EQUITY VALUATION · ADDENDUM TO THE JUNE 2026 NOTE · STRATEGY INC. (NASDAQ: MSTR)

The Drain, Made Visible

Q2 2026 ran our June scenario in real time: the reserve drained, bitcoin was sold at a loss to pay the dividend, and the flagship preferred broke to $70. We scorecard our own note, update the numbers, and audit two claims from the call.

TON618 CAPITAL RESEARCH · PRICES AS OF 31 JUL 2026 CLOSE (MSTR $93.28 · BTC ~$62,875) · · JUNE 2026 VALUATION NOTE

≈$94

Updated sum-of-the-parts fair value per share at spot bitcoin, vs $93.28 on screen. The June verdict — fairly valued, a geared claim on bitcoin — survives the print. The mix behind it is worse: a larger coupon, more shares, and a funding premium nearly spent — 5.5% on management's own slide at the call; gone, on our numbers, at today's price. Same balance; thinner margin.

1.00×

mNAV at $93.28. June: 0.95×. The premium engine idles at stall speed.

–$11B

Stack vs cost: $63.7B basis (avg $75,476) against ~$53B at spot.

$1.76B

Preferred dividends + interest per year, perpetual. June run-rate: $1.55B. It grows with every STRC sold.

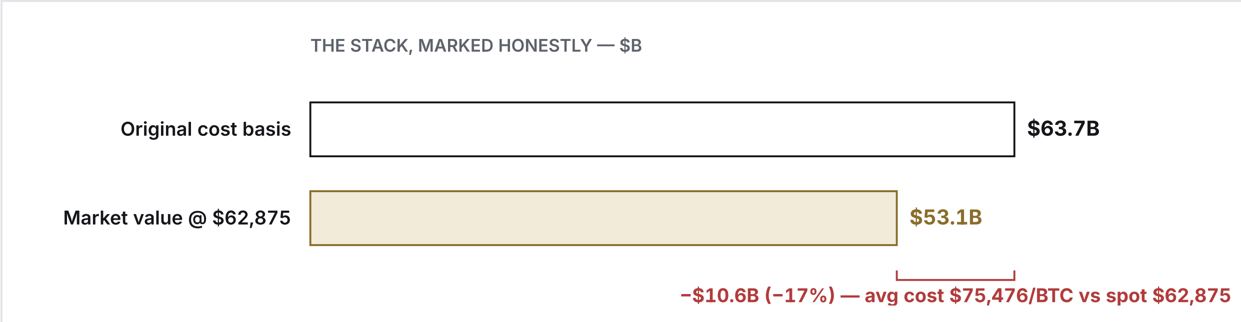
~$20k

BTC price that wipes the common — improved from ~$23k in June. The reserve build bought real cushion.

The quarter that audited the note

Strategy reported its second quarter after the close on 30 July: a net loss to common of $8.62 billion, or –$24.45 per share, against a consensus of +$16.85. Nearly all of it is one line — an $8.32 billion unrealized mark on the bitcoin stack, taken at the quarter-end price of roughly $58,700. Our June note argued that for this company GAAP earnings are noise and the funding structure is the signal. Q2 was the quarter that tested the claim, because both moved violently at once.

The stack itself crossed a line it had never sustainably crossed before: **underwater against cost.** As of 26 July the company holds 843,775 BTC with an original cost basis of $63.7B — an average of $75,476 per coin against a market near $62,875. The accumulation machine spent six years buying; the last eighteen months of buying happened above the current price.



Source: Strategy 8-K Ex-99.1 (30 Jul 2026), holdings & cost basis as of 26 Jul 2026; BTC spot 31 Jul 2026 (Coinbase). Chart: TON618 Capital.

And the funding side ran, in miniature and in fast-forward, exactly the sequence the June note called the real risk — not a margin call, but a *drain*. What follows is the scorecard: every material claim from the June note, judged against what the quarter actually did.

3 The scorecard — June's claims vs. Q2's facts

Verdicts on our own note, same standard we apply to everyone else's. Sources: 8-K Ex-99.1, Q2 balance sheet, and the 30 July earnings webinar.

DOCKET — EIGHT CLAIMS, JUDGED

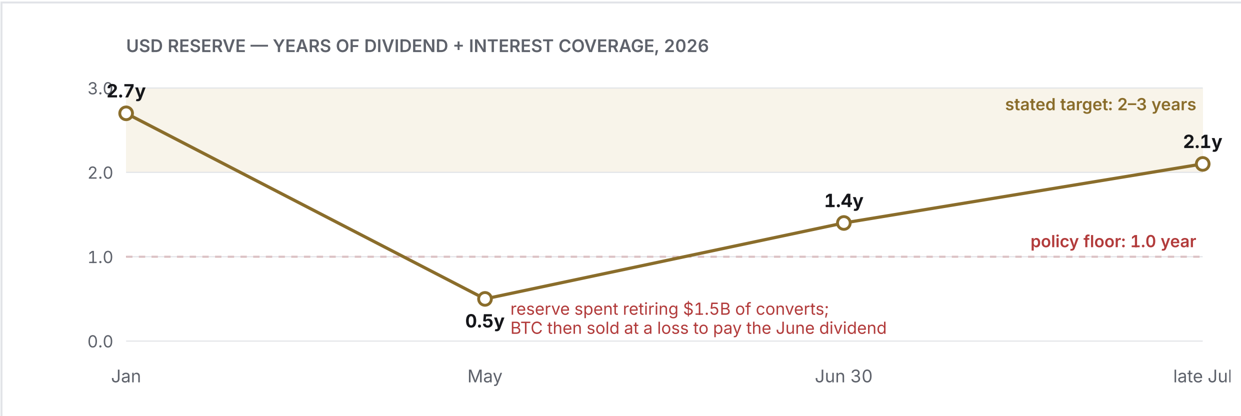
JUNE CLAIM (28 JUN 2026)	WHAT Q2 SHOWED	VERDICT
FV ~$86 at BTC ~$60k; "roughly fairly valued" — any target is a geared BTC bet	BTC +5% to ~$62.5k; MSTR +10% to ~$91. Tracked the base scenario almost exactly; the excess is the gearing	CONFIRMED
mNAV ~1.0×; "the famous premium is essentially gone"	Management's own slide: $38B market cap vs $36.3B net reserves — a 5.5% premium. Saylor: the price "implies a near zero value for the digital credit business"	CONFIRMED
"Not a liquidation risk; a slow funding-drain and discount-to-NAV risk"	The drain ran: USD reserve down to 0.5 years of coverage in May; 3,588 BTC sold at a **$203M realized loss** to fund the 30 June preferred dividend; STRC broke to $70 on 26 June	CONFIRMED
Watch item: "any further bitcoin sales beyond the first 32-BTC sale"	$218.4M of BTC sold YTD; selling is now a standing, board-authorized "BTC Monetization Program." *Never sell your bitcoin* is formally retired	CONFIRMED
A permanent ~$1.55B/yr preferred coupon	Now $1.76B/yr and compounding with every STRC issued; Q2 alone: $400.7M of preferred dividends	UNDERSTATED
No margin-call channel — debt unsecured, nothing pledged	True of the company; wrong about the system. 26 June was a margin event in **shadow leverage built on top of STRC**: broker-dealers cut 70–80% advance ratios when vol spiked, cascading liquidations. Leverage migrated outside the balance sheet — we did not model that channel	PARTIAL — OUR MISS
2027–28 convertible maturities are "the first hard cash walls"	Softer than framed: $1.5B of converts repurchased at an 8% discount in May; debt $8.2B → $6.7B; management reports standing reverse inquiry for new converts on better terms than the originals	SOFTENED
Common wiped near ~$23k BTC; option struck ~$26k	Recomputed below on the new structure: the strike is unchanged (~$26k) but the wipe-out falls to ~$20k — the $3.75B reserve is real cushion under the common	RESTATED

Carried forward

Thesis intact — the stock remains a geared BTC claim priced near NAV. One genuine miss: we cleared the company's balance sheet and did not look for the leverage stacked on top of its paper.

The drain, quarter by quarter

The third row of the docket is the one that carries the note's title, and it deserves the full tracing. Trace the reserve. It opened the year at $2.25B (2.7 years of coverage), was spent down to **$871M — half a year of coverage** — retiring converts, and then, with the account nearly dry and a dividend due, the company sold 3,588 BTC at an average of ~$60,000 against a ~$116,000 cost basis: a $203M realized loss, taken to pay a preferred coupon. By late July the reserve had been rebuilt to $3.75B, or 2.1 years of coverage — but rebuilt with *equity*: roughly $1.28B of common sold through the ATM in July, ~13M new shares, issued at roughly 1.0× NAV.



Source: 30 Jul 2026 earnings webinar (management figures; Jun 30 point computed from the Q2 balance sheet cash + short-term investments against the $1.76B/yr obligation). Chart: TON618 Capital.

Management, to its credit, said the quiet part out loud: *"we learned the hard way"* that the reserve was too thin, and a formal policy now targets 2–3 years of coverage with a 1-year floor. The candor is genuine and we note it. So is the arithmetic: the reserve was rebuilt by issuing equity at roughly NAV — dilution as the price of credibility — and the coupon it defends grew 13% in a single quarter.

Meanwhile the funding mix narrowed. Of the $8.4B raised through the ATM in Q2, every dollar came from exactly two instruments: $2.9B of MSTR common and $5.5B of STRC. The other four preferreds — STRK, STRF, STRD, STRE — raised **zero**. And STRC itself now trades near $89.50 against a $99–100 objective, which is why the company has begun buying it back at a 13% discount *while still issuing it at par through the ATM*. When a company is simultaneously the largest buyer and the largest seller of its own funding instrument, the instrument is no longer just a funding channel. It is a price target.

The $5 billion that isn't — and the 3.3% a year that is

Within a day of the call, the wire consensus hardened into a single number: *Strategy authorizes up to $5 billion in bitcoin sales.* The company's own documents say something more specific, and the difference is worth a section. Slide 28 of the earnings deck states the BTC Monetization Program in three lines: sell bitcoin to **(1)** fund the USD Reserve **up to $1.25B**; **(2)** fund preferred dividends and interest — currently **$1.76B annually** — or replenish the Reserve after paying them; **(3)** fund the repurchase programs, currently capped at **$2.00B**. Sum the three buckets and you get $5.01B — the headline. But no company document states $5B as a sale authorization, and the buckets are not alike: the first is capped and one-time, the third is discretionary, and the second is *per year, forever*.

The "$5 billion" that was actually spoken on the call refers to something else entirely. In the CEO's prepared remarks (caption track, 00:21:34): fund the USD Reserve up to $1.25B — *"that would take our US dollar reserve up to five billion dollars if we were to do that fully using Bitcoin, which would take us up close to three years"* of coverage. The $5B is the **destination size of the cash reserve** ($3.75B on hand plus the capped $1.25B top-up), not a quantity of bitcoin to be sold. Two identical dollar figures, one a reserve target and one a press-computed sale ceiling, met in a headline; the wires ran the wrong one.

Sizing the real program: the capped reserve top-up is ~20,000 BTC, 2.4% of the stack. Management's own slide 32 answers the market-impact question — a maximum *weekly* sale of $19M against ~$26B of average daily bitcoin liquidity, about 0.08% — and on that point they are right: this is not a supply story for bitcoin. It is a composition story for MSTR, and the bucket that matters is the uncapped one. Funding the $1.76B coupon from coin consumes **3.3% of the stack every year** at today's price — about 2.7% net of software gross profit. That drain sets a break-even on the issuance machine, because bitcoin-per-share only grows when accretion from selling stock above NAV outruns it:

ISSUANCE REQUIRED TO HOLD BITCOIN-PER-SHARE FLAT, IF THE COUPON IS PAID IN COIN

MNAV PREMIUM	COMMON ISSUANCE NEEDED, PER YEAR	READ
2.00×	2.8% of the share count	routine
1.50×	5.7% of the share count	manageable
1.25×	12.1% of the share count	heavy
1.10×	37.0% of the share count	implausible
≤1.00×	no amount suffices	impossible — BTC/share must fall

Source: TON618 Capital calculations. Accretion from issuing a fraction n of the share count at m× NAV = (1+n·m)/(1+n) − 1; break-even solves accretion = net drain of 2.7%/yr (coupon $1.76B less ~19% software gross-profit coverage, on a $53B stack at $62,875). Deck figures: slides 26, 28, 29, 32 of the 30 Jul 2026 earnings presentation.

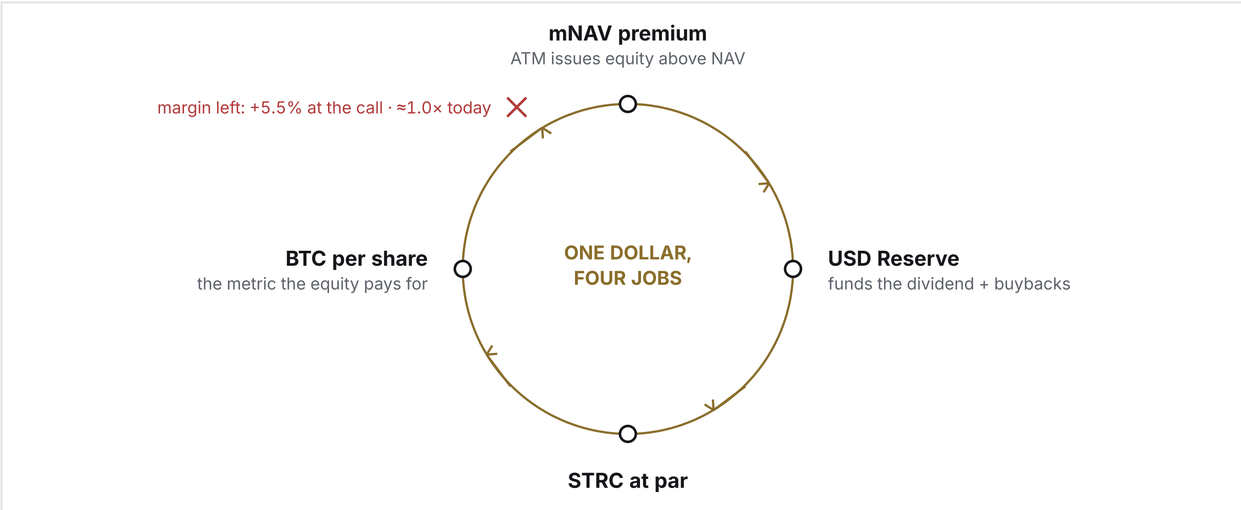
At the 2× premiums of 2024 the coupon was a rounding error; at today's ~1.0× it is a ratchet. Below NAV, no volume of issuance can hold bitcoin-per-share flat — the metric the company brands as *BTC Yield* turns structurally negative, at roughly −3% a year, for as long as the premium stays shut. One genuinely accretive valve exists inside the program: repurchasing STRC at its current ~13% discount retires a $100 perpetual claim for ~$87 and permanently removes that slice of the coupon — the only bucket that shrinks the drain rather than servicing it. And the sales themselves carry a quiet tax logic the headlines skip: with $18.5B of unrealized losses on the stack, coin sold underwater harvests deductible losses — slide 29 books a $59M potential tax asset against the $203M realized loss already taken.

$1.76B

The perpetual coupon, per year — the drain itself. Software gross profit covers about 19% of it. The rest must come from selling securities or selling bitcoin, forever, in every market. It has grown from $49M in Q2 2025 to $401M in Q2 2026 — an 8× increase in four quarters.

One dollar, four jobs

That coupon is the drain's fixed flow — $1.76B out, every year, in every market. Here is the question no analyst asked on the call: what refills it? Every remedy management described draws on the same scarce resource:



Schematic: TON618 Capital, from the capital flows described in the 30 Jul 2026 earnings webinar and 8-K.

Returning STRC to par is funded by buybacks. Buybacks are funded by bitcoin sales or by the ATM. The ATM is accretive only while MSTR trades *above* net asset value — and management's own deck valued it at **$2.0B, or ~5.5% of net reserves**, at 27 July prices — and at today's post-print price it rounds to zero on our numbers. If the premium closes, the ATM stops feeding the reserve; the reserve stops covering the dividend; the dividend gets paid by selling bitcoin; and selling bitcoin shrinks the collateral behind the credit whose discount started the loop. That is not a hypothetical: **it is the observed sequence of May and June 2026**, run once and arrested by $9.7B of new issuance.

The June note called this structure “a reflexive premium machine whose accretion only works above NAV.” The addendum's update is simply that the machine has now been observed running in reverse, briefly, in production. The margin between forward motion and reverse is the mNAV premium — five and a half points at the call, and at today's price, on our numbers, roughly nothing.

Two exhibits from the call

Q2 audited our note; fair is fair — we audited the call. We ran the full 2h35m webinar through a structured argument scan. Management was, in the main, more candid than the genre requires — the reserve failure, the realized loss, and the STRC crash were all volunteered with specifics, and the STRC-at-$70 explanation (third-party credit lines withdrawn) actually *undercuts* management's control narrative, which is the opposite of spin. Two claims, however, do not survive scrutiny, and both are load-bearing for the equity story.

EXHIBIT A · "THE LAWS OF STATISTICS"

> *"In four hundred and ninety five windows of four years or longer, MSTR has outperformed Bitcoin one hundred percent of the time... the laws of statistics start to work in our favor."*
>
> Michael Saylor, Q2 2026 earnings webinar, 30 Jul 2026 (company recording)

The sample is the stock's own bitcoin era — August 2020 to today. Six years contain roughly 1,500 trading days; a four-year window spans ~1,008 of them; that leaves ~495 possible start dates, which is precisely where "495 windows" comes from. These are not 495 trials. They are **one price path, re-sliced 495 times**, with adjacent windows sharing ~99% of their days — about one and a half independent observations, none containing a complete bear cycle.

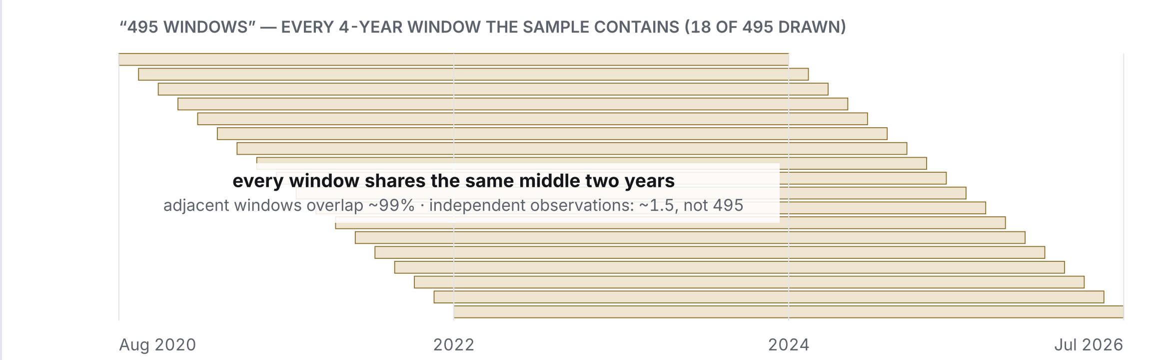


Diagram: TON618 Capital. 18 of the ~495 possible 4-year windows in a 6-year sample, drawn to scale on the calendar.

The counter-datapoint comes from our June note's own chart: MSTR peaked in November 2024 near $474 — **eleven months before** bitcoin's October 2025 top — and has drawn down roughly 80% against bitcoin's ~50%. The gearing works exactly as the convexity math says: both ways. A levered claim on an asset that rose 5× will beat the asset in hindsight; that is a description of one bull cycle, not a law.

EXHIBIT B · ISSUANCE IS NOT INCOME

> *"If Bitcoin outperforms the hurdle rate, we're never paying back the credit, which means that the ten billion dollars is ten billion dollars of net income... you could put a ten P/E on that."*
>
> Michael Saylor, Q2 2026 earnings webinar, 30 Jul 2026 (company recording)

Three steps, each doing quiet work. First, perpetual-preferred *proceeds* are reclassified as income on the ground that the principal is never repaid — but the 12% dividend is equally perpetual, so what is earned is at most the *spread* between bitcoin's return and the $1.76B coupon, not the proceeds. Second, the income is explicitly conditional on bitcoin beating a 10.8% hurdle rate forever, yet the conclusion — "the digital credit business is dramatically undervalued" — is asserted unconditionally. Third, a 10× earnings multiple, the kind paid for a fee stream, is applied to what is structurally a leveraged directional position.

This matters to our valuation because it is a direct challenge to it. Our sum-of-the-parts carries the "digital credit franchise" at approximately zero beyond NAV; the market, by management's own math, carries it near $2B. We hold our treatment, for a reason the loop above makes visual: **the franchise is not an income stream — it is a call option on the company's own premium.** Accretive issuance requires mNAV > 1.0×. With the call's five and a half points of margin already gone at today's price, we are not paying a multiple for it — and the market, at 0.98× on our numbers, agrees.

The valuation, restated

Same method as June — software on comps, bitcoin at NAV, senior claims at face — new inputs throughout. Two structural changes since the June note: $1.5B of converts retired at a discount (claims shifted from dated debt to perpetual preferred, roughly one-for-one), and ~28M new common shares, most of them sold to rebuild the reserve.

SUM OF THE PARTS — 31 JUL 2026

COMPONENT	$B	BASIS
Bitcoin — 843,775 BTC @ $62,875	53.1	Mark-to-market NAV (8-K count, 26 Jul)
USD Reserve	3.75	Company disclosure, late Jul
Software stub	1.4	Comps; $122M/qtr revenue, ~breakeven
Convertible notes	(6.71)	Principal, post-May repurchase
Preferred (STRK/STRF/STRD/STRC/STRE)	(15.46)	Liquidation preference, 30 Jun balance sheet
Equity NAV	**36.0**	≈ **$94/share** on ~385M shares (est.)

The call quoted preferred at both $14.4B and $15.4B; the balance sheet resolves it — $14.44B is carrying value, $15.46B is liquidation preference. We use liquidation preference, as in June.

SCENARIO FAIR VALUE — CONDITIONAL ON BITCOIN AND THE PREMIUM (12–18 MONTH FRAME)

SCENARIO	BTC	EQUITY NAV	MNAV	FV/SHARE	VS $93
Bear	$32k	$10B	0.85×	$22	-76%
Base	$62.9k	$36B	1.00×	$94	+0%
Bull	$120k	$84B	1.20×	$263	+181%

Share count held constant at ~385M; further accretion/dilution ignored. Directional, not point forecasts; probabilities omitted because the expected value is a bitcoin view.

The threshold map moved in an interesting way. The **strike is unchanged**: bitcoin alone covers all $22.2B of senior claims down to ~$26k, same as June, because total claims are almost exactly what they were — only the mix rotated. But the **common's wipe-out price fell from ~$23k to ~$20k**, because the reserve tripled: there is simply more non-BTC value under the equity than there was in May. That cushion was bought with ~8% more shares outstanding. Both facts are true at once, and they are the quarter in one sentence: **the structure is safer, and the per-share claim on it is smaller.**

> **Verdict, restated.** Fair value ≈ $94 against $93.28 on screen — the stock remains, as in June, a roughly fairly-priced, ~1.6× geared, convex claim on bitcoin. What changed is the mix behind the number: a $1.76B perpetual coupon (up 13% in a quarter), a funding engine whose accretion margin has thinned from 5.5 points at the call to roughly zero at today's price, and a demonstrated willingness to sell bitcoin at a loss to defend the credit. We would not pay a franchise premium for the credit business, and the market currently does not either.

Carried forward

- **The 10-Q** (due ~early Aug) — verify every 8-K figure; watch the preferred rollforward and the July ATM share count.
- **STRC vs par by ~8 September** — management's own 70-trading-day benchmark. We scored their analogy weak (IPO seasoning ≠ post-crash repair); the date is now on the record either way.
- **mNAV through 1.0×** — the loop's switch. Sustained sub-NAV trading turns the ATM dilutive and the flywheel into a ratchet.
- **September 2027 put** on the 2028 converts ($183 conversion) — management expects equitization; at today's price that requires a double.
- **BTC Yield trajectory** — 4.5% YTD vs 22.8% in 2025; the deceleration is the accretion engine slowing in public.
- **MSCI / index question** — deferred in January, unresolved; a live overhang on a thinner premium.

The June note inferred the drain from the structure. Q2 made it visible: the reserve ran to half a year, bitcoin was sold at a loss to pay a coupon, and the flagship credit broke to $70 before $9.7B of new paper arrested the slide. The balance we carry forward is the same one we opened with — a geared claim on bitcoin, priced at about its net asset value — and the question the next two quarters will answer is whether the premium that refills the reserve comes back, or whether the loop runs again.

SOURCES & METHOD

Primary documents. Strategy Inc Form 8-K (30 Jul 2026), Exhibit 99.1 — Q2 2026 results press release incl. consolidated statements of operations, balance sheet, and digital-asset rollforward (SEC EDGAR, CIK 1050446, accession 0001628280-26-051027); Q2 2026 earnings presentation (strategy.com IR, retrieved 31 Jul 2026); Q2 2026 earnings webinar, 30 Jul 2026 5:00pm ET — quotations transcribed from the caption track of the company's own webinar recording (strategy.com IR → Events & Presentations; Wistia media emniccf949, retrieved 31 Jul 2026). Captions are auto-generated; quoted figures were cross-checked against the 8-K and deck, but phrasing may vary slightly from delivery. Speaker attribution of the 00:21:34 reserve remarks (CEO Phong Le) is corroborated by third-party transcripts (MarketBeat; BigGo), as the caption track carries no speaker labels.

Revision v1.1 (1 Aug 2026). Added the BTC Monetization Program section: authorization buckets and market-impact figures from slides 26, 28, 29 and 32 of the Q2 2026 earnings presentation (retrieved from strategy.com IR, 1 Aug 2026); break-even arithmetic as stated beneath the table. Drain = $1.76B coupon ÷ (843,775 BTC × $62,542) = 3.3%/yr gross; net drain deducts annualized Q2 software gross profit ($0.33B, ~19% of the coupon). The break-even issuance fraction n solves (1+n·m)/(1+n) − 1 = 2.7% for each mNAV multiple m; at m ≤ 1.0 no positive n solves it. These are arithmetic identities on disclosed figures, not forecasts; the tax-asset figure ($59M at an assumed 29% rate) is the company's own estimate and can only be realized against future capital gains.

Prices & vintages. MSTR $93.28 — official close, 31 Jul 2026 (Schwab Market Data daily series; the first full session after the 30 Jul print), pulled 1 Aug 2026; BTC ~$62,875 — daily close, 31 Jul 2026 (CoinMetrics community API, metric `PriceUSD`), pulled 1 Aug 2026. Holdings (843,775 BTC), cost basis ($63.7B / $75,476 avg), USD Reserve ($3.75B), and YTD capital figures are company disclosures as of 26 Jul 2026. Balance-sheet items (converts $6.71B principal; preferred carrying $14.44B / liquidation preference $15.46B; shares outstanding 371.6M) are as of 30 Jun 2026.

Formulas. Equity NAV = BTC×spot + USD Reserve + software value − convert principal − preferred liquidation preference. FV/share = NAV ÷ ~385M shares (371.6M filed at 30 Jun + ~13M estimated from the $1.276B July common ATM at an assumed ~$97 average; the 10-Q will refine this). Wipe-out BTC price = (senior claims − reserve − software) ÷ BTC held. Coverage years = USD Reserve ÷ $1.76B/yr obligations (management figure). mNAV = market cap ÷ equity NAV. Scenario mNAV multiples (0.85×/1.00×/1.20×) carried unchanged from the June note.

Analytic method. The scorecard restates the June note's claims verbatim-in-substance and judges each against Q2 disclosures. The call analysis applied a structured argument-evaluation pass (logical fallacies, rhetorical tactics, audience-directed devices) to the full webinar; the two exhibits shown are the findings rated most material to valuation. Window-overlap arithmetic: ~1,500 trading days (Aug 2020–Jul 2026) − ~1,008-day windows ⇒ ~495 start dates; independent 4-year periods ≈ 1.5.

DISCLOSURES

Methodology & data. Valuation is sum-of-the-parts: software on comparable multiples, bitcoin at mark-to-market NAV, less senior claims at face/liquidation value. Fair-value and scenario figures are estimates with wide uncertainty, dominated by the bitcoin price path; they are not forecasts. This is a point-in-time addendum to our 28 Jun 2026 note and should be read with it. Share count and July-issuance figures are approximate pending the Q2 10-Q.

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