

Why We Own Tetra Tech

In Laramie, Wyoming, the city set out to cut the electricity used by its wastewater treatment plant by at least 20%. The plant had ageing blowers, inefficient aeration controls and equipment that could not adjust closely enough to changing demand.

The city reported in December 2024 that early results suggested electricity savings of more than 50%. Tetra Tech reports that the completed work went further, lowering the plant's operating costs by about \$15,000 a month and earning the city a \$352,200 utility incentive. The company's own published savings figures are not yet consistent with one another, so we anchor on the city's more conservative reading. The direction of the result is nevertheless clear: better engineering and control can make essential infrastructure work better while using fewer resources.

That practical result is the doorway into the Tetra Tech investment case. It does not rest on good intentions. It rests on whether Tetra Tech can turn growing demand for water, environmental and resilient-infrastructure expertise into durable earnings, whether the business behind it is financially strong and well led enough to keep doing so, and whether the outcomes it reports stand up to scrutiny.

Water systems are becoming harder to run

Cities, industries and public agencies need clean water, safe wastewater treatment, resilient energy systems and infrastructure that can cope with more volatile weather. Much of that infrastructure is old. Environmental rules are becoming more demanding. New contaminants require new treatment. Data centres and industrial facilities need reliable supplies of power and water. Public authorities must achieve more with constrained budgets.

These are not discretionary problems. A city can delay a new headquarters; it cannot indefinitely ignore drinking water, flood risk, wastewater or a failing dam. The work may move slowly because it depends on permits, budgets and political decisions, but the underlying need compounds.

Tetra Tech provides the specialist knowledge needed to turn that need into workable projects. It advises, designs, manages and supports complex water, environmental and sustainable-infrastructure programmes. It does not normally manufacture the large physical assets. Its value lies in science, engineering, data, programme management and the ability to navigate technical and regulatory complexity.

Where Tetra Tech fits

Tetra Tech sits primarily within the **Nature Innovation** theme of the Delta Outcomes Global Leaders Portfolio, because much of its work helps customers manage water, land, pollution and ecosystems more intelligently. The themes overlap. Climate-resilience, renewable-energy and grid work support **Climate Action**; safe water and more reliable public infrastructure support **Human Advancement**. One primary classification keeps the portfolio understandable without pretending the real economy fits neat boxes.

Theme membership explains a source of structural demand. It does not make Tetra Tech's shares attractive at any price - and it is not, on its own, why we trust the company with client capital. That trust has to be earned separately, through the numbers and the people running the business.

Expertise is the product

Tetra Tech's competitive position rests on people and accumulated experience. Complex projects require engineers and scientists with local regulatory knowledge, specialist technical skills and a record of delivery. Customers also value a firm that can combine disciplines across the life of a project rather than solve one isolated task.

That creates a different economic model from a manufacturer. Tetra Tech earns fees from technical and advisory work. Growth can come from rising demand, winning a larger share of programmes, moving into higher-value services and adding specialist capabilities through acquisitions. Scale helps it assemble teams for large contracts, invest in digital tools and carry relationships across government, commercial and international markets.

The advantage is not automatic. People can leave. Acquisitions can dilute culture or returns. Contracts can be delayed, cancelled or mispriced. Government customers can change priorities. A backlog records work awarded or expected, not guaranteed cash.

How water resilience becomes earnings

Tetra Tech's third-quarter 2026 results showed revenue of \$1.31 billion and net revenue, which excludes subcontractor costs, of \$1.11 billion - above the top of management's own guidance range. Net revenue grew 8% year on year after excluding USAID, Department of State and episodic disaster-response work. Operating income was \$158 million and earnings per share were \$0.42, ahead of expectations.

Backlog - work already won but not yet delivered - reached a record \$4.49 billion, 5% higher than the previous quarter and the second consecutive quarter of sequential growth. Cash generated from operations reached a record \$467 million over the first nine months, 31% higher than a year earlier. Management raised its adjusted earnings guidance for the full year to \$1.56-\$1.59 per share and nudged up the midpoint of its net-revenue range.

The new work explains the demand more clearly than the headline growth rate. Awards included water-quality work for the US Environmental Protection Agency, water and power work in Los Angeles, wastewater work in California, PFAS treatment design in Ohio, hydropower modernisation, and power-system automation and cybersecurity for a hyperscale data centre.

The growth also came from where the thesis says it should. International markets, now close to half of net revenue, grew 12%, supported by water programmes in the UK, Ireland and the Netherlands under the UK water sector's £105 billion AMP8 investment cycle, and by digital-water and mining work in Australia. US federal work also grew 12%, led by Army Corps of Engineers and Navy infrastructure and environmental mandates, while state and local work rose 5% on municipal treatment for PFAS, digital modernisation and desalination. Margins improved as the mix shifted towards higher-value, front-end technical work.

That is the causal chain we test as investors: ageing infrastructure, tighter environmental rules and more volatile weather create water and environmental problems customers cannot defer; Tetra Tech's scarce technical expertise, regulatory knowledge and delivery record win it the work of defining and delivering the solution; successful delivery converts backlog into fee revenue, cash and repeat relationships; and disciplined valuation determines whether those economics justify ownership.

The quarter was not uniformly strong. On a reported basis, net revenue fell 3.8% and operating and net income each fell around 4%, as the deliberate wind-down of lower-margin aid and one-off disaster-response work removed around \$125 million of year-on-year net revenue. US commercial work grew just 1%, as the cancellation of the remaining Atlantic offshore-wind programmes offset gains in power, transmission and data-centre-related work. And slow-moving US federal contracting offices are capping how quickly won federal work turns into revenue.

A financially strong business, not just a good story

A compelling theme only matters if the company behind it can deliver, year after year. A consultancy that cannot protect its margins, convert fees into cash or earn a proper return on the businesses it acquires will struggle to keep investing in the specialists and digital tools its impact case depends on, however urgent the problems it works on. So before we get carried away with the story, we ask a simpler question: is this a genuinely well-run, profitable company? On profitability and cash generation, the answer is clearly yes. On earnings growth, the underlying record is strong but the current year is a reset. On shareholder returns, the honest answer is that the past five years have been disappointing, and the stronger case lies ahead.

Profitability. Tetra Tech earns strong and improving returns on the capital it employs. Its return on shareholders' equity - essentially, how much profit it generates for every dollar shareholders have invested - rose on an underlying basis from around 20% in fiscal 2023 to

around 25% in fiscal 2025, and has held close to that level over the twelve months to June 2026. Reported returns dipped to around 14% in fiscal 2025, when a legal provision and a goodwill write-down linked to the curtailed US aid work hit earnings, before recovering to 24% as those one-off charges fell away. Margins have followed the same upward path. The underlying EBITDA margin - a broad measure of operating profit before interest, tax, depreciation and amortisation - rose from around 10.6% of total revenue in fiscal 2023 to 12.2% in fiscal 2025 and 13.8% over the latest twelve months, and on the company's own net-revenue basis the adjusted margin widened a further 80 basis points to 14.6% in the first nine months of fiscal 2026. As an asset-light consultancy, Tetra Tech also turns profit readily into cash: free cash flow has averaged more than its reported net income over the past five years.

Earnings growth. The underlying record is strong. Adjusted earnings per share rose 21% in fiscal 2024 and 24% in fiscal 2025, to \$1.56 - roughly twice the pace of net-revenue growth of around 11% a year over the same period, which is the marker of a business becoming more profitable as it grows. Reported earnings were more volatile, falling to \$0.93 a share in fiscal 2025 because of the one-off charges noted above. The current year is a reset rather than a continuation: management's raised guidance of \$1.56-\$1.59 for fiscal 2026 is broadly flat on the prior year, because the fiscal 2025 base included aid and disaster-response work that is now winding down, and third-quarter adjusted earnings per share grew a modest 2.4% on a comparable basis. Analysts project earnings per share of around \$1.73 in fiscal 2027, roughly 10% above this year's guidance midpoint, on revenue growth of around 4%, while management points to around 50 basis points of annual margin expansion as a normal run-rate - below the 70-80 basis points achieved in each of the past two years. If realised, that would return Tetra Tech to profit growing well ahead of sales, but it is a projection, not yet a result.

Shareholder returns - the case ahead. Ultimately, none of this matters to an investor unless it shows up in the share price, and here the record is weak - we say so plainly. Over the five years to late September 2026, Tetra Tech's total shareholder return - share price growth plus dividends - compounded at under 5% a year, against roughly 12% a year for the broad US equity market, and the three-year record, at under 6% a year, is no better. The shares peaked in late 2024, fell sharply in early 2025 as the US government paused much of its aid work and investors questioned how much of Tetra Tech's growth depended on episodic government programmes, and remain around a quarter below that peak despite a modest recovery this year. The case ahead rests on the market recognising a cleaner, higher-margin business once the aid work has washed out of the comparisons. At around \$36, the shares trade at roughly 23 times this year's guided earnings and 21 times next year's expected earnings, and the average analyst price target implies a total return of around 13% over the next year. If realised, that would be a meaningful improvement on the past five years, but it depends on federal task-order flow normalising and the earnings growth projected above being delivered.

Taken together, this gives us confidence that Tetra Tech has the profitability, cash generation and balance-sheet strength to keep funding the expertise its impact case depends on - and a

credible, evidenced path to the shareholder returns this thesis needs, though one that is not yet proven in the numbers.

Leadership we can trust

A good business also needs to be well led. Tetra Tech's governance rests on sound structural foundations, and the board took a meaningful step forward this year. Following a planned succession process, the roles of Chief Executive and Chair have been held by separate people since February 2026: a new Chief Executive, promoted from within after more than 30 years with the company, now leads the business, while the former Chief Executive has become Executive Chair for a minimum of two years to ensure continuity, with a Lead Independent Director acting on behalf of the independent directors. Every director stands for election each year, a single class of listed stock means no shareholder carries outsized voting power, and the board has been steadily refreshed, most recently adding a director with deep water-utility operating experience. Pay is firmly tied to performance: close to nine-tenths of the Chief Executive's target pay is at risk, and performance share awards vest over three years against earnings-per-share growth and relative total shareholder return, backed by a clawback policy and share-ownership requirements - which means executives share directly in the weak share-price record described above. Our engagement priorities are forward-looking: a clear path to independent board leadership as the executive-chair transition runs its course, with board leadership and key committees that meet our stricter tenure-based independence standard, and fuller public disclosure of the conclusions of the board's annual effectiveness assessment.

That foundation is matched by a sound capital-allocation record. Underlying return on invested capital - the return earned across both debt and equity - has risen from around 14% in fiscal 2023 to 16.5% over the latest twelve months, even as Tetra Tech integrated its largest-ever acquisition, the UK consultancy RPS, and absorbed the loss of most of its USAID work. The fiscal 2025 goodwill write-down tied to that curtailed aid business is a reminder that acquired revenue carries policy risk as well as execution risk. The balance sheet is conservatively run: net debt stood at 0.88 times EBITDA at the end of the third quarter, below management's own 1.0-2.0 times target range, and operating profit covers interest costs around 16 times. That strength has allowed the company to keep returning surplus cash to shareholders through dividends and buybacks - including \$100 million of share repurchases in the third quarter, with \$398 million of authorisation remaining - while still funding targeted acquisitions. Taken together, this gives us confidence that Tetra Tech is overseen by capable, accountable leadership that acts in the long-term interests of shareholders and other stakeholders alike.

Useful outcomes need disciplined evidence

The Laramie project shows the kind of outcome that matters. The customer needed reliable wastewater treatment and lower operating costs. Tetra Tech redesigned the aeration strategy,

added better controls and supported construction and commissioning. The city obtained a more efficient plant and a financial return through lower bills and a utility incentive.

The evidence must still be bounded. The City of Laramie's December 2024 newsletter reported early electricity savings of more than 50%. Tetra Tech's current project case study reports 64%, while another company page says 40%. We do not choose the most attractive number. Reconciling the measurement period, baseline and boundary behind those figures is a request we will put to the company; in the meantime, we treat the city's own reading as the more reliable evidence.

Tetra Tech's 2026 sustainability report provides useful information about its operational footprint, including reported reductions in Scope 1 and Scope 2 emissions from a recalculated 2021 baseline. Those figures describe Tetra Tech's offices and operations. They are not proof of environmental benefit across every client project.

For Delta, impact is not a label attached to consulting revenue. It is evidence that the work improved a real system: cleaner water, lower energy use, safer infrastructure, restored land or greater resilience, measured against a credible baseline. We hold this evidence to the same standard we apply to the financial and governance claims above.

Value, decision, and tension

We own Tetra Tech because three things line up: a durable, structural source of demand in water, environmental and resilient-infrastructure work that customers cannot indefinitely defer; a genuinely profitable, cash-generative business behind it, with rising returns on capital, widening margins and strong underlying earnings growth, even though shareholder returns have lagged badly; and a board and management team we trust to act in shareholders' and stakeholders' long-term interests, with a newly separated leadership structure and two clearly named governance priorities we continue to press.

We do not own it on the assumption that every government programme will be funded on time, that every acquisition will earn its cost, or that a larger backlog automatically means more profit or more impact. The central tension runs the other way from many of the holdings in this portfolio. The market is not pricing Tetra Tech for perfection; if anything, it doubts the durability of its growth. The shares have lagged for five years because investors question how much of that growth depended on episodic government work, and the loss of USAID revenue showed that concern was not unfounded. At roughly 21-23 times earnings the shares are no longer priced for flawless execution, but they are not distressed either: the forward return depends on federal procurement normalising, international water programmes continuing to grow and margin gains persisting at a slower pace. A second tension is mix. Some of the company's faster-growing federal work, including defence consulting and cybersecurity, sits further from the water and environmental outcomes that anchor our thesis. Valuation discipline and a clear view of where revenue comes from, not enthusiasm for the theme, govern position sizing.

What could break the chain

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

- **Demand and procurement risk.** US federal clients account for around a fifth of net revenue, and reduced contracting-office staffing is already slowing the flow of task orders. Around \$66 million a quarter of remaining State Department work is exposed to political decisions, withheld federal co-funding for flood protection is the subject of legal action by more than 20 states, and further offshore-wind cancellations or a slowdown in data-centre investment would weigh on commercial growth.
- **Integration and capital-allocation risk.** Tetra Tech grows partly by acquisition, including two defence-focused consulting businesses bought this year. The fiscal 2025 goodwill write-down shows that acquired revenue can be lost to policy change as well as to poor execution, and buybacks create value only when the price paid is sensible.
- **Execution, people and transition risk.** Expertise is the product, so staff turnover, a mispriced project, a partner or subcontractor failure, or a cybersecurity or professional-liability incident would damage both earnings and trust. The leadership transition adds a period in which strategy, culture and decision rights must be carried across smoothly.
- **Financial-quality durability risk.** Profitability and cash generation have been strong, but management expects margin gains to slow to around 50 basis points a year, and analysts expect revenue growth of only around 4% next year. The earnings recovery projected for fiscal 2027 needs to be delivered, not merely guided, for the shareholder-return case to hold through a weaker cycle.
- **Impact-case risk.** The case can fail on its own terms. Project benefits can remain company-reported anecdotes without consistent baselines or customer verification, as the differing Laramie figures already show, and a growing share of revenue from defence and IT work could dilute the water and environmental outcomes that justify ownership.

The thesis would weaken materially if backlog stopped converting into profitable revenue and cash while federal procurement stayed constrained; if growth came to depend on acquisitions that failed to earn acceptable returns; if staff turnover eroded delivery quality; or if reported project outcomes could not be reconciled or verified. It would also weaken if the earnings recovery stalled, leaving the shares without the improvement in returns this thesis needs.

Tetra Tech sells something the world needs more of: the science and engineering to make water, environmental and infrastructure systems work better under growing pressure. We own it because that need is structural and cannot be deferred indefinitely; because the business behind it earns strong and rising returns, converts its profits into cash and has a credible path to rewarding shareholders better than it has in recent years; and because it is overseen by leadership that has just taken a meaningful step towards stronger accountability, with two named priorities we will keep pressing. The investment case rests on Tetra Tech continuing to

turn technical necessity into durable fee income and cash flows - and on the outcomes it reports becoming as rigorously evidenced as its financial results.

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.