

Why We Own Novonesis

Primary Delta theme: Nature Innovation

A colder wash begins with an invisible ingredient.

Inside a modern detergent, enzymes help break down the proteins, starches and fats that make up everyday stains. That matters because cleaning at a lower temperature can reduce the energy used to heat water, but only if the shirt still comes out clean. The customer does not buy “industrial biotechnology”. They buy performance, convenience and affordability.

This small domestic example captures the larger investment case for Novonesis. The Danish company develops enzymes, cultures and microorganisms that help customers make food, animal feed, biofuels, detergents and industrial products differently. Its opportunity is not biology for its own sake. It is biology that performs a useful job with fewer inputs, lower temperatures, better yields or less conventional chemistry.

That is why Novonesis sits primarily in Delta Outcomes’ Nature Innovation theme: it applies biological systems to practical resource problems. Its products can also support Climate Action by lowering energy or fossil-carbon intensity, and Human Advancement through food, nutrition and health applications. But the central investment question is whether its biological advantage can keep creating measurable customer value and durable earnings.

The demand is for performance with less

Households and manufacturers face the same basic pressure: achieve a better result without endlessly increasing energy, water, raw materials and cost. The U.S. Department of Energy identifies cooler water as one of the two main ways to reduce laundry energy use. European rules and product labels similarly put energy, water and detergent ingredients under closer scrutiny.

The challenge is that efficiency cannot come at the expense of performance. A detergent maker needs stains removed in cold and quick cycles. A food producer needs consistent taste and texture. A biofuel plant needs more output from the same feedstock. An animal-nutrition customer needs better nutrient absorption. In each case, the biosolution must earn its place in the customer’s formulation or process.

Novonesis says its products typically represent a small share of a customer’s cost of goods but can contribute meaningful value. That creates an attractive commercial opening: if an enzyme improves yield, reduces an expensive input or makes a premium product possible, the supplier may capture part of that value through higher penetration, additional products and value-based pricing.

An advantage built in the laboratory and proved with the customer

Novonesis’s advantage begins with biological knowledge: strain collections, enzyme libraries, fermentation expertise and the data generated across decades of experiments. Artificial

intelligence can improve the speed of screening and prediction, but the valuable asset is the combination of algorithms with proprietary biological data and the ability to manufacture a successful discovery reliably at scale.

The second layer is application expertise. Biology has to work in a customer's real formulation, factory, climate and price point. In Household Care, Novonesis reports more than 400 commercial and application experts serving customers in over 90 countries. Its laundry laboratories conduct more than 500 washes and tests each day and create over 100 detergent-formulation matrices a year. That repeated testing can deepen customer relationships and produce performance data that a new entrant cannot quickly copy.

The third layer is scale. A promising organism is not yet a business. Novonesis must ferment, formulate and deliver it consistently around the world while meeting demanding safety and quality standards. If discovery, application and production reinforce one another, customer co-creation can become an advantage rather than a consulting cost.

The moat is not unassailable. Large ingredients companies compete across adjacent categories, customers can reformulate, and biotechnology tools are becoming more widely available. Delta therefore needs evidence that research productivity, customer retention and commercial adoption remain stronger than the alternatives - not simply a claim that the company has a large library.

How biology becomes earnings

The earnings chain is visible in Novonesis's first-half 2026 results. Organic sales grew 8%, with Food & Health up 9% and Planetary Health up 7%. The adjusted EBITDA margin reached 37.7%. Management raised full-year organic-growth guidance from 5-7% to 7-8% and expects the margin near the high end of its 37-38% range.

Those numbers support the case, but their composition matters. Price contributed about two percentage points to first-half organic growth and sales synergies more than one point. Acquisitions added to reported euro growth, currencies detracted, and animal-nutrition customer inventory building helped the first half but not the second quarter. A durable thesis requires underlying volume, penetration and innovation - not only price, merger benefits or timing.

When the model works, the mechanism is straightforward. A successful biosolution wins inclusion in a formulation or production process. More applications and higher penetration lift organic sales. Pricing reflects a share of the customer benefit. Existing research, selling and manufacturing infrastructure supports the additional revenue, producing sales leverage. In the first half, Novonesis reported a 100-basis-point increase in adjusted gross margin to 59.7%, attributing it to pricing, productivity and sales leverage.

Cash then has to fund the next generation of growth. Capital expenditure rose to 9.7% of sales as the company invests in capacity. At the same time, Novonesis announced a EUR 1 billion multi-year share buyback and agreed to acquire the remaining 77% of MicroBioGen, an Australian biotechnology company. The discipline of balancing research, capacity, acquisitions and shareholder returns is part of the investment case, not an afterthought.

A financially improving business, still proving its returns

A compelling scientific story is only worth funding if the company behind it can pay for its own growth. Before accepting the biology, we ask a simpler question: is this a genuinely well-run, profitable business? On the numbers, the honest answer is: getting there, but not yet proven.

Profitability. Novonesis's underlying profitability has strengthened steadily since the 2024 merger of Novozymes and Chr. Hansen closed: the adjusted EBITDA margin - a broad measure of profit on every euro of sales after adjusting for one-off merger costs - rose from 35.6% in 2025 to 37.6% expected in the current year, with company guidance now pointing to the upper end of a 37-38% range, supported by a 100-basis-point rise in gross margin in the first half of 2026. Return on equity - the profit generated for every euro shareholders have invested - has climbed each year, from close to zero in 2023 (a year still distorted by merger accounting) to 2.7% in 2024 and 5.4% in 2025, with current forecasts pointing toward roughly 6.6% this year and further gradual improvement over the rest of the decade. Return on invested capital tells a more cautious story: after a deeply negative year in 2024 as merger-integration costs were absorbed, it recovered to 9.7% in 2025 - narrowly above the cost of the capital Novonesis employs - but current forecasts see it settling back to around 7% through the rest of the decade, below that same cost-of-capital hurdle. We state this plainly rather than smooth over it: on this measure, Novonesis is not yet clearing the bar we look for.

Earnings growth. Reported profit growth has been volatile rather than steady - adjusted earnings per share fell by around 31% in 2024 as one-off merger and integration costs weighed on the year, before rebounding by close to 47% in 2025 as those costs faded. That volatility should ease: current forecasts point to high-single-digit adjusted earnings growth in 2027 and beyond, more in line with the underlying growth in sales and margin. The clearer signal, in our view, is the most recent quarter: organic sales grew 9%, ahead of what the market had expected, with broad-based strength across food, beverages and household care, and management raised its full-year growth guidance for the second consecutive update.

Shareholder returns - the case ahead. Here the historical record is genuinely weak, and we say so directly. Total shareholder return - share price growth plus dividends - swung from over 55% in 2021 to a loss of more than a third of its value in 2022, and has been muted since: roughly 8% in 2023, 11% in 2024 and barely 2% in 2025. Compounding that, Novonesis paid no dividend at all between 2023 and 2025 while it absorbed the costs of merging Novozymes and Chr. Hansen. What has changed is recent and specific rather than historical: in August 2026 the board approved the company's first-ever multi-year share buyback programme - EUR 1 billion running to 2029 - alongside a resumed interim dividend, and net debt relative to earnings has improved. Sell-side price targets published after the latest results sit above where the shares currently trade, implying further upside is expected if the improved growth and margin trajectory is sustained. This is a credible, evidenced path to the shareholder returns this thesis needs - not yet a proven one, and one we will judge on delivery rather than intention.

None of this is guaranteed to continue - we return to that below - but taken together it gives us a genuine, if still-developing, level of confidence that Novonesis's profitability and capital discipline are moving in the right direction, even though the improvement in returns has not yet fully caught up with the strength of the underlying commercial story.

Leadership we can trust

A good business also needs to be well led, particularly one asking shareholders to fund several more years of capacity investment and research before all of that spending shows up in returns. Novonesis's governance rests on a sound structural foundation. The roles of Chief Executive and Chair are held by separate individuals, and the Chair is independent under our own classification rules. Independent non-executive directors comfortably exceed two-thirds of the board, and the combined committee responsible for remuneration and board nominations is majority-independent. Every director stands for re-election each year, and the board's own performance is reviewed annually, with the outcome - and the areas the board itself has flagged for further work - made public rather than kept behind closed doors. Executive pay is weighted toward multi-year performance measures spanning growth, margin and returns on capital, rather than paid out regardless of results.

We would like to see two things improve. First, the audit committee is not populated solely by independent directors - one member carries an affiliation that, under our classification rules, is not independent - which matters because an independent audit committee is a key safeguard over the integrity of the numbers we rely on throughout this document. Second, Novonesis operates a dual-class share structure: its controlling shareholder, Novo Holdings A/S, holds around a quarter of the company's share capital but controls close to two-thirds of the votes. Concentrated control of this kind is not unusual for a Danish company with a foundation-linked owner, but it does mean minority shareholders' interests depend more than we would ideally like on that controlling shareholder continuing to act in the interests of all shareholders - something we will continue to monitor rather than take for granted.

Taken together with the capital discipline described above - a business only now establishing its first sustained buyback and dividend programme, rather than pointing to a long track record - this gives us reasonable, but not yet complete, confidence that Novonesis's leadership is structured to act in the long-term interests of shareholders and other stakeholders alike.

Outcomes that must be measured carefully

Novonesis estimates that its enzymes help avoid 170,000 tonnes of detergent chemicals each year in Europe. It also reports a life-cycle assessment in which one enzyme used to maintain fabric whiteness had 200 times lower impact on life below water and five times lower greenhouse-gas emissions than a conventional optical-brightener alternative.

These figures show the type of evidence Delta wants to see: a defined product, a defined alternative and a measurable result. They are still company-reported estimates. Their usefulness depends on the counterfactual, geography, consumer behaviour, product dose, life-cycle boundary and independent review. A single favourable study cannot be applied automatically to the whole portfolio.

There can also be trade-offs. Fermentation uses energy, water and agricultural inputs. New biological products require robust safety assessment. Efficiency can be offset if total consumption rises. The right question is not whether "biology is good", but whether a particular solution produces a better overall result than the realistic alternative.

Value, decision, and tension

We own Novonesis because three things line up, to varying degrees of conviction: a durable, structural source of demand for biology that does more with less, spanning food, household care, agriculture and bioenergy; a business whose profitability and growth are visibly improving quarter by quarter, even though its returns on capital and its shareholder-return record are not yet where we want them to be; and a board and leadership structure with the right checks in place, alongside two specific governance points - audit-committee independence and concentrated voting control - that we continue to watch.

We do not own it on the assumption that Novonesis's return on capital will keep improving simply because recent quarters have been strong, that a single buyback announcement settles the shareholder-return question, or that its controlling-shareholder structure is inconsequential to minority shareholders. The central tension is that the market has already begun pricing in a good deal of the recent momentum: the shares rose sharply on the last results, and sell-side price targets sit only modestly above where they now trade. A genuinely improving business becomes a weaker investment if its price already assumes that every quarter goes as well as the last one - valuation discipline, not enthusiasm for a strong quarter, 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:

- Organic growth could prove to depend more on price, synergies, bolt-on acquisitions and temporary inventory movements than on genuine adoption and volume - the first-half 2026 numbers already show meaningful contributions from all of these alongside underlying demand.
- Heavy capacity investment (guided at 12-14% of sales for the full year) could fail to generate adequate returns, leaving return on invested capital stuck below the cost of capital rather than closing the gap as currently forecast.
- Integration risk continues: Novonesis is still realising synergies from the Novozymes-Chr Hansen combination, and has just agreed a further acquisition - the remaining stake in MicroBioGen - adding capital-allocation and integration risk on top of the base business.
- The concentrated voting control held by Novonesis's controlling shareholder means the thesis depends on that shareholder continuing to act in the interests of all shareholders, not only its own.
- The impact case can also fail on its own terms: efficiency gains from Novonesis's products could be offset by growth in total consumption, and the company's own outcome estimates are not independently verified.

The thesis would weaken materially if the return-on-capital gap failed to close as forecast, if the recently announced buyback and dividend were not sustained, if further acquisitions diluted returns, or if the growth now driving the story turned out to be more price- and timing-driven than volume-driven. It would also weaken if the share price left no margin of safety for those risks.

The evidence we will follow

For Delta, the case can be tested through a compact set of signals: organic growth excluding price and temporary effects; adoption of new products; gross-margin and EBITDA conversion; cash generated after necessary capacity investment; returns from MicroBioGen and other acquisitions; research productivity; customer concentration; and transparent, product-level outcome evidence.

The cold wash is only the doorway. The reason to follow Novonesis is the possibility that biology can become a better industrial tool - improving performance for customers, replacing more resource-intensive inputs and generating durable cash flows - delivered by a business whose profitability is visibly improving and overseen by a board with the right structures, if not yet a complete record, in place. The reason to remain disciplined is that each link in that chain - commercial, financial and governance - must still be demonstrated, not assumed.

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