

Why We Own Genmab

When follicular lymphoma returns after treatment, the question is not only whether another medicine can shrink the cancer. It is whether it can delay the next relapse without imposing an intolerable new burden. For the patient, the difference is measured in scans, infections, hospital visits and time before the disease progresses again. For a biotechnology company, it is measured in evidence strong enough to change medical practice.

Genmab sits at that junction. The Danish company engineers antibodies: proteins designed to recognise specific targets in the body. Some of its medicines are developed and sold by large pharmaceutical partners, paying Genmab a royalty. Others are co-developed and co-commercialised, giving it more of the economics and more of the cost and execution risk. That combination - a validated royalty engine funding a more ambitious product pipeline - is the heart of the investment case.

A growing need, but not an automatic investment

Cancer demand is structurally durable. The International Agency for Research on Cancer recorded almost 20 million new cases in 2022 and projects 35 million a year by 2050, largely because populations are growing and ageing. Prevention and earlier diagnosis can reduce that burden, but health systems will still need better treatments for people whose disease returns or stops responding.

That need does not make every cancer medicine valuable or every biotechnology share attractive. A new therapy must show a meaningful benefit against the existing standard of care, manage serious side effects, win regulatory approval, reach treatment centres and obtain reimbursement. Its economics must then support the research, manufacturing and commercial investment required to produce the next medicine.

Genmab's route starts with antibody expertise built over more than two decades. Its DuoBody platform can create bispecific antibodies that bind to two targets at once. Epcoritamab, sold as EPKINLY or TEPKINLY, binds CD20 on malignant B cells and CD3 on the body's T cells. In plain language, it is designed to bring an immune cell into contact with the cancer cell it needs to attack.

Where Genmab fits

Genmab sits primarily within Delta's **Human Advancement** theme because its commercial opportunity depends on improving the treatment of cancer and other serious diseases. Our other themes are **Climate Action** and **Nature Innovation**. They remain essential to the complete Delta framework, but they are not alternative primary labels for this company. Theme membership explains the source of structural demand; it does not make the shares attractive at any price.

The advantage is a system, not one molecule

The most visible proof of Genmab's capability is DARZALEX, a Johnson & Johnson medicine based on a Genmab antibody for multiple myeloma. Genmab does not book the product's full sales. It receives royalties, creating a comparatively high-margin income stream without carrying the entire global commercial infrastructure.

That successful partnership matters for more than current cash. It demonstrates that Genmab's science can survive clinical development, regulation and commercial scale. The company has built relationships with J&J, AbbVie, Novartis, Pfizer and other large partners. A track record of approved medicines can improve access to targets, development capability and markets that would be difficult for a smaller biotechnology company to build alone.

But the advantage is not permanent. Other companies are developing bispecific antibodies, antibody-drug conjugates and cell therapies for the same cancers. Patents expire. Partners can change priorities. A technically elegant medicine can lose if another treatment is safer, easier to administer, cheaper or more effective. Genmab's moat must therefore be tested through repeated clinical and commercial productivity, not simply the size of its patent library or pipeline.

How the science becomes earnings

Genmab's first-half 2026 results show the mechanism. Revenue rose 25% to \$2.05 billion. Royalty revenue increased 24% to \$1.71 billion, driven mainly by higher partner sales including DARZALEX and Kesimpta. Global EPKINLY/TEPKINLY sales rose 48% to \$312 million. Management raised full-year revenue guidance to between \$4.33 billion and \$4.53 billion, citing stronger DARZALEX royalties and EPKINLY sales.

The chain is visible. More eligible patients and wider use of successful partner medicines produce royalties. Adoption of co-commercial products produces product sales and profit-sharing economics. Those cash flows fund trials, launch capability and the next generation of medicines. If the platform keeps producing differentiated therapies, the royalty base can broaden while Genmab captures more value from products it helps commercialise.

The cost side is just as important. First-half adjusted operating expenses rose 28% to \$1.27 billion as Genmab invested in late-stage programmes and launch readiness. The company also completed the acquisition of Merus in December 2025, adding petosemtamab and another antibody platform. It raised \$5.5 billion of borrowings to help fund the transaction; borrowings remained \$5.14 billion at the end of June.

That changes the character of the investment. Genmab is no longer only a royalty-rich biotechnology company with pipeline optionality. It is committing more capital to owned and acquired assets, increasing both the potential economics and the penalty for poor clinical or commercial execution.

A financially strong business, not just a good story

A compelling scientific story only matters if the company behind it can fund the next generation of trials, year after year. A business that cannot protect its returns or convert growth into cash will struggle to keep discovering new medicines, however promising its pipeline looks. So before we get carried away with the science, we ask a simpler question: is this a genuinely well-run, profitable company? The honest answer is mixed, and we say so plainly: underlying profitability has stayed comfortably above Genmab's cost of capital throughout a volatile stretch, but reported earnings growth has lagged revenue growth over the past three years and shareholder returns were genuinely poor for two of those years before a strong 2025. Much of the financial-quality case therefore now rests on what the evidence points to next, not only on what has already been delivered.

Profitability. Genmab's return on shareholders' equity - essentially, how much profit it generates for every dollar shareholders have invested - has stayed above the roughly 8.5% cost of equity we hold biotechnology businesses to throughout the three years to 2025, though the level has moved around rather than climbed steadily: 13.5% in 2023, 22.1% in 2024 and 16.5% in 2025. Operating margin followed a similar pattern, holding in the low-to-mid 30s across those three years; 2026 is a temporary trough, guided down to around 28%, as Genmab absorbs Merus integration costs and steps up spending on late-stage programmes, before recovering to around 33% in 2027 and above 36% in 2028 as that investment matures. Return on invested capital tells the most important version of this story: it has fallen from 36.6% in 2023 to 30.8% in 2024 and 17.0% in 2025 as the capital base has grown, largely from the debt taken on to fund the Merus acquisition - but it has remained above Genmab's roughly 9% cost of capital in every year to date, and independent forecasts keep it above that hurdle throughout the forecast horizon to 2030, even as the cushion above the hurdle keeps narrowing.

Earnings growth - the case ahead. Here the historical record does not yet support the case on its own, and we say so plainly rather than dressing it up. Diluted earnings per share grew a modest 9.6% a year on average over the three years to 2025 - well behind the 22.0% average annual growth in revenue over the same period, the opposite of the pattern we look for as evidence of quality - and EPS fell 12.3% in 2025 alone. That weaker pattern continued into 2026: first-half GAAP earnings per share fell 9.2% year on year and GAAP net income fell 9.8%, driven by \$217 million of additional interest and amortisation expense tied to the \$5.5 billion of borrowings used to fund the Merus acquisition. Stripped of one-off deal costs, the underlying trend is more encouraging: adjusted operating profit, which excludes Merus-related acquisition, integration and amortisation charges, grew 18% year on year in the first half, in a quarter where revenue rose 25% and EPKINLY sales rose 48%, prompting management to raise full-year revenue guidance to \$4.33–4.53 billion. Consensus forecasts project earnings-per-share growth of just 5.6% in 2026 as the Merus-related drag persists, before reaccelerating sharply to 43.6% in 2027 and 38.4% in 2028 as newer, internally controlled products scale and integration costs fall away - a credible path, but a projection rather than a settled outcome, and one that depends on continued execution across Epkinly, petosemtamab and Rina-S.

Shareholder returns - the case ahead. This is the weakest part of the historical record, and the house standard is to state it plainly rather than dress it up. Genmab's shares fell 26.7% in 2023 and a further 30.7% in 2024 - two genuinely poor years - before rebounding sharply with a 35.8% total return in 2025; shares are down 7.4% year-to-date in 2026, even after the strong second-quarter results and guidance raise sent the stock up more than 6% in a single trading session. Taken as a five-year run, that is not the kind of consistent compounding record we would ordinarily point to as evidence of quality. The case ahead is more constructive: independent equity research assigns Genmab a fair value estimate of DKK 2,650 against a share price of DKK 1,877 as at early August 2026 - implying upside of more than 40% if that valuation gap closes - built on continued strength in Darzalex royalties and Epkinly sales and increasing visibility toward 2027 launches for petosemtamab and Rina-S, both assigned a 75% probability of approval. That is an analyst's fair value estimate, not a return already earned, and it depends on Genmab converting its late-stage pipeline into approved, reimbursed medicines roughly on the timetable current forecasts assume.

Taken together, this gives us a credible, evidenced path to the returns this thesis needs - underlying returns on capital that have never fallen below their cost, and a pipeline-driven re-acceleration in earnings now visible in the numbers - though it is not yet the kind of proven, multi-year compounding record we can point to today. That is a materially different position from a company with an already-demonstrated record of strong shareholder returns, and we will judge Genmab on whether 2027 and 2028 close that gap.

Leadership we can trust

A good business also needs to be well led. However compelling the science, we need to be able to trust the people running the company - because clinical breakthroughs mean little if capital isn't allocated honestly and for the long term.

Genmab's governance is robust: an independent assessment finds the company meets every one of the thirteen governance criteria we test. The roles of Chief Executive and Chair are held by separate people, with the Chief Executive holding no board seat and an independent, non-executive director chairing it, giving proper checks and balances at the top rather than concentrating power in one individual. All six shareholder-elected directors stand for individual re-election every year, and the board's own effectiveness is independently reviewed annually, with a facilitated self-assessment and its headline findings made public. Five of the six non-employee directors, or 83%, meet our independence standard, comfortably above the two-thirds threshold we require; the sole exception has served 22 years and is unambiguously outside that standard, which is the clearest point of ongoing engagement on the board's composition. There is only one class of share, each carrying a single vote, so no shareholder carries outsized influence over the rest, and executive pay is weighted heavily toward long-term, at-risk equity: the Chief Executive's target and maximum award opportunity is set at four and six times base salary respectively, vesting over at least three years, with capped severance and clawback provisions in place.

This governance foundation is matched by a capital-allocation record that has never fallen below the return we require, even as it has narrowed: return on invested capital fell from 36.6% in 2023 to 17.0% in 2025 as Genmab took on \$5.5 billion of debt to fund the Merus acquisition, but it has remained above our roughly 9% cost-of-capital hurdle in every year to date and in every forecast year to 2030. That declining margin of outperformance, alongside the leverage taken on to achieve it, is a trend we will continue to test rather than treat as settled - a materially larger, debt-funded capital base needs to keep producing returns comfortably above its cost for the current cushion to hold. Taken together, this gives us confidence that Genmab is overseen by leadership that acts in shareholders' long-term interests, alongside one specific and well-defined governance question - the tenure of its longest-serving director - and one capital-allocation trend that we will continue to watch as the Merus integration and pipeline investment play out.

Evidence that can be tested

The strongest outcome evidence is not a company slogan. It is the result of a controlled trial assessed by a regulator. In EPCORE FL-1, 488 people with relapsed or refractory follicular lymphoma were randomised to receive epcoritamab plus lenalidomide and rituximab, or

lenalidomide and rituximab alone. The US Food and Drug Administration reported a progression-free-survival hazard ratio of 0.21 in favour of the epcoritamab combination. The overall response rate was 89%, compared with 74% in the control group. The FDA approved the combination in November 2025; European approval followed in July 2026.

Those results support the medical and commercial case, but they do not remove the risk. The FDA also reports serious adverse reactions in 51% of patients in the epcoritamab arm, serious infections in 28% and cytokine release syndrome in 24%. The prescribing information carries boxed warnings for cytokine release syndrome and a neurological condition known as ICANS.

That is why measurable impact belongs inside the investment analysis, not in front of it. A medicine creates durable value only if benefits remain meaningful after safety, treatment burden, access and cost are considered. The next evidence should include how many eligible patients receive treatment, how long responses last, why patients discontinue, serious infection and hospitalisation rates, and whether outcomes seen in trials persist in normal clinical practice.

Value, decision and tension

We own Genmab because three things need to line up, and at this point two are substantially in place while the third asks for patience. The impact case rests on durable, structural demand for better cancer treatment, met by antibody expertise that has already produced approved, royalty-generating medicines and a widening co-commercial pipeline. The governance case rests on a board and remuneration structure we substantially trust, with a single, well-defined engagement priority around the tenure of one long-serving director. The financial-quality case is the one that asks for patience: underlying returns on capital have never fallen below their cost, but reported earnings growth has lagged revenue for three years and shareholder returns were genuinely poor before a strong 2025. The current result shows this is more than a distant pipeline story - royalties and EPKINLY sales are already growing, and adjusted operating profit is growing faster than revenue once one-off Merus costs are excluded.

We do not own it on the assumption that every pipeline asset succeeds, that Merus will earn back what it cost, or that the debt taken on to fund it will unwind smoothly. Valuation must distinguish visible royalty cash flows from uncertain future products. It must allow for DARZALEX concentration, patent and pricing pressure, partner dependence, competition, safety and reimbursement - and it must place a demanding return hurdle on the Merus acquisition and the debt used to finance it, given that reported earnings and total shareholder returns have not yet shown the durable compounding record we look for elsewhere in the portfolio.

The central tension is reinvestment. Higher R&D and launch spending can be rational when it expands a productive platform. The same spending can destroy value if trials fail, products arrive late or commercial uptake disappoints. Our decision therefore depends on evidence that each additional dollar of risk is improving the probability and scale of future cash flows - not merely enlarging the pipeline. Valuation discipline, not the promise of the pipeline alone, is what should govern position sizing here.

What could break the chain

A number of things could weaken this thesis, spanning clinical execution, the balance sheet, governance and the impact case itself. We watch for all of them:

- Clinical and competitive risk. DARZALEX royalties could slow materially faster than expected before newer products can compensate. EPKINLY could struggle against other bispecifics, cell therapies or future combinations, and payers could restrict access or force prices lower.
- Partner and litigation risk. A partner could underinvest, change strategy or produce results Genmab cannot control. Unresolved AbbVie trade-secret and Chugai patent litigation relating to Rina-S and EPKINLY respectively add a further layer of uncertainty around economics Genmab does not fully control.
- Integration and leverage risk. Merus integration could cost more or take longer than planned. Net debt/EBITDA is guided to around 3.0x for 2026, up from a net cash position two years earlier, reducing room for error if late-stage readouts disappoint - and the second-line colorectal readout for petosemtamab has already slipped from 2026 to the first quarter of 2027.
- Financial-quality durability risk. Reported earnings and free cash flow need to show a sustained recovery, not a single strong quarter, before the forward-looking earnings and return case we describe above is proven. Return on invested capital has fallen from 36.6% to 17.0% over two years, and while it has stayed above the cost of capital throughout, further deterioration would narrow that cushion further.
- Governance risk. One director, with 22 years of tenure, sits outside our independence threshold, and continued board refreshment - not just the separation of the Chair and Chief Executive roles - is something we will keep watching as the Merus integration and pipeline investment proceed.
- Impact-case risk. EPCORE FL-1's headline results are accompanied by boxed warnings for cytokine release syndrome and ICANS, and serious adverse reactions in 51% of patients on

the epcoritamab arm. A medicine's benefit has to be weighed against its treatment burden and real-world access, not only its trial results.

The thesis would weaken materially if DARZALEX and EPKINLY growth slowed structurally while Merus-related debt remained elevated, if free cash flow failed to recover as new products begin earning, if board refreshment showed no further progress, or if verified patient outcomes failed to support Genmab's own trial claims. It would also weaken if the share price already assumed successful launches, smooth deleveraging and repeated clinical wins, leaving no margin of safety for disappointment.

Genmab is compelling not because antibody science is impressive in isolation, but because the science has already produced approved medicines, royalties and regulatory evidence, underpinned by a board and remuneration structure we substantially trust and a capital base whose returns have never fallen below their cost, even as leverage has risen to fund the next stage of growth. The next test is harder: whether the company can convert that foundation into the kind of durable earnings growth and shareholder returns this document has been honest about not yet demonstrating - without sacrificing financial discipline, board accountability, or the difference between trial success and accessible, durable benefit in the real world.

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