



April 19, 2024

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

Dear Members of the Board:

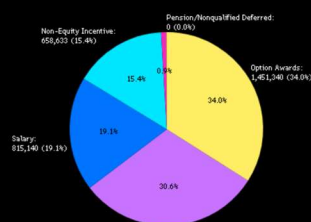
A fund managed by Butler Hall Capital LLC, (“Butler Hall”, “we” or “our”) with current ownership of 350,000 shares of Vanda Pharmaceuticals Inc. (“Vanda” or the “Company”), has issued an open letter to the Company’s board of directors (the “Board”) regarding the potential bid for Vanda submitted by Future Pak, LLC (“Future Pak”). Future Pak has submitted a bid to acquire the Company without a financing contingency for a price that is 79.0%-91.4% above Vanda’s closing price as of April 16th, 2024 and has indicated various ways to improve the offer including “a potential increase in the cash consideration” ^[1]. While we agree with the Board that the stock is significantly undervalued given the combination of its fortress balance sheet (\$6.75/share of net cash), newly acquired Ponvory assets (which the Company paid \$1.75/share for) and the \$192.6 million of revenues in 2023 from its existing portfolio ^[1], we do not believe the Board has earned the right to outright reject such an offer. Moreover, the refusal to engage in a discussion leaves us extremely concerned that such actions will impair our investment in the Company. The Board should immediately form an independent special committee to engage with Future Pak and run a full sales process to achieve the highest value for shareholders. We believe any failure to do so would be a clear disregard of the Board’s fiduciary duty to the Company’s shareholders.

We believe the Board’s actions over the past several years have led to significant value destruction and a stock that trades well below its net cash balance. We think these actions have left Vanda’s management and the Board with no credibility as evident by the stock’s anemic performance, specifically down 52.9% and 42.9% in 2022 and 2023, respectively. Further, the poor equity performance has coincided with a period in which the management team has significantly enriched themselves. For example, Dr. Mihael Polymeropoulos, the Chairman of the Board and the Chief Executive Officer (“CEO”) of the Company, has received approximately \$40 million in compensation over the past 10 years ^[2]. When considering that Vanda’s stock has declined by approximately 83% in just the past five years and has significantly underperformed the indices highlighted in its last form 10-K filing, the compensation of certain members of management appears excessive to us ^[3]. It also leads us to question the real reason why such a substantial offer was rejected and whether the Board is acting to enrich themselves rather than to maximize shareholder value.

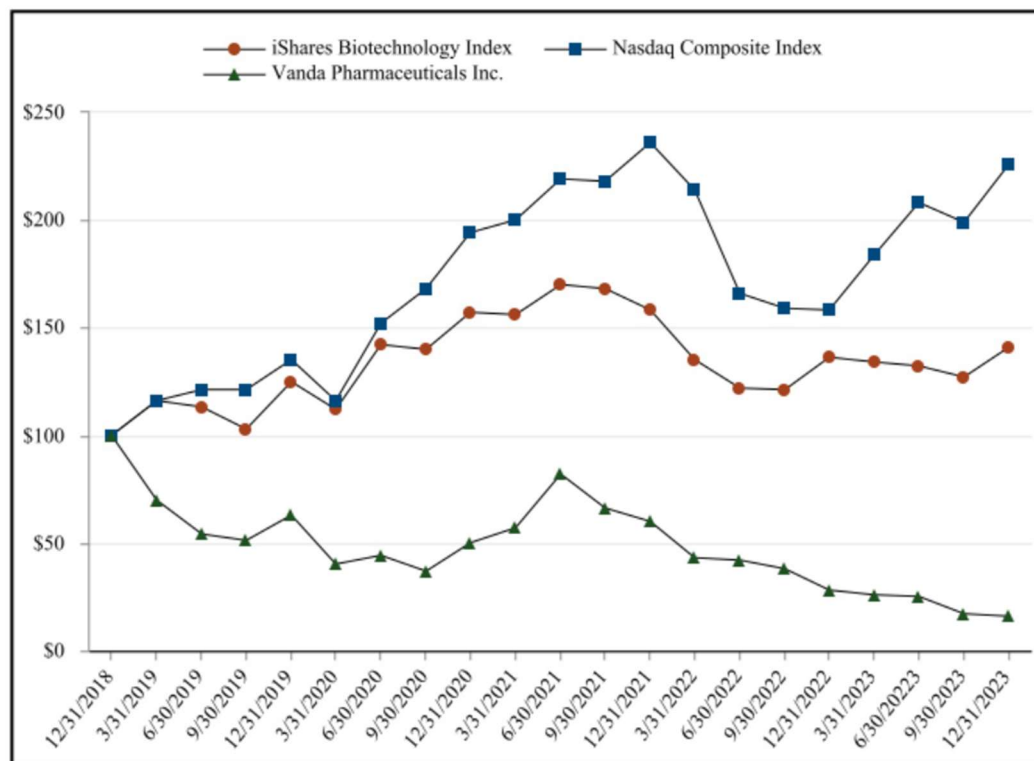
| Company | Year | Salary | Bonus | Total |
|---------------------------|------|---------|-------|-----------|
| Vanda Pharmaceuticals Inc | 2022 | 815,140 | 0 | 4,269,410 |
| Vanda Pharmaceuticals Inc | 2021 | 769,000 | 0 | 6,194,157 |
| Vanda Pharmaceuticals Inc | 2020 | 746,235 | 0 | 2,913,420 |
| Vanda Pharmaceuticals Inc | 2019 | 721,000 | 0 | 4,278,137 |
| Vanda Pharmaceuticals Inc | 2018 | 700,000 | 0 | 4,284,676 |
| Vanda Pharmaceuticals Inc | 2017 | 675,000 | 0 | 3,797,395 |
| Vanda Pharmaceuticals Inc | 2016 | 618,000 | 0 | 7,185,457 |

Compensation for 2022 in USD

| | |
|-------------------------------|-----------|
| Salary | 815,140 |
| Bonus | 0 |
| Stock Awards | 1,306,400 |
| Option Awards | 1,451,340 |
| Non-Equity Incentive | 658,633 |
| Pension/Nonqualified Deferred | 0 |
| All Other Compensation | 37,897 |
| Total | 4,269,410 |



Source: Bloomberg, Company Filings



Source: Company SEC filings, form 10-K filed 2/8/24

No Confidence Vote from the Public Market:

In the April 16th, 2024 press release, Vanda highlighted the Company's \$6.75 per share of cash on its balance sheet, or 167% of the value of the stock price the same day. Essentially, the public markets are ascribing a negative enterprise value to the Company, which effectively assumes the legacy business has zero value and the Board will destroy the excess capital over time. While we believe there is significant value for the ongoing business (as described below), such a discount is a rarity in today's public markets.

In fact, there are currently 427 publicly traded biotech companies in North America with more than a \$100 million market capitalization. Of those companies, only fifteen, or 3.5%, have a negative enterprise value ^[5]. While it is understandable for some biotech companies to trade below net cash due to the substantial cash burn often required to develop a drug, it is extremely uncommon to see this for a business that generates cash flow. There is only one other company on that list that has a negative enterprise value and is cash flow positive, but we expect that company is likely to burn substantial cash flow on a prospective basis ^[5]. We believe Vanda's mispricing is the result of poor leadership, leaving the Company deeply discounted to our assessment of intrinsic value and in need of new direction to maximize shareholder value.

What is it Worth?

We believe it is shameful to simply dismiss such an offer citing the cash value of the company that may ultimately be destroyed by management over time. If the Board believes fair value is significantly higher than \$7.75 per share, we would be in full support of the Board running a full process to achieve said fair value. It is our opinion that the \$192.6mm in reported revenue in 2023 and the Ponvory acquisition consummated this past December for approximately \$100.7mm (or \$1.75 per share) have real value to Future Pak or a prospective buyer. This is even before ascribing any value to its drug pipeline. Therefore, we believe it is not unreasonable to see someone willing to pay 2-4x revenue for a business with approximately 90% gross margins that could integrate this earnings stream into a larger operation. Even at the low end of the range, this valuation would yield several hundred percent upside to the stock.

Management's Actions do not Support an Undervalued Stock:

While the Board was quick to communicate that the offer "significantly undervalues" the Company, its actions tell a completely different story. It is illogical to us that an overcapitalized company, that has not repurchased any stock over the past three years, would immediately reject a bid at a 71.0%-91.4% premium to its unaffected stock price ^[5]. When we witness the Company opting to use approximately \$100 million of cash for an acquisition rather than using that same cash to retire 40% of its shares outstanding ^[4) (7)], it suggests one of two things; either (1) the Board does not agree that the stock is grossly undervalued or (2) the Board is not acting in the best interest of Vanda's shareholders. Had management prudently used the Company's cash to buy back stock, we believe the shares would have been much higher to begin with and we would be more inclined to support the actions of the Board and management with respect to the potential bid submitted by Future Pak.

In summary, we demand the Board act immediately to form a special independent committee to engage with Future Pak, launch a formal sales process, and maximize value for shareholders.

Sincerely,

Bradley Lundy
Managing Member, Butler Hall Capital LLC

Michael Rybak, CFA
Partner, Butler Hall Capital LLC

^[1] *Vanda Pharmaceuticals Company Releases, Company Proxy Statements, SEC Public Filings*

^[2] *Bloomberg, company public filings, Butler Hall estimates*

^[3] *Company SEC Public Filings, form 10-K filed on 2/8/24, stock performance calculated from 12/31/2018-12/31/2023*

^[4] *Bloomberg, Ponvory acquisition was completed on 12/7/2024*

^[5] *Bloomberg, data as of market close 4/16/24, SEC Public Filings*

^[6] *Vanda Pharmaceuticals Company Releases*

^[7] *SEC Public Filings, Butler Hall Estimates, Vanda Pharmaceutical stock price, and cash balance based on the closing price as of 12/31/23,*

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