EDITED TRANSCRIPT

GLXY – Galaxy Digital Holdings Ltd

Third Quarter 2022
Shareholder Update Conference Call

EVENT DATE/TIME: November 9, 2022, 8:30AM ET

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PRESENTATION

Operator

Good morning and welcome to Galaxy Digital's Third Quarter 2022 Earnings Call.

Today's call is being recorded.

At this time, I would like to turn the conference over to Elsa Ballard, Head of Investor Relations. Please proceed.

Elsa Ballard

Good morning and welcome to Galaxy Digital's Third Quarter Earnings 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 authority on SEDAR, and available on our website or in future filings we make with other securities regulators. 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 turn it over to Mike Novogratz, Founder and CEO of Galaxy.

Mike Novogratz

Good morning, everyone.

We've got a lot to cover today. It would seem strange not to start with the events of the last 72 hours. In some ways, this is the year where the bad news in crypto has just kept coming. It reminds me that this is a very young and new industry, and part of the growing pains is weeding out the bad actors, the excesses, and pivoting towards something that's more trusted. There's an irony, quite frankly, in that one of the reasons that I got into crypto was transparency, was that crypto has the potential to make financial markets far more transparent, far more efficient, and far more egalitarian, yet we've had two-three-four episodes in the last 12 months that have really dented the momentum of this space. It leaves me angry and frustrated but resolved that Galaxy has a role to play and a very good role to play as a strong, transparent, smart, risk-managed focused institution.

Listen, we put out in the report today that we have $77 million of exposure to FTX. Of course, that doesn't make me happy. That said, our job is to provide liquidity to 880 different clients, and so we are trading on every major exchange, the major exchanges that we deem worthy of trading on. We have a credit committee that goes through, they meet all the time. In this case, we were already taking risk down Sunday night. By the time they, in essence, dated withdrawals, we've gotten roughly half of our risk off the exchange and are left with being a hopeful yet cynical depositor, or creditor.

You don't expect this from an organization that was heralded as one of the good organizations that were close to regulators, that were close to some of the biggest investors in the world, and so frustrating. The good news is it's 4% of our capital, it's 2% of our assets, so while it stings, it's by no means that detrimental.

I also like to prepare for the worst and hope for the best. It's way too early to completely understand what happened there. It's way too early to understand what recovery will be, if we indeed get our capital back, or we end up getting some portion of it back. But it does really, I think, hold our space in context for this year. I addressed the firm yesterday and I certainly was angry, but I was also optimistic. It gives Galaxy our lane to play, right? Why did we get into this business in the first place, right? We got in because I thought crypto would make a difference, as all our employees did, because Bitcoin has a store of value in a world where populist governments continue to print money. It's inevitably going to succeed because blockchains are showing up all over the place.

You can see Instagram now using the polychain blockchain—I'm sorry, the polygon blockchain. You can see financial institutions moving into this space at a monthly and weekly basis, and so I am more certain there's an inevitability that this space will grow. We are really laser focused on our place in that. On the one hand, competition is changing, the landscape completely changing. A lot of our competitors are blowing themselves to smithereens, and we've lost lots of people in the credit business, if it's BlockFi, Celsius, Voyager to name a few.

That said, trade volume institutions are moving into the space and/or preparing to move into the space, and so we're laser focused on how we preserve our lead, that domain expertise of staying on top of this business. It is risk management, it's relationships with those 880 trading accounts and the investment banking accounts and the asset management accounts, building trust. Listen, I think you come to work every day, you do that, and over time we will survive this.

There is an irony in that the macro environment was shifting and crypto was really starting to look good as of middle of last week, and yet this is another setback, and it will be a setback, right? There's going to be regulatory headaches galore. I'd say Sam Bankman-Fried spent more time than anyone in Washington, and so regulators are going to take a new look at this, and so that's frustrating, confidence in institutions, and so I'm not trying to be Pollyanna-ish. I certainly think this makes the operating environment more challenging for the next period of time. But I want to emphasize, I have not lost any of my medium- and long-term belief that this space is inevitable.

Let me see where I'm going here.

Let me focus on a few things that we're going to do, that we have done and we're going to do, to make sure Galaxy remains an important player in this ecosystem. One, we looked at our costs, we looked at our headcount, and we made some adjustments. That was pre this FTX scenario, though I don't think we will change anything going forward, and it was roughly 15% or 14% of headcount. Those were painful decisions. We love our employees. This was not performance based; this was looking at what we thought the business could do over the next 12 to 18 months and where we wanted to invest.

I would point out that we're increasing our investment in engineering and in security and in legal, expensive parts of the business, but we really think it's essential to build a company that will withstand what institutional investors want and what regulators want. Again, I feel it's always painful to let people go, but I think we've right-sized the ship and feel good about that.

Listen, we also have an announcement. You know, Damien Vanderwilt, who has been our President for the last two years along with Chris Ferraro, at the end of the year is going to transition from running our global markets business to being a senior advisor working on strategy and joining the public company board. In lots of ways, Damien did his job. Since he came here, we hired a world-class COO in Erin, CFO in Alex, a CTO, a CMO, and a Chief Security, and so I now look at the team and we have a very strong senior management team, almost every bucket, so I feel great about where the firm is in terms of management.

We know our mission, and in some ways it's relatively simple, we are going to make a big bet on building a client-forged strategy in the sales and trading, or the intermediation business, all centered around what we call Galaxy 1 Prime, or G1 Prime. I think and we think this is a must win. We need to win this space. We've elevated one of our smartest guys in the firm to captain this mission. We've allocated 35 employees solely focused on building this out. Our Treasurer, Tom Harrop, has now assumed the lending responsibilities, he's working closely with his team trying to get capital efficient strategies for our clients. The offering integrates trading and lending and cross-portfolio margining, derivatives alongside access to qualified custodians for institutional investors. There are other people working on Prime. We really think we are going to build the best-in-class, and we're making a big bet on that.

Other than that, we are really going to focus on our asset management business. We've listened to what clients want, it's going to be a client-first driven strategy. Because of that, we're making a bunch of strategic realignments to ensure we show up with the best product. We hired a young man named Mike Giampapa to join our venture team, and we'll shortly be moving our on-balance sheet venture, a team that's made over 107 portfolio investments in companies like Fireblocks, 1Inch, Bullish Global. That team is going to move into asset management, where we'll allow outside investors to invest alongside the capital of Galaxy that we've put into that space. I think that's exciting. Hopefully that group is in, you know, first half of next year, that we're in the market.

We're going to focus on higher margin fee products. That said, we are going to retain our access products with regional partnerships. We're going to announce one very shortly in Latin America and we are working really closely at inking deals in Europe and in Asia to help distribute our products. When I think about it on a go-forward basis, we're focused on Prime, we're focused on pivoting asset management. We still have a big mining operation. Listen, it's no surprise to anyone, mining has been a tough environment this year, but we are long-term believers in Bitcoin. We have a tax incentive or a tax advantage in mining Bitcoin. The mining business is relatively straightforward: if you get the cheapest electricity, a very efficient team, and buy your chips cheap, you win in mining over time, and even when hash rate goes real high as those other factors make it more and more difficult, the low cost producer wins.

We have a long-term horizon on this. Traditionally, we were using through outsourcing our miners to other places. We always had an idea that we would vertically integrate this. Exciting that in January we're going to open our first wholly owned site in Texas, and the plan is to over time transition all our mining to sites we own. We think that will be a very good business for us in the medium to long run.

All right, what else do we focus on? Our balance sheet, you know, our financial health for us and for our investors is wildly important to us. In that, the news is fairly good. At quarter end, we had over a billion dollars of cash and $1.5 billion of liquidity. Our cash today, I just checked with our treasurer, as of today, is roughly the same, and so we have plenty of cash to prosecute what we're looking to do.

Our stock trades unbelievably cheap. If you think about what our published quarter end book equity was, roughly $7.50 Canadian, and where our stock closed yesterday, it's almost a 40% discount to NAV, almost trading on top of the gross cash level, and so that's frustrating to all of us here, and I'm sure it's frustrating to you as investors. We are going to try everything we can to change that. We did buy roughly $50 million worth of stock over the last four months, five months. The Canadian exchange has relatively specific rules of how much you can buy and when, and how much volume you can be, and so you can be assured that we certainly are thinking about our stock price, thinking about using our assets to drive it up, because we just think the stock is woefully cheap.

All right, last but not least, what do I think the world looks like? If FTX hadn't happened, I was going to tell you a story of increased narrative, if it was Fidelity launching a retail product, or Instagram building their NFTs on a blockchain, all across the board I'm seeing adoption, Elon Musk at one point using crypto in Twitter, that was getting people more and more excited, and Bitcoin and Ethereum both were trading like they wanted to go higher. We were seeing more customer engagement, doing more trades and were positioned for a fall rally, but it was kind of market sense that when the Fed flinches or when the Fed stops raising rates, and at one point they will, crypto is really going to take the next leg up. That seems to be a pretty good framework.

This has put a short term wrench in the oil, and I think we're going to have to be nimble and agile for the next two to 12 weeks as this digests and people really make sense of what happened. That said, this space has digested from Mt. Gox way back on, blowups, scandals, bubble pops, and there is a resilience to the crypto space that I have seen in almost no market that comes from the real belief that people have in the underlying mission, and so I'm confident that the macro will take back over. Again, if I had a crystal ball, I'd tell you exactly when, but I would think within a quarter we are back correlated to macro and we're not an event-driven space.

I'll leave it at that. I think it's going to be a challenging environment. I think Galaxy is well heeled and well positioned to navigate it. We have a senior group of risk managers and, you know, senior people that have been through the wars before, and so we'll leave it at that.

Alex is now going to hit you on the financials.

Alex Ioffe

Thank you, Mike, good morning.

Our business performed well under market conditions that continued to be challenging. We ended the quarter with $1 billion in cash and $1.8 billion in equity capital. We reported a loss of $68 million for the third quarter, partially related to unrealized markdowns on our private investments. Due to difficult conditions for Bitcoin mining, in this quarter we conservatively took a small impairment on our mining equipment and reserved for a portion of receivables from mining counterparties. Both amounts were reflected in higher G&A expenses, but neither impairment was material.

We continue to be bullish on Bitcoin mining and believe that this dislocation in mining provided opportunities to look for undervalued assets. Our total liquidity at the end of this quarter was $1.5 billion, consisting of $1 billion in cash, $187 million of net liquid digital assets, and $236 million of Stablecoins, predominantly USDC issued by Circle and a small amount of Tether.

I will now hand the call back to the Operator for questions. Thank you.

Operator

Today's first question comes from Chase White with Compass Point. Please proceed.

Chase White

Thank you, good morning, guys. A couple of questions, if I may.

The first one is kind of high level, but how did—in terms of the FTX news, I'm curious what you think the impact to your counterparty trading business and lending business could be. Is this something that you think over the coming months and quarters, where you'll see counterparties become a little more averse especially to using leverage in general? Could this impact the interest rates you can charge as other shops try to compete for the remaining business out there? Just curious how you think about that.

And then I have a follow-up. Thanks.

Mike Novogratz

Yes, I would say in the short run, people will pull back. Everyone will be nervous until they see—you know listen, we feel lucky in some ways that we're a public company and we just published our financials, and I just told you that we basically have the same cash position. We're not insane, we're not going to tell you something that's not true, and so I do think, over time, having a strong balance sheet and having relationships with people will allow that business to actually grow, but I think in the short run, people are nervous.

You know, the interesting thing is people need a place to deposit their crypto, and so there will be places, and I think at one point you're going to see the industry really push and maybe force real transparency on the lenders, and we haven't seen it. You would have thought after Celsius, people would have demanded more, and I think FTX and Sam had this halo, and so maybe people didn't push as hard as they should have, I don't know. We'll see what comes out on that.

It's unbelievably frustrating, because it certainly isn't what you're used to in doing business. I feel immensely bad for all the people that have lost fortunes, or at least have fortunes at risk right now. That's not the game people are in. You lose money when you make the wrong bet, not when somehow your deposits get whisked away, so I do think the market is going to push that way and it will take some time, but I don't think the credit business is going away in crypto.

Chris Ferraro

I'll just add a couple things to what Mike said.

I think from a risk perspective, we are laser focused on identifying and managing any potential second, third, fourth order exposure, and so that's counterparties who made—intelligent counterparties who may have direct exposure to FTX, etc. We feel very good about where we sit in that equation and our risk management on that side, so we don't have any concerns there. That's on the risk management side.

On the go-forward business side, I agree largely with everything Mike said. We saw it happen earlier this year with 3AC and the other lending platforms, who themselves went out of business and had counterparties, market participants who are customers and counterparties who also took pain. What we saw there was, as Mike said, short term, the market slowing down after the dust settled, but then we've demonstrably started to win market share, albeit from a smaller pie, and so I would expect that same dynamic to happen, where we continue to be in the market. We have capital, as we've told the world. Our business model is focused on servicing those clients, and so albeit the pie will likely be smaller for a short period of time, we will continue to take market share today, and so as the pie grows, our share of that growth should be significantly larger than when we entered the year to start, before all this stuff happened. That's how we see it playing out.

Chase White

Great, that's very helpful. Thanks.

Then the second question is for the self-mining business, is there an opportunity out there to take advantage of the distress in the industry and pick up some mining data centers or mining rigs on the cheap in the coming months, or even a possibility that you take ownership of collateral underpinning the equipment loans that could benefit you guys? Just curious how you think about that.

Chris Ferraro

Yes, I'll take this one.

From a mining lending perspective, we have largely de minimis exposure. We've said we did three small deals in the quarter. You can see that the total amount that we did aggregates to less than $8 million, so our position on lending against ASICs has largely been cautious for most of the year.

From our side and that side, we will not be foreclosing on collateral opportunistically in any way in size because of that.

We do see other players who took significantly larger exposures doing that, who will likely have issues in terms of collateral that they may or may not foreclose on and then what to do with it, and so we are very focused on secondary activity of ASICs, both from direct miners as well as lenders who will end up at the end of the day long that exposure, and we are situated in a very good position to help provide liquidity at good values for that equipment.

The other point you made, which we think is a very interesting one, which we are spending a lot of time on, is are there bigger, longer lived infrastructure assets that are available and would make sense for us to accelerate our plan to sort of vertically integrate. That is something that we have an entire team spending all of their waking hours on, and have been for the last few months here, so I can't point to anything specific yet, but know that we are very active in evaluating what's out there right now.

Chase White

Perfect, thanks, guys. Appreciate the color.

Operator

Your next question comes from Michael Legg with Benchmark. Please proceed.

Michael Legg

Thanks and good morning.

Could you talk a little bit about what you're seeing in the private market versus what we're all seeing in the public market? Your venture portfolio seems to have gone down to 152 investments; I think you were over 200 previously. Just kind of want to understand what you're seeing privately versus publicly, and what's going on with the venture portfolio.

Thanks.

Chris Ferraro

Sure, I'll take it.

Just to clarify, I think the number with the two handle you're referring to likely included both Galaxy Digital balance sheet investments as well as investments that are in managed funds, including our active funds, so the 152 is not apples to apples with the 200, so we haven't had a decrease in the number of investments.

Michael Legg

Okay.

Chris Ferraro

What are we seeing there? We have seen still for most of this year a fairly stubbornly wide bid-ask spread in terms of valuation in the private market on the ask side versus public cryptocurrency prices, public equity prices, etc. We have continued to make new investments.

I would say on average, those investments have been smaller in notional dollar amounts, because we've leaned more earlier stage where we think value exists significantly better than in companies who earlier in the year were further along the growth spectrum and were trying to hold onto what we now view as stale valuations from 2021. We've done a smaller number of deals at smaller dollars being deployed for that reason, but it is starting to happen, and what I mean by starting to happen is these companies who are doing great things and are building great products in early stages eventually have runway and will go look to raise capital, and the capital available to investment has shrunk dramatically.

Clearly valuations, both in the cryptocurrency market and the public equity markets, have come down dramatically across the board, and so there is always a lag in that market, and so, again, our positioning with the cash balances we have, the team that we've invested in who are focused on finding the best companies at the right valuations, we are best positioned right now for that, the private market to finally come our way after what has been truly years of really up and to the right and really lofty expectations.

It is starting to happen. It is much slower in the public markets, and all we've done is position ourselves with capital and talent to be able to take advantage of the opportunity.

Michael Legg

Okay great, thanks. Then just—go ahead?

Chris Ferraro

No, I was going to say, one other thing I was going to add, just to emphasize the point Mike made in the prepared remarks, our intention going forward is to do that activity, both with firm capital as investors in products, but really opening that product up to external investors. It's good for LPs, in that they can get direct access to our access and investment prowess. It's also great for shareholders of Galaxy, because shareholders for Galaxy will still get the same kind of exposure that they have today in terms of direct access via our balance sheet, having likely ceded the existing portfolio as well as ceding new portfolios, but Galaxy shareholders also in that regard are going to get much more predictable management fees in the revenue streams that are high margin streams as we build out that franchise.

And so, I just want to emphasize the strategic shift that we've made as a—that we're making as a company as we think about our investing activity and how it manifests itself ultimately to shareholders.

Michael Legg

Great, thanks. Just one quick follow-up. On Washington, you know, Sam Bankman-Fried has obviously been down there a lot. Could you talk a little bit about your efforts in Washington with other members of the Blockchain Association and what you're doing to get Galaxy's voice heard?

Mike Novogratz

Yes, I was actually just down in D.C. probably six weeks ago for two days and met with 13, 14 congressmen and senators. We have a full time employee who grew up on the Hill, who seems to know everyone, Tyler Williams, and he's doing an amazing job for us. We also have Neal Katyal, who is on our advisory board, who is very well plugged in, who can help guide Tyler, and so we are quietly engaged as opposed to as publicly as some of our peers have been, trying to educate and help drive legislation. We'll see. Assuming the Republicans actually take the House, which looks pretty certain this morning, I think the landscape is going to shift there pretty quick. The new head of the financial services committee is a crypto guy, and he is very focused, and I think you're going to see a much more aggressive Congress when it comes to the SEC, the CFDC, and the like.

Michael Legg

Great, thank you. I'll get back in the queue.

Operator

The next question comes from Deepak Kaushal with BMO Capital Markets.

Deepak Kaushal

Hi, good morning guys. Thanks for taking my questions. I'll try not to butcher what I'm trying to ask here.

Given all this FTX stuff, including there's a lack of transparency on the leverage, the assets and collateral, and the true value of some of these crypto assets in shallow markets with not a lot of visibility on the trading volumes, how are you guys ensuring that when you make your own private investments, valuations aren't inflated by these low liquidity alt coins that aren't really truly equity?

Mike Novogratz

Well, let me take part of that, and Chris can answer, if he wants.

From a trading perspective, one of our screens is total value versus floating value, right, you know, is it a real price or not, and so if I'm going to buy a coin or short a coin, that's a big input in it. From our venture side, we rarely, if almost ever, buy just coins. There's been one or two occasions where we've bought coins in great projects at big discounts because we were willing to lock them up, but most of the venture investments we make are early stage, where you might get coins in addition to the equity you're investing in, and so I have been very skeptical since 2016 of high valuation, low float.

Chris Ferraro

I'll pick it up from here, and then even Alex should probably jump in.

A typical life cycle of a particular early stage crypto investment, where we make a small dollar investment in an early emerging pre-launch protocol, would be we would make an investment, and that investment would be held on balance sheet pretty much at cost for the longevity of that investment. As a new token launches, once there's an established market for that token, likely tokens that we own will have some locked up vesting schedule where over time they get released and we get liquidity along with other market participants.

In that scenario, Deepak, we have a very robust and fairly aggressive, meaning conservative on the valuation side, approach to discounting any mark-to-market on that investment for both the fact that our access to those tokens is limited because they're restricted, as well as the liquidity of those tokens in the market, and so while it varies based on how long the investment's seasoned, how liquid the market is, to the extent we have tokens that are valued in the market even though there's lower liquidity, you will see oftentimes those being held on our balance sheet at discounts of 60%, 70%, 80%, 90% to where they are in the market. That's our internal process for valuation that's validated by external valuation sources, it's validated by our auditors, and that's how it ultimately manifests itself on our balance sheet.

Alex Ioffe

That's right, and then when these tokens are fully free of restrictions, they end up in our digital assets, and it's a fairly small portion of our net digital assets.

Deepak Kaushal

Got it, and so if we look at the Level 1, 2 and 3 classifications on your balance sheet, those are based on what a traditional financial services firm would use criteria, or are they based on a new set of criteria for the crypto world?

Chris Ferraro

No, it's based on the standard stuff and described in—

Deepak Kaushal

Okay, that's helpful.

My second question, if I may, on the U.S. listing process, maybe if you can give some color—I don't know if you covered this earlier in the call, I joined late. What are the current hurdle rates you're facing right now, obviously aside from the midterm election issue, and we did get some accounting clarify from FASB on digital assets, is that helpful, and how does this improve your profits for (inaudible)?

Alex Ioffe

It is helpful. FASB came out and said that they believe that digital assets should be mark-to-market, which is wonderful; however, we expect the adoption of those rules to take anywhere between nine and 18 months on the fast path, so for now we're still living under the current U.S. GAAP interpretation, and right now we're looking for a little bit of clarity from the SEC on one of the accounting interpretations in order to progress further with our filing.

Deepak Kaushal

Okay, thanks for taking my questions.

Alex Ioffe

We're actively working on that.

Operator

The next question comes from Rich Repetto with Piper Sandler.

Rich Repetto

Good morning, Michael, and sorry to ask you about all these macro questions. You've been a commendable and incredible representative of the crypto space, and you're the one that's got to explain all this now.

But anyway, I guess my question is again around regulation. The industry has used the term lending in regards to these tokens, but doesn't this just play right into our friend at the SEC—Chair Gensler's sort of assertion that it's more—that this is more of a security… Like, you say lending, there's some expectation that you're going to pay back, but these tokens, I don't know whether there is that expectation, whether there's some expectation of vesting and ownership of the exchange. I guess the question is, isn't this playing right into the hands of this securitization issue around tokens, and then anything—you know, FTX U.S. still out there, does it have any chance of getting some of the things that it was trying to do, like this non-intermediary clearing, into the U.S. now?

Mike Novogratz

Yes listen, it's a good question.

Part of what happened with crypto is, because there was not clarity from regulators and because it was a brand-new industry, people designed a lot of tokens to in essence get around or play within the lack of transparency of the existing securities rules, and so a lot of these—like the STP token for instance, it gave you some utility, you could use it for discounted fees, you could use it for a few other things, and so there was utility to it. It traded in the market like a proxy equity because they would burn a certain amount of the supply of the token, but it gave you no real right to the underlying cash flows of the company.

I personally don't think that's the future. I think things that feel like security tokens will end up being security tokens once there's some more clarity from the regulators, and that things that feel like utilities are utilities.

I think one of the things that we learned, if you think about why we had deposit insurance back in the 30s, it's because you had a lot of people lost their money depositing money at banks and having the bank abscond it. We have now had one, two, three, four examples of consumers depositing their crypto, their Stablecoins or their crypto coins, at places and something happening where they thought they had put their crypto in a safe place, and it turned out not to be safe.

That piece of the regulation, people haven't spoken about, right, these non-bank banks, should they have some form of leverage limits, should they be regulated. My sense is it will head that way because—and I said this all the time when I would speak to crypto companies, we have to self regulate or we're going to be regulated, and the community has done a pretty shitty job, excuse the word, of self-regulating, and this last example is infuriating, but it's just another example. I do think that piece of the business is going to be looked at very closely.

Rich Repetto

Thanks, Michael.

Mike Novogratz

In some ways, you know, there's two other ways to think about it. We want to be a trusted intermediary. We think we've earned it. Our clients will tell us when we've really earned it, you'll see our client base grow and our business grow, but that's what we're striving for.

The other piece of this, and in some ways the real irony of all these blowups, is the companies that keep blowing up are companies that focus on crypto, but are still centralized companies. One of the futures, and it will be a shame if it gets set back too far or put in the dustbin, is defi, right, decentralized lending platforms, decentralized exchanges. What's stopping defi from really flourishing has been the KYC/AML, do we know who we're trading with, do we know who we're lending to. There are lots of protocols being built, we've invested in one called Sealance, that are really aiming to automate that KYC process in a safe and authenticated way. Once that happens and regulators understand that's a good system, then I think you're going to see the real explosion of the defi protocols and maybe lots of—that's the real transformation where the industry gets disrupted. That's not coming anytime real soon, but that's where a lot of the smartest minds are building. What's coming sooner is you're going to see more solid trade-fi players that operate in crypto.

Rich Repetto

Thank you.

Operator

Our next question comes from Jamie Friedman with Susquehanna.

Jamie Friedman

Hi. I wanted to ask about Galaxy asset management. You say in the press release that you have adjusted to strategically focus on scaling active strategies. The assets under management grew sequentially quite significantly, so any context you could share about the active strategy and the underlying growth would be helpful. Thank you.

Chris Ferraro

Sure, so in the quarter, we had both positive inflows outside of the active business in what we call sort of the passive business. Those would be our ETF partnerships and our single- and multi-asset institutional funds. The bigger part of the growth was in subsequent closes to Interactive Fund 2, which is an actively managed venture fund that we sponsor. That is, the asset management business for us on a go-forward basis, you know, we are focused on supporting the interactive team and following them through to their final close on Interactive Fund 2. As we've articulated, we also believe there is a separate strategy and a great team and a long successful track record here at Galaxy that, rather than get monetized directly on our balance sheet, should get monetized through new Web 3 focused venture product in our asset manager, and so that's the moving our opportunistic venture investment team off balance sheet into the asset manager, which should itself over time add significant AUM that includes higher management fee and higher incentive fee components, rather than the relatively small management fees that come off of the passive business.

Separately, we launched our Liquid Alpha fund in the asset manager with Chris Rhine, who is the portfolio manager, who is a wildly talented PM, has been taking meetings with the largest institutional investors globally throughout the large part of this year, is getting a lot of traction and shows really well, and so you will see us take a lot of the—so that follows the arc of what we've said we intend to do over time, frankly, as a business.

A lot of the activity that Galaxy originally did on its balance sheet, and we've proven ourselves to do well, over time we are migrating into the asset manager to create stable, predictable revenue streams at high margins, read significant management fees and significant incentive fees that should collect and stack on top of one another over time as we launch this product, so.

Interactive is our first big main franchise. Liquid Alpha and other actively managed mutual fund and hedge fund-like products, you should expect to see on the liquid side, and then additional illiquid active strategies in venture and other opportunistic funds should follow after that. Does that answer the question?

Jamie Friedman

Yes, that's perfect. Thanks for the details, Chris. Appreciate it. I'll jump back in the queue.

Operator

The next question comes from Hans Chung with D.A. Davidson.

Hans Chung

Good morning. Thank you for taking my questions. A couple.

First, I guess this is for Michael, just want to get your view on the potential direction of regulation after the FTX event. If we look back at the past six months, we see the meltdown of Celsius, the distress in FTX, and there are some things in common, like the human risk and then the centralized entity and, you know, without the full transparency, and so to me, it seems that it really reinforced the value proposition of the decentralized blockchain and the technology, or the crypto. But on the other hand, the consumer invest that got heat, so we also need the protection on consumer investors, and that also draws the attention from the regulators.

I'm just curious for your view on the regulation based on your conversations, your engagement with all these regulators, how do you think the regulation will evolve, but especially after the FTX event, would that be more against crypto, or do you think the regulator probably understands or realizes what's the factor driving the bad events so that there could be come out something more favorable to promote the blockchain?

Mike Novogratz

Yes, listen, it's hard to say. The process in D.C. has a life of its own, and the good news is that lots of both senators and congressmen have become very educated in the issues and nuance around what regulation is needed and how to start, and there is a couple schools of thought. But I think it's going to be a slow process, and until then, you're going to see continued regulation through enforcement, right? I'm guessing the SEC and lots of regulators have sharpened their pencils in the last 24 hours to say, oh God, we've got another thing to worry about, as plenty of people are going to have lost money. Again, most of the trading was supposed to be—you know, with FTX, it's from overseas accounts, FTX U.S. is a different thing, but there's plenty of slippage sometimes in those kinds of process, and so we'll see.

What's painful about this is that Sam spent so much time in D.C., and it wasn't that what he was saying was crazy, it's just if the messenger now looks like he ran his ship into an iceberg, we'll see why that happened. It's just going to anger the people he spent time with and I think it will slow them down some.

Hans Chung

Got it, okay. Next, can you help me understand the math from near-term and also long-term perspective, like what are key considerations you determine allocation of non-treasury or working capital for trading or some for lending, or credit or principal investment, etc., and also how—like, what's the factor to kind of determine how much cryptocurrency you want to hold versus cash or Stablecoin?

Mike Novogratz

No, it's—listen, we kind of see cash and at least USDC as interchangeable. The Stablecoins we invested are one-to-one backed Stablecoin, and it cost us a certain amount, right, to have money on exchanges to run our trading business. That varies on how comfortable we are with the environment, but call it $400 million to $600 million of money that's used in all the different venues to run all our liquidity business.

Our credit business grows with opportunity. Some of that was funded with capital, and some of that was funded by taking other loans, and you know, we continue to have one of the highest NIMs in the whole market, so our credit team has done a great job of finding good borrowers that we can effectively use for collateralized lending and being able to borrow cheaper, so not using all our balance sheet.

There are opportunistic add-ons that we are looking at. Hopefully by the next quarter or two, we'll have spent some cash on buying things that we think are synergistic, but can't speak to that yet.

Hans Chung

Got it, great. Thank you.

Operator

Our next question comes from Kevin Dede with HCW.

Kevin Dede

Hi, Mike, Chris. Thanks for taking the call.

I was hoping you'd circle back a little bit on investment priorities. Mike, I did listen to your preface and discussion of the industry, I really appreciate that, but I was hoping that we could take a step back and look at strategic priorities in light of the recent market shake-up.

Mike Novogratz

Yes, I would put them in a couple buckets. While we're building our Prime business to be able to use multiple custodians, we still there could be a role of having our own in-house custody, both hot wallet and cold wallet, so we're looking at that piece. In asset management, looking at scalable teams to come in and help build product out. We know a lot of people, we have distribution, and so it's—and we're moving some of our best investors into the space, but other places to find product, and then as Chris alluded to, in the mining space, if there are places to potentially build out our own data center-slash-mining in a vertically integrated way, that's kind of the goal.

Kevin Dede

Okay. Clearly, there's been a change-up in valuations, and this gets to Mike Legg's question. I was wondering if you wouldn't mind taking a step further and sort of charting how that disconnect between private and public valuations has migrated, and whether you think you can take advantage of that near term versus, say, medium term.

Mike Novogratz

Yes, it certainly has gotten worse, and there are some companies that I flirted with that would have been great add-ons, and both guys there and myself and our team kind of said, maybe they're a fourth of us, a third of us, a something of us, and they're raising capital at 2x or three times us in the private market, and so it puts—in the short run until we get our stock price up, and we will do a lot of—you know, we will try as hard as we can to do that, and/or until the private valuations come down, it puts us trying to take anything bigger than a bite size, a private company, into Galaxy off the table, so staying in conversations with companies that we want to partner with, and there's other ways.

We don't have that many levers to drive our stock. The Canadian market does not have a ton of volume right now and excitement around crypto is low as much as we put in that period we're allowed to, but there are a few other—there are tricks in the bag that we're going to be deploying, and most of it is just operating our business as well as we can and hopefully—like, we're not in a position where we need to raise capital for the Company at this point, luckily, because if you want to raise capital, below book, and so we're being as prudent and thoughtful as we can while keeping as much liquidity around.

Kevin Dede

Great.

Mike Novogratz

I know that's not a great answer—

Kevin Dede

No, no. The insight is greatly appreciated. Even more so, I appreciate you fitting me in at the end of the call here, sir. Thank you.

Mike Novogratz

Last question?

Operator

The next question comes from Kyle Voigt with KBW.

Kyle Voigt

Hi, thank you for taking my question.

Just a quick clarification point. I appreciate the disclosure regarding direct exposure to FTX specifically. Just wondering if you could provide any disclosure regarding if you have lending or borrowing balances to Alameda specifically. Thank you.

Chris Ferraro

Sure. Going into this, and currently, we had zero exposure to Alameda, we had zero exposure to FTT as collateral in any way as part of our lending business, and in general our entire book—not—our entire book generally is over-secured on an individual borrower basis, and any unsecured exposure we have is with the highest quality counterparty and is relatively de minimis to not just the lending book, let alone the whole firm, so zero exposure there across the board. The FTX balance, as we articulated, is really the only direct exposure, and it's down dramatically from where it could have been.

Given our place in the market, that in and of itself for the team was a heroic effort.

Kyle Voigt

Great, I appreciate you clarifying. Thank you.

Operator

This concludes the question-and-answer session. I would now like to turn the conference back over to Mike Novogratz for any closing remarks.

Mike Novogratz

Guys, thanks for your interest.

Like I said, you know, sometimes in crypto land, we see this as an opportunity in the medium term. We are focused to come to work every day and do our best trying to keep both enthusiasm and spirit at the Company, and we're pretty optimistic that nine months from now we'll have a whole different tone on these calls.

Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation.

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As previously announced, the Company intends to complete its proposed reorganization and domestication to become a Delaware-based company, and subsequently list on the Nasdaq, upon completion of the SEC's ongoing review and subject to stock exchange approval of such listing. The proposed reorganization and domestication is subject to approval by shareholders the Company and applicable regulatory authorities, including the Toronto Stock Exchange. In connection with the proposed reorganization and domestication, the Company has filed a registration statement, including a management information circular/prospectus, with the SEC, which has not yet become effective. SHAREHOLDERS ARE ADVISED TO READ THE FINAL VERSIONS OF SUCH DOCUMENTS, WHEN AVAILABLE, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. Shareholders may obtain a free copy of the registration statement (including the management information circular/prospectus) and any other relevant documents from the SEC's website at http://www.sec.gov. Copies of the final versions of such documents can also be obtained, when available, without charge, via Galaxy Digital's investor relations website: https://investor.galaxy.com/ The Company anticipates holding a shareholder meeting to seek approval following the effectiveness of the registration statement, and further details will be included in the management information circular to be mailed to shareholders and posted on the Company's SEDAR profile at www.sedar.com.

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