

Why We Own Kingspan Group plc

Ask what an artificial-intelligence data centre needs and most answers begin with the chips. The less visible answer starts under the floor and above the server aisle: structures that carry heavy equipment, contain hot air, direct cooling and let a facility add computing capacity without rebuilding everything around it.

Kingspan supplies parts of that physical system. It also makes insulated roofs, walls and floors for ordinary buildings. Those two activities look different, but they address the same economic problem: buildings and critical infrastructure must do more while using energy, materials and construction time more efficiently.

That makes Kingspan a useful example of Delta Outcomes' investment process. We begin with structural demand, test whether the company has an advantage that customers will pay for, follow adoption into earnings and cash, and then ask whether the valuation compensates us for the risks.

Structural demand: better buildings and more demanding infrastructure

Buildings remain one of the largest decarbonisation problems in the global economy. The 2025-2026 Global Status Report for Buildings and Construction says the sector is responsible for 37% of global carbon dioxide emissions and almost half of global material extraction. It also says efficiency improvements are not keeping pace with the expansion of the building stock.

That creates two related sources of demand. First, new and existing buildings need better thermal performance, tighter envelopes and lower-carbon materials. Energy saved through the fabric of a building does not need to be generated, transmitted or paid for. Second, the rapid build-out of data centres requires specialised floors, airflow, cooling and modular infrastructure. The computing may be digital; the bottleneck is often physical.

Kingspan addresses both. Its Insulated Building Envelopes segment supplies energy-saving systems for roofs, walls and floors. Advnsys, its critical-infrastructure business, supplies raised floors, structural ceilings, hot-aisle containment, air handling, ventilation and cooling systems, primarily for data centres.

Where it fits. Kingspan's primary Delta theme is **Climate Action** because its central contribution is improving the energy and carbon performance of buildings and critical infrastructure. The company also touches **Nature Innovation** through material efficiency, recycled and renewable inputs, and water management, and **Human Advancement** through safer, more comfortable buildings and the digital infrastructure on which modern services depend. One primary classification keeps the investment case clear.

Why Kingspan may win

The opportunity does not belong automatically to every insulation or data-centre supplier. Kingspan still has to turn a broad need into specified products, repeat orders and attractive returns.

Its first advantage is integration. In the building envelope, architects and contractors can combine insulation, panels, roofing and related systems rather than optimise each component in isolation. In Advnsys, the product set has expanded from raised floors into containment, air handling and liquid cooling. More components per project can increase Kingspan's share of a customer's spending while reducing design, installation and supply-chain complexity for the customer.

Its second advantage is the combination of technical specification and manufacturing scale. Building products must meet performance, fire, thermal and local regulatory requirements. Data-centre systems must be engineered around load, airflow, heat and rapid deployment. A supplier that can design, certify, manufacture and deliver across regions can become embedded earlier in a project and harder to displace later.

The third advantage is innovation linked to customer economics. Kingspan is expanding lower-embodied-carbon products while investing in data-centre capacity and cooling solutions. The relevant test is not the number of product announcements. It is whether those products reduce energy, carbon, construction time or total cost without compromising performance.

How adoption becomes earnings

Kingspan's results for the six months to June 2026 make the mechanism visible. Revenue increased 8% to €4.86 billion and trading profit rose 10% to €487.2 million. The trading margin improved by 20 basis points to 10.0%.

The mix beneath those totals matters. Sales in Insulated Building Envelopes increased 2%, or 4% before currency, despite subdued construction conditions in some markets. Advnsys sales increased 34%, or 36% before currency, as technology-sector demand and backlog accelerated. In simple terms, a resilient envelope business and a much faster-growing critical-infrastructure business produced profit growth ahead of revenue growth.

Scale also converts growth into capital requirements. Kingspan invested €233.6 million in acquisitions and capital expenditure during the half. Acquisitions contributed three percentage points to both sales and trading-profit growth. Free cash inflow was €144.3 million, while net debt was €1.86 billion and net debt to EBITDA was 1.56 times. Management paused the remaining share-buyback programme to preserve capacity for investment and acquisitions.

That is both opportunity and tension. New plants, bolt-on acquisitions and a broader product suite can deepen customer relationships and extend growth. They can also dilute returns, increase integration risk and tempt management to pursue scale faster than cash economics justify.

A financially strong business, not just a good story - the case ahead

A compelling theme only matters if the company behind it can actually fund it, sustain it, and turn it into returns for shareholders - year after year, not just in a good half. So before the story runs away with us, we ask a simpler question: is this a genuinely well-run, improving business? On the historical numbers, the honest answer is mixed, not an unqualified yes - which is exactly why we look at where that picture is heading, not only where it has been.

Profitability. Kingspan's trading margin - the group's own preferred measure of underlying profitability - actually eased over the three years to 2025, from 10.3% to 9.8%, as a soft non-residential construction cycle in Europe weighed on the larger Insulated Building Envelopes business even while Advnsys expanded. Return on shareholders' equity - essentially, how much profit the business generates for every euro shareholders have invested - followed the same path, easing from 16.2% in 2023 to 14.2% in 2025. A broader profitability measure, adjusted EBITDA margin, at least held flat at 13.2% across all three years, evidence the group defended its economics through a difficult cycle rather than let them slip further. This is not a business in trouble, but nor is it the unbroken improvement we would want to point to as proof of quality.

Earnings growth. Profit growth has been decelerating rather than accelerating: earnings per share grew 7.0% in 2023, slowed to 3.6% in 2024, and slowed further to just 1.4% in 2025 - behind that year's 6.9% revenue growth, the opposite of the "more profitable as it grows" pattern that marks out a high-quality compounder.

The most recent evidence, however, points the other way. First-half 2026 results showed revenue up 8% to €4.86 billion and trading profit up 10% to €487.2 million, with the trading margin turning back up by 20 basis points to 10.0% - profit growing faster than sales again, driven by Advnsys's rising share of the mix (segment revenue up 34%, trading profit up 45%, order backlog more than doubled year on year). Kingspan followed this by raising its full-year 2026 trading-profit guidance to around €1.125 billion, up 18% on 2025, and current sell-side forecasts have followed with meaningfully upgraded medium-term numbers: operating margin is projected to keep climbing past 11% in 2026 and towards 12% within a few years, earnings-per-share growth is forecast at 16.4% in 2026 and 16.6% in 2027 - a sharp reversal of the deceleration through to 2025 - and return on equity is expected to recover to around 15% by 2027. None of this is delivered yet. It is what the current mix shift and margin recovery are expected to produce if they continue, and we treat it accordingly - as an expectation, not a fact.

Shareholder returns - the case ahead. The historical record here has been genuinely volatile rather than steadily rewarding: Kingspan shares returned 83.6% in 2021, then fell 51.3% in 2022, recovered 56.0% in 2023, fell again 9.5% in 2024, and returned a modest 6.0% in 2025 - a round trip that nets out to a real but unspectacular compound return over the period, and nothing like the steady compounding we look for as proof of a high-quality holding. What has changed is the forward setup: shares rose more than 13% on the day the H1 2026 results and guidance raise were announced, touching a new 52-week high, and current consensus forecasts put the shares at around 19 times this year's expected earnings, falling towards 16

times by 2027 as forecast profit growth comes through - a re-rating that only pays off if the margin recovery and earnings growth behind it actually arrive. We treat this as a credible, evidenced expectation of improving forward returns, not proof that Kingspan has already delivered the return profile of a genuinely high-quality compounder.

None of this is guaranteed to continue - we come back to that below - but taken together it gives us a credible, evidenced path to the profitability and shareholder returns this thesis needs: one that is not yet proven in the historical numbers, and one we will hold Kingspan to account against at every set of results.

Leadership we can trust

A good business also needs to be well led. However compelling the growth numbers, we need to be able to trust the people running the company - because performance means little if it cannot be relied on to continue honestly, and Kingspan's own history, discussed below, is a reminder of why that test matters.

On the structures we look for, Kingspan scores well. The Chief Executive and Chairman roles are held by separate individuals, and the Chairman is independent, with no current or former employment, advisory or affiliate relationship with the company. The Audit, Remuneration, and Nominations & Governance committees are each populated entirely by independent non-executive directors, and every director stands for election or re-election each year, giving shareholders a regular say over who governs the company. There is only one class of share, so no shareholder carries outsized voting power over the rest. Executive pay is weighted heavily toward long-term, at-risk, share-based awards with multi-year vesting and a further post-vesting holding period, and recent payouts have genuinely differentiated on performance rather than defaulting to the maximum: the most recent annual bonus round paid out at roughly two-thirds of the maximum available, and the last long-term award vested at just over half. This is matched by a genuinely disciplined record on capital allocation: return on invested capital has stayed above Delta Outcomes' cost-of-equity hurdle in each of the last three years, even as Kingspan funded a run of acquisitions that temporarily diluted returns, with a recovery expected as those businesses mature; management has also paused its share-buyback programme specifically to preserve capacity for further disciplined M&A.

Two things temper that picture and are worth our continued engagement. First, the board remains more executive-weighted than we would ideally like: several long-serving operating executives beyond the Chief Executive and Finance Director also hold board seats, leaving independent non-executive representation short of the two-thirds level we look for. Second, the findings of the current externally facilitated board-effectiveness review have not yet been published, with disclosure deferred to next year's report. We will look for that disclosure, and for continued board refreshment, as evidence that governance is strengthening alongside the business.

Taken together, this gives us reasonable, but not unconditional, confidence that Kingspan's leadership is acting in shareholders' and other stakeholders' long-term interests - a confidence that continues to depend on how the company resolves the historic product-safety and governance failings we address in the risk section below.

Value, decision, and tension

We own Kingspan because three things now line up, even though none of them is unqualified. There is a durable, structural source of demand across better-performing buildings and denser data-centre infrastructure. There is a business now showing a credible, forward-looking path back to the profitability and shareholder returns that a growth-and-acquisition strategy depends on, after a genuinely mixed historical run. And there is a board and management team with real governance safeguards in place, even though board independence, evaluation disclosure and the legacy of past product-safety failings mean that trust here has to be earned continuously, not assumed.

But thematic exposure is not an investment conclusion. A company can serve an important market and still be a poor purchase at the wrong price. Delta therefore tests Kingspan's valuation against normalised earnings, cash conversion and returns on the capital employed in acquisitions and new capacity. The latest share price, portfolio weight and trading decisions are deliberately not part of this public article.

The central tension is that the same guidance raise and Advnsys momentum that make the growth case have already been substantially rewarded: shares now trade at around 19 times this year's forecast earnings after the post-results rally, leaving limited room for the margin recovery, cash conversion and acquisition returns underpinning that valuation to disappoint. A good company becomes a poor investment when its price has already assumed a flawless recovery.

The thesis would strengthen if envelope penetration continues despite soft construction markets, Advnsys converts backlog into cash without eroding margins, acquisitions earn returns above Kingspan's cost of capital, and the board closes the independence and disclosure gaps identified above. It would weaken if data-centre demand proves concentrated or cyclical, integration absorbs more capital than expected, leverage constrains reinvestment, the forecast margin and earnings recovery fails to materialise, or product and governance controls fail to rebuild trust.

What could go wrong

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

- Construction remains cyclical and regional. Higher interest rates can delay residential and commercial projects, and steel, chemicals, energy and currency movements can affect costs and margins.
- Data-centre growth adds a different concentration risk: a small group of very large customers can change capital plans quickly, and cooling technologies and facility designs continue to evolve.
- Capital allocation is a continuing test, not a settled one. The buyback pause is sensible only if the preserved funds earn better risk-adjusted returns through investment or acquisitions than they would through returning cash directly; we watch cash conversion, net debt, acquisition returns, and whether Advnsys growth is organic or purchased.

- The financial-quality case above is a forecast, not yet a track record: margin, earnings growth and return on equity are all still recovering from a genuinely weak run through 2025, and a renewed downturn in non-residential construction before that recovery is proven would leave the thesis resting on expectation rather than evidence.
- There is also an unresolved regulatory matter: a European Commission investigation into information supplied during an abandoned merger-control process carries a potential fine, on an uncertain timeline.
- There is also a non-negotiable governance risk. The Grenfell Tower Inquiry concluded that Kingspan's historic marketing of K15 insulation for high-rise use involved a long-running deception and disregard for fire safety. Kingspan says K15 represented about 5% of the tower's insulation, was not found by the Inquiry to have caused the tragedy, and that it has addressed the historical failings. Its 2025 annual report says a criminal investigation remains in progress and that further investigations, litigation or regulatory action remain possible. For Delta, this cannot be treated as an old footnote - product integrity, testing, certification, incentives, board oversight and transparency remain part of the investment case, and progress must be evidenced through controls and conduct, not accepted as a statement of intent.

The combination that would most concern us is a simple one: Advnsys backlog failing to convert into cash margin, a weaker construction cycle arriving before the forecast profitability recovery is proven out, and the unresolved investigations - European or Grenfell-related - compounding into a further governance setback. The business could likely absorb any one of these on its own; together, they would undermine the case on all three pillars - impact, financial quality and governance - at once.

Outcomes as evidence

Kingspan's 2025 Planet Passionate Report provides useful, but company-reported, measures. It says absolute Scope 1 and 2 greenhouse-gas emissions were 70% below the recalculated 2020 baseline, including organic and acquisition growth; renewable energy supplied 63% of energy use; and the company used 1.05 million tonnes of recycled and renewable raw materials. It had launched 35 lower-embodied-carbon products by year-end. Several environmental indicators, including greenhouse-gas emissions and energy use, received external assurance, although readers should still examine the exact scope and reporting boundary.

These figures measure Kingspan's own operations and product development. They do not prove the lifetime energy or carbon outcome of every installed system. The stronger future evidence will connect product-level performance and verified customer savings to repeat orders, price, margin and cash returns.

That is the causal chain Delta is testing: more demanding building and data infrastructure needs create structural demand; Kingspan's integrated systems and execution capabilities support customer advantage; adoption becomes revenue, margins and cash; valuation determines whether that business quality is investable; governance, cyclicity and capital

allocation can break the thesis; and measured customer and operational outcomes show whether the claimed solution is real.

The chips may attract the attention, but the buildings still have to work. Kingspan's investment case rests on making those physical systems more efficient - and on proving that growth, returns and trust can advance together.

That is the test we hold Kingspan to at every set of results: whether demand for better buildings and denser data infrastructure keeps converting into orders; whether that conversion shows up in margins, earnings and cash rather than only in guidance; and whether the board closes the governance gaps identified above. Kingspan's case rests on proving that structural demand, financial discipline and trustworthy leadership can advance together - not on any one of them alone.

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