

DELTA OUTCOMES GLOBAL LEADERS / INVESTMENT STORY

Why We Own ABB Ltd

Every time we search the internet, stream a film or ask an AI model a question, a data centre somewhere is working around the clock to make it happen. These buildings are never meant to switch off - but that 'always-on' demand puts real strain on the electricity grids that power them. In Ireland, data centres now use close to a quarter of all the country's electricity, and grid operators are increasingly worried about what happens if a fault suddenly knocks a large chunk of that demand offline all at once.

The equipment built to keep servers running must now also help keep the wider grid stable.

ABB has developed a solution that pairs fast-acting battery-style storage with smart software that manages a data centre's electricity use in real time. In simple terms, it helps large electricity users ride out a serious fault on the grid - staying connected and supporting the network - rather than switching off abruptly and making the problem worse.

It is a good illustration of why we own ABB. The challenge the world faces isn't just generating more clean electricity - it's making sure that power can be moved, controlled and used reliably as demand from data centres, factories, buildings and electric vehicles keeps climbing. ABB makes the equipment and software that makes that possible.

Structural demand with a difficult constraint

Electricity is becoming a larger part of the energy system while the grid itself becomes more complex. Renewable generation is variable. Digital infrastructure needs exceptional reliability. Industrial customers want to automate, reduce energy use and protect uptime. Utilities must connect new loads without sacrificing stability.

Ireland shows the tension clearly. Data-centre electricity use there grew again in 2025, continuing a steady upward trend, and grid engineers have warned that a serious fault could cause the vast majority of that demand to drop off the network in an instant. A loss of that scale makes it much harder to keep the electricity supply stable for everyone else.

This is not an argument that every new data centre should be built, or that digital demand has no social and environmental cost. It is evidence that large loads are becoming active participants in the power system, and that their owners need switchgear, uninterruptible power, storage, monitoring, automation and engineering that work together. Regulation can turn that engineering need into a requirement.

Where ABB fits

ABB sits primarily within the **Climate Action** theme of the Delta Outcomes Global Leaders Portfolio. Its commercial opportunity comes from helping customers electrify operations, integrate cleaner power and use electricity more efficiently and reliably. **Nature Innovation** and **Human Advancement** are the portfolio's other two themes. They matter to the wider framework - for example through resource efficiency, safer workplaces and dependable infrastructure - but they are not alternative primary labels for this company.

Theme membership explains a source of structural demand. It does not make ABB'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.

The advantage is integration

ABB operates across Electrification, Motion, Process Automation and Machine Automation. Its products include low- and medium-voltage equipment, motors, drives, control systems, instrumentation and software. Many sit inside critical facilities where failure is expensive and replacement is disruptive.

That installed base creates an advantage only if ABB continues to earn it. Engineers need products that meet technical standards, integrate with existing systems and receive dependable service over long operating lives. A broad portfolio can let ABB solve a whole power-management problem rather than sell a single component. The Ireland solution illustrates that combination: fast-response storage is useful, but the larger value lies in coordinating it with the facility's electrical equipment and the grid's requirements.

Scale also supports research, product certification, distribution and service. Yet none of these protections is absolute. Schneider Electric, Siemens, Rockwell Automation, Eaton, Mitsubishi Electric and specialised suppliers compete across ABB's markets. ABB must prove its advantage through customer adoption, pricing, service revenue, reliability and returns on capital invested - not through breadth alone.

How electrification becomes earnings

ABB's most recent quarterly results show this demand translating directly into business. New orders hit a record, up around 30% on the year, and revenue and profitability both grew strongly alongside them. The company also ended the quarter with its largest-ever order backlog - work already won but not yet delivered - giving good visibility over future revenue.

Electrification was the standout performer, driven by exceptionally strong demand from data centres. When a utility, industrial plant or data-centre operator buys ABB's equipment, that's just the start of the



relationship: the equipment then needs servicing, replacing and upgrading for years afterwards, which is the kind of steady, repeat revenue that makes for a higher-quality business over time.

That is the causal chain we test as investors: rising and more demanding electricity use creates structural demand; ABB's integrated portfolio, installed base and service network help it win projects; product sales and lifecycle services convert that adoption into revenue, cash and profit; and disciplined valuation determines whether those economics justify ownership.

This growth isn't without risk. ABB has agreed to acquire Rotork, a specialist engineering business, for around \$5.5 billion, funded by the sale of its Robotics division. Rotork should strengthen ABB's automation business, but any deal this size needs to earn back what it cost. Strong results in a single quarter don't excuse poor decisions on spending shareholders' money - which is why we look at ABB's long-run record on that front, not just its most recent results.

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 improving the electricity system, 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, the answer is clearly yes.

Profitability. ABB consistently earns strong profits on the money invested in the business. Its return on shareholders' equity - essentially, how much profit it generates for every pound, dollar or franc shareholders have invested - has averaged around 27% over the past three years, and has risen every year over that period. Its margins have followed the same path: the underlying profit margin on every dollar of sales has improved from around 17% to 19% over the same three years, with a broader measure of profitability rising from around 18% to over 21%. Few large industrial companies sustain returns and margins at this level, let alone keep improving them.

Earnings growth. The profit ABB generates for its shareholders has been growing at roughly 25% a year over the past three years - comfortably outpacing growth in sales. In plain terms, the business isn't just getting bigger, it's getting more profitable as it grows.

Shareholder returns. Ultimately, none of this matters to an investor unless it shows up in the share price. Over the five years to the end of 2025, ABB's shares delivered a total return - share price growth plus dividends - that compounded at close to 23% a year, a sustained run matched by very few global industrial peers, and one that continued into 2026. This isn't just a promising story about a theme - it's a demonstrably strong business that happens to sit at the centre of one.

None of this is guaranteed to continue - we come back to that below - but it gives us real confidence that ABB 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.

ABB's governance is robust, and the key structures we look for are firmly in place. The roles of Chief Executive and Chairman are held by separate people, giving proper checks and balances at the top rather than concentrating power in one individual. 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 independently reviewed each year, with the findings made public rather than kept behind closed doors. There is only one class of share, so no shareholder - including large or founding shareholders - carries outsized voting power over the rest. And executive pay is well aligned with shareholders' interests, with a meaningful share of it tied to multi-year earnings performance rather than paid out regardless of results.

This strong governance foundation is matched by an equally strong record of capital allocation: returns on capital invested in the business have risen consistently for five years running, alongside a disciplined, ongoing programme of returning surplus cash to shareholders. Taken together, this gives us real confidence that ABB is overseen by strong, progressive leadership that acts in the long-term interests of shareholders and other stakeholders alike.

Outcome evidence, with boundaries

The Ireland system has a measurable purpose: keep large electricity users connected through defined grid disturbances, and reduce the risk that their protective response destabilises the network. Compliance testing, successful fault ride-through, response speed and avoided demand loss are better evidence of impact than a launch announcement. ABB has described a solution; we have not yet located an independently verified customer deployment or a measured grid outcome, and we say so plainly.

At group level, ABB reports that products it sold from 2022 through 2025 will avoid 285 million tonnes of carbon dioxide equivalent over their working lives, compared with defined reference scenarios - including 80 million tonnes attributed to products sold in 2025 alone. The company says its method follows guidance from the World Business Council for Sustainable Development. It also reports a 79% reduction in its own direct and purchased-electricity emissions since 2019.

These are useful indicators, not a licence to claim credit uncritically. Avoided-emissions estimates depend on assumptions about product lifetimes, usage patterns and what customers would otherwise have bought - they are company-reported, forward-looking estimates, not independently observed annual reductions. ABB's own disclosures also show that the ongoing use of the products it sells dominates its value-chain emissions, so efficiency gains must be weighed against absolute electricity demand and the carbon intensity of the grids the equipment runs on. We hold this evidence to the same evidentiary standard we apply to the financial and governance claims above.



Value, decision, and tension

We own ABB because three things line up: a durable, structural source of demand in electrification and automation; a genuinely high-quality, well-run business behind it, with strong and improving profitability and an outstanding run of shareholder returns; 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 data-centre project is socially desirable, that today's margins are permanent, or that every acquisition will create value. The central tension is that the strongest end markets also attract the most competition and the most optimistic expectations. A good company becomes a poor investment when its share price already assumes sustained high growth, flawless execution and unbroken pricing power - and ABB's shares currently trade at a premium that reflects real optimism about artificial intelligence and data-centre demand. 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:

- Data-centre and large-project orders can be lumpy. A slower industrial cycle, delayed grid investment, or customer overbuilding could reduce volumes, and competition could weaken pricing.
- Rotork integration could take longer or deliver less than expected; a serious product, safety or cybersecurity failure would be especially costly in critical infrastructure.
- The financial strength we describe above is a track record, not a guarantee - profitability and financial discipline would need to hold up through a weaker industrial cycle for the thesis to remain intact.
- The impact case can also fail on its own terms: efficiency improvements may be overwhelmed by growth in total electricity demand, and a product can be capable of reducing emissions without customers operating it as assumed.

The thesis would weaken materially if order growth failed to convert into cash, margins fell without a cyclical explanation, Rotork diluted returns, or verified customer outcomes contradicted ABB's own claims. It would also weaken if valuation left no margin of safety for those risks.

ABB is compelling because its equipment is moving from the background of the electricity system into the centre of a structural constraint - and because the company delivering that equipment is, by the numbers, one of the stronger and better-run industrial businesses we cover. The investment case rests on ABB continuing to turn engineering necessity into durable cash flows, funded by real financial strength and overseen by leadership we trust - not on a theme alone.



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