

# EDITED TRANSCRIPT

GLXY – Galaxy Digital Holdings Ltd  
Fourth Quarter 2020

Shareholder Update Conference Call

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## C O R P O R A T E P A R T I C I P A N T S

**Michael Novogratz**, *Founder, Chief Executive Officer and Chairman*

**Damien Vanderwilt**, *Co-President and Head of Global Markets*

**Christopher Ferraro**, *Co-President*

**Ashwin Prithipaul**, *Chief Financial Officer*

## C O N F E R E N C E C A L L P A R T I C I P A N T S

**Deepak Kaushal**, *GMP Securities*

**Mitch Steves**, *RBC Capital Markets*

**Zane Chrane**, *Bernstein Research*

## PRESENTATION

### Operator

Good morning, and welcome to Galaxy Digital's Fourth Quarter 2020 Earnings Call. Today's call is being recorded.

At this time, all participants are in listen-only mode. Following the formal remarks, we will conduct a question-and-answer session. Webcast participants can submit a question online directly through the webcast. Further instructions will be provided as Q&A begins.

At this time, I would like to turn the conference over to Galaxy's Investor Relations Team. Please go ahead.

### Galaxy Digital Investor Relations

Good morning, and welcome to Galaxy Digital's Fourth Quarter Shareholder Update Call.

Before we begin, please note that our remarks today may include forward-looking statements. Actual results may differ materially from those indicated or implied by our forward-looking statements as a result of various factors, including those identified in our filings with the Canadian securities regulatory authorities, on SEDAR, and available on our website. Forward-looking statements speak only as of today and will not be updated.

In addition, none of the information on this call constitutes a recommendation, solicitation or offer by Galaxy Digital or its affiliates to buy or sell any securities, including Galaxy Digital securities.

With that, I'll now turn it over to Mike Novogratz, Founder, CEO and Chairman of Galaxy Digital.

### Michael Novogratz

Good morning, everyone.

It's an awesome, sunny day here in New York City. It's a great day for our earnings. I walk to work and you really get the sense that we're on the downslope of COVID. The city's reopening. Let's cross our fingers and hope that in the next few months life gets back to normal.

Life has been anything but normal for us here at Galaxy. I couldn't be more excited to talk about our earnings today. I don't want to bury the lead, right? We had a massive fourth quarter, record earnings. We are off to an amazing start this year. Our first quarter will far exceed all of last year. So, the business couldn't be better.

There are a lot of details to go through. I'm going to leave a lot of those to Damien and Chris, and really try to focus on what I think the real story is.

We started Galaxy, really, three years ago, with this idea that we would set up a company that would give public shareholders access to the entire ecosystem of crypto, from bitcoin, other cryptocurrencies, to businesses to venture, let's be a holistic place where people could invest and take advantage of this new asset class, with a real belief that institutions would move into the asset class, and we built and we invested and we waited, and it was at times a painful wait. Really starting last May, you know, post-COVID, and accelerating, the world changed. In the last four months—the last six months,

really—with no uncertainty, loud and clear, the market and the world has said crypto is now an asset class. I think it's a spectacularly important thing to just pause and think about. Certainly, for all our employees, but also for all our investors.

What does it mean? First and foremost, it means we are very confident in pursuing an aggressive growth strategy. We have hired 70-plus people in the last six months, really doubling the size of our workforce. The amount of talent, the type talent we're getting, makes me smile every day. We had a company call just to get to know each other last Thursday, and as we went around, I just kept grinning. I was waving to one of my kids who was in the room, because it was on Zoom, and I was like "Look at this guy. Look at this guy. Look at this guy." So, we're hiring talent we couldn't get before.

I used to be able to tell people this very simple story. I'd say, "Hey, you're coming here and you're taking more risk than I am, right? I'm 56, I've already made lots of money and had a career. I really believe this is going to happen," but it's more risk for the younger people, and now younger people are seeing it the other way. Now, they're seeing it, it's more risk staying in traditional finance than coming to crypto, that this is a growing asset class. So, in a lot of ways it's been de-risked.

I think most important is that message, that we're now in growth mode because we have confidence, our employees have confidence and more and more investors have confidence that crypto isn't a flash in the pan, that it'll be a fundamental part of the financial and consumer infrastructure of the world. Because of that, we are pursuing a strategy to move to a U.S. listing in the second half of the year. I'm not going to say a lot about that, I'm going to say that sentence and you can take it as you will, but I think that's exciting.

Crypto continues to have three major tailwinds. It's the tailwind of adoption, right? Every single bank in the space is now moving into the space. Mostly are starting in the wealth management front. We'll talk about the joint venture we did with Morgan Stanley, the first broker/dealer to get into the wealth space, launching a Galaxy Bitcoin Fund with us. But, all the banks are heading that way, in the wealth fund, and then slowly to trade and custody. We're seeing the tech companies all move into the space. You'll see this quarter, I believe, if not certainly in the next two quarters, Facebook's Diem project launch. That's 2.2 billion people that'll have a crypto wallet overnight. So, you're seeing this across the board.

You're seeing it new products. Everybody's who been listening to the Internet, or searching the Internet has heard of what an NFT is these days, right? NFT is using the same technology as bitcoin, right, taking something scarce and putting it on the blockchain for IP, for art, for collectibles.

So, there is an explosion of opportunity that we're seeing. We're taking advantage of it. We are building each of our businesses as fast as we can. I'm proud to say that in the fourth quarter all our businesses, with the exception of one we had just started, were profitable. All our metrics are up. So, couldn't be more excited.

Before I pass this on to Damien, I want to tell you that we are excited to have a new CFO, that we brought in. Alex Ioffe is joining us. He spent two decades in CFO roles, most notably a 10- or 12-year stint at Interactive Brokers, lastly coming from Virtu Financial, another public company. Alex has got great skills and we're excited to have him take over.

We can't thank Ash Prithipaul enough for his service. In this amazing growth period, our team has worked unbelievable hours and Ash just decided that it was time for him to spend more time with his family. He leaves us well positioned to grow. We thank him a ton.

With that, I'm going to turn it over to Damien.

**Damien Vanderwilt**

Thank you, Mike, and thanks again for the warm welcome. I'm excited to be on my very first earnings call as Galaxy's Co-President.

When I joined Galaxy at the beginning of the year, I was already impressed with the Company that Mike and Chris had built, and the size of the opportunity that they were targeting. Now, nearly a quarter into my tenure here, I'm even more excited and confident in the Galaxy team's strategy and opportunity, and on our ability to execute.

I've spent the last few months with our business leaders and our clients learning about their goals, pain points and ideas, with an eye towards scaling the Galaxy platform. Some of my immediate areas of focus have been on how to serve the increasing demand for our Trading services, on building our key teams and functions across Galaxy's businesses and corporate departments, on integrating our two recent acquisitions, and on identifying both organic and inorganic opportunities for the Company's future growth.

Before I dive into some updates on the businesses, I'd like to share some corporate updates, based on where I've been focusing my time.

I'm thrilled to share Galaxy grew our team over 33% just in the fourth quarter of this year alone, now being north of 150 people, adding key hires across Sales, Research, Business Development, Trading and Finance.

In February this year, we appointed Alex Thorn as Head of Firmwide Research. Alex joins us from Fidelity Investments, where he spent over a decade, most recently as Co-Head of the bitcoin and blockchain-focused Venture Cap Fund affiliated with Fidelity Investments' parent company. Alex and his team are building out proprietary research to help our clients navigate this sector, furthering Galaxy's commitment to guide our clients and the industry through this digital transformation.

We also hired key talent in the Executive Office, Elsa Ballard and Steven Wald, to build out our Investor Relations and FP&A functions as we focus on growing our corporate finance and analytical capabilities across the firm.

Yesterday, Mark Toomey joined us as Head of Institutional Sales, focused on expanding our institutional client base and building out our Coverage Team. Mark spent over two decades in traditional capital markets, at Goldman Sachs with me, and J.P. Morgan Chase where he managed Equity Derivative Sales Teams, and we're delighted to have him and his team on board.

Now, turning to our business units, I'll provide an update for our Asset Management and Investment Banking segments, and Chris will provide updates on our Investment Portfolio, Trading, and our new Mining business.

Beginning with our Asset Management business, we continue to see strong demand for both passive and active exposure to bitcoin and other major cryptocurrencies. Moreover, we remain committed to providing affordable and diversified exposure to digital assets, and to providing portfolio solutions for investors seeking exposure to this increasingly in-demand asset class.

Recent product launches include the CI Galaxy Bitcoin Fund, a TSX-listed closed end mutual fund in another partnership with CI Financial. This fund satisfies our client demands for a more streamlined means of accessing bitcoin, with the lowest management fee of any bitcoin exchange credit product in the world today.

We also launched the Galaxy Ethereum Funds, which tracks the newly Bloomberg Galaxy Ethereum Index. This is the third in the Bloomberg Galaxy family of indices.

And very exciting news for Galaxy and for U.S. investors interested in cryptocurrency exposure. Just a few weeks ago Morgan Stanley began offering its wealth management clients access to Bitcoin Funds, including the Galaxy Bitcoin Fund LP and the Galaxy Institutional Bitcoin Fund LP. We are really proud to partner with Morgan Stanley for this major development in access to cryptocurrency through the traditional wealth management channel. This is the first big U.S. bank to offer its wealth management client access to Bitcoin Funds, and with over \$4 trillion in clients' assets under management, we believe this is a significant step in the direction and acceptance of bitcoin as an asset class.

Galaxy Interactive continues to focus on investments in interactive entertainment, video gaming, creator economies, and Web 3.0, and will be managing a new fund around this strategy.

In addition to the rapid pace of product innovation within our Asset Management business, I'm also proud to share we now have over \$1.2 billion in assets under management in both our Galaxy Asset Management Fund products, a testament to the really hard work of our Asset Management Team, headed by Steve Kurz.

Let me now provide some thoughts on Galaxy Digital Investment Banking, where Michael, Ash and his team continue to make progress for clients across financing, mergers and acquisitions, and other strategic matters, with several active mandates in various stages of execution.

Some key activities we can share with you include our team consulting on a recent cryptocurrency company's fundraising round and acting as a strategic advisor in connection with a prominent public offering in the fintech space. Beyond those important client mandates, the Investment Banking Team increased its client coverage to over 90% of their target universe, building relationships with firms and founders across the cryptocurrency and digital assets ecosystem.

We've also been hiring aggressively to support the demand we are experiencing, and expecting, with the team doubling in size since we spoke last with you.

Overall, I'm excited by the growth I'm seeing in our Asset Management and Advisory businesses, and the infrastructure both Steve and Michael are building to support future growth.

Now, before I turn the call over to Chris, I'd like to close by sharing some of my key learnings with you as I wrap up my first 90 days as Galaxy's Co-President.

Firstly, the white space in the addressable market for Galaxy is massive. The macro trends that Mike explained in his remarks are stronger and more compelling than ever. I've been on calls with clients and potential clients almost every day since I've joined Galaxy, asking me, "How do I get into crypto?", and these calls are from the largest and smartest companies and investment managers in the world.

Second, Galaxy has the right strategy and guiding principles. Our mission here is to institutionalize digital asset ecosystems and blockchain technology. We accomplish this mission by acting as a bridge between the digital asset world and the institutional world. We lead with a compliance-forward mindset, harnessing our team's experience with blue chip, finance and technology firms.

Third, as Mike noted a moment ago, this strategy gives us the right operational model to meet the demand and addressable market. Galaxy is the go-to trusted expert for one-stop-shop institutional access to this space. Whether the client wants

OTC products, completely bespoke structuring or strategic advice, our synergistic business lines provide access to digital assets in any method a client could prefer, backed by the strength of our public company and audited balance sheet.

Lastly, Galaxy has the right team to take advantage of the massive opportunity in front of us. I have genuinely never been more impressed by the talent already in the door of the Company, and we've shown an incredible ability to attract talent from leading financial institutions with specialized experience in traditional finance, innovation, market structure and technology.

All in all, Galaxy is addressing a large and growing market with the right operational model, the right strategy and the right team. I couldn't be more excited to be part of the Galaxy journey and play my part in the Company's future growth.

Speaking of talent, I'd now like to turn over the call to my fellow Co-President, Chris Ferraro.

### **Christopher Ferraro**

Thanks, Damien, and far too generous, as always.

I want to begin my remarks today by underlining Mike and Damien's comments, that the past few months have been transformational for both Galaxy and our industry. I also want to echo Damien's excitement about Galaxy's opportunity and some key strategic decisions we've made to support Galaxy's growth into 2021, and then beyond. In all my time with the Company, since its founding, I've never been as excited as I am today about our future.

I'd like to now spend some time walking through the performance of our Trading and Investment business lines, and elaborate on some of the specific opportunities and trends I'm seeing across the space.

This was a transformational quarter for Trading, as we continued the momentum from Q3 to win additional market share and grow our counterparty derivatives and electronic trading activities, resulting in yet another record quarter of trading activity. Counterparty trading volumes were up over 80% in Q4 from Q3, and over 230% year-over-year from the prior year Q4 2019. That growth continued into the first quarter of 2021 thus far, as we've shared in this morning's press release, up another 40% sequentially versus Q4 and over 270% versus Q1 prior year 2020.

Also, within our Trading segment, the growth of our counterparty loan book continues to demonstrate the increasing demand for access to our balance sheet and lending services. Our loan portfolio is well over 100% collateralized, on average, across the entire book, which we believe compares significantly better than most of our competitors in the space. We remain committed to building a long-term, sustainable coin and cash lending business, in order to best serve our counterparties and our clients, while managing risk with a laser-focus on protecting and in growing firm capital. We firmly believe that we are doing our best by our clients and our counterparties in the long run by remaining disciplined today and methodically growing access to secure and dependable financing solutions.

Within the fourth quarter alone, our counterparty loan book grew in excess of 300% over the previous quarter to approximately \$110 million, with gross new originations growing over 90%. Since December 31, we've continued to experience even stronger growth in the first quarter, with our loan book increasing another 240% sequentially to close to \$400 million, with gross new originations growing an additional 400% to approximately \$560 million.

We are clearly seeing the benefits in both trading and lending activity related to the higher price of the digital assets, but it's important to note that beyond price levels, we're also benefiting from the capabilities, new cost structure, enhanced market access, and structured products we've added through the DrawBridge Lending and Blue Fire Capital acquisitions.

We've also made progress towards our goal of now providing a full-service, single-dealer platform, with currently 10 clients onboarded, or in the process of being onboarded, in beta, and a pipeline of over 30 additional new clients ready to onboard as we add more prime brokerage capabilities in the next coming months.

We continue to be one of the few key players building an actual institutional-grade offering that is equipped with the expertise, experience and technology to address the bespoke needs of sophisticated institutions looking for exposure to digital assets. These clients continue to demand from us access to a large, audited and risk management-focused trading counterparty who can offer superior capabilities across a full suite of products.

As previously mentioned, our acquisitions of DrawBridge Lending and Blue Fire Capital are now largely integrated under the Galaxy umbrella. Jason Urban has assumed leadership of our Franchise Trading business, while Andrew Karos will remain CEO of our wholly-owned subsidiary, Galaxy Blue Fire Trading.

Beyond the expertise, assets and best-in-class Trading Teams both acquisitions added to Galaxy, I'm excited to share the financial results we have recognized from our combined trading activities. Hats-off to Jason, Andrew and all their respective teams, because in Q4, our Trading business' net income increased over 831% to \$235 million, from a loss in the prior year period. Furthermore, the Trading business has continued to grow sequentially across nearly all operational and financial metrics into Q1 2021.

Moving on to activity within our Principal Investment business, our team has continued to pursue differentiated opportunities across the cryptocurrency, DeFi and blockchain ecosystem. We now hold approximately 80 individual investments across 60 portfolio companies. In the fourth quarter of 2020, the Principal Investments Team made seven new and add-on investments totaling \$5.3 million, which includes a number of names in the DeFi space, including Terra Labs, Spectral and Centrifuge, just to name a few.

Furthermore, in the first quarter of 2021, the team has been hard at work addressing what seems to now be an ever-expanding opportunity set for Galaxy. We've been fortunate enough to have made 12 new and add-on investments to date totaling \$34.7 million, including Bullish Global, Fireblocks the Series C round, Radical, Growth Labs, Komainu, Hashrate and TaxBit, to name a few, and in a number of those investments, we've gone head-to-head, competed against and won some of the largest traditional FinTech and Silicon Valley VCs in the world. Big congrats to the team for their performance.

As you can see here, some of the key investment themes we've been focusing on have been: one, continued growth and exposure to critical institutional crypto infrastructure areas, including custody, wallets, coin movement, exchange and tax; on chain financial transactions, i.e., DeFi; distributed incentive-based collaboration projects, for example, open-sourced software development; and, four, new killer consumer app companies that aim to simplify adoption, on-ramping and interaction with cryptocurrencies.

Within our existing portfolio, we were also fortunate enough to have been able to realize a significant liquidity event of over \$125 million in the first quarter of 2021, a testament to our Principal Investments Team's growing successful track record in this space.

Finally, I'll briefly speak to our newest business, Mining, which has us all extremely excited. Amanda and the team have been busy building out our Phase 1 Mining operations internally, as well as growing our client pipeline, speaking with over



70 companies in the space to date. Our bitcoin mining operation is now up and running, and based on the daily reports I'm getting on production, it's really exciting to see how the Mining Team is growing our Company's bitcoin balance sheet every single day. Not only that, but we've been able to achieve an average marginal cost to create a new bitcoin of significantly less than US\$10,000 per coin, greater than 80% discount to current spot levels.

Demand for both mining devices and financing options for miners continued to increase as bitcoin mining receives growing interest and attention in the market, and we are dedicated to, first, building out a high-quality bitcoin mining operation with best-in-class industry partners, chip manufacturers, third-party data center hosting, etc., and then turning this apparatus around to offer institutional capital and dedicated miners low-cost access and financial solutions to make their businesses better performers. So, to that end, I am quite excited to share that we have recently closed our first two mining finance, or MiFi, deals and hope to see our team continue to grow our pipeline and book of business in the quarters to come.

With that, I'd like to now turn it over to Ash to walk everyone through the specifics of our financial performance in the fourth quarter. Ash?

#### **Ashwin Prithipaul**

Thanks, Chris.

I will provide some additional details regarding our financial results for the quarter and year end 2020.

Net comprehensive income for the three months ended December 31 totaled \$335.7 million, which brings our full year comprehensive income in 2020 to \$385.5 million. The predominant drivers of the increased income in the quarter and year, as shown on Page 8 of the press release, were gains on additional assets and investments, as well as stronger contribution from our Trading business. This brings our total equity, or net book value, excluding non-controlling interests, to \$798.2 million as of December 31, or CAD\$3.24 of net book value per share, or US\$2.54 of net book per share.

Revenue of \$256.8 million in the quarter came predominantly from our Trading segment. The realized gains were reflective of both higher digital asset prices during the quarter, as well as normal operational positioning of the Principal Trading Desk.

Operating expenses for the quarter were \$33.1 million, inclusive of equity-based compensation of \$3.6 million over the same period. Expenses increased from a year-ago quarter reflected primarily of higher compensation and higher borrowings. While equity-based compensation did decline by just over \$1 million from a year-ago quarter, we do expect this is likely to increase going forward from current levels.

Turning to measures of capital and liquidity, liquidity as of year end 2020 stands at approximately \$545 million, from approximately \$134 million one year ago. As a reminder, our measurement of liquidity includes working capital and net digital assets, which is then netted against forward commitments and estimated future expenses. Our liquidity is sufficient to continue to operate the business and take advantage of market opportunities.

Finally, I want to thank Mike for his kind words earlier and for the opportunity to serve as CFO of Galaxy Digital and being part of the Galaxy family. This has been a period of historic accomplishments for our firm and for the digital assets and blockchain ecosystem, and I'm glad I got to play a pivotal role in helping us reach this point. The current strong leadership (inaudible) Alex Ioffe's capable and experienced hands ensures Galaxy will remain in great hands going forward.

With that, I'll now turn the call back to the Operator, so we can address questions from analysts and investors. Operator, any questions from our equity analysts?

**Operator**

At this time, we will be conducting a question-and-answer session. One moment while we poll for questions.

Our first question comes from the line of Deepak Kaushal with Stifel. You may proceed with your question.

**Deepak Kaushal**

Hey, guys, good morning. You know, I've never congratulated a Management Team on a conference call for their quarter, I'm not going to start now, but it's certainly nice to see a nice warm summer starting for crypto after a long cold winter for you guys.

Mike, I have a question for you. It's been 13 years since—almost 13 years now since bitcoin started, a long secular trend that's going to continue in the long term, in our view, but it's had some violent cycles in the past. What's your thinking these days about the cyclical versus the secular nature of this industry and what are kind of the macro factors are you watching in the industry that might indicate that balance shifting either way?

**Michael Novogratz**

The biggest, I think, factor right now is adoption, right? We kind of went over a hill and we've started in motion adoption cycles at so many different institutions. What I mean by that is—you saw Morgan Stanley come out with this product that's aimed at their wealth channel, which will start taking in money in the next week to two weeks. I can tell you that most banks, most big investment banks and banks are working on similar projects, and so there is a bid below the market, with those institutions, with their massive sales forces going out to their clients—now, remember, most of their clients are Baby Boomers, right, the bulk of the wealth in the world, and certainly in America, is held by 55- to 85-year-olds—and they haven't really participated in a big way in the crypto revolution yet, and they're just starting.

So, we have this adoption cycle that's taking off, and we're not just seeing it with that wealth class, right? We're seeing it in insurance companies. There are now three, four, five insurance companies that we know off. That's a trend, and so you're going to see a lot more insurance companies with real asset managers, right? You've read about Blackrock and others that are now looking at ways to get exposure for their clients.

So, in almost every asset class, we're seeing the adoption curve, and I think that cushions the downside a lot more than we used to have in the past. This used to be a 95% retail market, with lots of leverage on the Asian exchanges, and so we've had this violent washouts. We still have high volatility. Bitcoin is still a 75-vol asset, because of the excitement of new people coming into the market. But, I feel really strongly that there's a bid below the market, and it's not just guessing, we see the bid below the market.

**Deepak Kaushal**

Got it. Then, you know, there's a lot of talk about central banks, digital currencies and stablecoins. How do you guys take advantage of that opportunity, in particular, for your business? Does that just flow through in terms of more adoption? Anything specifically you guys can take advantage of?

**Michael Novogratz**

I think, listen, a lot of that is going to be built on the ethereum network, and so we have investments in ethereum, we have investments in businesses that will benefit from more use cases, so those could be custody businesses, they could be security businesses, right? As we slowly shift over the payment mechanism from legacy payments to one that's built on crypto rails, our whole portfolio starts working, and it's one of the reasons you've seen some big upticks in portfolio valuations. Companies, like Fireblocks, become really a critical piece of financial infrastructure when everyone starts using crypto.

People used to say, "Jesus, our stablecoins, our (inaudible) digital currency is going to be bad or good for bitcoin." Well, the obvious answer is it's all going to be good, because it's this complete shift of how we think about the architecture that stuff gets built on. Listen, a crypto dollar will still be bought or sold versus other assets, like gold or bitcoin, based on people's belief in is it going to strengthen or weaken, right? It's just we're going to shift how we buy things from the traditional payment rails to one that's built on crypto, and I think that's just bullish for our whole ecosystem.

**Deepak Kaushal**

Got it, and last question (audio interference). When you set out on your IPO in 2018, it was very different from what it is today. There's a lot of new (inaudible). What else is new that you could add to your business that this new crypto industry affords that wasn't there in the IPO days?

**Michael Novogratz**

Well, listen, I mean, the NFT space is an interesting one, right, the NFT space. I talked a lot about NFTs philosophically back in 2016, '17 and '18, that we'd one day have art built on the blockchain, because people would trust that it would be scarce and authentic, and out of nowhere, really, four, five months—well, actually, two, three months ago it exploded, right? So, we have this business, Galaxy Interactive, right, the \$300 million fund that Sam Englebardt and Richard Kim manage, and have made 50-odd investments in the Interactive space, a lot of those in and around this NFT ecosystem, from game studios to NFT makers, and so we think that space is going to be fertile to continue to invest in. We're out raising another big fund to invest in that space right now. We're going to put our firm capital at work in this space. I think that will be something, the middle of next year, we're talking a lot about.

**Deepak Kaushal**

Got it, thank you, and then just for Chris and Damien, I just had a question on capital allocation. It looks like you guys have split your digital assets across Trading, Principal Investments and Asset Management roughly a 50/20/30 split. With 50% on the Trading side, should we think of that as kind of your allocation to market-neutral or your balance sheet that you're putting towards your prime brokerage business, and then the rest of it's kind of net long? How should we think about assets for capital allocation in the context of the Trading Desk versus the net long?

**Michael Novogratz**

Chris, do you want to take that? That's the hardest question so far.

**Christopher Ferraro**

Thanks. That's why I'm here, usually. Yes, no, that's the right. The allocation of digital assets to the Trading business now is starting to shift. Digital assets, for us, bitcoin, ethereum, show up in the Trading business in a bunch of different ways now, one as working capital, and so for us, we provide liquidity to bigger and bigger counterparties. For us to be able to provide that service, we have to have working capital and assets pooled in different venues. So, we have a working capital element to our Trading business now that's growing and growing with customer activity.

The other side of it is our Lending business, where we're facilitating lending coin and cash against coin and cash, and taking in additional coin and cash as collateral. That begins a sort of growth upcycle on the balance sheet of accumulating digital assets.

Then, with Blue Fire Capital, in particular, as well, Andrew and that team are now very large participants on many of the biggest venues for cryptocurrency. They're large market makers, trading over \$1.5 billion a day in volume now. Part of their strategies involve market-neutral hedging and arbitrage, and that piece of the business means that we'll be, in a non-beta directional way, accumulating digital assets there, as well.

**Deepak Kaushal**

Got it. I'm trying to translate this all into kind an operating model for your business. Can you guys give us a sense of a target leverage ratio, a target ROE for the Trading side? I think your cost run rate is up to \$100 million annualized, from \$40 million, because you're growing. Do you have a target margin for the operating side of the business, just so we can look forward to our model, you know, as (inaudible)?

**Christopher Ferraro**

Sure, and, Ash, feel free to jump in and either correct me or be more specific on the operations side, in particular.

If you look at the year end, I believe we reported just total liabilities of \$372 million against close to \$800 million of partner capital. For all of our non-directional, all of our market-neutral, beta-neutral Trading strategies, which is becoming a bigger and bigger piece of our trading business, as well as our counterparty and client business, I think, by all measures, we're largely under-leveraged, relative to where we would like a perfect model to be, right? Put banks on the far right as responsible, but highly levered entities, that drive return on equity. Today, we're under 0.5 times debt to equity. We don't have to be significantly leveraged, because the asset itself, we're bullish and generate high returns, but over time, as volatility comes down, I would model in an expectation that in our Franchise Trading business, we will responsibly take on more and more leverage, because the goal for us is going to be able to drive return on equity. I think it's a little too soon for me to say confidently that we're targeting this return on equity, because we look at bitcoin and you say what's the cost to capital of bitcoin, and you look at annualized returns on bitcoin, it's very, very, very high. So, the idea of a target, like a return on equity in this environment, while bitcoin vol is high and sort of adoption is growing, I think is premature. We're looking at our balance sheet and we're methodically adding in leverage where it makes sense, recognizing that the necessity to do so today is just starting.

**Michael Novogratz**

Yes, you have to remember that we're trading a 70-vol asset as your base case, right, with bitcoin, and then ethereum trading higher, and lots of the other smaller coins even trading higher vol. It's interesting, because that—certainly, for the proprietary side, right, for house capital, you don't need a whole lot of leverage, if any, but for customer businesses, as well, leverage can get really dangerous really quickly. I do think Chris is 100% right. As this business matures—and it will mature, we're seeing it—and vol comes down, your leverage ratios will go way up.

**Christopher Ferraro**

Then, on the Opex side, to address that point specifically, Deepak—Ash will go into detail, but the fourth quarter includes, at the very least, a compensation expense number that is a—Ash used the right word, it's a true-up for the full year of bonus accrual, and so that's not a—I don't think it's appropriate to annualize that as our new fixed cost base times four.

**Ashwin Prithipaul**

Yes, yes.

**Deepak Kaushal**

Got it, okay. Well, I mean, look, you guys have worked really long and hard since going public and it's nice to finally see the results in the market and the business that you've been planning, so certainly pleased to see that. I'm going to pass the line, I'm sure there's a long lineup of questions to be asked. I appreciate you taking my questions. Thanks again.

**Operator**

Our next question comes from the line of Mitch Steves with RBC Capital Markets. You may proceed with your question.

**Mitch Steves**

Yes, I have a few questions. I just wanted to kind of start by saying congrats on the Morgan Stanley win. But, a few quarters ago, I came on here and kind of asked about DeFi and I was pretty much laughed out, saying nobody really knew what it was, but after DeFi Summer, I'm just curious, the institutions you guys are talking about, or I guess the high net worth individuals you guys are talking about, or talking to, and how far are they down the DeFi rabbit hole? Are they aware of the differences between compound and, you know, the (inaudible), like Uniswap and balance? Are they at a point where they actually understand what the difference between all those are, or are they still kind of in ramp mode?

**Michael Novogratz**

No. So, let me answer that. I am wildly bullish on DeFi. Like, hear me loud and clear. We are having some of the smartest guys on our firms do nothing but spend time in it, we're investing lots of capital in it, we are looking at regulatory-compliant ways to participate in the process, and we're making lots of money in it. Clients, in general, go through the same journey that most crypto natives go through. They first learn about bitcoin and then they're like, "Wow! I'm making money here." Then, they'll move to ethereum and they'll say, "Well, that's a really neat project, this decentralized super-computer."

Then, they're going into what's build on ethereum, and so DeFi is kind of the third step. We have some hedge fund clients that have participated, but not many, and we have some crypto high net worth and other high net worth that are participating, but I would tell you the DeFi is still kind of a crypto native project, or ecosystem, and not an institutional ecosystem yet, and I don't think for the big institutions it becomes one this year.

What we are doing is—and I had this conversation with the CEO of one of the biggest banks in the world yesterday. I was saying, "Guys, bitcoin really isn't a threat to your business. Quite frankly, it was a missed opportunity to both trade asset management and distribute a great product to your client base. But, you really should focus on DeFi, because DeFi will be a threat to your business over time."

The banks aren't there yet, it's not big enough for it to feel like a threat, and so to me, it's a great opportunity to continue to invest in the best teams to grow our own domain expertise around the space but it's not resonating yet with the big players.

#### **Mitch Steves**

Okay, that's really helpful. Then, secondly, just on the NFT spot, you mentioned digital art. That's another one that I'm curious about. If investors really believe that this is just effectively buying art, of they're up to speed in terms of projects like Tinklake and Noodle Bowl, relative to scaling and scaling up the NFT ecosystem to the point where basically all physical objects, like your house, end up becoming NFTs, are they understanding that concept or are they just still kind of ... (cross talking)

#### **Michael Novogratz**

No. Listen, I think this ...

#### **Mitch Steves**

... from the Beeple fiasco.

#### **Michael Novogratz**

This is a bit shock-and-awe. It reminds me a lot of when we first started trying to sell bitcoin. I would tell people, "Hey, this is a peer-to-peer decentralized digital money, or digital gold," and people would look at me, like "What are you talking about?" I'm like "No, no." People called it, you know, this wampum or tulips or mystery coin, and it took a long time for people to get their arms around that you could have this theoretical idea of what money is, right, that's based in code, and a little bit is the same thing going on now. The education process is much faster, because of things like Discord and the big forums that everyone's on, right, so everyone's kind of getting educated, but this idea that we can take IP or art and make it unique and put it on the blockchain is about three months old, and so people are kind of getting their heads around it.

I would tell you that about 95% of the buyers of NFTs, in my mind, are crypto people. You look who bid into Beeple, right, it was Justin Sun and the guy that ended up buying it. There's a lot of technical things to get worked out. There're a lot of big flaws in some of the systems at this point when you're buying an NFT or you're actually—are those pixels that create the beautiful piece of art actually embedded in the crypto or they held on some server elsewhere. Then, is it really secure if you

think it is? There's all kinds of issues to get worked out, and it will get worked out. This will be a big, big industry in two, three, four, five, six years. Who knows when it really kicks in?

We are investing all over the place in the space, because I'm positive this will be a big industry, almost more so than I was that bitcoin would succeed. Why? Because it's being built on the back of having already educated the world that blockchains work and that you could have a digital store value, and you're going to have digital stablecoins that—or crypto stablecoins that move around in payment systems, and so this is just the next iteration of that. So, it makes me more confident than I was, like I said, investing in crypto back in 2013 and '14, where it felt more speculative.

That said, I do think we're in a short-term bubble in NFTs. There's a supply response. Every artist, every musician that I've ever met has contacted me and said, "How do I participate?" That's kind of good news and bad news. The good news is it means this is going to be real. The bad news is right now there's going to be a flood of supply and not enough demand, until the educational process of non-crypto people, who can start believing that beautiful art or great music can be preserved and displayed. We don't even have the display yet. In the next 12 months, mark my words, you're going to see NFT galleries, and you're going to see screens that Samsung or other companies develop, where you can walk into your house and you can display your \$69 million Beeple, but you're also going to see places in the metaverse that are fantastic places to display your digital art. So, I'm going to invite you to my Zoom call in the metaverse and I'm going to be like, "Dude, check out the Beeple." People buy things, a lot of times, for display, to show off, to feel good about themselves, that they own the only one of, or one of 10 of. All that still is being built. We're seeing the projects, they're fascinating, that are coming down the pipeline, but they're not here today. You've got to think of the NFT play as a speculative venture play, but it's one that I'm highly confident in.

#### **Mitch Steves**

Perfect, and then just one last one, just in terms of just getting understanding of this for Galaxy, specifically. Of our client base, how much of your time is kind of spent still on bitcoin and ethereum, which are kind of 13-year-old and 9-year-old technology?

Then, secondly, to follow up with that, just based on your comments on DeFi and NFTs, if somebody was giving Galaxy, let's say, \$50 million to invest, are you guys more bullish on the NFT space or DeFi? I'm just curious where you guys are focused on right now in terms of investment dollars.

#### **Michael Novogratz**

That's the \$64,000 question. We have two separate Venture Teams. One works on Interactive and one works on DeFi and the kind of crypto architecture space. There are stupidly smart people in both groups. I would allocate capital, probably, evenly. We're going to allocate by opportunity that comes up, but in my mind kind of an equal amount budgeted to both. I really think they're both fantastically cool opportunities. We are raising a fund in an Interactive space that will have its first close this month, and I think will be fully subscribed within a few months, on the Interactive space, and on the DeFi side, we're doing it all on-balance sheet, but those are two really, really exciting opportunities.

I forgot your first question.

#### **Mitch Steves**

I was just curious (multiple speakers) like the people you're investing with or your investors, how much time is still being spent on bitcoin and ethereum, is it like 90% (phone) or something like that?

**Michael Novogratz**

Yes, for the institutional client base, we--I have this joke, saying that I wear a suit one day and a hoodie the next, right? The institutional client base is going to start with bitcoin. Damien has three pictures of Volvos in his office, right? We want to make them feel safe, make them understand the thing, and make sure they know we're safe hands to participate with. So, I think for most institutions, it will be 95% bitcoin to start. Then people further on the risk curve are moving into the rest of the space. For investors, people are putting money into venture funds or venture investments, that's coming out of mostly family offices into kind of the DeFi venture or the Interactive venture space. But, remember, big institutions move slow, and you can't criticize them in lots of ways. Up until 12 months ago, there wasn't enough liquidity, even in bitcoin, for giant places, like a BlackRock or Ray Dalio's Bridgewater, to really participate in any big way, or certainly an insurance company. So, asset classes have to gain volume and market cap before they will attract institutional money. Most of the fringier stuff, the more fun stuff, in lots of ways, where the innovation is happening, doesn't have that liquidity and/or market cap yet to bring in the big institutions.

**Mitch Steves**

Okay, that's very helpful. I'm actually, honestly, a little surprised by that, because I would think that the hedge fund (inaudible) would realize that all the alpha generation's on the edge of tech now, but that's extremely helpful. Thank you.

**Operator**

Our next question comes from the line of Zane Chrane with Bernstein Research. You may proceed with your question.

**Zane Chrane**

Hi. Thanks for fitting me in. A question for Mike. I really liked the way you described this as a once-in-a-generation paradigm shift, and to me, it's probably parallel to the Internet in terms of the long-term significance it can create for society and business and culture, everything. If we look at the Internet as an allegory for the rise of crypto and digital assets, what similarities do you see as important between those, and then what are the most notable differences you see? Then, lastly, why do you think this has been a much more polarizing paradigm shift than something like the Internet?

**Michael Novogratz**

I'll start with the second question. This came from a response to people being upset with the status quo, for people being upset and distrusting of centralized authority. The ethos of crypto was to go after the rent takers, to go after the financial institutions. It was coming out of the great financial crisis that Satoshi wrote this paper, where there was a real breakdown in trust. So, there were vested interests, and continue to be vested interest, that says, hey, this young generation, this is a Millennial and Gen Z revolution that wants to kind of rebuild the way things are done that feels more fair, that feels more egalitarian, that's more transparent, and so it wasn't a win-win for everyone in people's minds. You think about how hard JP Morgan fought this, right, Jamie Dimon, over and over and over, and then finally kind of conceded and said, "Wow! Now we better start investing." That's not an irrational play that he made. Up until literally 18 months ago, even a company as big as Facebook couldn't get banking for the Libra project, when it was called Libra, from the traditional banks. So, there was a vested interest play, I think, going on here which created some of the tension. I think a lot of that has shifted. The banks have said, "Okay. Hey, it's time to get on board on this, because the world is changing."



What's most similar, I think, is network effects. What's so interesting is how fast the network effects can work. When you think of projects like the ethereum project, which is decentralized, people working on it from all over, it gets its value by the more people that program on it, the more people that use it, the more people that develop on it. In that respect, it's that viral nature of how fast things can go is very similar to what we learned in the Internet.

**Zane Chrane**

Absolutely, that makes a lot of sense. It's interesting, just as an anecdote, we hit 100 million crypto users globally in January, and that's about where the Internet was globally in 1997. It's an interesting kind of frame of reference for how early on we are in this. Anyway, that was the...

**Michael Novogratz**

Well, that's (multiple speakers).

**Zane Chrane**

Go ahead. Yes, I was going to say that was the philosophical question. I did have a little bit more technical question here. What do you view as the most important technological developments in crypto that will help either accelerate the crypto, kind of technology use case adoption or digital assets as an asset class? When I say "technological developments," I'm referring to things like Layer 2 scaling solution, Oracles (multiple speakers).

**Michael Novogratz**

I would put it in two buckets. The one cool thing about bitcoin is it's a finished product, it works, it's done, it's not going to look much different in 10 years, where ethereum's not, right? So, having Eth 2 (phone) work in scale and get to the decentralized speeds we need, I think is where lots of focus and energy is happening. We're optimistic, we believe in it, but it's not done yet. I think that—if I had a genie that whispered in my ear with 100% certainty that we would have this spectacularly both decentralized and fast blockchain, that would make me feel really good.

The second, and maybe just as important is, and this really goes to DeFi, is how can we get a regulatory-compliant DeFi, how can we operate in a world where I'm executing against a smart contract, but I know the smart contract on the other side is executing against somebody who is okay to trade with, how do I get the blue check DeFi process, and, listen, there're lots of projects that are working on this right now, I have great faith that that'll get solved, but once that happens, I think you're going to see a real acceleration of DeFi, because then who's there to regulate? These aren't companies, this is code, and so it's not like you can regulate people. So, I think that the real threat to the legacy system is once this KYC/AML piece gets solved, and there are lots of creative ways that people are looking to do that. Those two things, if we sped ethereum up like we think we will with Eth 2, and we solve this KYC-embedded piece, listen, I think your 1997 analogy would be a perfect one.

**Zane Chrane**

Really fascinating. Lastly, I just want to say congratulations to everyone at Galaxy Digital. The ability to combine vision with execution is really incredible with what you guys have done. Congrats, and hats off to everyone there.

**Michael Novogratz**

Thank you so much.

**Operator**

This concludes our Q&A portion. I will now turn this call back over to Mike Novogratz for closing remarks.

**Michael Novogratz**

Well, guys, just wanted to say thanks for your support. It has not always been an easy ride being a Galaxy shareholder. It has been a great ride in the last year. We're hoping it continues to be a great ride in the future. We are working as hard as we've worked in our careers. We're hiring people as fast as we can, so people don't have to work the hours they're working. We see great opportunity and look forward to updating you soon on some really exciting things that are in the works.

**Operator**

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation and enjoy the rest of your day.