

EDITED TRANSCRIPT

GLXY – Galaxy Digital Holdings Ltd

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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

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

Operator

Good morning and welcome to Galaxy's Third Quarter 2023 Earnings Call.

Please note, this event is being recorded.

At this time, I would like to turn the conference over to Jonathan Goldowsky, Head of Investor Relations. Please go ahead.

Galaxy Investor Relations

Good morning and welcome to Galaxy'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 offered by Galaxy or its affiliates to buy or sell any securities, including Galaxy securities.

With that, I will turn it over to Mike Novogratz, Founder and CEO of Galaxy.

Mike Novogratz

Good morning, everyone. It's funny, the last 40 days seems like a whole different chapter than the third quarter. I am going to leave Chris Ferraro and Alex Ioffe to go through the results and go business-by-business and going to focus a little bit more on the outlook and the macro.

There's a new energy in the crypto space. It's primarily being driven by the anticipation of the cash ETF that we hope to see this year or very soon, it could happen as early as next week. And so the market is anticipating that, it's getting geared up.

Often in these situations, it's a buy the rumor, sell the fact kind of thing, right? People get really excited and the announcement comes out, and then you start trading in ETF in early January, and that could be the top of the market. I actually think this is going to be a little different this time.

We have been waiting for institutions, almost like that famed waiting for Godot, sitting on the subway station waiting for the car to show and a lot dipped their toes in. This ETF is going to make it really easy to open the door for institutions coming into the crypto space.

When you marry that with the uncertainty in the world with the fiscal crises, quite frankly, that's going on in the U.S. and in the rest of the developed world, with the slowdown in China, it just makes for a really interesting time for institutions to put 1%, 2%, 3% of their assets into Bitcoin and other cryptocurrencies. And so, I kind of think this is going to be the start, not to finish.

Will prices go straight up forever? Of course not. There will be volatility around the announcement. There will be volatility around the actual implementation of an ETF. But I think 6 months, 12 months down the road, you will have seen a lot of capital shift - small for portfolios, a lot in aggregate shift into our space.

That's given the firm a new energy. Listen, it has been a hard 18 months of building and lower volumes, trying to keep, for each employee, to keeping their own morale up. And so really having the price go up 35%, but also the phones ringing more, the opportunities more, the bankers busier, makes us a lot more—makes this industry more fun to work in.

It's not all roses. We still have regulatory frustrations here in the U.S. specifically. I have been in D.C.—I was in D.C. yesterday. I was in D.C. two weeks ago. The bright news is, I think, the leadership of both parties does see this as a bipartisan issue that will get done in time. There are some obstructionists that have really held back any legislation.



And quite frankly, right now, there are other priorities, right? Will the government be shut down in a week? We have got a war both at the Ukraine and in Israel. We have got elections coming. And so I am not Pollyannish, I don't think anything gets done this side of the election. But there are plenty of smart guys in Washington and plenty of good pieces of legislation already crafted that will propel this industry forward in the next 18 months. And so 18 months can seem like a long time in the big picture, it's not.

And so we have got at least the potential of regulatory clarity coming. We have got a Fed that's going to stop hiking rates and probably we will be cutting rates by the first quarter next year, right? The economy is slowing. The experiment of raising rates 550 basis points in a straight line is actually going to work and it's going to slow the economy down finally. And I think once that Fed cuts, it's another tailwind for crypto.

So put it all together, it just feels better. Our results in the third quarter weren't great. The first month, we already made that up and then some and we are off to a good November. And on top of that, each of our businesses is starting to fire, right?

We are winning mandates in asset management. Our mining facility is up and running and has performed great. Our derivative business, our lending business, our trading business is doing great. We are recruiting new talent. We have got two new traders that I am wildly excited about, a little pressure on you guys. And so could it have a more different view than I did even three months ago.

And so, with that, I am going to turn it to Chris to get into the details of the quarter and the details of each business and then Alex to really give granular. Thank you.

Chris Ferraro

Thanks, Mike.

Our third quarter results are a testament to Galaxy's diversified and resilient business model as we continue to drive growth in each of our three operating businesses. Let's start first with Global Markets.

Despite lower trading volumes across the industry, Galaxy's counterparty volumes increased 70% quarter-over-quarter, confirmation that we are continuing to gain market share. Despite the uptick in volumes, our counterparty trading revenues decreased to \$14 million in the quarter due to historically low volatility and a decline in revenue from derivatives.

However, in October, we realized the benefits of our market positioning and the recent uptick in volatility and generated approximately \$24 million in counterparty trading revenue, representing over 70% growth in the first month of Q4 alone versus the entire prior quarter.

The lending side of our business continued to grow in the third quarter as well. Loan originations were \$117 million and our average loan book size increased by 9% quarter-over-quarter, growing to \$553 million notional as of September 30th, reinforcing our position as one of the largest collateral-backed lending counterparties in the digital asset space.

Our debt continued to onboard new counterparties, bringing the total count from 999 at the end of the second quarter to over 1,020 at the end of September. We believe the approval of a spot Bitcoin ETF in the U.S. will serve as a key catalyst for several of these counterparties who onboarded with Galaxy, but are not yet trading with the desk and our preliminary October trading performance and counterparty engagement supports this thesis.



Over the past several quarters, we have been focused on developing a unified digital asset marketplace for institutions called GalaxyOne. We have 10 clients committed from our initial beta user cohort, of which a handful now have live access to use the platform.

We are continuing to build upon our current beta offerings of agency spot trading, custody and reporting functionality in the platform and we will be introducing new features, including margin, lending, API connectivity and derivatives in the coming quarters.

Turning to Investment Banking. While the backdrop for deal execution broadly remains challenged, our Investment Banking team did successfully close two transactions in the third quarter. The team served as an advisor to Gamercraft on its latest investment round and also acted as the exclusive financial advisor to Securitize on its acquisition of Onramp Invest. We expect to realize the revenue associated with both of these deals at a later date.

Additionally, as we noted on our last earnings call, the team was also selected to represent Prime Trust, a financial technology company providing trust and custody services to the digital asset industry in Nevada Receivership in an ongoing critical restructuring mandate. Our Investment Banking pipeline remains strong with 24 mandates, representing \$2.2 billion in potential deal value being pursued by the team currently.

Moving to our Asset Management business. We ended the third quarter with \$3.9 billion of assets under management, up 58% quarter-over-quarter. The increase in AUM was driven by net inflows into our active strategies, a result of Galaxy Asset Management being selected to manage certain assets within FTX's liquid digital asset portfolio in September.

Over the past several months, our Asset Management team has been working closely with the FTX estate to develop a comprehensive plan to appropriately manage its digital asset holdings for creditors. FTX oversaw an extremely diligence process to determine the best partnering investment advisor for the mandate and for Galaxy Asset Management being selected as a testament to the team's credibility with respect to risk and volatility management.

While I can't comment specifics of the mandate, what I can say is that Galaxy Asset Management is committed to managing these assets and any sales required by the mandate in a responsible manner that protects and maximizes value for creditors that helps the industry continue to rebuild trust and credibility. Note, we expect the assets under management tied to this specific mandate with FTX will decrease over time as we monetize the portfolio.

We also remain very focused on the U.S. ETF landscape. In the third quarter, we filed spot Bitcoin and spot Ether ETF applications with the SEC in partnership with Invesco. Invesco is one of the largest asset managers in the world with approximately \$1.5 trillion in assets, including over \$500 billion in index-based ETFs and other passive vehicles.

By combining Galaxy's knowledge and experience in managing digital asset ETFs with Invesco's experience in structuring and launching ETFs, our partnership offers unparalleled experience in product creation, operations, crypto expertise, distribution and education on both the asset class and the wrapper. This is what it takes to win in such a competitive market and why I am incredibly confident that we are well positioned to be the industry leader.

While the SEC's approval timeline for spot Bitcoin ETF remains uncertain, our unwavering belief is that the approval is now not a matter of if but when. Additionally, we remain focused on developing digital asset ETPs in Europe in partnership with the DWS Group and we will keep you updated as we firm up a launch date.

Galaxy Asset Management is one of the largest, most diverse digital asset managers globally now, with nearly \$800 million in passive AUM, \$1.7 billion in active AUM, \$1.5 billion in venture AUM. Our balanced platform approach sets us up very



well to capture institutional capital in what we believe is a multi-\$100 billion fund management opportunity in digital assets in the future.

Turning to our Digital Infrastructure Solutions business. It was another strong quarter for the mining team. Our mining revenue, which includes our proprietary mining and our hosting operations, was \$14.3 million in the third quarter relative to hosting fees and purchase power costs, net of curtailment credits of negative \$2.2 million, resulting in over \$16 million of direct mining profit margin.

We reached 3.9 exahash of hash rate under management across our proprietary mining and hosting footprint. Our prop mining operations represented 1.8 exahash of our hash rate under management and resulted in the production of 309 Bitcoin in the quarter and our hosted mining business accounted for the remaining 2.1 exahash. We are on track to reach our year-end target of 4 exahash and now have line of sight to continue to grow our hash rate under management into the new year by over 25% to 5 exahash by the end of Q1, with the vast majority of this increase of hash rate coming from owned machines that were already previously purchased being brought online in our next expansion phase at Helios.

Our effective power management strategy and integrated site operations led to a negative cost of power for the quarter, resulting in a negative average marginal cost to mine. Throughout 2023, we have chosen to hedge the majority of our power costs, which has proven to be a very successful strategy. This has led to an extremely low cost of Bitcoin production in the summer months as we were able to curtail our mining operations during peak demand periods to generate curtailment credits.

Looking ahead to the fourth quarter, we expect to maintain a highly competitive but higher cost of Bitcoin production compared to the third and second quarters, as we anticipate fewer opportunities to curtail and a higher network hash rate.

Our core thesis developed during the acquisition of Helios was that the infrastructure is strategically positioned in a dynamic power market that's rapidly evolving as additional wind and solar generation interconnect into West Texas. Coupled with ERCOT's market structure and our mining team's proven ability to develop and operate digital infrastructure at scale, we are extremely confident in our ability to navigate the Bitcoin halving expected in April 2024 while maintaining a healthy margin in our mining business.

Turning finally to GK8. Across our infrastructure business, we have been encouraged by the growth of GK8 with the team expanding to a total of 16 clients in the quarter and maintaining a strong pipeline of potential large enterprise clients and we remain incredibly excited about the long-term growth prospects, and therefore, enterprise value creation potential from this business, given the enormous TAM that global asset digitization broadly presents.

The investments we have made here at Galaxy over the past five years are driving momentum in each of our operating businesses now, which we believe will generate further operating leverage as more institutional capital now begins to flow into the ecosystem.

I will now turn the call over to Alex to cover financial results and then we will jump right into questions. Thank you.

Alex Ioffe

Thank you, Chris. Good morning.

In the third quarter, driven by lower digital assets values and historically low trading volumes and volatility, Galaxy reported a loss of \$94 million. This reversed in October, improved market conditions, including higher coin values and our market



positioning at the start of the quarter resulted in approximately \$124 million in income before tax for the first months of the quarter.

Our operating expenses, excluding non-cash items, were \$200 million in the first nine months of this year, reduced 14% from prior year. This decrease was primarily driven by lower compensation and marketing expenses, partially offset by larger mining expenses as we significantly scaled our mining business this year.

Our equity capital was \$1.5 billion at the end of the third quarter and \$1.6 billion at the end of October. Total liquid assets were \$750 million at the end of this quarter, up from \$700 million in the second quarter, consisting of \$395 million of cash, cash equivalents and Stablecoins and \$354 million of net digital assets. For the four months' period, July through October, Galaxy repurchased 1.2 million shares at an average price CAD\$4.69.

Now back to the Operator for questions. Thank you.

Operator

Our first question today is from Andrew Bond with Rosenblatt Securities. Please go ahead.

Andrew Bond

Hey. Thanks. Good morning. Just on the FTX mandate. Can you talk a little bit about the significance of winning that kind of crypto business versus traditional TradFi players and if this is leading to other new business opportunities in Asset Management and other segments, and additionally, FTX's venture portfolio also spans over 400 investments and \$4 billion. Could Galaxy be involved in the unwind of some of these assets as well?

Chris Ferraro

Yes. I will take that, Andrew. Thank you and good to talk this morning. Yes. Look, we are—the team has been working on the FTX estate doing diligence and scoping out what's in there and how we could be helpful really for over a year. And so winning that mandate for us was really the culmination of a lot of hard work put in.

I'd like to say around the firm here that this could be Galaxy's BlackRock moment post the financial crisis when BlackRock really took an opportunity to route its hold in the financial—traditional financial space and become the one to help clean up balance sheets. This opportunity for us represents that opportunity in the digital asset space.

I think it's a testament to our team's credibility. It's a testament to what we have built here, how we operate, how we understand risk and how we can help other companies sort of manage through difficult situations.

So, yes, the initial mandate to work with the estate on their liquid assets is one of both hedging risk and also helping the estate work out and monetize assets for the creditors over time. We know that there are other assets in the estate that we have already spent tons of time working on and understanding. There is the illiquid venture portfolio. There's also a portfolio of trust assets and other assets in there that we know very well.

And I think having won this mandate and having worked closely with John Ray and the team now on a weekly basis and getting the creditors to know us and understand what we are about and what we can do, like best positions us to be front of line in those conversations.



Andrew Bond

Thanks, Chris. And just a follow-up on capital allocation and share price has moved nicely over the last month. How are you guys thinking about allocation here of capital in terms of share repurchases versus M&A or, say, buying Bitcoin or other digital assets?

Mike Novogratz

Yes. Listen, last quarter, our stock was trading at a significant, significant discount to NAV and we bought a small amount. I wish we had bought a lot more. There was not a lot of sellers down at those low prices there were not a lot of liquidity.

Now we are trading book north—somewhat north of book and we will probably be less willing to, in the short run, spend our capital on equity. There's a new momentum. We think there are people coming to buy our stock. We think our story is really good. We are going to work real hard in the next quarter getting out and telling our story.

I still think each of our line of businesses have a good story themselves and our balance sheet is really strong. We have caught this move really well. Our derivative desk was well positioned. Our proprietary desk was well positioned. And so, yes, we feel pretty strong right now and I don't think we will be buying stock at the \$7 range and we will keep you posted on the rest of the capital plans.

Andrew Bond

Thanks, guys.

Operator

The next question is from Chase White with Compass Point. Please go ahead.

Chase White

Thanks for taking the question. So I was just wondering, the reports of market makers pulling back from exchanges that we have been hearing out there, I mean, is this a real issue or do you think that these reports are exaggerated. And if they are pulling back, what gets them back in the market or is this more of a permanent trend in your view?

Chris Ferraro

Yes. So thanks. Good morning. Liquidity has dropped across the market through the third quarter. So that's true and one function of that is our market makers pulling back. I think there—what we saw in 2022 and 2023 was the result of improper counterparty credit analysis and market structure.

And so one reason—people in the industry got hurt from prices falling, people in the industry you got heard from bankruptcies and credit implosions, and so, therefore, have pulled back generally. It hasn't gotten to the point where it's really hurt the industry in a lastingly negative way.

What everyone is focused on now on the go-forward, though, is how the market structure is going to evolve. And so market makers pulling back from exchanges is actually really a step back in a retooling of market structure and everyone's talking about things like off-exchange settlement to really hold assets in separate segregated ring-fenced custody arrangements



while using that asset and credit to then trade on exchanges. And so I actually think it's a temporary—it was a temporary reset of market structure and is actually starting to reverse itself.

Mike Novogratz

One thing I'd add to that is even with the kind of drop in liquidity, our volumes at Galaxy were up 70% quarter-on-quarter and much higher in this fourth quarter. And so, I think, it's a testament to us getting market share period. We just feel like there is a lot of our competitors are out of business and a lot were wounded and so we do think this is our time to shine. That's why we are going to be leaning in.

Chase White

Got it. That's very helpful. And in the mining business, how should we think about mining power costs now that we are out of the summer months? Is there kind of a level that you are hedged at in terms of power price that we should be thinking about? Any color there would be great. Thanks.

Chris Ferraro

Yes. Sure. So, yes, I mean, we went for pretty much all of 2023 from the beginning with a strategy of putting on a long-term hedge for the year. We thought the power price curve early in the year was very attractive and set us up for a year where we wanted to have good visibility on profitability.

That ended up being a very smart decision not just because the economics locked in were great, but it set us up to be able to participate dynamically with the ERCOT market and really add additional unexpected profits to the year. We are still hedged as a business.

As we go into 2024, our outlook on our strategy there is going to be a little more dynamic. There's a lot going on in 2024. Obviously, the price action of the commodity we have a view on and has an impact on our strategy that the halving coming in around midyear is also going to change the landscape for miners in terms of their cost of production sort of definitionally.

And so our expectation is, we are going to continue to put our balance sheet behind the business and lock in attractive prices when they are available. We are going to more dynamically manage our fixed versus variable exposure next year as we see how the market develops.

Chase White

Got it. That's helpful. Thanks.

Operator

The next question is from Michael Legg with Benchmark. Please go ahead.

Michael Legg

Thanks. Good morning and nice to see things turning around for the industry. Can you talk a little bit about what you are seeing from the investment in the space? I mean we have a new focus from a lot of investors investing in AI. 2021 was big



in the crypto space for investment. Can you talk a little bit about what you are seeing and if AI is taking away from any enthusiasm in crypto investing?

Mike Novogratz

There's not a ton. There's a lot of talk that at one point crypto should be very helpful in AI in terms of authenticating deep fakes and being authenticating. There are a few tokens that have an adjacency to AI that jump just on frenzy and it kind of come back off.

Some of the miners have pivoted to becoming AI data centers and that has been an interesting business. If you have the contacts that at NVIDIA and you had the chips, good on you. But in general, we really haven't seen the convergence yet.

I think you will, because the problem with AI for most companies is to be big in it, to be good in it, it's an unbelievably capital intense effort, right? And so my own gut feeling is you are going to have two or three giants that just like in cloud with the dominance of AI. And so I think it's a harder venture space than crypto was and we are thinking a lot about how crypto becomes a supplemental to it, but we haven't really seen great angles in yet.

Chris Ferraro

Yes. I think to add a little bit, early on, maybe nine months, a year ago, we saw a very quick, I would say, sort of divergence of capital like to AI outside of crypto from tech forward investors, growth investors. That's kind of come and gone.

It's not a factor today when we think about people allocating capital and the conversations we are having. Some themes where money is floating around and actually going in inside the crypto space. I think I will give you, which is part of your question.

From a strategic perspective, from companies looking at what they should be doing with their balance sheets, consolidation is a big theme and so, whether it's custody exchanges, things of that nature wallet security, surveillance monitoring, really, people are looking for who are the standouts who have gotten some scale and who are going to win and they are looking to either buy those companies or put money behind those companies for them to then consolidate the smaller players and so I think we are going to see that trend happening for the next foreseeable future.

In terms of like deep tech investing, there's a lot of focus on layer 2 and layer 2 scaling and roll-ups. And so our venture team has spent the bulk of their 2023, having developed a thesis on roll-ups and where we should be investing and where value accrual is going to happen sort of on chain across the stack. So there's a lot of new developments happening there, which are exciting and are pretty early. And so I think that's where the early money has moved to.

And then I mentioned before, market structure-wise, people are looking for exchanges historically that were unregulated to move into regulated venues and for bifurcation and market structure between exchanges dealers, venues dealers and custody, and so you are looking at lots of different technologies that are looking to stitch those two, three together, off-exchange settlement, clearing and things like that, that's where a lot of people are focused now.

Mike Novogratz

And if you want to kind of get, Mike, the rolling view of how this is going to play out, 2024 literally is going to be a year of institutional adoption, primarily first through the Bitcoin ETF, which will be followed by an Ethereum ETF.



And as institutions get more comfortable, if the government gives its seal of approval that Bitcoin is a thing you are going to see the rest of allocators starting to look at things outside of that. And so money will flow into the space.

I think it will probably take until 2025 until all this investment in tokenization and wallets really start to show up, right? Stablecoins are growing every single day, certainly more so abroad than here.

The biggest, I think, security issue for the United States is getting our Stablecoin right. We are going to continue to be dollar dominant. We better have a dollar-backed Stablecoin that reflects our values and is taken up around the world.

I literally think that becomes kind of the 2025 chapter when we see all these investments start playing out and it needs to, right, for crypto to really fulfill its destiny. We do need tokenization. We need projects built on blockchains that are scalable and fast and that's all happening.

We got way ahead of ourselves in 2020, 2021 and thought this world was going to be filled overnight and it just takes time. And so, like I said, this ETF is giving us all breathing space, putting life in the system. That brings in capital that allows the rest of the stuff to flourish. But I think if you looked at the crypto long-term plan, it's on target.

Michael Legg

Okay. Great. And second question around the halving event. When you look at the marginal miners out there when the return profiles change, does that give you an opportunity and how are you looking at that from a possible growth perspective in mining?

Chris Ferraro

Yes. So, actually, when the halving hits, that all else being equal, for every miner out there, that should effectively double the marginal cost to mine for everybody. And so where you are on the cost curve matters, as you are pointing out.

We have been laser-focused on how we enter this space, with what asset to make sure that we are as far down the left side of the cost curve and well positioned to manage that as possible. I give us a check for that. I am very confident in the asset that we purchased and what we have done with it and we are building our positioning there.

In terms of offensiveness, I would say that, those opportunities, it's pretty hard to move a fixed asset if you are in a bad location for energy. And so it's less likely that fixed infrastructure from a distressed perspective is going to sort of magically become interesting if it's uneconomic.

But that being said, talent and more movable infrastructure like ASICs, etc, for distressed companies, I think, are going to be a focus for us in terms of being opportunistic and being offensive. So that's how I think about like when we think about offense...

Michael Legg

Yes. Okay. Great. Thanks. And then just the last question, Mike, I know it's your favorite subject, but you put it at the top of the press release this time, so I wanted to understand the U.S. listing and bring it to the front of the press release. Is there any indication of your thoughts, can you just talk about that?

Mike Novogratz



There's not a lot we can say. The SEC has not approved anybody in a long time. We are continuing to be in dialogue with them. When we file it's public. We are waiting for our comments back and it takes a long time, a lot longer than it did when I was at Fortress and so that's—it's frustrating, but that's just where we are.

Alex Ioffe

Yes. It's been 90 days since our last filing.

Mike Novogratz

Yes. Listen, I have not given up on the U.S. We are a New York-based company, we are building abroad and I think we will continue to build our international offices out. U.S. capital markets is by far the deepest and best capital markets.

And it feels un-American that there's only one broker-dealer, Coinbase, I am jealous, that gets to tap the U.S. capital markets. I look at where the miners trade and the liquidity that they are given on a daily basis.

And it gets me angry that we are not through the gauntlet of the SEC approval process yet. I do think it's worth it. And it's been costly and it's been frustrating. I do hope there's some light at the end of the tunnel.

This SEC administration will be there forever and if we don't get through this time, post-election, I think no matter who wins, you will probably get some new bodies in the SEC and so we are going to keep our nose to the grindstone.

Michael Legg

All right. Congrats on the quarter.

Operator

The next question is from and please excuse any mispronunciation, Bill Papanastasiou with Stifel. Please go ahead.

Bill Papanastasiou

Hi. Good morning, everyone. Thanks for taking my questions. Good to see Q4 shaping up better here. Mike, just wanted to get your thoughts on the digital asset space post potential Bitcoin spot ETF approval. Will we see capital flow towards Ethereum space on the belief that a spot ETF could be approved there as well? And can you comment on the potential hurdles with respect to an Ethereum spot ETF or should—will it be a relatively smooth process to get that one over the finish line after a Bitcoin spot ETF is approved?

Mike Novogratz

Yes. I think there's a big difference. I do think there will be a spot ETF approved. I am not sure it will be as well received as the Bitcoin ETF for a very simple reason that Ethereum's model of validating is a staking model and there's a staking yield.

And unless they can figure out an ETF that actually passes through the staking rewards, it will be kind of a subpar product from just owning Ethereum with someone like us and having it staked and so that technical difference is kind of a big difference when you are looking at 4%, 5%, 6%, 7% yield depending on where you get Eth staking.



But I do think there will be one approved in time. The same way you have a futures ETF, it's going to be broadly the same argument that the Bitcoin ETF is getting improved through. And so I do think while Bitcoin has way outperformed the rest of crypto this year, you will see some rotation into Ethereum and you have already seen some into the other alts. Solana has been on a tear. And so, the rest of crypto is getting much needed capital and enthusiasm injected.

Listen, I think in the long run, these utilities are going to need to really serve a purpose and be used and have stuff built on them to sustain long-term value. But in the shorter run, the broad enthusiasm around their story is enough and we have got speculative money coming back into the space.

And there's still not a lot of leverage in the space. I mean, we have seen futures in the U.S. get as high as they have been on the Bitcoin side. But if you look at broad leverage across the space, we are trying to build up our loan book. It's roughly just shy of \$600 million. Back in 2021, there were much bigger loan books all around the street. And so as confidence builds, capital comes in, leverage will pick up and prices should go higher, that should drive the development of the space.

Bill Papanastasiou

Appreciate that color. And then just shifting gears to the infrastructure side of things. You have seen recent announcement of the Bitmain T21 next-generation miners at really attractive promotional pricing. I am curious to hear if your teams been thinking through potentially expanding the fleet and purchasing some hardware, just given the—also the uptick in mining economics recently?

Mike Novogratz

Chris, take that.

Chris Ferraro

Yes, we have. I think the—our position right now is, we are a datacenter infrastructure business first and a self-miner second. Roughly, a little under half of our capacity, say, are machines, the other—more than half of the capacity are external client machines. That mix will kind of bounce around, but that is our target mix.

And so, for ourselves, investing in new ASICs and building capacity is on the horizon. We are looking at it. I think when we step back and we look at our uses of capital, we have a fairly sizable investment in terms of our total capital base committed to our mining assets. Again, a lot of that is owning the datacenter and owning the infrastructure than it is purely in the ASICs.

And so I think we will look opportunistically to swap into better machines, particularly depending on pricing, down pricing. If the capital markets open up for us, as they look like they are going to, then I do think that you could see a future where we are looking to use the capital markets to fund growth in the business. But we are sort of sitting and watching right now, kind of depends on how the market develops.

Bill Papanastasiou

Okay. Thank you very much. That's all for me. Keep up the hard work.

Operator



The next question is from Patrick Moley with Piper Sandler. Please go ahead.

Patrick Moley

Yes. Good morning. Thanks for taking my question. Maybe just elaborating on the comments you just made about the capital markets opening up for you guys. I was hoping you could give an update maybe on where the pipeline in Investment Banking sits today? And Mike, maybe how you see that playing out over the next 12 months to 18 months? Thanks.

Chris Ferraro

Sure. I will hit our Investment Banking division and pipeline and then maybe Mike talk more broadly about the market. I think the—look, the last year has been challenging across the street, forget crypto and our sector in terms of the banking business and that is purely a function of valuation resets, right?

Like when interest rate regimes change and valuation regimes change, the only people looking to raise money are people who have to. And so markets lockup—capital markets activity locked up, M&A activity slows down, because it's much more difficult to get people to agree on what their relative values are.

And so that's happened pretty much across the board in markets, in particular, it's been particularly acute in the crypto markets. And so it's been a challenge to find investors to help our clients to put money into them. It's been a challenge to get to agreement on relative valuations for M&A. But we have done so, We have had successes, we have deals that we helped get closed.

And so, now I do think, if you are talking about a future where the Fed has paused and maybe in reverse. You are talking potentially about a valuation regime shift again, the opposite way, which is positive, which would be positive for the capital market.

So we are encouraged with crypto prices having bottomed to sort of come the other way. Like all those things are the right ingredients for the recipe that should lead to a more vibrant market, which is what our banking business has been waiting for.

Mike Novogratz

I also think we can't underestimate the psychological impact that once this ETF gets approved, the SEC approving the ETF BlackRock. I mean, Larry Fink is one of the most influential men in this entire industry—in the entire asset management industry and the entire financial markets, him being an endorser of Bitcoin.

It frees up the some of the internal indigestion at big institutions to say, hey, now maybe it's safe to get into the water. And so companies that you couldn't sell at \$0.50 on the \$1, you might be able to sell it at par because the outlook looks so different.

From an institutional perspective, this is a giant watershed moment of adoption. The Bitcoin story has been there for 13 years and it's been a story that governments are profligate and that at one point, they have to debase their currencies, they have to inflate their way out of the debt that they print.



And you just see that everywhere. We are spending 25% of GDP on our federal government budget deficit. And that story is picking up. And so like the macro narrative for Bitcoin at the same time you are seeing institutional adoption really makes for a powerful combination.

So my bet is—even for our company, when we finally decide we want to raise capital. It will be far easier with this new mindset of crypto being—and certainly, it's been focused on Bitcoin. We need it as an industry to move to the rest of the ecosystem.

I think Stablecoins, there's a tremendous energy around, tokenization and wallets, everybody is working hard to build the wallet of the future. I think people really understand where the architecture is going, it's not being used yet. But as that stuff starts filling in, I think you are going to see a lot of demand from institutions to get a foothold in this space. I guess, I put everyone to sleep with that answer.

Patrick Moley

I am sorry, I had a follow-up, but that was great color. Just on, I guess, the Asset Management business, I was hoping to maybe get your thoughts on where you think demand sits today for active strategies. We could see a lot of money come in through these passive vehicles. But just wondering maybe where you think we sit today in terms of that demand for active management in crypto.

Mike Novogratz

Yes. Listen, I think, one of the issues with active was that a lot of the active strategies in 2020 and 2021 were really biased long and very few of the fund managers had roses around their neck at the end of 2022. And so really performance was not great, not for all of them, but for the bulk and I think people step back for a second.

I do think we will see active start-up again first quarter. We are already talking to allocators and they are looking at making allocations in the first quarter. And so as the space gets re-legitimized as the bad actors—I mean I think Sam Bankman Fried being found guilty on seven accounts was actually a really important day for crypto, because it symbolically is kind of sweeping out the bad chapter and starting in the new chapter.

And I do think it takes allocators a little more than that it takes family offices and hedge fund guys to jump in. But I think by the first quarter, you are going to see people start to allocate to active again. And we are really looking really hard at how we make sure that we show up in that space with product that people like that fits the demand and we will keep you posted on that.

Patrick Moley

All right. Thank you.

Operator

The next question is from Owen Lau with Oppenheimer. Please go ahead.

Owen Lau



Hey. Good morning. Thank you for taking my questions. So I want to go back to the point about the adoption. Your trading counterparties increased 3% sequentially, but your active trading counterparties decreased 2%. Can you please talk about the dynamics here and what you see in October and early November, do they just sit on the sideline and really wait for the opportunity or these kind of parties are like getting more opportunistic about spot ETF and will come and go? How do you see that trend continue? Thank you.

Chris Ferraro

Yes. Hey, Owen. How are you? Thank you for joining the call today. Yes, I think, you are right. So like, when we see active counterparties sort of flat lining, but we see volumes up a lot. For us that means that we are shifting over time, which we think is natural, particularly given how the industry, we are shifting over time to larger, higher volume, more active traders and clients than we have had historically.

And so I think, there's a natural amount of sort of underneath it all, attrition of smaller clients who have underperformed or going out of business, larger clients coming in, new capital bases, have a new thesis and are going to trade more and more and so that's great for our business.

I don't think the trading activity is ephemeral. I think that's important. Like we did see really industry lows in terms of volatility and activity in Q3, and the snapback for industry lows outside of us, like we said, sort of us gaining 70% volume quarter-over-quarter versus the industry down probably 20% on average.

If you look at on exchange volumes at competitors is a big deal. I think that's a testament to like to what we have built and what we offer. And then the continued resurgence of activity, not just with us then, but with the whole industry in anticipation of the ETF. I think we think is a lasting trend.

And so, I would take away as, we think it's not ephemeral and we think that the counterparties who are now onboarding and trading are much bigger, much more sophisticated, have new capital bases and so are going to be a lot more resilient.

Owen Lau

Got it. And then can you please give us an update on your international expansion strategy and the competition from the firms in other countries. I mean, do you still see U.S. to be a leading force for blockchain or there is a real threat that capital and projects are moving, or I should say, are building up in other countries? Thanks.

Chris Ferraro

Yes. So the question is, do we see the U.S. as going to be a continued force in blockchain and cryptocurrency going forward? Like we hope so, right? Today we have about 25% of our employees now that reside outside of the U.S.

That will likely continue to trend up, meaning what we will likely—as we add employees, I think, there will be higher percentage of employees added outside the U.S. and in the U.S. That is a function of regulatory structures being set up ex-U.S. in international jurisdictions that are going to allow us to really grow the business in a regulated licensed way with big institutional clients globally and so that's the main driver.

We do see capital forming, like we have said on the last call, outside of the U.S. And like I said, when that happens, that tends to be sticky. And so, I do think our performance, meaning the U.S. over the last three years, will have hurt the U.S.'s



market share for a while. We do still remain pretty bullish in the U.S. long-term and we think it will sort itself out, but we have got a little bit of hole to dig out in terms of market share for the time being.

Mike Novogratz

And if you take out China for a second as its own entity. The U.S. is larger than the 10 largest—the 10 next largest economies combined. And so it's hard for a U.S.-based company to think about a crypto universe without the U.S.

And so we are doing whatever we can here now, we are advocating in D.C. for sane crypto legislation. We are watching this Coinbase case with very beady eyes because they could potentially win this case sooner than people think, and that changes the whole landscape.

And so I do think—listen, we need legislation here in the U.S. I do think we will get it. I said that early on and I think the U.S. will be an important part of the crypto universe, because it kind of has to be.

But listen, it's not to say it hasn't been frustrating, as Chris said, and we as a country in the U.S. have certainly given up some ground. I don't think it's long-term unsustainable—I mean, insurmountable. Anyway. Thanks.

Owen Lau

Okay. Thanks a lot.

Operator

The next question is from Kevin Dede with H.C. Wainwright. Please go ahead.

Kevin Dede

Good morning, gents. Thanks for having me on. Chris, you touched on Investment Banking and pipeline looks flattish sequentially, but the values doubled. So could you speak to that?

Chris Ferraro

Yes. Our team is about the same size and our—so our coverage is about the same as it could be. There is at least one large engagement that's in the pipeline now, which wasn't in before, which from a dollar perspective portends—takes the pipeline up a lot. And so there's some—there's one large engagement that really changes it quarter-on-quarter, is like the specific answer.

Kevin Dede

Okay.

Chris Ferraro

Just to give some context...

Kevin Dede



Okay.

Chris Ferraro

... for Q3, our pipeline, it's about 60% M&A, 40% capital markets.

Kevin Dede

Right. Right. Right. Okay. Mike, just a quick one for you. I know you have spent some time in D.C. but yesterday there's a bill that surfaced that looks to squash Tether. I was wondering if people were talking about that down there and what the impact could be? I know you are big on Stablecoins. I agree with you 100%. It looks like Circle's sort of muddling along. What's your take with what happens?

Mike Novogratz

It wasn't talked about when I was down yesterday, I didn't see the bill yet and haven't looked at it. Listen, Tether is growing weekly. It's becoming the dominant Stablecoin. I am sure Jeremy at Circle would like to change that.

There's a lot of fear, uncertainty and doubt around crypto offshore. This is a complicated industry and it was set up with this idea that if we wanted to provide access to people that didn't have access, right? Remember where crypto came from.

And so I think Tether has got their job to do convincing people to trust it. They do—they seem to be wildly well capitalized at this point. They are making investments. I think Tether is probably making over \$1 billion a quarter and so it's no doubt it is probably the most profitable crypto business.

They run with a small team. They have got huge margins. They are smart guys. And so I think they are probably doing everything they can to stay within the good graces of their counterparties here in the U.S., right? Howard Lutnick and his group do a lot of the buying and holding of Tether's—the U.S. securities to Tether. He's a very smart guy. I don't think Howard is going to put himself in...

So I think this is a political thing. If I was the U.S., I would pass crypto—Stablecoin legislation and make it really clear. I think it's really, really important that we have a strong dollar-backed Stablecoin. I'd rather have it be in the U.S., but not in the U.S. just as a patriot. But Tether is the preferred Stablecoin of the world right now period.

Kevin Dede

Yes. No. Clearly, I see that. I was just—given the conversations you had, I thought you could shed some light on how you see it moving forward, and yes, I guess, it's really political...

Mike Novogratz

Certainly. There's certainly a fear in D.C. of things that aren't in their control and so with the politicians. And you see the same thing around finance. I said this publicly, the single best thing that would happen to crypto after the ETF is that finance settles with our regulators and pays a fine and get a clean bill of health and goes on and runs a more regulated platform. And they are in Abu Dhabi, they are in Dubai. They are making that transition.



Again, does that happen or not? I think it probably happens in time. I wish it happened yesterday, because that brings in leverage to the system, that brings in confidence to the system. But our politicians are certainly more nervous about things overseas than they are about the stuff here that they have control over.

Kevin Dede

Chris, you mentioned for exahash target and Helios year-end and five next year? Does that mean—and given your earlier comments, does that mean you already own those machines and is there enough room in that current building to support that hash target or are you going to have to build something else?

Chris Ferraro

That's right. so, yes, so we basically hit 4 exahash already in the third quarter. I think it was really like 3.996 or something. And we have been making a relatively small investment to expanding this building, we call Phase 1, out to its full capacity. When we acquired the asset, they're roughly a quarter of the total capacity was sort of available capacity and the building was unbuilt.

And so after we stabilized the asset, we got everything plugged in, then we went on the exercise of further developing that last quarter in terms of space in the building. And so we are finishing that up, we are going to fill that space with machines we already own. So from a CapEx perspective, you shouldn't see additional extra CapEx at all to get go from 4 to 5 on our side.

We also have some additional limited space that we are working with a pipeline of clients to add new hosting clients as well, nowhere near as large as in exahash in terms of capacity. So we are going to use that space to fill up any remaining idle machines that we have already purchased that we own. That's a Q1 2024 event, not 5 exahashes for Q1, not for the whole year.

Kevin Dede

Okay. I guess we will look forward to speaking to you about it on the year-end report. Thank you very much, gentlemen. Appreciate you having me on.

Operator

The last question today is from Spencer Anson with Susquehanna. Please go ahead.

Spencer Anson

Hey, guys. Thanks for taking my question. Michael, if I could just ask on a high level, are there any interesting developments or applications within the payments space that you are excited about?

Mike Novogratz

I mean what's complicated with payments is that in the U.S., right, things like Apple Pay work really, really well. And so we don't have a payments crises in the U.S. or a payments need in the U.S. We do when it comes to remittances and so if you are one of the many, many immigrants and growing number of them that want to send money back to Venezuela or whatnot, it's wildly expensive.



And so, like, this why it tries to be crazy that the left has been kind of more obstructionists in crypto. But that broadly is just setting Stablecoins over a—the single largest payment network in the world all of a sudden looks like it's Tether over TRON in terms of crypto that's used all over the world outside of the U.S. Why did they use TRON, they made it really cheap and really easy to access. And so I don't think there's anything that's that kind of technologically cutting edge that's going to change things.

Where Stablecoins have the next potential real giant leg is when we all of a sudden start going Internet of Things, when you are putting an engine efficiency with a smart contract and so it runs over 90%, it's giving micro payments to the—or taking micro payments from the user and if it's running poorly, it's sending them back and forth.

Like once you have regulated Stablecoins that big industry trust, I think you will see an explosion of new use cases. But in general payments, certainly from a U.S. perspective, there hasn't been anything that's changing the way we operate. And so this is much more of a developed market—a developing market and a remittances game. Now that is growing, but there's nothing that we have invested in specific.

Chris Ferraro

And the only other thing I'd point to is, I mean, this is, obviously, about like PayPal and PayPal's Stablecoin, I think, is a potentially a pretty big deal and they very quickly came under the purview of the U.S., or the SEC very fast. And so we are monitoring that because that will tell us what direction the U.S. regulators sort of want to go with an entity like PayPal, which I think is a big deal, looks pretty different.

Mike Novogratz

Listen, the banks are lobbying like crazy to have the tech companies put under their thumb, right? If we are getting regulated, they need to get regulated too. And so, one of the things that, when you are in these disruptive industries, you think of all should go with efficiency and there are incumbent players that have a lot to say about that. Why we don't have blockchain-based ticketing yet? Ticketmaster doesn't really want it period. And so that doesn't mean the revolution dies. It just means it's—you got to come back with different angles and you got to keep pushing.

Spencer Anson

Great. That's all for me. Thanks for sneaking me in.

Operator

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

Mike Novogratz

Guys, thanks a ton for the questions. I hope my energy starting the conference call was positive. I feel that way. We are going to miss you for a while because full year ends and then it's a longer reporting time, because it's the full year audit and so maybe we will get back and touch. You can watch me on CNBC and you can watch our predictions. We feel good. I hope by the time we talk to you, there's a lot more really interesting things to bring to light. And have a great Thanksgiving. Take care.



Operator

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

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