

# Why We Own Ecolab

*The water system behind the digital economy*

Every AI answer leaves heat behind. Inside a dense data hall, that heat has to be carried away without interrupting the servers, corroding equipment or using more water and electricity than the surrounding system can support.

Cooling is therefore not an accessory to the digital economy. It is part of the infrastructure that makes the digital economy possible. It is also a useful doorway into Ecolab, a company better known for water treatment, cleaning and infection prevention than for artificial intelligence.

In July, Ecolab completed its approximately \$4.75 billion acquisition of CoolIT Systems, which supplies direct liquid-cooling equipment for high-density data centres. The deal connects cooling hardware with Ecolab's existing water chemistry, monitoring and field-service capabilities. If the combination works, customers can run more computing capacity while Ecolab earns from equipment, treatment, software and service. If it does not, shareholders will have funded an expensive acquisition at the most excited point of the AI investment cycle.

That tension captures the investment question: can Ecolab turn rising pressure on water, hygiene and operational reliability into durable earnings at a price that still leaves room for an attractive return?

## Structural demand: growth meets physical limits

Water is essential to food production, power generation, manufacturing, healthcare and hospitality. The cost of using it poorly is not just a higher utility bill. Scale can reduce heat transfer; corrosion can damage equipment; contamination can halt production; and weak sanitation can threaten patients, customers and brands. These are problems companies must solve through economic cycles.

AI adds a fast-growing demand pool. The International Energy Agency expects data centres to drive around half of US electricity-demand growth through 2030. Facilities must manage direct cooling water and water used in power generation. Lawrence Berkeley National Laboratory's US study shows that water-use effectiveness varies by facility and cooling technology.

The opportunity is broader than data centres. Industrial customers want to produce more with less water and energy. Food plants must protect product quality; hotels need consistent hygiene; and drug manufacturers need regulated contamination control. These needs persist because failure is costly.

## What Ecolab actually sells

Ecolab combines specialised chemistry, equipment, digital monitoring and people who work alongside customers. Its water products control corrosion, scale and microbes; sensors measure performance; and field teams help reduce water, energy, downtime and waste without compromising the process.

The model also appears in institutional cleaning, food safety, life sciences and pest elimination. A chemical may be replaceable; a programme embedded in equipment, compliance and training is harder to dislodge. Ecolab describes 3D TRASAR as chemistry combined with monitoring, control and remote service.

**Where it fits.** Ecolab sits primarily within Delta's **Nature Innovation** theme because helping customers reduce, reuse and manage water more intelligently is the central resource and earnings mechanism. **Climate Action** is relevant where lower water use and more efficient cooling reduce energy demand and emissions. **Human Advancement** appears in safer food, cleaner environments and infection prevention. The themes overlap in the real economy, but one primary classification keeps the portfolio understandable.

## Why the company may win

Ecolab's advantage begins with service density and trust. Its systems sit inside critical customer processes, often where failure would be costly. A technician who understands the customer's plant, water chemistry and operating history can solve a problem that a commodity supplier cannot. That knowledge accumulates, while monitoring data can reveal problems before they become outages.

Scale reinforces the advantage. Ecolab says it operates across more than 170 countries and 40 industries. Customers can standardise equipment, training and measurement across sites, while Ecolab applies lessons learned elsewhere. Its research and digital investment may also be difficult for regional competitors to match.

CoolIT tests whether this advantage can extend into the server rack. Direct liquid cooling moves heat closer to the chip, while Ecolab can address the wider water loop, chemistry, monitoring and service. Management says the combined Global High-Tech platform is approaching \$1.5 billion in annualised sales and targets \$4 billion by 2030 at a 25% margin. That is an ambition, not an achieved result. The moat will be demonstrated by customer retention, profitable cross-selling, reliable deployments and cash returns on the acquisition price.

## From customer value to earnings

Ecolab's second-quarter results give a current test of the mechanism. Reported sales rose 10% to \$4.42 billion and organic sales increased 5%, with pricing contributing 4 points as a global energy surcharge - rolled out in a single quarter versus a historical two-year cycle - took hold. Adjusted operating income rose 10%, while adjusted earnings per share increased 11% to \$2.09. Digital sales increased 27% to \$121 million, Global High-Tech grew 29% organically and Life Sciences grew 15%.

Those numbers matter because they show more than a large environmental problem. Customer demand is becoming revenue; pricing and productivity are offsetting higher commodity costs; and the service-and-digital mix can support margin and repeat business. Management expects 2026 adjusted earnings per share of \$8.05 to \$8.25, although financing and amortisation from CoolIT create a near-term drag on reported, as opposed to adjusted, earnings.

The complete causal chain is: water, hygiene and cooling constraints create unavoidable customer spending; Ecolab's integrated service model and installed knowledge support customer retention and share gain; treatment, equipment, digital subscriptions and service convert adoption into revenue, margin and cash; a genuinely well-run, well-governed business turns that cash into a return worth holding; valuation discipline determines whether today's price already assumes that outcome; and measured customer outcomes test whether the solution is creating real value.

## A financially strong business, not just a good story

A compelling theme only matters if the company behind it can fund it, year after year. A business that cannot protect its margins or convert growth into cash will struggle to keep solving an expensive water and hygiene problem, however durable the demand looks. So before we get carried away with the CoolIT story, we ask a simpler question: is this a genuinely well-run, profitable company? On profitability and earnings, the answer is clearly yes; on the return shareholders have actually received, the honest answer is more mixed, and we say so plainly below.

**Profitability.** Ecolab earns strong and improving profits on the capital invested in the business. Return on shareholders' equity - essentially, how much profit it generates for every dollar shareholders have invested - rose from 17.0% in 2023 to 24.0% in 2024 and 21.2% in 2025, a three-year average of around 21%, comfortably above the roughly 9% cost of equity we hold the business to. Its operating margin has improved every year over the same period, from 13.7% to 16.6% to a record 18.0%, with a broader measure of profitability, adjusted EBITDA margin, rising from around 20% to 24%. Management now targets an operating margin above 20% by 2027.

**Earnings growth.** The profit Ecolab generates for shareholders has grown at roughly 24% a year over the past three years on an adjusted basis - from \$5.21 in 2023 to \$6.65 in 2024 and \$7.54 in 2025 - comfortably outpacing revenue growth of around 4% a year over the same period, the clearest marker that the business is becoming more profitable as it grows, not just bigger. The reported, unadjusted figure has been lumpier - up 54% in 2024 before falling back 1% in 2025 on higher special charges - which is why we anchor primarily on the adjusted measure management and the market use to judge underlying earning power. The second quarter of 2026 continued the pattern: adjusted earnings per share rose 11% to \$2.09 even as reported earnings per share grew only 3%, and management raised full-year 2026 adjusted guidance to \$8.05–\$8.25, consistent with its stated 12%–15% long-term earnings-growth algorithm.

**Shareholder returns - the case ahead.** Here the historical record is genuinely mixed, and the house standard is to say so plainly rather than dress it up. Ecolab's shares fell 37% in 2022 during the broader de-rating of quality industrials, and although they rebounded strongly over the following three years - up 37.8% in 2023, 19.3% in 2024 and 13.2% in 2025, plus a further roughly 4% year-to-date in 2026 - the five years since 2021 have compounded to a cumulative total return of only around 28%, or roughly 5% a year: a genuinely underwhelming outcome set against the profitability improvement described above, and one that falls short of the standard we would want before treating a good business as, self-evidently, a good investment. The case ahead rests on continued double-digit adjusted earnings growth, the Global High-Tech platform scaling toward its targeted \$4 billion of 2030 sales at a 25% margin, and the CoolIT and Ovivo acquisitions reaching the deleveraging and earnings-accretion milestones management has set out - each a projection, not a settled outcome. Sell-side coverage broadly views the shares as fairly valued at current levels rather than materially cheap or expensive, which means this return case rests more on earnings delivery over the next several years than on a re-rating of the multiple.

Taken together, this gives us confidence that Ecolab's core profitability and earnings power are genuinely strong and improving - but the shareholder-return record of the past five years has not yet caught up with that improvement, and closing that gap is what we will hold the company to account on.

## Leadership we can trust

A good business also needs to be well led. Ecolab's Chairman and Chief Executive roles are combined in Christophe Beck, which concentrates authority at the top more than we would ideally like, and is our clearest engagement priority. That structural concentration is partly offset by a genuinely empowered Lead Independent Director: David MacLennan chairs every executive session of the independent directors, sets meeting agendas jointly with the Chair, and personally engaged with holders of roughly a third of Ecolab's outstanding shares in 2025. Applying our own stricter, tenure-based independence test, nine of the board's thirteen

directors qualify as independent - 69%, clearing our two-thirds threshold, albeit narrowly - and the Audit Committee carries one non-independent member on that same test (a director with eleven years' tenure) alongside four fully independent members. Every director stands for annual election, the board conducts a formal annual self-assessment whose existence is publicly disclosed, board tenure is well balanced across newer and longer-serving directors, and a single class of listed stock means no shareholder carries outsized voting power over the rest.

Executive pay is weighted toward the long term: at least half of the Chief Executive's total compensation is delivered as long-term equity, split between performance shares tied to organic return on invested capital with a relative total-shareholder-return modifier, and stock options, while his own shareholding of more than fourteen times salary comfortably exceeds the company's six-times ownership guideline. Capital allocation tells an improving rather than a fully proven story: return on invested capital ran below our 9% cost-of-equity hurdle in 2021 and 2022 (around 8%), before recovering strongly to 9.7% in 2023, 14.2% in 2024 and 12.5% in 2025, alongside a 34th consecutive annual dividend increase and free cash flow generation that comfortably funded around \$1.05 billion of 2025 capital spending. Taken together, this gives us confidence that Ecolab is led by a board with real independent authority and pay that is tied to long-term returns, alongside two specific and identifiable engagement priorities - the combined Chair/Chief Executive role and full Audit Committee independence - that we will continue to press the company on rather than treat as resolved.

## Outcome evidence, with boundaries

One Ecolab case study reports that an unnamed colocation data centre in Singapore reduced annual water use by about 22,500 cubic metres and saved more than \$39,200 a year after changing cooling-water chemistry and recycling blowdown water. The customer reportedly maintained operating efficiency. This is a useful illustration because water savings and economic value move together, but it is company-reported, site-specific and not independently verified.

At group level, Ecolab's 2025 Growth & Impact reporting says customers conserved 245 billion gallons of water, protected 1.7 billion people from foodborne illness and infection, and realised \$12.9 billion in cumulative value. These aggregates show the scale management is trying to measure. They do not mean every outcome is independently assured, nor that Delta caused the result by owning shares.

The stronger evidence set would connect verified customer water withdrawal and consumption, reuse, energy, uptime and cost savings with retention, revenue, margin and cash returns. It would also show CoolIT meeting deployment, concentration, margin and deleveraging milestones. If those operating and outcome measures advance together, Ecolab

can demonstrate that Nature Innovation is not a label applied after stock selection. It is evidence that the company is solving an expensive problem at scale.

## Value, decision, and tension

We own Ecolab because three things line up: a durable, structural source of demand in water, hygiene and cooling that recurs through economic cycles and is now reinforced by AI-driven data-centre growth; a genuinely profitable and improving business behind that opportunity, with rising returns on capital and earnings growing far faster than revenue, even though shareholder returns have not yet reflected that improvement; and a board whose independent oversight and pay structure we substantially trust, with two clearly named governance questions we continue to press rather than treat as settled.

We do not own it on the assumption that every AI data centre will be built, that CoolIT will earn back what it cost, or that today's margin gains are permanent. Ecolab initially guided that the transaction would lift pro-forma net debt to adjusted EBITDA to around three times at close, easing back toward two times by the end of year two, and become accretive to adjusted earnings excluding amortisation in 2028; reported net debt to adjusted EBITDA had already risen to 1.9 times in the second quarter from 1.7 times a year earlier. These are management forecasts, not settled outcomes, and Delta's ownership decision has to compare a normalised view of earnings and free cash flow with the expectations already embedded in the price, charging the acquisition cost and new debt against the future benefits management expects. The central tension is that a high-quality company is not automatically an attractive share at any price: valuation discipline, and evidence that CoolIT is being integrated on schedule, are what should govern position sizing here - not enthusiasm for the AI-cooling theme alone.

## What could break the chain

- **Capital-allocation and integration risk.** CoolIT's purchase price assumes rapid growth, successful integration and strong margins. A pause in hyperscaler spending, customer concentration, technical change or aggressive competition could make those assumptions too optimistic. Ovivo, acquired earlier, adds another integration and return test, and net debt to adjusted EBITDA has already risen to 1.9 times from 1.7 times a year earlier.
- **Pricing risk.** Ecolab has been able to offset commodity pressure through surcharge pricing, but customers will resist increases that run ahead of measurable value. Organic volume, retention and customer savings therefore matter more than price-led revenue alone - and volume growth was just 1% in the second quarter of 2026, reflecting a persistent Middle East-related headwind.
- **Financial-quality durability risk.** The profitability and earnings-growth record described above is genuinely strong, but the return on invested capital that supports it only cleared

our cost-of-equity hurdle from 2023 onward, and the shareholder-return record over the last five years has been volatile. Continued margin expansion and a return on invested capital that holds through a weaker cycle would need to be proven, not merely guided.

- **Governance risk.** The combined Chairman and Chief Executive role concentrates authority more than we would ideally like, and one Audit Committee member falls outside our stricter independence test on tenure grounds. Continued reliance on the Lead Independent Director structure, rather than further progress on separating these roles and refreshing the Audit Committee, would leave shareholders more dependent on informal checks than we are ultimately comfortable with.
- **Operational and regulatory risk.** The business handles chemicals inside regulated, safety-critical environments. Product failure, contamination, spills, cyber incidents or changing chemical rules could harm customers and Ecolab's reputation; the 2025 Form 10-K identifies raw-material, environmental, regulatory, acquisition, cyber and product-safety risks among its principal risk factors.
- **Impact-case risk.** Water-savings and impact figures are company-reported, site-specific or aggregated across the whole customer base rather than independently verified project by project. A product can be capable of reducing water and energy use without every customer operating it as assumed.

The thesis would weaken materially if CoolIT failed to reach its deleveraging and accretion milestones, if organic pricing outran the value customers actually receive, if the combined Chair/Chief Executive role and Audit Committee tenure question showed no further progress, or if verified customer outcomes failed to support Ecolab's own water and impact claims. It would also weaken if the shares' current valuation already assumes a smoother CoolIT integration and a faster re-rating than the business can actually deliver.

Ecolab offers structural growth without relying on one product cycle. Water treatment, food safety and hygiene recur through economic cycles, while data-centre and semiconductor cooling add a faster-growing opportunity layered on top. That is why we own Ecolab: a structural, unavoidable need for better water, hygiene and cooling management; an integrated service model, installed knowledge and scale converting that need into revenue, margin and cash; a genuinely improving - if not yet fully proven - record of profitability and capital discipline; and a board we substantially trust, with two named questions we will keep pressing rather than treat as resolved. The decision still depends on disciplined valuation, CoolIT's integration actually delivering what management has promised, and evidence that customer outcomes justify both Ecolab's claims and Delta's continued ownership.

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