

DELTA OUTCOMES GLOBAL LEADERS / INVESTMENT STORY

Why We Own Boston Scientific

An irregular heartbeat can turn ordinary life into a negotiation: whether to climb the stairs, make the journey or wait for the next episode to pass. Treatment can mean long-term medication or a procedure inside the heart, where precision and safety are inseparable.

Boston Scientific's challenge is to make interventions like these less invasive and more effective - and then prove that better medicine can support durable earnings. Its FARAPULSE system treats abnormal electrical pathways using short electrical pulses rather than heat or extreme cold. The technology is promising, but the investment case cannot stop at the invention. It must connect patient need to clinical evidence, adoption, revenue, cash generation and a sensible share price, while taking safety and competition seriously.

That full chain is why Boston Scientific belongs in Delta's research.

Structural demand: more care, delivered differently

Ageing populations and chronic disease are increasing demand across several medical specialties. Health systems also need procedures that shorten recovery, reduce complications and use scarce clinical capacity efficiently.

Minimally invasive medicine addresses both needs. A catheter- or endoscope-delivered device may avoid open surgery, shorten a hospital stay and help a patient resume ordinary life sooner. For the manufacturer, recurring procedures create demand for catheters, implants and other single-use products.

Boston Scientific's portfolio spans electrophysiology, structural heart, endoscopy, urology, peripheral interventions and neuromodulation. The range allows established categories to fund research while hospital relationships help new products reach clinicians.

Where it fits. Boston Scientific sits primarily within Delta's Human Advancement theme because its products are designed to improve the diagnosis and treatment of disease. There are secondary links to Climate Action through more efficient care pathways and to Nature Innovation through resource use and responsible manufacturing. Those overlaps are real but subordinate: the company's primary contribution is better human health.

Company advantage: innovation must travel

A successful medical device needs more than a patent. Clinical evidence, approval, physician training, reliable manufacturing, reimbursement and trust create a demanding route from laboratory to routine care.

Boston Scientific's advantage is the system around the product: specialist engineering, clinical development, physician relationships, commercial reach and regulatory experience. Multiple hospital touchpoints can help a technology move from approval to adoption, but they do not guarantee category leadership.

FARAPULSE illustrates both the opportunity and the discipline required. The US Food and Drug Administration originally approved the platform in January 2024 for drug-refractory, recurrent symptomatic paroxysmal atrial fibrillation. Later studies have tested broader populations, but an investigational result should not be confused with an approved indication.

In the AVANT-GUARD randomised trial of people with persistent atrial fibrillation, the estimated success rate was 56% for pulsed-field ablation and 30% for antiarrhythmic-drug therapy. The hazard ratio for treatment failure was 0.46. Those results suggest that the procedure can offer meaningful clinical benefit where medication alone may not be enough.

The same study also demonstrates why evidence must be presented whole. Its primary safety endpoint occurred in 5.1% of the combined pulsed-field-ablation group, and the trial was paused after six neurological events. Screening and procedural changes followed, after which no further neurological events were reported in the trial. That does not erase the earlier events. It shows how clinical evidence improves a technology while defining its risks.

Earnings mechanism: procedures become recurring demand

The commercial model is comparatively direct. Once a hospital has trained staff and adopted a platform, each procedure can generate demand for disposable catheters or implants. Higher procedure volumes therefore become product revenue. A broader portfolio and sales reach can support cross-selling, while manufacturing scale and favourable product mix can expand margins. Cash generated by established franchises then funds research, clinical trials and acquisitions.

Boston Scientific's latest results show this mechanism working, but at a slower rate than investors had expected. In the second quarter of 2026, the company reported sales of \$5.442 billion, 7.5% higher on a reported basis and 7.0% higher on both operational and organic bases. Adjusted earnings per share rose to \$0.86 from \$0.75, beating consensus of \$0.83. Cardiovascular organic sales grew 7.8%, while MedSurg grew 5.4%; within Cardiovascular, Interventional Cardiology & Vascular Therapies (+12.1%) and Neuromodulation (+12.2%) were standout performers, while Cardiac Rhythm Management declined 1.6% and Urology grew just 0.8%.

Operational growth was geographically broad: 6.2% in the United States, 4.2% in Europe, the Middle East and Africa, 11.2% in Asia-Pacific and 16.2% in Latin America and Canada.

Yet management lowered full-year organic-growth guidance to 5%-6% and guided to 3%-5% growth for the third quarter - the second consecutive quarterly guidance cut. Internal Delta research identifies weaker Watchman momentum and tougher competition in electrophysiology as central questions. The causal chain therefore has a stress point: structural demand remains strong, but Boston Scientific must prove that its products can retain share and pricing as rivals improve.

A financially strong business - a mixed record beneath a strong theme

A compelling clinical story only matters if the company behind it can fund the next generation of trials and procedures, year after year. So before we get carried away by FARAPULSE and the wider portfolio, we ask a simpler question: is this a genuinely well-run, profitable company, and has that shown up in a return we would defend to a client? Here the honest answer is mixed, not uniformly strong - and we say so plainly before setting out the evidence for the case we are actually underwriting.

Profitability. Boston Scientific's underlying profitability has been improving. Operating margin rose from 17.0% in 2023 to 17.9% in 2024 and 19.8% in 2025, and adjusted EBITDA margin - a broader measure of profitability - dipped to 23.1% in 2024 before recovering to 24.8% in 2025. Return on shareholders' equity - essentially, how much profit the business generates for every dollar shareholders have invested - held at around 8.6% in both 2023 and 2024 before rising to 11.4% in 2025, only recently moving convincingly above the roughly 9% cost of equity we hold the business to. The most recent quarter reinforces the direction of travel: second-quarter 2026 adjusted operating margin reached 28.4%, up 70 basis points year on year, helped by a richer product mix and the early stages of a \$500 million cost-savings programme targeted for completion by 2029.

Earnings growth - the case ahead. The historical record here is genuinely strong: adjusted earnings per share grew 17.6% in 2024 and 42.2% in 2025, comfortably outpacing revenue growth of 17.6% and 19.9% in the same years - profit compounding faster than sales is exactly the pattern we look for as evidence of quality. That pattern is now decelerating sharply, and we say so directly rather than dress it up: management has cut full-year 2026 guidance for the second consecutive quarter, to organic revenue growth of 5.0%-6.0% and adjusted earnings per share of \$3.28-\$3.32 - below the roughly \$3.36 analysts had expected - with adjusted earnings-per-share growth guided to slow further, to just 1.1%, in 2027. The cause is concentrated rather than broad-based: competitors have taken share in pulsed-field ablation (Medtronic's global PFA revenue grew 145% in its most recent quarter, and Abbott's electrophysiology business grew 13%) and in Watchman left atrial appendage closure, where US standalone procedures are now declining. Encouragingly, roughly three-quarters of revenue sits outside these two franchises and continues to grow at around 6%, and independent modelling looks for reported earnings-per-share growth to firm back into the low-to-mid teens by 2028-2030 as the cost programme matures and comparisons ease - a projection, not a settled outcome, and one we will test quarter by quarter rather than accept on guidance alone.

Shareholder returns - the case ahead. This is the weakest pillar in the historical record, and the house standard is to state it plainly rather than dress it up. After a strong run - shares returned 24.9% in 2023 and 54.5% in 2024 - Boston Scientific's total return fell to just 6.8% in 2025 and has declined by roughly 52% year-to-date in 2026, a drawdown of around 60% from the shares' September 2025 high, driven directly by the two consecutive guidance cuts described above. That is a genuinely disappointing outcome for a period that included real operating progress, and it is the clearest reason this section leads with the case ahead rather than a case already delivered. The case ahead rests on a real, if unproven, valuation gap:

independent research puts fair value at around \$64 a share against a price near \$46 - an implied upside of close to 40% - and the shares continue to carry an undervalued rating on that basis. Sell-side opinion is genuinely split rather than uniformly bullish: price targets from continuing bulls cluster in the \$70s, while several banks have cut their targets into the \$50-60 range following the guidance cuts - itself a sign that today's price already reflects real scepticism rather than unwarranted optimism. If earnings stabilise broadly as guided and the valuation gap narrows even partially, the return case improves materially from here; if Watchman and pulsed-field-ablation pressure prove more structural than cyclical, it will not.

Taken together, this gives us a credible, evidenced case that Boston Scientific's core profitability continues to improve even as growth decelerates - but not yet a repeat of the strong multi-year shareholder returns the business delivered through 2024. That is a materially different position from a company with an already-demonstrated record of compounding returns, and we will judge Boston Scientific on whether 2027 and 2028 close the gap between improving fundamentals and a share price that has not yet followed.

Leadership we can trust - with two clear engagement priorities

A good business also needs to be well led, and here Boston Scientific's record is more mixed than the operating and profitability story above. The board is genuinely diverse and increasingly well refreshed: eight of the ten director nominees standing at the 2026 annual meeting are independent under our stricter, tenure-based standard - comfortably above the two-thirds threshold we look for - and the board splits evenly by gender, with senior experience spanning clinical medicine, finance, cybersecurity and global healthcare leadership. Seven of the ten nominees have joined within the past five years, reflecting substantial refreshment since 2023, and every director stands for re-election annually. There is a single class of listed stock, so no shareholder carries outsized voting power, and executive pay is well aligned with performance: half of long-term incentive awards are tied to organic sales growth and total shareholder return measured over rolling three-year periods, an approach shareholders endorsed with 91.9% support in the most recent advisory vote.

Set against this, our clearest engagement priority concerns the leadership structure at the top. Chief Executive Michael Mahoney also chairs the board, and the Lead Independent Director appointed to counterbalance that combination, Edward Ludwig, has served for around twelve years - beyond the ten-year threshold we use to test ongoing independence, regardless of how the company or exchange rules classify him. On our stricter standard, this leaves the company without an independent chair or lead director, and disqualifies the Audit Committee from being solely independent-populated, even though every member is considered an independent financial expert under NYSE and SEC rules. A second, related priority is capital allocation: using our own methodology, return on invested capital has improved from around 4.7% in 2022 to 9.5% in 2025 - a genuinely positive trend, and one that only cleared our roughly 9% cost-of-equity hurdle for the first time in the most recent year, against a backdrop of substantial, debt-funded acquisition activity, including the pending c.\$14.5 billion purchase of Penumbra. That improvement needs to be sustained, not simply achieved once, particularly as leverage rises to fund it.

Taken together, this gives us confidence in how Boston Scientific pays its people, refreshes its board and protects shareholders' voting rights, alongside two clear and specific engagement priorities - board leadership independence and the durability of the recent improvement in capital returns - that we will continue to press the company on as the Penumbra transaction completes.

Outcomes as evidence

Boston Scientific's 2025 Performance Report describes Mariano, an electrical engineer in Costa Rica whose atrial fibrillation caused breathlessness, palpitations, fatigue and fear of stroke. After earlier treatment did not resolve the arrhythmia, he received FARAPULSE therapy. His experience gives the technology a human face, but it is a company-selected story and cannot establish effectiveness by itself.

That is why the AVANT-GUARD results matter. A patient story explains what is at stake; a randomised trial tests whether the benefit holds across a defined group; regulatory records define the approved use; and adverse-event evidence shows where uncertainty remains. Together they provide a more honest measure of progress than a large, unqualified "patients reached" number.

Value, decision, and tension

We own Boston Scientific because three things are coming into line, unevenly rather than uniformly: a durable, structural need for less invasive, more effective medicine that FARAPULSE and the wider portfolio address directly; a business whose underlying profitability is genuinely improving even as near-term growth decelerates, though shareholder returns have not yet followed that improvement; and a board that pays its people well, protects shareholders' votes and is being meaningfully refreshed, alongside a leadership structure and a capital-allocation record that still need to earn our full confidence. Few of the businesses we own ask us to hold this many judgements open at once so explicitly.

We do not own it on the assumption that every clinical headline will become an approved indication, that Watchman and pulsed-field-ablation share losses are purely temporary, or that the Penumbra acquisition will earn back what it costs. The central tension is straightforward: Boston Scientific's shares have already fallen a long way on genuine competitive news, and independent research puts fair value meaningfully above today's price - but that gap only closes if management's guidance, cut twice in 2026, finally holds, and if a debt-funded, roughly \$14.5 billion acquisition completing later this year does not distract from restoring growth in the two franchises now under the most pressure. Valuation discipline, not the size of the apparent discount, 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:

- Competitive risk. Medtronic, Johnson & Johnson and Abbott are all investing in pulsed-field ablation and structural heart, and Watchman referral patterns already show low-

teens percentage declines in US standalone procedures. A technically strong platform can still lose share on evidence, workflow or price.

- **Safety and quality risk.** An FDA Class I recall remains open for the Watchman TruSeal access system, concerning updated instructions and training around air-embolism risk under particular procedural conditions; the FDA record says no devices are being withdrawn. Device failures more broadly can harm patients and damage the trust that sustains adoption.
- **Integration and capital-allocation risk.** The pending c.\$14.5 billion Penumbra acquisition (c.\$11 billion cash-financed) is expected to dilute adjusted earnings per share by \$0.06-\$0.08 in its first year and is projected to push net debt to EBITDA to around 3.7 times in 2026, up from 1.9 times in 2025. The \$500 million restructuring programme also carries \$700-800 million of pre-tax charges through 2029, with savings only partly expected to flow through to margin.
- **Financial-quality durability risk.** Adjusted earnings-per-share guidance for 2027 implies growth of just 1.1%, and return on invested capital, on our own methodology, has cleared our cost-of-equity hurdle in only one of the past four years. A further guidance cut would call into question whether the margin recovery already under way can be sustained through the Penumbra integration.
- **Governance risk.** The combined CEO/Chair role, and a Lead Independent Director whose tenure exceeds our independence threshold, leave the board without an independent counterweight at the top under our stricter standard. Slower-than-expected progress here matters more, not less, as capital-intensive M&A continues.
- **Impact-case risk.** The AVANT-GUARD trial's own safety data - a 5.1% primary safety-endpoint rate and six paused neurological events before procedural changes were introduced - show that clinical benefit and clinical risk arrived together, not that risk has been fully resolved. A company-selected patient story is evidence of possibility, not proof of population-level benefit.

The thesis would weaken materially if Watchman and pulsed-field-ablation share losses proved structural rather than cyclical, if the Penumbra acquisition failed to earn its cost of capital, if board leadership independence and capital-allocation discipline showed no further progress, or if new safety evidence undermined confidence in FARAPULSE or Watchman. It would also weaken if two guidance cuts in 2026 became three.

Boston Scientific is compelling because it sits at the point where difficult clinical problems become testable, saleable technology - and because the same quarter that proved competitors can take share also showed operating margins, adjusted earnings and cash generation still moving in the right direction. The investment case rests on the full chain we test everywhere: rising clinical need creates structural demand; Boston Scientific's evidence, hospital relationships and broad portfolio convert that need into adoption; procedure volumes become recurring product revenue that a genuinely improving cost base turns into profit and cash; a board that pays and refreshes itself well - but has not yet resolved its own leadership-independence and capital-allocation questions - is charged with deploying that cash on shareholders' behalf; and a share price that has already absorbed a great deal of bad news is what makes the valuation argument, not the clinical story alone, worth continuing to own the

position for. That is precisely why this holding deserves active ownership rather than passive celebration.

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