

DELTA OUTCOMES GLOBAL LEADERS / INVESTMENT STORY

Why We Own Halma: Technology That Protects Life

Ireland's new National Children's Hospital is designed to be the country's first fully digital hospital. Across more than 160,000 square metres and thousands of rooms, a failure in fire detection would not be a minor inconvenience. It would threaten children, families, staff and an essential national institution.

Three Halma companies worked with the hospital's delivery partners to install more than 25,000 fire-detection and safety devices. Halma has published a case study describing the installed system; it does not yet provide an independently verified record of operating outcomes. That distinction matters. The devices are there to detect danger early and help people respond, but useful technology should be judged by evidence, not by a label.

The hospital illustrates why Halma is in the Delta Outcomes Global Leaders portfolio. It owns specialist businesses whose products protect life, improve health and help essential systems operate safely. Many of those products are small relative to the cost of the asset they protect, but critical when something goes wrong.

A portfolio of specialist technologies

Halma is not one operating company selling one product. It is a group of roughly 50 businesses employing more than 9,000 people across over 20 countries. They operate in three sectors: Safety, Environmental & Analysis, and Healthcare.

The products include fire-detection systems, industrial safety equipment, medical devices, diagnostic technologies, water-quality sensors and optical technologies. The applications look different, but the commercial pattern is similar. Customers need a specialist product to work reliably, often in a regulated or safety-critical setting. The cost of failure can be far greater than the price of the product.

This creates structural demand. Buildings, factories, hospitals, water systems and energy infrastructure must remain safe. Populations are ageing. Diagnostic and treatment capacity must expand. Water quality is under pressure. Regulation tends to tighten as societies become less willing to tolerate preventable harm.

Halma participates in those needs through focused businesses rather than a single centralised product platform.

Where it fits

Halma sits primarily within Delta's Human Advancement theme because its technologies help protect health, safety and human capability. The portfolio also has Climate Action and Nature Innovation themes. The boundaries overlap: water-quality monitoring supports healthier communities and natural systems, while safety and sensing technologies can make infrastructure more resilient. We still give each company one primary classification so the portfolio remains understandable.

Why the model can work

Halma's competitive advantage begins with specialisation. A sensor used in a water-treatment process, a diagnostic instrument or a fire detector must meet demanding technical and regulatory standards. Customers also value application knowledge, service and a record of reliable performance.

These are often niche markets. They may be too small for a diversified industrial group to manage closely, yet attractive enough for a focused business to build expertise, customer trust and pricing power. Halma gives its companies substantial operating autonomy while providing capital, talent development and a common discipline around growth and returns.

The group then reinvests in two ways. Existing businesses develop new products and enter adjacent markets. Halma spent £123 million on research and development in the year to March 2026, equal to 4.7% of revenue. It also acquires specialist companies that can grow inside the group. Five acquisitions completed during the year carried maximum aggregate consideration of £447 million.

That decentralised model is a strength only if capital allocation remains disciplined. Acquisitions must earn more than their cost, and autonomy must not weaken controls, product quality or accountability.

How the advantage becomes earnings

The earnings mechanism is straightforward. Structural demand brings customers into specialist markets. Technical knowledge, certification and trust help a Halma company win business. Reliable products and service support repeat demand and pricing. Cash can then be reinvested in research, capacity and further acquisitions.

Halma's full-year results to March 2026 show that mechanism working strongly. Revenue rose 15% to £2.58 billion. Adjusted earnings before interest and tax rose 22% to £594.5 million, and the adjusted margin increased from 21.6% to 23.0%. Adjusted cash conversion was 93%, while adjusted return on total invested capital rose to 16.2%.

The figures also need context. A one-off item added £9.9 million of revenue and £9.3 million of profit. Excluding it, revenue rose 14%, adjusted earnings rose 20% and the adjusted margin was 22.7%. Environmental & Analysis grew fastest, helped by exceptional demand for photonics products used in data-centre infrastructure. Safety and Healthcare grew more steadily, each delivering double-digit organic profit growth in their own right.

Management said the new financial year had started positively and guided to low double-digit organic constant-currency revenue growth, including about five percentage points of premium growth from photonics, with the adjusted margin broadly in line with 2026. That is guidance, not a result - and it already signals a deceleration in the photonics growth rate from roughly 52% to roughly 30%, a point we return to below.

A financially strong business, not just a good story

A compelling theme only matters if the company behind it can actually deliver, year after year. A business that can't fund its own growth or protect its profits through the ups and downs of a cycle will struggle to keep making hospitals, factories and water systems safer, however good its products sound. So before we get carried away with the story, we ask a simpler question: is this a genuinely well-run, profitable company? On the numbers, spanning the three years to March 2026, the answer is clearly yes.

Profitability. Halma consistently earns strong, improving profits on the money invested in the business. Its return on shareholders' equity - essentially, how much profit it generates for every pound shareholders have invested - has risen every year over the past three years, from around 15.5% to 17.4%. Its margins have followed the same path: the underlying operating margin on every pound of sales has improved from around 21% to 23%, with a broader measure of profitability, adjusted EBITDA margin, rising from around 26% to almost 28% over the same period. Few large industrial groups sustain returns and margins at this level while still growing revenue in double digits.

Earnings growth. The profit Halma generates for its shareholders has compounded at roughly 17% a year over the past three years - comfortably outpacing growth in sales of around 12% a year over the same period. In plain terms, the business isn't just getting bigger, it's getting more profitable as it grows, which is precisely the marker of quality we look for before we credit a growth story.

Shareholder returns. Ultimately, none of this matters to an investor unless it shows up in the share price. Over the ten years to March 2026, £100 invested in Halma shares would have grown to £457, compared with £241 for an equivalent investment in the wider UK stock market - more than 2.6 times the value creation of the broader index over the period. That run has not been a straight line: like most growth industrials, Halma's shares fell sharply during the broader market reset of 2022, and shares have also moved sharply on individual results days, including a double-digit fall on the day of the FY26 results despite the company beating expectations on almost every measure. But the multi-year compounding record, not any single year or single day, is what matters to a long-term owner - and that compounding has continued through 2025 and into 2026, alongside Halma's 47th consecutive year of dividend growth.

None of this is guaranteed to continue - we come back to that below, particularly on valuation and on the growing importance of a single large customer to recent growth - but it gives us real confidence that Halma has both the profitability and the financial discipline to keep funding the investment its impact case depends on.

Leadership we can trust

A good business also needs to be well led. However compelling the numbers, we need to be able to trust the people running the company - because performance means little if it can't be trusted to continue honestly. Halma'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 the Board maintains a Senior Independent Director as a further channel of oversight. The

Board is substantially independent, with independent Non-Executive Directors making up close to three-quarters of continuing directors, and all three principal Board committees - Audit, Remuneration and Nomination - are populated entirely by independent Non-Executive Directors. 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 reviewed annually, on a rotating cycle of external and internal facilitation, with the findings published in the company's Annual Report rather than kept behind closed doors. There is only one class of share, with one vote each, so no shareholder carries outsized voting power over the rest. And executive pay is substantively performance-linked and long-term in nature, with the largest single element vesting only after a three-year period and tied to sustained earnings growth and capital returns rather than short-term results, overseen by a fully independent Remuneration Committee advised by independent consultants.

This strong governance foundation is matched by an equally strong record of capital allocation. Halma's return on invested capital has risen to 16% for the year, comfortably above both the Group's own estimated cost of capital and the return Delta requires before we credit a management team with disciplined capital allocation - and the three-year average return on invested capital, at just over 15%, shows this is a sustained pattern rather than a single good year. That discipline sits alongside a consistent, growing programme of returning cash to shareholders - Halma has now raised its dividend for 47 consecutive years - even as the Group funds record levels of research and development and bolt-on acquisitions from its own resources. Taken together, this gives us real confidence that Halma is overseen by strong, progressive leadership that acts in the long-term interests of shareholders and other stakeholders alike.

Why Delta owns Halma

Halma connects a useful purpose to an attractive business model. It sells products customers need, not products they buy merely because they sound sustainable. Its markets are supported by regulation, rising safety expectations, healthcare demand and the need to monitor scarce resources more accurately.

The group has also demonstrated a long record of compounding that reaches well beyond the three-year window above. Company-reported figures show 20-year compound annual growth of 11% in revenue and 12% in adjusted earnings before interest and tax. That history does not guarantee the future, but it provides evidence that the acquisition and operating model has worked across several cycles, not just the current one.

Outcome evidence, not a label

Halma reports estimates of the reach of its products. It says its businesses supply more than 50 million diagnostic products and conduct more than 200 million water-quality tests each year. It also estimates that its technologies monitor more than 770,000 births annually.

These figures are company-reported estimates built from product volumes and assumptions. They are useful indicators of scale, but they are not the same as independently verified health

or environmental outcomes. A diagnostic product supplied is not automatically a diagnosis improved; a test conducted is not automatically a water system made safe.

The better question is whether the product solves an important problem for a customer and whether that result can be measured. The children's hospital installation gives us a concrete starting point. We should now look for operating evidence: system reliability, response performance, customer validation and product-level outcomes over time.

Value, decision, and tension

We own Halma because three things line up: a durable, structural source of demand across safety, healthcare and environmental monitoring; a genuinely high-quality, well-run business behind it, with rising profitability, earnings growing faster than sales, and a shareholder-return record that has meaningfully outpaced the broader UK market over a decade; and a board and management team we trust to act in shareholders' and stakeholders' long-term interests. Few companies offer conviction on all three fronts at once.

We do not own it on the assumption that every acquisition will create value, that photonics demand will keep growing at anything close to its recent rate, or that today's margins are permanent. The central tension is that the strongest part of Halma's recent growth - photonics demand linked to data-centre and artificial-intelligence capital spending - is also the part most concentrated in a single undisclosed customer, now accounting for around a fifth of group revenue, up from around a seventh two years ago. Guidance already points to that growth rate roughly halving in the coming year. A good company becomes a poor investment when its share price already assumes sustained high growth and flawless execution, and Halma's shares have historically traded, and continue to trade, at a significant valuation premium to the broader industrials sector - a premium that leaves little room for disappointment, as the double-digit share-price fall on record FY26 results demonstrated. Valuation discipline, not enthusiasm for the theme, is what ultimately governs position sizing.

What could break the chain

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

- Halma's decentralised structure can hide weak controls or uneven execution if oversight fails. Product defects or safety failures could cause harm, recalls, litigation and reputational damage. Regulation can increase costs as well as demand, and specialist markets can attract new competitors or technological substitutes.
- The single largest customer behind recent photonics growth now accounts for around a fifth of group revenue, up from around a seventh two years ago. A slowdown in data-centre and artificial-intelligence capital spending, the loss of that customer, or a technology shift in optical switching could make current growth far less durable than it appears - and FY27 guidance already implies photonics growth roughly halving from FY26's exceptional rate.
- Halma completed a record year of acquisitions, including its largest single deal to date, funded predominantly from the balance sheet. Net debt has risen accordingly, though leverage remains moderate. Poor integration, overpaying, or a weakening in the discipline

that has driven returns on invested capital above the cost of capital for many years would directly damage the financial-quality case above.

- The financial strength we describe is a track record, not a guarantee. Free cash flow compressed sharply in the most recent year as the Group invested heavily in working capital and acquisitions; profitability, cash conversion and returns on capital would need to hold up through a weaker cycle, and outside the current photonics-led growth spurt, for the thesis to remain intact.
- The impact case can also fail on its own terms: product volumes and reach are not the same as verified outcomes, and Halma has not yet provided an independently verified record of the operating performance of the systems it installs.

The thesis would weaken materially if photonics and hyperscaler demand slowed sharply at the same time as a large acquisition disappointed, or if margins or cash conversion fell without a clear cyclical explanation. It would also weaken if the valuation premium left no margin of safety for any of those risks to materialise together.

The ownership test

Halma earns its place in the portfolio if it continues to turn specialist knowledge into useful products, organic growth, strong margins, cash and returns on capital above its cost of capital - funded by real financial strength and overseen by leadership we trust, not by a theme alone.

We will watch the quality of growth outside photonics, customer concentration, cash conversion, acquisition returns, product reliability and the credibility of outcome reporting. We will also test whether the share price leaves a sensible margin for uncertainty.

The reason to own Halma is not that safety, health and clean water are worthy themes. It is that Halma has built a repeatable commercial system for solving specific problems in those areas, run by a genuinely well-governed and financially disciplined management team. The investment case remains intact only while the evidence supports all three parts of that sentence: the theme, the numbers, and the people.

Disclaimer: This document has been prepared by Delta Outcomes Limited for informational purposes only and does not constitute investment advice or a recommendation to buy, hold or sell any security. Information is derived from public sources believed to be reliable. Delta Outcomes Limited accepts no responsibility for errors or omissions. Past performance is not indicative of future results.