

July, 2026

Dear Partners,

In nearly every letter I remind you that over shorter periods of time our performance vs. the indexes is largely irrelevant. Our strategy is different by design so there is no reason to expect our results to mirror the index. This is as true in good quarters as it is in bad quarters. That being said, this was an exceptionally good quarter.

For Q2 of 2026 a Class A investment in Laughing Water Capital (“LWC”) returned approximately 39.8% net of all fees and expenses.ⁱ Over the same period, the SP500TR and R2000 returned approximately 15.0% and 21.5% respectively. This brings our year-to-date return to approximately 33.6% net. Rather than celebrating this recent success, a better approach would be to mentally allocate some of this quarter’s returns to other quarters that were less exciting, and try to focus on a smoothed number. On that note, since inception slightly more than 10 years ago LWC’s compound annual growth rate has been 20.0% per year after all fees and expenses. 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.

A quarter such as this is clearly anomalous, and thus deserves a brief explanation. Notably, very little at our companies actually changed over the last three months. However, 3 of our top 5 positions were acquired, and our largest position ~doubled during the quarter. The rapid changes in share price serve as a reminder that markets are often inefficient, and patience is typically the best way to take advantage of this inefficiency. In my view, the *timing* of these moves is due largely to coincidence or luck. However, I do not believe that the same can be said for the *process* of identifying and investing in these stocks. Rather, I believe that by continuing to sift through the forgotten corners of the investment universe we will be able to find similar opportunities in the future, which will allow us to continue to generate acceptable investment returns over longer periods of time. For this reason, nearly the entirety of my and my family’s wealth remains invested in Laughing Water Capital, right next to your money. Our interests are aligned.

Where Are We Now?

Last quarter, I introduced three new investments, and noted that these new additions to our portfolio were investments that were, “characterized by shorter timelines, value that is underpinned by rock solid balance sheets and near-term cash flows, and limited event path risk.” As two of those investments were bought out from underneath us during the quarter, it seems as if my assessment of short timelines was correct.

The two investments in question were Theravance Biopharma (TBPH) and a position which I did not disclose at the time. This company was Avanos Medical Inc (AVNS), and the day after I sent last quarter’s letter Avanos was acquired for a 72% premium. In brief, Avanos was a “good co / bad co” situation, where the good co. operated with ~20% margins as the leading provider of feeding tubes

to hospitals and other medical facilities, and the bad co. struggled with profitability while operating in the pain management space. This bad co. obscured the attractiveness of the good company through consolidated financials, but a new CEO had made it clear that he intended to surface this value, which he of course did. The Theravance buyout came at the bottom end of my fair value estimate range, while Avanos came at a price that I am more happy with.

The third investment that was purchased out from under us was SECURE Waste Infrastructure (SES.TO), which we owned for just over a year. SECURE had transitioned from oil services to waste services tied to the Canadian oil industry. This transition combined with some wonky accounting explained why the opportunity existed, and shortly after the accounting was cleaned up the company was snatched up by GFL Environmental (GFL), a larger waste player, in a cash and stock deal. Quite frankly I am disappointed by the price and would have preferred to own SECURE for the long term. From my perspective, it seems as if the deal was forced by a private equity fund that owned a large stake in SECURE, and put their liquidity needs in front of the long-term opportunity.

As one would expect, with three portfolio companies being acquired, we have a fair amount of cash and merger securities at the moment. This leaves us conveniently well positioned to take advantage of potential opportunities that may arise around midterm elections or other events. I am of course also on the hunt for idiosyncratic opportunities that may exist regardless of what else is going on in the world. If I am able to find a good business, led by good people, that is dealing with some sort of operational, optical, or structural problem that leads the market to improperly value the business, I will not hesitate to act.

It is also worth noting that our portfolio is more concentrated at the moment than it has typically been in the past. As cash is put to work and as other investments continue to mature I expect that the portfolio will return to more typical levels of concentration in the not too distant future.

New Position

AnaptysBio Inc (ANAB) - AnaptysBio is a special situation that I expect will resolve itself very quickly. In brief, following the recently completed taxable spinoff of their developmental drug assets, Anaptys is now an asset light royalty company primarily collecting tolls on the sales of Jemperli, a fast-growing cancer drug that is being commercialized in partnership with GSK. If this were where the story ended, I believe we would have purchased our shares at a reasonable discount to the present value of the future royalty payments.

However, AnaptysBio has the potential for lotto ticket upside in the near-immediate future as they have accused GSK of violating the terms of their commercial agreement, and a trial has been set for July 14-17. My read of the situation suggests that GSK is in a very weak position with a lot to lose because if AnaptysBio is successful at trial, they could recover the entirety of Jemperli. In this low probability scenario, ANAB shares could be worth nearly \$300, vs our average purchase price of below \$60. A much higher probability scenario is that GSK chooses to settle before trial, or perhaps

even buy Anaptysbio outright. I expect that these scenarios could result in 50-80+% upside for our investment.

A longer writeup on AnaptysBio can be found in the appendix to this letter.

Top 4 Positions

AnaptysBio Inc (ANAB) - AnaptysBio was introduced above, and a more expansive writeup can be found in the appendix to this letter.

Cash and Merger Securities – At present we have a double-digit position in cash and merger securities. Most notable is our investment in Theravance Biopharma (TBPH), which was introduced in our Q1'26 letter. Following the failure of a Phase III drug trial the company was in a special situation tied to a drug-related royalty stream, and the company announced that a strategic review committee was considering all options to create value for shareholders. I believed the most likely outcome would be a sale of the company at a price somewhere between \$17 and \$25 at some point in the next few months. News of a sale came in near quarter end at the low end of my expected range.

Liquidia Corp. (LQDA) – Liquidia makes YUTREPIA, a drug that launched one year ago to treat Pulmonary Arterial Hypertension (PAH) and Pulmonary Hypertension Interstitial Lung Diseases (PH-ILD). The launch has been nothing short of fantastic, and more recently the company has shared that they plan to pursue additional indications, which will greatly increase the addressable market and revenue potential. However, the company remains mired in litigation with United Therapeutics (UTHR), who has alleged patent infringement.

The litigation concluded almost a year ago, but the judge has still not issued his ruling. Several details of the case – as well as the long-delayed ruling – suggest that a worst-case outcome where the drug could be pulled from the market for treatment of PH-ILD is off the table. In brief, if the judge wanted to pull the drug he would do so before thousands of people were benefiting from it.

I believe that at this point a bad outcome would likely be a royalty payment of ~10% of PH-ILD linked sales. This would approximate a 5% decline in total sales, which while unfortunate, would be far from catastrophic. In my view, Liquidia can earn somewhere between \$6 and \$8 per share next year. Given the pace of the launch, competitive environment, and likely future indications, normally one would think a company like this would trade at 20-30x+ EPS. However, at present shares trade for a forward P/E of 10-12x, likely due to the legal overhang. This suggests that even if a royalty payment is imposed there should be plenty of remaining upside for LQDA shareholders, despite some likely near-term volatility.

The timing on the judge's ruling is unknowable, but court watchers believe that the judge had been waiting for a previous case that he oversaw – *Amarin Pharma Inc vs. Hikma Pharmaceuticals USA Inc* – to be ruled on by the Supreme Court. This ruling came down in early June, and appears favorable

to Liquidia. I thus expect Judge Andrews to rule on Liquidia any day now. Following the ruling I expect shares to re-rate significantly higher.

Nextnav Inc. (NN) – Nextnav, our terrestrial backup to GPS / spectrum play remains in limbo as we await a Notice of Proposed Rule Making (NPRM) from the Federal Communications Commission (FCC) that will allow Nextnav to use its wireless spectrum for 5G communication. Despite the regulatory delay, the company has made significant progress in cleaning up its balance sheet. Notably, during the quarter the company's SPAC warrants were called and convertible debt was converted to equity. In the near-term events such as these can weigh on share price due to arbitrage opportunities and hedging. However, in the intermediate term when the quants that dominate the markets next see a Nextnav balance sheet they will be looking at a cash rich company rather than a highly levered company. It would not surprise me to see short covering on this change.

Moving away from trading dynamics and toward political tea leaves, during the quarter Nextnav CEO Miriam Sorond testified in front of the U.S. House Energy and Commerce Subcommittee on Communications & Technology, alongside representatives of several of the groups that oppose Nextnav's plan. Not surprisingly the opposition warned of interference risks if Nextnav's plan is granted, while Sorond noted that recent real-world testing showed no interference. Following this meeting Nextnav asked the FCC for permission to run tests that will demonstrate that their proposed 5G operations can coexist with existing technologies in the 902-928 MHz band in and around the actual U.S. Capital Building. I do not think the FCC would approve this request if they were not strongly in favor of Nextnav's technology and confident that this test will not result in interference problems. I am hopeful that the next time Sorond appears in front of Congress she will say:

Congressman, the opposition claims that our technology will cause problems for other users of the lower 900 band. We have been running tests in and around this very building. Have you noticed any problems with your key card, or electronic locks, or RFID tags? Perhaps you could ask the Sergeant at Arms if there have been any problems with wireless door or window sensors, or wireless fire alarms?

The value of Nextnav's spectrum continues to rise as the idea of satellite direct to device communications continues to take hold, and I continue to believe that patiently waiting for the wheels of government to grind forward is our best path forward.

Also of Note:

Lifecore Biomedical Inc (LFCR) – Lifecore, our under-utilized fill-finish Contract Drug Manufacturing Organization, continues to win new business at an impressive rate, and the market continues to not care. I continue to believe that when the new business wins translate into revenue the operating leverage will be massive, and Lifecore will generate significant cash. Of note, following the end of the quarter the company issued an 8K noting that holders of Series A Preferred Stock were

redeeming their shares, and also that the company is evaluating strategic alternatives. I think that a sale of the company is likely in the not-too-distant future.

Stride Inc (LRN) – Stride, our K-12 virtual education business, continues on its quest to level up their technology stack, following a change last year that led to problems with enrollment and user experience. All signs suggest that they continue to make progress.

However, in the negative column, Stride lost a school in Texas that will not be renewing. Historically when this has happened the vast majority of affected students have re-enrolled in another Stride school, limiting the impact. However, the market tends to extrapolate the risk of further loss rather than the likely re-enrollment, and shares suffered on the news. Stride trades at a single digit multiple of cash flow while providing recession resilient services to a student/customer base that continues to grow. Further, the company has a large buyback in place, and I am hopeful that they are being aggressive. I continue to believe that if the company can fix their technology problems they will return to growth and shares will rapidly re-rate higher.

Getting By with a Little Help From Our Friends

You may have noticed that recently many of our new investments have been healthcare related. This is one part coincidental, and one part purposeful. On the former, it just so happens that there have been some truly unique ideas available to us in this arena of late. On the latter, I am happy to hide-out in idiosyncratic ideas that are almost entirely divorced from the real economy at a time when global-macro-political tensions are elevated. I would be remiss if I did not thank friend of LWC Andy Summers of Summers Value Partners for his help on several of these new ideas. I first met Andy a ~decade ago, and his 30 years of experience in healthcare investing has been an invaluable resource to me as a generalist. If you are seeking more healthcare exposure, give Andy a call!

Looking Forward

As always, I don't have any deep thoughts on what will come next for the equity markets. There are certainly things to worry about, with oil prices, unintended consequences from AI, global political uncertainty, and a rising tide of socialism in the U.S. all near the top of the list. There is no shortage of people who claim to know how these things will affect markets. I am not one of them, and I suggest you regard all of them with a healthy dose of skepticism.

For us, the biggest determinant of our future success will continue to be the performance of our individual businesses and the behavior of our management partners. In that regard, I believe we are very well positioned. At the moment, our portfolio is primarily made up of companies that are largely removed from the real economy, and for the most part, I believe they have distinct events on the horizon that will serve to surface value. I thus think our best path forward will be to continue to ignore the scary headlines while focusing on the businesses we own, and the people who operate them. If



history is any guide, with time we will be rewarded, regardless of whatever bumps we encounter along the way.

Please let me know if you have any questions,

A handwritten signature in black ink, appearing to read "Matt S", with a long, sweeping horizontal stroke extending to the right.

Matthew Sweeney
Managing Partner

Appendix: AnaptysBio Inc (ANAB)

Elevator Pitch

AnaptysBio (“ANAB” or “Anaptys”) is a special situation likely to return 50-80+% over the next 4-6 weeks. In brief, following the April 2026 taxable spin-off of its R&D heavy clinical stage biopharma assets into First Tracks Biotherapeutics (TRAX), AnaptysBio is now a royalty business, driven primarily by sales of blockbuster drug Jemperli (dostarlimab). Jemperli is licensed and commercialized by GSK through its TESARO subsidiary. Importantly, Anaptys has accused GSK of violating their license agreements, and a trial is scheduled for July 14-17 in Delaware.

If Anaptys is successful at trial, in a low probability best case scenario, they could reclaim the entirety of Jemperli, which would likely be worth ~\$300 per share. Given the risk that GSK could lose Jemperli entirely, it seems more likely that GSK will seek to deal with this litigation away from the court either through a negotiated settlement, or outright purchase of Anaptys by GSK.

A settlement would likely result in Anaptys’s royalty rates being ratcheted meaningfully higher as well as cash compensation. It should be noted though that for GSK, this is not just about Jemperli. It is also about the freedom to pursue their oncology roadmap as they see fit, because right now Anaptys is in a blocking position. This freedom is likely worth a significant premium to the value of Jemperli on its own.

It is also worth noting that this is the second time that Anaptys has accused TESARO of violating the terms of the licensing agreement. The first time, in 2020 when Jemperli was not yet approved by the FDA, TESARO was [quick to settle](#). This included a \$60M cash payment and a change to the royalty structure that will likely put an extra ~\$3 billion plus dollars in Anapys’ pockets over the next ~decade. The fact that this is potentially a second violation puts GSK/TESARO in a weak position with the courts.

AnaptysBio also owns a 10% royalty stream on lmsidolimab, which is being developed by Vanda (VNDA) and is currently awaiting its PDUFA date on 12/12/26. For the purposes of this writeup, I will ignore lmsidolimab, but assuming full commercialization it is probably worth another \$3-4 or so per share.

About Anaptys Post Spin

Following the spin of its developmental assets, Anaptys exists solely to manage royalties from Jemperli with GSK and lmsidolimab with Vanda. The stated mission of the company is to “protect and return [their] value to shareholders.” Accomplishing this goal will require less than 10 FTEs working as contractors, and operating expense of less than \$10M per year. The company expects greater than 95% EBIT margin and starts this journey with ~\$140M in cash, and a \$100M buyback in place. On the liability side, the company is responsible for paying down ~\$325M in non-recourse debt to Sagard, who previously provided upfront cash to Anaptys in exchange for future royalties.

About Jemperli and GSK

Jemperli (dostarlimab) is a biologic PD-1 inhibitor. In brief, PD-1 inhibitors are cancer drugs that help the immune system recognize and attack cancer cells by turning off the switch that tumors use to suppress T-cells that would otherwise attack the cancer cells. PD-1s were first discovered in the early 1990s, but they did not become a major cancer therapy until the first half of the 2010s. At this time, they were viewed as one of the biggest breakthroughs in cancer treatment in decades. The most well-known PD-1 is Merck's Keytruda, which is tumor anchored (approved based on type of cancer, for example lung cancer) and flexible marker (can be used for different kinds of lung cancer, not just one specific kind), and currently approved for more than 40 indications (and growing). Keytruda generates ~\$30B a year and has wide name recognition in the oncology world and beyond due to first mover advantage and aggressive TV advertising.

Jemperli is later to the game than Keytruda. Anaptysbio and TESARO first entered into a collaboration agreement in 2014, when Jemperli had not yet been approved. As stated above, at this time PD-1s were the hottest thing in cancer treatment. GSK bought TESARO in 2018 in order to gain access to Jemperli and other oncology assets. As part of the agreement, TESARO was obligated to use commercially reasonable efforts to develop and maximize Jemperli's success and seek the drug's "optimum commercial return." This language is important as explicit optimization obligations are an unusual heightened contractual standard in Delaware. This language puts Anaptysbio in a very strong position.

Jemperli is biomarker anchored and in 2021 was originally approved as second line treatment for certain dMMR solid tumors, regardless of where they occur. In summer of 2024 Jemperli was expanded to front line treatment for endometrial cancer, which greatly accelerated sales growth, and in 2025 Jemperli represented 44% of GSK's gross oncology revenue. As a piece of the total pie, Jemperli is likely approaching 3% of GSK's total revenues. In late 2025 GSK's (now former) CEO commented that they believed Jemperli was capable of "far more than" 2B GBP in sales (\$2.7B USD +) as a monotherapy. At an event hosted by HC Wainwright in May of 2026, Anaptys's CEO commented, "If folks that own Anaptys stock model at just [global expansion and monotherapy indications over a 10 year horizon], this is far beyond a \$2.7B asset at GSK and \$400M royalty stream yearly to us."

It is of course difficult to estimate what "far more than" or "far beyond" could mean. Fortunately, you can mark that upside at zero, and still feel comfortable buying ANAB stock here. It is also worth highlighting that the above quotes are only related to Jemperli's value as a monotherapy. However, combination therapy is increasingly central to how modern PD-1 drugs compete commercially and clinically. In fact, GSK has already begun and advanced multiple combination therapy programs using Jemperli. Presumably this represents yet more upside potential.

Despite the \$2.7B sales estimate likely significantly understating Jemperli's potential, what seems obvious is that Jemperli is unlikely to catch Keytruda due to Keytruda's first mover advantage and aggressive early clinical program across hundreds of trials. At this point, Keytruda is the standard of

care and the backbone of the PD-1 inhibitor world. This makes being able to partner other drugs with Keytruda (rather than Jemperli) important if one wants to maximize the value of those other drugs.

Despite Keytruda being the category leader, Jemperli is likely to continue to win future indications. In fact, GSK ran a proof of concept head to head Phase 2 trial (the PERLA trial) between Jemperli + chemotherapy vs Keytruda + chemotherapy for non-small cell lung cancer, which is Keytruda's largest market. This trial suggested that Jemperli is the superior treatment. Later this year there will be a readout for Jemperli as a treatment for rectal cancer. Colon cancer and head and neck cancer are on the way as well. The point here is that the value of Jemperli could stretch far beyond the 2B GBP in revenue that has been announced previously by GSK, and GSK is best positioned to know what the real value is because only they have a view on the future roadmap in terms of both indications and patent extensions.

For our purposes here, I don't think it is aggressive to think that this drug is worth \$10B to GSK after netting out Anaptys's cut, or approximately 10% of GSK's total market cap.

Where Are We Now and What is Anaptys worth?

Following the spinoff, Anaptysbio's main asset is the royalty stream from Jemperli, which is calculated as follows:

Royalty %	Sales Level
8%	< \$1B
12%	\$1.0B - \$1.5B
20%	\$1.5B - \$2.5B
25%	\$2.5B+

It is worth noting that this royalty schedule is the result of a 2020 settlement between GSK and Anaptys that saw royalties move from 4-8% to the above. The settlement was tied to litigation by Anaptys that claimed that GSK was failing to meet the terms of the original licensing agreement because GSK was running combination trials featuring Zejula (a PARP inhibitor) with Keytruda, rather than Jemperli. In addition to the massive step up in royalties, GSK paid \$60M and agreed to a 1% royalty on Zejula.

How long it will take for Jemperli to reach the various sales levels is of course subject to debate, and in my view this is one of the reasons the stock is mispriced. Anaptys management has said they believe that Jemperli will hit \$2.7B by 2029. However, at present sell side consensus has Jemperli at ~\$2B in 2029, and ~\$2.2B in 2031. I would note that this consensus is drawn primarily from European sell side that covers GSK. Consensus has been creeping higher, but remains below what the real world experience suggests would be more appropriate. For reference, consider that in Q1'26 Jemperli grew sales 40% YoY.

As a starting point for valuation, let's assume that Anaptys' management has a better feel for revenue growth than the European sell side, and assume that their prediction of \$2.7B by 2029 comes true. Let's further assume that GSK's former CEO is correct, and that Jemperli's peak sales will be greater than \$2.7B. The number below is ~36% higher than \$2.7B, which may or may not reach the standard of "far more than" as laid out by GSK's former CEO. Notably, just days ago GSK announced the \$10.6B acquisition of Nuvalent (NUVL), which should further add to Jemperli's sales' potential through combination treatments. Last, let's assume that an 8% discount rate is appropriate for a post-approval blockbuster drug.

		2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	TV
Jemperli Revenue		1,440,000	1,800,000	2,196,000	2,679,120	3,080,988	3,265,847	3,363,823	3,464,737	3,568,680	3,675,740	
growth		27.7%	25.0%	22.0%	22.0%	15.0%	6.0%	3.0%	3.0%	3.0%	3.0%	2.0x
Royalty Rate												
Multiplier	8.0%	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	<--- <\$1B
1.00x	12.0%	52,800	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	<--- >\$1B <\$1.5B
	20.0%	0	60,000	139,200	200,000	200,000	200,000	200,000	200,000	200,000	200,000	<--- >\$1.5B <\$2.5B
	25.0%	0	0	0	44,780	145,247	191,462	215,956	241,184	267,170	293,935	<--- >\$2.5B
Total Royalty \$		132,800	200,000	279,200	384,780	485,247	531,462	555,956	581,184	607,170	633,935	
Blended Royalty %		9.2%	11.1%	12.7%	14.4%	15.7%	16.3%	16.5%	16.8%	17.0%	17.2%	
Liability Due		325,000	192,200	0	0	0	0	0	0	0	0	
Remaining Liability		192,200	0	0	0	0	0	0	0	0	0	
Cash to ANAB		0	7,800	279,200	384,780	485,247	531,462	555,956	581,184	607,170	633,935	
OpEx		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	
Estimated NOL		230,000	230,000	230,550	163,250	69,555	0	0	0	0	0	
25% Tax \$			-550	67,300	93,695	118,812	130,365	136,489	142,796	149,292	155,984	
After NOL Tax		0	0	0	0	49,257	130,365	136,489	142,796	149,292	155,984	
FCF		-10,000	-2,200	269,200	374,780	425,990	391,096	409,467	428,388	447,877	467,951	935,902
Discount Rate		8%										
PV		-10,000	-1,941	218,547	279,920	292,715	247,239	238,144	229,217	220,473	211,926	389,944
Sum PV		2,316,184										
+ cash		138,196										
+ STI		37,986										
+ Options Cash		103,775										
+ Cash Awarded		0										
Total Value		2,596,141										
FDSO		37,453										
Per Share		\$ 69.32										

We all know that we can make a DCF say whatever we want and this is clearly a napkin math cut. It is easy enough to tweak the numbers whatever way you think is appropriate. For example, management has hinted that the above is probably about \$100M light for 2026. Or it is not Herculean to think that peak sales are north of \$4B given that Keytruda continues to grow double digits per year 12 years after launch, and that it is early days in Europe, Japan is not online yet, and they continue to explore new indications. In fact, \$4B is likely light as Claude tells me that GSK's purchase of Nuvalent announced 6/9 could add more than \$1B in peak sales to Jemperli through combination therapies. I'm not giving any credit for that though because those potential sales are probably still 5-7 years away. If you need further evidence that my napkin math is conservative, HC Wainwright recently put

out a more detailed piece on the clinical pipeline and suggests that \$95 is the NPV when factoring all that in. The point is just that I think saying there is a 25% margin of safety from here is conservative.

On the opposite side though, if you think a 10% discount rate is more appropriate, then shares are worth ~\$61 instead of ~\$65. Again though, from my perspective, the above is reasonable as a finger in the air check on what status quo ANAB is worth today. The point here is not to be super-accurate. In fact, I am willfully ignoring upside cases. Rather, the point here is to demonstrate that purchasing ANAB stock at \$56 comes with a reasonable margin of safety, assuming that the world does not change all that much in the near to intermediate term.

However, the world is very likely to change in the near-immediate future, and it is likely to change for the better if you are an ANAB shareholder. As such, I believe purchasing ANAB stock at \$56 represents exceptional value.

Current Litigation

At some point in 2H'25 Anaptysbio approached GSK with concerns that GSK had violated the terms of their agreement by running a Phase 1 solid tumor trial that combined a GSK owned antibody drug conjugate (ADC) with various molecules including Keytruda, Tecentriq, and Imfinzi – all direct Jemperi competitors (more on ADCs below). On November 20, 2025, while discussions with Anaptysbio were ongoing, GSK / TESARO sued Anaptys in Delaware alleging that it was in fact Anaptys that was in violation of their agreement, because Anaptys threatened to revoke TESARO's license for Jemperi due to the ADC trial.

Anaptys quickly counter-sued in the same court and alleged that TESARO breached exclusivity provisions in the collaboration agreement and that GSK tortiously interfered with the contract by advancing clinical work that involved Keytruda rather than Jemperi.

On April 24th the court ruled in favor of Anaptys and dismissed TESARO's anticipatory breach claim. In the words of a legal KOL that recently spoke at a Leerink event, "ANAB appears to have only upside from here."

From my perspective what is most important here is that Delaware courts do not look kindly on the filing of surprise lawsuits during active settlement negotiations. The whole situation can be quickly reviewed [here: https://ir.anaptysbio.com/news-releases/news-release-details/delaware-chancery-court-rules-favor-anaptys-dismissing-TESAROs](https://ir.anaptysbio.com/news-releases/news-release-details/delaware-chancery-court-rules-favor-anaptys-dismissing-TESAROs) And the key points are cut and pasted below:

Anaptys' Complaint centers on claims that Tesaro has breached multiple core provisions in the Collaboration Agreement and **if Tesaro is found to be in breach of even one of these provisions, Anaptys is entitled to Jemperi's reversion to Anaptys under the Collaboration Agreement.** Among other things, Anaptys claims that:

- Tesaro has materially breached the Collaboration Agreement's exclusivity duty by engaging in development activities with competitive therapeutics, and Tesaro's reading of the provision strips it of meaning to purportedly allow Tesaro (and GSK) to engage in any development work with competitors so long as dostarlimab has some minimal involvement;
- Tesaro has breached the Collaboration Agreement's diligence duty, which requires Tesaro to seek Jemperi's "optimum commercial return," a high bar that Tesaro agreed but failed, to meet; and
- Tesaro has materially breached the Collaboration Agreement's notice duties due to Tesaro's failure to notify Anaptys regarding its clinical trial plans, including where those plans involved testing with competitive therapeutics.

What is important now is that a trial has been set for July 14-17. If Anaptys wins at trial, there is a possibility that they could wind up with 100% of Jemperi. If this were to happen, management has been clear that they would not commercialize themselves, but instead would seek to find a different distribution partner. If we assume that Jemperi is worth 4x peak sales of \$2.7B (which is clearly low), then in this scenario, Anaptysbio is worth nearly \$300 per share.

To be clear, Delaware courts are generally cautious about forfeiture remedies, and I do not assign a high probability to that outcome. However, when Delaware does enforce forfeiture, it is typically when:

- 1) a forfeiture clause has been specifically negotiated after a prior breach
- 2) the breaching party had actual knowledge of the breach and breached anyway, and
- 3) the breach was part of a deliberate commercial strategy rather than an honest mistake.

All three of these points appear favorable to Anaptys. The real possibility of total forfeiture is thus highly important in what is really a \$10B game of chicken between Anaptysbio and GSK.

As with any game of chicken, it is worth considering what is at stake and who is playing the game before even considering the facts of the situation.

Chicken: The View from GSK's Side

GSK appears to be in a weak position heading into this trial, and I believe they are highly likely to either:

- 1) settle by means of increased royalty fees and cash payment
- 2) simply purchase Anaptys outright.

I encourage everyone to play around with their preferred AI partner with the facts of the case to get a view on how weak GSK's hand is. Rather than copying and pasting a bunch of that stuff, for now just know that at a high level, "optimum commercial return" is a very high bar to clear. The courts are also unlikely to look favorably on the fact that this is the second time GSK is alleged to have failed to perform, and that they quickly settled last time based on nearly identical conduct. This suggests awareness that they are in the wrong. Further, I perceive UK based boards of directors specifically, and large pharma companies in general, to both be very conservative. It seems unlikely that GSK

would risk losing ~10% of the value of their company at trial, almost regardless of the facts of the case.

To be clear, we are not privy to all of the facts of the case (or the contract). Recall however that in order to demand full reversion of the asset, Anaptysbio only has to show that GSK violated one provision of the contract. To my non-lawyer eyes, the third leg of Anaptys's complaint is rather black and white. GSK/TESARO has an obligation to "notify Anaptys regarding its clinical trial plans, including where those plans [involve] testing with competitive therapeutics." Either GSK/TESARO took the time to notify Anaptys of their plans to test with competitive therapeutics (Keytruda), or they did not. And if they did, surely there is a paper/email trail that documents this notification.

On this front, it is worth considering that at the recent HC Wainwright conference Anaptysbio's CEO commented that they felt great about their case, and "even better after discovery." It is also clear that the discovery process has been contentious, with GSK arguing that they do not have to produce certain records because they are merely party to the agreement between TESARO and Anaptysbio, rather than signatory. This contentiousness has led to the court appointing an overseer to manage discovery. This is reading tea leaves, but it seems unlikely that GSK/TESARO would risk angering the judge in pre-trial by making discovery difficult if they had nothing to worry about.

All of this suggests that a settlement is likely. However, it is worth considering not only what GSK could lose, but also what they really want to gain.

GSK inherited the Anaptysbio relationship through their purchase of TESARO at a time when PD1s were the hot ticket in oncology. However, the PD1 market is now mostly mature, and Keytruda is the clear winner. The next shiny object in oncology is ADCs, and GSK has been pouring billions into their ADC portfolio. In fact, GSK has been positioning ADCs as the cornerstone of their oncology strategy, and as a key driver for their 2031 revenue outlook of 40B GBP vs 2025A of \$32.7B GBP.

However, in order to maximize the potential of their ADC assets, it seems as if GSK will need to be able to pair them with Keytruda. In other words, the value of Jemperi to GSK extends well beyond the value of Jemperi's revenue because Jemperi is effectively holding GSK's entire oncology strategy hostage. GSK cannot pursue their oncology strategy freely unless they gain some measure of control over how they can partner their ADCs with multiple industry participants, and Anaptysbio is in the way.

Just a few days ago on 6/9 GSK announced they would be further expanding their investment in oncology through the \$10.6B acquisition of Nuvalent (NUVL), a pre-commercial biotech company focused on targeted non-small cell lung cancer (NSCLC) therapies. Importantly, GSK's PERLA trials suggest that Jemperi is arguably superior to Keytruda when treating NSCLC.

The standard of care for NSCLC is combining targeted therapies with checkpoint inhibitors like PD1s. Nuvalent's assets combined with Jemperi thus create a credible non-small cell lung cancer platform for GSK, but only if GSK retains access to Jemperi. I am leaning heavily on Claude here, but without Jemperi, GSK would have to develop this combination platform with another PD1 such as

Keytruda, which could cost \$500M-\$1B in payments to Merck for co-development agreements, profit sharing on label expansion, cross licensing, etc.

Additionally, combining Nuvalent's drugs with a PD1 can 2-3x the potential patient population, which suggests that the value of Nuvalent's drugs are worth a few billion more to GSK as combination therapies. If those combinations are with Keytruda, Merck could realize 15-20% of the value. If the combinations are with Jemperli, GSK keeps all of the economics. This equates to billions of dollars. This again suggests that GSK cannot risk losing Jemperli, and will look to either settle with or buy Anaptys.

Litigation Settlement Based Upside

It is of course impossible to know what a settlement might look like, but it is easy enough to run as many scenarios as you would like for sanity checks. For our purposes here, let's stick a finger in the air and consider what the value of ANAB stock would be if the parties agreed to a 20% increase to current royalty rates, and a \$100M cash payment.

		2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	TV
Jemperli Revenue		1,440,000	1,800,000	2,196,000	2,679,120	3,080,988	3,265,847	3,363,823	3,464,737	3,568,680	3,675,740	
growth		27.7%	25.0%	22.0%	22.0%	15.0%	6.0%	3.0%	3.0%	3.0%	3.0%	2.0x
Royalty Rate												
Multiplier	9.6%	96,000	96,000	96,000	96,000	96,000	96,000	96,000	96,000	96,000	96,000	<... <\$1B
1.20x	14.4%	63,360	72,000	72,000	72,000	72,000	72,000	72,000	72,000	72,000	72,000	<... >\$1B <\$1.5B
	24.0%	0	72,000	167,040	240,000	240,000	240,000	240,000	240,000	240,000	240,000	<... >\$1.5B <\$2.5B
	30.0%	0	0	0	53,736	174,296	229,754	259,147	289,421	320,604	352,722	<... >\$2.5B
Total Royalty \$		159,360	240,000	335,040	461,736	582,296	637,754	667,147	697,421	728,604	760,722	
Blended Royalty %		11.1%	13.3%	15.3%	17.2%	18.9%	19.5%	19.8%	20.1%	20.4%	20.7%	
Liability Due		325,000	165,640	0	0	0	0	0	0	0	0	
Remaining Liability		165,640	0	0	0	0	0	0	0	0	0	
Cash to ANAB		0	74,360	335,040	461,736	582,296	637,754	667,147	697,421	728,604	760,722	
OpEx		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	
Estimated NOL		230,000	230,000	213,910	132,650	19,716	0	0	0	0	0	
25% Tax \$			16,090	81,260	112,934	143,074	156,939	164,287	171,855	179,651	187,680	
After NOL Tax		0	0	0	0	123,358	156,939	164,287	171,855	179,651	187,680	
FCF		-10,000	64,360	325,040	451,736	448,938	470,816	492,860	515,566	538,953	563,041	1,126,083
Discount Rate		8%										
PV		-10,000	56,793	263,880	337,398	308,483	297,635	286,645	275,863	265,306	254,991	469,183
Sum PV		2,806,178										
+ cash		138,196										
+ STI		37,986										
+ Options Cash		103,775										
+ Cash Awarded		100,000										
Total Value		3,186,135										
FDSO		37,453										
Per Share		\$ 85.07										

Again, this is just finger in the air, but based on the outcome of the first settlement where the top bucket went from 8% to 25% and \$60M in cash was awarded, it does not seem at all unreasonable

to think that royalty rates could ratchet 20% higher. Under this scenario, ANAB stock has 52% upside from current prices.

From my perspective though, what matters is that if we think that the status quo DCF is reasonably correct, then the situation laid out above essentially suggests that GSK would be paying the equivalent of \$590M to Anaptysbio. Most importantly however though is that when a similar/proportionate outcome was reached during the first settlement, it seems as if very little was changed in the actual contract language. In other words, it is possible that a settlement such as the above would NOT get GSK what they actually want, which is the freedom to operate their oncology franchise however they choose.

To sanity-check this, if we think it is reasonable to think that peak sales for Jemperli will be ~\$3.7B as suggested above, then it is not unreasonable to think that the value of Jemperli is \$11.1B - \$14.8B (3-4x peak sales). And if that is true, then the above scenario of \$575M to settle this suit represents 4% - 5.3% of the total value of Jemperli. Those percentages fall well short of what one would typically expect to see for a control premium in any M&A situation, and while we are not talking about M&A here, we are talking about control.

Another way to sanity-check this situation is to ask what would the undoubtedly conservative, UK led board of directors of GSK pay to avoid the risk of losing ~\$10B of value? I don't have a comp set to use here, but from the cheap seats 5.7% seems to be inadequate premium for insurance.

Takeout Valuation

As stated previously, it seems clear that there is a multiple of current royalty rates that GSK would pay to avoid losing Jemperli altogether. But what is it worth to GSK to be in full control of their oncology portfolio going forward? They have already spent a few billion dollars on ADCs, and they have already told the market they expect their annual oncology revenue to grow by several billion dollars over the next 5 years, largely on the back of those ADCs. Sunk cost fallacies aside it seems likely that they will be willing to spend money to ensure they can maximize the value of the billions they have already spent. It also seems likely that they will be willing to spend money to ensure that their 5 year targets remain credible, rather than kneecapped.

If we consider the original DCF to be a safe starting point and say that the current value of Anaptys's cut of Jemperli sales is worth about \$2.6B (~\$69 per share), we can then add on an assumption of how much full control of their own oncology destiny is worth to GSK. Again, this is all finger in the air, but I don't think it is crazy to think that GSK would pay a \$1B premium to control their own destiny. If that is true, then ANAB shares are worth about \$96, plus a couple of bucks for lmsidolimab.

Importantly, the recent spin of the development assets was a taxable event. Anaptysbio CEO Dan Faga was previously an investment banker, and I suspect that this was a deliberate choice. There are no tax barriers to an acquisition. It also may be worth noting that Susannah Grey, formerly CFO of

Royalty Pharma (RPRX) recently joined Anaptysbio's board. Ms. Grey led the committee at Theravance (TBPH) that sold the Trelefy royalty to none other than GSK.

Chicken: The View from Anaptysbio's Side

Anaptysbio insiders own more than 10.7 million shares, with a bit more than a million of those shares owned by CEO Dan Faga. In other words, if they can sell the company for ~\$100 per share, insiders will walk with more than a billion dollars, and Faga will walk with more than \$100 million. There is of course an argument here that given the size of the insider position they are incentivized to take a low-ball bid. Afterall, they will still have generational wealth if the company is only sold for \$90 or \$85 or whatever. As outside passive common minority shareholders, we will also be ok if they sell the company for only \$90 or \$85. The point here though is that GSK presumably wants to control their own oncology destiny, and Anaptysbio insiders presumably want to be filthy rich. To me that suggests that a sale is a very real possibility.

Conclusion

An investment in Anaptysbio is an investment in a growing royalty stream at a discounted price, that also has the potential for lotto ticket upside, likely in the next few weeks. It is difficult to conceive of scenarios where Anaptys does not come out of a negotiated settlement with some further upside, and it is also difficult to believe that a large pharma company headquartered in London wants to gamble losing 10% of their company at trial. This suggests that ANAB stock has no real downside, and the potential for significant upside, all on a very tight time line.



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