

DELTA OUTCOMES GLOBAL LEADERS / INVESTMENT STORY

Why We Own AstraZeneca

For someone living with metastatic breast cancer, "progression-free survival" is not a laboratory phrase. It is time before scans show the disease growing again.

In a 1,157-patient trial, Enhertu plus pertuzumab extended the median from 26.9 to 40.7 months, compared with the established first-line regimen. The risk of progression or death fell by 44%. That does not guarantee any individual another year, nor does it prove an overall-survival benefit. It shows why the ability to turn molecular insight into better treatment can matter - to patients, and to the economics of a pharmaceutical company.

On 1 September, the European Union approved that combination for first-line treatment of HER2-positive metastatic breast cancer. It was one of three AstraZeneca oncology announcements that day. The news is encouraging. The investment question is harder: can the company repeatedly convert science into meaningful outcomes and durable cash flows, at a valuation that leaves room for failure?

A structural need, not a passing trend

Cancer demand is persistent because populations are growing and ageing, while detection and treatment are expanding. The International Agency for Research on Cancer estimates that breast cancer alone accounted for 2.43 million new cases and almost 694,000 deaths worldwide in 2024.

The burden is also unequal. A medicine has little social value to someone who is diagnosed too late, cannot reach a specialist, or cannot afford treatment. The World Health Organization's 2026 global cancer report therefore treats prevention, diagnosis, treatment, palliative care and health-system capability as one continuum. Scientific progress is necessary, but access determines how much of it becomes human progress.

That is the structural demand behind AstraZeneca: more patients need earlier diagnosis and more precise, effective treatment, while health systems need better outcomes from constrained budgets.

What AstraZeneca does

AstraZeneca discovers, develops and sells prescription medicines across Oncology, BioPharmaceuticals and Rare Disease. Oncology is the largest engine. In 2025 it generated \$25.6bn, or 44% of group revenue. The company invested \$14.2bn in research and development and reported 197 projects across its pipeline.

Tagrisso targets certain EGFR-mutated lung cancers. Enhertu is an antibody-drug conjugate directed at HER2-expressing tumours. Imfinzi uses immunotherapy to help the immune system attack cancer. Beyond oncology, AstraZeneca treats cardiovascular, renal, metabolic, respiratory, immunological and rare diseases.

Where it fits. AstraZeneca belongs primarily within Delta's Human Advancement theme because its central economic purpose is to improve and extend life through medicines.

Climate Action and Nature Innovation remain relevant secondary lenses through energy, emissions, water, chemistry, packaging and supply-chain stewardship. They are not the main reason we own the company, and operational sustainability should not be used to decorate a weak clinical or investment case.

Why it may keep winning

Drug development is a long series of filters. A promising biological idea must become a molecule, survive toxicology and clinical trials, satisfy regulators, be manufactured reliably, earn reimbursement and reach the right patients. Most candidates fail somewhere along the way.

AstraZeneca's advantage is not one miraculous drug. It is a system combining disease expertise, biomarker-led trial design, several treatment technologies, global development and commercial reach, manufacturing and partnerships. That breadth lets the company test combinations, extend successful medicines into new settings and absorb individual failures better than a single-product biotechnology company.

The Enhertu approval illustrates the system. The drug was developed with Daiichi Sankyo; AstraZeneca contributes oncology development and commercial reach, while Daiichi manufactures and supplies it. The partnership accelerates capability, but it also shares economics and creates dependency. Most EU product sales are recorded by Daiichi Sankyo, and AstraZeneca owes a \$100m milestone for the approval. A headline sales number is therefore not the same as cash captured by AstraZeneca.

The moat is also contestable. Competitors pursue the same targets. Scientific knowledge travels. Regulators can demand more evidence, payers can resist prices, and a safety problem can alter a medicine's value quickly. The advantage must be renewed through evidence, not assumed from scale.

How science becomes earnings

The commercial chain begins when a medicine demonstrates sufficient benefit and safety for regulatory approval. Reimbursement and clinical adoption then expand the number of eligible patients treated. New indications can extend a product's market, while global reach converts evidence into volume. Gross profit funds further trials, manufacturing and distribution; successful reinvestment replenishes the pipeline before older patents expire.

AstraZeneca's first-half 2026 result shows that mechanism at work. Total revenue rose 9% to \$30.7bn, or 6% at constant exchange rates. Core earnings per share rose 12% to \$5.21. Oncology revenue increased 18% to \$14.1bn and represented 46% of product revenue. Tagrisso generated \$3.78bn, while Enhertu grew 36% to \$1.72bn. The company reconfirmed full-year guidance for mid-to-high single-digit revenue growth and low-double-digit Core EPS growth at constant exchange rates.

Those numbers matter because they connect clinical adoption to revenue, margin and reinvestment. They do not remove the need to examine collaboration payments, royalties, launch costs, manufacturing investment, tax, working capital and the probability-adjusted value of the pipeline.

The same caution applies to AstraZeneca's newly completed licence for Zegfrovy, a lung-cancer medicine approved in the United States and China. AstraZeneca will pay \$600m upfront, up to \$900m in milestones and tiered royalties. The company expects a US launch in the fourth quarter and says the deal does not change 2026 guidance. Strategic fit is not yet evidence of an attractive return.

A financially strong business, not just a good story

A compelling scientific story only matters if the company behind it can fund the next generation of trials, year after year. A business that cannot protect its margins or convert growth into cash will struggle to keep discovering new medicines, however promising its pipeline looks. So before we get carried away with the clinical headlines, we ask a simpler question: is this a genuinely well-run, profitable company? On the numbers, the answer is clearly yes.

Profitability. AstraZeneca earns strong and rising profits on the capital invested in the business. Return on shareholders' equity – essentially, how much profit it generates for every dollar shareholders have invested – has risen from around 15% in 2023 to 17% in 2024 and over 20% in 2025, comfortably above the roughly 9% cost of equity we hold pharmaceutical businesses to, and is expected to move higher still in 2026. Margins tell the same story: the operating margin held at 19% through 2023 and 2024 before stepping up to almost 23% in 2025, with a broader measure of profitability – adjusted EBITDA margin – rising from around 28% to 32% over the same period. Both are guided to keep expanding through 2026 and 2027 as the newest oncology medicines scale and one-off integration costs from earlier acquisitions fall away.

Earnings growth. Adjusted earnings per share grew from \$7.33 in 2023 to \$8.16 in 2024 and \$9.10 in 2025 – annual growth of around 11%, and management's own guidance points to a step-up into the low double digits for 2026, consistent with the 18% constant-currency core EPS growth already delivered in the second quarter. That pattern has not been perfectly consistent: in 2024, a year of heavy Alexion-related integration costs, revenue grew faster than earnings, the opposite of the trend we look for. It has reasserted itself since – earnings growing faster than revenue in 2025 and guided to do so again in 2026 – evidence that the improvement is coming from margin discipline, not simply a bigger top line.

Shareholder returns. Ultimately, none of this matters to an investor unless it shows up in the share price. Over the five years to the end of 2025, AstraZeneca's shares delivered a total return – share price growth plus dividends – that compounded at close to 16% a year, a genuinely strong run built on several years of double-digit gains. That record has not been smooth: shares are down around 7% year-to-date in 2026 after a July clinical setback in a cardiovascular trial, even though they recovered modestly once the following quarter's results beat consensus on the strength of oncology growth. This is a business whose shareholder returns have broadly tracked its improving profitability over time, even allowing for the volatility that a single trial result can introduce.

None of this is guaranteed to continue, and a run of disappointing trial readouts could interrupt it – but it gives us real confidence that AstraZeneca's core profitability and balance sheet can keep funding the pipeline investment its impact case depends on.

Leadership we can trust

A good business also needs to be well led. However compelling the science, we need to be able to trust the people running the company – because clinical and commercial success mean little if capital isn't allocated honestly and for the long term.

AstraZeneca's governance is robust, and the key structures we look for are firmly in place. The roles of Chief Executive and Chair are held by separate people, giving proper checks and balances at the top rather than concentrating power in one individual, and every director stands for re-election each year, so shareholders get a regular say over who governs the company. The board's own performance is independently reviewed each year, with the findings published in meaningful detail rather than kept behind closed doors, and the Audit, Remuneration, and Nomination and Governance committees are each populated entirely by independent directors. There is only one class of share, with each of the company's shares carrying a single vote, so no shareholder carries outsized influence over the rest. Executive pay is weighted heavily toward long-term, performance-linked awards, with a substantial share of it deferred or vesting over several years and meaningful personal shareholding requirements that persist for a period after departure, and recent pay outcomes have shown genuine differentiation rather than automatic maximum awards.

This governance foundation is matched by a strong and improving record of capital allocation: returns on invested capital have risen consistently above the company's cost of capital over the past three years, funding continued dividend growth – the interim dividend was raised again in the first half of 2026 – alongside a balance sheet that remains investment-grade even after recent licensing and acquisition spending. Taken together, this gives us real confidence that AstraZeneca is overseen by leadership that acts in the long-term interests of shareholders and patients alike.

Outcomes as evidence, not a halo

The Enhertu trial offers unusually tangible evidence. Median progression-free survival improved by 13.8 months in the study population, and the EU regulator approved the new first-line use. This is stronger than an intention, a laboratory result or a company-wide estimate.

It is still bounded evidence. Progression-free survival is not the same as overall survival, quality of life or cure. Trial participants are not every patient. Real-world benefit depends on diagnosis, biomarker testing, clinician access, reimbursement, adherence and safe delivery. US SEER data show how poor distant-stage breast-cancer survival remains, but US population statistics should not be generalised uncritically to every country.

For Delta, the measurable outcome set should follow the patient journey: eligible patients identified, access to treatment, progression and survival, quality of life, treatment discontinuation and serious adverse events. Where possible, those measures should come from regulators, peer-reviewed studies and independent real-world evidence – not only company-selected examples.

Value, decision, and tension

We own AstraZeneca because three things line up: persistent, structural demand for better diagnosis and treatment, met by a company with deep oncology capability, a diversified

pipeline and the infrastructure to turn successful science into medicines at scale; a genuinely well-run, improving business behind that opportunity, with rising profitability, earnings growing faster than revenue, and shareholder returns that have compounded at close to 16% a year over five years despite real volatility; and a board and remuneration structure we substantially trust, with one specific tenure question we continue to watch rather than treat as resolved.

We do not own it on the assumption that every clinical headline will translate into an approval, that every approval will translate into cash AstraZeneca actually keeps, or that today's margin expansion will continue uninterrupted. The central tension is that much of the profitability and earnings growth we describe above already depends on newer oncology medicines offsetting the accelerating decline of Farxiga and Brilinta, and on a run of pivotal trial readouts due over the next 18 months landing at or above the company's own risk-adjusted expectations. A single disappointing trial – as the July 2026 cardiovascular result showed – can move the shares quickly, in either direction. Valuation discipline, not the emotional pull of any one clinical announcement, is what should govern position sizing here.

What could break the chain

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

- **Clinical and regulatory risk.** AstraZeneca's first-half 2026 report disclosed that CARDIO-TTTransform (Wainua), EMERALD-2 and a study of Ultomiris did not meet their primary endpoints. Positive high-level results, such as the September Tagrisso-plus-Orpathys readout, are a signal to inspect the underlying data, not a substitute for them, and overall-survival data across several programmes remain immature.
- **Safety risk.** The European Medicines Agency warns that Enhertu can cause serious interstitial lung disease or pneumonitis. Doctors and patients must weigh benefit against risk, and new safety evidence could restrict use of a medicine the earnings case depends on.
- **Commercial and structural risk.** Farxiga's US loss of exclusivity is accelerating – US sales fell 48% at constant exchange rates in the second quarter – while Brilinta has already declined sharply and China's volume-based procurement continues to pressure older medicines. The US Federal Circuit invalidated key Tagrisso patents in July 2026, and US pricing reform continues to compress US list prices while requiring higher pricing elsewhere.
- **Partnership and licensing risk.** Collaboration structures such as the Daiichi Sankyo agreement on Enhertu mean a headline sales number is not the same as cash captured by AstraZeneca, and newly licensed assets such as Zegfrovy carry upfront payments, milestones and royalties before they are proven to earn an adequate return.
- **Financial-quality durability risk.** The margin and return-on-equity gains described above need to hold as older products decline further into the second half of 2026, and continued earnings growth depends on roughly 25 further Phase III readouts over the next 18 months landing at or above management's own risk-adjusted probability assumptions.
- **Governance risk.** One long-serving director, linked to both extended tenure and a significant shareholder, sits outside our independence threshold. Continued board

refreshment, not just the separation of Chair and Chief Executive roles, is something we will keep watching.

- Impact-case risk. Progression-free survival gains, including Enhertu's 13.8-month improvement, are not the same as a proven overall-survival benefit, and real-world benefit depends on diagnosis, biomarker testing, reimbursement and access that a clinical trial does not capture on its own.

The thesis would weaken materially if a broad run of the pipeline's pivotal readouts disappointed, if Farxiga and Brilinta's decline outpaced new-launch offsets without the margin recovery already guided, if board refreshment showed no further progress over a reasonable period, or if verified patient outcomes failed to support AstraZeneca's own trial claims.

The ownership question

AstraZeneca represents a view that better biological understanding can produce both human and economic value when a capable, well-governed organisation turns it into reliable treatment at scale.

The thesis compounds if the company keeps renewing its pipeline, preserves the benefit-risk case of its medicines, keeps converting that science into rising profitability and cash rather than one-off accounting gains, broadens real patient access, and continues to be overseen by a board and remuneration structure aligned with shareholders' and patients' long-term interests. It weakens if pipeline readouts disappoint broadly, if margin gains prove unable to offset patent expiry, if governance refreshment stalls, or if a valuation built on continued clinical and financial success leaves no room for the next Wainua-style setback.

That is why we own AstraZeneca – for its structural, human-advancement-linked demand, its genuinely improving financial quality, and a leadership team whose capital discipline and pay structure we substantially trust – and why each scientific success still has to pass an investment test before it changes the size of the position.

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