

April, 2026

Dear Partners,

During the first quarter of 2026 a Class A investment in Laughing Water Capital returned approximately -4.5% net of all fees and expenses.ⁱ During the quarter, the SP500TR and R2000 returned -4.3% and 0.9% respectively. As always, please check your individual statements for the most accurate measure of your individual return, which may vary based on fund, class, and timing. As a reminder, our portfolio is completely different than the indexes, so there is no reason for us to think that our performance will be similar to the indexes over shorter periods of time. However, over longer periods of time I expect we will be rewarded by taking the road less travelled. On this front, during the quarter Laughing Water Capital passed the ten year mark since inception. Over the first ten years of Laughing Water's existence, returns were approximately 410%, or 17.7% per year, versus 339% or 15.9% annualized for the SP500TR and 189.2% or 11.2% annualized for our most relevant benchmark, the R2000.ⁱⁱ

Despite this past success, the future is of course what matters. Of particular note, at present our portfolio is more concentrated than it has been historically, meaning the short-term fluctuations are likely to be more extreme. The reason for this increased concentration is increased confidence in the near and intermediate term prospects of several of our holdings. Each of these holdings trades day to day based on the vagaries of the market and the quantitative read of their financial statements. However, I believe each of them has value far in excess of what a cursory review would suggest, and I believe this value will be revealed shortly through a series of idiosyncratic events that should take place regardless of what else is happening in the world. I believe that bearing the immediate term volatility will be worth it for the intermediate term reward.

I would also note that this past quarter has been eventful for the composition of our portfolio as several longer held positions have been reduced or exited, while several new positions have taken their place. Some part of these changes are tied to negative developments in legacy positions, but the over-riding influence has simply been finding better opportunities. In this case "better" means stronger balance sheets, better competitive positions, more predictable event paths, less reliance on macro or industry forces, and at times cheaper valuations. I believe the next ten years for Laughing Water Capital can be as successful as the last ten years, and for this reason almost the entirety of my and my family's wealth remains invested right alongside yours. Our interests are aligned.

Where Are We Now?

“We didn’t start the fire - It was always burning since the world’s been turning”

Events of the last three months including advancements in artificial intelligence, U.S. interventions in Venezuela and Iran, and resultant rising oil prices would fit perfectly as a verse in Billy Joel’s classic song that recounts the major events of much of the second half of the 20th century. I think it is important however to remember that the point of the song is that crazy things have always been happening, and the world just keeps on spinning. For us, this means that we should mostly ignore the global-macro-political noise, and instead stay focused on the prospects of our individual companies.

That being said, volatility creates opportunities, and there have been several changes to our portfolio in recent months. Most notably, over the last few years much of our portfolio has been in names where the thesis was often multi-year in nature. Further, value was not always apparent without significant diligence, and longer timelines meant that ultimate value was subject to increased event path risk.

In contrast, the latest additions to our portfolio are characterized by shorter timelines, value that is underpinned by rock solid balance sheets and near term cash flows, and limited event path risk. I will share more thoughts on this evolution in future communications, but in many ways this is simply me leaning into what has worked better for us in the past, and leaning away from the type of investments that have powered much of the markets returns in recent years.

New Positions

Undisclosed – We have a new investment in our Top 5 that will remain undisclosed for now as I plan to increase the position size. In brief, this investment is in a “good co / bad co” situation, where one company operates two segments, one of which is very attractive, and one of which is less attractive. The good co has a dominant competitive position and generates a lot of cash. The combined company has an unlevered balance sheet and trades at ~10x my estimate of normalized FCF. Recent changes to the board and management, as well as the arrival of an activist, suggest that the good co will be allowed to shine in the not too distant future. Please stay tuned.

Stride Inc. (LRN) - Stride entered our portfolio as a mid-sized position. The company is the largest operator of virtual schools for grades K-12 in the U.S., serving more than 240,000 students across 30 states. Virtual schools are enjoying secular tail winds as advances in technology (Zoom, Google Meet etc.) and changes to the way online education is perceived following the Covid experience have led to what I believe is a sustainable increase in demand.

The company had been growing at mid to low teens percent for several years and traded at ~14x EBIT when they guided to 10-15% growth in enrollment for fiscal '26. However, prior to the 2025-2026 school year the company attempted to upgrade the software that governs their enrollment process

as well as their learning management software. The implementation did not go smoothly, and in late October of 2025 management announced they would be cutting guidance. In brief, the new software was disjointed to the point that parents could not successfully navigate the enrollment process, and if successful, students faced problems with logging in and finding the right classes and curriculum. This cost the company upwards of 10,000 enrollments and led to a more than 50% decline in share price, where we began to buy stock. In response to these events, management initiated a \$500M buyback and moved quickly to fix the software problems.

Given that commentary from both Stride and a key competitor indicates that demand for virtual schools remains strong, this investment logically comes down to one issue; either they can fix their software, or they cannot. At present, the company is valued below 7.5x EBIT, which seems to imply either 1) that the company will not be able to fix their software or 2) that the market does not have the patience to wait for the company to fix their software. I am of the view that given enough time, the problems will be fixed, and in fact early indications from both the company and various open market sources are that the company is well on its way down this path. As the fixes take hold, I expect shares to re-rate closer to where they traded prior to the sell off.

It is also important to note that unlike many for profit education companies that have left a sour taste in Wall Street's mouth in the past, Stride is NOT reliant on students taking on loans that they cannot afford in order to attend school. Rather, Stride enters into long term contracts with school districts who fund the students' education.

Theravance Biopharma, Inc. (TBPH) - In American football, if the defense goes offside but the play still starts, the offense has a tremendous advantage. If they execute a successful play, the play stands. If they are unsuccessful, they are not penalized for the attempt due to the offside call. The offense is thus incentivized to go for the end zone.

Theravance is a special situation that fits this framework. A longer write up can be found at the end of this letter, but in brief, following a failed Phase III FDA trial the company is a pile of cash and similar attached to a royalty stream that should generate ~\$65M per year for the Company, as well as \$2.6B in tax assets. The company has announced that they have accelerated the work of a strategic review committee, essentially saying that the royalty stream is for sale. It is hard to know exactly what a buyer will pay, but the downside is well protected by cash and near cash, and anything from \$17-\$25 is well within reason. Under certain scenarios, a buyer may be willing to pay a few dollars more. We bought our shares below \$14, and in my view, the downside protection and range of upside outcomes is such that we should go for the end zone in terms of position sizing. Theravance is thus a top 5 position for us. I expect this situation to resolve itself within the next 0-6 months.

Also of note:

Nextnav Inc (NN) – I have written about Nextnav, our wireless spectrum / 5G terrestrial backup to GPS investment, several times in the past. This investment remains an outsized position, and it remains subject to wild swings every month around the timing of the release of each month's Federal Communications Commission (FCC) agenda. The swings can be frustrating, but in my view, the investment has been largely de-risked as the FCC submitted a draft Notice of Proposed Rule Making (NPRM) to the White House Office of Information and Regulatory Affairs (OIRA).

In other words, it seems that the FCC is now on our side.

However, the proposal still needs to pass OIRA review, which would entail checking with other agencies that could be affected by the proposal. In this case, that would primarily be the Department of Transportation (DOT) and the Department of Defense (DOD). From my perspective, it seems unlikely that FCC Chair Brendan Carr would submit a proposal to OIRA without first running it by DOT and DOD. Further, the DOT and FCC both fall under oversight from the Senate Commerce, Science, and Transportation Committee, which is chaired by Senator Ted Cruz. Cruz has been a vocal advocate for terrestrial GPS in the past, which seems to indicate that the DOT will be on board.

The DOD's spectrum usage is overseen by the National Telecommunications and Information Administration (NTIA), The NTIA is part of the Department of Commerce under Secretary of Commerce Howard Lutnick. Lutnick in the past has said that the government has too much spectrum, and it should be freed up for better use cases. Additionally, a backup to GPS is indeed something that the DOD wants and needs.

Lastly, recall that it was Trump who started the whole push for a backup to GPS/PNT with an executive order at the end of his first term, so it seems unlikely that an arm of the executive branch would now torpedo Nextnav's proposal.

The timing here has admittedly stretched a few months longer than I hoped for, but I think we are almost there, and I expect to see an NPRM shortly. Following an NPRM there would be a comment period that could stretch to 60 days from the time the NPRM is posted in the Federal Registrar. At this point much of what could be said has already been said during the Notice of Inquiry phase of this preceding, so I am hopeful comments will move quickly. From there I would expect a Report and Order which will allow Nextnav to use their spectrum for 5G communications and a terrestrial backup to GPS.

To be clear, we still do not know what will be in an NPRM, and it is possible that Nextnav will not get everything they have asked for, which would of course weigh on the value of the spectrum. However, the entire point of this exercise is to incentivize the mobile network operators (VZ, T, TMUS) or other interested parties to roll out a terrestrial backup to GPS nationwide. In order to properly motivate them, the FCC must ensure that the spectrum in question is attractively configured. If the spectrum is attractively configured, it should be quite valuable.

“How valuable” is an open question, but recent transactions suggest something north of \$50 (vs. month end price of ~\$15) is well within range. It is also worth noting that there is a history of spectrum pricing exceeding the top end of expectations during competitive bid processes. Recent news that Amazon is interested in terrestrial spectrum through Globalstar and that SpaceX is looking to acquire more spectrum can only be viewed as positive. After all, all that is needed to push value higher in an auction process of a scarce asset is two interested buyers. The arrival of two likely bidders with very deep pockets could push the price significantly higher.

Liquidia Corp (LQDA) - Liquidia is our maker of a drug called YUTREPIA that combats Pulmonary Arterial Hypertension (PAH) and Pulmonary Hypertension Interstitial Lung Disease (PH-ILD). The sales launch of this drug continues to exceed all expectations, and the stock has appreciated nicely. However, I believe shares would be much higher if not for an on-going patent battle with United Therapeutics (UTHR). Legal arguments in the last round concluded last summer, but the judge has not yet ruled. My work around the opinions of legal experts and past rulings in similar cases by this judge suggest a favorable outcome is on the way. The delay is of course frustrating, but I think the likely explanation is that the judge is taking the time to write an opinion that would be bullet proof on appeal. Logically, if he were going to rule against Liquidia he would do so quickly, because every day that he has not ruled is another day that more patients are put on YUTREPIA, and historically judges have not wanted to pull medication from people whose lives are improved by it.

Importantly, this trial is only tied to the use of YUTREPIA to treat PH-ILD. In other words, even if the ruling is unfavorable Liquidia should be able to continue to take share in the PAH market. This should provide downside protection for the stock. If the ruling is favorable and the launch of YUTREPIA continues unimpeded, even a material slow down in the rate of adoption since inception could lead to a revenue run rate north of \$1.2B by the end of the year. If Liquidia were to trade at the same multiple of sales as United Therapeutics, shares would be worth more than double where they are today. Additionally, the major pharmaceutical companies are facing an estimated \$300B in patent cliffs over the next few years. These same companies have an estimated \$1T in dry powder to make acquisitions in order to fill in the looming patent hole. Liquidia appears to be a prime candidate for a takeout by large pharma.

SECURE Waste Infrastructure Corp (SES-TO) – SECURE was introduced in our [1H'25 letter](#) as a business that had transitioned from oil services to waste services tied to the Canadian oil industry. This transition, combined with wonky accounting, explained why shares were cheap, and we purchased our shares just after an undersubscribed tender offer was completed for around C\$14.50. As I was about to hit “send” on this letter, news surfaced that GFL Environmental Inc. (GFL), a Canadian-American waste player that is ~6x larger than SECURE, would be purchasing SECURE for C\$24.75 per share in a stock and cash deal. My initial reaction is to not be *thrilled* with this price.

Lifecore Biomedical Inc. (LFCR) - Lifecore, our fill finish CDMO that puts drugs into syringes and vials, continues to win new business at an impressive rate. However, the time from winning new business to generating meaningful cash flows from that business is measured in years in the CDMO

world. Additionally, Lifecore recently announced that much of their pipeline is moving to the right as customer timing has shifted. As a result, the stock has been severely punished.

The shifting timeline is of course frustrating, but I think the market is over-reacting to fears of a potential capital raise as the company's series A convertible preferred shares mature this summer. However, these shares are designed to PIK at maturity if the company is unable to redeem them, so no immediate liquidity needs are on the horizon. As the business the company has already won comes in the door, the company will be well positioned to deal with this and other capital structure needs.

In my view, the gap between the public market value of LFCR stock and the private market value of Lifecore's assets has never been wider. Management deserves full credit for executing at a very high level, but in my view it is incumbent upon the board to close this gap through a sale of the company. I believe (but am not certain) that private buyers were willing to pay approximately \$8 per share for Lifecore three years ago, and since that time management has taken out a lot of cost and won a lot of new business.

Snatching Defeat from the Jaws of Victory

During the quarter I exited two long held positions, both of which were large winners at one point, and both of which left the portfolio under less auspicious circumstances. While I did sell some stock along the way, in both cases it seems as if I was too slow to react to changing circumstances and I allowed good investments to turn into mediocre investments. Part of the slow reaction time is explained by my belief that both of these businesses are longer term winners. However, business execution is far from the sole contributor to stock market performance, and as it became clear that the world around these investments was changing or had changed, exiting became the best path forward. I would not be surprised if we owned these businesses again in the future.

PAR Technology Corp (PAR) – PAR was our restaurant software business. I continue to believe that PAR will win their category, but I was never completely comfortable with valuation, which for PAR and other software companies has been measured as a multiple of annual recurring revenue, or "ARR" over the last several years. This concept has gone out of favor due to the rise of AI, and it is not clear to me when it will come back in favor. Consider that during the last major software disruption in the early 2000s companies like Microsoft traded at 12x earnings. As I said, I believe that PAR will win their category, but it will be some time before customer wins translate into real earnings, and with ARR out of favor the downside protection to me in this investment was not clear. Further, there has always been an element of reflexivity tied to PAR's capital structure due to convertible debt. A high stock price allows you to refinance converts with minimal pain, while a low share price brings significant dilution. I exited our position prior to PAR raising a new convert at significantly lower conversion prices than the previous instrument.

Vistry Group PLC (VTY-L) – Vistry was our UK homebuilder that was transitioning away from traditional home building and toward an asset light “partnerships” model focused on low-income housing. As part of this transition, a year ago Vistry announced they had found accounting missteps tied to their legacy business, which led to a selloff in the shares. Nevertheless, I did not sell at that time because the key elements of the thesis were that Vistry had best in class management and would be returning a lot of capital to shareholders via share repurchases. A legacy accounting problem did not weaken the thesis.

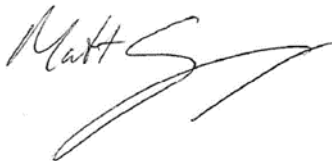
However, on their most recent earnings call Vistry announced that CEO Greg Fitzgerald would be retiring, and that they will “continue to consider” future buybacks. Clearly, these developments impaired the thesis. That being said, the structural deficit in affordable housing in the U.K. is still a problem, and massive government funding should still be flowing through the system in the years to come. As capital allocation plans and management succession plans become more clear, Vistry will likely be worth re-visiting.

Looking Forward

As always, I have no idea what to expect in the near term for the stock market, and neither does anyone else. What I remain convinced of however is that our businesses are building value, and as long as they continue to execute, with time we will be rewarded. This is true regardless of what happens with global politics, domestic politics, oil prices, or anything else.

It may also be worth noting that during the first ten years of LWC’s existence, large cap stocks have ruled the day, while small cap stocks – where we play – have been out of favor. Historically this relationship has flip-flopped every 10 or 12 years. Recent market performance seems to suggest that a reversal may be upon us. I am fully aware of the arguments against small cap stocks, including private equity buyers picking over smaller companies and private companies delaying their IPOs. Nevertheless, the gap between large cap and small cap valuations remains near record spreads at a time when small cap earnings are expected to outpace large cap earnings going forward.ⁱⁱⁱ

Of course, nothing is ever guaranteed, and ultimately our performance will be determined by my ability to pick the right investments for our partnerships. But if we were able to outperform large caps during a 10 year stretch when large caps had every advantage over our strategy, I am hopeful that a return to small cap prominence will provide us a significant tailwind over the next 10 years.



Matthew Sweeney
Managing Partner



Appendix

Theravance Biopharma Inc (TBPH) is a special situation where the downside is well protected by cash on the balance sheet, near term milestone payments, and near-term cash flow, and the upside is likely 50-100% over the next 0-6 months.

Following the failure of a Phase 3 study and a ~30% decline in share price, the company is now ~\$400M in cash, \$100M in 2026 milestones tied to a sales goal that was easily exceeded in 2025, ~\$2.6B in Irish tax assets, and ~\$60 - \$70M per year in FCF tied to a 35% profit share from sales of YUPELRI, a growing pulmonary drug that treats COPD with patent protection until 2039. YUPELRI is majority owned and commercialized by Viartis (VTRS). The \$65M in FCF is pro forma for Theravance following through on already announced plans to reduce headcount and otherwise cut expenses by 60%, which is expected to be complete by Q3'26. Further, the company has announced that the work of their Strategic Review Committee is being "accelerated". The preceding information can all be found in the [8K](#) that the company released on 3/3/26 following the Phase 3 failure, but to sum it up, the \$65M cash flow stream is for sale.

To cut to the chase, valuation can be backed into 2 ways. The first is a simple DCF which is of course sensitive to inputs.

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039 TV	
annual FCF pre corp	\$63,000	\$68,250	\$71,663	\$75,246	\$79,008	\$79,008	\$79,008	\$79,008	\$79,008	\$79,008	\$79,008	\$79,008	\$79,008	
+ corp cost add back	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	2.0x
annual FCF	71,528	74,780	78,195	81,780	85,544	85,546	85,548	85,550	85,552	85,554	85,556	85,558	85,560	171,120
growth	5%	5%	5%	5%	5%	0%	0%	0%	0%	0%	0%	0%	0%	
discount	10%													
PV	\$64,375	\$60,572	\$57,004	\$53,656	\$50,513	\$45,463	\$40,917	\$36,826	\$33,145	\$29,831	\$26,848	\$24,164	\$21,748	\$39,147
PV Sum	\$584,208													
+ current cash	400,000													
+ TRELEGY milestone	100,000													
+ options cash	29,683													
Implied Value	1,113,891													
shares	56,393	(includes options & RSUs)												
Value / Share	\$ 19.75													

I ignore the balance of 2026 and start in 2027 with \$65,000M in FCF (as guided by the company at the mid-point), add back ~\$4.5M in corporate expense (which still leaves \$39M in run rate SG&A, much of which could be cut by the right buyer), and then assume growth of 5% for the next 5 years before flatlining until patent expiration and getting a 2x terminal value. I then discount back by 10%, add expected Q1'26 cash (guided by the company & no debt) of \$400M, add \$100M in milestone payments due Q1'27, and divide by diluted shares to get around \$20 in value. This assumes zero value for the \$2.6B in Irish tax assets.

A Brief Word on YUPELRI and COPD

Before defending these inputs, first a bit about YUPELRI. YUPELRI is a Long-acting Muscarinic Antagonist (LAMA). LAMAs are used to treat Chronic Obstructive Pulmonary Disease (COPD), and act as bronchodilators, meaning they help keep the airways open for an extended period (about 24

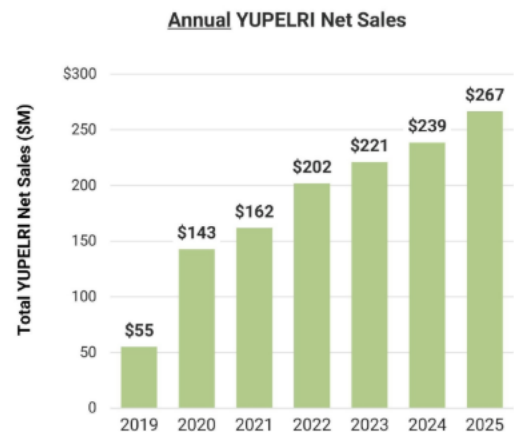
hours). YUPELRI is the only once-daily, nebulized LAMA maintenance medicine for COPD. Theravance discovered and developed revefenacin, which is the API in YUPELRI, and partnered with Mylan (which became Viartis after merging with Pfizer’s generics unit in 2020) in 2015 to develop and commercialize the drug. Viartis now leads commercialization and marketing, while Theravance co-promotes, focusing on the hospital/institutional channel in the U.S. 65% of domestic net sales go to Viartis, and 35% go to Theravance. Viartis also handles commercialization and marketing in the rest of the world, while Theravance can receive tiered royalties on sales in ROW.

LAMAs work by blocking muscarinic receptors in the smooth muscle of the airways, and are considered first-line maintenance therapy for moderate to severe COPD. LAMAs are typically just part of a treatment plan, with many patients being prescribed both a LAMA and a Long-Acting Beta Agonist (LABA) which work through a different receptor pathway than LAMAs. Inhaled Corticosteroids (ICS) are also commonly used as well, and LAMA + LABA + ICS is known as triple therapy.

There are of course new potential treatment options being developed for COPD, but bronchodilators like LAMAs are expected to remain as the backbone of any treatment plan, and are unlikely to be disrupted any time in the foreseeable future.

Supporting Assumptions

Growth: YUPELRI sales grew 12% in 2025, the drug has about 5% share in a domestic market that is expected to grow 4-5% per year and was recently approved in China. Theravance will receive 14% of China sales under \$75M, 17% of sales between \$75M and \$150M, and 20% of sales above \$150M, as well as certain milestones along the way. Domestically, the company investor presentation lays out their strategy for growth (which appears to be working), but in brief according to Theravance many COPD patients are inappropriately using short-acting nebulizers 4-6x per day rather than a LAMA once a day, and many patients are relying on handheld inhalers throughout the day rather than the once daily LAMA. To be fair, this is a competitive space, which is why I am not more aggressive with growth assumptions, but it seems reasonable to think that the only once a day treatment will at least grow in line with the market - if not take share as it has been recently - over the next few years.



Discount Rate: This is all obviously finger in the air, but I start with 10% based on general commentary from industry participants, as well as this document titled [“Pharmaceutical Royalty Structures: A Global Technical Analysis.”](#) If you take the discount to 12%, value drops to around \$18.50. At 15%, value drops to a bit below \$17. The reality is that you can make a DCF say whatever



you want. The point here though is that even if you use 15%, the outcome from an investment in equity at today's prices is pretty good, especially given the likely short timeline. At 10%, the outcome is great, and it is not crazy to think that a majority partner would pay a 10% rate to lock up the asset (more on this below). It is also not crazy to think they'd discount at 8% given their familiarity with the drug and its prospects, and that gets you north of \$21.

Patent Protection: There is a Composition of Matter patent that expires in 2028, a Polymorph Patent that expires in 2031, and a Method of Use patent that expires in 2039. In brief, this means that after 2028 competitors could sell generics for other uses but cannot promote it for the same use case as YUPELRI, which is maintenance treatment of COPD.

Of note, in 2022 multiple generic makers filed ANDAs, and the company has settled with all 8 of them, ensuring they will not be entering the market until 2039.

Expected milestones: Theravance previously sold their TRELEGY royalty to Royalty Pharma in 2022 while retaining the rights to outer year royalties. The outer year rights were sold to GSK in 2025. The sales to Royalty Pharma included milestone payments which Theravance has been collecting. The most recent payment was \$50M in February 2026 for exceeding 2025 sales goals with net sales of \$3.91B. The FY2026 net sales goal is \$3.51B, which will trigger an additional \$100M royalty payment. As the 2026 goal was easily exceeded in 2025, the company considers collection of this \$100M highly likely.

Additional milestone payments of up to \$45M are possible depending on YUPELRI sales in China, which is the world's largest COPD market. I give zero credit for these potential milestones.

A Second Approach to Valuation

The other way that I think about valuation is through the eyes of Viatris. Again, Viatris is the majority partner here, keeping 65% of net sales. This is a \$16.5B market cap company with 1,400 different molecules across 7,500 products for sale, and a \$1B buyback in place. Viatris is guiding to \$2.15B in 2026 FCF. In other words, Viatris seems willing to pay at least 7.7x FCF for their own stock. As YUPELRI is growing faster than the system average and has patent protection length on par with the system average, it seems likely that Viatris would be better served by paying 7.7x for Theravance's cut of the YUPELRI sales than they would by buying their own stock at 7.7x. If they were to pay 7.7x, Theravance would be worth approximately \$19 per share.

Viatris Multiple	7.7x
FCF to Viatris	\$ 70,000
Value	\$539,000
+ cash	400,000
+ Trelogy milestone	100,000
+ options cash	29,683
+ tax assets	0
Value	\$1,068,683
Diluted Shares	56,393
Value / Share	\$ 18.95

Again I give zero credit for the Irish tax assets, and do not boost the FCF to reflect synergies that Viatris could surely recognize by eliminating the Theravance sales force and just putting YUPELRI in their existing hospital reps' bags or having their YUPELRI field reps cover

hospitals as well. Even if Viatris determined they needed to keep the reps, they could surely take cost out on the administrative side of the sales process.

How Do We Know Management Will Follow Through?

As mentioned, the company 8K'd that they will be "accelerating" the work of the company's Strategic Review Committee. This committee is the result of pressure from 2 activists that have been involved for a few years now: Irenic Capital and Weiss Asset Management. Both Irenic and Weiss have board representation and have been pushing for the company to realize value rather than fund science projects. They had previous success with Theravance's sale of TRELEGY, which is the source of the \$100M milestone payment that should arrive in Q1'27. It may also be worth noting that the director who is running the strategic review committee is also the former CFO of Royalty Pharma (RPRX). RPRX could also be a potential buyer here, although that may necessitate a creative solution to the hospital sales force. In any case, 2 activists that have already had success in the boardroom have been steering the company in the direction of a sale for several years now. It is extremely likely that they follow through.

Why Won't Viatris Just Low Ball? / Other Potential Buyers?

Theravance's 35% cut of YUPELRI is a bit of an odd duck, as it is NOT a pure play royalty stream. As mentioned previously, Theravance is responsible for maintaining a hospital focused sales force to peddle YUPELRI in the hospital channel. This wrinkle could understandably prevent a purely financial buyer from being interested in the cash flow stream.

It seems obvious that Viatris is the most logical buyer – they already own 65%, they know the market, and they know the drug. However, because they are such a logical buyer there is a possibility that Viatris will only come with a low-ball bid.

The recipe to prevent a low-ball bid is of course other potential buyers. So who else might be interested?

The answer is basically anyone who is also involved in the other pieces of the "triple therapy" described above. Following the planned restructuring, TBPH will still have ~\$40M of SG&A costs which supports a sales force, a sales support team, a home office, a management team, etc. etc. For any company that is already calling on pulmonologists as part of the COPD triple therapy world (or for other reasons), they could likely wipe out almost all of these costs (assuming they already have salespeople focused on the hospital/institutional channel), and simply put YUPELRI into their existing pulmonary sales forces' bag.

You can capitalize or account for these savings however you want – simply adding back another \$30M of annual expense to the FCF in the DCF above will get you a value north of \$24 per share. But from my perspective, it is less important to try to fully value these costs and generate an upside

case than it is to simply think that Viatris should be motivated to come in with a legitimate bid rather than a low-ball bid. Surely they don't want 35% of their profits in the hands of a competitor.

About Those Irish Tax Assets....

I am not an Irish (or domestic) tax expert. What seems clear though is that in order to be able to use the tax assets, any buyer would have to continue on in the same business line that generated the tax assets. In other words, if a buyer were simply after the YUPELRI cash flows and did not also have an R&D arm, they would likely not be able to use the assets. Most important in my mind is the fact that Viatris does in fact have a significant R&D presence in Ireland across 5 sites that employ 1,600 people. It follows then that Viatris would ascribe some value to these tax assets. Again, this is a finger in the air exercise, but if you figure that these tax assets are worth 6.25% of face (half the Irish tax rate), that gets you to around \$23 based on the above valuations. Or you can assume that the 10% discount rate in the DCF above is too aggressive, and assume that a 15% discount rate would be more appropriate and still come out with a combined value of somewhere around \$20.

In Conclusion

We paid an average price of \$13.70 per share for our investment in Theravance. This is an investment where the downside is protected by ~\$10/share of cash and near-term milestone payments, and the market is putting a ~3.5x multiple on a quasi-royalty stream that is patent protected for the next 13 years. Importantly, properly incentivized activists are in the board room and pushing for the upside, which is comfortably ~50% and as much as 100% if a buyer thinks they can take all of the cost out by dropping YUPELRI in their existing sales forces' bags and realize value from the Irish tax assets. As a Strategic Review Committee has recently "accelerated" their work and the most likely buyer would have negligible diligence requirements, it seems likely that this situation will be resolved within the next 0 to 6 months.



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ⁱ “Laughing Water Capital” refers to investments in Laughing Water Capital, LP, Laughing Water Capital II, LP, and related entities.

ⁱⁱ 10 year returns are from February 2016 through January 2026

ⁱⁱⁱ <https://am.gs.com/en-us/advisors/insights/article/2025/beyond-beta-actively-seeking-small-cap-alpha#beta-boost-momentum>