

## Why We Own Siemens

At a level crossing, safety depends on something most passengers never see. A signal changes, an interlocking system checks that the route is clear, and a train is permitted to move. When those systems are decades old, the problem is not an abstract technology upgrade. It is whether people and freight can travel safely, reliably and efficiently.

That is the practical doorway into Siemens. In July, a Siemens-led consortium won three contracts to modernise railway signalling in Romania. The programme covers about 560 kilometres of railway, 66 stations, 122 level crossings and more than 2,000 signals. Siemens says some of the systems being replaced have exceeded their designed operating lives by decades.

The order is only one project, and an award is not the same as a completed outcome. But it illustrates the investment case: economies need to electrify, automate and digitise old physical systems; Siemens has the engineering, installed-base knowledge and software to do that work; and successful delivery can turn public and private investment into orders, revenue, margin and recurring service income.

## Structural demand lives in the physical world

Decarbonisation is often described in terms of clean power generation. The harder task is making the systems that use and distribute energy work better. Electricity networks need control equipment. Buildings and data centres need efficient power management. Factories need automation that can reduce waste and energy per unit of output. Railways need signalling, electrification and maintenance if they are to carry more passengers and freight reliably.

This demand is structural because much of the world's infrastructure is old while electricity use and digital workloads are rising. The European Commission describes the European Rail Traffic Management System as a common signalling and speed-control system that improves interoperability and increases rail capacity. The same principle reaches beyond transport: better measurement and control allow scarce electricity, materials and equipment to be used more productively.

Siemens sits at this junction between the digital and physical economies. Digital Industries provides factory automation and industrial software. Smart Infrastructure supplies electrification, electrical products, building controls and grid technologies. Mobility provides trains, signalling and rail services. Siemens also holds a majority interest in Siemens Healthineers, although the group now plans to spin off that holding.

## Where Siemens fits

Climate Action is Siemens' primary Delta theme because the central contribution is enabling lower-carbon, more efficient physical systems through electrification, automation, efficient

buildings and rail. Nature Innovation is relevant through resource efficiency, circular design and reduced material waste. Human Advancement is also present in safer transport, workforce productivity and healthcare technology. Those are important, but secondary to the core decarbonisation mechanism.

Theme membership explains a source of structural demand. It does not make Siemens' 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 and installed knowledge

Siemens' advantage is not simply that it makes electrical equipment. A complex factory, rail corridor or building cannot be upgraded by dropping in a single product. Hardware has to work with software, operating data, safety rules, customer processes and long-lived installed assets.

That creates switching costs and learning advantages. Siemens can design automation, model a system digitally, install control equipment and remain involved through software and service. The more important the system is to a customer's operations, the more valuable reliability, domain knowledge and lifecycle support become. Its global reach also matters when customers want common technology across plants or infrastructure networks.

Recent acquisitions are intended to deepen the software side of this system. Altair adds simulation and industrial analytics; Dotmatics adds research-and-development software for life sciences. The opportunity is to combine those tools with Siemens' industrial data and customer relationships. The risk is that management pays for growth that does not integrate or produce an adequate return.

## How the advantage becomes earnings

Siemens' third-quarter results, released on 6 August, provide a current test. Comparable orders rose 14% to a record EUR27.9 billion and comparable revenue rose 8% to EUR20.8 billion. Profit from the Industrial Business increased 25% to EUR3.5 billion, its margin reached 17.3%, and group free cash flow rose 42% to EUR4.1 billion. The order backlog ended the quarter at EUR132 billion.

The most direct Climate Action mechanism is Smart Infrastructure. Its orders rose 42% on a comparable basis to EUR8.0 billion and revenue rose 13% to EUR6.4 billion. Siemens attributed the order growth mainly to electrification and electrical products, including large data-centre contracts in the United States and Europe. Higher revenue, better capacity use and productivity lifted the segment's profit to EUR1.3 billion and its margin to 20.0%.

Digital Industries shows the second route. Revenue rose 10% on a comparable basis, software revenue grew 15%, and organic annual recurring revenue reached EUR5.7 billion. If software makes factories easier to design, run and maintain, Siemens can earn both from the original equipment and from a longer-lived digital relationship. Mobility completes the chain: a large order can create years of manufacturing, delivery, maintenance and service work.

The causal chain is therefore explicit: ageing infrastructure, electrification and industrial productivity create demand; integrated hardware, software, engineering and installed knowledge support Siemens' advantage; project delivery, product volume and recurring software and service convert that advantage into profit and cash; valuation determines whether those economics can reward shareholders.

## 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 cannot fund its own growth or protect its returns through the ups and downs of a cycle will struggle to keep modernising the electrified economy, however good its products sound. So before getting carried away with the story, we ask a simpler question: is this a genuinely well-run, profitable company? On the numbers, the honest answer is more nuanced than a straightforward yes: real strength, a recent dip, and clear evidence that the dip is already reversing.

**Profitability.** Over the past three fiscal years, Siemens' return on shareholders' equity has drifted down from around 15% to roughly 14%, and its return on invested capital has fallen further, from around 12% to below 10%. The main driver has been heavy investment - including two sizeable acquisitions, Altair and Dotmatics, which added scale and capital employed before their earnings caught up. Even at that lower point, invested-capital returns have stayed above Siemens' own cost of capital, which is the more important test of a business's underlying economics. A broader measure of profitability narrowed over the same period, from around 20% of sales to under 19%, but that trend has already begun to turn: within the most recent quarter, the core industrial profit margin expanded by 240 basis points year on year to over 17%, and full-year margin guidance for the electrification and grid business was raised for the second time this year.

**Earnings growth.** Adjusted earnings per share actually fell in the most recently completed fiscal year, weighed down largely by portfolio changes - including the disposal of a smaller industrial unit - rather than by weaker underlying trading. We do not gloss over that dip. What matters is the trajectory since: the most recent quarter delivered a 25% increase in industrial profit, comfortably ahead of market expectations, and management has now raised its full-year earnings guidance twice in successive quarters, pointing to earnings-per-share growth of around 15% for the current year and a broadly similar rate the year after. This is not yet a settled multi-year record - it is a genuine, evidenced recovery that is still building one.

**Shareholder returns.** Total shareholder return - share price growth plus dividends - has, by contrast, been a source of consistent strength throughout this same period. Siemens shares compounded at an annualised rate of around 18% over the five years to the end of 2025, with only one negative year in that span, and that momentum has continued into the current year. That is a genuinely strong record even while the underlying return-on-capital metrics dipped, and it partly reflects the market's confidence that recent investment and the current operating recovery will show up more fully in the numbers over time. We treat that confidence as something to be tested, not assumed - not least because, as we discuss below, the shares now carry a real premium to independent estimates of fair value.

None of this is guaranteed to continue - we come back to that below - but taken together it gives us a credible, evidenced case that Siemens' profitability is recovering from a self-inflicted, investment-driven dip rather than a structural weakening, and that its financial discipline can keep funding the investment its impact case depends on, though this is a recovery still proving itself rather than a multi-year record already banked.

## 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 cannot be trusted to continue honestly.

Siemens' governance starts from a structural strength: a two-tier board model, required under German law, separates day-to-day executive management from oversight, so the roles of chief executive and board chair sit with two different individuals in two different governing bodies - a separation that is a matter of law, not company preference. The oversight board is substantially independent, refreshed on a balanced tenure schedule, and diverse across nationality, gender and professional background. It commissions its own annual effectiveness review, with the findings disclosed publicly rather than kept internal, and Siemens maintains a single class of listed share, so no shareholder group carries disproportionate voting power over the rest.

One structural feature is worth flagging as a priority for ongoing engagement rather than a red flag: the board chair's tenure now exceeds the ten-year threshold we apply as a strict, bright-line independence standard, which under our stricter test also affects the independence reading of the committee the chair sits on, notwithstanding that this reflects a defined, time-limited transition period rather than an entrenched arrangement; and, as is standard for German-incorporated companies, board members serve multi-year terms rather than standing for re-election annually. Both points reflect a legal and transitional framework more than a Siemens-specific choice, and we will watch how the succession plays out.

Executive pay is structured to reward what we care about: the majority of variable compensation is tied to multi-year performance rather than paid regardless of outcome, with a meaningful share linked directly to total shareholder return relative to industrial peers, and senior executives are required to hold, and in practice exceed, significant personal shareholdings in the business. This is matched by a strong record of capital discipline: returns on capital employed have remained roughly double the company's cost of capital even through a period of elevated investment, free cash flow reached a record level in the most recently completed fiscal year with a cash-conversion rate above one, and the company has committed to a new multi-year share buyback programme funded from a low level of industrial net debt relative to earnings, alongside continued growth investment. Taken together, this gives us reasonable confidence that Siemens is overseen by leadership that acts in the long-term interests of shareholders and other stakeholders, with one structural, tenure-related nuance that we continue to monitor rather than treat as settled.

## Evidence before narrative

Romania's signalling contracts give the story a human scale: old equipment, busy crossings and the promise of safer, more reliable rail. Siemens' quarter shows how that need can become orders, margin and cash. The remaining work is to test delivery.

In its 2025 annual report, Siemens reports that offerings sold from fiscal 2023 to 2025 are projected to avoid 694 million tonnes of carbon-dioxide equivalent over their lifetimes, and that its own Scope 1 and 2 emissions fell 66% from a 2019 baseline, excluding Siemens Healthineers. The avoided-emissions figure uses a company methodology and counterfactual assumptions; there is no universally accepted standard, and it is evidence to weigh, not a substitute for project-level energy, emissions, safety or capacity outcomes.

The measurable evidence should include projects commissioned against schedule and budget; rail reliability, capacity and safety after installation; verified energy or emissions savings for buildings and factories; software retention; backlog conversion; and returns on acquisition capital.

## Value, decision, and tension

We own Siemens because three things line up: a durable, structural source of demand for the equipment, software and engineering that make ageing infrastructure fit for an electrified, digitised economy; a business whose profitability, after a period of investment-driven softening, is credibly recovering and has continued to deliver strong shareholder returns throughout; and an oversight structure we trust, on balance, to act in shareholders' and stakeholders' long-term interests, despite one specific tenure-related nuance we continue to watch.

We do not own it on the assumption that every infrastructure contract is socially desirable, that the current earnings recovery is guaranteed to continue, or that the Altair, Dotmatics and Siemens Healthineers portfolio changes will all create value. The central tension is a familiar one: the strongest end markets - chiefly data-centre and AI-related infrastructure spending - also attract the most optimistic expectations, and Siemens' shares now trade near the top of their 52-week range, at a real premium to independent estimates of fair value, a premium that assumes sustained order growth, margin delivery and disciplined integration of recent acquisitions.

The latest quarter strengthens the quality case. Orders grew faster than revenue, margins expanded and cash conversion improved. It also raises the valuation question. A record backlog is valuable only if Siemens can deliver it on time, protect margins and convert it into cash. Rapid data-centre growth can be a durable electrification opportunity, but it can also concentrate expectations around an unusually strong capital-spending cycle.

The decision is not whether electrification and industrial digitalisation are important. It is whether Siemens can compound the resulting cash flows at a rate that exceeds what the share price already assumes, after integration costs, cyclicity and execution risk. That valuation and margin-of-safety judgement is the decisive factor in whether Siemens earns a place in the portfolio; it should not be inferred from operating momentum alone.

## What could break the chain

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

- Backlog execution risk. Large rail, grid and data-centre projects can be delayed, repriced or become less profitable. Capacity investment can improve delivery and margins, but only if demand persists and factories run efficiently.
- Cyclicity and concentration. Short-cycle factory automation can slow when customers reduce capital spending, particularly in China or the automotive sector. Data-centre electrification is growing rapidly, but customer concentration and the durability of AI-related investment need to be tested rather than assumed.
- Capital allocation and integration risk. Altair and Dotmatics integration could take longer or deliver less than expected, and the Siemens Healthineers separation changes the group's earnings mix and adds execution complexity. Any deal or separation this size needs to earn back what it costs.
- Financial-quality durability risk. The recovery in returns on capital and earnings growth is real but young - margins and returns need to keep improving through a fuller cycle, not just a strong quarter, before the financial-quality case can be considered proven rather than a story still building its own record.
- Impact-case risk. Efficiency and decarbonisation gains from Siemens' products could be outweighed by growth in total electricity, materials or infrastructure demand, and reported avoided-emissions figures rely on company methodology and counterfactual assumptions rather than independently verified outcomes.

The thesis would weaken materially if order growth failed to convert into delivered revenue and cash, if the recovery in returns on capital and earnings growth stalled rather than continued, if the Altair, Dotmatics or Siemens Healthineers changes destroyed value, or if verified outcomes contradicted Siemens' own impact claims. It would also weaken if valuation left no margin of safety for any of the above.

Siemens is compelling because it sits at the junction of decades-old physical infrastructure and a digitising, electrifying economy - and because the company delivering that modernisation is, on the evidence, recovering into a stronger and better-run business, overseen by leadership we trust, on balance, to act in long-term shareholders' and stakeholders' interests. The investment case rests on Siemens continuing to convert physical-world necessity into durable orders, margin and cash - funded by real, improving financial strength and disciplined governance - not on a theme, or a single strong quarter, alone.

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