higher than the company average of 46% — as opposed to a fixed fee, where you can lose your shirt if you're not careful about estimating costs before the start of a project.

By the end of 2018, WSP expects to have 45,000 employees, $6 billion in net revenues, about 20% generated through acquisitions, 5% annual organic revenue growth, and an 11% adjusted margin.

Off to a good start in 2017, WSP needs to add 9,000 employees, $1.1 billion in net revenues, and 80 basis points of EBITDA margin to reach its goals for its four-year strategic plan.

Although organic growth is the company's priority, it's made 90 acquisitions over the past decade; WSP is very good at finding businesses to acquire that will integrate well with the existing employees.

That's the only way it can continue to grow. In the first quarter, all four of its geographic segments achieved organic growth, including 12.8% in the Americas, second-highest behind only the Asia Pacific segment at 21.5%.

Latin America is a winner long term

If you've got a problem with currency fluctuations, Latin America is probably not a good place to be doing business.

However, if you're like WSP and understand you've got to go where the action is to make money consistently, Latin America is a must.

I haven't paid much attention to WSP stock in the past couple of years, but its latest acquisition has opened my eyes to a company that's serious about growth.

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