SNIPER POINT CAPITAL

PRECISION. PATIENCE. CONVICTION.

STRC

Special Situations

“Show me the incentive, and I will show you the outcome.”

Charlie Munger

PREFERRED / CREDIT NOTE

July 2026 | Strictly Confidential

Entry $81.80 | Market $87.87

$100 stated | 12.0% coupon | +22% pull to par from cost

I. The Bitcoin Backdrop

Doubt creates uncertainty, and uncertainty creates opportunity. Bitcoin remains a subject of broad skepticism, and Strategy Inc. is more polarizing still, because its value depends not only on Bitcoin but on how the company has engineered its capital structure around it. Most investors watch Michael Saylor's tweets; few have worked through the numbers.

Before the security itself, the context that frames the trade. STRC is a Bitcoin linked instrument: its principal claim is insulated across a wide range of Bitcoin prices, as the next sections show, but its market price and the path of its board set dividend both track Bitcoin sentiment. So the entry point is really a function of where we sit in the Bitcoin cycle, and today's backdrop is one of stress rather than euphoria. Recent volatility has delivered the first real test of Strategy's preferred capital model: as Bitcoin entered a sharp drawdown, STRC followed, falling from near $100 to roughly $75 as weaker crypto sentiment and forced selling by leveraged holders accelerated the decline, before recovering toward the high $80s. While broader risk assets have generally rallied, crypto has not participated; Bitcoin is in a significant bear market with a drawdown of more than 50%.

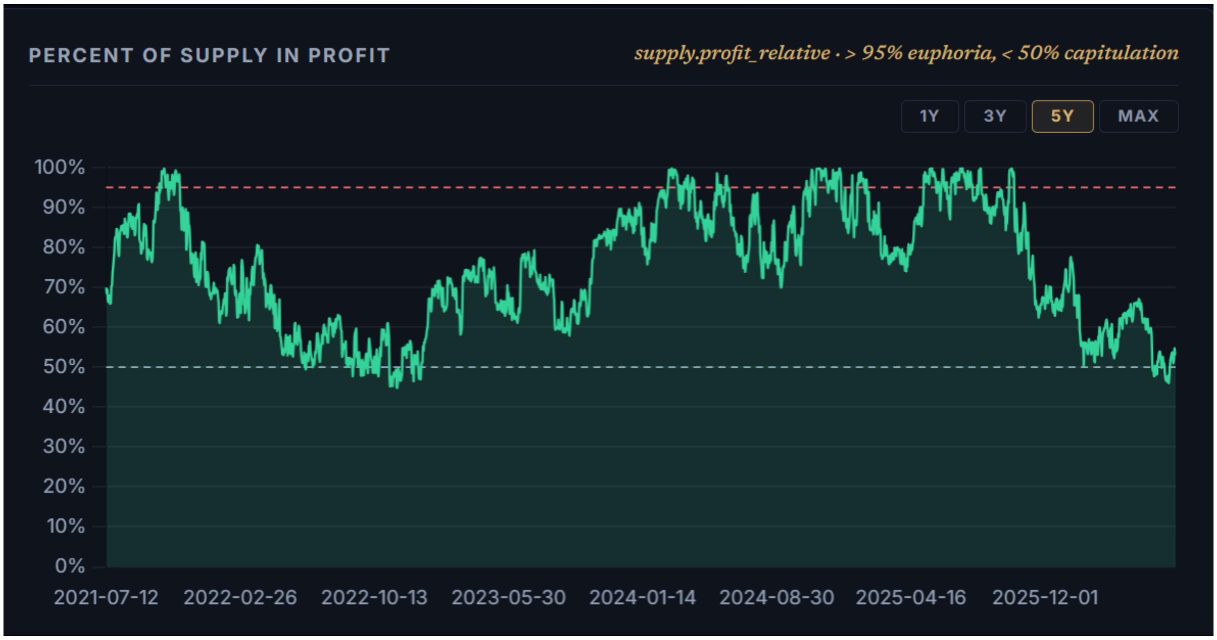


Figure 1. Percent of Bitcoin supply in profit (on chain). The share of coins held above their acquisition cost has fallen toward 50%, the threshold this metric flags as capitulation, and a level last seen around major cycle bottoms such as the 2022 FTX collapse. Readings above 95% (red line) mark euphoria; readings near or below 50% (grey line) have historically marked points of maximum pessimism and attractive risk reward. The indicator does not time a bottom, but it places the current moment closer to capitulation than to froth.

On chain indicators are starting to look more constructive. The share of Bitcoin supply in profit has fallen to levels comparable with prior major capitulation events. The current drawdown, while severe, is still shallower than the historical cycle median trough of roughly 70%, so this is not yet a call that the bottom is in.

II. The Trade

The trade is straightforward. At an entry price of **$81.80**, STRC's current annualized dividend of $12 per share provides a **14.7% yield on cost**. With the security now trading at $87.87, the position has already gained roughly 7%, while still offering a **13.7% current yield**.

Because STRC is designed to trade near its $100 stated amount, a recovery to par would add **$18.20 per share, or approximately 22% upside** from the original cost and 14% from the current price. Including one year of dividends, a move to par within twelve months would generate a **total return of roughly 37% on cost**. The thesis therefore comes down to two questions: whether Strategy has enough asset value to protect STRC's principal, and whether it can continue funding the dividend while investors wait for the price to normalize.

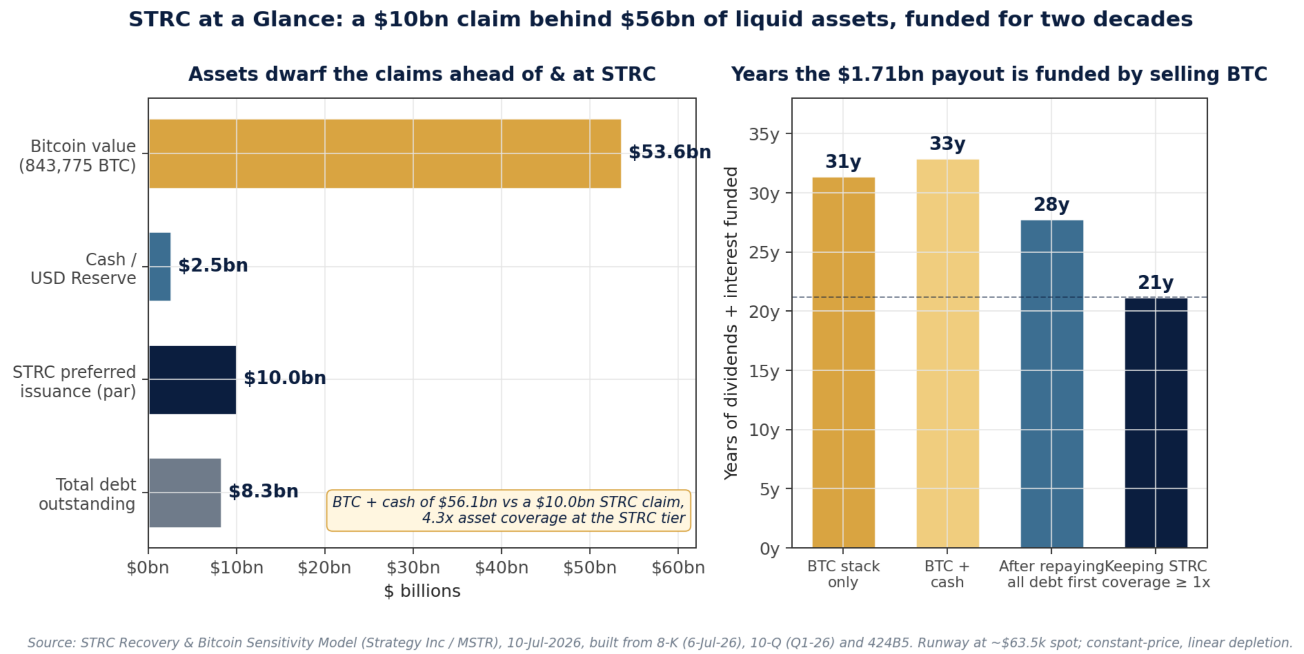


Figure 2. STRC at a glance. Left: at about $63.5k BTC, Strategy's $53.6bn of Bitcoin plus $2.5bn of cash stand against a $10.0bn STRC par claim and just $8.3bn of total debt, giving 4.3x asset coverage at the STRC tier. Right: the full $1.71bn dividend and interest load is funded for 31 years by selling BTC (33 with cash), and for 21 years even under the rule that Strategy stops selling before STRC coverage falls below 1x. This single exhibit answers the two questions that matter for a preferred: how much cushion, and for how long.

III. What STRC Is, and the Incentives Around It

STRC (Variable Rate Series A Perpetual Stretch Preferred) is one of five preferred series Strategy has issued to fund Bitcoin purchases. It carries a **$100 stated amount**, a **cumulative dividend** whose rate the board sets monthly, and it is **callable at $101** plus accrued. It is meant to trade near $100, though this is a target and not a guaranteed peg.

How Strategy funds Bitcoin, and why it defends STRC near par

Historically Strategy funded most of its Bitcoin accumulation by issuing MSTR common through at the market (ATM) offerings when the shares traded at a large premium to the net value of the company's Bitcoin. Selling expensive equity and buying Bitcoin converted a temporary market premium into permanent balance sheet assets, and it was accretive because the company issued fewer units of ownership than the Bitcoin exposure it acquired, raising Bitcoin per share whenever the premium was high enough. As that common stock premium narrowed, Strategy leaned increasingly on its **preferred stock complex, with STRC becoming one of its largest funding channels.** That creates a powerful incentive to keep STRC near its $100 stated amount: issuing materially below par hands Strategy less cash while still creating close to the full $100 liquidation claim and the associated dividend burden.

The incentive runs both ways. When STRC trades at a discount, buying it back benefits both the company and remaining preferred holders, because retiring a $100 claim for less than $100 reduces future dividend expense and improves asset coverage per outstanding share. So Strategy is motivated to **support STRC near par to preserve its ability to raise capital, and to repurchase it at a discount to shrink the obligation.** Either way the holder of STRC is positioned alongside, not against, the issuer's incentives. That is the Munger point that opens this note: read the incentives, and the likely behavior follows.

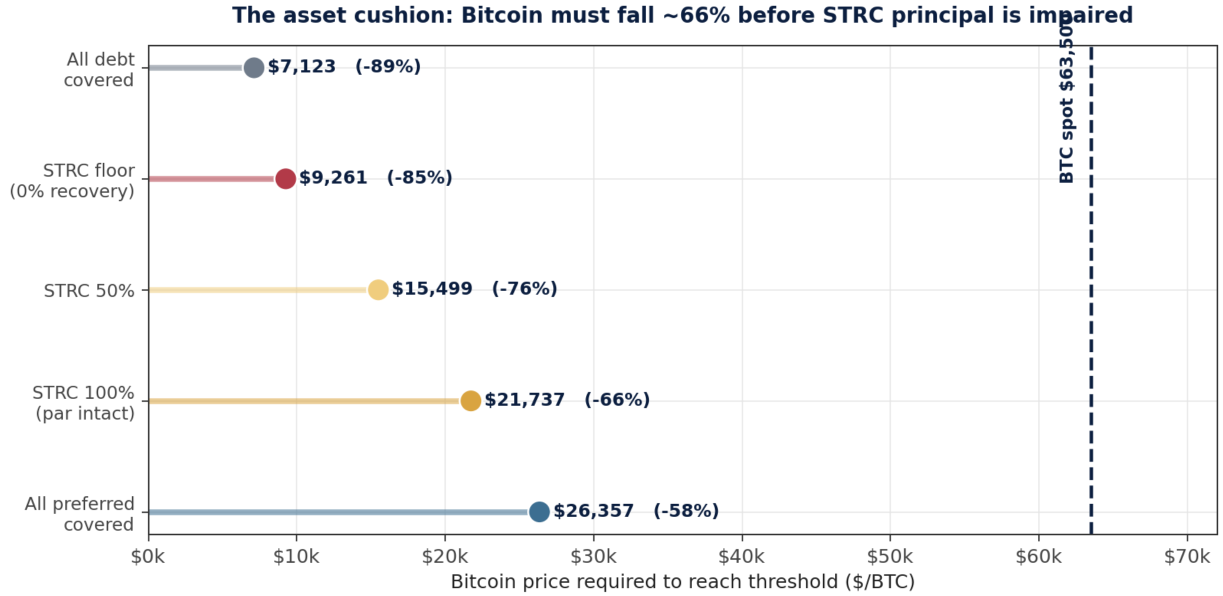
Figure 3. "Never sell your Bitcoin." Michael Saylor's stated doctrine is the single most important behavioral input to the STRC thesis. It explains why Strategy would rather sell preferred stock, common equity, or a small, disclosed slice of its BTC stack to fund distributions than liquidate the position, and why, under the June 2026 Digital Credit Capital Framework, it has formalized Bitcoin sales for dividends only as a capped, last resort tool. For a preferred holder, an issuer ideologically committed to holding the collateral adds stability to the asset cushion; the risk is that the same doctrine keeps leverage high through a downturn rather than reducing it.

IV. The Asset Cushion

The core question for any preferred is whether, in a wind down, there is enough asset value to repay the claim after everything senior to it. For STRC the answer is yes, with a wide margin. At spot Bitcoin near $63,500, selling the 843,775 coin stack net of a 5% liquidation cost and adding the $2.55bn cash reserve produces about **$53.5bn of distributable value against roughly $10.0bn of cumulative claims through the STRC tier.** STRC recovers its full $100 par with more than $40bn to spare before the junior preferred and common see a dollar.

How far Bitcoin must fall

Restating that cushion as Bitcoin prices makes the margin of safety concrete. All debt is covered down to about **$7,100** (an 89% fall). STRC's recovery only begins to erode below about $9,300, reaches half of par near $15,500, and is fully intact at any price above about **$21,700, a 66% decline from spot.** Bitcoin's deepest historical drawdowns have bottomed near 70 to 80%, so STRC principal survives all but the most extreme of those. It would do so, moreover, before considering that a distressed Strategy would far more likely repurchase discounted STRC or raise fresh capital than liquidate into the hole.

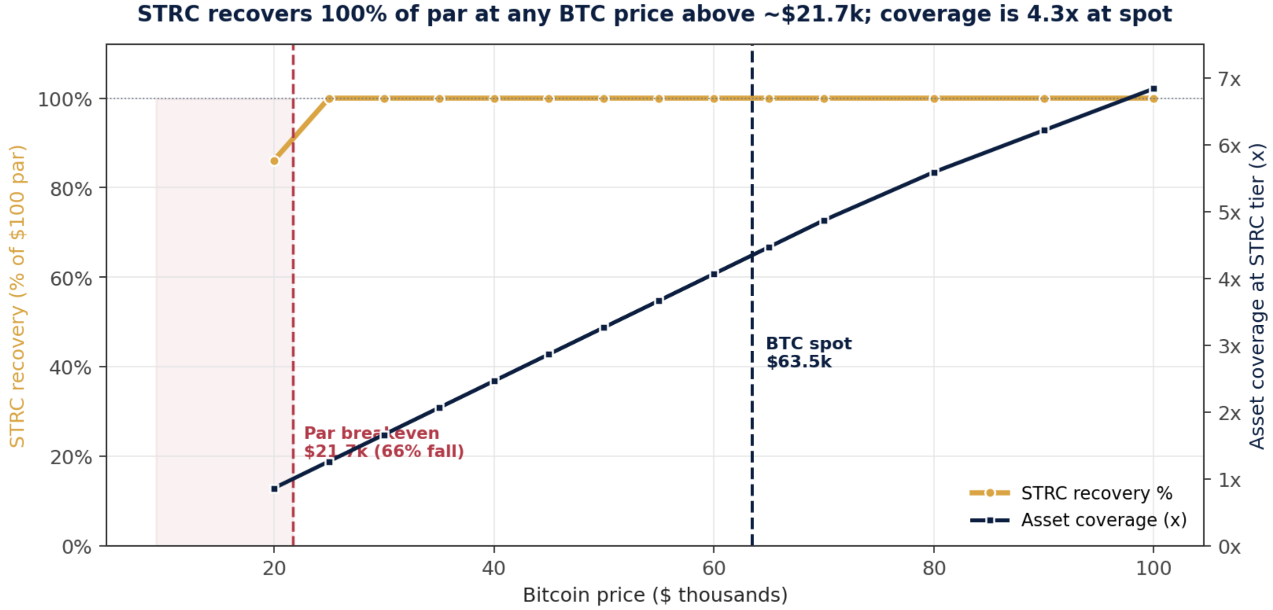


Source: STRC Recovery Model, BreakEvens tab. Closed-form thresholds at base haircut (100%) and 5% cost; (%) = fall from ~$63.5k spot required to reach each level.

Figure 4. The breakeven ladder. Each marker is the Bitcoin price at which a given claim is just covered; the dashed navy line is spot near $63,500. STRC's par is intact until Bitcoin falls about 66%, and its recovery does not reach zero until about 85%. The gap between spot and the $21,700 par breakeven is the quantitative expression of the STRC margin of safety.

Recovery and coverage across the curve

The recovery profile is flat then cliff. Above about $21,700, STRC recovers the full $100 regardless of where Bitcoin trades; the excess simply accrues to junior claims and common. Coverage at the STRC tier scales with Bitcoin: **4.3x at spot, still 1.8x after a 50% crash,** and below 1x only once Bitcoin has lost more than about two thirds of its value. Principal is insensitive to Bitcoin over an enormous range, and only the deep tail matters.



Source: STRC Recovery Model, BTC_Sensitivity tab. Recovery = min(par, distributable minus senior claims). Coverage = value at STRC tier / $10bn claim.

Figure 5. STRC recovery (gold, left axis) and asset coverage (navy, right axis) as functions of Bitcoin price. Recovery is pinned at 100% of par down to about $21,700, then falls; the shaded band marks the impairment zone between the 0% floor near $9,300 and full par near $21,700. Coverage is 4.3x at spot and stays above 1x across the entire range down to the par breakeven.

V. The Dividend Machine

Asset coverage answers the wind down question; going concern asks whether Strategy can keep paying STRC without a capital markets miracle. Its total fixed load is about **$1.71bn a year** (company stated $1.76bn): $1.20bn of STRC dividends, roughly $0.47bn of other preferred dividends, and about $37M of interest. The software business funds under a fifth of that, so servicing is effectively capital markets or Bitcoin funded. The relevant test is how long Strategy can meet the full load by selling Bitcoin, and the stack is large enough that the answer runs into decades.

At spot the entire load requires selling about **26,900 coins a year, roughly 3.2% of the stack.** That funds every dividend and interest payment for about 31 years on Bitcoin alone, 33 with cash, and 21 even under the conservative rule that Strategy stops selling before STRC coverage would fall below 1x. The cash reserve alone covers about 18 months, above the company's 12 month policy floor. Since June 2026 the Digital Credit Capital Framework formally authorizes Bitcoin sales for dividends, interest, and reserve replenishment, so this runway is stated policy rather than arithmetic. Strategy already used it, selling 3,588 coins (about $216M) in early July to fund the quarter's distributions.

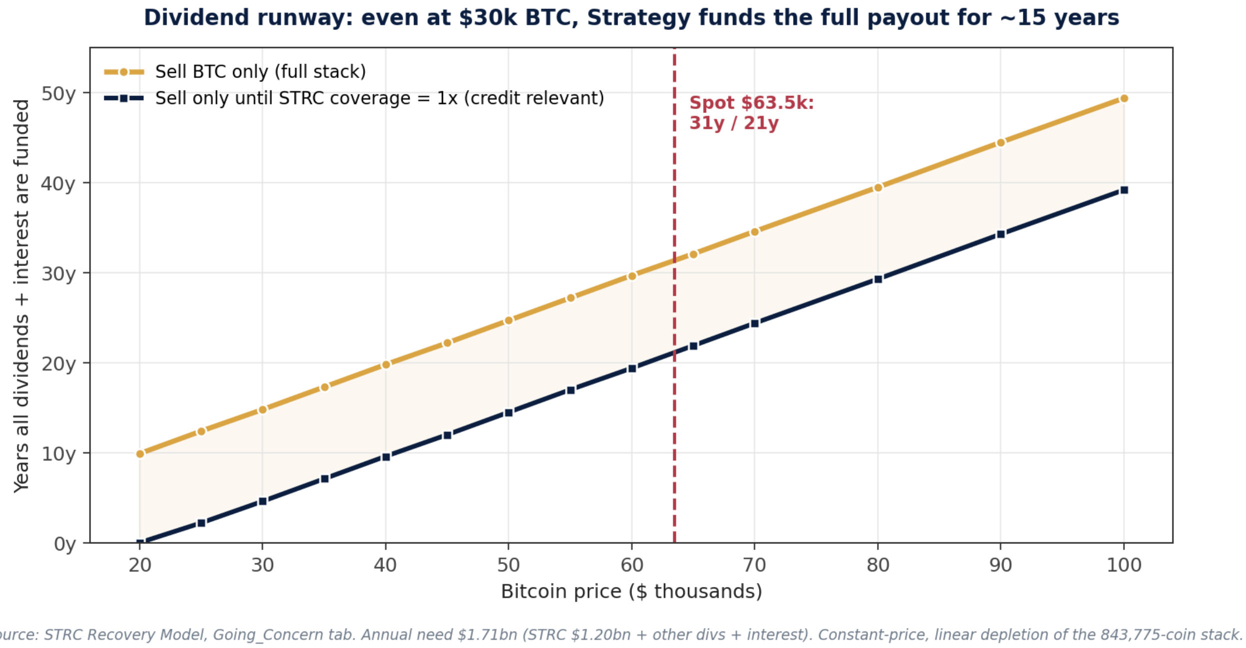
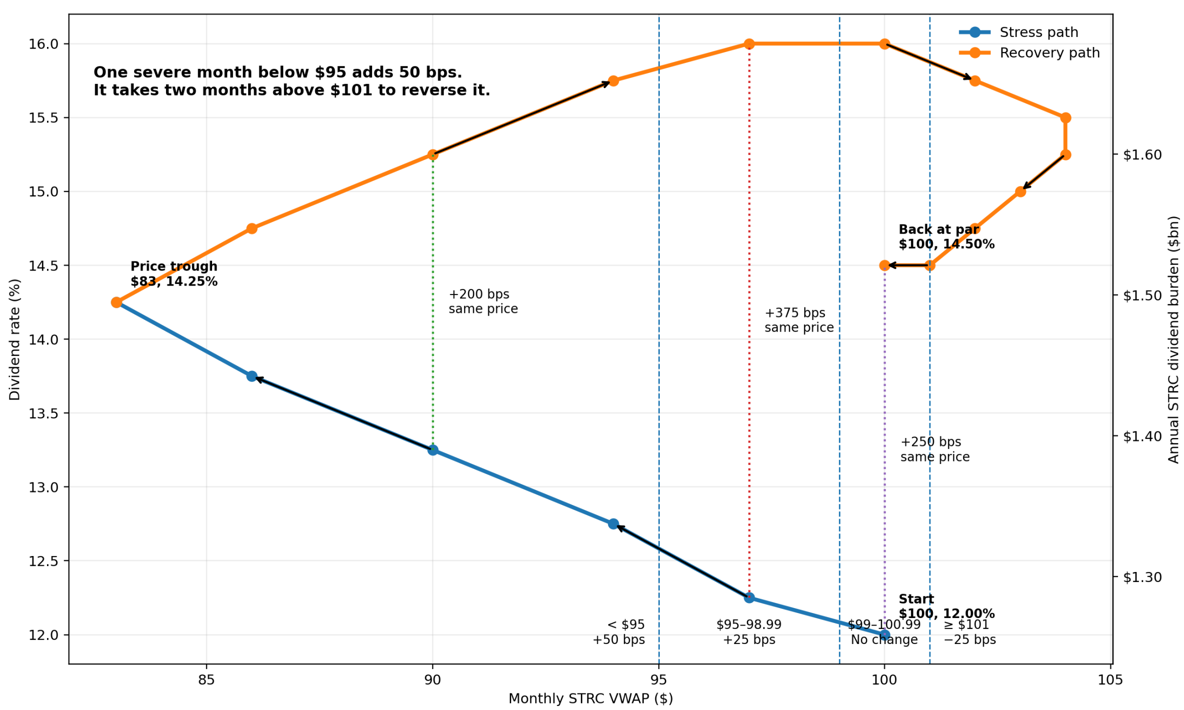


Figure 6. Dividend funding runway across Bitcoin prices. The gold line is years of full coverage selling Bitcoin only; the navy line applies the credit relevant constraint of never selling enough to push STRC coverage below 1x. Even at a hypothetical $30,000 Bitcoin, Strategy funds the entire payout for about 15 years. A dividend suspension, if it ever came, would be a board discretionary price event rather than a default, because STRC arrears are cumulative and simply accrue.

VI. Hysteresis: Why the Rate Stays Elevated After the Price Recovers

The most important nuance in owning STRC is that its dividend rate can stay elevated even after its market price recovers, because increases during periods of weakness are generally larger and faster than the later reductions. Since August 2025 Strategy has run a tiered framework tied to STRC's trailing five day VWAP: a VWAP of **$95.00 to $98.99** generally supports a dividend increase of **at least 25 bps**, and a VWAP **below $95** an increase of **at least 50 bps**, while a VWAP at or above about $101 permits a small cut. The board can go further, as it did with a 100 bps increase in September 2025. Because the up steps are bigger and trigger faster than the down steps, **a security that sells off and then climbs back to $100 can still be paying a materially higher dividend than before the decline.** That lasting imprint of past weakness is called hysteresis.

Projected STRC Hysteresis: the Dividend Rate Remains Elevated After Price Recovers



Illustrative mechanical scenario using the discussed tiered framework. It is not a forecast and excludes board discretion, SOFR-linked adjustments, issuance, repurchases, and changes in required yield.

Figure 7. Projected STRC hysteresis (illustrative mechanical scenario, not a forecast). The blue stress path shows the dividend rate ratcheting up as the monthly VWAP falls from $100 to a $83 trough; the orange recovery path shows the rate staying elevated as the price climbs back. The security starts at $100 and 12.00% and returns to $100, but at 14.50%, a full 250 bps higher, because it took several months above $101 to unwind increases that a few severe months below $95 had stacked on. The right axis translates the rate into Strategy's annual STRC dividend burden of $1.5bn to $1.6bn, the mirror image cost borne by MSTR common. Excludes board discretion, SOFR linked adjustments, issuance, and repurchases.

For a preferred holder this asymmetry is the crux of the total return case. A temporary, technically driven selloff can generate attractive returns two ways at once: **elevated income that persists after the price has healed, and price appreciation back toward the $100 stated amount.** The cost of that higher coupon lands on MSTR common, because preferred dividends and liquidation claims rank ahead of any residual value for common. A below par STRC price also makes it less efficient for Strategy to issue fresh preferred and buy more Bitcoin. During a temporary selloff the mechanism therefore **shifts economic value from common toward preferred,** who collect higher income and hold greater seniority, within the bounds of the asset cushion in Section IV.

VII. Risks

The thesis is asymmetric, not free. The honest risks:

STRC is not asset backed; it is a corporate residual claim. STRC has no lien on the Bitcoin. Its recovery depends on Strategy's overall solvency and on an orderly wind down; in a disorderly bankruptcy, liquidation costs, timing, and the Bitcoin price at the moment of sale could all be worse than the base case assumes.

Deep tail Bitcoin drawdown, below about $21,700. A fall of more than about two thirds from spot begins to impair STRC principal, and below about $9,300 STRC recovers nothing. These sit beyond the historical cycle median trough, but cannot be ruled out, and a fast crash compresses the dividend runway toward its lower price rows.

A dividend suspension is permitted; it is a price event, not a default. The board sets the STRC rate monthly and can suspend distributions. STRC dividends are cumulative and accrue, but a suspension would likely drive the price down sharply. Junior STRD is non cumulative, so pressure would fall there first, but STRC is not immune.

Capital stack migration and dilution. Strategy could issue additional senior or pari passu claims. New senior debt or a future STRC parity series would raise the claims ahead of or alongside STRC and lift the breakeven Bitcoin price. Today no pari passu stock to STRC exists (per the March 2026 424B5), but the framework explicitly contemplates further preferred issuance.

Share count and disclosure uncertainty. The STRC share count near 100M is a model estimate pending the next 10-Q; rapid ATM issuance in 2026 means the true claim could be modestly larger, and Bloomberg screen figures do not tie to filings. The direction of error is toward a slightly larger STRC claim, not a thinner cushion.

Rate hysteresis cuts both ways. The same framework that ratchets the coupon up in weakness trims it in strength. If STRC trades persistently above about $101, the board can cut the rate and call the security at $101, capping upside above par and creating reinvestment risk for the holder.

VIII. Conclusion

STRC is the highest quality claim in Strategy's preferred complex, offered today at a discount to par during a Bitcoin bear market. The numbers behind the Saylor headlines are reassuring rather than alarming: a $10bn claim standing behind $56bn of liquid assets, covered 4.3x, with principal intact unless Bitcoin falls about two thirds, and a dividend load funded for roughly two decades even under conservative assumptions. The hysteresis framework tilts total return asymmetry toward the holder, elevated income that persists through a recovery plus pull to par, with the cost borne by MSTR common. Bought at $81.80, the position earns a 14.7% yield on cost and carries about 22% of pull to par upside on top.

The instrument is not riskless. It is an unsecured residual claim on a Bitcoin concentrated issuer whose board controls the coupon and can suspend it, and whose principal is exposed in the deep tail. But those risks are quantified, bounded, and, at current prices in a market that on chain data places closer to capitulation than euphoria, well compensated. We are constructive on STRC as an income long for investors able to underwrite Bitcoin tail risk. Show me the incentive, and I will show you the outcome: Strategy's incentives are to defend

STRC near par and to keep paying it, and the asset cushion says it can.

IX. Important Disclosures

Nature of this note. This document is prepared solely for internal use within Sniper Point Capital and authorized recipients. It is not an offer to sell or a solicitation of an offer to buy any security, financial product, or service, and nothing herein constitutes investment, legal, tax, or accounting advice. Recipients should perform their own independent analysis and consult appropriate professional advisors before making any investment decision.

Position disclosure. Sniper Point Capital, its principals, employees, and affiliated entities may hold long, short, or derivative positions in Strategy Inc. (NASDAQ: MSTR), in STRC, or in the other securities discussed herein, and positions may change at any time without notice.

Sources and methodology. Quantitative analysis is drawn from the Sniper Point Capital STRC Recovery and Bitcoin Sensitivity Model (built 10 July 2026), which is itself sourced from Strategy's SEC filings, namely the Form 8-K (6 July 2026), the 10-Q for Q1 2026 (Note 5 and mezzanine equity), and the STRC prospectus supplement 424B5 (March 2026), together with the Digital Credit Capital Framework release (29 June 2026). Bitcoin spot and market prices are as of 3 to 10 July 2026. The STRC share count near 100M is an estimate pending the next 10-Q; Bloomberg DDIS and FA figures do not tie to filings, and filings control. Bitcoin on chain data (percent of supply in profit) is third party. While sources are believed reliable, no representation or warranty is made as to accuracy, completeness, or timeliness.

Forward looking statements. This note contains forward looking statements, estimates, and illustrative scenarios (including the hysteresis path and the dividend runway analysis) based on assumptions that may prove materially incorrect. The hysteresis figure is a mechanical illustration, not a forecast, and excludes board discretion, SOFR linked adjustments, issuance, and repurchases. Actual outcomes, including the Bitcoin price, dividend rate decisions, issuance, and capital allocation, may differ significantly. Past performance is not indicative of future results and a partial or total loss of capital may occur.

Risk warning. STRC is an unsecured, non asset backed residual claim on a Bitcoin concentrated issuer. Its market price is volatile and tracks Bitcoin sentiment; its dividend rate is board set and may be reduced or suspended; and its principal is exposed in a deep Bitcoin drawdown (impairment begins below about $21,700 and recovery reaches zero below about $9,300). Concentrated exposure to a single issuer and a single underlying asset carries materially higher risk than a diversified portfolio.

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A $10BN CLAIM BEHIND $56BN OF LIQUID ASSETS

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