EDITED TRANSCRIPT

GLXY – Galaxy Digital Holdings Ltd

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Shareholder Update Conference Call

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PRESENTATION

Operator

Good morning, and welcome to Galaxy Digital's First Quarter 2023 Earnings Call.

Today's call is being recorded.

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

Galaxy Investor Relations

Good morning, and welcome to Galaxy'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 authority on SEDAR, and available on our website, or in future filings we make with other securities regulators. Forward-looking statements speak only as of today and will not be updated.

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

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

Mike Novogratz

Guys, good morning.

If you're not in New York, it's a beautiful, sunny morning here. Listen, it's nice to show up with a good first quarter earnings. I'm going to let Chris Ferraro and Alex spend most of their time taking that victory lap and really going into how each business is doing and going to give more of a high-level view, which is going to be more nuanced—the good, the bad, and how I'm thinking about this whole business.

At the beginning of the year, I said to the firm, and I said to you guys in the last conference call that 2023 would be a year where we had to chase down loose balls, where we would need to be scrappy, where we would need to hustle our way to a decent year, while the entire time we were building and building for what we think is a really exciting future. That view hasn't changed a bit.

There have been some good developments in crypto. Bitcoin was the single best performing asset on a risk adjusted basis in the world in the first quarter, 65%-70% up. That came from a lot of different reasons, the market had been too pessimistic, perception that the Fed was getting close to the end of the hiking cycle of banking crises in the United States. All reinforcing why people cared about crypto. That's the good.

I think you're going to continue to see macro developments around hard assets like Bitcoin be a positive. When I think about my confidence in the future of Bitcoin and the future of crypto, it hasn't waned. I think about stablecoins last year, $7 trillion of settlements on stablecoins. That's bigger than Visa and MasterCard. We don't use a lot of stablecoins here in the United States. But travel abroad, when you look at places that are unbanked, stablecoins a very important part of their ecosystems. We do think both in Europe with the recent regulation and at one point in the United States, stablecoins are going to be more important.

Think about it in a really simple way, if you get to a point where you have a stablecoin that pays interest, and you give everyone just a crypto wallet, you really have solved the unbanked crises, then everybody has banking. That's the future that's so intuitive. It's going to happen. Is it going to happen next week? No. But we're building to that future.

When I keep thinking about this business, and what I keep trying to drive our firm to is, what's the world going to look like in 2024, ’25, and ’26. When I figure that, I'm really optimistic. When I look at the short term, we still have a regulatory headache in the United States. I don't see that breaking anytime soon, and that we still have a hangover as well from the lack of trust or the denting of trust that FTX and other bad actors in the space created.

Allocator adoption is slower than we'd like. We're not seeing the big institutions come in writing big checks into crypto. They're all still doing their homework. They're all still following it. But that is slower and I expect it to continue to be slower. But what I'll call infrastructure adoption is picking up. Chris is going to talk about the partnership we just launched with DWS. DWS is a trillion dollar asset manager in Europe, their CEO is really geared up to making crypto part of their offering, and for us, that's wildly exciting.

In some ways, it's this tale of two cities. It's great news on a medium-term basis, but it's going to be tough sledding in the short run. What does that mean for us? It means coming to work early, staying late, hustling, and mostly, I think, our earnings this year are going to be driven by our trading business. All our businesses are doing well and building, but in a year, where we're mostly investing in our Galaxy prime offering, that's not going to show revenue till the end of this year or at the beginning of next year. It's going to be the trading business that most likely carries us this year.

We've just brought in a new group of traders in Hong Kong. We're really excited about that. We do think this is a global business, and our intention is to continue to grow outside of the U.S. at a much quicker pace than we were growing in the United States. Most of that is regulatory, but a lot of it's also opportunity. The Asian markets take to crypto, there's quick adoption there, and now, we're seeing more and more in the Mideast in Europe.

I frame it together, like I said, we're driving ourselves to a 2024-2025 build, and we're investing for that future, we have been good enough, lucky enough to have a balance sheet that allows us to invest. When I look at Galaxy’s headcount, we have more people today than we did a year ago, and that's with acquisitions like GK8, and Helios, the mining operation down in Texas.

We're significantly bigger than we were, where most crypto companies and most of our peers are a lot smaller. We've certainly tightened our belts and cut costs, and so we've got a bigger footprint with a very similar or even lower cash burn or cash expense. That's being funded by positive operations and good trading, we still have a $1.6 billion worth of partners equity and a good liquidity position. We feel like we can grow with our own balance sheet and with our own profits.

That's pretty much how this is going to be. I wish I could come and bang the table and say there's this giant tailwind that's going to lift all crypto boats. I think we're pretty sober in our outlook in the short run, but we're pretty optimistic in the long run.

With that, I'm going to turn it to Chris to talk about the first quarter. I said he's got the fun job, because we really feel like we had a great first quarter and the firm all worked hard, and the results show for that.

Chris Ferraro

Thanks, Mike. I apologize in advance, I'm a little under the weather, so, everyone, bear with me today.

As Mike noted in his remarks, we're relentlessly focused on our three strategic priorities to drive growth in the business: building and launching GalaxyOne, scaling the asset management business, and integrating and scaling our recent acquisitions. We're really excited to share that we made substantial progress and executing on these priorities in Q1.

On the last earnings call, we provided an update on the development of GalaxyOne and the steps we are taking to establish the product as the leading institutional grade digital assets services platform. We're excited to share that in the first quarter, we made strong progress towards our MVP launch. We've completed over 30 demos with key target institutional customers and feedback has been overwhelmingly positive. With the majority of these prospective clients requesting documentation to onboard. We continue to add new jurisdictions and can now operate Galaxy One in 35 states in the U.S. and eight key international countries, and are actively pursuing additional regulatory licenses as needed, and we are developing our automated margin trading offering, which will supplement our already sizeable and active trade financing business that we do today, which we intend to launch in a measured way over time with a keen focus on risk management and proper controls.

As we build and prepare for the launch of GalaxyOne, client onboarding in our existing trading business continues to trend positively with more than 30 new counterparties having onboard to the desk in the first quarter.

More broadly in our global markets business, on the back of a record year for our investment banking team, we advised Pantera, a leading blockchain asset management firm on the sale of its stake in European digital asset exchange Bitstamp to Ripple Labs in Q1. Executing on a deal with this complexity, post FTX, reinforces our position as a leading investment bank for digital assets with unparalleled sector knowledge and execution acumen, and the investment banking teams pipeline remains strong with a dozen active mandates being pursued right now by the team. We're excited to continue to update you on the progress here in this business.

Galaxy asset management. In terms of our asset management business, we've had a very active start to the year. Consistent with Galaxy's business re-segmentation, we've also simplified our asset management architecture to orient around three key strategies: passive, active, and venture.

As we noted on the last earnings call, within our passive sleeve, we are keenly focused on leveraging a regional partnership model to expand our product reach. In line with this commitment, we recently announced a partnership with DWS to develop digital asset management exchange traded products in Europe. DWS has nearly a $1 trillion asset manager, the third largest ETF provider in Europe, and has more than 60 years of investment management expertise. Our partnership represents the coming together of two leaders in our respective sectors and is a significant step forward in the institutionalization of digital asset markets.

Galaxy asset management now has a presence in the top five crypto exchange traded product markets globally, through partnerships with leading trusted regional asset managers that include DWS in Europe, CI Global Asset Management in Canada, and Itaú in Brazil. Don't forget, we also have a partnership with Invesco in the U.S., the largest non-crypto ETF market in the world, but continue to wait for regulatory approval of such an investment vehicle.

Within our active sleeve, our liquid Alpha fund is coming up on its one-year track record and has generated more than 550 basis points of Alpha, net of fees, for our onshore Class A investors relative to Bitcoin from inception through April of this year. We are continuing to explore new liquid active risk managed strategies both quantitative and fundamental, as we look to build out our actively managed product suite.

Finally, on the venture side, we successfully completed the migration of our venture vesting team into our asset manager, which includes $343 million of previously reported balance sheet investments that are now captured as AUM. Our unified venture platform now consists of our interactive venture franchise, our venture funded funds business, and these newly migrated crypto venture investments, which collectively now represent $1.4 billion in venture assets under management.

Galaxy central positioning in the digital asset ecosystem provides an unparalleled sourcing funnel and a differentiated ability to underwrite individual portfolio companies and correctly price portfolios. Our team has made more than 300 direct venture investments and 35 venture fund commitments over the past five plus years. No other investment manager in the world, with expertise in crypto, has this access, expertise and vantage point.

Finally, our digital infrastructure solutions group. Our third operating business is continuing to gain momentum following our acquisitions of Helios and GK8. Let's start with mining. We've already reached approximately three exahash of hash rate under management across our proprietary mining and hosting footprint, doubling where we were at the end of Q4 and putting us ahead of schedule in achieving our goal of four exahash by the end of the year. Our current hash rate under management represents roughly 1% of the total Bitcoin network hash rate, even with the continued rise of hash rate over the same timeframe.

As a reminder, our proprietary mining operations represent approximately 30% of our hash rate under management, and our hosted mining business represents the other 70%.

At Helios, our flagship mining site, we have been focused on retrofitting and stabilizing the asset, laying the groundwork to allow us to achieve our long-term plans to scale the facility well beyond its current capabilities. We executed the first quarter with precision and feel really good about our operational upgrades leading into the summer months. Our team is now focused on expanding the existing data center to roughly 220 megawatts of operating mining capacity, which will require an investment of approximately $20 million to $25 million, and which we expect to achieve by early next year.

I'm also very excited to share that just last week we received approval from ERCOT and the Wind Electricity Coordinating Council, WECC, to scale up to 800 megawatts at the Helios site over the coming years, which is approximately four times our current electricity access. We are in the very early stages of planning this expansion, including evaluating various financing options.

With respect to our smaller mining facility in Diboll, Texas, half of that site is currently energized and operating, and we are on track to bring the full 16 megawatts online by the end of the second quarter. We continue to actively manage our power cost exposure and since our previous earnings have increased our hedge position, keeping our effective cost of power extremely competitive, and our marginal cost to mine, low.

In addition to mining, we're also operating and providing other services at the blockchain infrastructure layer. This includes running validator nodes for proof of stake consensus mechanisms, and providing self-custodial technology solutions via GK8.

We're excited to announce that since the close of GK8 acquisition in February of this year, GK8 has won four new clients already to reach 11 total clients, including Galaxy, and has also seen a significant increase in its pipeline of potential enterprise clients. GK8's technology will accelerate Galaxy's product innovation and development, including the ongoing build out of our Galaxy One offering. There's a huge opportunity for Galaxy to build and invest in technology that powers the digital asset ecosystem, and I'm incredibly bullish on the long-term growth of our digital infrastructure solutions business.

I'll now turn the call over to Alex to cover financial results, and then we'll jump into questions.

Alex Ioffe

Thank you, Chris.

Good morning. We had a strong quarter. Galaxy reported net income of $134 million in this quarter, compared to a net loss of $288 million for the prior quarter. On a comparative basis, the preliminary first quarter results we provided on our last call based on the information through March 24, for the full quarter, before taxes, and noncash equity compensation, we earned $163 million, compared to our estimate of $150 million. Most of the beat was driven by a strong last week of the first quarter. Correspondingly, our equity was $1.6 billion at the end of this quarter, an increase of $158 million from year end.

We ended the quarter with total liquidity of $814 million, consisting of $400 million in cash and equivalents $209 million of non-algorithmic stablecoins, predominantly USDC issued by Circle, and $205 million of net digital assets, excluding stablecoins. Our combined cash and stablecoin balances were down by $214 million from year end, primarily due to a larger amount of outstanding, fully collateralized FIAT loans to our customers, GK8 acquisition, and investments. In this quarter, we continue to navigate discombobulation in commercial banking without issues.

Now, I would like to highlight changes made to our reporting segments. To better reflect developments in our business from organic initiatives and from acquisitions. We adjusted our financial reporting into three complementary operating businesses: Galaxy Global Markets, Galaxy Asset Management, and Galaxy Digital Infrastructure Solutions.

Galaxy Global Markets, with a little bit of background music, consists of trading and investment banking, which were standalone businesses prior to this quarter.

Galaxy Asset Management consists of passive, active, and venture investment strategies, and now includes select venture investments that were historically reported as principal investments.

Galaxy Digital Infrastructure Solutions consists of our proprietary and hosted Bitcoin mining services, the newly acquired GK8 technology, and self-custody capabilities and validator services. These segments have been reported in our financials, starting with the first quarter. For additional details on re-segmentation, please see Management's discussion and analysis for this quarter.

Now, back to the operator for questions. Thank you.

Operator

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

Deepak Kaushal

Hi. Good morning, everyone. Thanks for taking my question. Mike, Chris, Alex, just a question on the DWS opportunity in Europe with MiCA getting ratified. Do you have a full regulatory greenlight in Europe to launch? Maybe you can just discuss some of the milestones that we should expect in terms of the partnership and how it should progress before AUM starts to ramp up.

Chris Ferraro

Yes. Hi, Deepak. How’s it going? Thanks for joining. Thanks for the question. Short answer is yes, we have full regulatory greenlight to proceed. We're going to be launching the products throughout Europe in the markets that represents over 70% of basically all exchange-traded products, ex U.S., in the world. We're going to launch in geographies that actually already have a fairly rich offering of different forms or structures of crypto ETP products in the market today, and so unlike the U.S.

where we're waiting for an indefinite time period for some approval to actually launch the product that there, there's a small but already approved and fairly robust marketplace, we just intend to do it better and bigger together with DWS.

In terms of product roadmap, yes, we inked the partnership together with them. That was the first step. In parallel, along with that comes with a base product suite that we think addresses needs in the market that in the various markets in Europe that aren't being addressed yet today, we intend to launch those products towards the back end of the year. Because and first, we're both working with DWS to line up global service providers to support the products and sort of the platform to actually be able to launch them. You'll likely see, as we get into the back half of the year, announcements from us some marketing globally about it, and ultimately a launch of the products towards the back half of the year.

Deepak Kaushal

Okay, if I could ask a follow-up, I understand that the DWS partnership in Europe is exclusive, so you won't be doing anything else with anyone else in Europe. But how do you think about organic growth versus inorganic opportunities? Is this purely market share gain? Obviously, in an expanding market. Or are there opportunities for consolidation in the ETP space in digital assets? I'll leave it at that.

Chris Ferraro

Yes, I'll take a quick crack at it, first. I think it is an exclusive partnership in the region for those products. We have had the privilege of being in a seat where we were able to look at all the different opportunities out there, globally, in terms of potential platforms coming up for sale, potential investments, going this route, where we are actually partnering with a global institution, helping develop and launch the product, manage it, and ultimately own a partner share to the economics on a go-forward basis is what we felt was by far the highest returning end strategy for us, rather than inorganically going out and buying existing products.

Also, because some of these end products in the market—we don't feel like are set up and structured to scale the right way for the future as global adoption really starts to hit pace. They are out there. We don't currently have any plans to do anything large, inorganic on the global ETP front. We think the right strategy is organically build and partner with institutions who have brand that can help us on the distribution front, particularly internationally.

Deepak Kaushal

Okay, thanks for that. I'll leave it at that and pass it on.

Operator

The next question comes from Chase White with Compass Point Research and Trading. Please go ahead.

Chase White

Thanks. Good morning, guys. Any color that you guys can provide on the PPA that you guys have in Helios? What kind of power strategy is for that facility?

Chris Ferraro

Sure. Probably not specifically on the exact terms of the PPA, but in general, the reason why we were so attracted to the Helios site was its location in ERCOT West and our view of that power market over the long term and where price would be on average over the long term, with the goal of being able to access consistently low cost power, which is sort of the cornerstone of operating a good Bitcoin mining operation.

We have, to-date, generally aim to hedge out the vast majority of our electricity needs with fixed price contracts. That actually has been a big benefit to the site which the site was unable to access before our stewardship with it, and so our balance sheet has allowed us to actually do that, which we then created value on day one for the Helios site. It wasn't unlocking prior to that.

We're going to take it bit by bit, and we're watching the electricity markets. But the goal for us is to really have a low stable input cost of electricity so that we can operate the business as efficiently as possible, and we're going to aim to continue to do that pretty consistently.

Chase White

Got it. One more, if I may. Since your last earnings update, has there been any change in the banking landscape for you guys? Have you had any trouble with existing relationships or entering into new relationships with U.S. banks? Just curious how things have evolved there.

Chris Ferraro

Yes, I would say there hasn't been any negative evolution since the last time we talked. We have worked pretty hard at expanding our own banking relationships, and being met with some success. But on the flip side, it's not a floodgate of open banking relationships at the biggest banks in the world. Nothing negative, nothing adverse, but pretty measured in terms of access for the sector.

We're leaning into—again, like we talked about last time, the fact that we do have those relationships, we are able to expand our relationships with our existing banks and add new banks to supplement it, and so we're leaning into the fact that we are, in effect, one of the trusted nodes now in the crypto sector through which crypto companies can come in and become a client and access our relationships and our banking rails (phon) effectively.

Chase White

Got it. Helpful. Thank you.

Chris Ferraro

Yes.

Operator

The next question comes from Andrew Bond with Rosenblatt Securities. Please go ahead.

Andrew Bond

Hi. Good morning. As you build out GalaxyOne and work with institutional clients on a beta, what are these clients demanding in terms of essential services? Have you seen a shift in terms of what clients are looking for with regard to risk management and portfolio engineering tools, similar to what they might use and tried by, given recent events?

Chris Ferraro

Hi, Andrew. Thank you, man. Appreciate the question. Yes, so there is a heightened focus on all things counterparty in risk management and flexibility focused in crypto. Our MVP launch is meant to be pretty simple functionality, but addressing institutionally built needs for clients, and so it's meant to be trading, access, custody, and reporting. We think those are the basic fundamental building blocks of institutions accessing digital markets.

To your question, one piece of that—the custody piece—clients are asking more and more for multi-custodial access, which is a differentiator for us, because unlike some of our other competitors, we don't in-house own an exchange, we don't in-house, today, own our own custodian. Where so with competitors, their options are pretty monoline and singularly focused in terms of that counterparty.

Our plan is to offer multi-custodial model. We're going to launch GalaxyOne. To start with three different external custodians, the theory being that clients can come in, and they can choose to allocate their assets between any one of those custodians, they can choose to either have omnibus accounts where they will eventually be able to add leverage to it, or they can choose segregated accounts, where they can pick their custodian.

For us, the key for the build out is going to be, when clients come in and demand that we provide accessibility to their custodian, where that meets where there's enough demand and a new large custodian who we haven't onboard yet, we're going to focus to plug that in, and then that now becomes another large custodian that every client in GalaxyOne can then access.

I would say diversification of custody is a key one. Certainly, reporting in terms of trade reporting, did I get the right fills, where did I get filled relative to the market, are important. We're focused on that, we think that's an important transparency tool that is generally not available in the market today. Things like that is what we're focused on providing institutional clients.

Andrew Bond

Thanks, Chris. Just the GK8 acquisition, has that enabled you guys to build faster and more efficiently given the team and the tech you acquired? You call it out, the recent client wins and really strong pipeline there. Is there any primary driver of that recent kind of uptick?

Chris Ferraro

Yes, it's really recent, and so we just closed in February, and we're able to properly get on with integration, and then actually plugging in their services. We're a little over two months into that today. We're fully integrated now as a firm, which is the fastest we've done, I think, with any one of our tech acquisitions, which is great.

We've got big hopes for GK. We think there's a huge untapped market that is growing by the day in terms of global institutions who are going to provide digital asset custody services to their clients on a global basis. In particular, because these are digital bearer assets, we think there's going to be many more of those customers globally than we would have seen in traditional finance. GK's technology is built quite specifically for that client segment, and so we really think we've done this transaction at the right time, on the front end of a global adoption trend, that's going to be the embedding key material management technology into big global institutions. We're really excited about that.

Also, taking their technology and plugging into inside of Galaxy, where we historically have used external vendors. Now, we can use an internal vendor, which is a cost saving, but also actually moves our roadmap forward. In particular, now, we're focused on using that to access DeFi markets and do it in a quick, risk managed, regulated way, which is quite interesting. But we're on the front end of that, because we're two months into having integrated the Company.

Andrew Bond

Great. Thanks, Chris.

Chris Ferraro

Yes.

Operator

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

Michael Legg

Thanks. Good morning. Can you talk and give us a little more clarity on the direction you're seeing regulation in D.C.? What type of focus are you seeing there? Any more color you can give us on what's going on there? Then also, as it relates to your venture portfolio and other investments (inaudible) of liquidity, can you just talk a little bit about pipeline, whether the add-on investments, new investments, or what you're seeing in your pipeline going forward? Thanks.

Mike Novogratz

Maybe I'll take regulation and let Chris take the venture stuff. The regulatory landscape in the U.S. is not great. I don't think anything will get done in Congress's session. There's some small chance that the stablecoin bill would go through. But when you look at the politics of it, the White House is putting the kibosh on anything, and so I think we're going to continue to see the regulators, the SEC, the CFTC regulate with lawsuits.

The courts move slowly. It's been, what, three years since the Ripple lawsuit, and we still don't have that judgment—that will probably be the first judgment. But I think this is going to be a slow process, probably until the election.

The good news is nothing bad is going to come out legislatively. There is a pretty fierce Republican pro crypto side that is going to continue to, I think, hold the SEC chair to task with hearings, and I don't think any bill on the negative side gets done. It's a little bit of a stasis. It's one reason, quite frankly, that we are moving more of our operations offshore, and certainly looking at the opportunity set.

I mean, it's sad, and almost ironic that Europe, which was always seen as the slowpoke of innovation is certainly a step ahead of the U.S. with their framework that they set up. Hong Kong is becoming crypto-friendly—or crypto-friendlier, I should say. Then places like Abu Dhabi and Dubai are really pushing the envelope to create a robust crypto regulatory infrastructure. I think you're going to see businesses migrate there, which is frustrating as a red, white, and blue patriot, but that's kind of our reality.

Chris Ferraro

Mike, on your question about capital allocation and venture investing and what we're seeing there.

Michael Legg

Yes.

Chris Ferraro

I think you—yes, I think you nailed it on what the dynamic there is. Ig you look at factually by the numbers, this is both in our previously balance sheet focused venture investing, now in the asset manager, but in Galaxy's capital, making venture investments as well as our interactive franchise. Overall, the pace of new investing has fallen off quite dramatically here. That's not just in the first quarter, that extended back to the fourth quarter of 2022.

We have been focused on portfolio management work, understanding which companies who already had product market fit, had traction, who we think have the best founders have good businesses, but at some point are going to need capital, and the capital markets in general in crypto, then more broadly in venture and more broadly in illiquid investing, generally, have locked up quite good.

For us, rather than blindly deploying more capital into new things, we are spending all of our time assessing the current portfolio, assessing needs, and planning for where we're going to back up the best companies, if we get there and if they need it.

The good thing was, I think, earlier in previous quarters, in late last year, we took a look at our portfolio. On average, across our portfolio, we had over three years of runway. In terms of—at the portfolio company level, the expected needs, it's only been a couple months since then. That hasn't dramatically changed. We built the portfolio to begin with a heightened focus on those companies runways, I think that's going to pay off for us.

The flip side of that is when you think about the offense, where have we been thinking about offense? We've been thinking about offense primarily in the secondary market, which is looking at the market where you've got a set up where you have a lot of asset owners, not a lot of asset buyers. Asset owners who would prefer to be liquid rather than illiquid, and so who are willing to sell good assets at great prices in good structures. On the offensive side, where we are spending our time is thinking about where can we be opportunistic, and increase exposure for investors in our asset management business, in great businesses at great prices.

We're really thinking about it like barbell from that perspective.

Michael Legg

All right. Thanks, guys. Appreciate it.

Operator

The next question comes from Bill Papanastasiou with Stifel. Please go ahead.

Bill Papanastasiou

Hi. Good morning, everyone. Thank you for taking my question. Just one here. We've recently seen a significant demand for block space with the introduction of these ordinals and the ERC-20s that have led to a substantial increase in transaction fees, and of course, an increase in hash price in early May. But it's also caused a significant amount of debate in the community on whether the blockchain should be used to settle wizard (phon) JPEGs. I'm hoping to hear more from your team on your thoughts on the matter and its long-term implications to the network and mining operators. Thank you.

Mike Novogratz

I need Alex Thorn, our Head of Research, on this one to get into the picky and details. Listen, I think in the long run, you're going to see level two solutions like lightning and Bitcoin process most of those transactions. It's just an intuitive sense. People in the long run don't want to pay high fees for small transactions, and so that transition will happen and it will happen pretty quickly. It's the same thing we've seen on the Ethereum network with all its level twos and side chains.

If you want to think about it conceptually, the most important transactions are going to get hashed on the most secure, probably most expensive blockchains. As the need for security decreases because of price in general, sometimes price and privacy, you'll see them on faster and cheaper chains. That's just an intuitive way to think about it.

Most people didn't see the Bitcoin Blockchain as a blockchain that fast things will be built on top of because of the way it was structured, right? It's meant to be expensive, because that's where this security comes from. If it was cheap to run the Bitcoin network, people wouldn't feel comfortable putting the half a trillion dollars of value that's in there. In some ways, this was a surprise, and the developers are dealing with this, as we go, that you have these two use cases pop up so quickly this year, because most of that mindset is being built on Ethereum. I think this is just a transition period, but we will get Alex to put out a more focused note on that because I think it's a great question.

Bill Papanastasiou

Thanks, Mike. Really appreciate that color. That's all I have.

Operator

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

Michael Falco

Hi, this is actually Michael Falco on for Devin. Good morning. Just one for me on the investment banking business, thinking about the macro environment there. It's been a challenging backdrop for fundraising and M&A just broadly speaking, let alone in the digital asset space. That being said, you did mention an active pipeline with, I think, a dozen mandates. I was hoping you could provide a bit more on the level and tone of client dialogues that you're having and how that has evolved, and then maybe have there been any notable shifts in activity or focus from recent quarters and how you're thinking about the outlook from here.

Chris Ferraro

Sure. Yes, so 2022, just to level set, was a record year really for our investment banking business. We had nine deals, we generated three times revenue from the prior year. Q1 has been at the same pace in terms of—Q1 we closed one deal.

The pipeline leads us to believe that 2023 is going to have a similarly paced year, probably even better in terms of number of mandates we're working on and things we actually get to the finish line on.

The color I'll give you on it though is capital-raising is very difficult, and so, from a client perspective, most mandates look like a mixed bag of either capital raising or M&A or on the sell side to sell. It depends on where the demand is on the investing side as to whether or not a client ultimately is going to be able to go with their own or look to have a strategic tie up.

From our perspective, having the team that has the ability to have connectivity to investors, but can also flip pretty quickly to thinking about corporate structure and strategic transactions and adding strategic value to the client, outside of just raising money, is actually paramount for us to be successful this year. That's really what the pipeline looks like and what I think the business is going to be this year, which really plays to affirm our strength, given the diversity of skillsets that the team has here.

Michael Falco

Great. I appreciate the color. That's all for me.

Operator

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

Rich Repetto

Good morning, Michael, and team, and congrats on the profitability. Mike, I have a follow-up question on the regulatory comments you made earlier from the earlier question. I'm going to just read a sentence that Brian Armstrong from Coinbase had in his shareholder letter. He said, “Substantive bipartisan legislation is already taking shape, and we believe we could see real action before the end of Q2.” That was in pretty sharp contrast to your comments earlier, and just trying to see, have you heard of any—and he wouldn't address any details of that on his call, but have you heard about any really strong bipartisan movement? It certainly didn't sound like from your earlier comments.

Mike Novogratz

Brian's very well plugged in in D.C. as well. There was optimism that the stablecoin bill could make it through, probably before Brian's call. Since then—I don't know when his call was, but that early optimism was kind of squelched when the White House, through their channels, called some key Dems and said, hey, back down. The Democratic Party right now doesn't feel they've got a lot of mojo on their side when it comes to crypto because they’re painted with Sam Bankman-Fried. There's a Christmas card of Sam sitting on Joe Biden's lap. I'm half teasing, but politics are politics, and this is just political, right?

It is frustrating as heck because most Democrats had realized previous to FTX that this should be a bipartisan issue, and it's an issue that voters care about, and so why piss off voters? The Dems were all on side on crypto, and then they just felt foolish and felt burned. It's not just the politicians, right? The regulators were so tight with FTX and Sam in particular that as the unofficial, self-anointed, spokesman for our industry, he really set this industry back, and it just takes time to heal.

I have met with lots of politicians in the last six weeks, and the advice from the wisest of them was it's just going to take some time for the stink to wear off and for the wounds to heal. It's frustrating as heck as a guy who's running a 424-person business in the U.S. But that's just where the politics are right now. It was hope, right? It looked like that it could get done, just gets snuffed with one phone call. I would put it at less than a 15% chance that that bill gets through, and if the stablecoin bill's not going through.

It's a shame because the United States needs a stablecoin bill, I mean, for lots of reasons, national strategic interests, right? China's coming already with their stablecoin, and Europe has got a plan and that'll be mid-2024. But if you think about the history of people in countries that don't have stable regimes, they've always had dollar bills in their pillowcase. They're more $100 bills in circulation overseas than there are $1 bills that have been printed, right? The U.S. dollar has been the saving mechanism for so many people around the world, and as we move into a digital age, if it's not a digital dollar, it's going to be a digital renminbi or a digital euro. China sees this really clearly, and it’s shocking actually how the U.S. is swinging and missing here.

Rich Repetto

Mike, that goes right to my follow-up. I know you're a red, white, and blue ex-military guy. How close do you think are we to ceding leadership in this asset class permanently? If we don't act and if the Ripple case doesn’t have some impact by year-end, how far behind? You even mentioned you're looking at alternatives offshore as well.

Mike Novogratz

Yes. Listen, I think you're going to see more innovation move offshore and more trading move offshore. In the long run, the United States is still the dominant economy of the world, or it's the largest economy, and it's wildly important that the U.S. gets it right. I do think we will get it right in time. It might take a couple more years. It might take a new SEC chair and someone who comes with a different attitude of like, let's get to yes as opposed to get to no. I think it will set us back, but I don't think it will be a permanent setback.

I just have a ton of faith in the innovation culture in the United States. When you look still at so many of these ecosystems, they’re sprouting from the same area where lots of the tech companies had. Some will move offshore and some of our people are moving offshore. But I think once the U.S. regulatory regime just gives people clarity, you'll see this industry accelerate quickly.

One of the promising things, and at times scary things for a company like ours, is quietly lots of asset managers, lots of investors, lots of the banking industry, are working on their own future in blockchain. There is a firm belief in the tokenization of assets. We haven't seen it in a big way yet, but it is coming. It's almost an inevitability. It's more efficient, it allows for better distribution, and so, there are stealth operations at the big banks where they have more people working on blockchain than we do as a blockchain company.

It gives me lots of confidence that things like GK8 are going to be really valuable assets, because if you think about as we tokenize assets around the world, every single financial institution is going to need some of their own custody. GK8 becomes a SaaS business for us, selling this service to hundreds of financial organizations.

It's the same thing with NFTs. People got crazy with the NFT speculation and then said, oh, it was just a fad. It couldn't be further from a fad. Every major brand is going to use NFTs as an advertising mechanism, as a community building mechanism, as a way to follow what their customers do. It will become the new cookie in lots of ways, and where those things get stored.

The infrastructure needed as we move into a digital age and a Web 3 digital age is being built and it's being built quietly. A lot of our portfolio companies should benefit from that. Again, I can't tell you if this all shows up in the next year or four years. I think it's probably longer than a year and shorter than four years, but I've got lots of confidence that the plumbing of crypto is being built, and you'll see mortgages on the blockchain explode. Why? Because they're more efficient and cheaper, and so, that's coming. It's just not coming as fast as we all like it to be.

Rich Repetto

Thank you.

Operator

The next question comes from Joseph Vafi with Canaccord. Please go ahead.

Joseph Vafi

Hi, everyone. Good morning. Thanks for taking my questions. Just circling back to the banking turmoil here that we've seen over the last few months, and Bitcoin obviously being more than resilient and heading up in speculation that it's, in a certain way, a safe haven relative to banking turmoil. Just wondering what you've seen on the institutional side, if there's been more interest in digital assets that mirrors this strength in Bitcoin, and then a quick follow-up.

Mike Novogratz

Yes, what we saw was, first of all, the crypto community getting re-energized. This has been exactly why Bitcoin was created, and so, that gave a big jolt to people that were already crypto fans. We saw macro hedge funds and other trading institutional clients buy Bitcoin as the same reason they were buying gold. If you think about gold's use in a portfolio, Bitcoin is a digital version and a better version of that. As I said, on a risk adjusted basis, it's been the best investment in the world really over three years, over two years, over year-to-date. It's a great diversifier in portfolios, and you're seeing that more and more.

We didn't see the insurance companies pension funds endowments re-up. Again, like I said, those guys are in some ways on a holding period. Not all of them, but as a bulk.

Listen, I think the banking crises probably has a real—gives bitcoin a positive tailwind in that. The echo of this crisis will be most regional banks have to raise capital, and one of the ways you raise capital is you don't lend as much. Loan growth will slow—probably slow dramatically at most regional banks. Regional banks were growing loans at 15%-16%. That's in contrast to money setter banks, which were growing loans at 2% to 3% last year. You're going to see small businesses capital-starved. You're going to see a credit crunch. It doesn't happen overnight, but that's really why the Fed has paused, why the Fed will probably be cutting rates third quarter, end of third quarter, and that will give Bitcoin a tailwind.

This banking crisis should be the gift that keeps on giving.

Joseph Vafi

Great. Thanks for that, Mike. Secondly, over in your infrastructure side, Galaxy being a financial services provider here to the broader digital asset space, it feels like it should have some competitive advantages on the hosting side, being able to lend to miners that you may host, having other capabilities such as custody and the like. At a high level, it's still early there, I know. But do you have a feel for, if you think hosting versus self-mining is maybe the lead horse over there on the infrastructure side, or maybe I'm totally wrong with that. But any thoughts you've got. Thanks a lot.

Mike Novogratz

It's a great question, and Chris and I are fighting over who's going to answer. I'm going to let Chris answer it because he spends more time with the mining hat on than I do.

Chris Ferraro

Sure. In the infrastructure solutions group, mining today is the largest piece of the investment. As a result, it's the largest income producer for us and likely will be, although I hope the GK8 side really outperforms.

On the mining side, we're thinking about the strategy as a mixed strategy. We believe the mining sector, bitcoin mining sector in particular, there's a dearth of well-capitalized, smart, good operators who have built good infrastructure that can last volatile markets, both crypto markets, power markets, etc. We thought Helios was a real gem of an operation that we could take in, stabilize quickly with a relatively low investment, and then expand on.

We think there's a really interesting strategy for us as a company focusing on the hosting element where we own the dirt and the iron and the steel, and operate it sort of best-in-class, and we can turn around and offer that to folks who own ASICs, but don't have an ability to actually run those ASICs consistently with access to low power with uptime.

To your point, I mean, you sort of led the witness on it. Why that's really interesting for Galaxy is not only can we provide that base service for people who own and companies who own ASICs, then once we've done that, we can also more easily provide them financing solutions, liquidity solutions, hedging solutions; not just on the power side where we're managing it for them, but also on the ultimate price side with regards to the Bitcoin they produce.

It really has a potential to be a real flywheel business for us to reach across the rest of the Company in the markets business, in the asset management business, once we've got clients there who have their assets with us. We just think we're the right company who's well positioned, and now we have the right assets to be able to offer that up.

Joseph Vafi

Great. Thanks for that color, Chris.

Operator

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

Jamie Friedman

Hi. Alex, in terms of your prepared remarks, you were talking about the linearity of the quarter, and I don't want to put words in your mouth, but it sounded like you were real active in the last week. I was hoping you could elaborate on that, and then in that same context, if you could possibly unpack it a little bit in terms of which of the segments it was that experienced that kind of linearity. I'm curious as to the capacity of the Company when you see these bursts.

Alex Ioffe

Yes. Sure. Thank you. In the last quarter, in the last week, Bitcoin and Ethereum both moved up about 3% to 4%. Most of that was reflected in our Global Market segment, as positional gains on our long. In general, we run a long digital assets portfolio, and obviously it benefits from prices going up.

Jamie Friedman

Okay. Then in terms of how you think about managing either headroom or capacity or throughput, in terms of—I'm sure there's a lot of quiet days, but when the big days come, so how do you think about managing for all seasons?

Mike Novogratz

Well, let me take that. Yes, listen, so the way you should think about our trading business in some ways is we have this customer-facing franchise with traders around the country, around the globe, both derivative traders, electronic OTC traders, and voice OTC traders, that both take risk and facilitate customer business. That business should be correlated to both volume and volatility. Higher volumes and higher volatility, we should do better.

Days like our weekends like the Silicon Valley crises weekend where Silvergate was under stress, we had our most profitable weekend trading days. We did the most volume. We showed up and were the liquidity provider for lots of our clients over a really scary period. Very profitable weeks. In some ways, you wouldn't wish that on all your friends, but from your business perspective, it’s a wonderful place to be. What I worry about in that business is if volumes and volatility just keep shrinking, that's hard to make money in.

The second half of our trading revenues, and at one point maybe we will get them split, are our balance sheet, and I'll call it the macro piece of how Galaxy operates. As Alex said, we tend to long in both Bitcoin and Ethereum as core belief systems.

Listen, if I knew the market's going to go down 70%, factually, I would probably sell a lot more than I have and try to buy it back cheaper. But in that business, we are indexed long, and we trade around the position, both with options, by reducing our overall beta at times and using G10 hedges, interest rates, equities, and currencies to try to mute the volatility of that portfolio. You can almost separate the two.

Again, that business also does better with volatility and volume, i.e., because those things usually tend to be in up-markets. But, our franchise business should be able to make money in a down-market pretty consistently, where our proprietary business is probably going to be much more indexed to the market going up.

Jamie Friedman

Got it. Thank you for the color.

Operator

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

Kevin Dede

Thank you, gentlemen, for including me and everyone behind the scenes that I know works real hard there. Three things quickly, Mike and Chris, if you can fit them in. One, DWS and Galaxy, curious to know your business development strategy and how you feel you can differentiate against some big competitors there. Second, just on the Pantera relationship, congratulations on that. Maybe you can give us some color on the competition you see and how you feel Galaxy is better positioned to win more business there. Third, any thoughts on Bitcoin pricing and network hash going into the halving and beyond late next year?

Chris Ferraro

Yes. Sure. Let's see if I can remember them all in…

Mike Novogratz

Maybe in reversal order. Start with hash.

Chris Ferraro

Yes. (Inaudible) I remembered. On the DWS side—so, DWS is the third largest asset manager in Europe. They have a trillion dollars of assets under management. They have a broad distribution reach. From a business development standpoint, DWS has expertise in-market, and the continent obviously has its own euro regime, but also idiosyncratic specific country markets. They bring that expertise, they bring the reach from a distribution perspective.

Galaxy, on the business development side, brings, I think, the best research desk in the space, the best team that can actually create the product from a vendor support perspective, from a knowledge on should we have this asset in the index? Should we not have this asset? Can we support this asset? Can we not? All the digital asset and crypto-specific knowledge necessary to create a good product that institutions are going to want, is where Galaxy brings to that.

When you put those two things together, we think that from a competitive standpoint, there's really no one company or paired relationship out there that can both have the reach, the in-region expertise, and then the asset-specific expertise that we bring, so that we're excited about the prospects there, for sure.

On Bitcoin pricing hash rate, yes, so obviously, we can't control price. I'm not as good a predictor of price as Mike is, so I won't even try. We control our own hash rate, but we don't control necessarily the growth in hash rate.

What's interesting is, if you look at the actual sheer dollars required from today's hash rate over 300 plus exahash, to see the same kind of hash rate expansion that we have seen from 150 to 300 plus would take an enormous amount of capital. Not only an enormous amount of capital, it would take an enormous amount of support from energy producers to support that load coming in. When you look at the technicals behind one part of the equation, which is hash rate growth, we find it quite compelling to own a big piece today of existing hash rate and don't see the prospect for hash rate to realistically continue to outpace the growth that it has historically.

The flip side of that now, on Bitcoin pricing, that's a macro call. We have a very strong thesis on that. We don't have to get into that necessarily, other than as you see fiat currencies printed and fiat debt denominations grow at the sovereign level, so too you should see Bitcoin pricing increase, as simple as that, would be our thesis. The halving is going to be a really interesting event certainly for the space because on a number of coins produced, certainly, one day you're going to have economics at X, and the next day you're going to have 0.5 times in terms of what is actually produced by the network.

Cool things that have happened, and this was alluded to on the call before, that really weren't in the plan, for example, were network fees showing up being less than 10% of the block reward now on days spiking to over 35% of the block reward. That event happening we think is a small window into different futures where you could actually wake up and have the halving have a much muted impact than we would otherwise expect. Let alone the fact that from our perspective, we're focused on making sure that our site has access to low cost energy so that we're on the leftmost part of the curve, so that in the worst case scenario, when the halving comes and other miners are turning off, we're actually capturing that market share.

There's a lot of elements that go into it, but the best we can do is make sure that we own the right asset and we're well positioned to be one of the best operators in this space, and the rest should flow from there.

The third question, I actually forgot.

Kevin Dede

Pantera.

Chris Ferraro

Pantera. Yes. Yes.

Kevin Dede

Just the relationship with Pantera, the opportunity you have there, and who you might see compete for future business?

Chris Ferraro

Yes. We've known the Pantera Group for a long time. We spent a lot of time with them over the years, both as investors in their funds. We facilitated liquidity for their investments on the trading side. It was great to be able to represent them and work with them on a strategic sale transaction of one of their portfolio companies. We hope there's a lot more business to do, because Pantera has a lot of portfolio companies. For us to be in that position, I think is a good first step, and there's a lot more to do there.

Competitively, the good and the bad for us has been the largest banks and institutions stepping back from the crypto market, means there's a lot less competition on the investment banking side for big banking groups who have bigger resources than us, who otherwise would be competing for mandates (phon), who are just no longer there.

We expect to see competition in the banking business. We will likely see it from the more boutique shops, but those boutique shops have their expertise in generalized transactions, so generally raising capital, generally advising on M&A and different corporate transactions, where what we bring to the table is different in that we have that skillset, but also the specifics required to make good decisions for (phon) teams specific to our space.

Yes, I think Pantera giving us that vote of confidence is something the market shouldn't play down. It's an important one.

Kevin Dede

Thanks, Chris. I agree. That's why I raised the question. Thank you so much, gentlemen, for the color and staying on to address my curiosity. Appreciated.

Chris Ferraro

You got it.

Operator

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

Mike Novogratz

I just want to thank everyone for their interest and staying on this call. We are committed to building a world class crypto and blockchain company. We're going to come to work every day early and stay late. I do think this is going to be a challenging year, but like I said, we're not focused just on 2023. Our real focus is 2025, building for what the future will be, and I've lost no faith in the fact that blockchain technology, Bitcoin as an asset, and the entire suite of things we focus on is going to be a major part of the financial landscape of the world in the future.

We're prepared to ride out what looks to be tougher times and try to take market share when our competitors who are less well capitalized are falling on the wayside. We'll be back next quarter, hopefully with good news.

Operator

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

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

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