

June 17, 2024

The Board of Directors
Vanda Pharmaceuticals Inc.
2200 Pennsylvania Avenue
Suite 300E
Washington, DC 20037

Dear Members of the Board:

Since Butler Hall Capital LLC's, ("Butler Hall", "we" or "our") last public letter on April 19, 2024, there have now been three new unsolicited offers to acquire Vanda Pharmaceuticals Inc. ("Vanda" or the "Company") at prices significantly higher than the price offered by Future Pak, LLC ("Future Pak") in March. On May 7th, 2024, Future Pak increased its offer to buy VNDA for \$7.25-7.75 per share in cash plus contingent value rights ("CVRs") representing up to an additional \$4.37 per share. On June 6th, 2024, Cycle Pharmaceuticals ("Cycle") offered to acquire the Company for \$8.00 per share in cash and last week, Future Pak submitted an increased offer for \$8.50-\$9.00 per share in cash plus contingent value rights of up to \$4.37 per share. Additionally, Future Pak's latest offer, as disclosed in their press release dated June 13th, 2024, indicated that they are open to an "upward revision" and are "prepared and willing to participate in a competitive process that will enable Vanda to maximize shareholder value."

We do not believe the Company's board of directors (the "Board") has provided shareholders with a coherent strategy for value creation that remotely competes with the substantial upside that could be realized in a sale. When factoring in the net cash per share, applying a 2-4x revenue multiple on the existing business, and giving credit to the recent Ponvory acquisition, we believe the shares could ultimately fetch a price of \$13.00-\$22.00 per share. We reiterate our demand that the Board immediately form an independent special committee to run a full sales process to achieve the highest possible value for shareholders. We believe any failure to do so would be a violation of the Board's fiduciary duty to the Company and its shareholders.

Given the multiple unsolicited offers, at premiums ranging from 79% to 228%, one would expect a Company that has delivered such poor equity performance to jump at the opportunity to maximize shareholder value¹. However, we are disappointed and concerned that there have not been any such actions in recent months. Additionally, there have been several new data points that underscore poor managerial performance:

1. The Company's first quarter earnings results were disappointing, with a 24% revenue decline year on year and a significant operating loss. We believe the prudent decision, considering recent results, would be the announcement of cost-related actions to improve financial

¹ Premiums are calculated using the \$7.25 per share cash offered by Future Pak on April 17, 2024 for the low end of the range and the \$9.00 per share in cash plus \$4.37 per share CVRs offered by Future Pak on June 13th 2024 for the high end of the range as compared to the closing price on April 16, 2024

results. However, to our surprise, the Company went in the opposite direction and highlighted that “SG&A expenses may increase in future periods.”²

2. The May 7th, 2024, offer from Future Pak was rejected by the Board with the explanation that it “undervalues the Company, creates significant risk and uncertainty and is not in the best interest of shareholders.”³ How can the Board conclude that a premium of more than 100% to the unaffected stock price undervalues the company when the Company has not used any of its cash on the balance sheet to repurchase shares? Further, no Board member or members of the management team have reported any purchase of the Company’s stock in the open market, which leads us to question whether this Company is currently being run for the benefit of personal compensation or for stakeholders.
3. Cycle Pharmaceuticals has presented an all-cash offer at a 98% premium above the closing stock price on April 16, 2024. As part of its offer, Cycle disclosed that it generates \$109 million of net sales with nearly 40% operating margins⁴. Based on our calculation, at a similar level of margins Vanda could have generated \$70.7 million in operating profit in 2023. Given Vanda has a gross margin of more than 90% and nearly double the sales as compared to Cycle⁵, we believe Vanda’s 2023 operating loss underscores the poor cost management at the Company.
4. In the most recent proxy, the Chairman of the Board, Mihael Polymeropoulos, received 8,943,623 votes against the reelection of his Board seat. These results, in an uncontested proxy, are a significant downgrade compared to his prior election in 2021 where he received 5,442,548 more votes for reelection and 49% fewer votes against reelection⁶. Moreover, the other Board member up for reelection failed to receive the votes necessary to continue as a member of the Board and tendered her resignation. However, in an 8-K filed on 5/24/25, the Company rejected her resignation noting it “would not be in the best interest” of shareholders.

It is our opinion that the outcome of a future proxy vote will not only reflect the actions of the Board today, but likely will be a referendum on the poor equity performance in recent years. We urge the Board to act now and begin a formal sales process.

Sincerely,

Bradley Lundy
Managing Member, Butler Hall Capital LLC

Michael Rybak, CFA
Partner, Butler Hall Capital LLC

² Q1’24 Earnings call.

³VNDA’s press release on May 24th Titled “Vanda Pharmaceuticals Board of Directors Determines that Revised Takeover Proposal is Not in the Best Interests of the Company and its Shareholders. Cycle Pharmaceuticals Announces All-Cash Proposal to Acquire Vanda Pharmaceuticals for \$8.00 Per Share - Cycle Pharma

⁴ Cycle Pharmaceuticals Announces All-Cash Proposal to Acquire Vanda Pharmaceuticals for \$8.00 Per Share - Cycle Pharma

⁵ SEC Filings, Public Company Disclosure

⁶ SEC Filings, Annual Proxy Filings, Public Company Disclosure

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