



# DELTA OUTCOMES GLOBAL LEADERS PORTFOLIO

Q1 2026 Portfolio Company Earnings Wrap

Presented by.  
Delta Outcomes

# Portfolio Executive Summary — Q1 2026 Reporting Season

35 portfolio companies | Q1/H1 2026 reporting season | Prepared by Delta Outcomes Limited

Delivery across the portfolio was strong: the large majority of companies beat consensus on earnings, and roughly half carry a bullish near-term stance against ten neutral and six bearish. Share-price outcomes, however, were set by guidance credibility and capital discipline rather than by the reported numbers.

- **AI and data-centre build-out was the quarter's dominant earnings driver.** TSMC posted a fourth consecutive record profit quarter with HPC now 61% of wafer revenue and full-year growth guided above 30%; ABB lifted guidance to 8–11% comparable growth on record \$11.3bn orders; Cisco nearly doubled expected FY26 hyperscaler AI orders to \$9bn; TE Connectivity's data-network orders rose over 60%; Trane's backlog reached \$10.7bn on record HVAC bookings; Siemens Smart Infrastructure and Schneider Energy Management both set records; Azure accelerated to +39%, Google Cloud grew 63% to its first \$20bn quarter and AWS re-accelerated to +28%; Applied Materials, Johnson Controls, Halma photonics, Linde electronics and Kingspan Advnsys all cited the same demand pool.
- **Guidance, not the print, determined the share-price reaction.** The market paid only for raised outlooks: Cisco +13%, Arcadis +11%, Alphabet +10%, Eli Lilly +10%, Visa +8%, Nestle +7%, ABB +6%. Clean beats with unchanged or merely in-line guidance were sold hard: Tomra –17%, Halma –11%, Thermo Fisher –9%, TE Connectivity –8.5%, Aptiv –8%, Genmab –7%, Microsoft –5%, Experian –5%, Xylem –4.5%, Mastercard –4%, Autodesk –4%.
- **Capital intensity is now priced as a risk rather than a growth signal.** Microsoft fell 5% on a ~\$190bn CY2026 capex plan despite beating on every metric; Alphabet's free cash flow fell 47% and Amazon's trailing FCF compressed to \$1.2bn on a \$147bn annualised run-rate; TSMC guided capex to the high end of \$52–56bn. Investors increasingly distinguish capex underwritten by contracted backlog from capex taken on faith.
- **Cost inflation, tariffs and currency were the main pressure on margins.** Memory and component costs cut Cisco's gross margin 260 bps and add ~\$5bn to Microsoft's Q4 capex; commodity inflation drove Aptiv's EBITDA margin down 90 bps, weighed on Ecolab's Q2 guide and led ADS to guide FY27 margins 170–200 bps lower; US tariffs hit Siemens Mobility. Dollar translation cost ABB 520 bps and Novonesis 600 bps, while Linde captured a 5% FX tailwind and FX supplied nearly all of Xylem's reported growth.
- **Geopolitics was a genuine earnings variable, in both directions.** Closure of the Strait of Hormuz drove diesel cracks to \$37.3/bbl and lifted Nestle's comparable EBITDA more than fourfold, and created a helium shortage that is unmodelled upside for Linde - while costing Johnson Controls (Middle East ~2–3% of revenue), decelerating Visa's CEMEA cross-border volumes and softening Mastercard's April travel data.
- **Payments and services proved the consumer is still spending.** Visa delivered its strongest revenue growth since 2022 (+17%) with cross-border ex-Europe steady at +11% and value-added services +27%; Mastercard grew 16% currency-neutral with services +18%. Both nonetheless traded on forward risk rather than the quarter.
- **Short-cycle industrial, consumer and policy-funded demand stayed weak.** Barry Callebaut cut FY guidance to a mid-teens EBIT decline on a 6.9% volume collapse; Tomra's Recycling revenue fell 19% into an EBITA loss; Xylem's organic growth was –0.4% and it refused to raise EPS guidance despite \$581m of buybacks; Thermo Fisher grew just 1% organically; Aptiv, ADS and Tetra Tech flagged automotive, residential and US federal funding softness. Healthcare split the same way - Eli Lilly's incretin volumes drove revenue +56%, while Boston Scientific cut organic guidance and AstraZeneca held guidance flat.
- **Balance sheets and capital returns remained a source of strength.** Visa authorised a new \$20bn buyback after a record \$7.9bn quarter; Siemens announced €6bn; Waste Management nearly doubled free cash flow to \$920m; Halma extended dividend growth to a 47th consecutive year and Linde to a 33rd; leverage sat at or below target across almost the whole portfolio.
- **Net:** earnings power is intact and increasingly concentrated in the AI-infrastructure, payments and healthcare-innovation themes. This quarter rewarded guidance credibility and capex discipline over the reported numbers - and punished any company whose growth ramp depends on a second-half recovery it could not yet evidence.

# ABB Ltd Q1 2026 Earnings Analysis

## Executive Summary

- Strong Q1 beat with revenue \$8.73b (+3.6% consensus), EPS \$0.73 (+4.3% consensus); operating margin expanded 410 bps to 23.5% (70 bps underlying ex-real estate gain)
- Record orders \$11.3b (+24% comparable) with record backlog \$27.5b driven by triple-digit data center order growth, establishing multi-quarter revenue visibility into AI infrastructure buildout
- Guidance RAISED from 6-9% to 8-11% comparable revenue growth (ABOVE consensus 7.5% by 50-200 bps), signaling management confidence in sustained data center demand cycle
- Stock +6% to all-time highs; analyst consensus shifted bullish (Goldman Sachs upgraded to Buy, Morgan Stanley raised target) citing durable AI infrastructure tailwind
- Balance sheet fortress-like with net debt/EBITDA 0.3x, interest coverage 11.4x, and FCF +92% YoY to \$1.25b, providing significant financial flexibility for growth investment and shareholder returns
- NEAR-TERM OUTLOOK: Bullish. Electrification segment positioned as secular beneficiary of multi-year data center power infrastructure cycle with strong pricing power. Monitor: AI capex cycle sustainability, premium valuation (already reflects strong growth expectations), FX headwinds (520 bps in Q1)

## What Happened

| Metric                        | Q1 2026 | Q1 2025 | YoY Change | vs. Consensus |
|-------------------------------|---------|---------|------------|---------------|
| Revenue (\$m)                 | \$8,734 | \$8,268 | +5.6%      | Beat +\$304m  |
| Operating Profit (EBIT) (\$m) | \$2,049 | \$1,608 | +27.4%     | Beat +\$89m   |
| EPS (Adjusted) (\$)           | \$0.73  | \$0.60  | +21.7%     | Beat +\$0.03  |
| Operating Margin (bps)        | 23.5%   | 19.4%   | +410 bps   | In-line       |

ABB delivered a strong Q1 2026 with revenue of \$8.73 billion exceeding consensus of \$8.43 billion by 3.6% (+\$304m), and adjusted EPS of \$0.73 beating estimates by \$0.03 or 4.3%. Comparable revenue growth reached 11%, with reported growth at 5.6% reflecting FX headwinds. Operating profit surged 27.4% to \$2.049 billion, with operating margin expanding 410 bps to 23.5%, though this includes a 250 bps benefit from a real estate gain. The company achieved record first-quarter orders of \$11.3 billion, up 24% on a comparable basis, with the Electrification segment seeing triple-digit order growth in data center applications. The company maintains a record backlog of \$27.5 billion, up 22% year-over-year, providing strong revenue visibility into H2 2026 and beyond.

### Near-Term Sentiment:

Bullish. Citi analysts noted "The strength in order intake will be seen as the key positive, with triple-digit data center order growth and record order levels across Electrification and Motion segments." Investors view ABB as a durable beneficiary of hyperscaler AI capex, estimated at \$618+ billion in 2026 vs. \$376 billion in 2025. The company is well-positioned to ride a multi-year data center infrastructure buildout cycle with strong pricing power and margin expansion. Analyst sentiment has shifted decisively positive with Goldman Sachs upgrading to Buy and Morgan Stanley raising price target, citing the secular tailwind from AI-driven data center investments.

## Why

Revenue and Growth Drivers: Q1 revenues increased 5.6% to \$8.73 billion on a reported basis, with 11% comparable growth reflecting strong organic momentum offset by approximately 520 basis points of FX headwinds from CHF appreciation. The Electrification segment led growth with +44% comparable orders and +18% comparable revenue, driven by triple-digit order growth in data center electrification products for AI infrastructure. The Motion segment delivered +9% comparable growth, while Industrial Automation contributed +13% comparable expansion. Total comparable orders reached \$11.3 billion (up 24%), establishing a record backlog of \$27.5 billion. Geographic performance showed strength across developed and emerging markets, with continued momentum in North America, Europe, and Asia-Pacific supported by data center investment cycles.

Profitability Evolution: Operating profit (EBIT) increased 27.4% to \$2.049 billion compared to \$1.608 billion in Q1 2025. Operating margin expanded significantly to 23.5% from 19.4%, representing a 410 basis point increase. This expansion includes a 250 basis point benefit from the real estate gain, meaning the underlying operational EBITA margin improved 70 basis points, demonstrating solid underlying business performance. Gross profit increased to \$3.437 billion, with gross margin at 39.4%, down 290 basis points year-over-year due to unrealized FX and commodity hedging losses. Net income (GAAP) grew 25.3% to \$1.562 billion, while adjusted net income increased 22.8% to \$1.345 billion. The company demonstrated strong volume leverage and pricing power, effectively offsetting cost pressures and FX impacts.

**Key Margin Drivers:** Operating margin improvement was driven by several factors including strong volume leverage from higher order intake, effective pricing initiatives that captured value in high-demand Electrification segment, favorable business mix with higher-margin data center applications, and operational improvements in manufacturing and delivery efficiency. The 70 basis point underlying margin improvement (excluding real estate gain) demonstrates the company's ability to expand profitability through both volume and operational execution. Cost management initiatives mitigated inflationary pressures in raw materials and logistics. The company benefited from improved capacity utilization in manufacturing facilities supporting the elevated order volume.

**One-Off Items and Balance Sheet:** A real estate gain of approximately \$600 million (after-tax impact ~\$425 million) contributed 250 basis points of EBITA margin benefit in Q1. This was a one-time gain from the sale of real estate holdings in Switzerland and other locations. Excluding this gain, the underlying operational EBITA margin improved 70 basis points, demonstrating solid underlying business performance. The company maintains fortress-like balance sheet strength with net debt of approximately \$1,200 million, representing net debt/EBITDA of just 0.3x and very strong interest coverage of 11.4x EBIT/interest expense. Free cash flow surged 92% to \$1.250 billion, benefiting from operational performance and the \$425 million real estate sale proceeds.

## What Happens Next

**Forward Guidance:** ABB RAISED full-year 2026 comparable revenue growth guidance to high single-digit to low double-digit growth (approximately 8-11%), up from prior guidance of 6-9%. For Q2 2026, management guided for similar revenue growth range on a comparable basis. Operating EBITA margin is expected to improve year-over-year, excluding the real estate gain benefit in Q1 2026. The company maintained its positive book-to-bill outlook, signaling continued strong order momentum beyond current backlog visibility. No specific EPS guidance was provided, but the strong Q1 operational performance and margin expansion suggest confidence in achieving higher full-year profitability.

**Guidance vs. Consensus:** Prior consensus for FY 2026 revenue growth was approximately 7.5% (midpoint of 6-9% range). The new raised guidance to "high single-digit to low double-digit" (8-11% midpoint) exceeds prior consensus by 50-200 basis points, representing ABOVE consensus expectations. The company's strong Q1 order intake and record backlog support achieving the higher end of the new guidance range, with visibility into sustained demand from hyperscaler AI infrastructure investments.

**Change from Prior Guidance:** ABB RAISED full-year 2026 comparable revenue growth guidance from 6-9% to high single-digit to low double-digit growth (approximately 8-11%). The raise of approximately 150-200 basis points at the midpoint reflects stronger-than-expected demand in Electrification, particularly driven by data center power infrastructure buildout related to AI and generative AI adoption. Management cited continued strong order momentum and the positive outlook from hyperscaler capex plans.

**Stock Price Reaction:** ABB shares surged nearly 6% in early trading on April 22, 2026, reaching all-time highs following the earnings announcement. The positive reaction was driven by three primary factors: (1) Q1 revenue beat of \$8.73 billion vs. \$8.43 billion consensus (+3.6%); (2) guidance raise from 6-9% to 8-11% comparable revenue growth; and (3) record orders of \$11.3 billion (+24% comparable) and record \$27.5 billion backlog providing clear visibility into sustained demand momentum. Strong institutional buying on data center order momentum reflected broad-based investor enthusiasm for ABB's positioning in the AI infrastructure buildout cycle.

**Analyst View:** "Investors welcomed the guidance upgrade and first-quarter earnings that beat expectations" (Reuters/Bloomberg). Goldman Sachs upgraded ABB to Buy with a price target of CHF 85, citing strong electrification tailwinds. Morgan Stanley raised its price target by 5% to CHF 80, noting "The upgraded outlook reflects continued supportive market trends and stronger margin performance across all divisions, particularly in data center power infrastructure." Jefferies maintained Buy rating and raised price target by 5% to CHF 80, highlighting the secular tailwind from AI infrastructure investment driving Electrification segment growth. The broader sell-side consensus shifted more constructive, with multiple analyst firms raising earnings estimates for FY 2026-2027.

## Key Positives, Negatives, Risks, and Concerns

**Positives:** Record orders of \$11.3 billion (+24% comparable) with record backlog of \$27.5 billion providing clear multi-quarter revenue visibility. Strong operational execution with 70 basis point margin improvement excluding real estate gain. Pricing power demonstrated in high-demand Electrification segment. Data center secular tailwind from AI infrastructure investments expected to persist for multiple years. Strong balance sheet with 0.3x net debt/EBITDA and excellent cash generation.

**Negatives:** FX translation headwinds of approximately 290 basis points gross margin impact in Q1. Valuation at premium multiples reflecting high growth expectations. Commodity cost inflation risks could pressure margins if pricing power falters.

**Risks:** AI capex cycle slowdown among hyperscalers would significantly reduce data center orders and revenue growth. Geopolitical disruption to global supply chains impacting production capacity. Competitive intensity increasing in power distribution and electrification markets. FX volatility continuing to create headwinds to reported results.

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# Advanced Drainage Systems Inc (NYSE:WMS)

Q4 Fiscal 2026 Earnings Analysis | Period ended 31 March 2026 | Released 21 May 2026 (pre-open)

## Executive Summary

- Q4 revenue rose 9.9% to \$676.8m, while adjusted EPS increased 3.9% to \$1.07; GAAP operating income fell 54.4%.
- NDS closed on 2 February 2026 and contributed \$48.8m of Q4 revenue, driving reported Stormwater growth of 11.7%.
- FY2026 revenue of \$3.050bn and adjusted EBITDA of \$962.9m exceeded company guidance top ends of \$3.040bn and \$960m.
- FY2027 guidance was initiated at \$3.35bn-\$3.55bn revenue and \$1.00bn-\$1.05bn adjusted EBITDA, with margin down 170-200 bps.
- Quantified same-day stock reaction was not verifiable from accessible web sources; transcript commentary indicated shares were taking a hit on inflation concerns.
- Balance sheet remains flexible, with 1.6x leverage, \$962.9m liquidity, \$569.3m FY free cash flow and an 11% dividend increase.
- NEAR-TERM OUTLOOK: Bearish, driven by margin compression, input-cost inflation and residential/agriculture softness; monitor price pass-through and NDS integration.

## What Happened

| Metric                                  | Q4 FY2026        | Q4 FY2025        | YoY change                              | Commentary                                                                                           |
|-----------------------------------------|------------------|------------------|-----------------------------------------|------------------------------------------------------------------------------------------------------|
| Revenue                                 | \$676.8m         | \$615.8m         | Increase: +9.9%                         | Reported sales growth included \$48.8m from NDS; organic sales +2.0%.                                |
| Gross profit / margin                   | \$237.7m / 35.1% | \$226.3m / 36.7% | Profit +5.0%; margin down 163 bps       | Volume, favourable price/cost and mix were offset by cost and mix headwinds.                         |
| Operating profit (EBIT) / margin        | \$53.3m / 7.9%   | \$117.0m / 19.0% | Decrease: -54.4%; margin down 1,112 bps | Lower due to NDS transaction costs, restructuring/realignment and exit/disposal costs.               |
| Net income from continuing operations   | \$35.2m          | \$76.8m          | Decrease: -54.1%                        | GAAP profit was depressed by acquisition-related and restructuring items.                            |
| Net income attributable to ADS          | \$32.9m          | \$77.2m          | Decrease: -57.4%                        | Non-controlling interests reduced net income attributable to ADS by \$1.2m.                          |
| Diluted EPS from continuing operations  | \$0.43           | \$0.99           | Decrease: -56.6%                        | GAAP EPS tracked the decline in operating profit and one-off costs.                                  |
| Adjusted EPS from continuing operations | \$1.07           | \$1.03           | Increase: +3.9%                         | Adjusted EPS excludes restructuring, disposal, inventory step-up, transaction costs and tax effects. |
| Adjusted EBITDA / margin                | \$188.0m / 27.8% | \$176.7m / 28.7% | EBITDA +6.4%; margin down 90 bps        | Favourable volume and price/cost were partly offset by manufacturing/transport and SG&A costs.       |
| Dividend per share declared             | \$0.18           | \$0.16           | Increase: +12.5%                        | Separate dividend release increased annual cash dividend to \$0.80, or \$0.20 quarterly.             |

Brief financial summary: Q4 delivered stronger revenue and adjusted EBITDA, but GAAP profitability deteriorated sharply due to acquisition-related costs, restructuring and realignment, higher SG&A, disposal/exit costs and amortisation. Against company expectations, FY2026 revenue of \$3.050bn and adjusted EBITDA of \$962.9m finished above the top end of the company guidance ranges of \$2.990bn-\$3.040bn and \$930m-\$960m, respectively. No reliable, current external consensus article or market-data source for Q4 FY2026 was retrievable through accessible web search.

Stock Price Reaction: Results were released pre-open on 21 May 2026, so the relevant session is the day of results. A quantified same-day WMS price move was not independently verifiable from accessible live market-data or search results; however, the Q&A transcript records analyst commentary that the stock was "really taking a hit" around inflation concerns. The reaction is therefore classified as negative but unquantified rather than estimated.

Near-Term Sentiment: Bearish, driven by FY2027 adjusted EBITDA margin guidance down 170-200 bps, significant input-material and transportation inflation, choppy order patterns, and residential/agriculture softness; positives include above-guidance FY2026 results, free cash flow strength, NDS integration and dividend growth.

## Why

Revenue drivers: Net sales increased 9.9% year-on-year to \$676.8m. Stormwater increased 11.7% to \$534.7m, including \$48.8m from NDS; organic Stormwater sales rose 2%, Allied products rose 43% reported and 12% organically, while Pipe decreased 2% due to residential and infrastructure softness. Wastewater increased 3.7% to \$142.0m, supported by tanks and residential advanced treatment. By end market, domestic construction increased 9%, non-residential increased 6%, residential increased 18% including NDS but decreased 1% excluding NDS, infrastructure decreased 13%, and agriculture increased 30% as customers bought ahead of

FY2027 price increases. Pricing remained stable in Q4 and material costs were favourable relative to the prior year. FX translation was not identified as a material driver in the release.

Profitability evolution: Gross profit increased 5.0% to \$237.7m, but gross margin fell 163 bps to 35.1%. Operating income decreased 54.4% to \$53.3m, with operating margin falling to 7.9%, mainly reflecting higher SG&A, NDS-related transaction costs, restructuring and realignment, exit/disposal activity and amortisation. Adjusted EBITDA rose 6.4% to \$188.0m, but adjusted EBITDA margin declined 90 bps to 27.8%. Segment adjusted EBITDA increased 7.7% in Stormwater to \$140.2m, with margin down c.96 bps on external sales, while Wastewater adjusted EBITDA increased 3.8% to \$61.4m, with margin broadly stable at c.43.2%.

Margin factors: Favourable volume, product mix, price/cost and operational self-help supported adjusted EBITDA. Offsetting factors included unfavourable transportation costs, increased manufacturing and transport costs tied to strong demand and oil-price/inflation uncertainty, higher SG&A from NDS, incremental compensation, transaction costs and the optical dilution from pricing actions designed to offset inflation dollar-for-dollar rather than preserve margin percentage.

Net income bridge: Depreciation and amortisation increased to \$59.8m from \$49.6m, interest expense increased to \$25.1m from \$22.7m, and interest income was a \$3.8m adjusted EBITDA reconciliation benefit. Income tax expense decreased to \$5.4m from \$23.2m, which cushioned net income, while equity income from unconsolidated affiliates added \$1.2m. Non-controlling interests reduced net income attributable to ADS by \$1.2m.

One-off adjustments: Material adjustments included \$30.6m of restructuring and realignment expense, \$23.5m of transaction costs, \$12.3m of NDS inventory step-up, and \$9.3m of other adjustments in Q4. GAAP results also included \$28.0m of loss/gain on disposal of assets and costs from exit and disposal activities, plus a \$1.1m loss from discontinued operations linked to international businesses. These items explain the divergence between GAAP EPS of \$0.43 and adjusted EPS of \$1.07.

## What Happens Next

| Guidance item                 | FY2027 guide                       | Change / comparison          | Key assumptions                                                               |
|-------------------------------|------------------------------------|------------------------------|-------------------------------------------------------------------------------|
| FY2027 revenue                | \$3.35bn-\$3.55bn                  | +10% to +16% vs FY2026       | Includes c.\$300m full-year revenue contribution from NDS.                    |
| FY2027 adjusted EBITDA        | \$1.00bn-\$1.05bn                  | +4% to +9% vs FY2026         | Assumes pricing offsets input and transportation inflation dollar-for-dollar. |
| FY2027 adjusted EBITDA margin | 29.6%-29.9%                        | Down 170-200 bps vs FY2026   | Margin dilution reflects inflation/pricing mathematics and cost pressure.     |
| FY2027 capex                  | Approximately \$200m               | Down from \$249.8m in FY2026 | Investment focused on safety, capacity, productivity and growth.              |
| Seasonality                   | Approximately 55% of revenue in 1H | Normalised by first half     | Q1 may be elevated by customer buying ahead of price increases.               |

Guidance vs. Prior & Consensus: INITIATED FY2027 guidance with revenue of \$3.35bn-\$3.55bn and adjusted EBITDA of \$1.00bn-\$1.05bn, but LOWER margin expectations versus FY2026 actual adjusted EBITDA margin by 170-200 bps; no prior FY2027 guidance or reliable external consensus source was available for comparison.

Demand assumptions: Non-residential is expected to be flat to up low-single digits, supported by large projects such as data centres. Residential is expected to decline mid- to high-single digits, pressured by interest rates and uncertainty, although advanced treatment remains a growth area. Infrastructure is expected to be flat to up low-single digits, supported by IJIA-related road spending, while agriculture is expected to fall double digits due to soft farm-market conditions. International is expected to be flat to up low-single digits in Canada and Mexico.

Operating assumptions: Management expects significant year-on-year inflation in input materials and transportation costs, with announced pricing actions intended to offset these pressures dollar-for-dollar. Timing mismatch could compress Q1 margins before pricing catches up in Q2, while pre-buy activity could temporarily lift Q1 volumes and create an air pocket later in the first half.

NDS assumptions: NDS integration is on track, management continues to expect \$25m of annual cost synergies by year three, and cross-selling opportunities across residential, retail, distribution and non-residential channel-drain products are described as increasingly attractive.

## Key positives, negatives, risks and concerns

Key positives include above-guidance FY2026 revenue and adjusted EBITDA, double-digit Allied and Wastewater growth, NDS contribution and integration progress, strong free cash flow, 1.6x leverage, \$962.9m liquidity, \$1.0bn remaining buyback authorisation and an 11% dividend increase. Key negatives and risks include a 54% decline in GAAP operating profit, adjusted EBITDA margin compression, significant FY2027 input-material and transportation inflation, timing mismatch between costs and pricing, residential and agriculture weakness, potential Q1 pre-buy air pocket, localised compression in the plastic-pipe value proposition versus concrete, NDS integration execution risk and working-capital inflation.

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# Alphabet Inc (GOOGL)

Q1 2026 Earnings Analysis | Released 29 April 2026 (Post-Market)

## Executive Summary

- Strong revenue beat: Revenue \$109.9bn (+22% YoY, +19% constant currency) beat consensus of \$107.1bn (LSEG/Bloomberg) by \$2.8bn; adjusted EPS of \$2.62 was in-line with the \$2.62–\$2.63 consensus (LSEG/Bloomberg).
- Google Cloud standout: Cloud revenue surged 63% to \$20.0bn — its first \$20bn quarter, significantly beating the \$18.05–\$18.4bn consensus — with operating margin tripling YoY from 17.8% to 32.9%; backlog nearly doubled QoQ to \$462bn.
- AI monetisation accelerating: Gemini API processing 16bn+ tokens/minute (+60% QoQ); Gen-AI Cloud revenue grew ~800% YoY; Gemini Enterprise paid MAUs +40% QoQ; 350 million total paid subscriptions across Google One and YouTube.
- Search resilient, queries at all-time highs: Google Search & Other grew 19% to \$60.4bn driven by retail and finance verticals. AI Overviews and AI Mode are driving query growth rather than cannibalising it.
- Operating margin expanded 220 bps: Group operating margin of 36.1% (Q1 2025: 33.9%). Google Services margin 45.3%; Google Cloud margin 32.9%. Operating income +30% to \$39.7bn.
- Dividend raised 5%; CapEx guidance raised: Quarterly dividend increased to \$0.22/share. FY2026 CapEx guidance raised to \$180–\$190bn (from \$175–\$185bn); 2027 CapEx guided to increase significantly further.
- Stock reaction: GOOGL closed +9.96% on 30 April 2026 at \$384.80, the day after results were released post-market (source: TIKR). Shares had risen more than 6% in extended trading on 29 April before the regular session (source: Fortune, 24/7 Wall St.).
- NEAR-TERM OUTLOOK: Bullish. Alphabet is demonstrating clear AI monetisation across Cloud, Search, and subscriptions. Key risks: CapEx intensity compressing FCF (Q1 FCF -47% YoY); antitrust proceedings targeting Search; YouTube ads missed consensus.

## What Happened

Alphabet delivered its 11th consecutive quarter of double-digit revenue growth in Q1 2026. Consolidated revenues of \$109.9bn (+22% YoY, +19% constant currency) beat the LSEG/Bloomberg consensus of \$107.1bn by \$2.8bn. Adjusted EPS of \$2.62 was in-line with consensus of \$2.62–\$2.63; GAAP EPS of \$5.11 was materially higher due to \$36.9bn in unrealised gains on non-marketable equity securities flowing through Other Income. Operating margin of 36.1% expanded 220 bps YoY, reflecting strong revenue leverage across both Google Services and Google Cloud. The one miss at a segment level was YouTube advertising at \$9.9bn vs. \$9.99bn StreetAccount consensus.

| Metric                          | Q1 2026   | Q1 2025  | YoY Change     | vs. Consensus                                |
|---------------------------------|-----------|----------|----------------|----------------------------------------------|
| Revenue                         | \$109.9bn | \$90.2bn | +22% (+19% CC) | Beat (\$107.1bn est., LSEG/Bloomberg)        |
| Operating Income (EBIT)         | \$39.7bn  | \$30.6bn | +30%           | Not available                                |
| Operating Margin                | 36.1%     | 33.9%    | +220 bps       | Not available                                |
| Net Income (GAAP)               | \$62.6bn  | \$34.5bn | +81%           | —                                            |
| EPS (adjusted, excl. eq. gains) | \$2.62*   | \$2.81   | n/m            | In-line (\$2.62–\$2.63 est., LSEG/Bloomberg) |
| EPS (GAAP, reported)            | \$5.11    | \$2.81   | +82%           | n/m (inflated by \$36.9bn equity gains)      |
| Google Cloud Revenue            | \$20.0bn  | \$12.3bn | +63%           | Beat (\$18.05–\$18.4bn est., StreetAccount)  |
| Google Services Revenue         | \$89.6bn  | \$77.3bn | +16%           | Not available                                |
| YouTube Ads Revenue             | \$9.9bn   | \$8.9bn  | +11%           | Miss (\$9.99bn est., StreetAccount)          |
| Dividends per Share             | \$0.22    | \$0.21   | +5%            | —                                            |

\* Adjusted EPS excluding \$36.9bn unrealised equity security gains (net income impact \$28.7bn; EPS impact \$2.35). GAAP EPS \$5.11 is

not comparable to the \$2.62–\$2.63 consensus, which excluded these gains.

**Near-Term Sentiment: Bullish** — GOOGL closed +9.96% on 30 April 2026, the strongest single-day post-earnings reaction in five quarters (source: 24/7 Wall St.). Morningstar raised its FVE to \$433 from \$340 and reaffirmed a 4-star (Undervalued) rating (source: Morningstar, 30 Apr 2026). Morgan Stanley analyst Brian Nowak commented that the cloud business is not yet priced into the stock and could be a significant driver in 2027 (source: Yahoo Finance).

## Why

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### Revenue Drivers

Google Cloud was the headline driver, with revenues accelerating to \$20.0bn (+63% YoY vs. +28% in Q1 2025) and significantly beating the \$18.05–\$18.4bn StreetAccount consensus. Growth was driven by enterprise AI solutions (Gemini Enterprise, +40% QoQ paid MAUs), AI infrastructure (TPU/GPU deployments), and core GCP services including cybersecurity (supported by the Wiz acquisition closed in March). The cloud backlog nearly doubled sequentially to \$462bn, with management guiding to recognising just over 50% as revenue over the next 24 months.

Google Services revenues grew 16% to \$89.6bn, led by Search & Other (+19% to \$60.4bn) driven by the retail and financial services verticals. Subscription, Platforms & Devices rose 19% to \$12.4bn, driven by Google One AI plans and YouTube Premium. YouTube advertising grew 11% to \$9.9bn, slightly below the \$9.99bn StreetAccount estimate, with direct-response outperforming brand. Network advertising declined 4% to \$7.0bn. A 3 percentage point FX tailwind benefited Q1 reported growth; management guided to approximately 1 percentage point tailwind in Q2.

### Profitability & Margin

Group operating margin expanded 220 bps to 36.1% (\$39.7bn, +30% YoY). Google Services operating margin expanded to 45.3% from 42.3%, with TAC growing only 11% against 16% revenue growth. Google Cloud operating margin expanded dramatically from 17.8% to 32.9%, with operating profit tripling YoY to \$6.6bn, driven by AI solutions revenue scaling over a relatively fixed infrastructure base. Cost of revenues grew 14% vs. 22% revenue growth, generating strong gross leverage. R&D (+26%), Sales & Marketing (+23%), and G&A (+21%) all grew faster than historical rates, driven by AI talent hiring and Gemini marketing, but were more than offset by revenue growth.

GAAP net income of \$62.6bn (+81% YoY) was materially boosted by \$36.9bn in unrealised gains on non-marketable equity securities (Other Income \$37.7bn total), which added \$28.7bn to net income after tax. Operating cash flow was \$45.8bn (+27% YoY). Free cash flow was \$10.1bn (-47% YoY) as CapEx surged 107% YoY to \$35.7bn to support AI infrastructure investment. TTM free cash flow stands at \$64.4bn (-14% YoY). Alphabet also issued \$31.1bn in senior unsecured notes during Q1 for general corporate purposes, ending the quarter with \$126.8bn in cash and marketable securities and \$77.5bn in long-term debt.

## What Happens Next

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### Forward Guidance

- FY2026 CapEx: \$180–\$190bn (raised from \$175–\$185bn to incorporate the Intersect acquisition investment)
- FY2027 CapEx: Expected to increase significantly vs. 2026 — CFO Anat Ashkenazi cited unprecedented internal and external AI compute demand
- Q2 2026 FX: ~1 percentage point tailwind to consolidated revenue (vs. 3 percentage points in Q1)
- Google Cloud TPU hardware: Small percentage of TPU hardware revenues to be recognised H2 2026; majority in 2027
- Wiz acquisition impact: Low single-digit percentage point headwind to Cloud operating margin for remainder of 2026; reported within Google Cloud segment
- Compute constraints: CEO Sundar Pichai stated: cloud revenue would have been higher if Alphabet could have met demand. Near-term compute constrained.

### Guidance vs. Consensus

Alphabet did not issue explicit full-year revenue or EPS guidance. The raised CapEx guide of \$180–\$190bn, combined with the \$462bn backlog (>50% expected to convert within 24 months), has driven material upward revisions to sell-side estimates. Consensus projections post-results (per TIKR) point to FY2026 FCF of approximately \$20.5bn, down ~72% from 2025's \$73.3bn, recovering to

approximately \$35.5bn in 2027 as depreciation cycles normalize. Revenue consensus for FY2026 has been revised meaningfully upward following the Cloud acceleration.

### Stock Price Reaction

Alphabet's Q1 2026 results were released post-market on 29 April 2026. Shares rose more than 6% in extended trading on the evening of 29 April (source: Fortune). On the following regular trading session, 30 April 2026, GOOGL closed up 9.96% at \$384.80 — the strongest post-earnings single-day reaction in five quarters (source: TIKR; 24/7 Wall St.). The company's market capitalisation increased by approximately \$250bn in a single day, reaching approximately \$4.4–\$4.5 trillion (source: Fortune; Quiver Quantitative). The stock has more than doubled from its 52-week low of \$147.84 recorded on 7 May 2025 (source: TIKR). The market reaction was driven by: (1) Google Cloud revenue of \$20bn beating consensus by approximately \$1.6–\$2bn and accelerating from 48% to 63% growth; (2) operating margin expansion of 220 bps confirming AI spend is translating into profitable growth; and (3) the \$462bn backlog providing highly visible revenue conversion. Morningstar analyst Malik Ahmed Khan raised his FVE from \$340 to \$433 (source: Morningstar Analyst Note, 30 Apr 2026); Morgan Stanley's Brian Nowak commented the cloud business is not yet priced in and could be a significant driver in 2027 (source: Yahoo Finance).

### Key Assumptions

- AI compute demand remains supply-constrained, ensuring Cloud workloads continue to command premium pricing
- TPU hardware sales to external customers commence H2 2026 and accelerate through 2027 as guided
- Search query volume continues growing at all-time highs; AI Overviews and AI Mode maintain advertiser coverage expansion
- Gemini Enterprise continues strong QoQ MAU growth trajectory as enterprise AI adoption broadens
- Wiz integration delivers cybersecurity cross-sell synergies within Google Cloud without material margin dilution beyond the guided headwind
- Macro/tariff risk to advertising spend remains contained; retail and financial services verticals hold up

### Key Positives, Negatives, Risks, and Concerns

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#### Key Positives

- AI monetisation confirmed at scale: Cloud Gen-AI revenue +800% YoY, Gemini API at 16bn tokens/minute (+60% QoQ), and the \$462bn backlog all confirm Alphabet is capturing AI spend at a pace that competitors are not matching.
- Cloud margin inflection: Google Cloud operating margin reached 32.9% (from 17.8% a year ago), confirming the business has reached critical operating leverage and can expand margins rapidly as AI revenues scale.
- Search resilience: Search grew 19% YoY with queries at all-time highs, validating the AI Overviews/AI Mode strategy as additive rather than cannibalising — directly countering the bear thesis of AI-driven search disruption.

#### Key Negatives

- Free cash flow under severe pressure: Q1 FCF of \$10.1bn (-47% YoY) and TTM FCF of \$64.4bn (-14% YoY) reflect the CapEx surge. With 2027 CapEx guided to significantly exceed \$185bn, FCF will remain constrained for multiple quarters. FY2026 FCF consensus approximately \$20.5bn (-72% YoY, per TIKR).
- YouTube advertising missed: YouTube ads of \$9.9bn missed the StreetAccount consensus of \$9.99bn, the only material segment-level miss, though YouTube subscriptions revenue continues to grow faster than ads.
- Other Bets losses widening: Operating loss of \$2.1bn in Q1 2026 (vs. \$1.2bn in Q1 2025) as Waymo and other bets consume capital ahead of monetisation.

#### Risks and Concerns

- CapEx and depreciation spiral: FY2026 CapEx \$180–\$190bn with FY2027 expected to increase significantly further will compound depreciation charges, putting structural multi-year pressure on margins and FCF; management has explicitly flagged this.
- Antitrust and regulatory exposure: Ongoing DOJ proceedings targeting Google Search's default agreements remain a material overhang that could impair Search's competitive moat if structural remedies are imposed.

- **Backlog execution and TPU delivery risk:** The \$462bn backlog and raised consensus estimates embed substantial TPU hardware revenues from 2027 onwards. Any delay in TPU deliveries or softer-than-expected customer offtake would drive material estimate downgrades.

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# Amazon.com (AMZN)

Q1 2026 Earnings Analysis | 29 April 2026

NEAR-TERM SENTIMENT: BULLISH | Results released post-market 29 April 2026

## Executive Summary

- Strong Q1 beat: revenue \$181.5bn (+17% reported, +15% FX-adj), operating income \$23.9bn vs. \$21.5bn guidance high end — company-record 13.1% operating margin.
- AWS inflection: \$37.6bn (+28% YoY, +480 bps acceleration vs. Q4 2025) — fastest growth in 15 quarters on a \$150bn annualised run-rate base; AI revenue run-rate >\$15bn, growing >100% YoY.
- Chips business breakthrough: custom silicon (Trainium/Graviton/Nitro) exceeded \$20bn annualised run-rate, growing triple-digit YoY; >\$225bn in Trainium revenue commitments secured.
- Advertising hit \$17.2bn (+22% FX-adj); AWS backlog surged to \$364bn (+93% YoY), not yet including the Anthropic \$100bn+ Trainium commitment announced post-period.
- Q2 guidance: revenue \$194-199bn (+16-19% YoY), operating income \$20-24bn — midpoints above consensus (\$196.5bn / \$22bn op. income); Prime Day moved to Q2 (was Q3 in 2025), providing a meaningful 1-2 quarter tailwind.
- Stock +~1.5% day after results (released post-market 29 Apr); shares had already recovered +25% in the month prior.**
- FCF compressed to \$1.2bn TTM (from \$25.9bn) due to \$147bn annualised CapEx run-rate — structural, not distress; management confident in ROIC and long-term FCF inflection.
- NEAR-TERM OUTLOOK: Bullish. AWS re-acceleration, margin expansion at record levels, and AI-driven demand across all segments provides strong visibility. Monitor: CapEx trajectory vs. monetisation timing; memory/supply chain inflation; tariff/FX headwinds on retail.

## What Happened

| Metric                | Q1 2026   | Q1 2025   | YoY Change         | vs. Consensus                 |
|-----------------------|-----------|-----------|--------------------|-------------------------------|
| Revenue (Total)       | \$181.5bn | \$155.7bn | +17% (+15% FX-adj) | BEAT (high end)               |
| AWS Revenue           | \$37.6bn  | \$29.3bn  | +28%               | BEAT >\$1bn                   |
| North America Revenue | \$104.1bn | \$92.9bn  | +12%               | BEAT >\$1bn                   |
| International Revenue | \$39.8bn  | \$33.5bn  | +19% (+11% FX-adj) | In-line                       |
| Operating Income      | \$23.9bn  | \$18.4bn  | +30%               | BEAT \$2.4bn vs high end      |
| Operating Margin      | 13.1%     | 11.8%     | +130 bps           | BEAT (record high)            |
| AWS Operating Margin  | 37.7%     | 39.5%     | -180 bps           | Driven by depreciation        |
| Net Income (GAAP)     | \$30.3bn  | \$17.1bn  | +77%               | Incl. \$16.8bn Anthropic gain |
| EPS (Diluted)         | \$2.78    | \$1.59    | +75%               | BEAT                          |
| Dividends per Share   | Nil       | Nil       | —                  | —                             |
| Cash CapEx (Q1)       | \$43.2bn  | \$25.0bn  | +73%               | AI-driven                     |
| TTM Free Cash Flow    | \$1.2bn   | \$25.9bn  | -95%               | CapEx-driven compression      |

### Summary:

Amazon delivered a clean beat across all key metrics in Q1 2026. Group revenue of \$181.5bn (+17%; +15% FX-adj) exceeded the high end of guidance (\$180bn) by more than \$1bn across AWS, online stores, and third-party services simultaneously. Operating income of \$23.9bn was \$2.4bn above the top-end of guidance (\$21.5bn), producing a company-record group operating margin of 13.1% vs. 11.8% a year prior (+130 bps). AWS accelerated to 28% growth (480 bps acceleration vs. 23.5% in Q4 2025), while North America operating income rose 42% YoY and International 40%. Reported net income of \$30.3bn includes a \$16.8bn pre-tax non-cash gain on Amazons Anthropic investment; normalised earnings were still materially ahead. Near-term sentiment: **Bullish** — AWS acceleration and record margins surprised to the upside and drive positive analyst revision; Morningstar noted results were positive across every segment with "no areas of concern with demand."

## Why

**Revenue:** AWS was the primary growth driver, with revenue accelerating to \$37.6bn (+28% YoY), fuelled by both traditional cloud migration and surging generative AI workloads (AI revenue run-rate >\$15bn, >100% YoY growth). AI spend on Bedrock tokens processed in Q1 alone exceeded all prior years combined, and Bedrock customer spend grew +170% QoQ. North America grew 12% to \$104.1bn driven by 15% unit growth — the fastest since COVID lockdowns — and same-day/grocery expansion (perishable sales up 40x YoY). International grew 19% reported (11% FX-adj) to \$39.8bn. Advertising grew strongly at 22% FX-adj to \$17.2bn. Foreign exchange provided a 200 bps tailwind at the group level.

**Profitability:** Group operating margin expanded 130 bps YoY to a record 13.1% despite meaningful headwinds (massive data centre depreciation, Amazon Leo launch costs, fuel inflation). North America margin improved from 6.3% to 7.9% (+160 bps) as unit volume growth of 15% outpaced fulfilment cost growth of 12% and fulfilment expense of 9%. International margin recovered to 3.6% (vs. 3.0%). AWS operating margin declined 180 bps to 37.7% (from 39.5%) as new data centre capacity came online with associated higher depreciation — consistent with peers; management views long-term AWS margin trend as upward. Stock-based compensation rose 9% YoY to \$4.0bn, a modest headwind.

**Below the line / one-offs:** GAAP net income of \$30.3bn (+77%) includes a \$16.8bn pre-tax non-cash gain on the Anthropic equity investment — this is non-recurring and inflates the headline figure. Normalised profitability was still significantly ahead. Cash CapEx of \$43.2bn in Q1 alone (vs. \$25.0bn in Q1 2025, +73%) reflects aggressive AI infrastructure investment; management confirmed the ~\$200bn full-year CapEx plan is unchanged. TTM FCF compressed to \$1.2bn (from \$25.9bn) as CapEx growth of 67% TTM far exceeded operating cash flow growth of 30%.

## What Happens Next

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### Forward Guidance — Q2 2026:

- Revenue: \$194.0bn – \$199.0bn (+16–19% YoY; midpoint \$196.5bn); ~10 bps FX headwind assumed
- Operating Income: \$20.0bn – \$24.0bn (midpoint \$22.0bn; vs. Q2 2025 \$19.2bn, +15% midpoint YoY)
- Margin guidance: implied group operating margin 10.3% – 12.1% (midpoint ~11.2%)
- No EPS guidance provided; Prime Day assumed in Q2 2026 (was Q3 for all countries in 2025)

### Guidance vs. Consensus (ABOVE):

- Revenue midpoint of \$196.5bn is broadly in line with updated Street consensus. Positive Prime Day timing shift adds meaningful one-time boost vs. prior year comparatives.
- Operating income midpoint of \$22.0bn is ABOVE Q2 2025 actual (\$19.2bn) despite guided headwinds: ~\$1bn of incremental Amazon Leo launch costs, higher SBC due to annual compensation cycle timing, and fuel inflation partly offset by FBA surcharge.

### Key Assumptions:

- AWS demand remains capacity-constrained for generative AI; acceleration expected to continue as Trainium 3 ships and data centre capacity comes online in H2 2026
- Prime Day in Q2 adds incremental revenue vs. 2025 comparable (Prime Day was Q3 in all 2025 geographies)
- Amazon Leo commercial launch on track for Q3 2026; ~\$1bn of associated launch costs to weigh on Q2 North America margins
- CapEx ~\$200bn for full year 2026 — no change to plan; Amazon expects to begin capitalising Leo costs in Q4 2026
- Fuel/logistics inflation an ongoing headwind; partly offset by new FBA surcharge; memory supply chain closely managed via strategic supplier relationships

### Stock Price Reaction:

Amazon released Q1 results after market close on 29 April 2026. The stock traded up approximately **+1.5%** the following day (30 April 2026), a relatively muted reaction reflecting that shares had already surged +25% in the preceding month in anticipation of strong results. At \$263 post-results, the stock was trading near its 52-week high of \$265.91. Market attention focused on the AWS re-acceleration (the key debate heading into results), the record operating margin, and the constructive Q2 guidance — all of which came in above expectations.

## Key Positives, Negatives, and Risks

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**Positives:** AWS grew at its fastest rate in 15 quarters (28%) while on a \$150bn annualised revenue base — a combination that is structurally unusual and validates the AI-driven demand thesis. Group operating margin hit an all-time record of 13.1%, demonstrating the business model's inherent operating leverage as revenue scales. Custom silicon (Trainium/Graviton) crossed \$20bn annualised run-rate with triple-digit YoY growth, representing a multi-billion dollar structural cost advantage: management indicated Trainium will save tens of billions of dollars of CapEx each year and provide several hundred basis points of operating margin advantage vs. relying on third-party chips. AWS backlog of \$364bn (+93% YoY) provides strong forward revenue visibility, and the Anthropic \$100bn+ Trainium commitment (not yet included in backlog) reinforces demand signals. Advertising continues to compound at 22%, approaching \$70bn TTM.

**Negatives:** TTM free cash flow compressed to just \$1.2bn (from \$25.9bn) as quarterly CapEx hit \$43.2bn — while management characterises this as investment-driven and temporary, the FCF-to-earnings gap will remain wide through the CapEx cycle and limits shareholder return capacity. AWS operating margin declined 180 bps to 37.7% as new data centre depreciation ramps; while expected and likely transitory, it may constrain near-term margin expansion narratives. Amazon Leo launch costs (~\$1bn in Q2 alone) will continue to suppress North America margins through H1 before capitalisation begins in Q4.

**Risks and Concerns:** The primary risk is CapEx monetisation timing: Amazon is committing ~\$200bn of CapEx in 2026 for assets with 6-24 month lead times to revenue generation; any softening in AI workload demand could leave stranded capacity and impair ROIC. Memory chip inflation and supply chain tightness (Jassy acknowledged memory costs have skyrocketed) represent an ongoing headwind to infrastructure margins. Tariff and trade policy uncertainty could affect retail demand and supply chain costs, particularly for the third-party seller ecosystem. Amazon Leo is a capital-intensive, multi-year bet on satellite connectivity; execution risk and competitive dynamics (vs. Starlink) should be monitored.

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# APPLIED MATERIALS (AMAT)

## Q2 FY2026 Earnings Analysis

Results released: 14 May 2026 | Period ended: 26 April 2026 | Prepared by: Delta Outcomes Limited

### Executive Summary

- Record Q2 FY2026: revenue \$7.91bn (+11% YoY), non-GAAP EPS \$2.86 (+20%), non-GAAP gross margin crossing 50% for the first time in over 25 years.
- Semiconductor Systems delivered record revenue of \$5.97bn (+10% YoY); DRAM revenue of \$1.7bn grew 18% YoY as AI-driven memory demand accelerates.
- Equipment business growth outlook RAISED to >30% in calendar 2026, up from prior guidance implying ~20%+ growth, reflecting accelerating cleanroom capacity additions by customers.
- Q3 FY2026 guidance materially ABOVE consensus: revenue \$8.95bn (+23% YoY) and non-GAAP EPS \$3.36 (+36% YoY); Morningstar raised fair value estimate to \$470 from \$380.
- Stock -0.89% on 15 May 2026 (day after post-market results), closing at \$436.62 vs. prior close of \$440.56; Barron's noted 'The Stock Falls' despite strong results, with macro pressure from rising Treasury yields cited as the driver rather than any earnings-specific disappointment.
- EPIC co-innovation platform gaining momentum: TSMC joins as founding partner alongside Micron, Samsung, and SK Hynix; 8 partners confirmed ahead of Silicon Valley EPIC Center opening in October 2026.
- AGS (services) long-term growth target RAISED to mid-teens from low-double-digits; 15% quarterly dividend increase marks doubling of dividend per share over four years.
- NEAR-TERM OUTLOOK: Bullish. AMAT is the #1 process equipment supplier in leading-edge foundry logic, DRAM, and advanced packaging — the three segments expected to represent >80% of 2026 WFE growth. Monitor: export restrictions broadening to Chinese fab clusters; supply chain lead times constraining output.

### What Happened

| Metric                            | Q2 FY2026 | Q2 FY2025 | YoY      | vs. Consensus  |
|-----------------------------------|-----------|-----------|----------|----------------|
| Revenue                           | \$7,910m  | \$7,100m  | +11%     | BEAT (~\$50m)  |
| Operating Profit (EBIT, non-GAAP) | \$2,536m  | \$2,180m  | +16%     | —              |
| Operating Margin (non-GAAP)       | 32.1%     | 30.7%     | +140 bps | —              |
| Net Income (GAAP)                 | \$2,806m  | \$2,137m  | +31%     | —              |
| Net Income (Adjusted)             | \$2,286m  | \$1,940m  | +18%     | —              |
| EPS (non-GAAP diluted)            | \$2.86    | \$2.39    | +20%     | BEAT (~\$0.05) |
| Gross Margin (non-GAAP)           | 50.0%     | 49.2%     | +80 bps  | —              |
| Dividends per Share (quarterly)   | \$0.53    | \$0.46    | +15%     | —              |

Applied Materials delivered a record quarter across all key metrics. Revenue of \$7.91bn beat consensus by approximately \$50m, with non-GAAP EPS of \$2.86 beating consensus by approximately \$0.05. Non-GAAP gross margin crossed 50% for the first time in over 25 years, expanding 80 bps YoY to 50.0%, while non-GAAP operating margin expanded 140 bps YoY to 32.1%. The company raised its full-year semiconductor equipment growth guidance to >30% in calendar 2026 (implying a step-up in H2) and set Q3 guidance significantly above consensus. The quarterly dividend was raised 15% to \$0.53 per share. Sentiment post-results was broadly bullish among analysts, with Morningstar raising its fair value estimate 24% to \$470 and calling the stock fairly valued at \$440; however, the stock was flat after-hours as the strong guidance had largely been anticipated.

**Near-term sentiment:** Bullish. Morningstar noted shares were flat after-hours \"signaling investors expected the strong guidance raise\" — a sign of high bar already embedded in the stock price, rather than a negative read. Analyst consensus remains constructive

on AMAT's 2019s positioning in AI-driven WFE growth.

## Why

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Revenue growth of 11% YoY was driven by Semiconductor Systems (+10% YoY to \$5.97bn record), where the transition to gate-all-around (GAA) nodes at leading-edge foundry customers drove record ALD, epitaxy, and materials treatment revenues, and where DRAM revenue grew 18% YoY to \$1.7bn on AI-driven HBM and capacity expansion. Applied Global Services (AGS) grew 17% YoY to a record \$1.67bn, reflecting higher fab utilisation rates and the expanding installed base choosing advanced Alx-enabled service packages. On a sequential basis, total revenue grew 13%, driven by a 16% QoQ increase in Semiconductor Systems.

Non-GAAP gross margin expanded 80 bps YoY to 50.0% at the company level and 54.8% in Semiconductor Systems (up 120 bps YoY), driven by value-based pricing on differentiated products — including new GAA-specific tools — and ongoing manufacturing cost efficiencies. CFO Brice Hill noted non-GAAP gross margin has expanded 800 bps since Gary Dickerson became CEO in 2013. AGS non-GAAP operating margin improved 260 bps YoY to 29.2%, the highest level in two to three years, supported by mix shift toward higher-margin transactional services and spare parts, restructuring savings, and the initial contribution from AI-powered Alx service innovations. Non-GAAP operating margin of 32.1% expanded 140 bps YoY, demonstrating operating leverage as revenue grew faster than opex (+8% YoY).

Free cash flow was \$210m in the quarter, well below the \$1.06bn in Q2 FY2025, due to higher working capital investment (inventory build to support customer demand ramps), and elevated legal and tax payments. Capital expenditure of \$635m reflects the near-doubling of manufacturing capacity (US, Europe, Singapore). The company distributed \$765m to shareholders (\$400m buybacks + \$365m dividends) and maintained a strong investment-grade balance sheet with total cash and investments of \$13.4bn against \$6.5bn in debt.

## What Happens Next

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### Forward Guidance (Q3 FY2026)

- Revenue: ~\$8.95bn ±\$500m (+23% YoY)
- Non-GAAP EPS: ~\$3.36 ±\$0.20 (+36% YoY)
- Semiconductor Systems: ~\$6.9bn
- Applied Global Services: ~\$1.75bn
- Non-GAAP Gross Margin: ~50.1% (modestly higher QoQ)
- Non-GAAP Operating Expenses: ~\$1.485bn
- Non-GAAP Tax Rate: ~11%

### Guidance vs. Consensus

Q3 FY2026 revenue guidance of \$8.95bn is materially ABOVE prior consensus estimates of approximately \$8.4-8.6bn (implying a beat of ~\$350-550m or ~4-6%). Non-GAAP EPS guidance of \$3.36 is approximately \$0.15-0.20 ABOVE prior consensus of ~\$3.15-3.20. Full-year calendar 2026 semiconductor equipment growth guidance was RAISED to >30% (from an implied ~20-25% at the Q1 call), with Morningstar modelling 35% equipment growth and the company itself suggesting linear sequential growth from Q3 through fiscal Q1 FY2027 (the 14-week quarter). Morningstar revised its full-year FY2026 revenue forecast to \$33.8bn (+19% YoY) and FY2027 to \$44.0bn (+30% YoY).

### Key Guidance Assumptions

- AI infrastructure build-out continues to accelerate, with agentic AI creating incremental CPU, DRAM and NAND demand on top of generative AI training/inference workloads.
- Customers solving cleanroom capacity constraints through a variety of techniques, with >100 fab projects tracked globally (10+ added in last quarter alone); 2027 expected to be another record WFE year.
- Leading-edge foundry/logic, DRAM, and advanced packaging expected to represent >80% of 2026 and 2027 WFE market growth — segments where AMAT holds the #1 equipment position.
- AGS growth guidance raised to mid-teens sustainably (previously low-double-digits), with upside in the near-term from high fab utilisation rates and new fabs ramping; Alx platform (35,000 connected chambers) driving higher-value service attach rates.

- China revenue expected to be flat to slightly higher for full calendar year; export restriction risks factored into guidance; no change to underlying growth model despite Huawei-related regulatory scrutiny.
- EPIC Centre (Silicon Valley, opening October 2026) expected to accelerate R\&D productivity, drive multi-node design wins, and deepen customer relationships with 8 founding/innovation/research partners confirmed.

### Stock Price Reaction

Applied Materials reported Q2 FY2026 results post-market on 14 May 2026, with the stock closing that day at \$440.56. On the following trading day, 15 May 2026 (the first opportunity for the market to react), the stock closed at \$436.62 — a decline of \$3.94, or -0.89%, calculated from the prior close. The modest fall came despite a near-sweep of sell-side price target upgrades: Morgan Stanley raised to \$502 from \$454 (Overweight), Deutsche Bank to \$550 from \$450 (Buy), Goldman Sachs to \$520 from \$390 (Buy), BofA to \$540 from \$465 (Buy), and Bernstein to \$525 from \$425 (Outperform). Barron's headline on 15 May read: 'Applied Materials Posts Strong Earnings and Outlook. The Stock Falls.' Yahoo Finance attributed the weakness to rising US Treasury yields weighing on the semiconductor sector, rather than any company-specific disappointment. Google Finance noted AMAT delivered EPS beat of +6.5% and revenue beat of +2.8% vs. consensus. The -0.89% move reflects the high bar already priced into the stock after approximately 70% YTD appreciation in 2026, rather than any negative read on the results or guidance.

### Key Positives, Negatives, Risks, and Concerns

On the positive side, Applied delivered record revenue, EPS, and gross margin simultaneously, demonstrating exceptional operating leverage in a strong demand cycle. The structural alignment of the company's product portfolio with the highest-growth segments of WFE (leading-edge logic, DRAM, advanced packaging) — expected to drive >80% of 2026 WFE growth — provides multi-year revenue visibility. The EPIC co-innovation platform is deepening customer relationships and creating design-win moats at next-generation nodes. The 15% dividend increase and ongoing buyback programme (\$13.2bn remaining authorisation) reflect management confidence in sustained cash generation. AGS guidance upgrade to mid-teens growth provides a durable, recurring revenue floor as the installed base expands. New product launches in Q2 (Trillium ALD and Precision PECVD for GAA) and the pending NEXX acquisition for panel-level packaging further extend the technology moat.

On the negative side, free cash flow of \$210m was sharply below the \$1.06bn in Q2 FY2025, due to elevated working capital investment and tax/legal payments; investors will want to see FCF normalise in H2 as inventory levels stabilise. The stock's 70% YTD appreciation in 2026 and approximately 150% rise over the prior 12 months means valuations are elevated (Morningstar P/E 35.5x FY2026E), leaving limited margin of safety should execution disappoint. Capital expenditure of \$635m and manufacturing expansion costs will continue to weigh on near-term FCF conversion.

Key risks to monitor include: (1) export restriction broadening — while China guidance (flat to slightly higher) has been maintained, further restrictions on fab complexes with commingled Huawei equipment exposure could create downside risk beyond what is guided; (2) supply chain constraints — AMAT has nearly doubled manufacturing capacity but remains reliant on approximately 2,000 direct suppliers, and any supply chain failure could limit revenue upside in the otherwise supply-constrained market; (3) cleanroom availability — the pace of new fab construction remains the binding constraint on WFE growth in 2026, and any slowdown in project approvals or construction delays could push demand into 2027; and (4) cycle risk — while management and Morningstar model continued growth through 2028, chip equipment cycles are inherently volatile, and the consensus view of a multi-year upcycle could be disrupted by a deterioration in AI capital spending by cloud service providers.

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# Aptiv PLC (NYSE:APTIV)

Q1 2026 Earnings Analysis | Period ended 31 March 2026 | Released 5 May 2026 (pre-open)

## Executive Summary

- Q1 beat modestly: revenue \$5.09bn (+5% GAAP) and adjusted EPS \$1.71 versus \$1.62 consensus.
- Adjusted EBITDA was \$752m, but margin contracted 90 bps to 14.8% on FX and commodity inflation.
- Bookings were strong at \$7.0bn total, including \$4.6bn New Aptiv and \$0.9bn non-automotive awards.
- New Aptiv guidance was AFFIRMED at \$12.8-13.2bn revenue and \$5.70-6.10 adjusted EPS.
- Stock fell 7.9% day of results (released pre-open), with investors penalising cash flow and margin pressure.
- Balance sheet remains manageable post-spin: pro-forma gross leverage 2.3x, net leverage 1.9x; \$75m repurchased.
- NEAR-TERM OUTLOOK: Bearish; monitor commodity inflation, vehicle-production weakness, customer mix and FCF conversion.

## What Happened

| Metric                  | Q1 2026                      | Q1 2025                        | YoY change                                        | Comment / market context                                                               |
|-------------------------|------------------------------|--------------------------------|---------------------------------------------------|----------------------------------------------------------------------------------------|
| Revenue                 | \$5,086m                     | \$4,825m                       | Increase: +5.4% reported; +1% adjusted            | Beat consensus revenue of \$5.03bn by c.\$53m.                                         |
| Gross profit            | \$920m; 18.1% margin         | \$920m; 19.1% margin           | Stayed the same in dollars; margin down c.100 bps | Cost of sales rose with revenue, compressing gross margin.                             |
| Operating profit (EBIT) | \$378m GAAP; \$562m adjusted | \$448m GAAP; \$572m adjusted   | Decrease: GAAP - 15.6%; adjusted -1.7%            | Adjusted operating margin fell to 11.0% from 11.9%.                                    |
| Net income - adjusted   | \$365m; 7.2% margin          | \$390m; 8.1% margin            | Decrease: -6.4%                                   | Adjusted earnings dollar decline reflected lower operating profit and higher tax rate. |
| EPS - GAAP / adjusted   | \$0.88 GAAP; \$1.71 adjusted | \$(0.05) GAAP; \$1.69 adjusted | Increase: GAAP swing positive; adjusted +1.2%     | Adjusted EPS beat consensus of \$1.62 by \$0.09.                                       |
| Adjusted EBITDA         | \$752m; 14.8% margin         | \$758m; 15.7% margin           | Decrease: -0.8%; margin down 90 bps               | FX and commodities were a 180 bps headwind, partly offset by volume and performance.   |
| Free cash flow          | \$(362)m                     | \$76m                          | Decrease: \$438m deterioration                    | Included c.\$260m of transaction payments across New Aptiv and Versigent.              |

Brief financial comparison to expectations: Aptiv delivered a modest top-line and adjusted EPS beat versus published consensus: actual adjusted EPS of \$1.71 exceeded MarketBeat consensus of \$1.62, and revenue of \$5.09bn exceeded expected revenue of \$5.03bn. The quality of the beat was mixed because margin contracted and free cash flow was negative.

Stock Price Reaction: APTV fell 7.9% on the day of results (released pre-open), closing/latest trade at c.\$54.83 versus \$59.53 the prior session; the sell-off occurred despite the EPS and revenue beat, as market coverage focused on negative free cash flow, margin pressure and commodity headwinds.

Near-Term Sentiment: Bearish (driven by the sharp same-day share-price fall, negative FCF, margin compression, commodity/FX pressure and guidance that was affirmed rather than raised despite the earnings beat).

## Why

Revenue increased 5.4% reported, or 1% adjusted, because North America (+7% adjusted) and Asia Pacific (+3% adjusted) offset a 7% decline in EMEA; Total Aptiv also benefited from 9% reported EDS growth, while New Aptiv absorbed customer-mix headwinds, including a 5% adjusted decline in Europe and a 5% adjusted decline in Asia Pacific. Segment performance was mixed: Intelligent Systems revenue increased 1% reported but declined 1% adjusted, as China programme cancellations and a North American

customer supplier-fire disruption created c.250 bps of headwind that offset double-digit software and services growth; Engineered Components revenue increased 5% reported and was flat adjusted, with 6% non-automotive growth offset by a 2% automotive decline; EDS revenue increased 9% reported and 3% adjusted from Asia Pacific export volumes and favourable North American customer mix.

Profitability weakened year-on-year despite higher sales: gross profit stayed at \$920m while gross margin declined c.100 bps to 18.1%; GAAP operating income decreased 15.6% to \$378m and adjusted operating income decreased 1.7% to \$562m, with adjusted operating margin down 90 bps to 11.0%; GAAP net income improved to \$189m from a \$11m loss because the prior year carried an approximately \$300m deferred-tax valuation allowance, while adjusted net income decreased 6.4% to \$365m. Margin pressure was mainly from FX and commodities, which reduced adjusted EBITDA margin by 180 bps against the prior year, including a 60 bps Intelligent Systems headwind and a 140 bps Engineered Components headwind; performance initiatives and volume flow-through partially offset these pressures.

Depreciation and amortisation increased modestly to \$250m, interest expense fell to \$89m from \$93m, tax expense was \$81m versus \$356m in the prior year, equity losses were modest at \$13m, and minority interests were not material. One-off and non-GAAP adjustments were material: adjusted net income excluded amortisation, restructuring, \$57m of separation costs, acquisition and portfolio project costs, asset impairments, debt extinguishment losses, pension curtailment losses, separation-related tax effects and other items; free cash flow was depressed by c.\$260m of EDS separation transaction payments.

### What Happens Next

| Guidance metric      | Q2 2026              | FY 2026 New Aptiv (pro forma) | Key note                                                                                |
|----------------------|----------------------|-------------------------------|-----------------------------------------------------------------------------------------|
| Net sales            | \$3.2-3.4bn          | \$12.8-13.2bn                 | FY midpoint implies 4% adjusted revenue growth.                                         |
| U.S. GAAP net income | \$140-180m           | \$830-910m                    | Net income margin indicated at 4.8% for Q2 and 6.7% for FY.                             |
| Adjusted EBITDA      | \$555-605m           | \$2.36-2.48bn                 | Adjusted EBITDA margin indicated at 17.6% for Q2 and 18.6% for FY.                      |
| Adjusted EPS         | \$1.30-1.50          | \$5.70-6.10                   | Assumes an 18.5% effective tax rate and no meaningful incremental buyback benefit.      |
| Free cash flow       | Not disclosed for Q2 | \$650-850m                    | Midpoint \$750m; includes EDS separation costs and semiconductor resiliency investment. |

Guidance vs. Prior & Consensus: AFFIRMED FY 2026 New Aptiv adjusted EPS of \$5.70-6.10 and revenue of \$12.8-13.2bn versus prior guidance; directly comparable public pro-forma New Aptiv consensus was not available in retrieved sources, but the stock reaction indicates expectations were not satisfied by unchanged guidance and weaker cash-flow/margin optics.

Key guidance assumptions: revenue acceleration in the second half is underpinned by c.100 bps from improved vehicle production, c.150 bps from abatement of customer-specific fire and China programme-cancellation headwinds, and c.300 bps from programme launch/ramp timing. Management also assumes an 18.5% tax rate, continued offset of commodity pressure through performance initiatives and customer pass-throughs, and FY commodity/FX planning inputs including copper at 5.70, USD/MXN 17.75, EUR/USD 1.16 and USD/CNY 6.92.

### Key positives, negatives, risks and concerns

Key positives were the revenue and EPS beat, record first-quarter adjusted EPS, \$7.0bn of total new business awards, \$4.6bn of New Aptiv awards, 9% New Aptiv non-automotive growth, 10% software and services growth, successful EDS separation as Versigent and balance-sheet actions including \$2.1bn of year-to-date debt paydown and \$75m of share repurchases. Key negatives were adjusted EBITDA margin contraction, lower adjusted operating profit, negative free cash flow, customer/programme mix headwinds in Intelligent Systems and China, and sustained FX/commodity pressure. The main risks to monitor are elevated copper, precious metals and resin costs linked partly to Middle East conflict dynamics, vehicle production weakness, the recovery cadence after the North American supplier-fire disruption, execution of New Aptiv programme launches, elimination of \$70m of annualised stranded costs by end-2027, and conversion of bookings into higher-margin revenue.

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# Arcadis NV (AMS:ARCAD)

Q1 2026 Earnings Analysis | Period ended 31 March 2026 | Released 30 April 2026 (pre-open, 07:00 CEST)

## Executive Summary

- Strong Q1 beat: net revenues were €933m with +0.8% organic growth; operating EBITA margin expanded to 11.0%.
- Operating EBITA of €102m beat €98m consensus by 4%, while organic revenue exceeded expectations for a decline.
- Order intake rose to €1.109bn with 1.19x book-to-bill; backlog reached €3.828bn, up 4.6% organically year-to-date.
- Guidance AFFIRMED: 2026 flat organic net revenue growth and 11.7%-12.0% operating EBITA margin, unchanged from February.
- **Stock +11.3% day of results (released pre-open) on earnings beat, robust orders and improving strategic execution.**
- Cash flow followed seasonality at €-149m; net working capital improved to 12.1%, but net debt increased to €974m.
- NEAR-TERM OUTLOOK: Bullish. Strong orders and margin delivery outweigh Places weakness; monitor P&I and macro uncertainty.

## What Happened

| Metric               | Q1 2026                      | Q1 2025 / prior period       | Year-on-year movement / comment                                                 |
|----------------------|------------------------------|------------------------------|---------------------------------------------------------------------------------|
| Net revenues         | €933m                        | €972m                        | Decrease: -4% reported; increase: +0.8% organic growth                          |
| Operating EBITA      | €102m; margin 11.0%          | €106m; margin 10.9%          | Operating EBITA decreased 3%; operating EBITA margin increased 10 bps.          |
| Order intake         | €1.109bn; 1.19x book-to-bill | €1.079bn; 1.11x book-to-bill | Increase: +3% reported; +7.3% organic.                                          |
| Backlog net revenues | €3.828bn                     | €3.699bn                     | Increase: +4% reported; +4.6% organic growth year-to-date.                      |
| Free cash flow       | €-149m                       | €-138m                       | Decrease: €11m lower year-on-year, in line with seasonal patterns.              |
| Net debt             | €974m                        | €920m                        | Increase: €54m higher year-on-year; leverage 1.9x remained within target range. |

Financials versus expectations: The quarter was stronger than market expectations. Investing.com reported operating EBITA of €102m versus €98m consensus, a 4% beat, and organic net revenue growth of +0.8% versus analyst expectations for a -1.1% decline.

**Stock Price Reaction: +11.3% day of results (released pre-open) after Arcadis exceeded analyst expectations, with the rally attributed to robust order intake and margin improvement.**

Near-Term Sentiment: Bullish, driven by the EBITA beat, strong order intake, positive backlog momentum, favourable same-day stock reaction and a BUY consensus, partly offset by Property & Investment weakness and macroeconomic uncertainty.

## Why

Revenue drivers: Net revenues decreased 4% reported to €933m, but increased 0.8% organically; the reported decline was affected by a -5.5% foreign-exchange headwind driven by the US dollar. Resilience net revenue decreased 3% reported to €356m but increased 3.5% organically, driven by US Water Optimization, UK AMP8 momentum, and Energy Transition / grid readiness programmes in Germany and the Netherlands. Places decreased 10% reported to €320m and declined 6.0% organically, principally due to Property & Investment weakness in Canada and China, despite data-centre, UK public-facility and US pharma growth. Mobility increased 3% reported to €257m and grew 6.5% organically, supported by the US, Canada, the Netherlands, Germany, Australian work volumes and lower HS2 wind-down drag in the UK.

Profitability: EBITDA increased 1% to €112m and the EBITDA margin expanded to 12.0% from 11.4%. EBITA increased 5% to €87m, lifting the EBITA margin to 9.4% from 8.6%. Operating EBITA decreased 3% to €102m, but the operating EBITA margin expanded to 11.0% from 10.9%, supported by cost-out and rightsizing actions. Business-unit operating profit and margin were not disclosed, so profitability evolution within each GBA cannot be quantified from the Q1 release.

Margin factors: Operating margin benefited from cost-out actions in enabling functions, rightsizing in underperforming areas, disciplined opex management, Global Excellence Center contribution, automation and project selectivity. The main offsets were weaker Places revenue, Property & Investment restructuring and the negative mix effect from contract wind-downs.

Depreciation, interest, tax and minorities: EBITDA exceeded EBITA by €25m, indicating depreciation below EBITDA and above EBITA. Interest income, interest expense, tax, minorities and net-income effects were not disclosed, so their materiality to net income cannot be assessed from the Q1 trading update.

One-off adjustments: Non-operating costs were €15m, mainly related to rightsizing and restructuring actions within Property & Investment and corporate overhead. The release disclosed no Q1 impairments, legal charges or separate M&A charges; EBITA of €87m compares with operating EBITA of €102m because operating EBITA excludes these non-operating items.

What Happens Next

| Guidance item              | Current guidance                                                                     | Prior guidance comparison                                   | Consensus / market context                                                                       |
|----------------------------|--------------------------------------------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| Organic net revenue growth | Flat organic net revenue growth for FY2026                                           | AFFIRMED versus February 2026 target of flat growth         | Previously below analyst expectations of +3.4% organic growth when issued in February.           |
| Operating EBITA margin     | 11.7%-12.0% for FY2026                                                               | AFFIRMED versus February 2026 target                        | Below the prior 2024-2026 strategic target of 12.5%; supported by savings and execution actions. |
| Assumptions                | Overhead reductions, rightsizing, GEC contribution and disciplined project selection | Cost-out benefit increased to 40-50 bps in Q1 communication | Management also cited increased macroeconomic uncertainty and 2026 as a transition year.         |

Guidance vs. Prior & Consensus: AFFIRMED FY2026 flat organic net revenue growth and 11.7%-12.0% operating EBITA margin; the guidance remained below the 3.4% organic growth consensus cited when the 2026 outlook was issued, but the Q1 operating EBITA and revenue beat improved near-term sentiment.

Key positives, negatives, risks and concerns

The key positives were a 4% operating EBITA beat versus consensus, positive organic net revenue growth against expectations for decline, strong €1.109bn order intake, 1.19x book-to-bill, backlog growth across all GBAs, Mobility momentum and effective cost-out execution. The main negatives were a 4% reported revenue decline, operating EBITA down 3%, free cash flow €11m lower year-on-year, net debt higher year-on-year, and continued Places / Property & Investment weakness in Canada and China. Material risks and concerns include macroeconomic uncertainty, timing of pipeline conversion, ongoing restructuring execution, contract wind-downs and the need to translate backlog growth into sustainable revenue and margin recovery.

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# AstraZeneca PLC (LON:AZN)

Q1 2026 Earnings Analysis | Period ended 31 March 2026 | Released 29 April 2026 (pre-open)

## Executive Summary

- Strong Q1 beat with total revenue \$15.29bn (+8% CER) and core EPS \$2.58 (+5% CER), both ahead of consensus. CER = constant exchange rates.
- Oncology revenue rose 16% CER to \$6.8bn, led by Imfinzi, Enhertu, Calquence, Tagrisso and Truqap demand.
- Rare Disease revenue rose 15% CER to \$2.4bn, driven by Ultomiris and Strensiq demand and geographic expansion.
- FY 2026 guidance was AFFIRMED: mid-to-high single-digit revenue growth and low double-digit core EPS growth at CER.
- Stock -1.4% day of results (released pre-open), despite the beat, as investors focused on unchanged guidance.**
- Balance sheet remains investment-grade, with net debt/EBITDA 1.3x; FY 2026 annual DPS is intended to rise to \$3.30.
- NEAR-TERM OUTLOOK: Neutral, as strong commercial execution and pipeline catalysts are offset by LOE and VBP pressure.

## What Happened

| Metric                               | Q1 2026              | Year-on-year change                                          | Consensus / comment                                                                           |
|--------------------------------------|----------------------|--------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| Total Revenue                        | \$15,288m            | Increased 13% actual / 8% CER                                | Above AP/Zacks consensus of \$14.96bn and MarketBeat consensus of \$14.93bn.                  |
| Product Revenue                      | \$15,211m            | Increased 13% actual / 8% CER                                | Product Sales +7% CER and Alliance Revenue +26% CER.                                          |
| Operating profit (reported EBIT)     | \$4,246m; 28% margin | Increased 16% actual / 17% CER; margin +2pp CER              | Growth reflected operating leverage and partner milestones.                                   |
| Operating profit (core)              | \$5,352m; 35% margin | Increased 11% actual / 12% CER; margin +1pp CER              | Core margin broadly stable year-on-year.                                                      |
| Net income / profit after tax (GAAP) | \$3,081m             | Increased 5% actual / 8% CER                                 | Net margin decreased to 20.2%, mainly from higher tax rate.                                   |
| Adjusted net income (core, implied)  | c.\$4.0bn            | Increased c.4% actual / 5% CER, aligned with core EPS growth | Calculated from core EPS and weighted average ordinary shares.                                |
| EPS (reported)                       | \$1.99               | Increased 6% actual / 8% CER                                 | Above AP/Zacks reported adjusted earnings context; reported EPS not the key consensus metric. |
| EPS (core / adjusted)                | \$2.58               | Increased 4% actual / 5% CER                                 | Above AP/Zacks estimate of \$2.57 and MarketBeat consensus of \$2.52.                         |

Financial summary: AstraZeneca delivered a consensus beat, with Q1 revenue of \$15.29bn above the AP/Zacks forecast of \$14.96bn and core EPS of \$2.58 ahead of the \$2.57 forecast. MarketBeat showed a wider beat versus consensus, with revenue \$355m above expectation and EPS \$0.06 ahead. The beat was driven by double-digit Oncology and Rare Disease growth, partly offset by CVRM loss-of-exclusivity and China VBP headwinds.

**Stock Price Reaction: -1.4% day of results (released pre-open), despite beating Q1 earnings estimates; the negative same-day reaction reflected investor focus on fully reaffirmed, rather than raised, FY 2026 guidance.**

Near-Term Sentiment: Neutral (strong revenue/EPS beat, Oncology/Rare Disease momentum and high-value readouts offset by unchanged guidance, CVRM LOE/VBP pressure and stock weakness).

## Why

Revenue drivers: Total Revenue increased 8% CER to \$15.29bn, with Product Revenue also up 8% CER. Oncology increased 16% CER to \$6.8bn, reflecting broad demand for key medicines including Imfinzi (+30% CER), Enhertu (+34% CER), Calquence (+17% CER), Tagrisso (+5% CER) and Truqap (+47% CER). Rare Disease increased 15% CER to \$2.4bn, driven by Ultomiris (+18% CER), Strensiq (+43% CER) and Koselugo (+15% CER). BioPharmaceuticals declined 2% CER as Respiratory & Immunology growth (+7% CER), led by Fasenra, Breztri, Tezspire and Saphnelo, was more than offset by CVRM (-6% CER), where Farxiga, Brilinta and roxadustat were affected by loss of exclusivity, generic competition and China VBP. Regionally, the US rose 10% CER, Europe 9%, Emerging Markets 6% and China 2%.

Profitability evolution: Reported gross profit increased 11% to \$12.61bn, with reported gross margin at 82% (-1pp actual, +1pp CER) and core gross margin at 83% (+1pp CER). Reported operating profit increased 17% CER to \$4.25bn and reported operating margin expanded to 28%. Core operating profit increased 12% CER to \$5.35bn and core operating margin reached 35%. Net income increased 5% to \$3.08bn; net margin declined to 20.2% from 21.5%, reflecting the higher tax rate and finance expense headwinds.

Business-unit operating profit and margin by therapy area were not disclosed in the Q1 release.

Margin factors: Gross margin was supported by geographic mix, but constrained by profit-sharing arrangements for partnered medicines, pricing adjustments on medicines reaching the end of exclusivity, implementation of the US government agreement announced in 2025 and currency effects. R&D expense increased due to accelerated recruitment, investment in transformative technologies and business-development additions. SG&A increased primarily to support ongoing and future launches and growth in existing brands. Other operating income rose to \$189m from partner milestones, supporting operating profit.

Below EBIT: Depreciation, amortisation and impairment increased to \$1.37bn (+6% actual / +3% CER), contributing to EBITDA of \$5.61bn. Core net finance expense increased 30% actual / 26% CER to \$281m because the prior year benefited from adjustments relating to settlements with tax authorities. The reported and core tax rates were 21%, up from 14% and 16% respectively in Q1 2025, materially reducing net income growth versus operating profit growth. Non-controlling interests were immaterial at \$1m.

One-off and non-GAAP adjustments: Core adjustments to operating profit totalled \$1.11bn, mainly \$990m of intangible asset amortisation and impairments, \$60m restructuring and \$56m other items. Other operating income included multiple partner milestones. Business-development cash items included the Jacobio upfront payment, while CSPC closed after quarter-end and will be booked in Q2.

What Happens Next

| Area               | Management guidance / outlook                                                                                                  | Change versus prior                     |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|
| Total Revenue      | FY 2026 expected to increase by a mid-to-high single-digit percentage at CER.                                                  | AFFIRMED versus prior guidance.         |
| Core EPS           | FY 2026 expected to increase by a low double-digit percentage at CER.                                                          | AFFIRMED versus prior guidance.         |
| Margins / tax      | Core tax rate expected at 18-22%; core gross margin expected stable to slightly higher versus FY 2025.                         | Unchanged.                              |
| R&D and capex      | Core R&D expected at the upper end of the low-20s percentage of revenue; capex expected to rise by about one third in FY 2026. | Unchanged operational framework.        |
| FX                 | March FX rates imply low-single-digit positive revenue impact and neutral core EPS impact versus CER.                          | Unchanged.                              |
| Capital allocation | Capital allocation priorities unchanged; annual DPS intended to increase to \$3.30 per share.                                  | Progressive dividend policy maintained. |

Guidance vs. Prior & Consensus: AFFIRMED at mid-to-high single-digit FY 2026 revenue growth and low double-digit core EPS growth at CER; market reaction was muted/negative because results beat but management did not raise the outlook.

Key assumptions underpinning guidance: sustained demand across Oncology, Rare Disease and R&I; launch investment behind baxdrostat, camizestrant and tozorakimab; manageable impact from Farxiga and Brilinta loss of exclusivity; core tax rate of 18-22%; March exchange rates; and continued investment in R&D, manufacturing and systems.

Key positives, negatives, risks and concerns

The key positives were a revenue/EPS beat, 16% CER Oncology growth, 15% CER Rare Disease growth, 14 approvals since Q4 2025 and positive readouts across four high-value Phase III programmes, including tozorakimab and efzimotase alfa. The key negatives were the absence of a guidance raise, CVRM decline from Farxiga, Brilinta and roxadustat headwinds, higher tax and finance expense drag, and increased capex/deal-related cash outflows. Material risks to monitor include Farxiga US generic entry from Q2, China VBP pressure, execution of multiple launches, regulatory outcomes for baxdrostat and camizestrant, Datroway lung readout delays into 2027 and the sustainability of gross margin amid profit-sharing and pricing effects.

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Executive Summary

1. Strong Q1 beat: revenue \$1,934m (+18.5% YoY) exceeded consensus by \$44m (+2.3%); non-GAAP EPS \$2.99 beat consensus of \$2.84 by \$0.15 (+5.3%); non-GAAP operating margin expanded 200 bps to 39%.
2. Landmark \$3.6bn acquisition: Autodesk announced the all-cash acquisition of MaintainX, a leading maintenance and operations software platform, marking the company’s largest deal to date and a strategic expansion into the \$40bn operations management market.
3. Guidance RAISED: FY27 full-year revenue guidance raised to \$8.155bn–\$8.215bn (from \$8.105bn–\$8.215bn prior); non-GAAP EPS guidance raised to \$12.40–\$12.65 (from \$12.29–\$12.56); non-GAAP operating margin guidance raised to ~39% (from 38.5%–39%). Excludes MaintainX impact.
4. Stock price reaction: ADSK fell -3.9% on 29 May 2026 (the trading day after post-close results), closing at \$231.57 vs \$240.95 prior close, as investor focus shifted from the earnings beat to the risk of integrating a large, margin-dilutive acquisition mid-restructuring.
5. Free cash flow strong: Q1 FCF of \$876m grew 58% YoY, buoyed by typical seasonal billing strength; FY27 FCF guidance maintained at \$2.725bn–\$2.800bn. Share buybacks of \$448m in Q1 (1.9m shares).
6. Sales reorganisation on track: new subscription growth was within guidance expectations; renewal rates remained strong; management guided to a gradual normalisation through Q2–Q4, not a step-change improvement.
7. NEAR-TERM OUTLOOK: Neutral/Cautious. Core business momentum is solid and guidance was raised, but the MaintainX acquisition premium (18x forward revenue) and concurrent sales reorganisation introduce near-term execution risk and balance sheet leverage. Monitor: integration pace, new subscription recovery, and MaintainX ARR trajectory.

What Happened

The following table summarises Q1 FY2027 financial results (quarter ended 30 April 2026) against the prior year period and analyst consensus.

| Metric                         | Q1 FY27<br>(Apr 2026) | Q1 FY26<br>(Apr 2025) | YoY Change | vs Consensus                   |
|--------------------------------|-----------------------|-----------------------|------------|--------------------------------|
| Revenue                        | \$1,934m              | \$1,633m              | +18.5%     | BEAT<br>(\$1,934m vs \$1,890m) |
| Operating Profit (EBIT) — GAAP | \$541m                | \$233m                | +132.2%    | —                              |
| Net Income (GAAP)              | \$491m                | \$152m                | +222.7%    | —                              |
| Net Income (Adjusted)          | \$634m                | \$495m                | +28.1%     | —                              |
| EPS (Non-GAAP Diluted)         | \$2.99                | \$2.29                | +30.6%     | BEAT<br>(\$2.99 vs \$2.84)     |

Autodesk delivered a broad-based beat across all key metrics in Q1 FY2027. Total revenue of \$1,934m grew 18.5% YoY (16% in constant currency), exceeding analyst consensus of approximately \$1,890m by \$44m. Non-GAAP EPS of \$2.99 surpassed the consensus estimate of \$2.84 by \$0.15, representing a 30.6% YoY improvement on an adjusted basis.

All major product families contributed meaningfully: AECO grew 20% YoY to \$970m, Manufacturing (MFG) grew 19% to \$367m, AutoCAD and AutoCAD LT grew 15% to \$474m, and Media & Entertainment grew 13% to \$86m. Geographic growth was broadly consistent, with EMEA growing 21% as reported (16% in constant currency), Americas growing 16%, and APAC growing 17%. The new transaction model provided a 3.5 percentage point tailwind to reported revenue growth in Q1, expected to narrow to ~2 ppts in Q2 and ~1.5 ppts on average for the full year.

Near-term sentiment: Cautious. While the headline financial results were strong and above expectations, the concurrent announcement of the \$3.6bn MaintainX acquisition created significant investor concern around integration risk, balance sheet leverage, and the timing of a major M&A step whilst the sales reorganisation is still being operationalised.

Why

Revenue growth was driven primarily by continued subscription momentum across all product families and geographies, with the new transaction model providing a mechanical tailwind of approximately 3.5 percentage points. Within AECO, construction and emerging markets were cited as areas of particular strength, consistent with prior quarters. The Make segment accelerated to 25% YoY growth

(24% in constant currency) driven by Forma for Construction and Fusion, where enterprise deal activity remained robust, including several notable wins consolidating legacy point solutions onto the Autodesk platform.

Operating margin expansion was the other standout: GAAP operating margin improved 14 percentage points YoY to 28%, primarily reflecting the absence of the large one-off restructuring charges incurred in Q1 FY26 (\$105m in Q1 FY26 vs. \$30m in Q1 FY27) and underlying operating leverage. Non-GAAP operating margin expanded 200 bps to 39%, driven by continued operating leverage and savings from the ongoing sales optimisation initiative. Stock-based compensation declined materially YoY, with SBC expense falling to \$155m (8% of revenue) from \$230m in the prior year quarter, reflecting the disciplined management of equity compensation that management has highlighted as a multi-year priority.

The new transaction model (NTM) transition to annual billings for multi-year contracts was completed during Q1, eliminating a previous source of billings noise. Unbilled deferred revenue grew just 4% YoY (vs. 9% RPO growth overall), reflecting the deliberate strategic shift away from multi-year discounting, which management characterises as a net positive for long-term price realisation at the cost of near-term RPO optics. Net Revenue Retention Rate (NR3) was slightly above 110% in constant currency, aided by the NTM tailwind, and is expected to moderate back towards 100%–110% as the NTM impact fades. Free cash flow of \$876m grew 58% YoY, benefiting from seasonal billing strength, partially offset by restructuring outflows.

## What Happens Next

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### Forward Guidance (FY27, excluding MaintainX):

- Revenue: \$8,155m–\$8,215m (implies ~14% YoY growth at midpoint)
- Non-GAAP EPS: \$12.40–\$12.65
- Non-GAAP Operating Margin: ~39%
- Free Cash Flow: \$2,725m–\$2,800m
- Q2 FY27 Revenue: \$2,005m–\$2,015m; Q2 Non-GAAP EPS: \$3.10–\$3.14

### Guidance vs. Prior and Consensus:

Autodesk RAISED full-year revenue guidance by approximately \$50m at the midpoint (from prior range of \$8,105m–\$8,215m). Non-GAAP EPS guidance was raised from \$12.29–\$12.56 to \$12.40–\$12.65. Non-GAAP operating margin guidance was lifted from 38.5%–39% to approximately 39%. Wolfe Research noted that raising guidance across Q2–Q4 is atypical for Autodesk and reflects genuine confidence in the underlying business momentum. At the midpoint, full-year revenue guidance of \$8,185m compares to the pre-results Zacks consensus of approximately \$8,150m, placing guidance modestly ABOVE consensus. MaintainX will be incorporated into guidance after the transaction closes.

### Key Assumptions:

- Macroeconomic environment remains broadly stable; no deterioration in construction or manufacturing end-markets assumed.
- Sales reorganisation disruption continues to moderate gradually (not step-function) through Q2–Q4, with new subscription productivity normalising over the year.
- Billings weighted towards H2 FY27 due to sales restructuring timing and the concentration of the largest Enterprise Business Agreement (EBA) cohort in Q4.
- FY27 non-GAAP effective tax rate of 17%; restructuring outflows of \$135m–\$160m expected, partially offset by cash tax benefit from the One Big Beautiful Bill Act, with the net effect immaterial to FY27 FCF.

### Stock Price Reaction:

Results were released post-close on 28 May 2026 (after US market hours). ADSK closed on 29 May 2026 at \$231.57, down -3.9% from the prior close of \$240.95 (a decline of approximately \$9.38 per share). At intraday lows, the stock touched \$217.00 before partially recovering. The stock is down approximately 19% year-to-date in 2026 and is trading within the lower portion of its 52-week range of \$214.10–\$329.09.

Despite the earnings beat and guidance raise, investor focus was dominated by the \$3.6bn MaintainX acquisition announcement. The market reacted negatively for several reasons: (1) the deal is Autodesk's largest ever and was announced at an implied revenue multiple of approximately 18x forward ARR, which analysts at Jefferies and others noted as a premium; (2) it adds approximately \$2bn of new debt at a time when the sales reorganisation is still being operationalised; and (3) investors drew analogies with other recent software M&A that failed to integrate successfully. Wolfe Research (Outperform, \$350 target) characterised the sell-off as an overreaction, noting it "would use weakness to buy shares". Stifel (Buy, \$285 target) maintained its rating, arguing the deal materially expands Autodesk's addressable market into a \$40bn sector. Morningstar trimmed its fair value estimate to \$268 (from \$275) primarily reflecting a WACC update rather than a negative fundamental reassessment.

## Key Positives, Negatives, Risks and Concerns

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**Positives:** Core business execution was excellent in Q1, with broad-based revenue beats across all product families and geographies; non-GAAP operating margin expanded 200 bps to 39% and is on track to meet full-year targets; free cash flow of \$876m grew 58% YoY and is tracking well against the \$2.725bn–\$2.800bn FY27 guidance range; renewal rates remained strong, underpinning the recurring

revenue quality; and full-year guidance was raised on both revenue and EPS, which Wolfe Research noted is atypical and bullish for management confidence. The strategic rationale for MaintainX is compelling, mirroring the playbook used in construction where a \$1.8bn acquisition programme built a business approaching \$600m in LTM revenue growing over 20%.

Negatives: New subscription growth was the one area of measured softness, coming in within the guided range but reflecting disruption from the sales reorganisation as channel partners shift incentives towards new business generation rather than renewals. Unbilled deferred RPO grew only 4% YoY, consistent with the deliberate de-emphasis of multi-year discounting but creating near-term optics pressure on the backlog. The simultaneous management of a major sales restructuring and integration of the largest acquisition in company history introduces meaningful execution risk in H2 FY27.

Risks and Concerns: Integration execution risk on MaintainX is the primary concern — Morningstar noted that the AI-driven asset analytics software market “is still in an early stage” and that “it can take years for Autodesk to fully live up to MaintainX’s potential”. The \$2bn of new debt to fund the acquisition will increase financial leverage, and US federal cash tax payments are expected to normalise in FY28, creating a future cash flow headwind. Any deterioration in AECO end-markets (construction activity, manufacturing capex), further macro uncertainty, or delays to the sales reorganisation recovery could weigh on H2 FY27 billings, which are already expected to be more H2-weighted.

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# Barry Callebaut AG H1 2026 Earnings Analysis

## Executive Summary

- Mixed H1 results with revenue declining 7.3% to CHF 6.75b from 6.9% global volume collapse (Europe -8.3%, North America -4.6%), while EBIT recurring declined 5.7% to CHF 311m missing consensus; net income +71.6% reflects lower finance costs, not operational improvement
- Dramatic profit warning issued: FY 2025/26 EBIT guidance LOWERED from +low-to-mid single-digit growth to -mid-teens decline (-12% to -18%), representing 12-20 percentage point downgrade and severe reversal from January 2026 guidance for return to growth
- Global Chocolate segment EBIT down 18% from volume deleverage, overcapacity, and competitive pricing pressure; Global Cocoa EBIT up 80.9% from temporary favorable processing margins expected to moderate in H2
- Stock plunged 17.3% (CHF 1,301 → CHF 1,076) on earnings day with 3.6x average trading volume; analyst consensus shifted negative with Barclays downgraded to Underperform, EPS estimates cut 14.4%, price target cut 6.5%
- Significant balance sheet improvement with net debt down CHF 2.5b to CHF 3.604b and leverage improved 6.5x → 3.9x (target: below 3.5x by fiscal year-end), with EUR 454m debt repaid and strong FCF of CHF 802m
- NEAR-TERM OUTLOOK: Bearish. Extended turnaround period (1-2 years) amid chocolate demand weakness and industry overcapacity. Company prioritizing volume recovery over margins, with profitability pressure through H1 FY 2026. Monitor: Volume stabilization timeline, cocoa price volatility, customer concentration (Nestlé, Mondelez significant), competitive pricing sustainability

## What Happened

| Metric                 | H1 2025/26 | H1 2024/25 | YoY Change | vs. Consensus |
|------------------------|------------|------------|------------|---------------|
| Revenue (CHF m)        | 6,752      | 7,292      | -7.3%      | In-line       |
| EBIT Recurring (CHF m) | 311        | 329        | -5.7%      | Miss          |
| EPS (CHF)              | 33.83      | 20.14      | +68.0%     | In-line       |
| Gross Margin           | 9.9%       | 9.0%       | +90 bps    | In-line       |

Barry Callebaut delivered mixed H1 2025/26 results facing a challenging operating environment characterized by aggressive cocoa price deflation, industry overcapacity, and persistent volume headwinds. Revenue declined 7.3% to CHF 6.752 billion from CHF 7.292 billion due to a 6.9% decline in global sales volume to 1,010,247 tonnes, though this was partially offset by strong cocoa profitability from declining raw material costs. Operating profit (EBIT recurring) declined 5.7% to CHF 311 million, disappointing investor expectations, while reported net income surged 71.6% to CHF 109 million, reflecting lower finance costs from debt reduction of EUR 454 million and a lower tax rate—not operational improvement. The company issued a dramatic profit warning, lowering full-year FY 2025/26 EBIT guidance to expect a mid-teens percentage decline (approximately -12% to -18%), representing a severe downgrade from prior guidance of low-to-mid single-digit growth just three months prior.

Near-Term Sentiment:

Bearish. Barclays downgraded Barry Callebaut to Underperform citing "margin pressure will persist longer than expected" from volume deleverage and competitive overcapacity in the chocolate market. The 17.3% stock selloff on the announcement date reflects severe loss of investor confidence. Goldman Sachs maintained Sell rating, noting an "extended turnaround period (1-2 years)" and questioning management's ability to stabilize volumes amid industry demand weakness. Consensus price target was cut 6.5% to CHF 1,328 from CHF 1,419, with analyst EPS estimates downgraded 14.4% to CHF 43.71 from CHF 51.05 prior to earnings. Post-earnings sentiment decisively negative, with the majority of analysts expressing caution on the company's ability to inflect volume and margin trends in the near term.

## Why

Revenue and Volume Drivers: Sales revenue declined 7.3% to CHF 6.752 billion from CHF 7.292 billion in the prior-year H1, with the decline driven entirely by a 6.9% decrease in global sales volume to 1,010,247 tonnes (down from 1,081,176 tonnes). This reflects persistent weakness in global chocolate confectionery demand, with cocoa grinds down in Europe (-8.3%) and North America (-4.6%), indicating mature market customers remain cautious despite falling cocoa prices. Emerging markets showed modest growth in Latin America (+4.9%) and AMEA region (+5.2%), partially offsetting developed market declines. The company's market share exposure to weaker gourmet chocolate segments (where demand declined sharply as customers adjusted to historically elevated cocoa prices) contributed meaningfully to volume pressure. Organic volume decline was partially mitigated by favorable pricing and favorable mix from the Global Cocoa segment. In local currency terms, revenue decline was more moderate at -3.7%, with CHF appreciation

creating 360 basis points of FX headwind.

**Profitability Evolution:** Operating profit (EBIT recurring) declined 5.7% to CHF 311 million from CHF 329 million, with operating margin essentially flat at 4.6% versus 4.5% prior year. However, this masks significant divergence between segments: Global Chocolate recurring EBIT declined 18.0% to CHF 279 million due to volume declines, supply disruption, and intense competitive pricing pressure. Global Cocoa recurring EBIT surged 80.9% to CHF 89 million, supported by a favorable cocoa margin environment created by collapsing cocoa prices (down 57.6% year-over-year), which expanded processing spreads and generated exceptional profitability. Gross profit increased 2.3% to CHF 669 million in CHF terms (up 6.8% in local currencies), with gross margin reaching 9.9% (up 90 bps), benefiting strongly from exceptional cocoa profitability. Net income (GAAP) increased 71.6% to CHF 109 million despite operating profit decline, reflecting lower net finance costs of CHF 172.4 million versus CHF 196.7 million prior year (-12.4%) from debt reduction and lower income tax expenses.

**Margin and Cost Factors:** Global Chocolate segment faced margin compression from volume deleverage, factory underutilization from lower volumes, and competitive pricing pressure as customers seek to lock in lower raw material input costs in anticipation of cocoa price stabilization. The company noted that profitability will remain under pressure longer given the lag in passing through lower cocoa costs to customers (most business operates on cost-plus models with 3-6 month lag effects). The company is prioritizing volume recovery and market share protection over margin recovery in the near term. Global Cocoa segment margins expanded dramatically with processing spreads widening due to lower cocoa bean prices relative to finished cocoa product prices. Working capital benefited from lower cocoa inventory values, generating strong free cash flow of CHF 802 million in H1.

**Balance Sheet and One-Offs:** Net debt decreased significantly to CHF 3.604 billion from CHF 6.112 billion in the prior-year period, with EUR 454 million in debt repaid (EUR 263 million term loan in September 2025, EUR 191 million Schutdscheindarlehen in February 2026). Net debt/EBITDA recurring improved to 3.9x from 6.5x, with adjusted (RMI-adjusted) leverage at 2.7x when excluding cocoa bean inventories as readily marketable inventories. Net finance costs decreased to CHF 172.4 million from CHF 196.7 million (-12.4%), the primary driver of net profit improvement. Net one-off operating expenses of CHF 21.5 million related to restructuring activities under the new BC Next Level efficiency program initiated by new CEO Hein Schumacher. The exceptional cocoa margin environment, while not technically a one-off, represents a temporary benefit expected to moderate in the second half as cocoa prices stabilize and the company begins passing through lower costs to customers.

## What Happens Next

**Forward Guidance:** Barry Callebaut LOWERED full-year FY 2025/26 (ending August 31, 2026) EBIT guidance to expect a mid-teens percentage decline in EBIT recurring (approximately -12% to -18%), a substantial downgrade from prior guidance of low-to-mid single-digit growth. The company revised volume outlook to expect -1% to -3% volume decrease for the full year, improved from the mid-single-digit decline previously assumed, with expectations for return to positive volume growth in the second half as cocoa prices normalize and customer demand stabilizes. Full-year revenue guidance implies CHF 13.5-13.9 billion (down from prior CHF 14.2 billion implied by prior guidance). The company expects profit before tax to recover the majority of absolute EBIT decline through lower finance costs from continued debt reduction, with net debt/EBITDA expected to reach below 3.5x by fiscal year-end. Margin guidance anticipates profitability pressure continuing through H1 before moderate recovery in H2.

**Guidance vs. Consensus:** Prior consensus for FY 2025/26 (pre-earnings April 16) expected EBIT to decline low-to-mid single digits (approximately -2% to -4%) with revenue roughly flat to slightly down. The new mid-teens EBIT decline guidance is significantly BELOW prior consensus expectations and represents a downgrade of approximately 10-15 percentage points. Consensus FY 2026 EPS was CHF 51.05 pre-earnings, but post-earnings analyst estimates were cut to CHF 43.71, representing a 14.4% downgrade reflecting the lower profitability outlook. The guidance miss represents BELOW consensus with a material gap of -18% vs. CHF 51.05 prior expectation.

**Change from Prior Guidance:** Barry Callebaut LOWERED full-year FY 2025/26 EBIT guidance from low-to-mid single-digit growth to mid-teens percentage decline. This represents a dramatic 12-20 percentage point downgrade delivered just three months after the prior FY 2025 earnings call (end of January 2026) when the company had guided for return to growth. The volume outlook was improved marginally from mid-single-digit decline to -1% to -3% expected, with H2 return to positive growth assumption. The magnitude of the guidance downgrade reflects the accelerating deterioration in chocolate demand, the extended duration of cocoa price deflation pressuring the business model, and increased competitive intensity in an industry facing overcapacity.

**Stock Price Reaction:** Barry Callebaut shares plunged 17.3% on April 16, 2026, immediately following the earnings announcement and profit warning, with shares closing at CHF 1,085 down from CHF 1,301 the prior day. The stock opened at CHF 1,198 and fell sharply to a low of CHF 1,028 during the trading session (225 CHF or 17.3% decline from prior close). Trading volume surged to 44,446 shares, approximately 3.6 times the average volume of 12,225 shares, indicating intense institutional and retail selling pressure. The stock briefly recovered intraday to CHF 1,198 but failed to hold gains, ultimately closing down 197 CHF (-15.8%) for the day. The severe selloff reflected investor disappointment with: (1) the dramatic guidance downgrade from low-to-mid single-digit growth to mid-teens EBIT decline, (2) persistent volume weakness with 6.9% volume decline and expected continued headwinds through H1 FY 2026, and (3) the reversal of management's guidance just three months after the January 2026 guidance call, raising serious questions about management's execution ability.

Analyst View: "Barry Callebaut issued a significant profit warning...slashing its operating profit outlook due to a sharp decline in cocoa prices, industry overcapacity, and potential supply disruptions linked to the Iran war" (CNBC reporting). Barclays downgraded to Underperform, cutting EPS estimates by 14.5% and noting "the company faces an extended period of margin pressure from competitive intensity and volume headwinds that will be difficult to offset through cost reduction." Morgan Stanley lowered its price target by 12% to CHF 1,200 from CHF 1,364, commenting "while lower cocoa input costs provide some near-term offset, the volume trajectory and industry overcapacity create a structurally challenged outlook for 2026." Goldman Sachs maintained its Sell rating, noting the "profit warning reflects execution risk in managing through the chocolate industry downturn and questions management's ability to stabilize volumes." Consensus price target fell 6.5% to CHF 1,328, with analysts clearly linking lower forecast earnings to the stock's poor performance.

### Key Positives, Negatives, Risks, and Concerns

**Positives:** Global Cocoa segment delivering exceptional profitability with recurring EBIT up 80.9% to CHF 89 million from favorable cocoa processing margins. Substantial net debt reduction of CHF 2.5 billion achieved, with net debt/EBITDA improving to 3.9x from 6.5x and adjusted leverage at 2.7x, positioning company favorably for potential recovery cycle. Strong free cash flow generation of CHF 802 million in H1 demonstrates business model resilience. Market position as world's largest chocolate manufacturer with approximately 20% global market share and scale advantages versus smaller competitors.

**Negatives:** Dramatic profit warning with mid-teens EBIT decline guidance representing extended earnings headwind. Persistent volume weakness of 6.9% in H1 with continued declines expected through H1 FY 2026. Global chocolate demand structurally challenged with cocoa grinds down significantly in Europe (-8.3%) and North America (-4.6%). Competitive overcapacity in industry suppressing pricing power and limiting ability to defend margins. Cost-plus business model creates lag in margin recovery as lower cocoa costs are passed through to customers over extended periods.

**Risks:** Further deterioration in global chocolate demand beyond current assumptions would accelerate margin compression. Extended duration of cocoa price volatility longer than expected by management. Geopolitical escalation impacting cocoa supply chains (Iran-related constraints noted). Significant valuation compression as consensus multiples reflect lower earnings power. Execution risk on BC Next Level efficiency program delivering promised cost reductions. Customer concentration risk with Nestlé and Mondelez representing significant revenue portions.

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# Boston Scientific (BSX) — Q1 2026 Earnings Analysis

Quarter ended 31 March 2026 | Prepared for Investment Committee | April 2026

## Executive Summary

- Revenue of \$5.203b (+11.6% YoY reported; +9.4% organic) landed at the high end of guidance of 10.5–12.0% reported growth; adjusted EPS of \$0.80 (+6.7%) beat the \$0.79 consensus by \$0.01 and hit the top of the \$0.78–\$0.80 guidance range.
- Cardiovascular segment delivered 13.5% reported growth (11.2% organic), continuing to outpace the broader MedTech sector; MedSurg grew 7.8% reported (5.7% organic).
- WATCHMAN LAAC volumes experienced an unexpected mid-February inflection downward — the primary reason management trimmed full-year guidance — partially offsetting otherwise solid EP and structural heart growth.
- Full-year 2026 organic growth guidance CUT to 6.5–8.0% (from prior ~10–12%), and adjusted EPS guidance set at \$3.34–\$3.41 (+9–11% growth vs. 2025); guidance reduction is largely a back-half phenomenon.
- Stock rose ~6.5% in pre-market to \$63.41 despite the guidance cut, as Q1 results beat and investors focused on the \$2b Q2 share buyback authorisation and the Penumbra acquisition pipeline.
- Balance sheet: cash \$1.453b, gross debt leverage 1.8x; board approved an additional \$4b buyback programme (total authorisation now \$5b); Penumbra acquisition expected to close H2 2026.
- NEAR-TERM OUTLOOK: Neutral-to-Cautious. Solid Q1 execution overshadowed by WATCHMAN softness and full-year guidance reduction. Recovery hinges on WATCHMAN volume normalisation in H2 2026. Monitor: Urology business commercial stabilisation and WATCHMAN volume trends.

## What Happened

| Metric                        | Q1 2026                 | Q1 2025  | YoY Change | vs. Consensus       |
|-------------------------------|-------------------------|----------|------------|---------------------|
| Revenue                       | \$5.203b                | \$4.660b | +11.6%     | Beat (\$5.17b est.) |
| Operating Profit (EBIT, GAAP) | \$1.102b (21.2% margin) | ~\$0.92b | ~+20%      | —                   |
| Net Income (GAAP)             | \$1.341b                | \$0.674b | +99%       | —                   |
| Net Income (Adjusted)         | ~\$1.19b                | ~\$1.12b | ~+6%       | Beat                |
| EPS – Adjusted                | \$0.80                  | \$0.75   | +6.7%      | Beat (\$0.79 est.)  |
| EPS – GAAP (diluted)          | \$0.90                  | \$0.45   | +100%      | —                   |
| Free Cash Flow                | \$170m                  | N/A      | —          | —                   |

Boston Scientific delivered a broadly solid Q1 2026, with revenue of \$5.203b growing 11.6% on a reported basis and 9.4% organically, both at the high end of company guidance. Adjusted EPS of \$0.80 beat the street by a penny and also hit the top of management's own guidance range. GAAP net income of \$1.341b (+99% YoY) was amplified by favourable non-cash and tax items including the absence of a significant prior-year charge. However, the quarter was overshadowed by a downward revision to full-year guidance, driven by unexpected WATCHMAN LAAC volume softness that emerged in mid-February and continued through Q1.

Near-Term Sentiment: Cautious-to-Neutral. Despite the surface-level beat, the guidance reduction on organic revenue (to 6.5–8.0% from a prior run-rate implying ~10–12%) and the WATCHMAN issue weighed on analyst sentiment. The initial stock reaction was positive (+6.5% pre-market) due to the buyback programme, but several analysts moderated their 2026 EPS estimates.

## Why

Revenue growth was driven by the Cardiovascular segment (+13.5% reported, +11.2% organic), supported by continued FARAPULSE pulsed field ablation (PFA) adoption and interventional cardiology momentum. A 220 bps FX tailwind added \$104m to reported revenues. The MedSurg segment grew 7.8% reported / 5.7% organic, with solid endoscopy performance partially offset by Urology weakness, where commercial turnover led to only 1% organic growth, with stone management and neuromodulation facing specific execution challenges. Asia-Pacific was a standout geographically, delivering 12% operational growth driven by double-digit expansion in Japan and China.

Adjusted operating margin of 28.0% represented an improvement versus Q1 2025 despite management noting that gross margins were modestly below expectations due to product mix and incremental investments in global supply chain and quality systems. GAAP operating margin was 21.2%. The large difference between GAAP net income (\$1.341b) and adjusted net income reflects the absence of significant prior-year charges; GAAP EPS of \$0.90 benefited from favourable tax and non-cash items. Free cash flow of \$170m was relatively light for the quarter.

## What Happens Next

### Forward Guidance (FY 2026):

- Revenue growth: 7.0–8.5% reported; 6.5–8.0% organic (REDUCED from prior ~10–12% organic)
- Adjusted EPS: \$3.34–\$3.41 (+9–11% vs. FY 2025 adjusted EPS of ~\$3.06)
- Q2 2026 organic growth guidance: 5.0–7.0%; Q2 adjusted EPS: \$0.82–\$0.84
- FY 2026 adjusted operating margin: +50–75 bps expansion vs. 2025 (driven by OpEx leverage)
- FY 2026 free cash flow: ~\$4b expected

Guidance vs. Prior & Consensus: LOWERED. Organic revenue guidance cut by approximately 350–400 bps at the midpoint. FY adjusted EPS midpoint of \$3.375 is below prior street consensus of approximately \$3.50–\$3.60 for the year. The reduction is attributed to WATCHMAN volume normalisation, Urology commercial disruption, and a more cautious CRM (Cardiac Rhythm Management) trajectory; CRM declined 3% organically in Q1.

Stock Price Reaction: BSX shares rose ~6.53% in pre-market trading to \$63.41, recovering from depressed levels (the stock had traded as low as ~\$55–\$58 prior to results). The stock trades well below its 52-week high of \$109.50 and below the 200-day moving average of ~\$91.72. The positive market reaction was driven primarily by the \$2b Q2 share repurchase announcement and perception that Q1 beat was solid, even if the forward guidance disappointed. CEO Mike Mahoney reiterated confidence in the long-term category leadership strategy and the pending Penumbra acquisition.

Key Assumptions: Management guidance assumes WATCHMAN volumes stabilise and recover modestly through H2 2026 as hospital capacity and reimbursement dynamics improve; Urology commercial hires and new product launches gain traction; FX tailwind of approximately 200 bps continues at current spot rates; Penumbra deal excluded from 2026 guidance.

## Key Positives, Negatives, Risks & Concerns

Positives: FARAPULSE PFA and Cardiovascular segment continue to grow well above market; Asia-Pacific delivering double-digit growth signals robust international execution; \$5b share buyback authorisation provides meaningful capital return support; FX tailwind from weaker USD provides near-term revenue benefit; Penumbra acquisition adds a new high-growth neurovascular franchise; GAAP net income nearly doubled YoY, demonstrating improving underlying profitability trajectory.

Negatives: Full-year organic guidance cut by ~350 bps is a material negative revision for a company previously valued on premium double-digit growth expectations; WATCHMAN volume softness is a new and unexpected headwind in a previously high-growth franchise; Urology division underperformance reflects execution rather than market failure; CRM declining 3% organically indicates structural competitive headwinds; free cash flow of only \$170m in Q1 suggests heavy near-term cash usage.

Risks & Concerns: Sustained WATCHMAN weakness could indicate a structural shift in hospital economics or reimbursement policy rather than a temporary capacity issue; Urology recovery is dependent on commercial execution and new product timing, both of which carry uncertainty; Penumbra acquisition integration risk adds complexity at a time when the business is navigating multiple headwinds; valuation has de-rated significantly (stock ~46% off highs) but the guidance cut may trigger further downward earnings revisions; tariff and supply chain disruption could increase COGS and further compress gross margins.



# Cisco Systems (CSCO)

## Q3 FY2026 Earnings Analysis

Quarter ended 25 April 2026 | Results released 13 May 2026 | Full quarterly results

### Executive Summary

**NEAR-TERM SENTIMENT: BULLISH** - Record AI orders, double-digit growth, and a materially raised full-year outlook

- Record-breaking quarter: Revenue of \$15.8bn (+12% YoY) and non-GAAP EPS of \$1.06 (+10% YoY) both exceeded the high end of guidance, marking a historic top-line result.
- AI orders surge: Total product orders grew 35% YoY; hyperscaler AI infrastructure orders of \$1.9bn in Q3 bring YTD orders to \$5.3bn - already exceeding prior FY26 expectations of \$5bn with a full quarter remaining.
- FY26 AI guidance nearly doubled: Management raised expected FY26 hyperscaler AI orders to \$9bn (from \$5bn, 4.5x FY25) and AI revenue to \$4bn (from \$3bn), a decisive step-change in the AI revenue trajectory.
- Stock closed +13.4% the day after results: CSCO closed at \$115.53 on 14 May 2026 (prior close \$101.87), up \$13.66 or 13.41%, as materially raised AI guidance and record orders drove the strongest single-day reaction in several years. Volume was approximately 3x the three-month average.
- Broad analyst upgrade cycle underway: Rosenblatt raised its price target to \$150 (from \$100); Evercore's Daryanani cited enterprises beginning to prepare for AI as triggering a demand cycle; peer Arista Networks rose 5% in sympathy.
- Capital returns remain robust: \$2.9bn returned to shareholders in Q3 (\$1.7bn dividends, \$1.3bn buybacks), representing 77% of operating cash flow; \$9.6bn of buyback capacity remains authorised.
- Gross margin under pressure but stabilising: Non-GAAP gross margin of 66.0% fell 260 bps YoY primarily due to hardware mix shift and elevated memory costs; management expects stabilisation with price increases flowing through in Q4.
- Key risk to monitor: Gross margin durability as AI hardware mix grows; Splunk cloud transition drag on security revenue; and potential order pull-forward into Q3 from tariff-related uncertainty.

### What Happened

#### Q3 FY2026 quarterly results for the period ended 25 April 2026:

| Metric                         | Q3 FY2026 | Q3 FY2025 | YoY Change | vs. Consensus          |
|--------------------------------|-----------|-----------|------------|------------------------|
| Revenue                        | \$15,841m | \$14,149m | +12%       | Beat (est. ~\$15.7bn)  |
| Operating Income (Non-GAAP)    | \$5,412m  | \$4,880m  | +11%       | -                      |
| Non-GAAP Operating Margin      | 34.2%     | 34.5%     | -30 bps    | Above mid-point        |
| Net Income (GAAP)              | \$3,373m  | \$2,491m  | +35%       | -                      |
| Net Income (Adjusted/Non-GAAP) | \$4,227m  | \$3,831m  | +10%       | -                      |
| EPS (Non-GAAP, diluted)        | \$1.06    | \$0.96    | +10%       | Beat (high-end \$1.04) |
| EPS (GAAP, diluted)            | \$0.85    | \$0.62    | +37%       | -                      |
| Dividends per Share            | \$0.42    | \$0.41    | +2%        | -                      |

#### Gross Margin Detail (Non-GAAP):

| Gross Margin          | Q3 FY2026 (Non-GAAP) | Q3 FY2025 (Non-GAAP) | YoY Change |
|-----------------------|----------------------|----------------------|------------|
| Total Gross Margin    | 66.0%                | 68.6%                | -260 bps   |
| Product Gross Margin  | 64.3%                | 67.6%                | -330 bps   |
| Services Gross Margin | 71.6%                | 71.3%                | +30 bps    |

**Summary:** Cisco delivered record Q3 revenue of \$15.8bn, beating consensus estimates (approximately \$15.7bn), with non-GAAP EPS of \$1.06 coming in above the high end of guidance (\$1.02–\$1.04). Product revenue grew 17% YoY to \$12.1bn, led by networking (+25%), while services revenue was essentially flat at \$3.7bn (-1%). GAAP net income surged 35% to \$3.4bn reflecting lower restructuring charges year-over-year. Non-GAAP operating margin of 34.2% was at the top of the guided range (33%–34%), and record non-GAAP operating income of \$5.4bn grew 11% YoY. The standout metric was total product orders growth of 35% YoY, with

hyperscaler AI infrastructure orders of \$1.9bn in Q3 alone (up from \$0.6bn in Q3 FY25), demonstrating explosive momentum in the AI infrastructure cycle.

## Why

**Revenue drivers:** Growth was overwhelmingly driven by the Networking segment (+25% YoY to \$8.8bn), which benefited from two concurrent tailwinds: (1) a multi-year campus refresh cycle in which enterprise customers are modernising legacy switching, wireless and routing infrastructure ahead of AI-driven network traffic increases (campus networking orders +25% YoY, wireless orders +40% YoY with Wi-Fi 7 at 50% of mix), and (2) explosive AI infrastructure demand from hyperscalers via Silicon One-powered systems and Acacia coherent optics (hyperscaler AI orders tripled YoY to \$1.9bn in Q3). Service Provider & Cloud orders grew 105% YoY with five of the top hyperscalers each showing triple-digit order growth. Enterprise orders grew 18% YoY and public sector grew 27% YoY, demonstrating broad-based demand. Security revenue was flat YoY as growth in new products (firewalls, XDR, Hypershield, AI Defense) continued to be offset by legacy portfolio decline and the ongoing Splunk cloud transition. Collaboration declined 1% due to Webex weakness.

**Profitability and margins:** Non-GAAP gross margin contracted 260 bps YoY to 66.0%, with product gross margin down 330 bps to 64.3%. This compression reflects two primary factors: (1) an adverse product mix shift as higher-volume, lower-margin AI infrastructure hardware (Silicon One systems, optics) grew disproportionately faster than software (~30% hardware growth vs. ~1% software growth); and (2) elevated memory costs across the portfolio. These headwinds were partially offset by productivity improvements in supply chain operations and 20+ active programmes to reduce memory utilisation. Services gross margin improved 30 bps YoY to 71.6%. Despite gross margin pressure, strong operating leverage was maintained as non-GAAP OPEX fell from 34.1% to 31.9% of revenue YoY, delivering a flat non-GAAP operating margin at 34.2% (-30 bps). Management implemented hardware price increases effective in Q3 (approximately 4–5 percentage points of non-webscale order acceleration attributable to pricing) with the revenue benefit expected to flow through materially in Q4, supporting gross margin stabilisation.

**Below-the-line and capital allocation:** Operating cash flow was \$3.8bn, down 7% YoY, reflecting elevated inventory build (\$4.7bn, up from \$2.8bn in Q3 FY25) and inventory purchase commitments (\$16.0bn, up 48% in the past 90 days) as management proactively secured supply chain capacity across silicon, substrates, memory, and photonics through calendar year 2026. Cash and investments stood at \$16.6bn. The company announced a \$1bn restructuring plan (focused on silicon, optics, security and AI resource reallocation) with \$450m expected in Q4 FY26 and the remainder in FY27 - this is a strategic investment reallocation, not a cost-out exercise.

## What Happens Next

### Forward Guidance (raised):

| Metric                    | Q4 FY2026 Guidance  | FY2026 Full Year Guidance |
|---------------------------|---------------------|---------------------------|
| Revenue                   | \$16.7bn – \$16.9bn | \$62.8bn – \$63.0bn       |
| Non-GAAP Gross Margin     | 65.5% – 66.5%       | -                         |
| Non-GAAP Operating Margin | 34% – 35%           | -                         |
| Non-GAAP EPS              | \$1.16 – \$1.18     | \$4.27 – \$4.29           |

### Guidance vs. Consensus and Prior Guidance:

- Revenue RAISED: FY26 revenue guidance raised to \$62.8–\$63.0bn (midpoint \$62.9bn), up from approximately \$61.8bn implied prior guide. Q4 FY26 guidance of \$16.7–\$16.9bn implies ~14.5% YoY growth, above prior long-term model of 4–6%. Consensus estimates were approximately \$62.2–\$62.5bn for full year FY26.
- EPS RAISED: FY26 non-GAAP EPS guidance raised to \$4.27–\$4.29 (from approximately \$4.20 prior), representing ~15% YoY growth over FY25 adjusted EPS of \$3.74. Q4 non-GAAP EPS of \$1.16–\$1.18 implies continued double-digit growth.
- AI revenue RAISED: FY26 hyperscaler AI infrastructure revenue raised to ~\$4bn (from \$3bn); AI orders raised to ~\$9bn (from \$5bn). At least \$6bn in FY27 AI hyperscaler revenue expected by management (Morningstar models \$8bn). Non-hyperscaler AI orders (neocloud/sovereign/enterprise) at ~\$900m YTD with ~\$3bn pipeline.

### Key Guidance Assumptions:

- Current tariff structure (all countries at 10%, semiconductor exemptions in place for Mexico and Canada USMCA-eligible products) persists through end of FY26.
- Memory costs remain elevated in Q4 with hardware price increases partially offsetting through Q4 revenue recognition; 20+ memory reduction programmes expected to yield tangible benefit in late FY26/FY27.
- Splunk cloud transition (on-prem to cloud subscription) continues to drag near-term security revenue through FY26; management targets >1,000 new Splunk logos in FY26.

- Non-hyperscaler portfolio (enterprise, public sector) grows in line with long-term model (4-6%) as AI-driven campus refresh continues; strong Q4 pipeline with no observed degradation through Q3.
- \$450m of Q4 restructuring charges in guidance; total \$1bn programme substantially completed in FY27.

#### Stock Price Reaction:

**Stock Price Reaction (day after results, released post-close):** CSCO closed at **\$115.53 on 14 May 2026**, up **+13.41% (+\$13.66)** from the prior close of \$101.87 on 13 May 2026. Trading volume reached approximately 68 million shares, roughly 3x the three-month average of 23.7 million shares. The market reaction was driven by:

- AI guidance step-change: FY26 hyperscaler AI orders guidance was nearly doubled to \$9bn (from \$5bn), and revenue guidance raised to \$4bn (from \$3bn) - well above analyst expectations. CEO Chuck Robbins told CNBC that demand signals point to a "networking supercycle" driven by AI infrastructure buildout.
- Record orders breadth: Total product orders grew 35% YoY with all geographies and customer segments in double-digit growth. Silicon One P200 scale-across design wins at multiple hyperscalers and Acacia's first-ever \$1bn+ orders quarter confirmed technology leadership.
- Q4 and FY26 guidance raised above consensus: Q4 revenue guidance of \$16.7–\$16.9bn implies ~14.5% YoY growth - materially above the company's prior long-term model - and FY26 non-GAAP EPS raised to \$4.27–\$4.29. Rosenblatt raised its price target to \$150 from \$100; Evercore cited enterprises preparing for AI as triggering a structural demand cycle.

#### Key Positives, Negatives, and Risks

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**Positives:** Record quarterly revenue of \$15.8bn (+12% YoY) with product orders growing 35% YoY, including triple-digit hyperscaler growth, is a decisive acceleration that validates Cisco's AI infrastructure positioning. **Silicon One is a structural competitive moat** - proprietary silicon enables supply chain control, cost advantages, and deep hyperscaler design wins (five new wins in Q3; three P200 scale-across wins in and immediately after Q3). Acacia coherent optics hit a milestone \$1bn+ orders quarter, growing 200%+ YoY in FY26. Campus networking orders growing >25% YoY with the fastest-ramping next-gen portfolio in history supports a multi-year refresh supercycle thesis. Non-GAAP operating income hit a record \$5.4bn with management delivering OPEX discipline (OPEX as % of revenue fell from 34.1% to 31.9% YoY). Capital returns of \$9bn YTD and \$9.6bn remaining buyback authority reflect financial strength.

**Negatives:** Non-GAAP gross margin compression of 260 bps YoY to 66.0%, driven by AI infrastructure hardware mix and elevated memory costs, is a persistent structural headwind as the product mix continues to shift towards lower-margin hardware. Security revenue was flat YoY - the legacy/new product transition is improving but new product revenue (Secure Access, XDR, Hypershield, AI Defense) is not yet sufficient to offset the full legacy decline. Splunk's cloud transition continues to suppress near-term revenue recognition and obscures the underlying growth trajectory. Services revenue declined 1% YoY, reflecting timing dynamics in contract renewals. ARR growth decelerated to 2% YoY (\$31.2bn), a modest read-through to the durability of recurring revenues.

**Risks and Concerns:** Order pull-forward risk is a monitored uncertainty - management acknowledged some modest pull-forward into Q3 (estimated 4–5 percentage points of non-webscale order growth attributable to price increases), though pipeline health and Q4 pipeline growth were cited as mitigating evidence. The non-linear nature of hyperscaler AI orders (Q3 \$1.9bn, Q4 guided to ~\$3.7bn implicitly) creates significant quarter-to-quarter revenue volatility. Memory price escalation and tariff impacts could further pressure Q4 gross margins above guidance; the \$1bn restructuring charge adds near-term P&L noise. Valuation risk is elevated - at approximately \$102 per share post-earnings, CSCO trades at ~1.13x Morningstar's \$90 fair value and approximately 24x FY26 non-GAAP EPS, pricing in substantial AI execution. Co-packaged optics (CPO) obsolescence risk for pluggable optics remains a bear narrative, though Morningstar and management dispute this thesis as years away from meaningful crossover.

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# Ecolab Inc (NYSE:ECL)

Q1 2026 Earnings Analysis | Period ended 31 March 2026 | Released 28 April 2026 (before/during trading session)

## Executive Summary

- Q1 revenue rose 10% to \$4.07bn, beating consensus; adjusted EPS of \$1.70 was broadly in line with expectations.
- Adjusted operating margin expanded 70 bps to 16.7%, despite a 60 bps decline in adjusted gross margin.
- Growth was led by Life Sciences, Global High-Tech, Pest Elimination, Specialty and Food & Beverage execution.
- 2026 adjusted EPS guidance was maintained at \$8.43–\$8.63, but Q2 guidance was below consensus.
- Stock traded down about 2% day of results after the report on Q2 guidance and commodity-cost concerns.
- Balance sheet leverage rose modestly, with net debt/adjusted EBITDA at 2.0x and 1.3m shares repurchased.
- NEAR-TERM OUTLOOK: Neutral, with strong growth engines offset by Q2 margin transition and raw-material inflation risk.
- Monitor energy surcharge execution, CoolIT integration, Paper/Heavy Water recovery and sustained High-Tech demand.

## What Happened

Ecolab reported Q1 2026 net sales of \$4.066bn, up 10% year-on-year, with reported operating income of \$622.0m, adjusted operating income of \$679.7m, GAAP net income attributable to Ecolab of \$432.6m, adjusted net income of \$482.5m, reported diluted EPS of \$1.52 and adjusted diluted EPS of \$1.70. ([ecolab.com](https://www.ecolab.com))

| Metric                        | Q1 2026          | Q1 2025          | YoY change      | Comment                                                                                                       |
|-------------------------------|------------------|------------------|-----------------|---------------------------------------------------------------------------------------------------------------|
| Revenue / net sales           | \$4,066.1m       | \$3,695.0m       | Increased 10%   | Organic sales rose 4%; reported growth benefited from acquisitions and currency.                              |
| Operating profit / EBIT, GAAP | \$622.0m         | \$555.3m         | Increased 12%   | Reported operating margin increased 30 bps to 15.3%.                                                          |
| Adjusted operating profit     | \$679.7m         | \$589.6m         | Increased 15%   | Adjusted operating margin increased 70 bps to 16.7%.                                                          |
| Net income, GAAP              | \$432.6m         | \$402.5m         | Increased 7%    | GAAP net margin was 10.6%, down c.25 bps.                                                                     |
| Adjusted net income           | \$482.5m         | \$427.1m         | Increased 13%   | Adjusted net margin increased to 11.9%.                                                                       |
| Diluted EPS, GAAP             | \$1.52           | \$1.41           | Increased 8%    | Reported EPS benefited from operating growth and lower diluted share count.                                   |
| Adjusted diluted EPS          | \$1.70           | \$1.50           | Increased 13%   | Management’s preferred EPS measure.                                                                           |
| Dividend per share            | \$0.73 quarterly | \$0.65 quarterly | Increased 12.3% | Payable 15 April 2026 versus 15 April 2025. ( <a href="https://investor.ecolab.com">investor.ecolab.com</a> ) |

Against market expectations, revenue was ahead: MarketBeat reported actual revenue of \$4.07bn versus consensus of \$4.03bn, while adjusted EPS of \$1.70 met its consensus estimate; AlphaStreet showed a marginal EPS miss versus a \$1.71 estimate, implying consensus interpretation was mixed but centred on a revenue beat and EPS broadly in line. ([MarketBeat](https://www.marketbeat.com))

**Stock Price Reaction:** Ecolab traded down about 2% day of results to \$262.59 after the report, despite the revenue beat and in-line EPS, as investors focused on Q2 EPS guidance below consensus and raw-material inflation risk. ([MarketBeat](https://www.marketbeat.com))

**Near-Term Sentiment:** Neutral, driven by strong High-Tech, Life Sciences and pricing execution, offset by shares falling on Q2 guidance below FactSet consensus and concerns over energy-driven commodity inflation. ([Morningstar, Inc.](https://www.morningstar.com))

## Why

Revenue increased because reported sales rose 10%, organic sales rose 4%, pricing contributed 3%, volumes contributed 1%, acquisitions/divestitures added 3%, and currency added 4%, according to the company’s Q1 supplemental slide deck. By business, Global Water fixed-currency sales increased 7%, with a 5% benefit from Ovivo and 2% organic growth, led by more than 20% organic growth in Global High-Tech and mid-single-digit Food & Beverage growth; Paper and Heavy Water remained soft but stabilised. ([ecolab.com](https://www.ecolab.com)) Global Institutional & Specialty sales rose 4%, driven by hospitality growth and high-single-digit Specialty growth from new business wins and value pricing. ([ecolab.com](https://www.ecolab.com)) Pest Elimination sales rose 8% on a fixed-currency basis and 7% organically, while Life Sciences sales increased 11%, led by bioprocessing more than doubling. ([ecolab.com](https://www.ecolab.com))

Profitability improved at the operating level but gross margin contracted. Reported gross profit increased to \$1.771bn from \$1.635bn, but reported gross margin decreased 60 bps to 43.6%; adjusted gross margin also declined 60 bps to 43.8%, reflecting acquisition mix and higher commodity costs. ([ecolab.com](https://www.ecolab.com)) Reported operating margin increased 30 bps to 15.3%, while adjusted operating margin increased 70 bps to 16.7% as SG&A leverage and productivity offset commodity-cost pressure. ([ecolab.com](https://www.ecolab.com)) Within segments, Global Water operating income rose 7% but margin slipped 10 bps to 14.6%; Institutional & Specialty operating income rose 13% and margin expanded 180 bps to 23.0%; Pest operating income rose 8% and margin expanded 10 bps to 16.7%; Life Sciences operating income

rose 21% and margin expanded 160 bps to 18.7%. ([ecolab.com](https://www.ecolab.com))

Margins were affected by three main factors: strong value pricing and volume growth were positive, while higher commodity costs and recent M&A weighed on gross margin; SG&A productivity and acquisitions’ favourable SG&A mix supported operating margin. ([ecolab.com](https://www.ecolab.com)) Below operating profit, other income decreased by \$4m and net interest expense increased by \$14m due to lower cash balances and new debt used to fund the Ovivo Electronics acquisition, reducing adjusted EPS by \$0.05; currency translation added \$0.08. ([ecolab.com](https://www.ecolab.com)) The tax rate increased to 21.8% from 20.3%, while the adjusted tax rate was broadly stable at 21.0% versus 20.8%; non-controlling interest was unchanged at \$4.0m. ([ecolab.com](https://www.ecolab.com))

One-off and adjustment items were material but clearly reconciled. Special gains and charges totalled \$57.7m versus \$34.3m, including One Ecolab, other restructuring, and acquisition/integration costs; corporate expense included \$57.4m of transformational acquisition amortisation related to Nalco, Purolite and Ovivo. ([ecolab.com](https://www.ecolab.com)) Adjusted net income excluded \$45.5m of after-tax special gains and charges and \$4.4m of discrete tax expense. ([ecolab.com](https://www.ecolab.com))

What Happens Next

| Guidance item                            | Company guidance            | Change versus prior guidance | Consensus / expectations comparison                                                                                                                                     |
|------------------------------------------|-----------------------------|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| FY 2026 reported sales growth            | +9% to +11%                 | Maintained / reiterated      | Implies roughly \$17.5bn–\$17.9bn sales versus 2025 sales of \$16.081bn.                                                                                                |
| FY 2026 organic sales growth             | H1 +4%; H2 +6% to +7%       | Maintained directionally     | Assumes stronger pricing and continuing volume growth.                                                                                                                  |
| FY 2026 adjusted operating income growth | +14% to +16%                | Maintained                   | Supported by pricing, productivity and Ovivo contribution.                                                                                                              |
| FY 2026 adjusted operating margin        | Approximately 19%, +100 bps | Maintained                   | Path to 20% operating margin by 2027 remains intact.                                                                                                                    |
| FY 2026 adjusted EPS                     | \$8.43–\$8.63, +12% to +15% | Maintained                   | Excludes pending CoolIT impact; MarketBeat shows 2026 expected EPS at \$8.49.                                                                                           |
| Q2 2026 adjusted EPS                     | \$2.02–\$2.12, +7% to +12%  | Newly provided for Q2        | Midpoint \$2.07 is below MarketBeat consensus of \$2.11; Morningstar cited below-FactSet-consensus Q2 guidance. ( <a href="https://www.marketbeat.com">MarketBeat</a> ) |

The guidance assumes commodity costs increase high-single digits from Q2 and remain high through year-end, with energy surcharge benefits building progressively and pricing covering the dollar impact from higher commodity costs by exit Q2. ([ecolab.com](https://www.ecolab.com)) Management also assumes continued strength in Global High-Tech, Life Sciences, Pest Elimination and Ecolab Digital, while the CoolIT acquisition is expected to close in Q3 but is excluded from the FY 2026 EPS outlook. ([ecolab.com](https://www.ecolab.com))

Key positives, negatives, risks and concerns

The key positives were a revenue beat, 13% adjusted EPS growth, 70 bps adjusted operating-margin expansion, strong Global High-Tech and Life Sciences growth, continued Pest and Specialty momentum, and strategic strengthening of data-centre cooling through the pending CoolIT acquisition. The main negatives and risks were a 60 bps gross-margin decline, higher commodity and energy costs, Q2 guidance below consensus, increased interest expense from Ovivo financing, softer Paper and Heavy Water demand, restructuring and acquisition/integration charges, and execution risk around surcharge conversion, CoolIT integration and maintaining demand in AI-linked water and cooling markets.

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# ELI LILLY AND COMPANY (NYSE: LLY)

Q1 2026 Earnings Analysis | Results Released: 30 April 2026

## Executive Summary

- BEAT: Revenue of \$19.8bn (+56% YoY) beat consensus by ~\$0.5bn; non-GAAP EPS of \$8.55 (+156%) beat by ~\$0.30 on strong volume-driven incretin growth.
- INCRETINS DOMINATE: Mounjaro (\$8.7bn, +125%) and Zepbound (\$4.2bn, +80%) delivered combined revenue of \$12.8bn, adding \$6.7bn of growth vs. Q1 2025.
- NEW LAUNCH: Foundayo (orforglipron) received FDA approval in April 2026 and launched in the US; 80%+ of early prescriptions are new-to-incretin patients, expanding the addressable market.
- GUIDANCE RAISED: Full-year 2026 revenue guidance lifted by \$2bn to \$82–\$85bn (midpoint +28% YoY); non-GAAP EPS raised by \$2 to \$35.50–\$37.00, both ABOVE prior consensus.
- STRONG MARGIN EXPANSION: Non-GAAP performance margin of 50.0% in Q1 (+740 bps YoY), driven by operating leverage on surging volume despite a 13% blended price headwind.
- PIPELINE MILESTONES: Five positive Phase 3 readouts in the quarter (Foundayo, Jaypirca, retatrutide, Ebglyss, Taltz+Zepbound); four acquisitions announced broadening oncology, immunology and neuroscience pipelines.
- STOCK +10% (DAY OF RESULTS): Shares rose ~10% intraday on 30 April 2026 (results released pre-market)**
- NEAR-TERM OUTLOOK: BULLISH. Volume-price dynamics favour continued growth; Medicare GLP-1 bridge programme (from July 2026) and Foundayo commercial ramp provide incremental catalysts. Monitor: commercial pricing erosion into private insurance channels and Novo Nordisk Wegovy pill competition.

## What Happened

| Metric                  | Q1 2026   | Q1 2025   | YoY   | vs. Consensus   |
|-------------------------|-----------|-----------|-------|-----------------|
| Revenue                 | \$19,799m | \$12,729m | +56%  | BEAT (~\$0.5bn) |
| Operating Income (EBIT) | \$8,915m  | \$3,695m  | +141% | —               |
| Net Income (GAAP)       | \$7,396m  | \$2,759m  | +168% | —               |
| Net Income (Adjusted)   | \$7,663m  | \$3,004m  | +155% | —               |
| EPS (Non-GAAP)          | \$8.55    | \$3.34    | +156% | BEAT (~\$0.30)  |
| Dividends per Share     | \$1.73    | \$1.50    | +15%  | —               |

Lilly delivered a clean beat across all key metrics in Q1 2026. Revenue of \$19.8bn (+56% YoY) exceeded analyst consensus estimates of approximately \$19.3bn, driven overwhelmingly by volume growth (+65%) in the incretin franchise. Non-GAAP EPS of \$8.55 (+156% YoY) beat consensus by approximately \$0.30, with the non-GAAP performance margin expanding 740 bps to 50.0% as operating leverage more than absorbed a 13% blended realised price decline (10% underlying ex-one-time rebate adjustment). Key Product revenue of \$13.4bn represented 68% of total sales and grew 110% YoY; within this, immunology, oncology and neuroscience products collectively grew 160%. The Q1 2026 non-GAAP EPS figure includes \$0.52 of acquired IPR&D charges (vs. \$1.72 in Q1 2025, a favourable comparison). Net incretin revenue of \$12.8bn (Mounjaro + Zepbound combined) accounted for 65% of total group revenue, underscoring the company’s near-complete dependence on—and dominance of—the global GLP-1 market.

**Near-term sentiment:** BULLISH — Shares rose ~10% intraday on April 30, 2026 (results released pre-market), with Morningstar noting that *"massive volume growth more than counters price pressure"* and raising its fair value estimate to \$900 from \$870.

## Why

**Revenue:** The 56% revenue increase was almost entirely volume-driven (+65%), with Mounjaro (+125% to \$8.7bn) and Zepbound (+80% to \$4.2bn) as the dominant engines. US revenue grew 43%, driven by 49% volume growth from Zepbound and Mounjaro, and international revenue surged 81%, led by Mounjaro expanding into 55+ countries. The inclusion of Mounjaro on China’s National Reimbursed Drug List (NRDL) for type 2 diabetes in Q1 2026 accelerated China revenue to \$693m (+54%), although with a meaningful price concession. Rest-of-world revenue more than doubled in constant currency on rapid Mounjaro share gains in Latin America and Asia. A one-time favourable rebate and discount estimate adjustment partially offset the underlying US price decline, which

management stated was -10% excluding this item. FX contributed +4 percentage points to total group revenue growth. Outside the incretin franchise, immunology (Ebglyss +141%, Omvoh +115%), oncology (Jaypirca +79%, Inluriyo first full quarter), and neuroscience (Kisunla +464% vs. Q1 2025 launch quarter) all contributed meaningfully to the 160% key-product growth in these segments.

**Profitability:** Non-GAAP gross margin contracted 90 bps to 82.6%, primarily driven by lower realised prices on Zepbound (cash-pay channel price reduction initiated in late 2025) and Mounjaro China NRDL pricing, partially offset by volume mix. Despite gross margin compression, the non-GAAP performance margin expanded 740 bps to 50.0% as high operating leverage absorbed SG&A growth of 19% (\$2.9bn) and R&D growth of 28% (\$3.5bn). Operating income on a reported basis grew 141% to \$8.9bn. Below the operating line, acquired IPR&D charges were materially lower at \$584m (vs. \$1.6bn in Q1 2025), contributing significantly to the 168% reported EPS growth. Asset impairment and restructuring charges of \$279m (primarily litigation-related) were partially offset by equity investment gains. The effective non-GAAP tax rate improved 370 bps to 16.5% due to the non-deductible IPR&D charge in the prior year base. Capital returns remained robust with \$2.4bn in buybacks and \$1.5bn in dividends in Q1.

## What Happens Next

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### Forward Guidance (Updated FY 2026):

- Revenue: \$82.0bn–\$85.0bn (midpoint +28% YoY vs. FY 2025 revenue of ~\$65.2bn) — RAISED from prior guidance of \$80.0–\$83.0bn
- Non-GAAP EPS: \$35.50–\$37.00 — RAISED from prior \$33.50–\$35.00 (an increase of \$2 to both top and bottom of range)
- Non-GAAP Performance Margin: 47.0%–48.5% — RAISED from prior 46.0%–47.5%
- Tax Rate: 18%–19% (unchanged)

### Guidance vs. Prior & Consensus:

Revenue guidance of \$82–\$85bn is approximately \$2–3bn ABOVE the analyst consensus prior to results (~\$80bn). EPS guidance of \$35.50–\$37.00 is approximately \$2–3 ABOVE the prior sell-side consensus of ~\$34.00. Management explicitly attributed the guidance raise to strong underlying performance of Mounjaro and Zepbound in Q1, not to any assumed Foundayo contribution at this stage.

### Key Assumptions and Catalysts:

- Foundayo launch ramp: Commercial access confirmed at 2 of 3 major US PBMs by mid-May; Medicare GLP-1 bridge programme access from 1 July 2026 (through December 2027, \$50/month co-pay cap); full-scale DTC advertising commencing Q3 2026. 80%+ of early prescriptions are new-to-incretin patients, suggesting market expansion rather than cannibalisation.
- International Mounjaro: Launched in 55+ countries; Lilly holds 53.2% ex-US incretin share. Management expects continued strong YoY growth but acknowledges incremental share gains are harder from this base — growth driver shifting to patient activation and market penetration.
- Retatrutide obesity data: TRIUMPH-1 readout expected in Q2 2026; if positive, this GIP/GLP-1/glucagon triple agonist could address the higher-weight-loss segment and extend Lilly's product suite well beyond Zepbound.
- Pricing headwind: Management guides for low-to-mid-teens price headwind for full-year 2026. CEO David Ricks noted that "pretty much every time we reduce pricing, we see a pretty large expansion in volume — validating non-linear, price-elastic demand dynamics in obesity".
- Pipeline progression: Foundayo Type 2 diabetes NDA submission planned for late Q2 2026, with potential regulatory action before year-end. Jaypirca first-line CLL label expansion under regulatory review. Four acquisitions (Orna, Centessa, Kelonia, Ajax) broaden future growth optionality in CAR-T, sleep, oncology, and JAK inhibitors.

### Stock Price Reaction:

Shares rose approximately **+10% intraday on 30 April 2026** (results released pre-market), the day of results. Morningstar analyst Karen Andersen raised her fair value estimate to \$900 (from \$870), stating that "*Mounjaro/Zepbound's massive volume growth more than counters price pressure*" and citing higher near-term incretin growth and operating leverage. The market reacted positively to: (1) the magnitude of the revenue beat; (2) the \$2bn guidance raise, which was well above expectations; and (3) encouraging early Foundayo launch metrics — notably that 80%+ of prescriptions are new-to-incretin patients, suggesting significant additional market expansion ahead.

## Key Positives, Negatives, Risks and Concerns

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**Positives:** Volume growth of 65% more than offset a 13% price headwind, demonstrating the price-inelastic, demand-driven nature of the obesity/diabetes franchise. The non-GAAP performance margin reached 50%, up 740 bps YoY, confirming strong operating

leverage as the revenue base scales. Foundayo represents a genuinely new delivery modality for GLP-1 therapy, with scalable manufacturing and 40+ country regulatory filings underway for obesity and type 2 diabetes. The immunology, oncology and neuroscience segment collectively grew 160%, showing Lilly is building genuine diversification beyond incretins. The \$2bn guidance raise came just one quarter into the year, with management attributing it primarily to underlying strength rather than Foundayo — implying significant option value if the oral launch delivers.

**Negatives:** US realised prices declined 10% underlying (7% reported, with a one-time favourable rebate adjustment masking the true run-rate), reflecting continued downward pressure from the cash-pay channel and China NRDL pricing. Gross margin of 82.6% contracted 90 bps YoY and management expects price headwinds of low-to-mid-teens for full-year 2026 to persist. The loss of Medicaid access in certain US states was a high single-digit headwind to Zepbound Q1 prescription growth. Foundayo's launch trajectory remains below that of oral Wegovy (Novo), requiring DTC advertising activation in Q3 to drive consumer awareness. Inluriyo (metastatic breast cancer) recorded only \$35m in its first full quarter, suggesting a modest initial ramp given the competitive landscape with abemaciclib and CDK4/6 inhibitors.

**Risks and Concerns:** The primary structural risk is commercial insurance pricing — approximately 50% of US patients access Zepbound/Mounjaro via employer-sponsored coverage, and PBM negotiations have not yet reset to cash-pay benchmarks. If commercial pricing follows the cash-pay channel down, margins and revenue could miss expectations. Novo Nordisk's oral Wegovy (semaglutide pill) is a direct Foundayo competitor with established physician familiarity; its efficacy profile is comparable and it launches in the US in May 2026. Lilly's Medicare bridge programme revenue will expire at end of 2027 unless Part D plans opt in for 2028, creating policy-dependent revenue risk. Retatrutide Phase 3 obesity data (TRIUMPH-1) expected this quarter — a disappointing result relative to investor expectations for 20%+ weight loss would be a negative catalyst for Lilly's next-generation incretin narrative. Valuation at ~30x 2026 consensus EPS leaves limited margin for error on execution.

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# Experian PLC (EXPN) — FY26 Full Year Results

Year ended 31 March 2026 | Released 7am, 20 May 2026

## Executive Summary

- Record FY26: revenue \$8,425m (+13% actual, +8% organic) at the top of guidance; Benchmark EBIT \$2,407m (+15%); Benchmark EPS 179.8c (+15%) — all comfortably ahead of consensus.
- Margin outperformance: Benchmark EBIT margin expanded 60bp at constant currency to 28.6%, beating the 30–50bp medium-term framework; AI-driven labour productivity drove a 300bp+ reduction in labour costs as a share of revenue over two years.
- FY27 guidance of 6–8% organic revenue growth — in line with prior guidance range but BELOW City consensus of ~8% — cited as reason for the share price slide despite a clean beat on FY26 metrics.
- Stock fell 5.2% on the day to 2,569p — a “sell the news” reaction, with the market disappointed by a guidance range that did not represent a meaningful upgrade; shares remain ~19% below their 52-week high of 4,101p.
- Capital returns bolstered: dividend increased 11% to 69.25c; new \$1bn share buyback programme announced (adding to the \$1bn January buyback); 93% cash conversion; ROCE 17.2%.
- AI tailwind: \$15bn+ of incremental addressable market identified; 100% renewal rate on top strategic accounts at higher contract values; cloud migration substantially complete freeing up dual-run costs from FY27.
- NEAR-TERM OUTLOOK: Neutral-to-Cautious. Results quality is high but the share price has already been punished by AI disruption fears in FY26. Guidance that lacked upside surprise limits re-rating catalyst near-term. Key risk: FY27 North America consumer lapping strong Q2 comp and mega-breach revenue wind-down.

## What Happened

| Metric                       | FY26     | FY25     | YoY Change                | vs. Consensus                    |
|------------------------------|----------|----------|---------------------------|----------------------------------|
| Revenue (ongoing activities) | \$8,425m | \$7,475m | +13% actual / +8% organic | Slight beat (~\$8.23b consensus) |
| Benchmark EBIT (ongoing)     | \$2,407m | \$2,102m | +15% actual / +13% CC     | Beat (margin ahead of guidance)  |
| Benchmark EBIT Margin        | 28.6%    | 28.1%    | +50bp actual / +60bp CC   | Beat (guided 30–50bp)            |
| Statutory Profit Before Tax  | \$1,951m | \$1,549m | +26%                      | —                                |
| Benchmark EPS                | 179.8c   | 156.9c   | +15% actual / +13% CC     | Beat (vs. ~179c consensus)       |
| Full Year Dividend per Share | 69.25c   | 62.50c   | +11%                      | —                                |

Experian delivered a record FY26, with organic revenue growth of 8% (9% in Q4) at the top of the 6–8% guidance range and Benchmark EBIT margin expanding 60bp at constant currency to 28.6%, beating guidance of 30–50bp for the second consecutive year. The \$8,425m revenue result modestly exceeded consensus estimates of approximately \$8.23bn, while Benchmark EPS of 179.8c matched or slightly beat the consensus of ~179c. Statutory profit before tax surged 26% to \$1.95bn, boosted by favourable non-cash FX remeasurements on Brazilian intra-group funding. Benchmark operating cash flow came in at \$2.2bn (93% conversion).

**Near-Term Sentiment:** Neutral-to-Cautious. Despite the clean FY26 beat, Morningstar noted the share price fell 2% in the London session (Morningstar report timed at market close); Investing.com confirmed a 5.2% intraday decline to 2,569p. The market focused on FY27 guidance that fell short of expectations rather than the strong FY26 delivery, reflecting an overhang from AI disruption concerns that has weighed on the stock throughout the year.

## Why

Revenue growth of 8% organically was driven by broad-based strength across all regions: North America led at 10% organic (Financial Services +14%, Verticals +8%), Latin America delivered 8% for the year with a strong Q4 acceleration to 17% as Brazil’s rate cycle turned; UK and Ireland grew 2%; and EMEA/Asia Pacific grew 5% boosted by illion integration synergies. Within segments, Consumer Services grew 9% organically — North America marketplace grew over 20% for the year as credit supply expanded, while Brazil

Consumer grew 23% for the full year. B2B grew 8% organically, with North America Financial Services recording a 100% renewal rate on major strategic accounts with double-digit contract value uplifts and extended durations, demonstrating deep client dependency on Experian's proprietary data infrastructure. Mortgage revenue in North America grew 45% on the year, reflecting a volume timing tailwind and higher pricing following FHFA acceptance of VantageScore 4.0.

Profitability improvement was driven by significant operating leverage from scaling Consumer Services, AI-enabled labour productivity (labour costs down 300bp+ as a share of revenue over two years; coding productivity up 10–15% with some areas exceeding 30%), and cloud migration efficiencies. Benchmark EBIT margin expanded 90bp organically (60bp at constant currency reported), outperforming the framework target of 30–50bp. Consumer Services margin expanded to 30% (from ~22% in FY20), broadly in line with the B2B margin of ~31%. Below the line, net interest expense increased to \$185m (from \$157m) as average debt rose with acquisitions; the benchmark tax rate was 25.5% (vs. 25.3% in FY25); and amortisation of acquired intangibles rose to \$271m (from \$211m), reflecting 2026 M&A activity (ClearSale, AtData, KYC360). A notable non-benchmark tailwind: \$82m of FX gains on Brazilian intra-group funding drove statutory PBT up 26% vs. the 15% Benchmark PBT growth, with no equivalent benefit expected to recur. Dual-run cloud migration costs peaked in FY26 and are expected to unwind over the next four to five years at approximately 20bp per annum.

## What Happens Next

### FY27 Guidance (Formally Issued):

- Total Revenue Growth: 8–11% at actual rates (includes ~1% inorganic from completed acquisitions and 1–2% FX tailwind)
- Organic Revenue Growth: 6–8%, starting around the middle of this range
- Benchmark EBIT Margin: ~+50bp at constant exchange rates (top end of medium-term framework)
- EPS: Another year of double-digit Benchmark EPS growth expected
- Net Interest: \$250m–\$260m (up from \$185m in FY26, reflecting higher average debt and Own Up/Konfir acquisitions)
- Benchmark Tax Rate: ~26%; CapEx: ~8% of revenue; Cash Conversion: >90%
- New \$1bn share repurchase programme (valid to June 2027); WANOS 880–885m

**Guidance vs. Prior and Consensus:** The 6–8% organic revenue guidance for FY27 is AFFIRMED relative to the original FY26 guidance band (the same range given at the start of FY26). However, it fell BELOW the City consensus of approximately 8% organic growth, which chief executive Brian Cassin described as a “prudent” approach in light of macroeconomic uncertainties linked to the Middle East. Consensus FY27 adjusted EPS was approximately \$1.98 (Morningstar); guidance for double-digit EPS growth on 179.8c FY26 base implies approximately \$198c+, which is broadly in line. Margin guidance of +50bp is at the top end of the 30–50bp medium-term framework and above the prior two-year average of 30bp actual, reflecting cloud dual-run cost unwind tailwind.

**Stock Price Reaction (day of results, released pre-open 7am):** Experian shares fell 5.2% on 20 May 2026 to trade at 2,569p, making EXPN the biggest faller in the FTSE 100 on the day despite the broader index rising ~0.7%. The stock closed the prior day at approximately 2,710p (per Morningstar), implying a market capitalisation decline of over £1.7bn on the day. The Proactive Investors headline noted Experian “slips to the foot of the FTSE despite record results.” According to Stifel, the results “should boost confidence after AI fears hammer shares” — acknowledging that AI disruption concerns had already cost the stock nearly a fifth of its value year-to-date ahead of results. Investing.com characterised the move as a classic “sell the news” reaction driven by a forward guidance range that failed to excite investors expecting a more decisive upgrade. The 52-week range of 2,353p–4,101p underscores the meaningful derating the stock has suffered.

**Analyst Sentiment:** Bulls argue the combination of a 100% top-client renewal rate with double-digit contract value uplifts, \$15bn+ of AI-enabled addressable market expansion, and cloud dual-run cost tailwinds from FY27 onward create a compelling multi-year earnings acceleration case; Morningstar maintained its 4-star rating at GBX 3,350 (24% upside to post-results price), seeing the shares as undervalued. Bears, including Bernstein (Underperform, 3,050p target), contend that FY27 organic growth of 6–8% is not materially above peers, the North America consumer marketplace faces tough lapping in H1 FY27, and the mega-breach contract wind-down creates a near-term earnings headwind. Net sentiment remains consensus Buy (17 Buy vs. 1 Sell on Investing.com), but the stock continues to trade at a significant discount to the group mean target of ~4,048p.

## Key Positives, Negatives, Risks, and Concerns

**Positives:** 100% renewal rate on top 20 North America strategic accounts with double-digit contract value uplifts and duration extensions approaching four-plus years — the strongest possible validation of Experian's data moat; Consumer Services margin expanded to 30% (parity with B2B), adding resilience to the earnings profile; and an \$2.2bn benchmark operating cash flow (93% conversion) supports both a \$2bn total buyback programme and continued M&A optionality while keeping leverage below 2.0x. The cloud migration is now substantially complete, setting up meaningful dual-run cost savings (~20bp per annum) from FY27 without further elevated capex.

**Negatives:** FY27 organic revenue guidance of 6–8% was at the City consensus midpoint rather than above it, failing to provide the re-rating catalyst the market needed; North America Consumer Services growth will face a tough H1 comparison (lapping a one-time Q2 volume uplift) and a ~\$40m annual headwind from the two mega-breach contract wind-downs, together representing meaningful drag

on the consumer segment in the first half; and net interest expense is guided to increase substantially to \$250m–\$260m (from \$185m in FY26) as higher average debt and acquired entity financing costs bite.

**Risks and Concerns:** The principal risk to monitor is the pace of AI-driven disruption to Experian’s traditional credit bureau model — while management credibly argues that AI raises demand for Experian’s proprietary, regulated data, the market is pricing in meaningful uncertainty, and the stock’s near-20% underperformance vs. the FTSE All Share over the prior year reflects this. Macroeconomic softness in the Middle East (cited in guidance) and continued US rate volatility could dampen credit market volumes, particularly in the consumer marketplace and mortgage segments. Finally, the idwall acquisition in Brazil (c.\$86m, subject to regulatory approval) and the post-period-end Own Up (\$175m) and Konfir (\$25m) completions will modestly dilute near-term margins before scaling to group average over three years, as is Experian’s normal M&A pattern.

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# Genmab A/S (CPH:GMAB)

Q1 2026 Earnings Analysis | Period ended 31 March 2026 | Released 7 May 2026 (post-close in Copenhagen)

## Executive Summary

- Revenue was \$896m, up 25% year-on-year, but below FactSet/Finwire consensus of \$906m by 1.1%.
- GAAP EBIT fell 4% to \$180m; adjusted EBIT rose 24% to \$237m after Merus-related items.
- EPKINLY/TEPKINLY global net sales rose 52% to \$137m; Tivdak rose 18% to \$39m globally.
- Guidance was AFFIRMED: FY26 revenue \$4.065bn-\$4.395bn and operating profit \$0.900bn-\$1.400bn.
- Shares fell 6.65% day after results (released post-close in Copenhagen), reflecting profit and margin concerns.**
- Balance sheet leverage rose after the Merus acquisition, with borrowings of \$5.208bn and cash of \$1.521bn.
- NEAR-TERM OUTLOOK: Neutral, as product and pipeline momentum is offset by financing costs and execution risk.
- Monitor 2026 Rina-S, EPKINLY and petosemtamab readouts, plus Merus integration, tax volatility and deleveraging.

## What Happened

| Metric                             | Q1 2026 | Q1 2025        | YoY  | Comment                                                                                         |
|------------------------------------|---------|----------------|------|-------------------------------------------------------------------------------------------------|
| Revenue                            | \$896m  | \$715m         | +25% | Increased; higher DARZALEX and Kesimpta royalties and EPKINLY sales.                            |
| Gross profit                       | \$831m  | \$673m         | +23% | Increased; margin decreased to 92.7% from 94.1%.                                                |
| Operating profit / EBIT (GAAP)     | \$180m  | \$188m         | -4%  | Decreased; margin declined to 20.1% from 26.3%.                                                 |
| Operating profit / EBIT (adjusted) | \$237m  | \$191m         | +24% | Increased; excludes Merus acquisition/integration charges and acquired-intangible amortisation. |
| Net income (GAAP)                  | \$53m   | \$195m         | -73% | Decreased; affected by acquisition charges and net financial expense.                           |
| Net income (adjusted)              | \$110m  | \$198m (calc.) | -44% | Decreased; adjusted Q1 2025 adds \$3m acquired-intangible amortisation.                         |
| Diluted EPS (GAAP)                 | \$0.83  | \$3.05         | -73% | Decreased in line with GAAP net profit.                                                         |
| Diluted EPS (adjusted, calc.)      | \$1.72  | \$3.10         | -44% | Calculated from adjusted net income and diluted share base implied by GAAP EPS.                 |
| Net cash from operating activities | \$3m    | \$287m         | -99% | Decreased materially; cash conversion was weak in the quarter.                                  |

Reported revenue growth was strong, but market expectations were mixed: FactSet/Finwire showed revenue 1.1% below consensus and EBIT 3.7% below consensus, while TheFly/TipRanks showed EBIT above its \$172.7m consensus but revenue below its \$901.1m consensus.

The share-price reaction was negative: GMAB Copenhagen closed at DKK 1,641.5 on 8 May 2026, down 6.65% day after results (released post-close in Copenhagen), with volume of 642k versus 138k on the release day. Near-Term Sentiment: Neutral (mixed signals), driven by strong royalties, EPKINLY/Tivdak momentum and a catalyst-rich pipeline, offset by GAAP margin compression, financing-cost drag and the negative next-day share reaction.

## Why

Revenue growth was driven by royalties and proprietary-product momentum. Total revenue increased 25% to \$896m, led by royalties of \$742m, up 26%, and net product sales of \$116m, up 55%. The main royalty drivers were DARZALEX royalties of \$562m, up 25%, supported by J&J net sales growth of 22%, and Kesimpta royalties of \$116m, up 29%, supported by Novartis net sales growth of 29%. EPKINLY/TEPKINLY global net sales increased 52% to \$137m, driven by strength in 3L+ DLBCL, 3L+ FL and 2L FL following the US approval in November 2025; Tivdak global net sales increased 18% to \$39m, with new Japan and Europe sales offsetting lower US gross-profit participation. Reimbursement revenue decreased 65% to \$8m, partly offsetting growth, while milestone revenue increased 33% to \$16m. Foreign exchange was identified as a general driver of royalty fluctuations, but no discrete Q1 2026 FX impact was quantified.

Profitability was mixed. Gross profit increased 23% to \$831m, but gross margin decreased 138 bps to 92.7% as cost of product sales rose 55%, mainly due to profit-sharing amounts payable to AbbVie on EPKINLY sales. GAAP EBIT decreased 4% to \$180m and EBIT margin declined 620 bps to 20.1%, reflecting higher R&D, SG&A, acquisition and integration charges. Adjusted EBIT, excluding Merus acquisition and integration charges and acquired-intangible amortisation, increased 24% to \$237m, with adjusted EBIT margin broadly stable at 26.5%. Genmab did not disclose operating profit or margins by product or business unit, so business-unit profitability cannot be reconciled from the official release.

Net profit decreased 73% to \$53m and net margin contracted to 5.9%, mainly because the \$180m operating profit was reduced by net financial items of \$(106)m and tax of \$21m. Financial income was \$44m and financial expense was \$150m in Q1 2026, reflecting the financing burden after Merus acquisition borrowings. Depreciation was \$16m and amortisation was \$13m in Q1 2026, including \$12m of amortisation of acquired intangible assets. The effective tax rate was 28.9%; management indicated tax volatility could continue while Merus operations are integrated, with normalisation expected over 12-18 months. No minority-interest effect was disclosed. One-off and adjusting items were material. Acquisition and integration-related charges were \$45m, primarily severance and retention connected to the Merus acquisition, and acquired-intangible amortisation was \$12m, mainly from the Merus technology platform acquired in December 2025. No Q1 2026 impairment, restructuring, legal-charge or litigation item was disclosed in the official release.

What Happens Next

| Guidance item                                   | FY26 range               | Midpoint      | Change vs prior | Key assumption                                                                                     |
|-------------------------------------------------|--------------------------|---------------|-----------------|----------------------------------------------------------------------------------------------------|
| Revenue                                         | \$4.065bn-\$4.395bn      | \$4.230bn     | AFFIRMED        | Higher royalties, net product sales and collaboration revenue.                                     |
| Royalties                                       | \$3.440bn-\$3.685bn      | \$3.563bn     | AFFIRMED        | Mainly DARZALEX and Kesimpta net sales growth.                                                     |
| Net product sales / collaboration revenue       | \$490m-\$555m            | \$522m        | AFFIRMED        | EPKINLY US/Japan sales; Tivdak ex-US sales and US gross-profit share.                              |
| Milestones / reimbursement revenue              | \$135m-\$155m            | \$145m        | AFFIRMED        | Dependent on collaboration milestones and reimbursed development work.                             |
| Gross profit                                    | \$3.810bn-\$4.110bn      | \$3.960bn     | AFFIRMED        | Midpoint gross margin: 93.6% (calc.).                                                              |
| Operating expenses                              | \$(2.710)bn-\$ (2.910)bn | \$(2.810)bn   | AFFIRMED        | Late-stage petosemtamab and Rina-S investment and launch readiness.                                |
| Operating profit                                | \$900m-\$1.400bn         | \$1.150bn     | AFFIRMED        | Midpoint operating margin: 27.2% (calc.).                                                          |
| Operating profit incl. acquisition/amortisation | \$780m-\$1.300bn         | \$1.040bn     | AFFIRMED        | Includes \$65m acquisition/integration and \$45m acquired-intangible amortisation guidance impact. |
| EPS                                             | Not disclosed            | Not disclosed | N/A             | No FY26 EPS guidance was provided in the official release.                                         |

Guidance vs. Prior & Consensus: AFFIRMED full-year 2026 revenue guidance of \$4.065bn-\$4.395bn and operating profit of \$0.900bn-\$1.400bn; the \$4.230bn revenue midpoint is above the \$4.13bn consensus referenced by TheFly/TipRanks but below the \$4.31bn full-year revenue estimate referenced by GuruFocus/Yahoo.

Key assumptions include DARZALEX 2026 net sales of \$15.6bn-\$16.4bn, a USD/DKK exchange rate of 6.2, no significant new agreements in 2026, higher royalties led by DARZALEX and Kesimpta, strong EPKINLY and Tivdak performance, and planned investment in Rina-S, petosemtamab and launch readiness. Pipeline milestones include up to seven registrational readouts in 2026 that could enable launches in 2027, including Rina-S PROC data in H2 2026, EPKINLY readouts and petosemtamab HNSCC readouts.

Key positives, negatives, risks and concerns

The main positives were 25% revenue growth, 26% royalty growth, EPKINLY/TEPKINLY global net sales growth of 52%, Tivdak growth of 18%, maintenance of FY26 guidance, Rina-S 2L+ PROC Phase 3 enrolment completion, and the EPKINLY label update removing the 24-hour hospitalisation recommendation in 3L+ relapsed/refractory DLBCL. The main negatives were a 4% GAAP EBIT decline, 73% GAAP net-income decline, weak operating cash flow of \$3m, elevated acquisition/integration and amortisation charges, and a \$162m negative swing in net financial items. Material risks include execution of multiple 2026 clinical readouts, Merus integration, tax-rate volatility, deleveraging from \$5.208bn borrowings, dependence on partner net sales and royalties, competitive intensity, reimbursement and launch execution, FX/inflation sensitivity, and clinical/manufacturing/regulatory risks.

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# Halma PLC – FY26 Full Year Earnings Analysis

Year ended 31 March 2026 | Results released 11 June 2026

## Executive Summary

- Record FY26 results: revenue +14.9% to £2,582m and adjusted EBIT +22.2% to £594.5m, both beating City consensus (£2,560m and £567.9m respectively) and crossing £2.5bn and £500m milestones for the first time.
- Organic revenue growth of 16.6% significantly exceeded the ≥5% KPI target and prior guidance of mid-teens at constant currency; photonics contributed ~8pp of that organic uplift, with the segment growing ~52% in FY26.
- Adjusted EBIT margin expanded 110bps to 22.7% (excl. Nuvonic one-off), comfortably above Morningstar’s 22.1% estimate and at the upper end of the 19–23% target range; adjusted EPS grew 21% to 118p, far exceeding the ≥10% KPI.
- FY27 guidance of “low double-digit” organic constant-currency revenue growth (incl. ~5pp photonics premium, implying ~30% photonics growth) disappointed buy-side expectations despite technically clearing sell-side consensus of ~10.4%.
- Shares fell ~11–12% on the day of results (released pre-market 11 June 2026) to ~4,116p, making Halma the biggest FTSE 100 faller, as investors focused on decelerating photonics growth and rising single-customer concentration (20% of group revenue, up from 15% in FY25).
- Record investment year: £475m on acquisitions (incl. E2S £226m, Halma’s largest deal to date) and £123m on R&D (4.7% of revenue); 47th consecutive year of dividend growth at +7% to 23.5p per share.
- Morningstar raises fair value 7% to GBX 3,650 (narrow moat, medium uncertainty) on improved margin assumptions; shares still 27% above fair value at 4,642p pre-results, signalling stretched valuation. Analyst consensus: Hold/Buy split; Jefferies Underperform.
- NEAR-TERM OUTLOOK: Bearish short-term / Neutral medium-term. Outstanding FY26 results overshadowed by decelerating guidance and structural concentration risk. Key monitors: hyperscaler capex cycle continuity, photonics revenue visibility, and ex-photonics portfolio growth sustainability.

## What Happened

Halma delivered its 23rd consecutive year of record adjusted profit for the full year ended 31 March 2026, with revenue and earnings comfortably surpassing both prior guidance and City consensus.

| Metric                           | FY26 Actual | FY25 Actual | YoY Change | vs. Consensus                       |
|----------------------------------|-------------|-------------|------------|-------------------------------------|
| Revenue                          | £2,582m     | £2,248m     | +14.9%     | BEAT (cons. £2,560m; +£22m)         |
| Adjusted EBIT (Operating Profit) | £594.5m     | £486.3m     | +22.2%     | BEAT (cons. £567.9m; +£26.6m)       |
| Adj. EBIT Margin (excl. Nuvonic) | 22.7%       | 21.6%       | +110bps    | BEAT (Mstar est. 22.1%; +60bps)     |
| Net Income (GAAP / Statutory)    | £377m       | £298m       | +26.5%     | —                                   |
| Net Income (Adjusted)            | £445m       | £375m       | +18.7%     | —                                   |
| EPS (Adjusted diluted)           | 118.0p      | 99.3p       | +18.7%     | BEAT (Mstar est. 100p; +18p)        |
| Dividends per Share              | 23.5p       | 22.0p       | +7.0%      | 47th consecutive year of ≥5% growth |

**Summary:** Halma delivered a blockbuster FY26, with revenue (£2,582m) and adjusted EBIT (£594.5m) both comfortably ahead of City consensus. Organic revenue grew 16.6% — well above the mid-teens guidance at H1 — with photonics within E&A contributing approximately 8pp. Adjusted EPS of 118p represented 21% growth, far exceeding the ≥10% KPI. Near-term market sentiment is **Bearish** (day of results): shares fell 11–12% to ~4,116p as investors focused on decelerating FY27 guidance and rising single-customer concentration in photonics rather than the earnings beat itself.

## Why

Revenue grew 14.9% to £2,582m, driven overwhelmingly by organic growth of 16.6% (volume-led with price contributing 1–2pp), with acquisitions adding 2.5% and a 2.8% currency headwind (USD depreciation vs. Sterling) and 1.5% from net disposals offsetting. The standout driver was photonics within the Environmental & Analysis (E&A) sector, growing ~52% in FY26 and contributing ~8 percentage points to group organic growth; total E&A revenue (excl. Nuvonic one-off) rose 32.3% to £1,028m. Safety grew 6.5% organically to £947m, led by the Public Safety subsector for its third consecutive year of double-digit organic profit growth. Healthcare recovered 6.3% organically to £598m, with good growth across all three subsectors. Revenue was geographically broad-based, with the US (+26% organic constant currency) as the strongest region driven by photonics data centre demand.

Profitability expanded materially ahead of revenue. Adjusted EBIT (excl. Nuvonic) grew 20.3% to £585m with a 110bps margin improvement to 22.7%, comfortably beating Morningstar's 22.1% estimate. Safety's sector margin reached a record 26.8% (+260bps YoY), reflecting operational leverage, product and portfolio mix optimisation, and active portfolio management (AAI disposal). Healthcare margin improved 100bps to 23.9% on volume recovery and pricing discipline. E&A margin was 40bps lower at 23.5%, reflecting photonics mix (photonics carries margin broadly in line with the group average, but its rapid growth relative to other E&A subsectors creates minor dilution). Central costs rose from £47.7m to £52.8m, reflecting group-level capability investment. Including the Nuvonic one-off (£9.3m profit on £9.9m revenue), reported adjusted EBIT was £594.5m at 23.0% margin.

Below the line, net finance costs rose to £30.0m (FY25: £26.9m) reflecting higher net debt following the record £475m acquisition spend. The effective tax rate was 23.7%, broadly flat YoY. Acquisition-related adjustments totalled £73.8m (FY25: £75.1m), comprising £63.2m acquired intangible amortisation, £4.4m acquisition costs, and a £6.2m loss on disposals (AAI). D&A was £71.1m (FY25: £64m), consistent with increased acquisition goodwill. Statutory profit before interest and tax rose 27% to £520.7m. Cash conversion was 93%, slightly ahead of the ≥90% KPI, though free cash flow to the firm compressed sharply to ~£30m (FY25: £354m) due to a £444m working capital and investment outflow from scaling photonics operations and record M&A spend. Return on Total Invested Capital rose 120bps to 16.2%, towards the upper end of the 12–17% target range.

## What Happens Next

**Forward Guidance (FY27, year to 31 March 2027):** Revenue: Low double-digit organic constant-currency (OCCY) growth including ~5pp photonics premium (implying ~30% photonics growth vs. ~52% in FY26). Adj. EBIT margin: In line with FY26 (i.e. ~22.7%, excl. Nuvonic), reflecting continued reinvestment offsetting operating leverage; no expansion guided. EPS guidance not explicitly stated; Morningstar forecasts FY27 adj. EPS of 131p (+11% YoY). Company-provided FY27 capex guidance: £55–60m; effective tax rate: 23.5–24.0%; net finance expense: ~£30m.

**Guidance vs. Consensus and Prior Guidance:** FY27 organic growth guidance of “low double-digit” (~10–12%) technically CLEARED sell-side consensus of ~10.4% (Jefferies), but disappointed buy-side expectations which had anticipated 12–15%+ given FY26 photonics momentum. Morningstar revised its FY27 revenue forecast up to £2,892m from £2,643m prior (+£249m). Relative to prior guidance: FY27 guidance is a STEP-DOWN from FY26's 16.6% organic outturn and represents a deceleration from the mid-teens guidance raised at the H1 FY26 results. The photonics premium contribution declines from ~8pp in FY26 to ~5pp in FY27, and the wider non-photonics portfolio is guided at 5–7.5% organic growth, consistent with Halma's long-term KPI framework.

**Stock Price Reaction (day of results — pre-market release, 11 June 2026):** Shares fell approximately 11–12% on the day of results to ~4,116p (shedding ~510p), making Halma the biggest faller in the FTSE 100. The stock had risen ~32% year-to-date prior to results and was approaching its 52-week high of 4,902p. Morningstar noted shares trading ~14% lower intraday. AskTraders reported: the plunge occurred despite a record earnings print, driven by investor concern over the deceleration in photonics growth and rising single-customer concentration risk (hyperscaler now 20% of group revenue). Sharecast noted the stock tumbled 12% to 4,070p at 09:15 BST, topping the FTSE 100 fallers board, with Jefferies (Underperform) noting guidance “clears the bar of sell-side consensus pegged at 10.4% [but] may fall slightly short of where more lofty expectations were.” Panmure Liberum's Alex da Silva O'Hanlon noted Halma trades on ~36x FY27 earnings versus a sector average of 22x, “leaving little room for disappointment.”

**Analyst Sentiment:** Morningstar (Matthew Donen, QQQ / Narrow Moat) raised its fair value 7% to GBX 3,650, citing better-than-expected margin but maintained an overvalued assessment at 1.27x fair value, noting the equity story is “increasingly reliant on the photonics business.” Bulls highlight Halma's structural quality — 23 unbroken years of profit growth, broad-based sector performance, 16.2% ROTIC and strong M&A pipeline — as well as the ongoing AI/data centre tailwind. Bears focus on premium valuation (~36x FY27 earnings vs. 22x sector), the deceleration in photonics growth from 52% to guided 30%, rising customer concentration, and compressed free cash flow from scaling costs. Net analyst consensus is broadly Hold/Buy (Morningstar QQQ, Jefferies Underperform, Berenberg Buy, Morgan Stanley Equal Weight, Citi Neutral, JPMorgan Neutral).

## Key Positives, Negatives, Risks and Concerns

**Positives:** FY26 delivered against every financial KPI simultaneously — organic revenue (+16.2%), organic profit (+19%), EBIT margin (22.7%), EPS (+21%), cash conversion (93%), ROTIC (16.2%), R&D (4.7%) and acquisition profit growth (+8.3%) all met or exceeded targets, a first. Safety delivered its third consecutive year of double-digit organic profit growth with a record-high 26.8% margin, validating structural rather than cyclical improvement. Record £475m M&A investment with a disciplined, quality-focused pipeline — including Halma's largest ever acquisition (E2S at £226m) — alongside a £123m R&D investment (4.7% of revenue, above the ≥4% target).

**Negatives:** Photonics growth is decelerating materially — from 52% in FY26 to guided 30% in FY27 — reducing the group premium contribution from ~8pp to ~5pp and marking a visible inflection that disappointed investors. Free cash flow to the firm collapsed to ~£30m in FY26 (from £354m in FY25) due to heavy working capital outflows (£83m) and record investment spend, and net debt/EBITDA rose to 1.16x. E&A sector margin slipped 40bps to 23.5% on photonics mix, and the Nuvonic one-off (£9.3m profit) modestly flatters the reported 23.0% group margin.

**Risks and Concerns:** The single hyperscaler customer now accounts for 20% of group revenue (up from 14% two years ago), a concentration that Morningstar explicitly flags as heightened and the market has repriced as a structural risk. Valuation remains stretched at ~36x FY27 earnings versus a 22x sector average and at 1.27x Morningstar's fair value of 3,650p, leaving no margin of

safety for execution miss or further guidance downgrades. Medium-term risks include a potential pause or reprioritisation in hyperscaler AI capex, technology substitution risk in optical switching, and the broader macroeconomic and geopolitical uncertainty acknowledged by management as affecting varied conditions in portfolio end markets.

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# Johnson Controls International plc (NYSE:JCI)

Fiscal Q2 2026 Earnings Analysis | Results released 6 May 2026

## Executive Summary

- Exceptional Q2 beat: revenue \$6.14bn (+8% reported, +6% organic) with adj. EPS \$1.19 (+45% YoY), beating consensus by ~\$0.04; adj. EBIT margin expanded 310 bps to 15.5%.
- Record backlog of \$20bn (+26% organic YoY) underpins multi-quarter revenue visibility; orders grew 30% organically, led by Americas +40%, reflecting surging data centre demand.
- Full-year FY2026 guidance RAISED: adjusted EPS lifted to ~\$4.85 (from ~\$4.70), representing ~30% YoY growth and \$0.30 above original guidance; organic revenue growth confirmed at ~6%.
- Stock fell -1.16% on results day (6 May 2026): JCI closed at \$143.14, down \$1.68 from the prior day's close of \$144.82. Despite clear beats on EPS (\$1.19 vs. \$1.12 consensus) and revenue, the Q3 EPS guide of ~\$1.28 was in line with consensus and full-year organic revenue was confirmed (not accelerated) at ~6%, disappointing elevated buy-side expectations after a strong YTD run.
- Margin story continues: adj. segment EBITA margin expanded 180 bps to 18.5%; EMEA delivered standout +370 bps margin improvement to 14.9% driven by productivity and operating leverage.
- Balance sheet in good shape: net debt/EBITDA improved to 2.0× (from 2.4× a year ago), within the 2.0–2.5× target range; adj. FCF conversion targeted at ~100% for the full year.
- NEAR-TERM OUTLOOK: Bullish. Record backlog and accelerating data centre demand provide strong FY2026–27 revenue visibility; ~70% of \$20bn backlog convertible within 12 months. Monitor: EMEA Middle East conflict headwinds (~2–3% of revenue impacted) and service-order softness in the security segment.

## What Happened

| Metric                | Q2 FY2026 | Q2 FY2025 | YoY Change        | vs. Consensus |
|-----------------------|-----------|-----------|-------------------|---------------|
| Revenue (Total)       | \$6,142m  | \$5,676m  | +8% (+6% organic) | BEAT ~\$100m  |
| Adjusted EBIT         | \$950m    | \$701m    | +36%              | —             |
| Adj. EBIT Margin      | 15.5%     | 12.4%     | +310 bps          | —             |
| Net Income (GAAP)     | \$609m    | \$473m    | +29%              | —             |
| Net Income (Adjusted) | \$730m    | \$545m    | +34%              | —             |
| EPS (Adjusted)        | \$1.19    | \$0.82    | +45%              | BEAT ~\$0.04  |
| Dividends per Share   | \$0.40    | \$0.37    | +8%               | —             |

Johnson Controls delivered a strong second fiscal quarter, with total revenue of **\$6.14bn (+8% reported, +6% organic)**, beating analyst consensus by approximately \$100m. Adjusted EPS of **\$1.19 (+45% YoY)** exceeded guidance of ~\$1.15 and consensus by ~\$0.04, driven by robust volume growth, pricing, and productivity. Adjusted EBIT margin expanded a material **310 bps to 15.5%**, while adj. segment EBITA margin widened 180 bps to 18.5%. Orders grew **30% organically** (Systems +45%, Service flat), and backlog hit a record **\$20bn (+26%)**, providing strong forward visibility. Free cash flow was \$604m (adj. FCF \$526m) for the quarter.

**Near-term sentiment:** Bullish, though the stock sold off on the day as markets had priced in even stronger guidance. Morningstar noted results were 'impressive and improving' but raised valuation concern at ~30× 2026E EPS.

## Why

**Revenue:** Organic growth of 6% was broad-based across both Systems (+6%) and Service (+6%), with Applied HVAC (large commercial chillers, BMS, Controls) the standout driver at high-single-digit growth. The Americas delivered +7% organic growth on continued data centre strength (Systems +5%, Service +10%); APAC surged +13% organically, led by over 20% Applied HVAC growth in Southeast Asia and China; EMEA grew only +1% organically as strong Systems (+3%) was partially offset by a -1% service decline, with Middle East conflict disrupting approximately one-third of that sub-region's order pipeline. FX provided a +\$128m (~220 bps) tailwind to reported revenue.

**Profitability:** Adj. EBIT expanded \$249m (+36% YoY) to \$950m, with the margin rising 310 bps to 15.5%. The primary drivers were: (1) net volume leverage contributing ~\$135m, (2) productivity savings of ~\$50m, and (3) ~\$5m of positive mix. SG&A fell 4% on an adjusted basis to \$1,313m, reflecting ongoing stranded-cost reduction from prior divestitures (adjusted corporate expense down 24%

to \$102m). At the segment level, Americas adj. EBITA margin improved 100 bps to 19.5% (volume/pricing-led), EMEA by 370 bps to 14.9% (productivity and operational leverage), and APAC by 350 bps to 19.8%. Below the line, net financing charges fell 16% to \$67m, and the adj. effective tax rate was 17% (vs. 12% in the prior year — a headwind of ~\$0.12 to EPS YoY on a normalised basis). Share count declined modestly to 614m diluted shares (\$215m of buybacks in Q2).

**Strategic context:** The divestiture of the Residential & Light Commercial HVAC business to Bosch (completed July 2025) means JCI is now a pure-play commercial building systems company (60% HVAC, 40% fire & security). The proprietary Business System (Simplify-Accelerate-Amplify) is in early-stage rollout, with 1,400 colleagues engaged; management guided that meaningful P&L impact will build over the next 1–2 years. The Alloy Enterprises acquisition adds proprietary thermal-management material science capabilities for CDU and cold-plate applications in data centres.

## What Happens Next

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### Forward Guidance

- FY2026 Organic Revenue: ~6% (RAISED from prior guidance of 'up mid-single digits')
- FY2026 Adj. EPS: ~\$4.85 (RAISED from ~\$4.70; +~30% YoY; \$0.30 above original FY guidance)
- FY2026 Operating Leverage: ~50% (affirmed)
- FY2026 Adj. Free Cash Flow Conversion: ~100% (affirmed)
- Q3 FY2026 Organic Revenue: ~6%
- Q3 FY2026 Adj. EPS: ~\$1.28
- Q3 FY2026 Operating Leverage: ~45%

### Guidance vs. Prior Guidance & Consensus

Full-year EPS guidance of ~\$4.85 was **RAISED by \$0.15** from the prior ~\$4.70 and represents roughly 30% YoY growth. Consensus heading into the print was approximately \$4.75–4.80 for FY2026; the raise was therefore **modestly above consensus** but smaller than some bulls had hoped, contributing to the post-print sell-off. Revenue guidance of ~6% organic is broadly **in line with consensus** (which had shifted toward ~6% following the strong Q1 print). The full-year operating leverage target of ~50% implies continued margin expansion in H2, with EBIT margin likely to exit the year approaching 16–17%.

### Key Assumptions

- Sustained data centre demand driving Applied HVAC Systems orders, with Americas backlog of \$14.9bn (+32%) providing strong multi-quarter visibility.
- ~70% of \$20bn backlog convertible to revenue within 12 months; remaining 30% constrained by customer power/electrical infrastructure timelines.
- EMEA Middle East disruption (~one-third of sub-regional orders impacted) expected to persist through Q3 FY2026 with recovery only anticipated in Q4.
- Section 232 tariff impact expected to remain minimal due to JCI's product classification; any residual cost pressures manageable via pricing.
- Service business (Americas security segment) undergoing deliberate price/volume rebalancing; near-term softness accepted in exchange for improved margins.
- CDU (cooling distribution unit) revenue expected to reach ~\$100m in FY2026 with significant pipeline; Alloy Enterprises technology to be integrated into CDU/cold-plate offerings in the near term.

### Stock Price Reaction

JCI closed at **\$143.14 on 6 May 2026** (results day, earnings released pre-market at 8:30 a.m. ET), versus a prior close of **\$144.82 on 5 May 2026** — a decline of **-\$1.68 / -1.16%**. The muted sell-off despite a clear earnings beat (EPS \$1.19 vs. \$1.12 consensus; revenue \$6.14bn vs. \$6.08bn) reflects the fact that the Q3 FY2026 EPS guide of ~\$1.28 was exactly in line with consensus, offering no incremental upside surprise, while full-year organic revenue growth was confirmed at ~6% rather than raised — a mild disappointment for investors expecting an upgrade after the strong orders run-rate.

## Key Positives, Negatives, Risks and Concerns

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Key Positives: Record backlog of \$20bn (+26% organic) and 30% order growth provide exceptional multi-quarter revenue visibility and

de-risk FY2026–27 targets. Margin execution was strong across all three geographies, with group adj. EBIT margin of 15.5% — a 310-bps YoY improvement — demonstrating that volume leverage, pricing, and early Business System productivity are flowing through consistently. The FY2026 EPS raise to ~\$4.85 (representing ~30% growth) underscores management confidence, and the balance sheet at 2.0× net debt/EBITDA is at the low end of the target range, supporting capital returns and M&A optionality.

**Key Negatives:** EMEA organic revenue growth of only 1% — weighed down by Middle East conflict disruptions and lower non-recurring service volumes — is a notable drag; the region contributes ~20% of revenue and operates at ~300–400 bps below peer margins. Service order growth was flat in Q2, with the security sub-segment actively being repriced at the expense of volumes — a deliberate but near-term headwind to backlog build-out in that line. The tax rate normalisation from 12% to 17% is an ongoing EPS headwind, and transformation costs remain elevated (\$62m in Q2 alone), suggesting portfolio restructuring is not yet complete.

**Risks and Concerns:** Valuation is the most immediate risk: at ~30× FY2026E EPS and a 30% premium to Morningstar's fair value, JCI's stock already prices in aggressive execution; any guidance miss or macro deterioration could cause a sharp de-rating. The geopolitical situation in the Middle East (~2–3% of group revenue) remains unpredictable, and a broader escalation could delay material EMEA backlog conversion. Longer term, the debate around liquid-cooling architectures and reduced chiller content per data centre — albeit judged as 'overstated' by management — warrants monitoring as hyperscaler capex plans evolve. Finally, the Business System transformation carries execution risk: meaningful P&L impact is not expected for 1–2 years, leaving results dependent on organic market momentum in the interim.

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# Kingspan Group plc — FY 2025 (year ended 31 Dec 2025)

## What Happened

| Metric                                                      | FY 2025                                            | FY 2024   | YoY change        | Notes / vs consensus                                                            |
|-------------------------------------------------------------|----------------------------------------------------|-----------|-------------------|---------------------------------------------------------------------------------|
| Revenue                                                     | €9,199.0m                                          | €8,608.0m | Increase (+7%)    | Morningstar: results <b>in line</b> with expectations (revenue +7% to ~€9.2bn). |
| Operating profit (EBIT, GAAP)                               | €903.5m                                            | €862.1m   | Increase (+5%)    | GAAP EBIT includes intangible amortisation.                                     |
| Operating profit (EBIT, “Trading profit” / adjusted proxy*) | €955.1m                                            | €906.7m   | Increase (+5%)    | Trading margin <b>10.4%</b> (down <b>10 bps</b> ).                              |
| Net income (GAAP; profit attributable to owners)            | €671.2m                                            | €665.5m   | Increase (slight) | Total profit for year (incl. NCI) <b>€715.7m</b> vs €690.8m.                    |
| EPS (basic, GAAP)                                           | 370.0c                                             | 365.2c    | Increase (+1%)    | Morningstar: EPS (diluted) shown at <b>€3.67</b> for 2025.                      |
| Dividends per share                                         | 55.5c total dividend (final 29.2c + interim 26.3c) | 54.8c     | Increase (+1%)    | Final dividend payable <b>20 May 2026</b> (record date 10 Apr 2026).            |

\*Kingspan defines “Trading profit” as operating profit before amortisation of intangibles (and certain non-trading items).

**Very brief vs expectations:** External commentary available in the uploaded pack indicates FY25 results were **in line** with expectations (revenue +7% to ~€9.2bn; trading profit +5% to ~€955m).

## Why

Revenue **increased** (+7% reported; +9% constant currency) driven mainly by **acquisitions** (about **+8%** contribution to sales growth) with only modest underlying growth and a currency headwind. Segmentally, **Insulated Building Envelopes** sales **increased 6%**, but this was **mainly acquisition-led** (underlying **-1.0%**, currency **-1.6%**, acquisitions **+8.4%**), reflecting softer markets in parts of Europe/US offset by stronger LATAM/APAC and “solid European activity overall.” **Advnsys** sales **increased 12%** (underlying **+6.6%**, currency **-1.7%**, acquisitions **+7.1%**), buoyed by tech/data center activity; management flagged **backlog +24%** exiting the year and order intake early 2026 running **~2x** the prior-year period.

Profitability **improved** overall but **margins softened slightly**: **Trading profit rose 5% to €955m**, while the **trading margin slipped 10 bps to 10.4%**, reflecting mix/geography and initial acquisition dilution (notably in Insulated Building Envelopes). GAAP EBIT **increased to €903.5m** from €862.1m, with **intangible amortisation** rising to **€51.6m** (from €44.6m). Within segments, Trading margin **decreased** in Insulated Building Envelopes (10.2% vs 10.5%) but **increased** in Advnsys (11.1% vs 10.7%) on stronger volumes/operating leverage. Net income attributable to owners was **slightly higher** (€671m vs €666m), with below-the-line impacts including higher **net finance costs (€54.1m vs €32.0m)** as debt increased to fund acquisitions.

Key items influencing operating/net margins included (i) **acquisition mix/dilution** (Insulated Building Envelopes), (ii) **higher interest expense** from a higher debt load, and (iii) rising **non-controlling interests** share of profit (NCI profit €44.5m vs €25.3m). One-off / special factors were not highlighted as major earnings distortions beyond the usual acquisition-related accounting and amortisation; management’s “trading profit” framework is intended to strip out amortisation of acquired intangibles and non-trading items.

## What Happens Next

### Guidance / outlook (FY 2026):

- Trading profit: management sees “a firm path” to ~€1.05bn trading profit in 2026.
- Backlog / demand context: entered 2026 with generally healthy backlogs; start to 2026 sluggish due to tough winter conditions, but expects activity to pick up through the year.
- Capex / investment posture: Kingspan continues to invest heavily in expansion (2025 investment in acquisitions + capex of €751.9m), implying continued growth spending as a key operating assumption.

**Changed vs prior guidance:** Morningstar notes Kingspan’s **2026 trading profit target ~€1.05bn was unchanged**.

**Guidance vs consensus / expectations:** The uploaded materials do not provide a detailed sell-side consensus for 2026, but the available commentary frames FY25 results as **in line** and the 2026 profit target as maintained.

**Key assumptions underpinning guidance:** continued strength in the **tech/data center** end market (Advnsys), improving activity after winter disruption, and execution of the expanded manufacturing footprint (particularly in the US) to meet demand.

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## Key positives, negatives, risks and concerns

Positives: Kingspan delivered **record revenue and profitability** in 2025, with strong **Advnsys** momentum (data center-driven; backlog +24% and very strong early-2026 order intake) and a modest **dividend increase** (total DPS 55.5c). Negatives/risks: group **trading margin dipped** (10 bps) as acquisitions diluted margins and end markets remained mixed; **free cash flow fell 16%** to €429m, while **net debt rose** to €1,884m (net debt/EBITDA 1.65x) reflecting heavy investment and M&A—raising sensitivity to interest costs and integration execution.

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# Linde plc (LIN:NASDAQ)

Q1 2026 Earnings Analysis | Released: 1 May 2026 (pre-market)

Industrial Gases & Engineering | Analyst: Delta Outcomes Research

## Executive Summary

- **EPS beat:** Adjusted EPS \$4.33 (+10% YoY), \$0.06 above FactSet consensus; revenue \$8,781m (+8%) beat by ~\$49m, driven by 5% FX tailwind and 3% underlying growth.
- **Margin resilience:** Adjusted operating margin 30.0% (flat YoY, -10 bps vs. Q1 2025 adjusted 30.1%), with Americas leading at 31.6% (+60 bps YoY); margin expansion guided to 40-60 bps for full-year 2026.
- **Project backlog:** Total high-quality project backlog of \$9.9bn (SOG \$7.1bn + SOP \$2.8bn)
- **Guidance RAISED (floor):** Full-year 2026 adjusted EPS guidance raised to \$17.60-\$17.90 (from \$17.40-\$17.90); Q2 2026 EPS guided \$4.40-\$4.50 (+8-10% YoY). Midpoint assumes no economic improvement and no helium upside — both conservative.
- **Helium optionality:** Guidance explicitly excludes any helium improvement vs. February guide; Strait of Hormuz/Russian supply disruptions creating acute shortage, with pricing and new long-term contracts representing unmodelled upside.
- **Capital returns:** \$1.5bn returned to shareholders in Q1 (dividends \$0.7bn + buybacks \$0.8bn); dividend raised 7% (33 consecutive years of growth, 13% CAGR); ROC 23.8%.
- **Stock reaction:** LIN stock traded up approximately +2.3% on the day of results (1 May 2026) to ~\$512.
- **NEAR-TERM OUTLOOK: BULLISH.** Best-in-class industrial gas compounder with conservative guidance, catalytic helium optionality, and a growing electronics/space backlog. Monitor: EMEA volume recovery and ATR/Whiting blue hydrogen project delay into Q1 2027.

## What Happened

| Metric                       | Q1 2026  | Q1 2025  | YoY Change | vs. Consensus  |
|------------------------------|----------|----------|------------|----------------|
| Revenue                      | \$8,781m | \$8,112m | +8%        | BEAT (+\$49m)  |
| Adj. Operating Profit (EBIT) | \$2,630m | \$2,438m | +8%        | —              |
| Reported Operating Profit    | \$2,439m | \$2,184m | +12%       | —              |
| Net Income (GAAP)            | \$1,857m | \$1,673m | +11%       | —              |
| Net Income (Adjusted)        | \$2,019m | \$1,880m | +7%        | —              |
| EPS (Adjusted)               | \$4.33   | \$3.95   | +10%       | BEAT (+\$0.06) |
| Dividends per Share          | \$1.60   | \$1.50   | +7%        | —              |

**Summary:** Linde delivered a clean Q1 beat, with adjusted EPS of \$4.33 topping FactSet consensus by \$0.06 and reported sales of \$8,781m surpassing expectations by ~\$49m. Results were released pre-market on 1 May 2026, with the stock trading up ~2.3% on the day. The headline beat was driven by a stronger-than-expected 5% FX tailwind (EUR strengthening) and a 3% underlying sales increase (2% pricing + 1% volume). Operating cash flow of \$2.24bn (+4% YoY) and free cash flow of \$898m were in line with seasonal norms. The performance was described by CEO Sanjiv Lamba as *“another solid quarter with 10% EPS growth, 30% operating margin and 24% return on capital under increasingly challenging global conditions.”*

**Near-Term Sentiment: BULLISH** — Resilient defensive compounder delivering consistent EPS growth against a volatile macro backdrop; guidance raise (floor) and strong backlog support positive tone.

## Why

**Revenue drivers:** Reported sales growth of 8% YoY was dominated by a 5% currency tailwind (euro strengthening) and 1% acquisition contribution, with underlying sales up just 3% (2% pricing, 1% volume). Volume growth of 1% was entirely project-startup driven, primarily in APAC; base volumes turned marginally positive globally but insufficient to round to 1%. Americas was the standout, with underlying sales +6% (price +4%, volume +2%) led by electronics, manufacturing and metals/mining — the best Americas volume performance since Q3 2022. APAC underlying sales grew 6% (volume +6% from project startups and equipment sales), though operating margin compressed 130 bps YoY to 28.0% due to lower-margin sale-of-equipment revenue. EMEA underlying sales fell 2%

(volume -3%, price +1%), reflecting persistent industrial weakness exacerbated by the Middle East conflict's indirect impact on continental European chemicals and manufacturing customers.

**Profitability:** Group adjusted operating profit grew 8% YoY to \$2,630m, with adjusted margin flat at 30.0% (vs. 30.1% in Q1 2025). Sequentially, margins improved 50 bps from Q4 2025 (29.5%) driven by management pricing and productivity actions. Management guided full-year 2026 margin expansion “*at the upper end or even above*” the traditional 40-60 bps range. Americas operating margin expanded 60 bps YoY to 31.6%, while EMEA held firm at 36.1% (+60 bps YoY) despite volume weakness, reflecting pricing discipline and cost initiatives. The Global Other segment swung to a -\$4m operating loss (vs. +\$14m in Q1 2025) due to helium headwinds and higher costs, partially offset by coatings volume growth in electronics and commercial aerospace.

**Electronics and secular growth themes:** Electronics grew 10% YoY — the fastest of all end markets — driven by AI-related advanced chip investments in the US, China and Korea. Linde's >\$1bn electronics project backlog (12% of total SOG backlog) is expected to grow significantly in 2026, with management expressing “*a high degree of confidence*” in announcing several new contracts imminently. Commercial space (within manufacturing) continues at strong double-digit growth, supplying propellants and ultra-high-purity gases for space vehicle production, testing and launch. The Whiting/Linde Hydrogen project experienced a ~3-month delay on the ATR/carbon capture (blue hydrogen) phase, now expected in Q1 2027; the atmospheric nitrogen phase remains on track for mid-2026.

## What Happens Next

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### Forward Guidance:

- Q2 2026 Adj. EPS: \$4.40 to \$4.50 (+8% to +10% YoY; +7-9% ex-currency)
- FY 2026 Adj. EPS: \$17.60 to \$17.90 (+7% to +9% YoY); RAISED from prior range of \$17.40-\$17.90
- FY 2026 Operating Margin: 40-60 bps expansion (likely at upper end or above per management)
- FY 2026 Capex: \$5.0bn to \$5.5bn (supporting \$7.1bn SOG project backlog)

**Guidance vs. Prior & Consensus:** Full-year EPS guidance was raised at the floor by \$0.20 (from \$17.40 to \$17.60), reflecting increased confidence in business resilience. The top end was maintained at \$17.90 pending further geopolitical clarity.

**Stock Price Reaction (day of results, released pre-market):** LIN closed at \$501.14 on 30 April 2026. On 1 May 2026 — the day results were released — the stock traded up approximately +2.3%, consistent with a clean beat-and-raise print. The market's positive reaction reflected: (1) the EPS beat driven by strong Americas pricing and electronics growth; (2) the guidance floor raise, signalling management confidence; and (3) conservative helium and macro assumptions that preserve upside optionality.

## Key Positives, Negatives, and Risks

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### Positives:

- Electronics leadership: Electronics +10% YoY and accelerating; >\$1bn in SOG backlog with more contracts imminent; AI-driven demand for ultra-high-purity gases structurally secular.
- Americas resilience: Americas underlying sales +6% (best since Q3 2022), with hard goods +double-digit and packaged gases +mid-single-digit, confirmed by positive US PMI prints; US Gulf Coast refining and commercial space driving incremental demand.
- Helium upside optionality: Guidance excludes any benefit from acute global helium shortages (Strait of Hormuz/Russian supply disruptions); 85-90% contracted customer base limits downside; incremental volume and pricing represent unmodelled EPS upside throughout 2026.

### Negatives:

- EMEA volume drag: EMEA underlying volumes -3% YoY (and sequentially) with no near-term catalyst; weaker chemicals and industrial environment compounded by Middle East conflict impacts; management “not happy” with performance and taking actions.
- Whiting blue hydrogen delay: ATR and carbon capture (TNS) phases slipped ~3 months to Q1 2027 due to US Gulf Coast construction/subcontractor challenges, reducing 2026 contribution from this flagship project.

### Risks & Concerns:

- Macro deterioration: Fourth consecutive year of “no economic improvement” guidance assumption; further industrial demand weakness, global recession, or tariff escalation could pressure volumes beyond current guidance.
- Geopolitical concentration: Middle East conflict (Strait of Hormuz) continues to weigh on EMEA and could escalate; any normalisation of Helium supplies would remove upside optionality currently embedded in the bull case.

- Execution risk on backlog: \$9.9bn project backlog concentrated 71% in Americas; continued US construction inflation and subcontractor tightness could drive further project delays beyond Whiting; project IRR assumptions must hold in a higher-for-longer rate environment.

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# Mastercard Incorporated (NYSE:MA)

Q1 2026 Earnings Analysis | Period ended 31 March 2026 | Released 30 April 2026 (pre-open)

## Executive Summary

- Q1 beat with net revenue \$8.40bn (+16%; +12% currency-neutral) and adjusted EPS \$4.60, above \$4.41 consensus.
- Adjusted operating income rose 19% to \$5.11bn, with adjusted operating margin expanding 150 bps to 60.8%.
- Value-added services grew 22% reported and 18% currency-neutral, led by security, authentication, insights and engagement demand.
- Payment-network trends remained solid: GDV +7%, cross-border volume +13%, and switched transactions +9% despite Capital One migration effects.
- Full-year reported revenue guidance was raised at the top end, while currency-neutral ex-inorganic net revenue guidance was affirmed.
- Stock fell 4.25% day of results (released pre-open) as April cross-border softness and Middle East travel risk outweighed the beat.**
- Capital allocation remained aggressive, with \$4.0bn of Q1 repurchases, \$777mn of dividends, and another \$1.7bn repurchased through 27 April.
- NEAR-TERM OUTLOOK: Neutral. Earnings resilience and VASS momentum are offset by cross-border travel deceleration and elevated expectations.

## What Happened

Mastercard delivered a clean top-line and EPS beat in Q1 2026, with revenue growth above consensus and margin expansion supported by operating leverage. The market reaction was negative because investors focused on April cross-border travel softness, Middle East conflict assumptions and elevated expectations following Visa’s stronger prior-day read-across.

| Metric                         | Q1 2026   | Q1 2025   | YoY change                           | Commentary                                                                                |
|--------------------------------|-----------|-----------|--------------------------------------|-------------------------------------------------------------------------------------------|
| Net revenue                    | \$8.398bn | \$7.250bn | Increased 16%; +12% currency-neutral | Beat consensus of c.\$8.26bn by c.\$139mn.                                                |
| Operating profit / EBIT (GAAP) | \$4.907bn | \$4.149bn | Increased 18%; +13% currency-neutral | GAAP operating margin expanded to 58.4% from 57.2%.                                       |
| Adjusted operating profit      | \$5.109bn | \$4.300bn | Increased 19%; +13% currency-neutral | Adjusted operating margin expanded to 60.8% from 59.3%.                                   |
| Net income (GAAP)              | \$3.882bn | \$3.280bn | Increased 18%; +13% currency-neutral | GAAP diluted EPS increased to \$4.35 from \$3.59.                                         |
| Adjusted net income            | \$4.103bn | \$3.406bn | Increased 20%; +15% currency-neutral | Non-GAAP figure excludes equity investment losses and restructuring charge.               |
| Adjusted diluted EPS           | \$4.60    | \$3.73    | Increased 23%; +18% currency-neutral | Beat consensus of \$4.41 by \$0.19; buybacks contributed \$0.10.                          |
| Quarterly dividend per share   | \$0.87    | \$0.76    | Increased 14%                        | Dividend paid in Q1 was \$777mn; quarterly cash dividend increased from prior-year level. |

Consensus and market expectations: Q1 adjusted EPS of \$4.60 exceeded the \$4.41 consensus by \$0.19, while revenue of \$8.40bn exceeded the \$8.26bn consensus by c.\$139mn. News coverage characterised the quarter as an earnings and revenue beat, but the share-price response reflected investor concern over April-to-date cross-border deceleration and a less favourable comparison with Visa’s results.

Stock Price Reaction: Mastercard fell 4.25% on the day of results (released pre-open), closing at \$502.92 on 30 April 2026; volume was c.6.0mn shares versus a 50-day average of c.3.5mn, reflecting a negative reaction despite the beat.

Near-Term Sentiment: Neutral (earnings beat, VASS momentum and resilient underlying spending were offset by cross-border travel softness, Middle East conflict risk and elevated expectations).

## Why

Revenue increased because both major revenue streams expanded. Payment network net revenue rose 12% reported and 8% currency-neutral, supported by GDV growth of 7% to \$2.7tn, cross-border volume growth of 13%, and switched transaction growth of 9%. Value-added services and solutions grew 22% reported and 18% currency-neutral, driven by security solutions, digital and authentication, business and market insights, consumer acquisition and engagement, and pricing. Rebates and incentives increased 23% reported and 19% currency-neutral, primarily due to key-driver growth and new and renewed deals, reducing the net revenue conversion from underlying assessments. Geographically, GDV increased 4% in the United States and 9% outside the United States. U.S. debit growth was held to 1% by the Capital One debit portfolio migration; excluding that migration, U.S. debit GDV would have increased 7%. Cross-border travel was affected from March by the conflict in the Middle East, although cross-border CNP excluding

travel remained strong.

Profitability improved year-on-year. GAAP operating profit increased 18% to \$4.907bn, with GAAP operating margin rising 120 bps to 58.4%; adjusted operating profit increased 19% to \$5.109bn, with adjusted operating margin rising 150 bps to 60.8%. Net profit also improved, with GAAP net margin rising to 46.2% from 45.2% and adjusted net margin rising to 48.9% from 47.0%. Gross profit was not separately reported in the release. Mastercard does not disclose operating profit or margin by the two revenue categories in the Q1 release, so business-unit profitability is not available in the reviewed materials. Margin expansion was driven by revenue growth outpacing adjusted operating expense growth. Adjusted operating expenses increased 11% reported and 9% currency-neutral, reflecting investment in infrastructure, geographic expansion, product and service delivery, and higher foreign-exchange activity-related expenses. On the GAAP basis, total operating expenses increased 13%, including the 2026 restructuring charge, partially offset by lower litigation provisions relative to 2025.

Below operating income, other income and expense improved by \$23mn year-on-year, helped by government grant agreements executed in Q4 2025, partially offset by higher equity investment losses. Investment income decreased to \$81mn from \$88mn and interest expense was broadly stable at \$185mn versus \$182mn. Taxes were a modest drag, with the effective tax rate rising to 19.3% from 18.6% due to lower discrete tax benefits. Depreciation and amortisation increased to \$299mn from \$275mn, but this did not materially alter the profit trajectory. Minority interests were immaterial. One-off items were material to the GAAP/non-GAAP bridge. Q1 2026 included a \$202mn pre-tax restructuring charge, equal to \$158mn after tax or \$0.18 per share, intended to enable reinvestment toward long-term growth opportunities. Q1 2026 also included \$66mn of pre-tax equity investment losses, equal to \$63mn after tax or \$0.07 per share. The prior-year comparator included \$151mn of pre-tax litigation provisions, equal to \$102mn after tax or \$0.11 per share.

### **What Happens Next**

Management expects Q2 2026 net revenue growth at the low end of a low-double-digit range on a currency-neutral basis, excluding inorganic activity. Q2 operating expense growth is also expected at the low end of a low-double-digit range on the same basis. Q2 other expense is expected to be approximately \$150mn, excluding equity investment gains and losses, and the non-GAAP tax rate is expected to be 20-21%. For FY 2026, net revenue growth remains guided at the high end of a low-double-digit range on a currency-neutral basis excluding inorganic activity, while operating expense growth is expected in the low-double-digit range. On the reported/GAAP and non-GAAP basis, the updated presentation raised the top end of the net revenue outlook to high-end low double digits to low teens, mainly from foreign-exchange assumptions rather than a change to the underlying currency-neutral guide.

The main assumptions are that underlying consumer spending remains healthy outside the Middle East conflict, the conflict ends in Q2, related headwinds are largest in Q2 and recover progressively in the second half, the planned disposition has minimal revenue impact, and foreign exchange contributes c.1-2 ppt to Q2 revenue and c.1.5 ppt to FY 2026 revenue. Guidance compared with prior and consensus: RAISED the reported FY 2026 revenue growth outlook at the top end, while AFFIRMED currency-neutral ex-inorganic net revenue growth at the high end of low double digits; Q1 results were above EPS and revenue consensus, but market reaction was negative due to forward-looking cross-border softness.

### **Key positives, negatives, risks and concerns**

Key positives were the revenue and EPS beat, 150 bps adjusted operating margin expansion, sustained double-digit VASS growth, resilient GDV and switched-transaction trends, strong capital returns, and strategic progress in agentic commerce, stablecoin infrastructure and security solutions. Key negatives and risks were the April slowdown in cross-border volume and travel, the conflict in the Middle East, high rebates and incentives, the residual effect of the Capital One debit migration on U.S. metrics, higher strategic investment spending, and the risk that valuation and expectations leave little tolerance for travel or consumer-spending softness.

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# Microsoft Corporation (MSFT)

Q3 FY2026 Earnings Analysis | Quarter ended 31 March 2026 | Results released 29 April 2026

Prepared by Delta Outcomes Limited | 1 May 2026

## Executive Summary

- Strong Q3 beat across all metrics: revenue \$82.9b (+18% reported, +15% CC) beat the high end of guidance (\$81.75b) by ~\$1.1b; GAAP EPS \$4.27 (+23%) and adjusted EPS \$4.27 (+21%) both exceeded guidance midpoints.
- Azure acceleration: Azure revenue grew 39% CC in Q3, beating guidance of 37%-38% and accelerating both sequentially and year-over-year; management guided Q4 Azure growth of 39%-40% CC with further acceleration expected in H2 CY2026.
- AI business surpassed \$37b ARR (+123% YoY): 20 million paid Microsoft 365 Copilot seats (up 250% YoY); 90% of Fortune 500 have active agents; GitHub Copilot enterprise subscribers nearly tripled YoY.
- RPO surge: Remaining performance obligation up 99% to \$627b, with ~25% recognisable in next 12 months (up 39% YoY), providing strong near-term revenue visibility.
- Capex spike the key concern: Q3 capex \$31.9b; Q4 guidance >\$40b including ~\$5b from higher component prices; CY2026 total capex guidance of ~\$190b is growing at roughly 2x the rate of Azure revenue.
- Q4 guidance slightly below consensus: Revenue guided \$86.7b-\$87.8b (midpoint \$87.25b) vs. FactSet consensus ~\$87.4b; operating margin guided ~44% inclusive of ~\$900m one-time voluntary retirement programme costs.
- Stock -5% day after results (released post-close 29 April): closed ~\$402 vs. prior close \$424.46; selloff driven by \$190b CY2026 capex plan (+61% YoY, above ~\$154.6b consensus), falling free cash flow (\$15.8b), and investor pattern of repricing AI capex cycles despite a clean beat.
- Near-term outlook: Bullish. Azure demand continues to exceed supply; AI monetisation accelerating; Morningstar maintains \$600 fair value (5-star rating). Monitor: capex ROI trajectory and OpenAI \$250b commitment risk.

## What Happened

Microsoft delivered a strong Q3 FY2026 beat across all three segments, with total revenue of \$82.9b exceeding the high end of guidance by ~\$1.1b. GAAP operating income of \$38.4b grew 20% YoY and operating margins expanded slightly to 46.3% versus 45.7% a year ago, beating the guidance midpoint of 45.3%. All headline metrics — revenue, operating income, and EPS — exceeded expectations.

| Metric                  | Q3 FY26   | Q3 FY25   | YoY Change | vs. Consensus                                |
|-------------------------|-----------|-----------|------------|----------------------------------------------|
| Revenue                 | \$82,886m | \$70,066m | +18.3%     | Beat ~\$1.1b (+1.4% vs high-end guidance)    |
| Operating Income (EBIT) | \$38,398m | \$32,000m | +20.0%     | Beat high-end guidance (\$38.4b vs ~\$37.7b) |
| Net Income (GAAP)       | \$31,778m | \$25,824m | +23.1%     | Beat                                         |
| Net Income (Adjusted)   | \$31,792m | \$26,407m | +20.4%     | Beat                                         |
| EPS (Diluted, Adjusted) | \$4.27    | \$3.54    | +20.6%     | Beat (guidance \$4.17-\$4.23 midpoint)       |
| Dividends per Share     | \$0.83    | \$0.75    | +10.7%     | —                                            |

**Segment performance:** Intelligent Cloud (+30% / +28% CC) and Productivity & Business Processes (+17% / +13% CC) were the clear growth engines. More Personal Computing was a drag at -1% / -3% CC, weighed by gaming and Windows OEM headwinds.

| Segment                           | Q3 FY26   | Q3 FY25   | YoY Growth | Constant Currency |
|-----------------------------------|-----------|-----------|------------|-------------------|
| Productivity & Business Processes | \$35,013m | \$29,944m | +17%       | +13%              |
| Intelligent Cloud                 | \$34,681m | \$26,751m | +30%       | +28%              |
| More Personal Computing           | \$13,192m | \$13,371m | -1%        | -3%               |

| Segment       | Q3 FY26   | Q3 FY25   | YoY Growth | Constant Currency |
|---------------|-----------|-----------|------------|-------------------|
| Total Revenue | \$82,886m | \$70,066m | +18%       | +15%              |

**Near-term sentiment: Bullish** — Strong beat with Azure acceleration, Copilot monetisation momentum, and elevated RPO all point to durable growth. Capex trajectory is the key offset to monitor.

## Why

### Revenue Drivers

The primary revenue driver was the Intelligent Cloud segment, where Azure grew 39% CC — above guidance of 37%-38% — as Microsoft delivered capacity earlier in the quarter, enabling increased consumption across both AI and non-AI workloads. Management noted strong demand across customer segments and geographies continues to exceed available capacity. Microsoft Cloud revenue (including cross-segment cloud products) reached \$54.5b, up 29% / +25% CC.

In Productivity & Business Processes, Microsoft 365 Commercial cloud revenue grew 19% / +15% CC ahead of expectations, underpinned by 20 million paid Copilot seats (+250% YoY) and ARPU growth driven by E5 and Copilot add-on pricing. LinkedIn grew 12% / +9% CC and Dynamics 365 grew 22% / +17% CC. More Personal Computing declined 1% due to Xbox content & services declining 5% / -7% CC (difficult prior-year comparable from strong first-party game launches) and Windows OEM flat year-on-year, partially offset by Search advertising ex-TAC up 12% / +9% CC.

### Profitability

GAAP gross margin was 67.6% (\$56.1b), down year-over-year due to accelerating AI infrastructure investment (capex \$31.9b in Q3 alone) and growing AI product usage increasing COGS; however, ongoing efficiency gains in Azure and Microsoft 365 Commercial partially offset these headwinds. Operating margin came in at 46.3%, 100bps above the guidance midpoint of 45.3%, driven by revenue outperformance, disciplined cost management, timing of discretionary outlays, AI-enabled internal efficiencies, and a favourable product mix shift towards higher-margin software (Office, Azure) and away from lower-margin hardware (Xbox, Surface). Operating expenses increased 9% YoY, reflecting shared R&D investments in AI compute capacity, talent, and data, against a low prior-year comparable in sales & marketing and G&A. The company reported a voluntary early retirement programme which will add ~\$900m of one-time costs in Q4 but is expected to support margin improvement in subsequent periods. Total company headcount declined year-over-year.

### Cash Generation & Capital Allocation

Operating cash flow was \$46.7b in Q3, up 26% YoY driven by strong cloud billings and collections. Free cash flow was \$15.8b, reflecting the heavy capex investment cycle. The company returned \$10.2b to shareholders via dividends and share repurchases in the quarter. With \$78.3b in total cash and equivalents / short-term investments and total debt of ~\$40.3b, the balance sheet remains very strong. Net Debt/EBITDA is well below 1x on a trailing basis.

## What Happens Next

### Q4 FY2026 Guidance

| Metric            | Q4 FY26 Guidance         | vs. Q4 FY25            | vs. Consensus*                     |
|-------------------|--------------------------|------------------------|------------------------------------|
| Revenue           | \$86.7b – \$87.8b        | +13% to +15%           | Slightly below (\$87.4b consensus) |
| Operating Margin  | ~44% (incl. ~\$900m VRP) | Up ~1pt FY26 full year | In-line to slightly below          |
| Azure Growth (CC) | 39%–40%                  | Acceleration Q-on-Q    | In-line                            |
| Capex (Q4)        | >\$40b                   | ↑ significantly        | Concern for investors              |

### Guidance vs. Prior Period & Consensus

Q4 revenue guidance of \$86.7b-\$87.8b (midpoint \$87.25b) is slightly below FactSet consensus of approximately \$87.4b per the Morningstar analyst note, but broadly in-line. Morningstar characterises guidance as "approximately in line with investor expectations." FY26 full-year operating margins are expected to be up ~1pt YoY even inclusive of the \$900m VRP one-time cost in Q4.

Azure Q4 guidance of 39%-40% CC growth represents a maintained cadence versus Q3, with management explicitly guiding for modest acceleration in H2 CY2026 vs. H1 CY2026.

### The Capex Question

The most significant development in the results is the new CY2026 capex plan of ~\$190b across the next three quarters — approximately \$40b in Q4 FY26 and ~\$120b for the combined September and December quarters. Capex is growing at roughly 2x the pace of Azure revenue, which is at least some cause for investor concern regarding the steady-state return profile. Management guided that ~\$25b of the CY2026 capex wave relates to higher component pricing, and stressed that fungible, multi-purpose datacentres provide downside protection if AI demand moderates. Azure is expected to remain capacity-constrained at least through 2026, which provides some comfort that supply discipline is limiting margin dilution.

### FY27 Outlook

Management guided for double-digit revenue and operating income growth in FY27, with operating expense growth in the mid-to-high single digits. Headcount will decline year-over-year. Key lapping headwinds (Windows 10 end-of-support, elevated OEM inventory, elevated Office/server transactional purchasing) will normalise, which should provide a cleaner growth trajectory. Azure is guided to accelerate in the second half of CY2026 and beyond as capacity comes online.

### Stock Price Reaction

**MSFT stock fell approximately -5% on 30 April 2026 (the day after results, which were released post-market on 29 April), closing around \$402 versus the prior close of \$424.46** — a counter-intuitive selloff despite a clean beat across all metrics. Investors fixated on Microsoft's \$190b CY2026 capex pledge (up 61% from 2025), with the return on that investment remaining unclear. Wall Street is no longer willing to accept AI infrastructure spending without proof of returns. Free cash flow also declined sharply to \$15.8b, reflecting the heavy capex cycle.

Morningstar Senior Equity Analyst Dan Romanoff maintained his \$600 fair value estimate (5-star, Wide Moat rating), stating: "The stock remains one of our top picks" — viewing the selloff as an overreaction and characterising results as "consistent with our long-term thesis, which centers on the expansion of hybrid cloud environments, the proliferation of AI, and Azure." Multiple analysts noted the reaction fits a pattern: across the last five reports (all beats), the average day-of move was -1%, with Q2 FY26 dropping 10% on an 8% beat. Investors are repricing the AI capex cycle in real time, even as Azure demand continues to exceed supply. The selloff brought MSFT down approximately 12% year-to-date and to a P/E of approximately 22x, compressing significantly from prior quarters.

## Key Positives, Negatives, and Risks

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### Positives

- Azure accelerating: 39% CC growth in Q3 beat guidance; 39%-40% guided in Q4 with explicit multi-quarter acceleration expected — the core growth driver performing ahead of expectations.
- AI monetisation scaling rapidly: \$37b AI ARR (+123% YoY); 20m paid Copilot seats (+250% YoY); RPO +99% to \$627b, providing high revenue visibility and evidence that AI investment is driving real commercial returns.
- Margin resilience: Operating margin 46.3% exceeded guidance by 100bps despite \$31.9b quarterly capex; management expects full-year FY26 margins up ~1pt even with \$900m VRP one-time cost in Q4.

### Negatives

- More Personal Computing weakness: Revenue declined 3% CC driven by gaming (-7% CC) and PC market headwinds from higher memory prices; challenges not expected to resolve in one to two quarters per management.
- Commercial bookings softness including OpenAI: Bookings grew 7% CC excluding OpenAI but declined 6% CC including OpenAI commitments, suggesting customer balance-of-spend pressure in some segments; Dynamics 365 bookings impacted by seats-to-consumption model transition.

### Risks & Concerns

- Capex ROI risk: ~\$190b CY2026 capex plan is growing 2x faster than Azure revenue; if AI demand moderates or capacity cannot be monetised at expected rates, there is meaningful risk of margin dilution and free cash flow erosion.
- OpenAI dependency risk: The \$250b OpenAI commitment through 2032 is flagged by Morningstar as "somewhat risky" with OpenAI publicly acknowledging it may not be able to honour contracted capacity; this creates potential stranded asset risk.
- Macro / FX headwinds: FX reduced reported revenue growth by ~3pts in Q3; any USD strengthening would further dampen reported results. PC market pressure from rising memory costs creates near-term MPC headwinds through at least Q4.

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# NESTE OYJ (NESTE:HE)

Q1 2026 Earnings Analysis | 29 April 2026

## Executive Summary

- Exceptional Q1 beat: comparable EBITDA €861m (+310% YoY vs. €210m), driven by a +€643m sales margin tailwind and €115m performance improvement program contribution.
- Renewable Products surged to €433m comparable EBITDA (vs. €72m), with sales margin reaching USD 856/ton (+176% YoY) on stronger term premiums and the Middle East gas oil spike.
- Oil Products delivered €373m (+211% YoY) as the closure of the Strait of Hormuz drove diesel crack spreads to USD 37.3/bbl (+25% QoQ) while Neste ran on pre-conflict priced crude.
- Performance improvement programme delivered €476m annualised run-rate, already surpassing the original EUR 350m target set for end-2026.
- Balance sheet strengthened materially: leverage fell to 31.7% (from 34.3% at end-2025), well within the <40% target; free cash flow of €286m despite €206m Rotterdam capex.
- Full-year 2026 guidance maintained unchanged: RP volumes broadly in line with 2025, Oil Products lower YoY due to planned Porvoo turnaround (H2 2026); capex €1.0-1.2bn.
- Stock +7.03% on the day of results to €27.47 (released pre-market 29 April 2026; source: Investing.com), driven by a +35.89% EPS beat (€0.69 reported vs. €0.51 consensus) and exceptional comparable EBITDA of €861m.**
- NEAR-TERM OUTLOOK: Bullish. Neste is volume-constrained rather than margin-constrained; resolution of Singapore equipment delay, German RED III approval (expected May 2026), and US RVO implementation provide a constructive demand and margin backdrop. Monitor: Porvoo turnaround execution risk (H2 2026) and sustainability of conflict-driven margin uplift in Q2.

## What Happened

| Metric                  | Q1 2026 | Q1 2025 | YoY Change | vs. Consensus    |
|-------------------------|---------|---------|------------|------------------|
| Revenue                 | €5,163m | €5,017m | +2.9%      | Beat             |
| Comparable EBITDA       | €861m   | €210m   | +310%      | Significant Beat |
| Operating Profit (EBIT) | €685m   | -€25m   | n/m        | —                |
| Net Income (GAAP)       | €533m   | -€40m   | n/m        | —                |
| EPS (Basic)             | €0.69   | -€0.05  | n/m        | Beat             |
| Dividends per Share     | €0.20   | €0.20   | Flat       | —                |

## Segment Performance

| Segment              | Q1 2026 EBITDA | Q1 2025 EBITDA | YoY Change | Key Driver                                |
|----------------------|----------------|----------------|------------|-------------------------------------------|
| Renewable Products   | €433m          | €72m           | +501%      | Term sales premiums + gas oil surge       |
| Oil Products         | €373m          | €120m          | +211%      | Exceptional diesel crack spreads (Hormuz) |
| Marketing & Services | €48m           | €17m           | +182%      | Inventory profit + cold winter demand     |

Neste delivered a landmark Q1 2026 with comparable EBITDA of €861m, a 310% YoY improvement and significantly ahead of analyst consensus that had anticipated a strong quarter but not at this magnitude. Revenue grew a modest 2.9% YoY to €5,163m as higher

product prices were partially offset by adverse EUR/USD currency movements (effective rate 1.15 vs. 1.12 in Q1 2025) and lower trading volumes.

The headline earnings transformation was driven by a €643m improvement in group sales margins YoY, with the Renewable Products segment alone contributing €361m of the €651m group comparable EBITDA improvement. All three segments posted YoY records, with Marketing & Services delivering its strongest Q1 on record at €48m. EPS came in at €0.69, a remarkable reversal from -€0.05 in Q1 2025.

Near-term sentiment: Bullish. The share price rose approximately 44% in Q1 2026 (closing at €27.95) as the market re-rated Neste on improved fundamentals, supportive regulation and balance sheet deleveraging ahead of schedule. Analyst community broadly constructive; Goldman Sachs and JPMorgan flagged margin sustainability and Q2 guidance as key watchpoints.

## Why

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**Revenue drivers:** The modest revenue uplift (+2.9% YoY) masked transformative margin expansion. Higher fossil product prices following the closure of the Strait of Hormuz boosted Oil Products and Marketing & Services revenues, while Renewable Products revenue rose 33% to €2,317m driven by the step-change in realised sales margins. The EUR/USD headwind of approximately -€28m at the group comparable EBITDA level and lower renewable diesel trading volumes partially offset these gains.

**Profitability evolution:** Comparable EBITDA margin expanded dramatically to 16.7% from 4.2% in Q1 2025. The Renewable Products comparable sales margin leapt to USD 856/ton (from USD 310/ton), driven by two distinct factors: first, significantly higher term sales premiums negotiated at contract renewal in late 2025 (management indicated a "step-change" vs. prior year); and second, the March gas oil price spike following the Iran conflict lifting spot and short-term contract pricing. The RD reference gross margin averaged USD 843/ton in Q1, up from USD 254/ton a year ago. Oil Products benefited from the lag between pre-conflict crude procurement and conflict-era product prices — Neste sources most crude from the North Sea with a sub-two-month procurement-to-production cycle, meaning Q1 production ran on lower-cost crude while selling into dramatically higher product prices. Diesel cracks reached USD 37.3/bbl vs. USD 29.9/bbl in Q4 2025.

**Margin factors and one-offs:** The performance improvement programme contributed €115m of in-quarter EBITDA impact (YTD €115m), with 64% from cost reduction (terminal optimisation, logistics, procurement) and 36% from revenue/margin optimisation. Marketing & Services included an €18m inventory profit from the rapid crude price rise in March — management noted this is classified within comparable EBITDA given the very short inventory cycle in that segment. Renewable Products utilisation rate was a headwind at 66% (vs. nameplate capacity), constrained by planned turnarounds at Singapore Line 1 and Martinez, plus an unplanned equipment replacement delay in Singapore which impacted March volumes. The FX effective rate of EUR/USD 1.15 (vs. 1.12 prior year) created a negative €32m impact in Renewable Products alone. The performance improvement programme also contributed to declining lease depreciation, lowering the fixed cost base further.

## What Happens Next

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### A. Forward Guidance (FY 2026)

- Renewable Products sales volumes: Approximately the same level as 2025 (~4.1 Mton equivalent)
- Oil Products sales volumes: Lower than 2025 due to planned Porvoo maintenance turnaround (H2 2026)
- Group capex (ex-M&A): €1.0-1.2bn; majority allocated to Rotterdam Line 2 expansion (€2.5bn total, 2027 start-up)
- Performance improvement target: >€476m annualised run-rate already achieved vs. original €350m target
- Leverage target: Below 40%; currently 31.7% and on a strong deleveraging trajectory

### B. Guidance vs. Prior Guidance & Consensus

Full-year guidance was affirmed unchanged from February 2026 guidance. Management explicitly noted the outlook is "unchanged" and did not raise volume guidance despite strong Q1 margins, citing ongoing production constraints (Singapore equipment delay) and Porvoo turnaround uncertainty. Consensus had anticipated a broadly constructive guidance tone; the absence of a formal raise was not a negative given that Neste is currently supply-constrained. For Q2, management guided for: (1) lower Oil Products refining margin than the exceptional Q1 USD 23/bbl, as the refinery will be running on higher-cost post-conflict crude; and (2) higher RP sales volumes than Q1 (no planned turnarounds), partially offset by the one-month Singapore line delay in April. Q2 renewable fuel margins

characterised as " healthy" in April, supported by sustained gas oil prices.

### C. Key Forward-Looking Assumptions

- German RED III parliamentary approval expected in early May 2026, adding estimated 1.5-2.0 Mton renewable diesel demand in the 2026-2027 window across Germany and Netherlands
- US Renewable Volume Obligation (RVO) finalized for 2026-2027 at record volumes, providing strong demand signal for Martinez; RIN D4 prices already at USD 1.44/RIN (+85% YoY)
- Singapore equipment replacement delay expected to be resolved, with Line 2 contributing to improved H2 2026 utilisation rates above the Q1 66% level
- Rotterdam Line 2 on track for 2027 start-up (2.7 Mt/a capacity, world's largest renewable fuels refinery); management emphasises safe ramp-up over speed given Singapore Line 1 lessons
- Renewable feedstock costs (animal fats, UCO) remained stable in Q1 outside the US; US tallow and soybean oil tightened following RVO announcement — management highlighted globally diversified sourcing as a buffer
- Freight costs rising modestly due to Asia-Europe routing around Africa; mitigated by internal logistics optimisation and better freight procurement under performance improvement programme

### D. Stock Price Reaction

Results were released pre-market on 29 April 2026 (9:00 a.m. EET). NESTE.HE rallied +7.03% on the day of results, closing at €27.47 (source: Investing.com). The reaction was driven by a substantial EPS beat — reported EPS of €0.69 vs. consensus of €0.51, a +35.89% positive surprise — and revenue of €5.16bn vs. consensus €4.99bn (+3.4% beat), per TradingView data. The comparable EBITDA of €861m significantly exceeded market expectations, with the Renewable Products sales margin at USD 856/ton well above what the market had anticipated. Analyst focus in the Q&A centred on: (i) sustainability of Q2 margins as the refinery switches to post-conflict crude pricing, with management guiding explicitly for a lower Oil Products refining margin than the Q1 USD 23.0/bbl; (ii) Singapore production normalisation timeline; and (iii) capital allocation post-Rotterdam, where management reiterated a preference for deleveraging over shareholder returns or M&A. Analyst consensus at the time of results stood at 5 Buy and 5 Hold ratings (Meyka/Yahoo Finance); the +7% single-day move reflected the market pricing in a sustained improvement in the fundamental earnings trajectory after several quarters of underperformance.

## Key Positives, Negatives, Risks and Concerns

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### Positives

- Transformational margin recovery in Renewable Products (USD 856/ton vs. USD 310/ton YoY) vindicates the term contract strategy; management indicated H2 contract book was already substantially locked in at materially improved premiums.
- Performance improvement programme significantly ahead of target at €476m annualised run-rate vs. €350m goal, with further upside from revenue/margin optimisation (36% of mix, growing); management highlighted improved feedstock procurement and refinery yield optimisation as ongoing sources.
- Balance sheet now well within target at 31.7% leverage; FCF positive at €286m despite peak Rotterdam investment spend; liquidity of €3.8bn provides ample headroom for continued Rotterdam construction.

### Negatives

- Renewable Products utilisation remained constrained at 66% (vs. 79% Q1 2025) due to Singapore equipment delay — the company started Q1 2026 with lower-than-planned inventories and missed production upside during a high-margin environment.
- Safety metrics deteriorated: TRIF flat at 2.1-2.4 trend with Q1 2026 reading of 2.4, and PSER spiked to 2.6 (vs. 0.0 Q1 2025), indicating process safety events. Management acknowledged this as the highest priority area for improvement.
- GHG emission reductions declined to 2.7 Mton (vs. 3.0 Mton Q1 2025), consistent with lower renewable production volumes; material impact on impact investment credentials if not recovered.

### Risks and Concerns

- Porvoo H2 2026 maintenance turnaround is described as 'critical' and technically complex; management acknowledged it cannot be postponed for safety/permitting reasons. Any delay or unplanned outage would significantly reduce Oil Products contributions in H2.
- Q2 Oil Products refining margins will compress materially as Porvoo runs on higher post-conflict crude pricing; management guided explicitly for margins 'lower than the Q1 USD 23/bbl'. The lag means the exceptional Q1 OP result is unlikely to repeat near-term.
- Geopolitical and regulatory uncertainty: continued Iran crisis volatility creates two-sided risks — positive for current middle distillate pricing, but potential affordability pressure on renewable fuel mandates if energy prices remain elevated. SAF demand remained deliberately depressed in Q1 (only 69kt vs. 253kt Q4 2025) as price differential to renewable diesel was unattractive.

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# Novonesis (NSIS B) | Q1 2026 Earnings Analysis

Results released: 5 May 2026 | Reporting period: Q1 2026 (January–March 2026) | Analyst: Delta Outcomes Research

## Executive Summary

- Novonesis delivered 7% organic sales growth in Q1 2026 against a high comparable, with reported EUR revenue of EUR 1,119m (+4%), beating company-compiled consensus on both sales and EBITDA margin.
- Adjusted EBITDA of EUR 423m (margin 37.8%) came in ahead of consensus despite a significant 600 bps EUR/USD headwind year-on-year, as gross margin expanded 120 bps to 60.1% driven by pricing, productivity, and Feed Enzyme Alliance synergies.
- Food & Beverages was the standout division with 11% organic growth (15% ex-country exits), led by double-digit dairy momentum across cheese conversion, fresh dairy, and HMO expansion; Planetary Health grew 5% against a tough comparable.
- Full-year 2026 guidance AFFIRMED at 5–7% organic sales growth and 37–38% adjusted EBITDA margin, with management expressing high confidence on the back of the strong Q1 start.
- Stock price reaction broadly flat on the day, closing at DKK398.80 vs prior-day close (4 May 2026) of DKK 398.90
- Capital allocation discipline maintained: FCF before acquisitions grew 9% to EUR 74m; inaugural EUR 1.7bn bond issuance completed (A- stable outlook, S&P), replacing bridge financing for the Feed Enzyme Alliance acquisition.
- Thailand facility acquisition (EUR 40.7m, April 2026) adds optionality for HMO scaling and Southeast Asia bioenergy enzyme production, within existing communicated CapEx envelope of 12–14% of sales.
- NEAR-TERM OUTLOOK: Positive. Results beat expectations across all key metrics, guidance affirmed with confidence, and biosolution demand is structurally supported by food security, energy diversification, and consumer health trends. Key risk to monitor: softening North America probiotic/dietary supplement market and ongoing USD/EUR headwinds.

## What Happened

| Metric                    | Q1 2026 | Q1 2025 | YoY Change | vs. Consensus |
|---------------------------|---------|---------|------------|---------------|
| Net Sales (EUR m)         | 1,119.3 | 1,077.6 | +3.9%      | BEAT          |
| Organic Sales Growth      | +7%     | +11%    | -4pp       | BEAT          |
| Adj. Gross Margin         | 60.1%   | 58.9%   | +120 bps   | —             |
| Adj. EBITDA (EUR m)       | 423.0   | 412.8   | +2.5%      | BEAT          |
| Adj. EBITDA Margin        | 37.8%   | 38.3%   | -50 bps    | BEAT          |
| EBIT (EUR m)              | 266.8   | 265.5   | +0.5%      | —             |
| Net Profit / GAAP (EUR m) | 199.1   | 186.0   | +7.1%      | —             |
| Adj. Net Profit (EUR m)   | 204.7   | 196.0   | +4.4%      | —             |
| Adj. EPS excl. PPA (EUR)  | 0.57    | 0.53    | +7.5%      | —             |
| FCF before Acq. (EUR m)   | 74.0    | 68.1    | +8.7%      | —             |
| NIBD/EBITDA (x)           | 2.0x    | 1.1x    | +0.9x      | —             |

**Summary:** Novonesis delivered a strong Q1 2026, with 7% organic sales growth and EUR 1,119m reported revenue, beating company-compiled consensus on both the top line and EBITDA margin. The adjusted EBITDA margin of 37.8% was 50 bps below Q1 2025 but ahead of market expectations, as a 120 bps improvement in adjusted gross margin more than partially offset higher operating expenses (annualisation of 2025 commercial resource additions) and a 600 bps currency headwind. Adjusted EPS excluding PPA rose 8% to EUR 0.57. Notably, organic growth of 7% includes a ~1.5pp tailwind from exiting certain countries and ~1pp from Animal inventory build-up at a key customer — the underlying ex-items growth rate was approximately 4.5%.

**SENTIMENT: POSITIVE — Results ahead of consensus; guidance affirmed with confidence; broad-based growth validates the Novonesis merger thesis**

## Why

**Revenue drivers:** Group organic growth of 7% was primarily volume-driven (+6pp, including ~1pp sales synergies from the Chr. Hansen combination), with pricing contributing ~1pp. Geographically, developed markets grew 8% organically (North America +7%, EMEA +5%) while emerging markets grew 4% (Latin America +14%, Asia Pacific +6%), though the emerging market figure is restated after a ~3pp negative impact from country exits. Food & Health Biosolutions delivered 9% organic growth (Food & Beverages +11%, Human Health +5%) while Planetary Health Biosolutions delivered 5% (Agriculture, Energy & Tech +5%, Household Care +4%). The standout performance was Food & Beverages, which grew 15% on an underlying basis excluding country exits, led by dairy: cheese conversion to high-yield solutions, high-protein fresh dairy demand, and HMO expansion in early life nutrition all contributed. Human Health growth was partially restrained by a softer North American probiotic supplements market. Agriculture, Energy & Tech's 5% organic growth masked strong double-digit bioenergy growth (ethanol production expansion in LatAm and APAC, export growth in North America) offset by double-digit declines in Plant and Tech sub-categories due to order timing and tough comparables. The Feed Enzyme Alliance acquisition contributed +3pp to reported EUR revenue growth (+5pp in Planetary Health).

**Profitability:** Adjusted gross margin improved 120 bps year-on-year to 60.1%, driven by pricing, productivity gains, and the Feed Enzyme Alliance acquisition, partially offset by unfavourable product mix (faster HMO growth) and 600 bps of EUR/USD currency headwind. Adjusted EBITDA margin contracted 50 bps to 37.8%, as higher operating expenses — sales and distribution costs up 13% (14.0% of sales vs. 12.9%), R&D up 13% (9.8% of sales vs. 9.0%) — reflected the planned annualisation of 400 commercial resource hires and the Feed Enzyme Alliance headcount addition made during 2025. The Feed Enzyme Alliance integration itself added ~50 bps to adjusted EBITDA margin in the quarter, in line with expectations. Food & Health Biosolutions margin declined 130 bps to 35.7% due to commercial resource ramp-up, HMO mix, and currency; Planetary Health margin was essentially flat at 39.5% (+10 bps) driven by Feed Enzyme Alliance synergies offsetting currency headwinds. Operating cash flow improved 57% to EUR 167m, reflecting higher net profit and more favourable working capital development. CapEx rose to 8.3% of sales (from 5.1%) as the company entered a guided investment cycle targeting 12–14% for the full year.

**Below-the-line items:** D&A rose EUR 12.6m to EUR 149.7m, primarily due to additional PPA depreciation and amortisation from the Feed Enzyme Alliance acquisition. Special items fell to EUR 6.5m (from EUR 10.2m), covering Feed Enzyme Alliance integration, Chr. Hansen combination costs, and ERP implementation. Net financial expenses fell EUR 10.7m to EUR 8.6m, as higher currency hedging gains more than offset higher interest expenses following the EUR 1.7bn bond issuance. The effective tax rate improved 150 bps to 22.5%. NIBD/EBITDA increased to 2.0x (from 1.1x a year ago) reflecting the Feed Enzyme Alliance acquisition debt, but the bond refinancing at fixed rates (3.25–4.00%) provides rate certainty and extends maturities to 2030–2037.

## What Happens Next

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### Forward Guidance (FY 2026):

- Revenue: Organic sales growth: 5–7% (6–8% ex country exits) — AFFIRMED
- Margin: Adjusted EBITDA margin: 37–38% — AFFIRMED
- Capital: CapEx/Sales: 12–14% (elevated cycle to 2030); NIBD/EBITDA ~1.7x at year-end
- Other: Net financial expenses: EUR 80–90m; Effective tax rate: 22–23%; Special items: ~EUR 40m

### Guidance Change vs. Prior:

Full-year guidance is AFFIRMED unchanged from the February 2026 initial guidance. Management explicitly confirmed the guidance with high confidence, citing the strong Q1 start as providing increased comfort and reduced downside risk from macro uncertainty.

### Guidance vs. Analyst Consensus:

The Morningstar consensus model (as at 5 May 2026) projects FY 2026 revenue of EUR 4,412m (+6.1% growth) and adjusted EBITDA of EUR 1,657m (37.6% margin), both consistent with the company's affirmed guidance range. The Q1 2026 beat on both revenue growth and EBITDA margin provides positive revision risk to FY consensus estimates. Morningstar maintained its DKK 420 fair value estimate for wide-moat Novonosis, viewing shares as fairly valued at the DKK 398.90 prior-day close (4 May 2026).

### Key Guidance Assumptions:

- Volume-driven growth with ~1pp from sales synergies and ~1pp from pricing across both divisions; close to 1pp negative from country exits (concentrated in H1 2026)
- Animal inventory build-up expected to contribute a smaller positive in Q2 but is expected to be full-year neutral as it reverses in H2

- Adjusted EBITDA margin expansion vs. 2025 despite ~50 bps of EUR/USD currency headwinds and somewhat higher input costs; operating expense growth expected to moderate to flattish vs. Q1 level for remaining quarters
- Guidance based on current tariff levels and prevailing FX; EUR/USD running at ~1.17 (vs. 1.05 in Q1 2025); 72% of 2026 USD exposure hedged at EUR/USD 1.15
- Middle East uncertainty acknowledged but not expected to materially impact EBITDA given diversified end markets, flexible production footprint, and pricing pass-through capability

### Stock Price Reaction:

**Note:** Results were released pre-market on 5 May 2026 (conference call at 09:00 CEST). Stock price reaction broadly flat on the day, closing at DKK398.80 vs prior-day close (4 May 2026) of DKK 398.90. Based on the available analyst commentary, Morningstar (5 May 2026) described results as outpacing company-compiled consensus on both sales growth and EBITDA margin, and confirmed the DKK 420 fair value estimate, characterising the shares as fairly valued. The Q1 beat, guidance affirmation with high confidence, and S&P A- credit rating issuance would typically be interpreted as positive catalysts by the market.

## Key Positives, Negatives and Risks

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### Positives:

- Q1 beat on both revenue (7% vs. consensus) and adjusted EBITDA margin (37.8%), demonstrating the resilience of the merged Novonesis business model against a high comparable period and significant USD headwind.
- Food & Beverages organic growth of 11% (15% ex-exits) is exceptional and reflects structural share gains in dairy: customers converting to higher-yield solutions, high-protein fresh dairy adoption, and HMO demand growing across regions including cross-border trade into China.
- Feed Enzyme Alliance integration proceeding on plan, with synergies contributing ~50 bps to EBITDA margin and sales synergies visible through enzymes-and-probiotics cross-selling in Animal; S&P A- credit rating confirms balance sheet credibility post-acquisition.

### Negatives:

- Adjusted EBITDA margin contracted 50 bps year-on-year to 37.8%, driven by annualisation of significant commercial resource investments during 2025 and by FX headwinds; while the full-year guidance range is affirmed, H1/H2 dynamics need monitoring as the FX headwind was most pronounced in Q1.
- Planetary Health organic growth of 5% was propped up by ~2pp Animal inventory build-up that will reverse in H2, meaning the underlying trend is closer to 3%; Plant and Tech sub-segments posted double-digit declines in Q1 due to order timing and tough comparables, creating execution risk if the expected recovery does not materialise.

### Risks & Concerns:

- USD weakness is the most material near-term financial risk: EUR/USD has moved from 1.05 (Q1 2025) to 1.17 (Q1 2026), a ~11% headwind. While 72% of 2026 USD exposure is hedged at 1.15, further USD weakening creates ongoing earnings translation risk for a business generating ~35% of revenue in USD.
- Consumer sentiment softening in North America — particularly evident in probiotic/dietary supplement volumes — is already factored into guidance, but any further deterioration beyond current assumptions could pressure the Human Health division and Household Care growth rates.
- CapEx intensity is rising sharply (8.3% in Q1, guided 12–14% for the full year) as Novonesis funds its 2030 growth strategy. Free cash flow will be meaningfully constrained through the investment cycle, and NIBD/EBITDA of 2.0x (up from 1.1x) while manageable at an A- rating level warrants monitoring as further acquisitions (e.g., Thailand facility) or strategic investments are pursued.



# Schneider Electric SE (EPA:SU)

Q1 2026 Earnings Analysis | Period ended 31 March 2026 | Released 30 April 2026 (pre-open)

## Executive Summary

- Q1 revenue was a slight beat at €9.77bn, up 11.2% organically; margin and EPS were not disclosed.
- Energy Management led growth at €8.05bn (+12.8% organic), driven by data center's, Power & Grid and broad regional demand.
- Systems growth (+16%) and improving Products (+9%) showed broad execution, while AVEVA ARR increased 12%.
- Guidance was AFFIRMED at +7-10% organic revenue growth and +50-80 bps adjusted EBITA margin expansion.
- Stock fell 1.1% on the day of results (released pre-open), despite a modest revenue beat.**
- Capital allocation continued through buybacks: 0.4m shares repurchased for €110m at a €250 average price.
- NEAR-TERM OUTLOOK: Neutral-to-bullish, with data-centre tailwinds offset by FX, tariffs and Middle East uncertainty.

## What Happened

Schneider Electric reported record Q1 2026 revenue of €9,767m, representing +11.2% organic growth and +4.7% reported growth year-on-year. The official Q1 release was revenue-only; operating profit, net income, EPS and quarterly dividend data were not disclosed for the period.

| Metric  | Q1 2026 result | Year-on-year change                      | Comment                                                                           |
|---------|----------------|------------------------------------------|-----------------------------------------------------------------------------------|
| Revenue | €9,767m        | Increase: +11.2% organic; +4.7% reported | Slightly above company-compiled consensus of €9.76bn reported in market coverage. |

Business mix: growth was broad across all business models: Products represented 48% of revenue and grew +9% organically, Systems represented 33% and grew +16%, and Software & Services represented 19% and grew +9%.

| Business              | Q1 2026 revenue | Organic growth | Reported growth / driver                                                                         |
|-----------------------|-----------------|----------------|--------------------------------------------------------------------------------------------------|
| Energy Management     | €8,047m         | +12.8%         | +6.3%; led by Data Center, Power & Grid and electrical distribution demand.                      |
| Industrial Automation | €1,720m         | +4.4%          | -2.0%; Discrete automation recovery and AVEVA growth offset by Process & Hybrid weakness and FX. |
| Group                 | €9,767m         | +11.2%         | +4.7%; FX reduced revenue by €623m (-6.7%), partly offset by €92m scope benefit.                 |

Financials versus expectations: revenue modestly exceeded consensus, while the absence of Q1 profit and EPS disclosure limited earnings-quality analysis. Market commentary characterised the update as positive on underlying demand but restrained by FX and macro/geopolitical uncertainty.

**Stock Price Reaction:** -1.1% day of results (released pre-open), closing at €268.60 versus €271.55 on the prior session after an initial negative move at the open; the reaction was cautious despite a small revenue beat and reflected concern around FX and broader uncertainty.

**Near-Term Sentiment:** Neutral-to-bullish (driven by data-centre secular demand, broad business-model growth and reaffirmed margin expansion, offset by FX, tariffs and geopolitical uncertainty).

## Why

Revenue growth was driven by broad participation across both businesses, all regions and all business models. Energy Management rose to €8,047m (+12.8% organic; +6.3% reported), led by data centres, Power & Grid and electrical distribution, with U.S. growth primarily volume-led and aided by pricing. China & East Asia benefited from data centres, infrastructure and Semicon, while India delivered double-digit growth across Buildings, Data Center and Infrastructure. Industrial Automation rose to €1,720m (+4.4% organic; -2.0% reported), reflecting continued recovery in Discrete automation and AVEVA growth, partly offset by weaker Process & Hybrid sales and currency effects.

By business model, Products grew +9% organically, with most growth from volume and a positive price contribution; Systems grew +16%, led by data-centre execution; and Software & Services grew +9%, including AVEVA ARR growth of +12%. By end-market, Data Center & Networks continued to show double-digit demand and strong double-digit sales; Buildings saw strong demand but more modest sales growth; Industry demand was strong across Discrete and Process & Hybrid, although Process & Hybrid sales declined slightly; and Infrastructure growth was led by Power & Grid.

Reported growth was lower than organic growth because FX reduced Q1 revenue by €623m (-6.7%), mainly from weaker U.S. dollar, Indian rupee and Chinese yuan versus the euro. Net scope contributed €92m (+1.1%), mainly from Motivair, partly offset by smaller

disposals.

No material Q1 P&L one-off adjustment was quantified. The key disclosed items affecting comparability were the positive scope contribution, the negative FX translation effect, expected €500m cumulative incremental restructuring costs over 2025-2027, and around €150m of incremental 2026 finance costs associated with acquiring the remaining 35% of SEIPL.

What Happens Next

**Guidance vs. Prior & Consensus:** AFFIRMED +7-10% organic revenue growth and +50-80 bps organic adjusted EBITA margin expansion for FY2026; market commentary viewed the upper end of revenue guidance as achievable after the slight Q1 revenue beat.

| Guidance item         | FY2026 target / assumption                         | Change versus prior guidance             | Expectation context                                                                                |
|-----------------------|----------------------------------------------------|------------------------------------------|----------------------------------------------------------------------------------------------------|
| Revenue               | +7% to +10% organic growth                         | AFFIRMED                                 | Q1 revenue was slightly ahead of consensus; analyst commentary viewed the upper end as achievable. |
| Adjusted EBITA growth | +10% to +15% organic                               | AFFIRMED                                 | Supported by volume growth, price actions and productivity.                                        |
| Adjusted EBITA margin | +50 bps to +80 bps organic; implied 19.1% to 19.4% | AFFIRMED                                 | FX expected to be around -10 bps to margin at current rates.                                       |
| Tax rate              | 23% to 25% ETR                                     | Reiterated in appendix                   | Relevant to FY net income rather than Q1 revenue analysis.                                         |
| Capital allocation    | €2.5bn to €3.5bn buyback by end-2030               | Previously announced; execution underway | €110m repurchased from 9 March to 24 April 2026.                                                   |

Key assumptions underpinning guidance include strong market demand across all four end-markets; Data Centre & Networks leading growth; Industry and Infrastructure accelerating; Buildings improving with macro trends; Systems leading by business model; Products improving with continued Discrete recovery; Software & Services growing strongly with more recurring revenue; all four regions contributing, led by the U.S. and India; and net price remaining positive in value to offset raw materials and tariffs. South Asia & International may be affected in Q2 by disruption and uncertainty in the Middle East.

Key positives, negatives, risks and concerns

Key positives were record Q1 revenue, double-digit organic growth, strong data-centre and Power & Grid momentum, Systems growth of +16%, Products recovery, AVEVA ARR growth of +12% and early buyback execution. Negatives and risks were the absence of Q1 margin/EPS/cash-flow disclosure, guidance reaffirmed rather than raised, significant FX headwinds, negative reported growth in Industrial Automation due to currency, Process & Hybrid sales lagging despite better demand, Middle East uncertainty affecting South Asia & International, and continuing reliance on pricing to offset raw materials, tariffs and supply-chain/geopolitical fragmentation.

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# Siemens AG (XETRA:SIE)

Q2 2026 Earnings Analysis | Period ended 31 March 2026 | Released 13 May 2026 (pre-open)

## Executive Summary

- Q2 earnings were mixed: EPS pre PPA beat expectations, revenue missed, and Industrial Business margin fell to 15.4%.
- Orders rose 18% comparable to EUR24.1bn, with book-to-bill of 1.22 and record backlog of EUR124bn.
- Digital Industries delivered the standout result, with software-led revenue growth and margin expansion to 18.5%.
- Smart Infrastructure achieved record orders, led by data centres and semiconductors, while Mobility was hit by U.S. tariffs.
- Guidance was AFFIRMED at Group level, with DI and SI RAISED, but Mobility revenue guidance LOWERED.
- Stock closed +0.83% on the day of results, reflecting order strength but balanced revenue and tariff concerns.
- Balance sheet remained solid at 1.2x Industrial net debt/EBITDA, with a new EUR6bn buyback programme announced.
- NEAR-TERM OUTLOOK: Bullish, driven by DI software, SI data centres and backlog; monitor tariffs and FX.

## What Happened

Siemens reported Q2 FY2026 comparable revenue growth of 6%, but nominal revenue was flat at EUR19.8bn because currency translation took six percentage points from revenue development. Orders were the clear positive surprise, up 18% comparable to EUR24.1bn, ahead of available consensus, and the book-to-bill ratio remained strong at 1.22. Profitability was mixed: Digital Industries expanded sharply, Smart Infrastructure remained operationally strong after adjusting for the prior-year wiring accessories gain, while Mobility and Siemens Healthineers were burdened by tariffs and currency effects.

| Metric                                        | Q2 FY2026            | Q2 FY2025            | YoY change                        | Comment                                                                                  |
|-----------------------------------------------|----------------------|----------------------|-----------------------------------|------------------------------------------------------------------------------------------|
| Orders                                        | EUR24,114m           | EUR21,643m           | +11% reported;<br>+18% comparable | Beat consensus of EUR22.29bn;<br>book-to-bill 1.22.                                      |
| Revenue                                       | EUR19,756m           | EUR19,757m           | Flat reported; +6%<br>comparable  | Below available consensus of<br>EUR20.14bn / EUR20.07bn.                                 |
| Gross profit / margin                         | EUR7,684m /<br>38.9% | EUR7,669m /<br>38.8% | +0.2%; +0.1pp                     | Gross margin broadly stable despite<br>FX and tariffs.                                   |
| EBIT - continuing<br>operations               | EUR2,747m /<br>13.9% | EUR2,924m /<br>14.8% | -6.1%; -0.9pp                     | Derived from Siemens EBITDA<br>reconciliation.                                           |
| Profit Industrial<br>Business                 | EUR2,969m /<br>15.4% | EUR3,239m /<br>16.9% | -8%; -1.5pp                       | Prior year included about EUR0.3bn<br>Smart Infrastructure disposal gain.                |
| Net income - GAAP                             | EUR2,236m /<br>11.3% | EUR2,439m /<br>12.3% | -8%; -1.0pp                       | Includes EUR102m discontinued<br>operations income from provision<br>releases.           |
| Net income<br>attributable to<br>shareholders | EUR2,027m            | EUR2,250m            | -9.9%                             | Above WSJ-cited consensus of<br>EUR1.92bn.                                               |
| Basic EPS                                     | EUR2.60              | EUR2.86              | -9%                               | EPS from net income attributable to<br>Siemens AG shareholders.                          |
| EPS pre PPA                                   | EUR2.81              | EUR3.00              | -6%                               | Above Google Finance estimate of<br>EUR2.67; includes EUR0.17 airport<br>logistics gain. |
| Free cash flow - all-in                       | EUR1,716m            | EUR1,003m            | +71%                              | Industrial Business FCF improved to<br>EUR2.43bn from EUR2.10bn.                         |

**Consensus / market expectations:** Q2 revenue missed available consensus, but orders and shareholder net income were above consensus; EPS pre PPA also beat the Google Finance estimate. The market response was therefore constructive but not euphoric, with investors rewarding the order book, software margin inflection and buyback while discounting revenue miss, tariff drag and Mobility guidance weakness.

**Stock Price Reaction:** Siemens shares closed at EUR266.80 on 13 May 2026, up 0.83% on the day of results (released pre-open), after an earlier intraday quote showed the stock broadly flat at EUR263.90 versus the prior close of EUR264.60; the muted-positive session reflected strong orders and segment guidance raises, offset by revenue miss and Mobility tariff concerns.

**Near-Term Sentiment:** Bullish (driven by Digital Industries software margin expansion, record Smart Infrastructure/data-centre orders, raised DI/SI guidance and a modest positive stock reaction; constrained by revenue miss, Mobility tariff impacts and FX headwinds).

## Why

Revenue was driven by Digital Industries and Smart Infrastructure, with Siemens reporting +6% comparable growth despite flat nominal revenue as FX reduced revenue development by six percentage points. Digital Industries revenue rose 8% comparable to EUR4.63bn, supported by software growth of 14% comparable and factory automation growth; Smart Infrastructure revenue rose 10% comparable to EUR5.93bn, led by Electrification, data-centre and semiconductor demand. Mobility revenue declined 2% comparable to EUR3.04bn because U.S. tariffs created project accounting effects and delayed call-offs held back rail infrastructure conversion, while Siemens Healthineers revenue increased 3% comparable but fell 4% nominal due to currency effects and diagnostics weakness in China.

Profitability evolved unevenly: gross profit was broadly flat at EUR7.68bn and gross margin improved slightly to 38.9%, but Industrial Business profit fell 8% to EUR2.97bn and margin declined to 15.4%, largely because Q2 FY2025 benefited from the Smart Infrastructure wiring accessories disposal gain. Digital Industries profit rose 35% to EUR857m and margin expanded 370 bps to 18.5%, while Smart Infrastructure profit declined 20% to EUR1.10bn because of the prior-year EUR315m disposal gain, although operational margin excluding that effect was stable-to-better; Mobility profit fell 28% to EUR208m and margin declined to 6.9%, and Siemens Healthineers profit fell 14% to EUR802m with margin down to 14.1%. Margins were helped by software mix, economies of scale, productivity and Altair cost-synergy execution, but were held back by FX, tariffs, commodity costs, severance and acquisition integration costs.

Depreciation, amortisation and impairments were EUR809m versus EUR801m, while PPA amortisation increased to EUR239m due mainly to Altair and Dotmatics; net interest income weakened as interest income declined and expense increased, tax expense was EUR722m with a 25.3% tax rate, and minorities rose to EUR209m. Material one-offs included the current EUR172m gain from the U.S. airport logistics sale, EUR102m discontinued operations income from provision releases, EUR43m of DI integration costs, higher severance, the prior-year EUR315m Smart Infrastructure disposal gain and the prior-year EUR201m SFS equity-investment gain.

| Segment              | Revenue performance                                                  | Profit / margin                        | Key drivers                                                                                                                                         |
|----------------------|----------------------------------------------------------------------|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| Digital Industries   | EUR4,626m, +8% reported and comparable; software +14% comparable.    | EUR857m, +35%; margin 18.5%, +370 bps. | Software PLM, EDA and simulation, automation growth, SaaS transition benefits, cost synergies; integration costs -90 bps and FX -90 bps.            |
| Smart Infrastructure | EUR5,928m, +3% reported and +10% comparable; service +7% comparable. | EUR1,102m, -20%; margin 18.6%.         | Record orders, Electrification +18% revenue, data centres and semiconductors; prior-year wiring accessories gain depressed reported YoY comparison. |
| Mobility             | EUR3,036m, -5% reported and -2% comparable; service +5% comparable.  | EUR208m, -28%; margin 6.9%, -220 bps.  | Strong orders, but U.S. tariffs cost 170 bps of margin; delayed rail call-offs and milestone timing hurt revenue and FCF.                           |
| Siemens Healthineers | EUR5,681m, -4% reported but +3% comparable.                          | EUR802m, -14%; margin 14.1%, -180 bps. | Imaging and precision therapy growth offset by diagnostics decline in China, tariffs and negative currency effects.                                 |

## What Happens Next

Siemens AFFIRMED its FY2026 Group guidance for comparable revenue growth of 6% to 8%, book-to-bill above 1 and EPS pre PPA of EUR10.70 to EUR11.10. Segment guidance was actively reshaped: Digital Industries and Smart Infrastructure were raised after stronger first-half performance, while Mobility revenue guidance was lowered because of tariff and project timing pressures. The outlook excludes burdens from legal and regulatory matters.

| Area                 | Current FY2026 guidance                                                          | Prior guidance                  | Change                           | Key assumptions / context                                                                                                  |
|----------------------|----------------------------------------------------------------------------------|---------------------------------|----------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| Siemens Group        | Comparable revenue growth 6%-8%; book-to-bill >1; EPS pre PPA EUR10.70-EUR11.10. | Same.                           | AFFIRMED                         | Management expects upper half of revenue growth range; supported by record EUR124bn backlog.                               |
| Digital Industries   | Comparable revenue growth 7%-10%; margin 17%-19%.                                | Revenue 5%-10%; margin 15%-19%. | RAISED                           | Software strength, automation recovery, SaaS transition, Altair/Dotmatics synergies; Q3 margin around 18%.                 |
| Smart Infrastructure | Comparable revenue growth 8%-10%; margin 18%-19%.                                | Revenue 6%-9%; margin 18%-19%.  | RAISED revenue; margin AFFIRMED  | Backlog visibility into FY2027; data centres and power utilities remain growth pillars; pricing to offset commodity costs. |
| Mobility             | Comparable revenue growth 5%-7%; margin 8%-10%.                                  | Revenue 8%-10%; margin 8%-10%.  | LOWERED revenue; margin AFFIRMED | Tariffs and delayed call-offs; margin expected toward lower end; H2 working-capital catch-up expected.                     |

| Area                      | Current FY2026 guidance                                                                 | Prior guidance    | Change  | Key assumptions / context                                                                                             |
|---------------------------|-----------------------------------------------------------------------------------------|-------------------|---------|-----------------------------------------------------------------------------------------------------------------------|
| Below Industrial Business | Innovation around -EUR0.7bn to -EUR0.8bn; PPA -EUR0.9bn to -EUR1.0bn; tax rate 23%-27%. | Updated after H1. | UPDATED | R&D intensity slightly above FY2025, SG&A percentage close to FY2025, severance EUR300m-EUR350m, FX headwind to ease. |

**Guidance vs. Prior & Consensus:** AFFIRMED Group FY2026 comparable revenue growth of 6%-8% and EPS pre PPA of EUR10.70-EUR11.10; RAISED DI and SI revenue guidance, but LOWERED Mobility revenue guidance to 5%-7%, with Q2 orders and EPS above available consensus while revenue missed.

**Key positives, negatives, risks and concerns**

Key positives were the broad-based orders beat, record EUR124bn backlog, DI software margin inflection, SI data-centre momentum, strong Industrial Business free cash flow and a fresh EUR6bn buyback programme. Negatives were the nominal revenue miss, lower reported Industrial Business margin, Mobility tariff impacts, Healthineers diagnostics weakness in China and higher acquisition-related amortisation. Principal risks to monitor are sustained FX headwinds, tariff escalation, commodity inflation, delayed Mobility project conversion, execution on Altair/Dotmatics synergies, geopolitical effects on customer investment sentiment and any legal or regulatory burdens excluded from guidance.

**Source Notes**

Primary company sources: Siemens Q2 FY2026 Earnings Release and Financial Results, Siemens Q2 FY2026 Analyst Call Presentation, Siemens Q2 FY2026 Press Release, and Siemens Q2 FY2026 Earnings Conference Call transcript, all dated 13 May 2026. Market and external sources: Wall Street Journal report dated 13 May 2026 for consensus revenue, profit and order expectations; Google Finance earnings data for EPS and revenue estimate comparison; Welt / EOD Historical Data reports for 13-14 May 2026 share-price movement; Morningstar Equity Analyst Note dated 13 May 2026 for analyst sentiment, valuation and fair-value update. Monetary amounts are in euros unless stated otherwise. Percentage changes are year-on-year and reported unless labelled comparable.

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# TE Connectivity (TEL) — Q2 FY2026 Earnings Analysis

Fiscal quarter ended 31 March 2026 | Prepared for Investment Committee | April 2026

## Executive Summary

- Revenue of \$4.74b (+14.5% reported, +7% organic) beat consensus by 0.84%; adjusted EPS of \$2.73 (+30% YoY, a record) beat the \$2.70 estimate by 1.1% — both metrics comfortably above prior guidance.
- Record orders of \$5.3b (+25% YoY) with a book-to-bill of 1.12 across all segments and regions represents the strongest forward demand signal in the company's recent history.
- AI data centre (Digital Data Networks) orders surged over 60% YoY; management raised FY2026 AI revenue expectations by \$150m, with the incremental benefit entirely in H2 2026.
- Industrial Solutions segment grew 27% reported / 17% organically, benefiting from AI infrastructure, grid hardening, and energy transition tailwinds; Transportation grew 5% organically.
- Adjusted operating margin of 21.7% expanded 130 bps YoY; board approved a 10% quarterly dividend increase supported by \$1.3b of H1 free cash flow.
- Q3 FY2026 guidance: sales ~\$5.0b (+10% reported, +9% organic), adjusted EPS ~\$2.83 (+17% YoY); FY2026 expected to deliver 'well over \$2b of growth', exceeding through-cycle targets.
- NEAR-TERM OUTLOOK: Bullish. Record order momentum and AI data centre ramp support H2 acceleration. Monitor: macro softness in automotive end markets; stock declined ~8.5% despite the beat, reflecting broader market risk-off conditions rather than company-specific concerns.

## What Happened

| Metric                          | Q2 FY2026               | Q2 FY2025     | YoY Change | vs. Consensus          |
|---------------------------------|-------------------------|---------------|------------|------------------------|
| Revenue                         | \$4.74b                 | \$4.14b       | +14.5%     | Beat (\$4.70b est.)    |
| Operating Profit (GAAP)         | ~\$0.95b (20.0% margin) | ~\$0.75b      | ~+27%      | Beat (+200 bps margin) |
| Net Income (GAAP, cont. ops)    | \$855m                  | ~\$390m       | ~+119%     | —                      |
| Net Income (Adjusted)           | ~\$800m                 | ~\$645m       | ~+24%      | Beat                   |
| EPS – Adjusted                  | \$2.73                  | \$2.10        | +30.0%     | Beat (\$2.70 est.)     |
| EPS – GAAP (diluted, cont. ops) | \$2.90                  | ~\$1.33       | ~+118%     | —                      |
| Orders (Book-to-Bill)           | \$5.3b (1.12x)          | ~\$4.25b      | >+24%      | Record high            |
| Dividends per Share             | Raised 10% (quarterly)  | Prior quarter | —          | —                      |

TE Connectivity reported a strong beat-and-raise quarter for its fiscal Q2 2026 (quarter ended March 31, 2026). Revenue of \$4.74b grew 14.5% on a reported basis and 7% organically, with both the Industrial Solutions (+27% reported, +17% organic) and Transportation (+5% organic) segments contributing. Adjusted EPS of \$2.73 was a company record, up 30% YoY and above the \$2.70 consensus estimate. GAAP EPS from continuing operations of \$2.90 included a \$0.39 non-recurring tax benefit from the settlement of prior-period tax matters. Orders of \$5.3b (+25% YoY) and a book-to-bill of 1.12 were the standout indicators of accelerating forward demand.

Near-Term Sentiment: Bullish (fundamentals), but stock was -8.5% post-market reflecting broader macro/sector concerns rather than company-specific weakness. The business fundamentals — record orders, raised AI revenue outlook, 130 bps margin expansion — are unambiguously positive. The discrepancy between business performance and stock reaction is likely attributable to investor anxiety around global macro conditions and potential tariff impacts on supply chains.

## Why

Revenue growth was led by the Industrial Solutions segment (\$2.32b, +27% reported, +17% organic), driven by secular growth in two

key themes: (1) AI Data Networks — connector demand for hyperscale AI data centres (copper high-speed interconnects for AI accelerator clusters) grew orders over 60% YoY; and (2) Energy / Grid — hardening of electrical distribution infrastructure and renewable energy connections. Transportation Solutions (\$2.42b, ~+5% organic) grew above market on EV-related content expansion, with electrical architecture connector content per vehicle continuing to increase at 2–3x the rate of traditional ICE vehicles, even as global auto production volumes remained soft.

Adjusted operating margin expanded 130 bps to 21.7%, driven by volume leverage, favourable mix (higher-margin AI/Industrial products growing faster than lower-margin transportation), and ongoing productivity programmes. GAAP operating margin was 20%, up 200 bps YoY. The GAAP-to-adjusted EPS differential (\$2.90 vs \$2.73) primarily reflects the \$0.39 tax benefit, partially offset by amortisation and restructuring charges totalling \$0.21. Year-to-date free cash flow of \$1.3b was strong, enabling near-100% return of FCF to shareholders through buybacks and the newly raised dividend.

## What Happens Next

### Forward Guidance (Q3 FY2026):

- Revenue: ~\$5.0b (+10% reported, +9% organic YoY)
- Adjusted EPS: ~\$2.83 (+17% YoY)
- GAAP EPS (continuing ops): ~\$2.44 (+14% YoY)

### Full-Year FY2026 Outlook:

- Revenue: 'well over \$2b of growth' (implying total FY revenue ~\$19.3b+, above prior through-cycle targets)
- AI revenues raised by \$150m for the year; incremental benefit entirely in H2
- Full-year adjusted effective tax rate: ~22%; cash tax rate well below this
- Dividend: quarterly rate raised 10% by the Board

Guidance vs. Prior & Consensus: RAISED. Q3 revenue guidance of \$5.0b is above prior consensus of approximately \$4.92b. FY2026 adjusted EPS consensus of ~\$11.08 on ~\$19.34b revenue suggests the guidance raise puts FY estimates above the prior street. Management explicitly stated FY2026 will exceed through-cycle growth targets — a strong commitment signal. AI revenue guidance raised \$150m.

Stock Price Reaction: Despite the strong beat-and-raise, TEL fell approximately 8.5% in post-earnings trading, underperforming peers. The reaction is attributed to broader market risk-off sentiment and investor concerns about macro softness in the auto sector rather than TEL-specific issues. The stock had surged ~92% over the prior year and was trading near \$247.66 ahead of earnings, which may have contributed to profit-taking. Analysts at Zacks rate TEL a Buy (#2), and several maintained or raised price targets.

## Key Positives, Negatives, Risks & Concerns

Positives: Record \$5.3b orders and 1.12 book-to-bill provides exceptional forward revenue visibility; AI data centre exposure is a structural multi-year growth driver, with orders up 60%+ and revenue guidance raised; margin expansion of 130 bps adjusted and 200 bps GAAP confirms operating leverage is real; 10% dividend raise signals management confidence in cash flow sustainability; \$1.3b H1 free cash flow with near-100% shareholder return demonstrates capital discipline.

Negatives: Transportation segment organic growth of only 5% is modest given the company's content-per-vehicle tailwinds, reflecting soft global auto production; stock's -8.5% post-earnings move suggests macro concerns are dominating company-specific positive fundamentals; GAAP EPS includes a \$0.39 non-recurring tax benefit, making the reported \$2.90 figure a poor run-rate indicator; tariff exposure to supply chain re-routing costs could compress margins.

Risks & Concerns: Global auto production could soften further if consumer credit tightens or EV adoption stalls in Europe, directly impacting Transportation (~50% of revenue); industrial capex cycle could decelerate if AI infrastructure buildout spending slows; tariff escalation under US trade policy could increase component costs and disrupt established supply chains across TEL's globally diversified manufacturing base; the stock's strong prior-year run-up (+92%) means valuation is pricing in significant growth

continuation, leaving limited margin of error.

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# Tetra Tech Inc (NASDAQ:TTEK)

Fiscal Q2 2026 Earnings Analysis | Period ended 29 March 2026 | Released 29 April 2026 (post-close)

## Executive Summary

- Q2 adjusted EPS of \$0.34 beat consensus by \$0.03; revenue of \$1.22bn exceeded the \$1.00bn estimate.
- Net revenue was \$1.05bn, down 4.9% reported but up 8% excluding USAID/DOS and disaster-response activity.
- Backlog rose 8% sequentially to \$4.28bn, supported by major defence, water and infrastructure contract awards.
- FY26 guidance was raised to \$4.25bn-\$4.40bn net revenue and \$1.50-\$1.58 adjusted EPS.
- Stock +1.41% day after results (released post-close) to \$32.32, with 5.5m shares traded.
- Balance sheet remained strong: net debt/EBITDA was 1.0x, while first-half operating cash flow reached \$238m.
- NEAR-TERM OUTLOOK: Neutral. Q2 execution and backlog improved, but Q3 guidance sits slightly below consensus.
- Monitor U.S. federal funding, state/local funding transition, data-centre permitting demand and international water execution.

## What Happened

| Metric                                      | Q2 2026                  | Q2 2025                  | YoY change           | Comment                                                                                        |
|---------------------------------------------|--------------------------|--------------------------|----------------------|------------------------------------------------------------------------------------------------|
| Revenue                                     | \$1,220.2m               | \$1,322.1m               | Decreased 7.7%       | Reported revenue declined, primarily reflecting lower USAID/DOS and disaster-response revenue. |
| Net revenue                                 | \$1,049.6m               | \$1,103.7m               | Decreased 4.9%       | Net revenue increased 8% year-on-year excluding USAID/DOS and disasters.                       |
| Operating profit / EBIT, GAAP               | \$131.5m                 | \$39.6m                  | Increased 232.1%     | Prior-year result included a \$92.4m goodwill impairment; Q2 2026 had no goodwill impairment.  |
| Adjusted operating profit                   | \$131.5m                 | \$130.1m                 | Increased 1.1%       | Adjusted operating income was broadly stable despite the USAID/DOS reduction.                  |
| Net income attributable to Tetra Tech, GAAP | \$93.6m                  | \$5.4m                   | Increased materially | Net income benefited from higher operating income and absence of prior-year impairment.        |
| Adjusted net income                         | Not separately disclosed | Not separately disclosed | n/a                  | Company disclosed adjusted EPS rather than adjusted net income.                                |
| Diluted EPS, GAAP                           | \$0.36                   | \$0.02                   | Increased materially | Included a \$0.02 gain on divestiture.                                                         |
| Adjusted diluted EPS                        | \$0.34                   | \$0.33                   | Increased 3.0%       | Exceeded company guidance of \$0.30-\$0.33 and consensus.                                      |
| Dividend per share                          | \$0.072 quarterly        | \$0.065 quarterly        | Increased 11%        | 44th consecutive quarterly dividend with double-digit year-on-year increase.                   |

Financials versus expectations: Q2 adjusted EPS of \$0.34 beat MarketBeat consensus of \$0.31 and FactSet estimate of \$0.32; revenue of \$1.22bn was above the \$1.00bn estimate. The result was therefore a clear revenue and EPS beat, despite reported revenue falling year-on-year due to USAID/DOS and disaster-response reductions. [S1][S4][S5][S8]

Stock Price Reaction: +1.41% day after results (released post-close) to \$32.32 on 30 April 2026; volume was 5.5m shares, and the move followed the earnings beat, 8% sequential backlog increase and FY26 guidance raise. [S6][S7]

Near-Term Sentiment: Neutral (mixed signals), as strong execution, backlog growth and raised FY guidance were offset by Q3 guidance that sat slightly below/near consensus and ongoing funding-transition uncertainty. [S5][S9]

## Why

Revenue drivers: Reported revenue decreased 7.7% to \$1.22bn and net revenue decreased 4.9% to \$1.05bn, but net revenue increased 8% excluding USAID/DOS and disaster-response activity. Segment demand was stronger than reported revenue suggests: Government Services Group grew 5% excluding USAID/DOS and disasters, driven by U.S. Army Corps of Engineers, defence, water infrastructure and resilient infrastructure work. Commercial/International Group grew 10%, supported by U.K. water, digital automation and international infrastructure activity. By customer type, U.S. federal revenue increased 11%, U.S. state and local increased 9%, international increased 12%, while U.S. commercial decreased 2% as power/transmission growth was offset by the wind-down of offshore wind work. [S1][S3][S4]

Profitability evolution: Gross profit stayed effectively flat at \$214.1m versus \$214.2m, while GAAP operating income increased materially to \$131.5m from \$39.6m because Q2 2025 included a \$92.4m goodwill impairment. Adjusted operating income increased modestly to \$131.5m from \$130.1m. EBITDA was \$146m and the EBITDA margin increased 90 bps year-on-year. GSG margin rose to 16.3%, up 220 bps, while CIG margin was 12.2%, reflecting seasonal utilisation effects in northern geographies and Australia. GAAP net income increased to \$93.6m from \$5.4m, while GAAP net margin improved to 7.7%. [S1][S2][S3][S4]

Margin factors: Mix continued to shift toward high-end consulting, design and fixed-price work. Fixed-price work represented 48% of

first-half net revenue compared with 38% in the prior-year first half, supporting higher margins and lower working-capital intensity. Lower DSO, improved project quality and disciplined working-capital management also supported cash conversion. CIG profitability was held back by normal winter seasonality in the northern hemisphere and holiday effects in Australia. [S2][S3][S4]

Below EBIT: Q2 depreciation was \$5.6m and amortisation was \$8.8m; these items were not material drivers of the year-on-year change in net income. Net interest expense increased modestly to \$8.8m from \$8.5m. Tax expense increased to \$33.5m from \$25.7m as pre-tax income rose, while non-controlling interest of \$0.2m was immaterial. [S2]

One-off adjustments: Q2 2026 included a \$4.7m gain on sale of a divested business, equivalent to \$0.02 per share, which was excluded from adjusted EPS. Q2 2025 included a \$92.4m goodwill impairment, equivalent to \$0.31 per share, and a small contingent-consideration adjustment. There were no Q2 2026 legal contingency costs or goodwill impairments disclosed. [S1][S2][S4]

What Happens Next

| Guidance item                   | Company guidance                                                                       | Change vs prior guidance      | Consensus / expectations comparison                                                 |
|---------------------------------|----------------------------------------------------------------------------------------|-------------------------------|-------------------------------------------------------------------------------------|
| Q3 FY26 net revenue             | \$1.05bn-\$1.10bn                                                                      | New Q3 guide                  | Midpoint of \$1.075bn is slightly below the \$1.1bn consensus cited by MarketBeat.  |
| Q3 FY26 adjusted EPS            | \$0.38-\$0.41                                                                          | New Q3 guide                  | Midpoint of \$0.395 is below the \$0.410 consensus cited by MarketBeat.             |
| FY26 net revenue                | \$4.25bn-\$4.40bn                                                                      | Raised from \$4.15bn-\$4.30bn | Midpoint implies 9% growth excluding USAID/DOS and episodic disaster recovery.      |
| FY26 adjusted EPS               | \$1.50-\$1.58                                                                          | Raised from \$1.46-\$1.56     | Midpoint \$1.54 is modestly above consensus around \$1.52 cited by MarketBeat news. |
| FY26 EBITDA margin              | +70 bps YoY at midpoint                                                                | Raised/confirmed trajectory   | Margin expansion supports long-term target of c.50 bps annual improvement.          |
| FY26 revenue/profit assumptions | Amortisation \$33m; depreciation \$24m; interest \$33m; tax 27.5%; 262m diluted shares | Updated with FY guide         | Excludes future acquisitions and gain on divestiture.                               |

The guidance is underpinned by backlog of \$4.28bn, a stronger second-half outlook for U.S. federal and U.S. commercial work at 8%-12% growth, international growth of 5%-10%, and state/local growth of 5%-10%. Management highlighted \$30bn of U.S. federal contract capacity, more than 20 active data-centre feasibility assessments, contracts with over 500 U.S. municipalities and stronger water, defence, power, transmission and data-centre demand. [S3][S4]

Key positives, negatives, risks and concerns

The key positives were a Q2 EPS and revenue beat, 8% sequential backlog growth, major defence and water wins, record first-half operating cash flow, net debt/EBITDA reduced to 1.0x, an 11% dividend increase and a raised FY26 outlook. The key negatives and risks were reported revenue declining year-on-year, residual USAID/DOS exposure, the transition of state/local funding away from supplemental federal grants, U.S. federal budget uncertainty, lower renewable-energy activity, Q3 guidance slightly below/near consensus, international seasonality in CIG, and reliance on successful conversion of backlog into second-half revenue. [S1][S2][S3][S4][S5]

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# Thermo Fisher Scientific (TMO) — Q1 2026 Earnings Analysis

Quarter ended 28 March 2026 | Prepared for Investment Committee | April 2026

## Executive Summary

- Revenue of \$11.01b (+6.3% YoY) beat consensus of \$10.87b by ~1.2%; adjusted EPS of \$5.44 (+6%) beat the \$5.25 estimate by \$0.19 (3.6%), with \$0.13 from operational outperformance above prior guidance.
- Organic revenue growth of only +1% reflects continued muted academic and government spending, softer China revenue (low single-digit decline), and modest biopharma end-market caution; reported growth of 6% was boosted by 3% acquisitions and 2% FX tailwind.
- Clario acquisition (closed late March, \$9b purchase price) contributed \$30m in revenue and \$0.01 adjusted EPS in Q1; full-year contribution expected at ~\$900m revenue and \$0.32 adjusted EPS at the midpoint.
- FY 2026 guidance raised: revenue to \$47.3b–\$48.1b (from \$46.3b–\$47.2b); adjusted EPS raised to \$24.64–\$25.12 (from \$24.22–\$24.80), representing 8–10% growth vs. FY 2025.
- Stock fell ~9.1% in pre-market trading (to ~\$470) despite the beat-and-raise, reflecting investor frustration with persistent 1% organic growth and uncertainty about the Clario integration at a significant acquisition premium.
- Bioproduction (single-use systems, GLP-1 supply chain) and clinical research (Clario) represent the key growth drivers; academic and government end markets face macro and policy headwinds.
- NEAR-TERM OUTLOOK: Neutral. Beat-and-raise narrative is overshadowed by weak organic growth and a large acquisition that resets the earnings base. Full recovery of biopharma end-markets to historical growth rates remains elusive. Monitor: Clario integration progress, organic growth acceleration in H2, and US government research funding trends.

## What Happened

| Metric                   | Q1 2026                | Q1 2025           | YoY Change      | vs. Consensus        |
|--------------------------|------------------------|-------------------|-----------------|----------------------|
| Revenue                  | \$11.01b               | \$10.36b          | +6.3%           | Beat (\$10.87b est.) |
| Operating Profit (GAAP)  | \$1.86b (16.9% margin) | ~\$1.59b (~15.4%) | +150 bps margin | —                    |
| Net Income (GAAP)        | \$1.651b               | ~\$1.15b          | ~+44%           | —                    |
| Net Income (Adjusted)    | ~\$2.03b               | ~\$1.91b          | ~+6%            | Beat                 |
| EPS – Adjusted (diluted) | \$5.44                 | \$5.13            | +6.0%           | Beat (\$5.25 est.)   |
| EPS – GAAP (diluted)     | \$4.43                 | \$3.98            | +11.3%          | —                    |
| Free Cash Flow           | \$825m                 | ~\$700m           | ~+18%           | —                    |
| Dividends per Share      | \$0.39                 | \$0.35            | +11.4%          | —                    |

Thermo Fisher reported Q1 2026 results that beat both revenue and adjusted EPS consensus estimates, and management raised full-year guidance. Revenue of \$11.01b grew 6.3% YoY, beating the \$10.87b consensus by approximately 1.2%. The growth composition was 1% organic, 3% from acquisitions (primarily Clario, acquired late March), and 2% from favourable FX. Adjusted EPS of \$5.44 beat by \$0.19, driven by \$0.13 of operational outperformance and \$0.01 from Clario. GAAP EPS of \$4.43 grew 11.3% YoY, with the GAAP-adjusted gap (\$1.01) reflecting amortisation, restructuring, and transaction costs related to Clario.

Near-Term Sentiment: Cautious-to-Negative. Despite the headline beat and guidance raise, the stock fell ~9% in pre-market, reflecting investor concern about: (1) persistent 1% organic growth, well below TMO's historical 5–7% organic growth algorithm; (2) the \$9b Clario acquisition at a significant premium resetting the earnings base; and (3) academic and government revenue weakness that could persist through 2026.

## Why

Revenue growth of 6.3% was driven primarily by the Clario acquisition (\$30m in Q1) and FX tailwind (\$~220m benefit). Organic growth of 1% reflects divergent end-market dynamics: pharma and biotech end markets achieved mid-single-digit organic growth, with bioproduction (single-use bioreactors, GLP-1 drug manufacturing) and clinical research services as the key drivers. The Life Sciences

Solutions segment, now recovering from 2023–2024 destocking, contributed positively to growth. Academic and government markets declined low single digits, reflecting reduced US government-sponsored research funding and persistent China weakness (revenues down low single digits), though management noted some stabilisation in China as domestic biotech innovators increase engagement with Western technology.

Adjusted operating margin was 21.8%, down 10 bps versus Q1 2025 (21.9%), with 80 bps of negative impact from tariffs and tariff-related FX effects. Tariff headwinds are being partially offset by the company's PPI (Practical Process Improvement) Business System, which delivered strong productivity improvements. GAAP operating margin of 16.9% reflects ~\$540m of amortisation and other acquisition-related charges. Free cash flow of \$825m grew ~18% YoY. Below the line, Clario contributed a modest \$0.01 to adjusted EPS in Q1 due to the late-quarter close; the full benefit (guided \$0.32 adjusted EPS accretion) will primarily accrue in H2 2026.

## What Happens Next

### Forward Guidance (FY 2026) — RAISED:

- Revenue: \$47.3b–\$48.1b (raised from \$46.3b–\$47.2b); +6–8% reported growth; organic growth 3–4%
- Adjusted EPS: \$24.64–\$25.12 (raised from \$24.22–\$24.80); +8–10% vs. FY 2025
- Adjusted operating margin: ~21.5–22% (broadly stable to slightly above FY 2025)
- Clario contribution: ~\$900m revenue, ~\$0.32 adjusted EPS net of financing costs
- Q2 2026 adjusted EPS consensus: ~\$5.79 on \$11.47b revenue (based on analyst estimates post-raise)

Guidance vs. Prior & Consensus: RAISED. Both revenue and adjusted EPS guidance raised by approximately \$0.9b and \$0.42 at the respective midpoints, largely reflecting the Clario contribution and Q1 operational outperformance. Prior consensus adjusted EPS of approximately \$24.68 sits at the midpoint of the new range, suggesting the guidance is broadly in-line with updated street estimates after incorporating Clario. Organic growth guidance maintained at 3–4%, reflecting no material acceleration in the underlying business.

Stock Price Reaction: TMO shares fell ~9.1% in pre-market to approximately \$470, compared to the prior close of ~\$514. Despite the headline beat and guidance raise, investors focused on: (1) the Clario acquisition cost (\$9b initial + performance payments) versus a relatively modest revenue contribution; (2) persistent 1% organic growth rate versus the 5–7% historical algorithm; and (3) tariff headwind of ~80 bps. The stock has underperformed MedTech peers YTD.

## Key Positives, Negatives, Risks & Concerns

**Positives:** Beat-and-raise outcome demonstrates management's ability to execute even in a muted demand environment; Clario acquisition immediately accretive (\$0.01 in Q1) with \$0.32 full-year EPS accretion improving the earnings trajectory; bioproduction (GLP-1 supply chain, single-use) is growing mid-single digits organically and represents a durable multi-year tailwind; 11.4% dividend growth signals balance sheet confidence; FCF of \$825m growing ~18% YoY; 80 bps tariff headwind being actively mitigated through PPI initiatives.

**Negatives:** 1% organic growth remains well below the company's 5–7% historical normalised rate and far below MedTech/Life Sciences peers; academic and government revenue declining low single digits reflects macro and funding policy headwinds that could persist; \$9b Clario acquisition resets the net debt position upward, reducing M&A and buyback optionality; adjusted operating margin down 10 bps YoY despite volume growth, as tariffs and Clario integration costs offset operational leverage.

**Risks & Concerns:** US National Institutes of Health (NIH) and broader academic/government research funding continues to face political pressure, which could extend the low-single-digit decline in this revenue stream; Clario integration risk at \$9b cost is material — any delay in achieving the \$0.32 EPS accretion target would be a negative surprise; China policy risk may limit growth acceleration in the Asia-Pacific region; tariff escalation beyond the current ~80 bps headwind would further compress margins; organic growth acceleration to 3–4% for FY2026 requires a meaningful H2 step-up from 1% in Q1, which depends on biopharma budget release timing.

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# Tomra Systems (TOM.OL) — Q1 2026 Earnings Analysis

Quarter ended 31 March 2026 | Prepared for Investment Committee | April 2026

## Executive Summary

- Revenue of €334m (+9.2% YoY, +12% constant currency) came in approximately 2% below analyst consensus, as strong Collection and Food growth was more than offset by a sharp Recycling revenue decline of -19%.
- Adjusted EBITA of €26m was flat YoY in absolute terms but approximately 35% below consensus expectations due to a significant gross margin contraction of 230 bps to 40.2%, driven by unfavourable product mix and Recycling fixed cost under-absorption.
- Recycling division was the primary drag: revenue -19% to €37m, adjusted EBITA swung to a -€5m loss; management initiated a €16m gross cost reduction programme with full effect from 2027.
- Collection segment performed strongly: revenue +12% to €208m (15% constant currency), with Poland and Portugal DRS rollouts driving incremental volume; EBITA +10% to €33m.
- Food segment continued its recovery: revenue +13% to €79m, adjusted EBITA +33% to €4m on improved mix and restructuring benefits.
- Shares fell approximately -17% to -20% on the day — the worst single-day decline in over two years — as the EBITA miss and Recycling loss triggered a sharp negative re-rating.
- NEAR-TERM OUTLOOK: Bearish near-term / Cautiously constructive medium-term. Recycling market deterioration is accelerating and management guided 'no growth' in this segment for 2026. Collection and Food structural tailwinds remain intact. Monitor: Recycling cost reduction execution and pace of new DRS market ramp-ups (UK, Poland, Portugal).

## What Happened

| Metric                                | Q1 2026               | Q1 2025              | YoY Change      | vs. Consensus         |
|---------------------------------------|-----------------------|----------------------|-----------------|-----------------------|
| Revenue                               | €334m                 | €306m                | +9.2%           | Miss (~2% below est.) |
| Gross Profit                          | €134m (40.2% margin)  | €130m (42.5% margin) | -230 bps margin | Miss                  |
| EBITA (adj., excl. special items)     | €26m (7.7% margin)    | €26m (8.4% margin)   | Flat (-70 bps)  | ~35% below est.       |
| EBITA (reported, incl. restructuring) | €13m                  | €26m                 | -50%            | —                     |
| Net Income (est.)                     | N/A (quarterly)       | N/A                  | —               | —                     |
| EPS (adj., quarterly estimate)        | ~€0.07                | ~€0.08               | ~-13%           | In-line with est.     |
| Dividends per Share                   | Annual: NOK 1.75 (FY) | NOK 1.75 (FY)        | Flat            | —                     |

Tomra Systems delivered a deeply disappointing Q1 2026, with the headline revenue miss of approximately 2% relative to consensus and an EBITA miss of approximately 35% driving a severe market reaction. Revenue of €334m grew 9.2% YoY (or 12% in constant currency), but this masked a stark divergence between the growing Collection and Food segments and a sharply deteriorating Recycling division. Adjusted EBITA of €26m was flat YoY in absolute terms but reflected a margin contraction from 8.4% to 7.7%, as gross margin fell 230 bps to 40.2% due to product mix effects and Recycling's fixed-cost under-absorption. Including €13m in restructuring charges related to the Recycling cost reduction programme, reported EBITA was only €13m — a -50% decline from the prior year.

Near-Term Sentiment: Bearish. The stock fell approximately -17% to -20% on the day of the announcement (April 24, 2026) — the most severe single-day decline in several years. Analyst consensus shifted negative, with several brokers cutting price targets and downgrading the stock. The -20% share price fall erased approximately NOK 5–6b of market capitalisation. The primary catalyst was the unexpected severity of Recycling losses and the explicit guidance that Recycling is expected to show 'no growth' in 2026.

## Why

The Collection segment (€208m, +12% reported, +15% constant currency) was the key positive driver, with strong deliveries in Poland and Portugal as new Deposit Return Scheme (DRS) markets ramped up. Existing-market DRS volumes (Germany, Norway, established EU markets) grew approximately 5% in constant currency, in-line with expectations. Collection EBITA rose to €33m from €30m, with margin stable at approximately 15.9%. Management noted that Poland and Portugal are expected to contribute approximately €100m in 2026 revenue, though ramp-up costs currently run at approximately €20m annually, pressuring early-stage margins.

The Recycling segment (€37m, -19% reported and constant currency) was the primary negative surprise. Revenue fell sharply as low order intake over recent quarters (reflecting weak North American waste recovery markets and European plastics recycling demand) converted to lower deliveries. Adjusted EBITA swung to -€5m from breakeven a year earlier, representing significant fixed-cost under-absorption as volumes collapsed below the segment's operating break-even point. This triggered a €16m gross cost reduction programme (Recycling headcount and overhead rationalisation), with €13m recognised as restructuring charges in Q1. Management indicated full effect of savings will only be felt from 2027. The Food segment (€79m, +13%, adjusted EBITA €4m +33%) continued its gradual recovery, with improved order intake (+2% YoY) and mix benefiting margins.

Group gross margin contracted 230 bps to 40.2% (from 42.5%), reflecting three simultaneous adverse mix effects: (1) Recycling's negative gross margin contribution; (2) ramp-up costs in Poland and Portugal within Collection compressing segment margins; and (3) lower volumes in higher-margin Recycling products. Operating expenses (adjusted for special items) rose from €104m to €108m, driven by inflation, integration of Clynk, and UK/Poland DRS ramp-up costs.

## What Happens Next

### Divisional Outlook (FY 2026 — no formal group EPS guidance provided):

- Collection: continued growth driven by Poland, Portugal, and new UK DRS launch; ~€100m incremental revenue from new markets
- Recycling: 'no growth expected in 2026'; cost reduction programme (€16m gross savings) gradually materialising in 2026, full effect from 2027
- Food: mid-to-high single-digit revenue growth expected; margins improving as restructuring benefits accrue
- Horizon (c-trace, reusables, Omra feedstock): revenues doubling, still loss-making; Omra targeting positive EBITA run-rate by Q4 2026

### Full-Year 2026 Consensus Estimates (pre-Q1 results):

- Revenue: ~€1.79b (will likely be revised downward post-Q1 miss)
- Adjusted EPS: ~€0.51 (will likely be revised downward given Recycling deterioration)
- Full-year 2027 estimates: revenue ~€2.19b, EPS ~€0.87 — these also face downward revision risk

Guidance vs. Prior & Consensus: IMPLICITLY LOWERED. No formal full-year numerical guidance was reiterated, but management's statement that Recycling will show 'no growth' in 2026 represents a significant deterioration from the prior expectation of modest recovery. Consensus estimates for FY2026 will likely be revised down by 10–15% on EBITA following this print. The cost reduction programme provides a longer-dated (2027) earnings support that does not help the near-term narrative.

Stock Price Reaction: TOM.OL fell approximately -17% to -20% on April 24, 2026, the day of the Q1 results announcement. This was one of the largest single-day declines in the stock's history. Trading volume was approximately 3–4x average. The stock was already down meaningfully from its 2021 highs, and this decline brings the share price to multi-year lows. Analyst price targets are being revised; at least two brokers downgraded from Buy to Neutral/Hold.

## Key Positives, Negatives, Risks & Concerns

Positives: Collection remains structurally intact and growing well above market — Poland and Portugal DRS rollouts represent multi-year volume drivers; Food segment EBITA recovery (+33%) confirms the restructuring programme from 2024 is delivering benefits; Horizon segment revenues doubled, though loss-making today, represents a nascent option on digital DRS and reusable packaging; the UK DRS launch in 2025/2026 is a new large market that could add €100m+ in annual revenues at maturity; management is taking proactive restructuring steps in Recycling rather than allowing costs to drag.

Negatives: Recycling division posted an adjusted EBITA loss for the first time, representing a material deterioration from the recovery thesis; gross margin contraction of 230 bps to 40.2% is severe and broad-based, not isolated to one segment; management explicitly guided 'no Recycling growth in 2026', eliminating a key earnings recovery scenario; cost reduction savings are delayed to 2027, providing no near-term financial relief; the -17% to -20% share price decline indicates a significant investor base has lost confidence in the near-term recovery trajectory.

Risks & Concerns: Recycling market weakness could extend beyond 2026 if North American waste management capex and European plastics recycling economics remain unfavourable — the cost programme addresses cost, not the revenue recovery; New DRS market ramp-up costs (Poland, Portugal, UK) are expected to run at ~€20m/year, which continues to dilute Collection margins in the near term; FX risk from EUR/NOK movements affects both reported financials and investor perception; cost reduction execution risk in Recycling — achieving €16m in savings while managing customer relationships in a weak market is challenging; broader macro slowdown could reduce food processing capex, reversing the Food segment's nascent recovery.

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# Trane Technologies plc (NYSE:TT)

Q1 2026 Earnings Analysis | Period ended 31 March 2026 | Released 30 April 2026 (before market open)

## Executive Summary

- Q1 beat with revenue \$4.97bn versus \$4.81bn consensus and adjusted EPS \$2.63 versus \$2.53; adjusted margin declined 20 bps.
- Record bookings of \$6.69bn and backlog of \$10.7bn, up over 30% versus year-end, led by Commercial HVAC.
- Guidance RAISED: FY26 adjusted EPS to \$14.75-\$14.95 from \$14.65-\$14.85; midpoint above MarketBeat current-year estimate.
- Stock +2.75% day of results to \$492.54, following pre-market release, on beat, backlog and FY guidance raise.
- Free cash flow was strong at \$573m in Q1, with \$1.07bn cash and \$4.62bn debt at quarter-end.
- Stellar Energy strengthens data-centre cooling, adding approximately \$1bn backlog and expected \$500m 2026 revenue contribution.
- NEAR-TERM OUTLOOK: Bullish, driven by data-centre demand, record backlog and raised guidance; monitor Middle East, China and tariffs.

## What Happened

| Metric                                   | Q1 2026                                       | Q1 2025                   | YoY change       | Comment                                                                                |
|------------------------------------------|-----------------------------------------------|---------------------------|------------------|----------------------------------------------------------------------------------------|
| Revenue / net revenues                   | \$4,969.4m                                    | \$4,688.5m                | Increased 6.0%   | Organic revenue increased 3%, led by Commercial HVAC and double-digit services growth. |
| Operating profit / EBIT, GAAP            | \$776.1m                                      | \$818.9m                  | Decreased 5.2%   | GAAP operating margin decreased 190 bps to 15.6%.                                      |
| Adjusted operating profit                | \$794.7m                                      | \$759.7m                  | Increased 4.6%   | Adjusted operating margin decreased 20 bps to 16.0%.                                   |
| Net income, GAAP continuing attributable | \$594.4m                                      | \$613.8m                  | Decreased 3.2%   | GAAP continuing EPS decreased to \$2.66 from \$2.71.                                   |
| Net income, adjusted continuing          | \$587.4m                                      | \$554.1m                  | Increased 6.0%   | Adjusted continuing EPS increased 7% to \$2.63.                                        |
| EPS, GAAP continuing                     | \$2.66                                        | \$2.71                    | Decreased 1.8%   | Includes a net non-GAAP adjustment benefit of \$0.03.                                  |
| EPS, adjusted continuing                 | \$2.63                                        | \$2.45                    | Increased 7.3%   | Beat MarketBeat consensus of \$2.53 by \$0.10.                                         |
| Dividend per share                       | \$4.20 annualised (\$1.05 quarterly run-rate) | \$3.75 annualised implied | Increased 12%    | 2026 annualised dividend increased 12%; Q1 cash dividends paid were \$231.5m.          |
| Free cash flow                           | \$573.3m                                      | \$230.2m                  | Increased 149.0% | Free cash flow conversion materially improved year-on-year.                            |

Financials were ahead of market expectations: MarketBeat reported adjusted EPS of \$2.63 versus \$2.53 consensus and revenue of \$4.97bn versus \$4.81bn expected. Zacks likewise described the quarter as an earnings beat, with revenue topping consensus. Operationally, revenue rose 6%, organic revenue rose 3%, and adjusted continuing EPS rose 7%, although adjusted operating margin declined 20 bps as inflation and reinvestment offset volume and price benefits.

Stock Price Reaction: +2.75% day of results to \$492.54 on 30 April 2026, following a pre-market release, as the market rewarded the revenue/EPS beat, record backlog and raised FY26 guidance; MarketWatch/Yahoo data showed volume of 2.2m shares versus a 50-day average of 1.3m and the close was just below the 52-week high.

Near-Term Sentiment: Bullish, driven by record bookings/backlog, data-centre and Commercial HVAC momentum, positive share-price reaction and raised guidance, partly tempered by Middle East/China headwinds, tariff/inflation pressure and valuation risk flagged by Morningstar.

## Why

Revenue increased because reported net revenues rose 6% and organic revenues rose 3%, with enterprise equipment broadly flattish and services up low-double digits. Americas net revenues increased 5% reported and 4% organic, led by Commercial HVAC revenue growth of high single digits, double-digit services growth, low-single-digit transport growth and a mid-single-digit decline in residential HVAC. EMEA reported revenues increased 12%, but organic revenues declined 1%; reported growth included approximately 9 percentage points of favourable FX and 3 percentage points from acquisitions, while Middle East disruption weighed on the region. Asia Pacific net revenues increased 5% reported and 3% organic, with China up low single digits and the rest of Asia stronger. Management cited volume growth and positive price, but the company did not disclose a precise enterprise price/volume bridge.

Profitability was mixed year-on-year. Gross profit increased to \$1,728.1m from \$1,677.5m, but gross margin decreased to 34.8% from 35.8%. GAAP operating income decreased 5% to \$776.1m and GAAP operating margin fell 190 bps to 15.6%, partly because Q1 2025 benefited from a \$61.2m non-cash contingent consideration adjustment. Adjusted operating income increased 5% to \$794.7m, while adjusted operating margin decreased 20 bps to 16.0%. GAAP continuing net income attributable to ordinary shareholders decreased 3% to \$594.4m, while adjusted continuing net income increased 6% to \$587.4m. Segment profitability diverged: Americas adjusted operating income increased 6% and margin rose 10 bps to 17.9%; EMEA adjusted operating income fell 9% and margin declined 260 bps to 11.9%; Asia Pacific adjusted operating income increased 10% and margin rose 90 bps to 22.1%.

Operating and net profit margins were affected by positive price and volume growth, which were offset by inflation, higher costs to serve customers, supply-chain challenges, expedited freight and elevated business reinvestment. Americas margins were further affected by residential HVAC deleverage on lower volumes; EMEA margins were affected by Middle East challenges and acquisition/integration costs; Asia Pacific margins expanded through prudent cost management despite challenging China macro conditions.

Below EBIT, depreciation and amortisation was \$101.1m versus \$99.1m and did not materially drive the earnings movement. Interest expense decreased to \$55.6m from \$58.1m, other income improved to \$15.3m from a \$7.9m expense and included a \$22.6m non-cash gain from acquiring a previously held investment. Income tax expense increased slightly to \$136.3m, with a reported effective tax rate of 18.5% and adjusted rate of 19.0%; non-controlling interests increased modestly to \$5.1m. Discontinued operations reduced net earnings by \$10.0m.

One-off adjustments were material but transparent. Q1 2026 adjustments included \$12.5m of M&A transaction costs, \$7.2m of acquired backlog amortisation, a \$1.1m restructuring credit and a \$22.6m non-cash gain from acquisition of a previously held investment, producing adjusted continuing EPS of \$2.63 versus GAAP continuing EPS of \$2.66. There were no goodwill impairments or major legal charges disclosed in Q1 2026.

### What Happens Next

| Guidance item                   | Current guidance         | Change versus prior                                  | Consensus / expectations comparison                                                    |
|---------------------------------|--------------------------|------------------------------------------------------|----------------------------------------------------------------------------------------|
| FY 2026 organic revenue growth  | ~7%                      | Raised from +6% to +7% range to the high end         | Supports reported revenue growth of ~9.5%.                                             |
| FY 2026 reported revenue growth | ~9.5%                    | Raised to the high end of prior ~8.5% to ~9.5% range | Includes ~2 pts M&A and ~0.5 pt FX.                                                    |
| FY 2026 adjusted EPS            | \$14.75-\$14.95          | Raised from \$14.65-\$14.85                          | Midpoint of \$14.85 is above MarketBeat current-year EPS expectation of \$14.75.       |
| FY 2026 operating leverage      | Organic 25%+             | Affirmed                                             | Reported leverage lower due to modest year-one M&A contribution and integration costs. |
| FY 2026 free cash flow          | >= adjusted net earnings | Affirmed                                             | Capex updated to 2%-3% of revenue, above the historical 1%-2% range.                   |
| Q2 2026 organic revenue growth  | ~5%                      | New quarterly guide                                  | Q2 adjusted EPS guided at \$4.20-\$4.25.                                               |
| Q2 2026 adjusted EPS            | \$4.20-\$4.25            | New quarterly guide                                  | Includes Middle East headwind of about \$0.05 EPS.                                     |

**Guidance vs. Prior & Consensus: RAISED FY26 adjusted EPS to \$14.75-\$14.95 from \$14.65-\$14.85, with midpoint \$14.85 above MarketBeat current-year EPS expectation of \$14.75.**

Key assumptions underpinning guidance include sustained Commercial HVAC demand, a record \$10.7bn backlog, continued data-centre and applied-systems momentum, approximately \$500m of Stellar Energy revenue conversion in 2026, residential revenue broadly flat for the year with growth returning in the second half, transport markets down mid-single digits with recovery late in 2026 or early 2027, EMEA Middle East headwinds of about \$50m revenue and \$0.05 EPS in Q2, Asia Pacific broadly flat for FY26, enterprise price closer to 2%, interest expense of about \$235m, an adjusted tax rate of about 20%, and approximately 222m diluted shares.

### Key positives, negatives, risks and concerns

The key positives were record organic bookings, record backlog, Americas Commercial HVAC bookings up approximately 40%, applied bookings above 160%, double-digit services growth, a revenue/EPS beat, raised FY26 revenue and EPS guidance, strong free cash flow, and strategic data-centre expansion through Stellar Energy and LiquidStack. The main negatives and risks were lower GAAP operating profit, gross-margin compression, adjusted operating margin down 20 bps, EMEA margin pressure from Middle East disruption and M&A integration, challenging China conditions, tariff and inflation pressure, residential HVAC volume weakness, transport market timing risk, elevated capex, and valuation risk given Morningstar price/fair value of 1.23 despite raising its fair value estimate.

## Selected sources

- Trane Technologies Q1 2026 earnings release, dated 30 April 2026.
- Trane Technologies Q1 2026 earnings presentation and conference call transcript, dated 30 April 2026.
- Morningstar Equity Analyst Note, “Trane Technologies Earnings: Booming Commercial HVAC Demand Led by Data Centers”, dated 1 May 2026.
- MarketBeat Q1 2026 earnings report and consensus data; Yahoo Finance / MarketWatch market data and Zacks earnings coverage.

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# Taiwan Semiconductor Manufacturing (TSM) — Q1 2026 Earnings Analysis

Quarter ended 31 March 2026 | Prepared for Investment Committee | April 2026

## Executive Summary

- Revenue of \$35.90b USD (+40.6% YoY in USD, +35.1% in TWD) beat consensus by ~1.1%; net income of NT\$572.48b (+58.3%) marked TSMC's fourth consecutive quarter of record profits.
- Gross margin of 66.2% (+780 bps YoY) and operating margin of 58.1% both significantly exceeded the top of guidance (63–65% GM), driven by N3 maturation and AI/HPC product mix improvement.
- HPC (AI accelerators, data centre chips) now represents 61% of wafer revenue (up from ~59% in Q1 2025), confirming continued secular mix shift from commodity to premium nodes.
- Q2 2026 guidance of \$39.0–\$40.2b USD (~+10% QoQ, +32% YoY) is substantially above prior sell-side consensus of approximately \$36–37b, representing another major positive surprise.
- Full-year 2026 revenue growth guidance raised to 'above 30%' in USD terms (from prior 'mid-20s%'); capex revised to the high end of \$52–56b, signalling accelerating investment in capacity.
- Management raised long-term through-cycle gross margin target to 56%+, up from prior 53%+ target, a significant and structural positive re-rating catalyst.
- NEAR-TERM OUTLOOK: Strongly Bullish. TSMC continues to be the primary beneficiary of the AI infrastructure supercycle; N2 ramp and Arizona fabs progressing. Monitor: geopolitical risk around Taiwan; export control escalation from US-China tensions; N2 yield ramp execution.

## What Happened

| Metric                  | Q1 2026                      | Q1 2025               | YoY Change      | vs. Consensus            |
|-------------------------|------------------------------|-----------------------|-----------------|--------------------------|
| Revenue (USD)           | \$35.90b                     | \$25.84b              | +39.0% (USD)    | Beat (\$35.50b est.)     |
| Revenue (TWD)           | NT\$1,134.10b                | NT\$839.3b            | +35.1%          | Beat (NT\$1,127b est.)   |
| Gross Profit            | \$23.75b (66.2% GM)          | ~\$14.5b (56.1% GM)   | +580 bps margin | Beat (63–65% guided)     |
| Operating Profit (EBIT) | \$20.84b (58.1% margin)      | ~\$13.4b (51.9%)      | ~+56%           | Beat (55.5–57.5% guided) |
| Net Income              | NT\$572.48b (\$18.10b USD)   | NT\$361.6b (\$11.10b) | +58.3%          | Beat (NT\$543b est.)     |
| EPS (ADR, diluted)      | \$3.49                       | \$2.12                | +64.6%          | Beat (\$3.31 est.)       |
| Dividends per Share     | Committed to steady increase | Prior: NT\$4.50/Q     | —               | —                        |

TSMC delivered another historic quarter in Q1 2026, with every headline metric beating estimates and reaching all-time records. Revenue of \$35.90b in USD grew 40.6% YoY (or 35.1% in TWD), beating consensus by approximately \$400m. Net income of NT\$572.48b exceeded the NT\$543b consensus by over NT\$29b (~5.3%). Gross margin of 66.2% was 100–200 bps above the upper end of guidance, with operating margin of 58.1% also materially above expectations. ADR EPS of \$3.49 beat consensus by \$0.18, or approximately 5.4%. This was TSMC's fourth consecutive quarter of record net income.

Near-Term Sentiment: Strongly Bullish. Analyst reaction was broadly positive, with multiple firms raising price targets following the results. The stock had already surged nearly 150% over the prior twelve months and was trading near its 52-week high of \$390.20. TSMC's ability to beat already-elevated expectations on both revenue and margins reinforced the AI infrastructure supercycle thesis.

## Why

The primary driver of both revenue growth and margin expansion was the continued dominance of AI and HPC demand. N3 (3nm)

accounted for 25% of wafer revenue and N5 (5nm) for 36%, collectively making advanced nodes (7nm and below) 74% of wafer revenue — the highest proportion in TSMC's history. Demand from NVIDIA (AI GPUs), Apple (A-series), AMD, and Broadcom (custom AI ASICs) remains at full capacity utilisation across all advanced nodes. HPC represented 61% of total wafer revenue, up from approximately 51% a year earlier, reflecting TSMC's growing exposure to secular AI spending. Smartphone revenue was approximately 26% of the mix, flat-to-modest YoY growth.

Gross margin expansion of ~780 bps YoY to 66.2% was driven by: (1) N3 yield maturation reducing per-wafer cost as the node scales; (2) favourable mix shift to higher-ASP AI accelerator chips; (3) disciplined pricing in advanced packaging (CoWoS); and (4) strong TWD depreciation versus USD reducing TWD-denominated cost of goods. The 2nm (N2) ramp is diluting gross margin by approximately 200–300 bps in 2026 (per management disclosure), yet overall GM still expanded significantly. Capital expenditure was \$11.10b in Q1, tracking toward the high end of the \$52–\$56b annual capex target, reflecting aggressive capacity expansion for AI chip demand.

## What Happens Next

### Forward Guidance (Q2 2026):

- Revenue: \$39.0b–\$40.2b USD (+10% QoQ, +32% YoY at midpoint)
- Gross margin: 65.5%–67.5%
- Operating margin: 56.5%–58.5%

### Full-Year 2026 Guidance (Updated):

- Revenue growth: 'above 30%' in USD terms (raised from prior 'mid-20s%')
- Capex: tracking to the high end of \$52b–\$56b
- Long-term gross margin target raised to 56%+ through-cycle (prior target: 53%+)

Guidance vs. Prior & Consensus: RAISED significantly. Q2 revenue guidance midpoint of \$39.6b is approximately 7–8% above prior consensus. Full-year guidance of 'above 30%' growth in USD implies annual revenue of approximately \$140b+, well above the pre-earnings analyst consensus of ~\$130–135b. The raise in the long-term margin target is a particularly significant signal of structural pricing power.

Stock Price Reaction: TSM shares were trading near 52-week highs of \$390.20 ahead of the Q1 report, having surged ~150% over the prior year. The earnings results (released April 16) were met with continued positive momentum, with the stock sustaining its elevated valuation. Multiple analysts raised 12-month price targets, with some targets exceeding \$450 per ADR. Market commentary highlighted the Q2 guidance as the most important positive catalyst.

Key Assumptions: Q2 and FY guidance assumes continued AI accelerator demand from NVIDIA, AMD, and hyperscaler custom ASICs; no new material US export restrictions on advanced node products; N2 yields improving through H2 2026; Arizona fabs contributing incremental revenue in 2026/2027; TWD/USD rate broadly stable at current levels.

## Key Positives, Negatives, Risks & Concerns

**Positives:** Fourth consecutive record profit quarter confirms AI demand is sustaining and accelerating rather than normalising; 66.2% gross margin materially above the raised long-term target, providing earnings quality upside; Q2 guidance far above consensus eliminates near-term deceleration concerns; management's capex commitment at the high end of range signals confidence in multi-year demand visibility; raised through-cycle margin target of 56%+ is a permanent positive re-rating of the company's earnings power.

**Negatives:** N2 node ramp is currently diluting gross margins by 200–300 bps, limiting near-term margin upside; capex intensity of \$52–\$56b/year reduces FCF generation; Arizona fab cost structure remains materially higher than Taiwan operations, creating margin headwind as US production scales; customer concentration risk remains elevated (NVIDIA and Apple likely >40% of revenue).

**Risks & Concerns:** US export control escalation remains the most acute risk — any expansion of restrictions limiting advanced AI chip exports to China could directly impair HPC revenue; Taiwan geopolitical risk is the perennial long-term overhang that may require a

persistent discount to intrinsic value; the AI capex cycle, while robust today, could decelerate if hyperscaler returns on AI investment disappoint, triggering demand normalisation; TWD appreciation versus USD would compress reported USD revenues and margins meaningfully given cost-base in Taiwan.

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# Visa Inc (NYSE: V)

Fiscal Q2 2026 Earnings Analysis | Period ended 31 March 2026 | Released 28 April 2026 (post-close)

## Executive Summary

- Strongest revenue growth since 2022: Net revenue \$11,230m (+17% YoY, +16% constant currency) beat consensus of \$10,957m by \$273m; CEO McInerney described it as the highest growth rate since 2013 outside of post-pandemic and acquisition effects.
- Clean EPS beat: Non-GAAP EPS \$3.31 (+20% YoY) beat consensus of ~\$3.10–3.16 by \$0.21; GAAP EPS \$3.14 (+36% YoY), boosted by a materially lower prior-year litigation provision comparator of \$992m versus \$329m this quarter.
- Payment volumes accelerating: Total constant-dollar payments volume +9% (up from +8% in Q1 FY2026); US volume +8%, International +10%; cross-border volume ex-Europe steady at +11% for the third consecutive quarter, demonstrating resilient consumer spending despite macro uncertainty.
- Value-added services emerging as a structural growth driver: VAS revenue grew +27% in constant dollars to \$3.3bn, representing 30% of net revenue; Visa Direct transactions +23% YoY; commercial and money movement solutions +24% in constant dollars.
- Record capital return and new \$20bn buyback: \$7.9bn in share repurchases in Q2 - the highest quarterly buyback in Visa’s history - plus \$1.3bn in dividends; new \$20bn multi-year repurchase authorisation announced, bringing total buyback capacity to ~\$33bn.
- Full-year guidance RAISED: FY2026 net revenue growth upgraded to low-double-digit to low-teens (constant dollar); EPS growth raised to low-teens; prior guidance was low-double-digit revenue, mid-to-high single-digit EPS.
- Stock +8.1% day after results (released post-close 28 April): Visa’s largest single-day gain in four years, driven by a clean double beat, the guidance raise, record buyback, and easing of CCCA regulatory concerns.**
- NEAR-TERM OUTLOOK: Bullish. Broad-based volume growth, accelerating VAS, FIFA World Cup tailwind in Q3 FY2026, and ~\$33bn buyback capacity underpin the constructive case. Monitor: cross-border deceleration in CEMEA (Middle East impact) and CCCA regulatory progress.

**NEAR-TERM SENTIMENT: BULLISH**

Visa delivered its strongest revenue growth since 2022, beating consensus on both the top and bottom line. The stock surged +8% on 29 April - its largest single-day gain in four years. Accelerating payment volumes, resilient cross-border trends, the highest-ever quarterly buyback (\$7.9bn), and a new \$20bn repurchase authorisation all reinforced confidence. Full-year guidance was raised. The primary risk to monitor is ongoing Credit Card Competition Act (CCCA) regulatory uncertainty, which had weighed on the stock prior to results.

## What Happened

| Metric                        | Q2 FY2026 | Q2 FY2025 | YoY    | vs. Consensus          |
|-------------------------------|-----------|-----------|--------|------------------------|
| Net Revenue                   | \$11,230m | \$9,594m  | +17%   | Beat (+\$273m / +2.5%) |
| Operating Income (GAAP)       | \$7,234m  | \$5,435m  | +33.1% | -                      |
| Net Income (GAAP)             | \$6,021m  | \$4,577m  | +31.6% | -                      |
| Net Income (non-GAAP)         | \$6,342m  | \$5,442m  | +16.5% | In-line                |
| EPS (non-GAAP, diluted)       | \$3.31    | \$2.76    | +20.0% | Beat (+\$0.21 / +7%)   |
| Dividends per Share           | \$0.670   | \$0.590   | +13.6% | -                      |
| Free Cash Flow (Q2)           | \$2,625m  | \$2,638m  | Flat   | -                      |
| Payments Volume (c-c)         | +9% YoY   | +8% YoY   | Accel. | In-line / high-end     |
| Cross-Border Vol. ex-EU (c-c) | +11% YoY  | +11% YoY  | Stable | In-line                |

Visa delivered a strong double beat in fiscal Q2 2026, with net revenue of \$11,230m growing 17% YoY (16% constant currency) against

a consensus of ~\$10,957m. Non-GAAP EPS of \$3.31 exceeded analyst expectations of ~\$3.10–3.16 by approximately \$0.21, marking a 20% increase year-on-year. The quarter was characterised as “one of the cleanest” in years by analysts, with all key volume metrics - payments, cross-border, and processed transactions - accelerating sequentially. The GAAP EPS uplift of 36% was partly inflated by the favourable comparison to a \$992m litigation provision in Q2 FY2025, versus just \$329m this quarter. Revenue beat was broad-based across service revenue (+13%), data processing (+18%), international transactions (+10%), and other revenue (+41%). Analyst sentiment was strongly bullish, with 16 analysts revising EPS estimates upward post-results and Bloomberg describing this as the company’s strongest quarter in years.

## Why

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Net revenue grew 17% to \$11,230m, with all four revenue lines expanding strongly. Service revenue rose 13% to \$4,981m, reflecting an 8% constant-dollar payments volume increase in the prior quarter (Q1 FY2026) on which service revenues are recognised. Data processing revenue, the largest line, grew 18% to \$5,543m, driven by 9% processed transaction growth to 66.1 billion. International transaction revenue grew 10% to \$3,631m on 11% constant-dollar cross-border volume ex-intra-Europe, holding steady at the same rate for three consecutive quarters despite Middle East geopolitical headwinds. Other revenue surged 41% to \$1,320m, fuelled by rapid growth in value-added services which now represent 30% of net revenue and grew 27% in constant dollars, reflecting strong demand for Visa’s network products and data services. Client incentives rose 14% to \$4,245m, in line with management’s guidance of elevated spending in the quarter, and the 14% growth rate was contained relative to 17% net revenue growth, allowing margin improvement. Non-GAAP operating margin (using net revenue) improved slightly to 67.3% from 67.1% a year earlier. On a GAAP basis, total operating expenses fell 4% to \$3,996m as the litigation provision declined by \$671m YoY to \$329m; on a non-GAAP basis, operating expenses grew 17%, driven by personnel (+11%) and marketing (+44%), the latter reflecting elevated investment in brand and client-facing initiatives. GAAP net income rose 32% to \$6,021m, with the non-GAAP figure up 17% to \$6,342m. The effective non-GAAP tax rate was stable at 16.4% (vs. 16.9% prior year). Cash returned to shareholders reached \$9.2bn (\$7.9bn buybacks, \$1.3bn dividends), underpinned by Q2 free cash flow of \$2,625m. The balance sheet remains extremely clean: net debt/EBITDA below 0.4x. In February 2026, Visa completed the acquisition of Prisma and Newpay in Argentina, adding ~0.5 points to revenue growth and ~0.5 points to operating expense growth on a constant-dollar adjusted basis.

## What Happens Next

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### Forward Guidance (RAISED)

- FY2026 Net Revenue Growth: Low-double-digit to low-teens on a non-GAAP adjusted constant-dollar basis (RAISED from low-double-digit previously)
- FY2026 EPS Growth: Low-teens on a non-GAAP adjusted constant-dollar basis (RAISED from mid-to-high single-digit previously)
- FY2026 Operating Expense Growth: Low-double-digit to low-teens constant dollar (unchanged)
- Q3 FY2026 Net Revenue Growth: Low-double-digit constant dollar
- Q3 FY2026 EPS Growth: Mid-to-high single-digit constant dollar; GAAP high-teens
- Capital returns: \$7.9bn buyback in Q2 (record quarterly); new \$20bn multi-year authorisation brings total capacity to ~\$33bn; quarterly dividend declared at \$0.670/share (+\$0.080 vs. prior quarter)

### Guidance vs. Prior & Consensus

RAISED - FY2026 net revenue growth upgraded from low-double-digit to low-double-digit/low-teens; EPS growth upgraded from mid-to-high single-digit to low-teens. Both upgrades came against a backdrop of macroeconomic uncertainty and ongoing CCCA regulatory debate, making the raise more significant. Consensus forecasts (Morningstar) had assumed FY2026 revenue of \$62,251m (+11.7% YoY) and adjusted EPS of \$12.73 (+12.8%); management’s upgraded guidance is broadly consistent with or slightly above prior sell-side expectations.

### Key Assumptions

- Consumer spending resilience: US payments volume holding at +8% through April 21 with no material deterioration observed; management flagged geopolitical uncertainty but characterised spending as resilient
- Cross-border stability: 11% constant-dollar growth ex-Europe sustained through April 21; Middle East impact partially offset by strength in other regions; FIFA World Cup in North America cited as a meaningful Q3 FY2026 catalyst for cross-border and processed transactions
- VAS and new flows: Value-added services revenue growing at 25%+ in constant dollars; Visa Direct +23% YoY; commercial and money movement solutions +24%; expected to continue driving above-network-average growth
- Buyback accretion: ~\$33bn total buyback capacity at significant below-market implied yield; share count continues declining ~3–4% annually, providing a structural EPS tailwind regardless of volume environment
- Regulatory risk: CCCA debate ongoing in the US; management argues Visa does not set interchange rates and is not a card issuer, limiting direct impact; however, market discount to the sector persists

### Stock Price Reaction

- **Stock reaction: +8.1% day after results (released post-close 28 April), marking the stock's largest single-day gain in four years (source: Bloomberg, CNBC).**
- Why the market reacted positively:
  - The double beat on both EPS (\$3.31 vs. ~\$3.10 consensus, a \$0.21 beat) and revenue (\$11.23bn vs. \$10.96bn consensus) was described by analysts as one of the cleanest quarters in years, removing investor concern that consumer spending was beginning to slow; Bloomberg noted the revenue increase was the strongest since 2022, and CNBC's Jim Cramer highlighted the result as a potential inflection point for the stock, which had fallen ~12% year-to-date through Tuesday's close (Bloomberg, CNBC).
  - Cross-border volume ex-Europe of +11% in constant dollars - the most macro-sensitive and closely-watched metric - held at its three-quarter average despite Middle East headwinds and broader geopolitical uncertainty, easing investor fears about a global spending slowdown; management's commentary on FIFA World Cup tailwinds and confirmed strength through April 21 reinforced confidence in Q3 FY2026 momentum (CNBC, Quiver Quantitative).
  - The record \$7.9bn quarterly buyback, a new \$20bn repurchase authorisation bringing total capacity to ~\$33bn, and the guidance raise collectively signalled management's conviction in sustained earnings power; the stock had been trading at a discount to fair value on regulatory concerns (CCCA), and the combination of a clean quarter and strong capital return programme helped close that discount materially (Bloomberg, CNBC).

## Key Positives, Negatives, Risks and Concerns

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### Positives

- Fastest revenue growth since 2022: 17% YoY net revenue growth, with the CEO noting it was the strongest since 2013 excluding post-pandemic and acquisition effects; broad-based across all revenue lines with no single outsized driver.
- Value-added services structural acceleration: VAS at 30% of net revenue and growing 27% constant dollar represents a diversification of Visa's revenue mix away from pure volume dependency; Visa Direct (+23%) and commercial solutions (+24%) are establishing new, faster-growing revenue verticals.
- Record capital returns with expanded firepower: \$7.9bn Q2 buyback (record quarterly), new \$20bn authorisation and ~\$33bn total capacity represent a formidable shareholder return engine; share count reduction of ~3–4% annually creates durable EPS support.

### Negatives

- CEMEA cross-border deceleration: International payments volume in CEMEA (Central Europe, Middle East and Africa) saw a 2.5 percentage point step-down due to Middle East conflict; cross-border travel spending in the region is the most macro-sensitive component of Visa's revenue mix.
- Client incentives growing at revenue rate: Client incentives rose 14% to \$4,245m, broadly in line with net revenue growth; management's prior guidance of elevated incentive spending in Q2 proved accurate, and any acceleration above revenue growth would compress net margins meaningfully.

- YTD share price underperformance prior to results: V shares were down approximately 12% year-to-date through April 28, reflecting persistent investor anxiety over CCCA regulatory risk; while the Q2 beat catalysed a sharp re-rating, the underlying regulatory overhang has not been resolved.

## **Risks and Concerns**

- Credit Card Competition Act (CCCA) regulatory risk: The CCCA debate in the US remains the primary stock-level risk; if enacted, it could increase routing competition for credit card transactions, potentially compressing Visa's transaction fee economics over the medium term despite management's argument that Visa does not set interchange rates.
- Cross-border macro sensitivity: Cross-border volume ex-Europe is both the most lucrative and most economically sensitive metric; any sustained escalation of Middle East conflict, deterioration in global travel demand, or US tariff-driven reduction in international trade flows could compress this segment below the current +11% trajectory.
- Operating expense growth running at revenue rate: Non-GAAP operating expenses grew 17%, matching net revenue growth; with personnel (+11%) and marketing (+44%) both accelerating, any revenue softness in H2 FY2026 could lead to margin compression rather than the modest expansion embedded in current consensus forecasts.

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# Waste Management Inc (NYSE: WM)

Q1 2026 Earnings Analysis | Period ended 31 March 2026 | Released 28 April 2026 (post-close)

## Executive Summary

- EPS beat, revenue slight miss: Adj. EPS \$1.81 (+8.4% YoY) beat consensus of \$1.74 by \$0.07 (+4%); revenue \$6,227m (+3.5%) missed consensus of \$6,286m by 0.8% on volume headwinds.
- Pricing execution ahead of plan: C&D core price +6.3% and yield +3.9% both exceeded internal expectations; MSW yield 6.9% and residential yield 6.3% standout performers reflecting disciplined revenue quality management.
- Free cash flow nearly doubled: Q1 FCF \$920m vs. \$475m prior year (+93.7%), enabling \$729m returned to shareholders (\$385m dividends, \$344m buybacks); leverage ratio 2.94x back within 2.5-3.0x target.
- Sustainability businesses accelerating: Renewable energy EBITDA more than doubled YoY (7 new RNG facilities); recycling EBITDA +18% despite -27% commodity prices, reflecting automation and 9% volume gains.
- Full-year guidance reaffirmed: Management reiterated all FY 2026 targets; C&D volume recovery expected H2 2026 as weather/wildfire comps clear, with MSW recently running +4% and industrial volumes turning positive for first time in ~7 quarters.
- **Stock +1.1% on results day (released post-close 28 April): Shares rose to \$232.72 on 29 April as the EPS beat and FCF strength outweighed the modest revenue miss and volume softness in investor sentiment.**
- NEAR-TERM OUTLOOK: Bullish. Pricing discipline, maturing RNG portfolio, and H2 volume recovery create a supportive backdrop. Monitor: pace of WM Healthcare Solutions revenue inflection and RNG utility interconnect delays.

**NEAR-TERM SENTIMENT: BULLISH**  
Mixed on the day — EPS beat overshadowed by a modest revenue miss and volume headwinds — but shares ended the session +1.1% as investors focused on FCF strength, margin expansion, and reiterated full-year guidance. Volume recovery in H2 2026 and accelerating sustainability returns support a constructive medium-term outlook.

## What Happened

| Metric                  | Q1 2026  | Q1 2025  | YoY     | vs. Consensus       |
|-------------------------|----------|----------|---------|---------------------|
| Revenue                 | \$6,227m | \$6,018m | +3.5%   | Slight miss (-0.8%) |
| Operating Profit (adj.) | \$1,118m | \$1,059m | +5.6%   | In-line             |
| Net Income (GAAP)       | \$723m   | \$637m   | +13.5%  | —                   |
| Net Income (adj.)       | \$731m   | \$673m   | +8.6%   | In-line             |
| EPS (adj. diluted)      | \$1.81   | \$1.67   | +8.4%   | Beat (+\$0.07)      |
| Dividends per Share     | \$0.945  | \$0.835  | +13.2%  | —                   |
| Adj. EBITDA             | \$1,853m | \$1,750m | +5.9%   | In-line             |
| Adj. EBITDA Margin      | 29.8%    | 29.1%    | +70 bps | In-line             |
| Free Cash Flow          | \$920m   | \$475m   | +93.7%  | Strong beat         |

WM reported Q1 2026 results that were mixed at the top line but ahead on profitability. Adjusted EPS of \$1.81 beat the \$1.74 consensus by \$0.07 (+4%), while revenue of \$6,227m fell just short of the \$6,286m consensus by 0.8% owing to a 1.5% decline in Collection & Disposal volumes. The headline EBITDA margin of 29.8% (+70 bps YoY) and free cash flow of \$920m — nearly double the prior year — were clear positives. The adjusted effective tax rate came in at 18.4%, well below the guided 23% for the full year, reflecting IRS clarification on RNG production tax credits (\$27m for the 2025 tax year). Management reaffirmed all FY 2026 guidance. Overall investor sentiment was constructive, with analysts pointing to pricing strength and FCF generation as the key drivers of confidence.

## Why

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Revenue grew 3.5% to \$6,227m, driven by 6.3% Collection & Disposal core pricing (+3.9% yield) that more than offset a 1.5% volume decline. The volume shortfall was attributable approximately half to severe East Coast winter weather — some facilities closed for up to 10 days — and half to intentional shedding of lower-margin residential contracts (-5.0% residential volume) and the lapping of Q1 2025 Southern California wildfire cleanup volumes. Excluding wildfire effects, special waste volumes were +6.7% and MSW volumes were +2.7%, demonstrating healthy underlying demand. Industrial collection returned to modest positive territory (+0.2%) for the first time in around seven quarters. Renewable Energy net revenue more than doubled to \$159m from \$91m as seven new RNG facilities commissioned since Q1 2025 drove near-double RNG production, supported by higher natural gas pricing (\$5.59/MMBtu vs. \$3.93 in Q1 2025). Recycling revenue declined modestly to \$368m from \$384m as single-stream commodity prices fell 27% YoY to ~\$65/ton, but automation investments and 9% volume growth drove an 18% EBITDA gain, demonstrating the structural improvement in the recycling cost base. Healthcare Solutions revenue was broadly flat at \$614m as management prioritised margin recovery over near-term volume; adjusted EBITDA improved 11.6% with a 200 bps margin uplift as SG&A fell ~20% YoY and Stericycle integration synergies continued to accumulate. Group adjusted EBITDA margin expanded 70 bps to 29.8%: Collection & Disposal contributed +110 bps (overcoming a 20 bps fuel surcharge headwind), sustainability businesses contributed +50 bps, and Healthcare added +20 bps, partially offset by -40 bps from technology investment and -70 bps from incentive compensation and benefits timing. Operating expenses as a percentage of revenue improved 70 bps to 59.2%, the fifth consecutive quarter below 60%. Capital expenditure fell 22% YoY to \$650m, reflecting normalised fleet spend and near-completion of the 2023 sustainability capex programme.

## What Happens Next

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### Forward Guidance (Reaffirmed)

- FY 2026 Revenue: \$26.425bn–\$26.625bn (mid-point \$26.5bn, +5.2% YoY; in-line with Morningstar consensus of \$26,526m)
- FY 2026 Adjusted EPS: ~\$8.37 (Morningstar consensus; +11.5% vs. \$7.51 in FY 2025)
- FY 2026 Adj. EBITDA Margin: ~30.8%; management comfortable with full guidance range including 31% upper bound
- FY 2026 Free Cash Flow: \$3,750m–\$3,850m; tracking toward 50% FCF/EBITDA conversion medium-term target
- FY 2026 Sustainability EBITDA contribution: \$240–\$250m; RNG volume 80% locked in (up from 60% at January guidance)
- FY 2026 Effective Tax Rate: ~23% full-year; Q1 benefited from \$27m RNG production tax credits for 2025 tax year, plus \$30–\$35m/year expected 2026–2029

### Guidance vs. Prior & Consensus

**AFFIRMED** — all FY 2026 targets reiterated without change from Q4 2025 guidance. Management cited strong Q1 pricing execution and FCF generation as reinforcing confidence, but elected not to upgrade guidance, noting it will reassess volumes at Q2 given weather/wildfire comparator uncertainty. Revenue guidance is in-line with consensus; EPS guidance is modestly below prior Zacks pre-release consensus of ~\$8.14 reflecting the conservative approach to volume assumptions.

### Key Assumptions

- H2 2026 volume recovery: Special waste laps wildfire comparables by August; MSW running +4% in recent weeks; industrial collection sustained in modest positive territory after seven quarters of decline
- Pricing sustained at 6%+: 40–45% of revenue CPI-indexed with 1–2 quarter reset lag; any CPI uptick provides a H2 tailwind; residential and MSW price discipline to continue
- RNG commissioning on schedule: Three additional plants expected online in Q2, remainder in H2; utility interconnect delays being navigated but management confident on full-year targets
- Healthcare Solutions H2 inflection: ERP stabilisation, credit memo normalisation, and cross-selling (annualised EBITDA benefit ~\$27m) expected to drive a revenue inflection; synergy target potentially rising to \$325m from \$300m

- Fuel and commodity: Surcharge programme provides near real-time hedge on fuel; \$1/gallon diesel move equates to ~\$200m annualised surcharge revenue; recycling commodity upside if Middle East freight disruption eases

## Stock Price Reaction

- **Stock reaction: +1.1% day after results (released post-close 28 April), closing at \$232.72 on 29 April 2026 (source: Benzinga).**
- Why the market reacted positively:
- EPS beat of \$0.07 (+4% vs. \$1.74 consensus) and free cash flow that nearly doubled to \$920m were the primary positives that drove the session higher, with investors rewarding the strong cash conversion and cost discipline despite softer volumes (Benzinga, Meyka).
- Margin expansion of 70 bps to 29.8% adjusted EBITDA margin — achieved despite severe winter weather disrupting volumes and fuel cost headwinds — signalled the durability of WM's operational improvements and pricing power, underpinning confidence in the full-year guidance reiteration (Investing.com, GuruFocus).
- The revenue miss of 0.8% vs. consensus and the 1.5% C&D volume decline initially weighed on sentiment (shares dipped ~0.6–0.7% in pre-market), but intraday buying emerged as the call highlighted improving volume trends — MSW at +4% recently, industrial volumes turning positive, and special waste pipeline strengthening into H2 (Investing.com, GuruFocus).

## Key Positives, Negatives, Risks and Concerns

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### Positives

- Free cash flow conversion: FCF nearly doubled to \$920m in a single quarter, enabling \$729m of shareholder returns; FCF-to-EBITDA conversion approaching 50% medium-term target ahead of schedule.
- Pricing execution ahead of plan: Core price +6.3% and yield +3.9% both beat internal expectations; MSW yield 6.9% and residential yield 6.3% reflect disciplined revenue quality management and long-term airspace preservation strategy.
- Sustainability businesses delivering: Renewable energy EBITDA more than doubled; recycling EBITDA +18% despite -27% commodity prices; structural cost improvements mean WM is far less susceptible to commodity swings than historically.

### Negatives

- Volume miss and weather disruption: C&D volumes -1.5% fell short of expectations; approximately half attributable to severe East Coast winter weather (facility closures up to 10 days) and half to intentional residential shedding and wildfire comparators.
- Healthcare Solutions revenue still soft: Healthcare revenue broadly flat at \$614m; the \$40m H1 volume headwind from hospital losses and ERP disruption is resolving but creates a meaningful drag on reported top-line growth through mid-year.
- Revenue consensus miss: Revenue of \$6,227m missed the \$6,286m consensus by 0.8%, driven by the volume shortfall; while margin management partially offset this, it limits near-term upside to revenue-based valuation multiples.

### Risks and Concerns

- Volume outlook uncertainty: Management declined to reaffirm volume guidance and will reassess at Q2; H2 recovery depends on special waste, industrial, and MSW sustaining recent momentum in an uncertain macro and tariff environment.
- RNG commissioning and interconnect delays: Utility interconnect delays could push RNG plant commissioning into H2 or 2027, deferring the \$240–\$250m sustainability EBITDA contribution and long-term \$26/MMBtu offtake pricing target.
- Valuation leaves limited margin of safety: WM trades at ~30x trailing P/E and ~14x 2026E EV/EBITDA; any guidance miss or volume disappointment in Q2 could compress the premium to sector peers Republic Services and Waste Connections.



# Xylem Inc. (XYL) — Q1 2026 Earnings Analysis

Quarter ended 31 March 2026 | Results announced 28 April 2026

## Executive Summary

- Q1 2026 adjusted EPS of \$1.12 (+9% YoY) beat consensus of \$1.09 by \$0.03; GAAP EPS of \$0.79 rose 14% YoY, in each case driven by productivity savings and price realisation rather than volume.
- Revenue of \$2,125m (+2.7% reported, flat organically) was marginally ahead of consensus ~\$2,110m; virtually all reported growth was FX (\$65m) — underlying organic growth was -0.4%, below the low end of full-year guidance.
- Adjusted EBITDA margin of 20.6% expanded 20 bps YoY, a positive but below market expectations of ~\$440m EBITDA; Applied Water margin missed management's own target of above 20%, coming in at 19.6%.
- Full-year EPS guidance REAFFIRMED at \$5.35-\$5.60 despite \$581m of share buybacks in Q1 — management's refusal to raise was interpreted by the market as a signal of genuine macro caution, not conservatism.
- Revenue guidance modestly raised to \$9.2-\$9.3bn (from \$9.1-\$9.2bn) but reflects only delayed divestiture timing, not improved underlying demand — organic growth guidance unchanged at 2-4%.
- UBS downgraded XYL to Neutral (PT cut to \$132 from \$152) on 21 April — one week before results — citing MCS project delays and flagging an 'air pocket' in growth; Q1 print largely confirmed those concerns.
- Stock fell -4.53% on the day (from \$123.51 prior close to \$118.51), reversing a +1.63% pre-market gain; day range \$117.18-\$125.01. The stock is now within 2.6% of its 52-week low of \$114.49 and down ~13% YTD.
- NEAR-TERM OUTLOOK: Bearish to Neutral. Flat organic revenue in Q1, EPS guidance not raised despite buybacks, and the UBS downgrade all reflect a market increasingly sceptical of the H2 2026 growth ramp. Monitor: MCS order-to-revenue conversion, China trajectory, and Applied Water margin recovery.

## What Happened

| Metric                  | Q1 2026  | Q1 2025  | YoY Change                    | vs. Consensus                                        |
|-------------------------|----------|----------|-------------------------------|------------------------------------------------------|
| Revenue                 | \$2,125m | \$2,069m | +2.7% reported / flat organic | Slight beat (~+\$15m; some sources cite slight miss) |
| Gross Profit            | \$803m   | \$768m   | +4.6%                         | —                                                    |
| Adj. EBITDA             | \$437m   | \$423m   | +3.3%                         | Slight miss (est. ~\$440m, per FinancialContent)     |
| Adj. EBITDA Margin      | 20.6%    | 20.4%    | +20 bps                       | —                                                    |
| Operating Income (GAAP) | \$244m   | \$231m   | +5.6%                         | —                                                    |
| Net Income (GAAP)       | \$193m   | \$169m   | +14.2%                        | —                                                    |
| Net Income (Adj.)       | \$272m   | \$251m   | +8.4%                         | —                                                    |
| EPS (Adj. diluted)      | \$1.12   | \$1.03   | +8.7%                         | Beat by \$0.03 vs ~\$1.09 consensus                  |
| EPS (GAAP diluted)      | \$0.79   | \$0.69   | +14.5%                        | —                                                    |
| Dividends per Share     | ~\$0.44  | ~\$0.40  | ~+8%                          | —                                                    |

Xylem delivered a Q1 2026 EPS beat of \$0.03 against consensus, driven by operational execution, price realisation and productivity savings. However the headline organic revenue picture was weaker than it appeared: reported revenue grew 2.7% YoY but almost entirely due to \$65m of FX tailwind, with underlying organic revenue slipping -0.4% — below the company's own full-year organic guidance range of +2-4%. By segment, MCS was the relative standout with +1% organic revenue growth and +15% organic orders driven by water metering demand; Water Infrastructure declined -1% organically (treatment walkaway actions and China -30% YoY); Applied Water was flat organically (US commercial buildings strength offset by industrial/residential softness); and WSS declined -2% organically (capital project timing and weather impacts). The adjusted EBITDA miss of ~\$3m against consensus was modest but notable alongside flat organic growth.

Near-Term Sentiment: Bearish to Neutral. Despite the pre-market rise of +1.63%, XYL sold off -4.53% on the day (prior close \$123.51; day close \$118.51; intraday low \$117.18), underperforming the broader market. Trading volume of 889,782 was well below the 2.0m

average, suggesting the selloff was sentiment-driven rather than a capitulation. UBS downgraded to Neutral with a \$132 price target (from \$152) one week prior, flagging MCS project delays — a call the Q1 print largely validated. Zacks assigned a Rank 4 (Sell). TipRanks reported that analysts were split with Neutral sentiment emerging post-results.

## Why

Revenue grew 2.7% reported but flat organically (-0.4%), as growth in MCS (energy metering, smart water metering backlog execution) and Applied Water (US commercial buildings, data centres) was offset by deliberate walkaway actions in Water Infrastructure treatment, a -30% YoY revenue decline in China, and WSS capital project timing. Management cited 80/20 portfolio simplification as a ~200 bps organic growth headwind in 2026, concentrated in H1 — which, while planned, left Q1 organic growth below even the low end of full-year guidance. Adjusted EBITDA margin expanded 20 bps to 20.6%, driven by productivity savings and price realization that more than offset inflation, but Applied Water margin of 19.6% missed management's own target of above 20% due to gross margin mix. GAAP operating income of \$244m was held back by \$38m of restructuring and realignment costs (Q1 2025: \$27m). Below the line, interest expense fell to \$4m (Q1 2025: \$8m) and the Q1 GAAP net income benefited from a \$4m gain on sale of businesses (vs. -\$10m in Q1 2025), together driving the 14% GAAP EPS increase. Free cash flow of \$18m improved sharply from -\$38m a year earlier, though this remains modest in dollar terms given the \$90m capex outlay. The most material market concern, confirmed by the UBS pre-results downgrade, was the lack of evidence in Q1 of the accelerating MCS order-to-revenue conversion needed to support the significant H2 2026 ramp implicit in full-year guidance.

## What Happens Next

### Forward Guidance (Full Year 2026):

- FY 2026 Revenue: \$9.2-\$9.3bn (RAISED from \$9.1-\$9.2bn — raise reflects delayed divestiture timing only; organic growth guidance unchanged at 2-4%)
- FY 2026 Adjusted EPS: \$5.35-\$5.60 (REAFFIRMED; midpoint \$5.475 vs consensus ~\$5.48)
- FY 2026 Adjusted EBITDA Margin: ~22.9-23.3% (+70-110 bps YoY; REAFFIRMED)
- FY 2026 Free Cash Flow Margin: ~10.2-11.0% (REAFFIRMED)
- Q2 2026 Guidance: Revenue \$2.3-\$2.4bn (+2-3% reported, ~+1% organic); EBITDA margin 22.0-22.5%; EPS \$1.31-\$1.36

### Guidance vs. Prior & Consensus — and Why the Market Reacted Negatively:

The EPS guidance reaffirmation was the critical disappointment. Despite executing \$581m of share repurchases in Q1, management explicitly chose NOT to raise EPS guidance, citing 'a prudent approach to guidance in an uncertain macro environment.' The market interpreted this as management signalling that organic demand is not developing as strongly as previously hoped — in other words, the buyback benefit was needed to offset emerging operational shortfalls rather than deliver upside. UBS (Joshua Spector), downgrading to Neutral on 21 April with a PT of \$132, had specifically flagged this risk: that MCS project delays would create an 'air pocket' in growth and push a return to mid-single-digit organic expansion to 2027 at the earliest. Q1's flat organic revenue, with H2 still requiring a significant sequential ramp, did nothing to allay that concern. Revenue guidance was raised by \$100m at the midpoint to \$9.25bn, but this was attributable solely to the delayed close of the international metering divestiture — underlying organic guidance was unchanged.

### Key Guidance Assumptions:

- Organic growth of 2-4% requires a step-up to approximately 3-6% organically in H2 2026, driven by MCS project deliveries and seasonal Water Infrastructure uplift
- 80/20 walkaway headwind (~200 bps) weighted to H1 and first three quarters; comps ease materially in H2
- China headwind of ~1% to full-year sales, predominantly H1-concentrated; CFO Grogan expects the market to bottom out and comps to ease from Q3
- MCS exits 2026 with EBITDA margins well in excess of 25% following international metering divestiture close (delayed to end Q2)
- No material tariff P&L impact assumed; management confirmed price/cost positive including tariff headwinds
- FX: EUR/USD 1.17; capex ~\$350m; restructuring costs \$70-90m; tax rate ~22-23%

### Stock Price Reaction and Analyst Commentary:

XYL rose +1.63% in pre-market trading to \$125.52 following the EPS beat, before reversing sharply as the earnings call proceeded and the unchanged EPS guidance became apparent, closing down -4.53% at \$118.51 (prior close: \$123.51; intraday low: \$117.18 — within 2.4% of the 52-week low of \$114.49). The stock is down approximately 13% YTD and has underperformed the broader market materially in 2026. UBS analyst Joshua Spector, who had pre-emptively downgraded to Neutral at \$132 one week earlier citing MCS growth uncertainty, saw his thesis validated by the flat Q1 organic print. JPMorgan (Overweight, PT \$160) and Oppenheimer

(Outperform, PT \$160) maintained constructive ratings, but both had trimmed targets ahead of results. Jefferies reiterated Hold at \$130. TipRanks noted post-results that analyst sentiment was split, characterised as Neutral on balance. Morningstar's Krzysztof Smalec maintained a fair value of \$124 (3-star, Fairly Valued), bumping the estimate by only \$1 to reflect time value. The divergence between the pre-market pop (EPS beat) and the day close (guidance disappointment) is a textbook example of the market repricing the earnings quality narrative: a beat driven by buybacks and cost control rather than organic growth acceleration is not the catalyst investors needed to regain conviction in the H2 ramp story.

## Key Positives, Negatives, Risks and Concerns

### Key Positives:

- Adjusted EPS beat of \$0.03 (+3% vs consensus) and 20 bps of EBITDA margin expansion demonstrate that Xylem's operational execution and pricing discipline remain intact, even in a volume-constrained environment
- MCS organic orders +15% YoY and \$4.7bn backlog (up sequentially) provide meaningful revenue visibility into H2 2026 and 2027; management expects double-digit water metering order growth to continue through the year
- Record \$850m WSS outsourced water service contract (post-quarter, specialty chemicals) validates the long-cycle services strategy and the shift toward recurring, high-margin revenue streams; a pipeline of similar opportunities exists

### Key Negatives:

- Organic revenue was -0.4% YoY in Q1 — below even the low end of full-year guidance of +2-4% — with all reported growth attributable to FX; the market came into results needing to see early evidence of the H2 acceleration, and Q1 provided none
- EPS guidance not raised despite \$581m of buybacks in Q1 is the single most damaging signal of the print: management effectively confirmed that organic demand deterioration is absorbing the EPS benefit of the buyback programme, validating the UBS downgrade thesis
- Applied Water EBITDA margin of 19.6% missed management's own target of above 20%, driven by gross margin mix; with data centre project revenues building through the year, recovery is expected but was not delivered in Q1

### Material Risks and Concerns:

- H2 2026 organic growth ramp dependency: achieving full-year organic guidance of 2-4% from a Q1 base of -0.4% requires approximately 3-6% organic growth in H2 — a significant acceleration; if MCS project deliveries, WSS capital activity, or seasonal Water Infrastructure demand disappoint, a guidance cut becomes a real risk
- China structural uncertainty: the -30% YoY revenue decline in Q1 reflects a three-way split of market softness, competitive pressure, and deliberate walk-away actions; UBS specifically flagged that the timeline for China stabilisation is uncertain and could extend the growth drag beyond H1
- Macro and geopolitical headwinds: CFO Grogan flagged the escalation of Middle East tensions (Iran/Strait of Hormuz) and rising fuel costs as live cost risks; additionally, tariff uncertainty on industrial supply chains could further pressure margins in H2 if current assumptions prove optimistic

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