

# EDITED TRANSCRIPT

GLXY – Galaxy Digital Holdings Ltd

First Quarter 2022

Shareholder Update Conference Call

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## CORPORATE PARTICIPANTS

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

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

**Christopher Ferraro**, *Co-President and Chief Investment Officer*

**Alex Ioffe**, *Chief Financial Officer*

**Elsa Ballard**, *Investor Relations*

## CONFERENCE CALL PARTICIPANTS

**Deepak Kaushal**, *BMO Capital Markets*

**Chris Allen**, *Compass Point*

**Devin Ryan**, *JMP Securities LLC*

**Owen Lau**, *Oppenheimer & Co., Inc.*

**Mark Palmer**, *BTIG*

**Jamie Friedman**, *Susquehanna International Group, LLP*

**Richard Repetto**, *Piper Sandler*

## PRESENTATION

### Operator

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

Today's call is being recorded.

At this time, I would like to turn the conference over to Galaxy's investor relations team. Please go ahead.

### Elsa Ballard

Good morning and welcome to Galaxy Digital's first 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 authorities on SEDAR, and available on our website or in filings we may 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 now turn it over to Mike Novogratz, Founder and CEO of Galaxy Digital.

### **Michael Novogratz**

Good morning, everyone. It is a literally gorgeous morning here in New York City, which is exactly the opposite of what the markets feel like.

We've been talking this whole year about macro headwinds and institutional adoption tailwinds to the crypto, blockchain space, and that story continues. I'm going to start a little bit talking about the macro headwinds right now. Since the last call we had with you guys, right, crypto is down roughly 30%. Not great performance for the asset class. That's in line with the NASDAQ being down about 20% and overall risk assets being pummeled. It's a pretty straightforward story. It was clear early on. It was difficult to maneuver. The Fed is taking liquidity out of the system. There was a lot of liquidity in the system. Asset prices had appreciated because of it and we're having this adjustment, and adjustments are painful.

People want to know when the Fed will stop raising rates. It's when inflation will come down. Your guess is as good as mine. I said jokingly recently when we can look our employees in the eye and say you're lucky to have a job, you know, do you want cheese flavored popcorn or salted popcorn on the three days a week you ought to come in. I'm being a little tongue in cheek here but right now, labor has had the upper hand and wage pressures have been up in every single facet of industry from low-skilled jobs to high-skilled jobs. That will shift relatively quick as the economy moves into recession.

What does that all mean for crypto? It means crypto probably trades correlated to the NASDAQ until we hit a new equilibrium, and that equilibrium, it could stop at \$12,000 and bounce. My instinct is there's some more damage to be done, and that will trade in a very choppy, volatile and difficult market for at least the next few quarters before people getting some sense that we're at an equilibrium. At that point I'm actually quite optimistic.

Listen, everything I've seen in crypto gets me optimistic. I went to institutional conferences, three or four different conferences, meeting with all kinds of accounts. Some of the biggest names in traditional finance, BlackRock, Blackstone, Citadel, Apollo, all making big efforts into this space, having not been here. That's a wonderful tailwind for the space. It makes us really focus the galaxy to collaborate with them where possible and know we're going to compete with them at times.

When I step back, I haven't wavered at all on our medium-term plan. We raised capital last year, with the idea that we were going to use it to build out infrastructure and build out our teams. We're continuing to do that. We're managing the balance sheet best we can. I think our first quarter results, and I'll let Damien and Chris speak to them, were quite good results. Our operating businesses were positive. Our mining and banking team had their best quarters ever. The balance sheet team did an excellent job of outperforming the draw down in the overall market. Lost some money, but minimal relative for the volatility we saw.

With that, I'm going to leave it to Chris and Damien to give you the details of the quarter. I'll be around for Q&A, but the message I want you to take from me is we expected tough markets. They are tough markets. But we are unwavering in our belief that you're going to see institutional adoption, both in crypto as an asset class and as use cases in the media space and the corporate space.

All right, Damien.

**Damien Vanderwilt**

Thank you, Mike.

Before I jump into performance highlights for our asset management and investment banking segments, I want to underscore Mike's comments about the unbelievable excitement and engagement level we are seeing on the ground with our institutional clients and counterparties, despite these very tough macro headwinds. Since we last spoke to you, we've been on the road participating in a number of conferences to meet with our stakeholders, clients, partners, and regulators. Several of these, such as Bitcoin Miami, FTX Bahamas, and Medici out on the West Coast are digital assets focused conferences.

The most notable takeaway from these conferences was the really significant participation from traditional financial firms, spanning from traditional asset managers, non-digital corporations, as well as investment banking and technology firms from outside the digital asset sector. All of these firms are trying to figure how to connect with their customers, both existing and future, who are spending an increasing amount of their time in the metaverse, owning NFTs, gaming, and experimenting more with digital representations of themselves.

Turning internally to our business segments and beginning with our asset management business, we are aggressively expanding our product lineup across the asset management platform, from passive to liquid active, to multimanager, to venture offerings to meet the diverse and evolving continuing needs of our customers. Starting with the passive side, as I mentioned in our last call, within the first quarter we launched the CI Galaxy Multi-Crypto ETF. Just last week, building on our partnership with CI, we announced the launch of two ETFs focused on investment opportunities in blockchain, technology, and the metaverse that will track underlying indexes created by Alerian.

Moving to our active products which service an important role in investor portfolios, particularly as the market experiences bouts of volatility, we continue to successfully fundraise within both our Galaxy Interactive venture franchise and our Galaxy Vision Hill business. Within the quarter, the Galaxy Interactive venture franchise grew AUM to \$735 million. Last month, we hit our first close for the Galaxy Vision Hill Venture Fund of Funds II at over \$70 million, bringing our fund of fund platform AUM to above \$200 million across four strategies.

As more and more clients demand solutions that generate differentiated alpha over the long term, we are continuing to invest in our active platform through innovative new strategies, but also by bringing in top tier talent. In March, we welcomed Chris Rhine to the team as a new senior portfolio manager. Chris brings more than two decades of investing experience to Galaxy, having previously invested at both BlackRock and Cohen & Steers, and will be critical to the build out of our active business.

Regarding assets under management, in the first quarter, despite a down crypto market, we saw net inflows of \$33 million, driven by strong demand for our diverse range of investment strategies. We ended the quarter with \$2.7 billion in

assets under management, down 5% quarter-over-quarter, up more than 100% year-over-year, driven by robust organic growth and the positive impact of crypto market beta over the past 12 months.

All in all, we are proud to offer customers 17 different fund products to choose from across our passive and active strategies and will continue to expand and evolve our offerings to ensure we are providing clients with institutional quality exposure to the growth of digital assets, blockchain, and interactive technology.

Turning now to our investment banking business, we continue to build on the momentum we've demonstrated over the last few quarters and are executing against an active pipeline of mandates representing more than \$1 billion in transaction value. The team is also currently working on several mandates for leading companies in the blockchain and cryptocurrency ecosystem. Within the quarter, we advised on the successful close of four transactions, most of which we mentioned last quarter. This included serving on two fundraisings for Qredo and Compute North on the equity financing, and acting as exclusive financial advisor on Blockdaemon's acquisition of Gem in March of this year.

In addition, we also announced the close of one business combination involving one special purpose acquisition company. We were also financial advisor to Thunder Bridge Capital Partners IV, a SPAC on its business combination agreement with Coincheck. As late breaking news, we advised a leading blockchain protocol on the acquisition of an entertainment company. The transaction was successfully closed, but has not quite yet been publicly announced.

Importantly, our investment banking team returned another profitable quarter, growing top line revenue to \$8 million and net income to \$6 million, underscoring the continued performance of our operating business lines.

I'll now pass the call over to Chris to cover trading, mining, investment businesses, and also an update on the exciting BitGo acquisition.

Over to you, Chris.

**Christopher Ferraro**

Thanks, Damien.

Jumping straight to our trading business, which continues to add new clients while deepening existing relationships across the entire platform of both (audio interference) offerings. Consistent with the risk off macro trends we've seen over the past few months, our trading desks saw counterparty spot trading volumes in dollar terms down approximately 26% in Q1 versus Q4 2021. However, note this represents an increase of over 50% versus the prior year period Q1 2021.

Derivative volumes, also in dollars, decreased by 24% sequentially in the first quarter versus Q4; but again, this represented an over 140% increase versus the prior year period. Turning to lending, the team added approximately \$915 million of gross counterparty loan originations in the first quarter, notably driving a 20% sequential increase versus Q4 2021 in the size of the counterparty loan and yield book to \$910 million as of quarter end, resulting in one of our best lending net revenue quarters since inception.

To summarize financial contributions, all of these counterparty facing trading activities continued to contribute positively to GDT net revenues, offsetting approximately one third of the comprehensive loss within the GDT segment for the quarter.

As a reminder, our reported GDT financial results includes both our core net long active trading on our own behalf, as well as all beta neutral counterparty facing and liquidity provider activities. We define our franchise business as realized and unrealized gains from counterparty facing activities for the entire trading business after netting for associated funding and interest expense.

Moving to principal investment business, we've continued to invest in what we believe to be the most compelling opportunities across the ecosystem. We are thesis driven. We are picking our spots. We're being thoughtful about valuation and, importantly, investment structures. Excluding our portfolio companies and our interactive business, Galaxy now maintains 132 investments across 93 portfolio companies.

Within the quarter, some investment highlights include adding new portfolio companies like Gensyn, a crypto protocol which we believe has solved verifiable compute for a class of computations related to machine learning, and Encode, a developer bootcamp that trains Web 2 engineers in Web 3 technologies and that we also believe has a potential to provide a direct talent funnel for Galaxy, BitGo, and our other portfolio companies.

We also added follow-on positions to existing portfolio companies like Certora, who just raised a series B round. Certora is one of our many blockchain infrastructure investments and is a formal verification and smart contract security company. We re-upped our investment in the company, alongside the likes of Jump Capital and Electric Capital.

Now, turning to mining. The team continues to grow both proprietary mining and its minor finance offerings and demonstrated record top and bottom-line contributions in the quarter, despite bitcoin prices being modestly down. In total, the mining segment generated \$10 million in revenue for the quarter, which was comprised of \$7 million from our proprietary mining, our best quarter to date, and over \$3 million in machine leasing income, nearly three times higher than any previous quarter. These activities led to an approximate \$5 million profit contribution in the quarter.

GDM also has continued to drive synergies and add value across the firm. For example, we have multiple lending deals to miners in the portfolio and in the pipeline, representing potential new originations well over \$200 million. We added our first dedicated business development resource in April to continue to support and grow these cross-firm efforts. Importantly, I want to remind you of our ongoing commitment to increase our use of clean energy. Our mining business continues to use an electricity power mix consisting of more than 80% sustainable power sources, which remains well above industry average of just under 60% as estimated by the Bitcoin Mining Council.

Finally, I'd like to provide an update on some of the product and strategic efforts Mike Belshe and his team at BitGo have been focused on. The BitGo team has been broadly focused on three strategic priorities. One, aggressively adding additional chain support. Two, continuing to focus on the developer layer to ensure they remain the premiere source for building Web 3 applications. Three, bridging the custodial gap to DeFi and Web 3 application components with an eye on bringing these features to the institutional market.

Within that strategic roadmap, BitGo has had some significant product launches within the quarter, which keeps the BitGo institutional grade products as the premiere choice for both developers and institutions. Among other innovations, the team launched multi-sig wallets, integrated with meta mass institutional support, making BitGo the first qualified custodian to allow wallets to link to Metamask. Solving for a major need among institutions, BitGo also launched 24-7 custodial withdrawals, making BitGo the first and only digital asset qualified custodian where clients can trade out cold storage 24-7 with a four-hour SLA, allowing them to move with the crypto market, which, as we know, never closes.

BitGo continued to grow their prime services offering, launching a crypto based loan servicing product and growing the business \$100 million in notional loan servicing in the first quarter. Last, but not least, BitGo announced their first developer conference, which will take place in late September of this year, continuing their developer centric model.

BitGo has continued to rapidly hire to meet the growing needs of their clients, increasing its headcount to over 300 employees at the end of the first quarter, with over 50% of headcount dedicated to the engineering division. Moreover, to support BitGo's international expansion efforts, approximately 20% of all BitGo employees sit outside of the U.S., which plays well into Galaxy's ambitions for international expansion, a key element in our strategic acquisition of the BitGo technology and team. BitGo ended the quarter at over \$40 billion of AUC, a decrease versus the previous quarter, but consistent with broader crypto market price declines.

Before I turn the call to Alex to give specifics about our financial performance, I want to underline some of Mike and Damien's comments. Even in a quarter with crypto prices down and continued macro headwinds, our operational business lines remain profitable in aggregate and are growing. We will continue our laser focus on investing in our people, our platform, and our technology as we build the preeminent technology driven financial services and investment management firm.

Alex.

**Alex Ioffe**

Yes, thank you, Chris.

Good morning and thank you for joining us today.

Consistent with our guidance, we reported the net loss of \$112 million in the first quarter, driven by declines in the markets. Our equity capital was \$2.5 billion at the end of this quarter, a 50% increase from the first quarter of last year and a 3% decline from year end compared to approximately 7% decline in overall cryptocurrency market values in this quarter.

Since the end of the first quarter, market conditions remain challenging. As Mike mentioned, crypto prices decreased another 25%. On a brighter note, our operating businesses continued to grow rapidly in this quarter. In particular, investment banking roughly doubled its revenues for all of last year in the first quarter and continues to expect high revenues for the rest of the year. Mining revenue for the quarter was seven times higher than the same quarter last year.

We remain well positioned and well capitalized to continue to invest towards our long-term strategic goals. At the end of this quarter, out of \$2.5 billion in equity capital, we held \$850 million in cash, plus \$440 million in stablecoin, which is akin to cash, and \$400 million in net liquid digital assets. Speaking of digital assets, taking realized and unrealized digital assets together, we had a loss of \$145 million for the quarter, correlated with an overall market decline. The large realized gain on digital assets versus a good portion of unrealized decrease had to do with the sale of highly appreciated digital asset early in the quarter.

Principal investments continued to be a great part of our story. At the end of this quarter, we held \$1 billion in principal investments. During the quarter, as Chris described, we made a number of new investments and we curtailed our positions in two appreciated investments. To remind everyone, we typically invest smaller amounts in early-stage companies and realize larger gains in later stages of maturity. In this quarter, our net new investments were less than

what we realized, bringing principal investment balances down modestly on our balance sheet. The net mark to market on principal investments was immaterial for the quarter.

Our portfolio now includes 93 companies, up from 86 companies at the end of last year. On the cost side, compensation was \$41 million for the quarter, down significantly from \$95 million in the prior year quarter, primarily due to a lower bonus accrual, which is correlated to the performance of the business. As part of our growth plan, we continue to build out our businesses, ending the quarter with over 340 people compared to 90 at the end of 2020 and 280 at the end of last year. Equity based compensation was \$23 million for the quarter, up from \$7 million in the prior year quarter, driven by large equity grants for 2020 due to a blackout having to do with BitGo acquisition came online in the second half of 2021 and at much higher grant value.

General and administrative fees were \$17 million from \$5 million in the prior year quarter, driven largely by technology, expenses associated with mining, and marketing, including increased participation in industry events. Professional fees were \$10 million for the quarter, compared to \$5 million in the same period last year. This was driven by one-time legal and audit expenses associated with the U.S. listing and BitGo acquisition.

Balance sheet, we held \$848 million in cash at the end of the quarter. This included \$500 million of convertible notes raised at the end of last year. These are five-year notes with a 3% coupon, exchangeable into equity at roughly US\$33.30 a share. As I said earlier, equity \$2.5 billion.

Now, digital assets are a large part of our balance sheet. Digital assets, including digital assets receivable and excluding non-controlling interest liability, or other people's money, were \$2.2 billion at the end of the quarter. Further, removing digital assets borrowed and collateral received from counterparties, net of digital assets lent and collateral posted, net digital assets were \$900 million. Removing stablecoins, because they do not typically fluctuate in value, takes us down to \$0.5 billion. We use this measure to assess our net exposure to tradable digital assets and of course, principal investments were \$1 billion.

With that, I will turn it back to the moderator for questions. Thank you.

#### **Operator**

We will now begin the question-and-answer session.

The first question today comes from Deepak Kaushal with BMO Capital Markets. Please go ahead.

#### **Deepak Kaushal**

Hi, good morning guys. Can you hear me okay?

#### **Damien Vanderwilt**

Loud and clear.

**Deepak Kaushal**

Great, thanks. Mike, just going back to your macro commentary. When I think back to the end of last year, your view was that the Fed could be more aggressive in tightening than they were saying. They certainly did that. Now, your view is that we could be heading into global recession. Do you think the crypto market has priced that in, or did we only just see the start of that yesterday with the gap down in bitcoin? How do you think the market is pricing this in to date?

**Michael Novogratz**

Yes, listen, I think, I mean in some weird way global recession will be good for crypto. What we're pricing in now is the, I don't know if it's the last chapter, or the second to last chapter, of the de-risking of the world, right. People have lots of risk built up. You're going to see hedge funds that have to restructure and get shutdown. When you have the kind of carnage you've seen, you just have people get out of risk. While in the long run people can say well bitcoin is an alternative asset and it's a different place to store your money. Well, people that have leverage and risk, it's all correlated. That's what we're seeing.

I'm not panicked by any stretch. I would tell you if I was and I'd be selling a lot of stuff. I say that only because of the immense amount of meetings I've had with people, seeing people line up and get in. They see bitcoin as a macro instrument that is going to continue to be part of the macro toolkit for a long period of time and it's on an adoption cycle. Then everything else is a really—they see as a technology play, right. Web 3, building out a who knows what combination of blockchains will end up being the winner between Ethereum and Polygon and Solana, and all the L1s and L2s. But that's not going away, and people have a huge interest in that space.

I think you're going to see media companies become bigger and bigger players in this. You're going to see all brands become bigger and bigger players. Crypto as a tech play at building this new infrastructure is gaining momentum, not losing it. Listen, how you value this stuff in a period of time when valuations of everything. I mean, you look at stocks like Palantir or Zoom or you name the growth stock and look at the price. It gets trickier, and so I think that's why, because there's not a valuation model, that people are comfortable with in crypto, right because its mostly momentum based on. It's not momentum based on just momentum. It's momentum based on metrics, on developer usage, on investor participation, on projects being built on top of these blockchains.

But it's still there's not a tried and true, hey, here's the PE. I'm adjusting my earnings and adjusting my PE and here's my new price. Price discovery is harder in our space, which is why we trade at much higher VOL. We're going to continue to think there's going to be volatility. I do think 30,000 holds in bitcoin has been my call since the beginning of the year. If I made one mistake, it's that when we got close to the top of the range, I thought, well maybe if there's a break in the range it will be to the top side. That was just because it felt like the adoption momentum was really picking up. You're going to see in the next few months, I think some big players announce some blockchains they're building on. You're going to see this crossover between traditional media and Web 3.

Listen, it's going to be challenging to navigate, right. My sense is 2,000 holds in Ethereum, and I said it early on is 2,000, 3,500 range. Those are big ranges, right. Those are 75% ranges high to low, but I think that's the world we're in right now.

**Deepak Kaushal**

Thank you for that. No, your comments are always very clear and helpful on the macro. When I think about technology risk within the industry, it still seems like there's a lot of maturity to go. I want to talk to you about stablecoins. One of the events over the weekend most recently was UST and the dip below \$1. I always scratch my head, how can a stablecoin use bitcoin as a reserve when bitcoin is still in a risk asset base? What do you think of this segment of the industry in terms of stablecoins? How do you think it evolves, and how could this leader lag the industry in terms of technology development or adoption?

**Michael Novogratz**

Yes, I think you can break stablecoins into three buckets, right. You have USDC, right, the stablecoin that is actually backed by treasuries held at a Fed regulated bank. That really is a digital dollar. You don't get a really high yield on it, but it is a very efficient way for people to move dollars around the system. Then you have Tether, right, which was kind of the first big, stablecoin, which is backed by a basket of assets that sometimes we have some sense what's in them, and sometimes we don't. There is a lot of people that use Tether. When it provides no yield, it's providing something for them. My sense is there's a lot of tax avoidance from offshore money from China that's held in Tether, but that's just a sense. I don't know that factually, but it doesn't make a logical sense that you'd have a lot of money in something that earns no yield that has lots of risk, or could have risk. Then you have algorithmic stablecoins like MakerDAO's Dai and UST.

Listen, UST has risk, but you are paid 18% yield in it. Anyone who went in knew there was some risk. You don't get 18% for nothing, right. People that buy UST can deposit it in the anchor protocol, and why it grew so fast is because people were hungry for yield. We will see this is a really big test of that whole model of algorithmic stablecoins, right. They've got those Terra LUNA and bitcoin in their reserve. There are big players that have lots of vested interest in this, right, Three Arrows Capital, Jump. Lots of some of the biggest players in crypto are invested in this project, and so we're watching really carefully. Do Kwon is a spectacularly smart entrepreneur and has done an amazing job building up an ecosystem. But yes, that's created volatility overnight. I think you'll continue to see that for—until this period evolves, until we get through it.

If that stablecoin and that system survives this, and I think it will, that will say a lot, right. This is a real test. This is a full on out category five earthquake globally. If you look at what's happening in the NASDAQ, this is a correlated risk nervousness. It will be a real big test, but it's certainly creating volatility in all of crypto.

**Deepak Kaushal**

Okay, thanks. No, I appreciate that. Just to add to the mix of another test in the market, what's the Galaxy view on the Ethereum merge, and how are you guys positioning your business or your book to benefit from that event?

**Michael Novogratz**

We have always been very positive on Ethereum as an ecosystem, right. I love Vitalik's leadership as the kind of at least spiritual head of it. We think the merge happens. If I knew the exact date, I'd tell you; but all our intel from people close, we should have a third quarter event where the merge happens. We will, through BitGo has already set up to be big validators so people could stake their Ethereum there. I think it will be great for the ecosystem, right, because remember, we're talking about Ethereum in 2016, this move to proof of stake. It proved a lot more complicated than people originally thought it would, but we're right at the finish line now. I think that will be a real positive confidence bolster for the Ethereum

community, but really for the whole crypto community. It will also take the whole, you use too much electricity story, at least away from half of the crypto community as more and more people move to proof of stake.

**Deepak Kaushal**

Okay, well, look, I always appreciate your thoughts, Mike. I'll just leave it at that and hand over the line. Thanks.

**Operator**

The next question comes from Chris Allen with Compass Point. Please go ahead.

**Chris Allen**

Good morning, guys. Thanks for taking my questions.

Yes, I just wanted to talk on digital trading. The client facing trading and lending are also passing one third of the confidence and loss. You talk about \$22 million, give or take there. Is that being measured in the same way as you measured it prior quarters? I know there has been some adjustments in the prior quarters.

**Christopher Ferraro**

Yes, that's being measured consistently with the way we've been reporting the segment, for sure.

**Chris Allen**

Got it. Okay. Then, obviously, the unrealized losses in the quarter are kind of stark. Obviously, the market conditions have gotten more challenging in this quarter to date. Where does that kind of sit at present? Is it able to offset anything with hedges there?

**Michael Novogratz**

Without giving you numbers, I would say, listen. The market is down a lot. We actively hedge our book as best we can. When the market is down 30%, we hope to be down a lot less than 30%, but we're not going to be up.

**Chris Allen**

Understood.

**Alex Ioffe**

Please keep in mind that realized and unrealized were offsets to each other in the first quarter.

**Chris Allen**

Understood. Thank you.

**Operator**

The next question comes from Devin Ryan with JMP Securities. Please go ahead.

**Devin Ryan**

Hi, good morning, everyone. Thanks for taking the question.

I just want to come back to the conversation just on the current market conditions and expectations we could be in perhaps for a choppy ride from here and tightening and economic conditions. It doesn't sound like much is changing to the investment plans for the firm, but I'm curious kind of where other opportunities may arise for the company. Obviously, in a backdrop where there's dislocation, much can happen; but I'm assuming you could potentially set up for other opportunities or even M&A that could come about just as your smaller firms have either challenges from capitalization perspective or slower scaling. I'm just curious kind of what the other knock-ons are of a view that may be in for a few quarters of a choppy market.

**Michael Novogratz**

Yes, listen, it certainly impacts your business, if prices are lower and volumes go lower, every one of your businesses get hit some. I constantly underwrite my broad assumption that crypto adoption is happening. I'm really confident in it right now. We're not crazy. If we think we see things slow down, we will look at adjust where we can and where we think it's prudent, but we're really playing for two years, three years out. There's lots of infrastructure to be built as we see where the puck is going, not where the puck is. We've raised money. We have a lot of cash. We raised money both through our convert, but we raised money by selling a lot of crypto assets last year.

We have a strong balance sheet and are not using it to just go in and buy a lot of crypto. We're using it to build our business to look opportunisticly. I do think there will be some carnage and there will be some almost distressed opportunities, both in companies and portfolios, that our skills, certainly I'm looking over at Chris Ferraro, who spent the first part of his career in that space, will be put to use. Listen, I'm never hoping for the demise of people in our space, but I do think when you see price moves like you're seeing, you're going to see some competitors weaken, and that might be opportunity.

**Devin Ryan**

Yes, okay. Terrific. I want to come back to the conversation on institutional adoption. Obviously, as you guys talked about, you're seeing a lot of momentum there and you have recently met with a number of folks that are kind of either moving into the space, or have already recently entered. I'm curious, kind of just outside of kind of the notion of institutions coming in and buying and selling digital assets, what are some of the other big areas where you are seeing interest and expect maybe over the next 12 months that institutions, or when I say institutions meaning kind of just corporations and kind of broad participants, beyond retail entering. You touched on media, Web 3, but kind of curious what kind of applications you think are maybe most ripe currently where institutions are less interested.

**Michael Novogratz**

If you think about the two primitives of crypto, or the two contributions. One was blockchains are using decentralized databases to process and store and authenticate data and power systems that build things like decentralized finance. The second is unique digital assets, right, bitcoin being the first private property on the Internet. We now have NFTs as unique digital assets. That story is a real one and I think you're going to see media companies all over the place figure out how to sell assets in the metaverse, right, in the digital world, how to connect community in the digital world. That can be music. You're going to see concerts where they have a physical concert place, and then the virtual concert might have 10 times as many people.

That technology is being built. We're very bullish, you know, our interactive team is growing. We're really bullish on that space, and I kind of think that could be one of the big, next use cases. Because look, I say I think that I'm seeing all that interest, or we're seeing as a firm all that interest. Crypto, blockchain, digital assets is a pretty wide swath of ideas and technologies. It wouldn't surprise me if that becomes the fastest horse.

**Devin Ryan**

Got it. Okay, great. Maybe just one more quick one. Not sure how quick it is, but if we all saw the recent release of the SEC significantly increasing their enforcement footprint. Curious, kind of having any conversations with regulators and kind of where those have evolved in recent months and just whether there's any potentially positive developments on the other side of that they have more resources they can better help the industry around some of the regulatory questions that are still out there.

**Michael Novogratz**

Yes, start with like crypto is already regulated, right. We have 30 regulators that we deal with. That's just Galaxy. That's between U.S. and international. Unfortunately, it's complex. The space is, like I just said, there's not one thing that's crypto, and the regulation wasn't written pre crypto. There's still this learning process, horse trading amongst the different regulatory agencies in the U.S. The optimistic side is people are becoming much more educated, and the political tone in D.C. has changed to be much more crypto friendly, right. You can't be anti-crypto and think it's good politics anymore.

The democrats who had been kind of the anti crypto side have definitely shifted their tone, and they're engaged with the community. I'm hoping you're going to see—I don't think you'll see any legislation, at least until the election, right. There's no appetite for any legislation in anything right now. We're not going to see any crypto legislation. I'm hoping that, post the election, we get some move in Congress and also hoping that regulators, as they come up the curb are—they may take their queues as well from the politicians that in the long run they report to.

I mean, that's a hope. We haven't seen anything specific. Our biggest frustration continues to be just how slow the process happens, right. In some ways it becomes anti innovation to leave us wondering or having to guess what regulation is. Still frustrating, but a little more optimistic.

**Devin Ryan**

Yes, okay. That's great color. Thanks, Mike. I will leave it there, but appreciate taking all the questions.

**Operator**

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

**Owen Lau**

Good morning, and thank you for taking my questions.

Could you please talk about the driver of the demand of your loan portfolio? I mean, it looked pretty strong quarter-over-quarter and also year-over-year. It will be great if you can also remind us how you manage the risk in this portfolio. Thank you.

**Christopher Ferraro**

I'm sorry. Can you repeat that? Just the drivers of our long portfolio?

**Owen Lau**

I'm sorry. The driver of the demand of the loan portfolio. It looked something pretty strong quarter-over-quarter for your loan portfolio, yes. Also, how you manage the risk in this portfolio. Thanks.

**Christopher Ferraro**

Yes, sure. Generally speaking, the way the market is organized today, a lot of the people borrow dollars to get longer with leverage assets. People borrow crypto assets to get short their position. Market makers will borrow dollars and coin for inventory to be on menu and operate. Those are generally the buckets for lending and borrowing. The market is organized primarily bilaterally today, which is a not great market structure. Meaning counterparties face each other. Galaxy faces this counterparty, lends, borrows, and then those counterparties take those assets and transact elsewhere, generally.

That makes for the growth that we have seen, and the market participants have seen. I actually commend everybody in the industry for being able to build that business and grow, despite sort of like having a pretty fragmented market. For us, we have always been primarily focused on structuring our financing to be net in an over secured position. That takes a couple forms. In some cases, we have margin loans to institutional counterparties where we have lent dollars and coin against dollars and coin and we've taken in more collateral than we have lent out. We have margin liquidation at certain levels that ensures that we get our principal back.

We also do other structured financing where we will wrap those kinds of loans with put call callers. For example, like a pretty plain vanilla structure, where we (inaudible) the downside risk to a put counterparty, which in some cases is essentially clear exchange. In other cases, are facing other institutional counterparties where we also take in initial margin and variation margin and protect ourselves on that side. On the risk side, I think we have—continue to show on our side at least to have sustained zero losses and zero expected losses in that financing book since we really, really have started growing the franchise.

On the demand side, we have seen a pretty dramatic increase from the bitcoin mining community, and that takes a lot of different forms. That takes—that's miners looking to increase their capacity and so they'll borrow dollars against coin to buy additional bitcoin mining rigs. That will be miners borrowing dollars secured by machines and sort of lease financing and other secured financing structures to buy their machines. They also have bigger and bigger bitcoin treasuries, for example. Which, from a treasury management perspective, whether it's overwriting call positions, whether it's borrowing dollars against a treasury, whether it's systematically borrowing and selling via the overwrite, that has become a large driver, a larger driver of our business. That's our example of why having a mining business inhouse with our lending business inhouse is a really good virtuous cycle for us and really makes Galaxy a special place.

That's pretty much what we're looking at today.

### **Owen Lau**

Got it. That's very helpful. Then on the principal investment side, could you please talk about the health of your portfolio companies. Can they manage to control expense and raise funds, given the macro challenge backdrop Mike just mentioned? Then what characteristics you are looking for, maybe from the platform perspective, that can come out stronger on the other side of the world? Thanks.

### **Christopher Ferraro**

Yes, so our investing philosophy generally for the firm has been to be thesis driven in our approach. We spend a lot of time as a team thinking about where are the places in crypto we want to invest, rather than where are just the opportunities where we can put capital to work. We generally invest earlier stage rather than later stage. Our check sizes, on average, which results in us having 93 portfolio companies, tend to be smaller and more diverse, rather than big and chunky and concentrated.

2021 was a big capital raising year for the industry and so we had a number of existing portfolio companies raise incremental rounds, some of which we followed on, some of which we chose not to. Some of which we chose to take liquidity in. But those companies in general, on average, do have pretty decent sized balance sheets now. Whether they can appropriately manage their balance sheet is something we spend a lot of time talking to them about.

I think our Company is pretty exemplary of how we think that should be managed. It's a push and pull. Those companies are fighting to build the next trillion dollar company, fighting to build new financial infrastructure, and so there is a good balance between spending your resources to build, versus holding back and potentially having a competitor having beat you to build the next thing and then you ultimately lose. That's the conversation we have with our portfolio companies pretty often.

Capital, there is a lot of capital still on the sideline and there are new pools of capital in the billions of dollar range over multiple, multiple funds that had been raised in terms of dry powder, dedicated directly to this space. Not just crypto native, but also crossover funds who have now direct mandates with Bs next to them in terms of dollars waiting to be deployed into the space. I think that funding will continue to occur. It may be more structured. You might see things like liquidation preferences. You might see things like preferred coupons. But I think that companies will still get funded. The structures might shift a little bit and might become more investor friendly, which ultimately would be a good thing for us.

### **Owen Lau**

Got it. Thank you very much.

**Operator**

The next question comes from Mark Palmer with BTIG. Please go ahead.

**Mark Palmer**

Yes, good morning. Thanks for taking my question.

As you're looking across the crypto markets, what have you seen in terms of leverage in the system? Particularly as we have seen an extended decline here. Has that leverage moderated? What are you seeing?

**Michael Novogratz**

You know, what has been spectacularly interesting is, and maybe not so optimistic is, that there's not a ton of leverage in the system, right. You can see that by a bunch of different metrics. One of the clearest is volatility hasn't jumped, right. Where bitcoin VOL is far lower than it was in any of the down spikes last year, right. It's trading around 60% in the OTC markets.

I think this has been, you know, retail got beaten up, and they're taking their leverage down, and they're liquidating. Period. I don't think there's a tremendous amount of leverage in the system. In the past, what created these wild downs and up spikes have been leverage, right. The Asian exchanges would provide you a hundred times leverage, which always seemed a bit insane to me. But that's way down in the system.

I'm pretty convinced that we will see crypto outperform once overall market conditions in TradeFi (phon), in the NASDAQ and the S&P find some kind of bottom. I don't think that bottom is going to be a giant B like we've seen in 2020 with COVID, or in '08, or in any of the big sell offs, because you don't have the plunge protection team coming back. But as long as we get some sense of new equilibrium, then I think you'll see the real dollars that are on the sidelines waiting to come into crypto start really coming in.

No one puts money in in chaos, right. If you're any institutional fund, right now your new allocation to crypto is not high on your weekly to do list. It's, oh my goodness, I've been stuck in risk parity for the last 15 years, and it doesn't look like it's worth more. Or did I overcommit to my venture portfolio, and I have all these obligations still to make the portfolio smaller. When everyone is in triage, new risk slows down in the system.

As soon as that sense of panic abates—I don't know when that will be. It will be some time. I don't think it's going to be in the next two months, right. The Fed has got to go through a few more rate hikes. You've got to see inflation at one point start heading the other direction. I do think you're going to see signs of recession faster than people think. Then I think you see the adoption cycle pick back up.

Again, I am preparing for the worst and hoping for the best, i.e., when I say preparing for the worst, it could be an 18-month crappy environment. I'm hoping that's not the case; but look, this is a generational shift of what's happened, right. We had a whole, since literally '01, but really since '08, years of easy money, free money, and that is being reversed. To

think anyone can pinpoint where the new equilibrium is a little bit aggressive. I think the best we can do is understand we're in a different environment. Operate accordingly and, like I said, continue to re-underwrite our own assumptions that the digital asset space will have a GDP that grows.

**Mark Palmer**

Thank you very much.

**Operator**

The next question comes from Jamie Friedman with Susquehanna. Please go ahead.

**Jamie Friedman**

Hi, good morning. Thank you.

I'll just ask Mike two questions at once. I was wondering if you could share with us which of the segments you think you have the best visibility at. Would it be investment management or investment banking? How do you think about the visibility on a segment basis? Then as the follow up, could you talk about the strategic significance of prime broker, because it seems like, to some degree, it pollinates other parts of the business? Thank you.

**Michael Novogratz**

I'm going to let Chris, because Chris spent a lot of time on prime, answer that first, and I'll hit the other ones after.

**Christopher Ferraro**

Yes, prime brokerage in crypto is—it's a very challenging word because everybody uses it and no one has implemented it yet. We think it's incredibly important for the market structure to come together and in a quote prime broker like fashion. The idea is to remove counterparty risk from venues and to increase capital utilization, or capital efficiency. That's really what people are talking about when they're talking about prime brokerage.

We're an active user of all venues and have pieced together our own leverage with other providers to try to make our capital as efficient as possible. We suffer ourselves from not having a prime broker relationship in crypto. At the same token, because of that, we have been, ourselves internally, continuing to build out a roadmap in technology to support our activities and ultimately turn around and help support the market's activities.

We will launch an MVP product in this space. We probably won't call it prime brokerage, because calling it prime brokerage is akin to trying to boil the ocean all at once. We will start piecing together client-trading and margin-based financing and leveraged services in one platform in a way that helps clients access the markets without themselves having to have multiple, multiple connections and counterparties. Also, be able to access the markets with capital efficiency, with leverage, and netting of positions. That is very clearly on our roadmap. We think it's very important to the market, and so as a result of how important it is for market positions to have it, it's on our roadmap to launch as well.

Do you want to talk about visibility?

**Michael Novogratz**

Yes, you know, the banking business has a really, really robust pipeline. Those deals have to get done, right. Deals are harder to get done in environments where markets are falling; but assuming we find some stability, I am really optimistic there. Asset management, Damien is spending more and more of his time with Steve Kurz on this. This is a business that we need to win in, and I think we're set up to. How do you win? You connect with the institutions that are coming. I'm positive institutions are coming into this space and will continue to come in. You create product that they want. Product Damien talked about with Chris Rhine, a mutual fund.

Well, it's not a mutual fund. It's a loan only esq fund that proxies what a mutual fund would be if you had the right regulatory regime. I think that perfectly tailored product for the big endowment institutions that are coming in, we're going to launch that soon and we'll see. But for us, this is a huge focus, and it's really important that we win in this space. We're in the market with our third interactive fund right now. Fundraising around it is going fine, and so hopefully by next call we're announcing where that cap raise is.

The index funds are going to be a little bit more momentum driven. When you see crypto going up, they'll start bringing in assets. It's really building the bespoke product. I think we've got an advantage with the fund of funds business, A, in that it's a unique product; but B, we probably have the only database of the over 1,000 hedge funds, private venture funds. We've got a pretty good insight into what's working, what's not.

I know I'm not answering your question as crisp as you want to hear it. I would tell you that investment banking feels really robust, but it's going to have to have market conditions that are at least stable enough where deals get done. Asset management is something that you guys should keep your eye on, because we're working our tail off on it.

**Jamie Friedman**

Thank you for the color.

**Operator**

The next question comes from Rich Repetto with Piper Sandler. Please go ahead.

**Richard Repetto**

Yes, good morning, Michael and team.

I guess, Michael, a question is on your U.S. listing. Apologies if you explained this in past calls, but I'm just trying to see how much is delayed between the SEC and Galaxy sort of specific from an accounting standpoint and how much is it SEC and crypto in general.

**Michael Novogratz**

You know, without being able to comment directly on it, I would say there are four companies in the space that all seem to have been suffering similar delays. My instinct would be it's—and everything we feel is it's nothing specific to us. It's they're just taking their time to be very thorough that they understand what they're doing. You know the other companies Circle, Bullish and eToro. All having longer processes. That is normal in the SEC. Frustrating, but optimistic we get through it.

### **Richard Repetto**

Got it. Understood. Then I just wanted to like link two concepts or issues that have been talked about on this call, throughout the call, but that being regulation and then crypto being looked at as a risk asset. I guess the question is, is it first, is there anything that you would point at that, there's no doubt the mark goes down, risk asset goes down, but that would get crypto to be less looked at as a far ranging risk asset? I think you mentioned NFTs, but are there any credible, proof of points or use cases that makes it more real? Then on the other hand, with regulation, you talked about the sentiment changing. But anything beyond sentiment changing where regulation might help also with the credibility of the space?

### **Michael Novogratz**

Yes, listen, the single biggest thing that can happen for crypto will be the approval of a bitcoin ETF. While that's really like a simple statement, I think it will signify to the whole institutional community that the U.S. Government believes in crypto, right. I think my instinct says it kind of makes no sense why they haven't approved the bitcoin ETF yet. Right, you've got a futures ETF. You've got (inaudible) ETFs. I think that will be a real message to the market that this has got a government's approval, having been very nervous about it for a long time. It will happen. I think the political pressures, especially with what will most likely happen in the next election in whatever, November, probably help accelerate that.

On your first question, you have to always keep in mind that this is a very un-ecosystem, right. The idea of a decentralized database where people build real enterprises off of is growing in parallel to how fast our move into the metaverse is going, or our move to being in an online world is, but really didn't get started in earnest with real acceleration until four or five years ago. It's a really young technology. People have to get used to using it. We talk about voting on the blockchain. My line is always maybe we should start with *American Idol* votes on the blockchain and so customers can understand how the system works. It's funny, because it's a trust machine, but you've got to get people to understand how it works so they trust it.

I always just encourage patience. I do think you are seeing real applications. I mean, NFTs was a startling explosion of innovation, because for the first time artists thought, wow, I can actually create digital stuff and it won't get stolen. It won't get counterfeited. Not only that, I can create whole new business models, i.e., the idea that every time my art gets resold, or my digital innovation gets resold, I get a royalty. That's built into the system and so you've got major innovation break throughs happening and all of a sudden now the big companies are looking at it.

Listen, NBA made an extra \$125 million last year. Major league baseball is engaged. English Premier League sold the rights for £500 million. That's not small numbers. I do think you shouldn't discount what's happening in the intellectual property space or the NFT space. It's easy to get kind of fascinated with Bored Apes, and people spending millions of dollars for really cool monkeys. But underneath, it's a technology platform that almost every smart C suite (audio interference) has got to say how does this disrupt our world. How can we actually use our IP that we have and create digital objects that we can sell?

This is where I think to keep your eye on, because that, I think, only goes one direction. I really think the GDP of the metaverse, if I want to be cute, it will grow a lot faster than the GDP of the atomic world. (Inaudible).

**Richard Repetto**

This reminds me sort of the Internet boom and bust. We had a correct. Hopefully, it's not as long as the Internet one, but all of a sudden it got proven that the Internet is better than just email. There's ecommerce (inaudible) usages applications. Anyway, thanks for the follow-up, Mike.

**Michael Novogratz**

Yes.

**Operator**

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

**Michael Novogratz**

Hi, guys, it's still a beautiful day in New York. It's still an ugly day in the markets. Really, thanks for your time. We are working our tail off here with the mantra of build, build, build this year. It's been our mantra since the beginning of the year. Look forward to speaking to you again. Listen, we are as anxious as you to close our transaction with BitGo and get that part of our history started. We will grind through the process, and we'll be back. Thanks.

**Operator**

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

## No Offer or Solicitation

In connection with the proposed reorganization and combination with BitGo, the Company has filed a registration statement, including a management information circular/prospectus and a consent solicitation statement/prospectus, with the SEC, which has not yet become effective. GALAXY AND BITGO 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 the consent solicitation statement/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.galaxydigital.io>. The proposed reorganization and domestication is subject to approval by shareholders of the Company and applicable regulatory authorities, including the Toronto Stock Exchange. 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](http://www.sedar.com). This release shall not constitute a solicitation of a proxy, consent or authorization with respect to any securities or in respect of any of the proposed transactions. This release does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote of approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of any such jurisdiction.

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closing; (3) the outcome of any legal proceedings that may be instituted following the transactions and any definitive agreements with respect thereto; (4) the ability to meet and maintain listing standards following the consummation of the transactions; (5) the risk that the transactions disrupt current plans and operations; (6) costs related to the transactions; (7) changes in applicable laws or regulations; (8) the possibility that the Company may be adversely affected by other economic, business, and/or competitive factors; (9) changes or events that impact the cryptocurrency industry, including potential regulation, that are out of our control; (10) the risk that our business will not grow in line with our expectations or continue on its current trajectory; (11) the possibility that our addressable market is smaller than we have anticipated and/or that we may not gain share of it; (12) the Company's ordinary shares may experience price and trading volume volatility, (13) those other risks contained in the Annual Information Form for the year ended December 31, 2021 available on the Company's profile at [www.sedar.com](http://www.sedar.com) and (14) other risks and uncertainties to be indicated from time to time in filings made with the SEC. Should one or more of these risks or uncertainties materialize, they could cause our actual results to differ materially from the forward-looking statements. We are not undertaking any obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. You should not take any statement regarding past trends or activities as a representation that the trends or activities will continue in the future. Accordingly, you should not put undue reliance on these statements.