

Why We Own TE Connectivity: The Connections Behind an Electrified World

When an electricity network is upgraded, the hard part is often joining the new equipment to what is already there. In Glasgow, SP Energy Networks had ageing paper-insulated cable and needed a way to connect it to modern polymeric cable. TE Connectivity describes how its engineers designed and tested a tailored joint, trained the utility's installers and delivered the solution in three months. The published case is historical. It does not tell us the contract's profitability or claim that a future outage was avoided. It shows the practical problem: a power system depends on small, exacting connections that must work for years.

Electricity needs a stronger physical network

The world's electricity system is being asked to carry more. Industry, electric vehicles, cooling and data centres are increasing demand, while new renewable generation and storage must connect to networks built in earlier decades. The International Energy Agency's Electricity 2026 analysis estimates that annual grid investment needs to rise by about 50% from today's roughly \$400 billion by 2030 to meet its demand forecast. More than 2,500 gigawatts of generation, storage and large-load projects sit in grid connection queues worldwide. These are system-level estimates, not a forecast of TE's sales.

Utilities cannot simply replace every cable at once. They must reinforce lines, connect new generation, protect equipment, monitor faults and adapt old assets while keeping power flowing. Solar developers and data-centre operators face their own connection, installation and reliability constraints. This is the structural demand behind TE's opportunity: more electrical infrastructure, higher power density and a premium on installation that works the first time.

What TE Connectivity actually does

TE makes connectors, terminals, cable accessories, sensors and related engineered components that move power, signals and data through equipment. Its current reporting has two segments, Transportation Solutions and Industrial Solutions. The latter includes energy, automation, aerospace, medical and data-centre applications; transportation includes vehicle electrification and other automotive systems. The distinction matters: TE is a diversified industrial supplier, not a pure grid company. A strong quarter for AI infrastructure or vehicles cannot automatically be attributed to renewable energy.

In a power network, the customer may need a standard connector, insulation and protection for a cable joint, monitoring in a substation, or a custom assembly to bridge old and new systems. TE sells components through manufacturers and distributors and works directly with utilities, engineering contractors and equipment makers. Its energy-solutions portfolio spans generation, transmission and distribution. At Middle East Energy in September 2026, TE showed solar, smart-grid and critical-power applications. That event demonstrates product focus, not customer orders.

Where it fits. TE sits primarily within Delta's Climate Action theme because electrification, grid resilience and efficient power delivery create demand for its engineered connections. Nature Innovation is relevant where materials and infrastructure are used more efficiently; Human Advancement is relevant where reliable power supports essential services. One primary classification keeps the investment case clear. Theme fit alone does not make the shares attractive at any price.

How engineering becomes an advantage

The connector is a small share of a major project's budget, but failure can be disproportionately costly. Products have to meet voltage, temperature, vibration, corrosion and installation requirements; a utility or equipment maker may validate them before they enter a design. TE's breadth in materials, tooling, testing and application engineering can make it useful when a customer must solve a specific physical constraint, as in the Glasgow cable case. Once approved, an engineered component can remain in a customer's design for years. That may support repeat orders and pricing discipline, though competitors can win specifications and no customer is captive.

TE's solar-farm case study gives a second illustration. For an unnamed engineering and construction customer building a project above 640 megawatts, TE reports that its configurable trunk system saved more than \$12 million in labour and materials and cut installation time by 67% against the customer's alternative design. Those are company-reported project estimates with an undisclosed comparator. They support a question - can TE repeatedly lower a customer's installed cost? - rather than a portfolio-wide claim of savings or avoided emissions.

What the latest results tell us

The commercial case needs evidence beyond attractive engineering. In fiscal Q3 2026, reported on 22 July, TE recorded \$5.16 billion of sales, up 14% reported and 12% organically from a year earlier. Orders reached \$5.7 billion, 27% higher, with a book-to-bill ratio of 1.1. Industrial Solutions grew more than 20% in sales, while Transportation grew close to 7% reported according to management. GAAP operating margin was 19%; adjusted operating margin was 22%, up roughly 90 basis points year on year. Operating cash flow was \$1.2 billion and TE's definition of free cash flow was \$883 million for the quarter.

The order and cash figures indicate demand and operating capacity. They do not show how much came specifically from grid products, what the lifetime margin of a design win will be, or whether unusually strong AI-linked orders can persist. Adjusted profit and free cash flow exclude items and should be read alongside GAAP results. The next test is conversion: orders into shipments, shipments into attractive margins, and earnings into cash after reinvestment.

Management has also agreed to acquire Astrodyne TDI, a power-management business, for about \$1.4 billion, subject to regulatory approvals and other closing conditions. TE said the target was expected to contribute more than \$250 million of annual sales. The proposed deal could broaden its position in critical power, but revenue is not return on capital. The price paid, integration costs, customer retention and eventual cash yield matter at least as much as the strategic label. An August agreement to acquire HENN's plastic air-and-fluid connection unit adds another capital-allocation question in transportation.

That is the causal chain we test as investors: rising demand for grid reinforcement, electrified transport and AI-linked data-centre infrastructure creates structural demand; TE's engineering depth, breadth and installed base help it win the design slots; product sales and repeat, lifecycle business convert that demand into revenue, cash and profit; and valuation discipline determines whether those economics justify ownership at the current price.

A financially strong business, not just a good story

A compelling theme in electrification and connectivity only matters if the company behind it can actually turn that demand into cash, year after year. Before we get carried away with a single strong quarter, we ask a simpler question: is TE Connectivity a genuinely well-run, improving business, and is that improvement reaching shareholders? On profitability and earnings, the answer is increasingly yes. On the share price, the record is much more uneven - and that gap is itself part of the story.

Profitability. TE's underlying profitability has improved steadily rather than in a single burst. Operating margin rose from around 17% to almost 20% over the three fiscal years to 2025, and a broader measure of profitability - adjusted earnings before interest, tax, depreciation and amortisation, or EBITDA, as a share of sales - rose from around 22% to nearly 25% over the same period, with both metrics guided to keep expanding through 2027. Return on invested capital - what the business earns on every dollar it ploughs back into itself - has moved from 13.3% to 15.2% over the same three years, comfortably and increasingly above the roughly 9% cost of equity we require companies to clear, the minimum return shareholders need for the risk of holding the shares. Forward estimates point to that trend continuing, with return on invested capital projected to approach 20% by the end of the decade.

Earnings growth. Adjusted earnings per share grew 12% and then almost 16% in the two most recently completed fiscal years, outpacing revenue growth of roughly 9% - profit growing faster than sales, which is the marker of a genuinely improving business rather than one simply riding a strong cycle. That pattern accelerated further in the most recent quarter: adjusted earnings per share rose 22% year on year on sales up almost 14%, comfortably ahead of what analysts had expected, on record orders that were 27% higher than a year earlier. Management has since raised its full-year guidance to around 15% sales growth and roughly 23% adjusted earnings growth, and forward estimates point to a further double-digit rate of earnings growth the year after - though, as with any guidance, that trajectory is not yet delivered and depends on demand holding up.

Shareholder returns - the case ahead. This is where the record is genuinely uneven, and we say so plainly. TE's total return to shareholders - share price growth plus dividends - swung from roughly +35% in 2021 to -27% in 2022, before recovering to +24% in 2023, easing to roughly flat in 2024, and surging to around +61% in 2025: a strong run over five years that compounded at roughly 15% a year, but one built on sharp reversals rather than steady progress. That volatility has continued into 2026. Even after a quarter that beat both revenue and profit expectations, delivered record orders, and came with raised guidance, the shares fell and remain down for the year to date - investor attention has focused on TE's more limited position in one specific data-centre networking technology relative to certain peers, rather than on the broader operating picture. We read that as a valuation and sentiment question rather than an operating one. If the earnings growth described above is delivered - and forward estimates point to a further material step-up in profitability over the next two fiscal years - it

would represent a credible path back to the kind of returns the five-year record shows TE is capable of generating, though that path is a forecast, not yet a fact.

None of this is guaranteed to continue - we return to that risk below - but the combination of steadily improving margins, earnings growing faster than sales, and a share price that has yet to catch up with an improving operating record gives us a credible, evidenced case for financial quality, even though the shareholder-return record itself remains a live question rather than a settled one.

Leadership we can trust

TE Connectivity's governance structure gives us the checks and balances we look for. The roles of Chief Executive and Chair are held by two separate people, and the Chair is independent under both the company's own criteria and Delta Outcomes' stricter, tenure-based standard. All thirteen director nominees stand for re-election every year, rather than serving staggered, multi-year terms, so shareholders get a regular say over who governs the company. There is only one class of listed stock, with each share carrying a single vote, so no shareholder carries outsized voting power over the rest. Applying our own stricter tenure threshold to the board as a whole - rather than the company's own count - still leaves independent directors comfortably above the two-thirds bar we require, though by a thinner margin than the company's own disclosure suggests, largely because the chairs of two board committees have each served for more than a decade. A rigorous annual review of the board's own performance is carried out, but - unlike the strongest disclosure we see elsewhere in the portfolio - the results of that review are not made public, which is the one area where we would like to see TE move toward greater transparency.

Executive pay is well aligned with the interests we hold as shareholders: roughly 90% of the chief executive's target pay, and a similarly high share of other senior executives' pay, is performance-based and at risk rather than fixed, delivered mostly through equity awards that vest over multiple years and depend on sustained earnings growth - and shareholders have consistently and strongly endorsed the programme in advisory votes. That governance foundation is matched by a disciplined record of capital allocation: return on invested capital has risen every year for the past three years to comfortably clear the return shareholders require, and management has funded a series of bolt-on acquisitions - including the roughly \$1.4 billion purchase of a power-management business now underway - alongside an ongoing share buyback programme, rather than relying on one-off measures to flatter returns. Taken together, this gives us reasonable confidence that TE's board and management are overseeing the business in a way that serves shareholders' and other stakeholders' long-term interests, even as we watch for the annual-review disclosure gap and the tenure of some committee leadership to improve over time.

Value, decision, and tension

We own TE Connectivity because three things now line up: a durable, structural source of demand from grid reinforcement, electrified transport and AI-linked data-centre infrastructure; a business whose profitability, margins and return on invested capital have been improving steadily rather than briefly; and a board and management team whose structure, incentives and capital-allocation record we can trust, notwithstanding the transparency gap noted above.

We do not own it on the assumption that every grid project will be profitable for suppliers, that today's order momentum is permanent, or that every acquisition will earn its cost of capital. The central tension is a valuation one: TE's shares trade off the same AI-linked and grid-related demand that is driving its current growth, and a large part of the debate investors are having is not about whether that demand exists but about which specific technologies - copper versus optical connectivity, in particular - will capture the fastest-growing share of it. That debate cost the shares around 8% in a single trading session in 2026, even after a quarter that beat expectations on every headline measure. A business can be executing well and still be a disappointing investment if the price already assumes flawless execution, and figuring out whether that is the case - not enthusiasm for the electrification theme - is what should govern position sizing.

We therefore need our own view of TE's normalised cash generation and fair value, set against the price of the shares, and explicit evidence that would change our position: continued conversion of the current record order book into organic sales, margins that hold up as unusually strong AI-linked demand normalises, and acquisitions that earn their cost of capital rather than simply adding scale. The diversified portfolio can soften dependence on a single end market, but it also exposes shareholders to automotive production, industrial cycles and competitive pricing.

What could break the chain

A number of things could weaken this thesis, and we watch for all of them:

- Grid investment can be delayed by permitting, utility budgets and supply-chain constraints, and automotive electrification and global vehicle production can develop more slowly than suppliers expect, requiring continued content outperformance just to hold Transportation growth flat.
- Rival components can meet the same technical specification at a lower total cost, and a shift toward optical data-centre architectures - where TE has a smaller position than some peers - could reshape competitive dynamics over time.
- The pending acquisitions could take longer to integrate or fail to earn an adequate return on the capital committed; a large deal that dilutes returns would weaken the capital-allocation record described above.
- The margin and return-on-capital improvement we describe rests heavily on currently exceptional AI-linked order growth; if that growth normalises without a corresponding cost adjustment, margins and returns could compress, and cash conversion - which was negative in fiscal 2025 - would need to hold up more consistently through a full cycle.
- A connector failure or a difficult installation could erode the reliability record TE is selling to customers, and the underlying impact case has the same evidentiary limits described above: company-reported project estimates, not independently verified, portfolio-wide outcomes.

The thesis would weaken most if several of these happened together: orders repeatedly failing to convert into organic sales, margins compressing as AI-linked demand normalises, cash conversion staying weak through a full cycle, and the pending acquisitions missing their return targets - particularly if that coincided with a share price that had, by then, re-rated upward on the assumption that all of it would keep holding.

TE's older Glasgow example still makes the investment question concrete: a successful joint, trained installers and a product suited to legacy equipment solved a real utility constraint, and the solar case adds a measurable but company-reported cost and time claim. Neither establishes portfolio-wide savings or a guaranteed financial outcome on its own. What has strengthened the case since the original version of this story is the weight of evidence behind the other two pillars: a business whose margins, earnings and return on invested capital have been improving for several years running, and a board and management structure we have reasonable grounds to trust. We own TE Connectivity because those three things - a genuine structural need for its engineering, a financially strengthening business, and leadership we can trust to allocate capital sensibly - now reinforce each other, not because any one of them is sufficient alone. The task ahead of the company, and the test we keep applying to it, is the same one we opened with: converting exacting, unglamorous engineering work into durable cash flows, at a price that leaves room for the risks set out above.

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