

DELTA OUTCOMES GLOBAL LEADERS / INVESTMENT STORY

Why We Own TOMRA Systems

A used drinks bottle has little value in the wrong place. Put a deposit on it, give the consumer a convenient way to return it, and the economics change. In Poland, where a national deposit-return system began in October 2025, retailers spent the first half of 2026 installing reverse-vending machines. For TOMRA, that policy change showed up directly in the numbers: second-quarter Collection revenue rose 45%, with €69 million coming from new deposit markets including Poland, Portugal, Singapore and Romania, versus €15 million a year earlier.

That is the investment case in miniature. TOMRA does not make money because recycling is a worthy idea. It makes money when regulation, resource scarcity and customer economics make better collection and sorting necessary - and when TOMRA can supply the machines, software and service infrastructure that make the system work.

Structural demand is becoming infrastructure

The European Union's Packaging and Packaging Waste Regulation requires 90% separate collection of single-use plastic bottles and metal beverage containers by 2029, subject to limited exemptions. Independent evidence supports the mechanism: the OECD finds that beverage-container deposit systems can achieve return rates above 90%, while European Commission data published in 2026 showed that countries with high bottle collection rates generally operate deposit-and-refund systems.

That creates a multi-year installation cycle. Poland and Portugal are live; Spain has triggered a deposit-system requirement after missing its collection threshold; the UK plans to begin in October 2027; Quebec is expanding its existing system; and Singapore launched Asia's first regulated deposit market in April 2026.

The opportunity extends beyond bottles. Recyclers need cleaner material streams to meet recycled-content requirements and reduce dependence on virgin raw materials. Food processors face labour shortages and rising safety standards. Across each market, valuable material has to be identified, separated and recovered at industrial speed.

What TOMRA does - and why it may win

Collection is the core. TOMRA has more than 91,900 reverse-vending installations across more than 60 markets and says those machines capture over 53 billion bottles and cans a year. It sells machines, leases equipment, provides service and data systems, and in some markets earns revenue based on container throughput. New deposit systems can therefore create a longer tail of service, upgrades, leases and processing income after the initial equipment sale.

TOMRA Recycling applies sensor, software and increasingly AI-based sorting to waste, metals and mining, with more than 11,900 systems installed in around 100 countries. TOMRA Food has roughly 16,100 sorting and grading units at growers, packers and processors, where the economics are labour productivity, product quality, food safety and lower loss.

The advantage is not one machine. It is decades of installed equipment, recognition algorithms, sensor engineering, customer relationships, service capability and experience implementing deposit systems market by market. But this is not a monopoly. New markets are tendered competitively, and lower Collection gross margins in Poland during 2026 show that winning volume at the wrong price is not the same as creating value.

Where it fits

TOMRA sits primarily in Delta's **Nature Innovation** theme. Its systems keep materials in circulation, recover higher-quality secondary raw materials and reduce usable material sent to landfill or incineration.

Climate Action is a meaningful secondary theme because recycled materials can carry much lower embodied emissions than virgin production. Human Advancement is present through food safety and automation. The primary thesis, however, is resource productivity: turning waste streams into economically valuable inputs.

How the advantage reaches earnings

The first half of 2026 shows both the potential and the complication.

Group revenue rose 17% to €739 million and adjusted EBITA rose 19% to €83 million in H1. Q2 was stronger still and, taken alone, was a record quarter: revenue reached an all-time high of €405 million, up 25% year-on-year, and adjusted EBITA rose 30% to €57 million, lifting the margin 50 basis points to 14.1%.

Collection drove the growth. Q2 revenue rose 45% to €246 million and EBITA rose to €44 million from €27 million. Its margin improved to 17.7%, even though gross margin fell because new-market sales were weighted toward lower-margin equipment. That matters: a deposit market can require heavy upfront installation before higher-value service and recurring revenue follow.

Elsewhere, the picture is mixed. Recycling revenue fell 11% in Q2 and 15% in the first half as industrial customers remained cautious, though order intake rose 40% year-on-year in Q2 - the first improvement in over a year. A restructuring programme is targeting about €16 million of annual cost savings, with full effect expected in 2027. Food revenue grew 5% in Q2, but order intake fell 22% and backlog was lower than a year earlier. Horizon - TOMRA's newer reuse, feedstock and digital ventures - is growing but remains loss-making.

That is the causal chain this thesis rests on: regulation and resource scarcity create structural demand for collection and sorting infrastructure; TOMRA's installed base, technology and market-by-market implementation experience convert that demand into orders and installations; those installations convert into equipment revenue, service income and, over time, free cash flow; and disciplined valuation determines whether those economics justify ownership at today's price. The earnings case therefore requires Collection's installations to convert into profitable lifetime revenue, Recycling to complete its recovery, and newer ventures to prove they can earn acceptable returns - not just that regulation keeps creating demand.

A recovering, not yet proven, financial story

A compelling theme only matters if the company behind it can fund its own growth and protect its returns through the cycle. So before we get carried away with the story, we ask a simpler question: is this a genuinely well-run, profitable company? For TOMRA today, the honest answer is: not consistently over the past five years - but the most recent evidence is pointing the right way, and that distinction matters for how we size the position.

Profitability. Return on invested capital - ROIC, essentially the profit TOMRA earns on every krone of capital employed in the business - has fallen from 14.4% in 2021 to 8.3% on a trailing-twelve-month basis to June 2026, dipping as low as 7.6% in 2023. It recovered to 10.4% in 2024 and cleared Delta's 9% cost-of-equity hurdle again, if only marginally, at 9.4% in 2025, before slipping back below that hurdle on the latest trailing-twelve-month figure. Net profit margin has moved on a similar arc: from over 10% in 2021 down to around 5% in 2023, a partial recovery to roughly 7.4–7.5% in 2024 and 2025, and 6.2% on the trailing twelve months. This is not, on the five-year record, the profile of a company we would today call a consistent compounder.

Earnings growth. Full-year 2025 was genuinely soft: group revenue fell 2.2% and adjusted EBITA margin slipped to 13.0% from 13.4% in 2024, while operating cash flow fell to €171 million from €235 million, partly reflecting inventory built ahead of new deposit-market installations. The most recent quarter tells a different story. Q2 2026 delivered a record €405 million of revenue, up 25% year-on-year, with adjusted EBITA up 30% to €57 million - growth driven almost entirely by Collection's installation cycle in Poland. On a trailing-twelve-month basis, group revenue growth has turned positive again, at 5.3%, though EBITDA growth over the same trailing period remains negative, at around -4%, which tells us the recovery in volume has outpaced the recovery in margin so far. That is a real distinction: growing revenue at declining profitability is not yet the quality of growth this thesis needs, though the direction in the latest quarter is encouraging.

Shareholder returns - the case ahead. Total shareholder return - share price growth plus dividends - has not rewarded TOMRA's holders over the past several years. The shares closed at around NOK91 on 18 September 2026, close to their 52-week low of NOK89.8 and far below their 52-week high of NOK158.4. We do not have a strong recent track record to point to here, so we test the forward case on its own terms instead. Sell-side analysts' average 12-month price target sits at roughly NOK126 as of September 2026, implying upside in the high-30s percent range if realised, and consensus estimates point to continued earnings recovery as Collection's growing installed base matures into higher-margin service and throughput revenue, as the UK's deposit scheme (two retail contracts already signed, ahead of an October 2027 launch) builds out, and as Recycling's order intake - up 40% year-on-year in Q2, its first improvement in over a year - converts into revenue. None of this is booked. It is a testable, evidence-based expectation, not a demonstrated result, and we hold it to that standard.

None of this is guaranteed - we come back to that below - but taken together it gives us a credible, evidenced path back to the returns this thesis needs, though one that is not yet proven in the numbers and that we will hold TOMRA to converting quarter by quarter.

Leadership: real strengths, and a concentration of power worth watching

A good business also needs to be well led, and here TOMRA's picture is genuinely mixed rather than simply reassuring. On Delta Outcomes' 13-point scored governance assessment, TOMRA meets 7 criteria.

Some structural basics are firmly in place. The Chief Executive and the Chair are different individuals, with no combined role at any point in the assessed period. All shareholder-elected directors stand for re-election annually. There is a single class of listed share, with no differentiated voting rights. The Board's skills mix - finance, industrial operations, sector-specific recycling experience and capital allocation - is well matched to the business, and its gender balance (three men, two women, excluding employee representatives) is reasonable by market standards. Executive pay is also well constructed: CEO total compensation is not excessive for a company of TOMRA's scale, split roughly 52% fixed and 48% variable, with the long-term incentive tied to multi-year earnings-per-share growth, a requirement that a quarter of any after-tax payout be held in TOMRA shares for at least three years, and clawback provisions attached - a genuine multi-year alignment mechanism.

Set against that, TOMRA's board is less independent than a simple "non-executive" label suggests, once we apply Delta's stricter tenure and affiliation tests. The Chair also serves as chief executive of Investment AB Latour, TOMRA's largest shareholder with a 21.1% stake - an affiliation that leaves TOMRA without an independent Chair or a Lead Independent Director to counterbalance it. Two further non-executive directors, in office since 2013 and 2014 respectively, exceed Delta's ten-year independence threshold; both sit on the Audit & Sustainability Committee, which means that committee also falls short of being solely independent. Overall, only two of TOMRA's five shareholder-elected directors - 40% - are independent under our standard, well below our two-thirds threshold, and TOMRA's board self-evaluation, while conducted annually per policy, does not have its results published. A long-term, cornerstone shareholder can support patient capital and genuine sector expertise - Investment AB Latour brings both - but it also concentrates influence at the top rather than diffusing it, which is precisely why independent challenge matters most where it is scarcest.

Capital allocation is where these two threads meet. The same ROIC softness described under financial quality above is, on our methodology, also a governance finding: a board's central job is capital allocation, and TOMRA's return on invested capital has now fallen below Delta's 9% cost-of-equity hurdle more than once across a declining five-year trend, even as the company continued to fund dividends and bolt-on acquisitions, including the debt-funded purchases of CLYNK and the remaining minority stake in TOMRA Collection Australia. This gives us confidence in some real strengths - a separated CEO and Chair, annual accountability, well-aligned pay - alongside specific, unresolved questions about board independence and capital discipline that we are engaging with the company on directly, not treating as settled.

Measurable outcome, not a label

TOMRA says its Collection systems captured more than 53 billion bottles and cans in 2025. That is company-reported throughput, not an independently verified environmental outcome,

but it demonstrates adoption at enormous scale. Independent OECD and European Commission evidence supports the underlying effectiveness of deposit systems.

The same discipline matters for newer businesses. Omå, TOMRA's 65%-owned Norwegian plastics sorting venture, has annual input capacity of 90,000 tonnes. Capacity is not impact. The stronger number is that the plant actually produced 6,900 tonnes of high-quality recycling feedstock in 2025 while operating only one of three possible shifts. Likewise, TOMRA's 95%-plus purity claims for newer AI sorting applications remain company-reported performance claims until replicated at commercial scale.

Value, decision, and tension

We own TOMRA because three things are true - though not all three are equally proven today. Regulation is converting circularity from a preference into physical infrastructure that has to be built, market by market. TOMRA has the deep installed base and technology platform to capture a meaningful share of that build-out. And, on the weaker leg of the stool, the company's financial quality is recovering and its governance has genuine, identifiable strengths - but neither has yet demonstrated the sustained durability that would let us describe TOMRA, unconditionally, as a business and a board we fully trust.

We do not own TOMRA on the assumption that every deposit-return rollout converts smoothly into durable margin, that Recycling's order-intake turn is already a recovery, or that a board chaired by the largest shareholder's own chief executive will always act with the independence a fully independent board would. The central tension is that TOMRA's shares already look cheap against a difficult recent history - trading near 52-week lows, with analyst targets pointing meaningfully higher - but a beaten-down share price is only attractive if the recovery it is pricing in actually arrives. If Collection's installations do not convert into higher-margin service revenue, if Recycling's order-intake improvement does not become a broader recovery, or if leverage keeps rising rather than falling, a cheap-looking stock can still turn out to have been expensive. Valuation discipline and continued evidence of recovery - not the theme, and not today's discount alone - are 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:

- Deposit-system rollout risk: Spain's launch could slip further - system-operator approval is still pending, with a realistic c.2028 launch - and tender pricing in new markets, as already seen in Poland, could keep diluting Collection's gross margin as TOMRA scales into a more fragmented, experienced UK retail base.
- Recycling and Food execution risk: Recycling's positive order-intake turn could stall before it reaches revenue, and the pending TOMRA Mining divestment adds transitional uncertainty; Food order intake fell 22% in Q2 even as revenue grew; Horizon continues to consume capital while loss-making.
- Financial-durability risk: gearing rose to 2.46x and the equity ratio fell to 34% by mid-2026, prompting a one-notch downgrade to BBB+/Stable from Scope Ratings in June 2026. Leverage needs to fall as EBITDA improves and Collection working capital normalises - if it

does not, the balance sheet, not just the earnings line, becomes the binding constraint on the thesis.

- Governance and capital-allocation risk: with the Chair affiliated to the largest shareholder and two Audit Committee members outside our independence threshold, further capital-allocation decisions - including any additional bolt-on M&A - carry less independent board challenge than we would like to see.
- Impact-case risk: throughput, not installed capacity, is the real evidence of impact. Omå's plant operated only one of three possible shifts in 2025, and 95%-plus purity claims for newer AI sorting applications remain company-reported until independently replicated at commercial scale.

The thesis would weaken materially if Collection's gross margin failed to recover as new-market mix normalises, if Recycling's order-intake improvement did not convert into revenue within the next few quarters, if leverage kept rising rather than declining, or if the governance concerns described here escalated into an actual capital-allocation misstep. It would also weaken if the current share price - despite trading near multi-year lows - proved not to be cheap enough once analysts' recovery assumptions are tested against real results.

TOMRA is attractive not because recycling is inevitable, but because collection and sorting are becoming essential economic infrastructure - and the company building much of it is the one with the deepest installed base and the longest operating history in the space. But this investment case is more conditional than most in our portfolio: it depends on TOMRA converting its regulatory tailwind into durable margin and cash, on Recycling completing a recovery that has only just begun, and on a concentrated-ownership board demonstrating, through its next capital-allocation decisions, more of the independence our own scorecard says it does not yet fully have. We remain invested because the direction of travel - in orders, in margins, and in the share price's own starting point - points the right way. We are watching closely, on all three pillars, because none of it is proven yet.

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