

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 the Galaxy Digital's Second Quarter 2022 Earnings Conference Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference 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 Second Quarter Earnings Call.

Before we begin, please note that our remarks today may include forward-looking statements. Actual results may differ materially from those indicated or implied by our forward-looking statements as a result of various factors, including those identified in our filings with the Canadian securities regulatory authority on SEDAR and available on our website or in future filings we make with other securities regulators. Forward-looking statements speak only as of today and will not be updated. In addition, none of the information on this call constitutes a recommendation, solicitation, or offer by Galaxy Digital or its affiliates to buy or sell any securities, including Galaxy Digital securities.

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

Michael Novogratz

Good morning, everyone. It's a beautiful day here in New York.

We're going to do this a little differently than we've done in the past. The past, I've read a script. Damien and Chris and Alex have all chimed in. But today we thought we'd take a different path. I'm going to put you in the quarterback's helmet and try to give you some sense of how I'm seeing the world, how I saw the first half of this year, the opportunity set and how I think about our Company. Listen, no one likes to look at a red \$550 million number and try to feel good about it. But I want to put this in context of the journey we've been on or the journey we're going.

January 2020, partners equity in the firm or our book capital was roughly \$350 million and at the end of Q2 we were over \$1.8 billion. What goes into that number? That's gains we've made in our portfolio, less expenses we've paid, rent, salaries, bonuses, taxes. It's a hard number to grow that quickly. In some respects, I feel pretty awesome about the stewardship of that capital. Listen, I don't take a salary. I don't get options. I don't get shares. For me, I'm a big shareholder. The focus is our book equity and our stock price, so you're going to hear today a lot about risk management and how we're going to drive book equity higher. We're going to drive our stock price higher because that's where my real focus is.

Put the year in perspective, if you took our losses this year plus our gains last year, we still made over \$1 billion in a growth business while we're investing a ton. In the big picture, I feel pretty good about things. When I break our business into the two halves, right, we have four operating businesses or really eight operating businesses if you want to take the intermediation business and break it up a little bit. Then we have a balance sheet that we manage.

I look at the operating businesses and I've got a grin on my face. I am proud of how they operated. I think in each of the businesses, and I'll get to them, we did really well. We didn't make the same mistake some of our competitors did. Our risk management book from security selection, our token selection, to counterparty selection, to credit management all was top notch and we think should be a model for how this industry self regulates and so I feel pretty great about that.



On the balance sheet side, high to low this year, we're down 29%. Luckily July and beginning of August have been much better months and so that number is smaller today than that quarter end trend but that's in context with the crypto market down about 65%. The good news is last year we sold over \$1 billion of stuff or last year to the beginning of this year. I guess the bad news is we should have sold more.

Managing a big balance sheet is tricky. Some of it has been in liquid positions in the private side. Those have been marked down. Some of those liquid positions that we either didn't hedge fast enough or held onto too long or had the wrong market call. The great thing about trading or investing is the numbers are the numbers. You see them there. You can compare them to our peers, but I feel like, listen, we're sitting here at the end of the quarter with over \$1 billion in cash, \$1.5 billion of liquidity and operating businesses I feel pretty good about.

What else happens in big bull markets? Your cost structure gets a little bit heavier than you'd like and that's just, I think a natural in any bull market. What we've done in the last eight weeks has been to take a really serious look at each of our businesses. In essence, re-underwrite each business and look at our cost structure.

We've taken out over 20% of vendor costs, that's from marketing and tech spend and so that's just going through 500-line items on our sheet and making smart decisions. The biggest cost in this business is people. Luckily for us we've got a variable comp structure, right. A lot of our comp comes in bonuses.

In a year where we make \$1.7 billion those bonuses are pretty high. In a year where we're losing money, those bonuses are less high. Adjusting the comp pull down we took some selective shrinking of our team. Those are usually in areas where we had underperformers or where we thought we could find synergies by combining a few businesses. We took a few people off the field but we're adding people. We started the year less than 300 people and we're about 375 right now and I think we'll finish the year over 400.

While the crypto landscape is less certain than it was, my confidence of where it's going in the medium term hasn't waned a bit. We are a growth company. We are investing in people, in product, and engineering teams for not the next six months but for the next six years. I think that's a message I really want you to hear today.

Listen, we've taken our cost structure. If I look at a normalized 12 month go forward cash outlay down to roughly \$175 million, \$177 million and if you add the equity comp that would go along with that, it's about a \$200 million number. I feel very confident that our operating businesses will make that much in revenue. I'm looking at a company that should be cash flow positive and have a very big and well managed balance sheet, and an opportunity to be offensive. As bad as that \$555 million headline number feels, I don't feel nearly as bad as I thought I would, and I hope it's the worst quarter this firm ever has.

Listen, let me real quickly touch on each of the businesses. When I think about our sales trading credit derivative business, like I said, I feel pretty great. In credit, you probably have seen the competitors' monster losses in lots of places from retail credit to institutional credit. We have had an unbelievably well managed business. Chris Ferraro came from a credit background. Luka, who runs our credit business, they've been conservative. They've been over collateralized.

We did have our first loss in credit in the firm's history this year. It's filed publicly. We put a claim into the Three Arrows. That's in their filing. It was, within the context of our balance sheet, small. It was hedged so the losses were mitigated, and it was frustrating, right. You don't like to lose money on anything but to lose \$8 million, \$9 million relative to the hole that it created in other people's balance sheet was something we swallowed. The business was still profitable on the quarter.



We liquidated lots of other—or shrunk our balance sheet in a really managed way with lots of other counterparties and think we've got market share to gain there as most of our competitors have been wounded and we're not.

Our derivative business continued to make money. Hats off to Rob Bogucki and his team there. It's a business that we think, again, we've got the right to earn more market share as competitors got wounded. Our OTC businesses, our quantitative trading business from Andrew Karos, used to be called Blue Fire, all continue to be profitable.

I flip past that management, we are raising capital in a tough environment. We have launched a good product. We have an alpha fund that is just getting launched from Chris Rhine that I think is going to be a wonderful product. The interactive fund is doing their second close. We've got AUM back to \$2.1 billion at the end of this month. We think that's a business we should do well in. We have finally got, I think, the right product. That's a pretty easy one for us.

Mining is a business that we had invested a lot in. You're going to see our mining revenues start to grow pretty rapidly. There's no magic to that. We had invested. We finally are plugging in our mines that we bought at low power places and so that's going to add to the revenue going forward. Our investment banking business run by Michael Ashe is just doing a great job. We are in the middle of a ton of activity. We're benefiting from a couple year investment in developing domain expertise in that space.

Again, when I look at those businesses, I'm pretty optimistic on each one of them. On the balance sheet, like I said, we marked down our private positions pretty aggressively. We are liquid. In our liquid positions we have less diversity. We've got bigger bets in the more liquid tokens that we think will go higher. We feel pretty good about where we sit.

Listen, with BitGo we are in constant contact with Mike and his team. We're evaluating what's best for both businesses. It's been frustrating that it's taken as long as it has. With the listing in the U.S., we continue to plow ahead and there's a long queue of other firms that are with the SEC. We remain hopeful and doing the best we can there.

I want to stop before we go to questions and just talk a little bit about crypto. Crypto is not going away and as much as it feels when the whole market went down 80% that people got really nervous. I didn't and there were a few different reasons. One is I look at the 15 analysts that we just hired, and I scratch my head and say geez, I couldn't get a job at my own firm if I was 22 years old. From great universities, diverse group, all over the place who know more about crypto than a lot of our more senior people, right. These are young people who believe in this revolution.

When I look at our meetings with institutions. While retail really got hurt in this, you know, institutions were just starting to get in and so we see nothing but forward progress there. There was a big announcement this week with BlackRock opening up their Aladdin platform to crypto for the first time. That is actually a monumental shift, and it just tells me that more and more access to crypto is coming. Right, the total addressable market, the TAM of crypto is much bigger than people think it is and so we're going to invest accordingly.

With that I think I'm going to leave it for questions. I want you to—no, not questions. I'm going to bring in Alex Ioffe to just run you real quick through the facts of our numbers but I want this to be interactive. I want this to—you guys to ask as many questions as you want. Alex?

Alex Ioffe

Yes, thank you, Mike. Good morning. We'll keep this short.



In the tough market conditions of the second quarter, our business performed well. We ended the quarter with \$1 billion in cash on the balance sheet and \$1.8 billion in equity capital after reporting a loss of \$555 million, most of it from unrealized mark-to-market.

In the quarter, we marked down our principal investments from \$1 billion to \$750 million and unrealized marks on digital assets were about negative \$230 million. Our total liquidity was \$1.5 billion at the end of the quarter, consisting of \$1 billion in cash, \$220 million in net liquid digital assets, and \$250 million of stablecoins we use for exchange settlements, predominantly USDC, issued by Circle.

With that, I will hand over the call to the Operator to take questions. Thank you.

Operator

We have a first question from the line of Chase White with Compass Point. Please go ahead.

Chase White

Thanks. Good morning, guys. A couple of questions. In general, do you guys see your prudent risk management in the face of the recent crypto market events leading to Galaxy taking additional market share going forward? When could we start really seeing that come into force?

Damien Vanderwilt

Yes, I'll take that one, Chase and welcome. It's great to have you covering the Company. Look, let me hit on a few fundamental components of our risk management of credit and then I'll get to your market share question.

As we think about our overall portfolio, the key things that we are very focused on are concentration risk. If you think about our concentration limits that Chris and Luka and the team manage our book towards, no counterparty concentration is about above 1% of partner capital. You can reverse engineer that that the largest loan that we have out there is around \$40 million.

Some other key things for you to know are over 60% of our loan book is directly to TradFi service players, so think about family offices, traditional hedge funds, high net worth individuals. The book itself offers a lot of diversification benefits at different market segment levels across both TradFi and crypto players. Our ability to manage our asset liability components extends well outside of the crypto native environment and I think that's an important component to think about to answer your question around market share.

As you can probably appreciate, in the back end of 2021, our sales force were giving Chris, Mike, myself, and others a pretty hard time about our conservative loan agreements that we wanted to put in place and some of our competitors stepped in and took that market share. That lending market share, often like it does on Wall Street comes with trading market share and we took a backseat, and we felt a lot of pressure. That's reversed substantially as we've come out of the other side of this tradable bottom in crypto and a lot of those customers that were choosing our competitors in the back end of '21 are now doing business with us.



The terms of these loans, not only are they at higher collateralization levels than we had implemented throughout 2021, they were at slightly higher NIMs, and we anticipate being able to enjoy an environment that has both of those things, safer loans at higher NIMs for the relatively near term and potentially the medium term.

Michael Novogratz

One thing I'd add is, listen, I think the credit business can be a big business. The cost of capital for the overall space has gone up. We are working really hard to figure out ways to be a better borrower, right. I mean, if we can borrow cheap and lend expensively, we've got a pretty good business ad infinitum. That will be the real governor to how fast this business can grow will be access to good financing.

Alex Ioffe

By the way, we are borrowing cheap. We have \$0.5 billion at 3% five-year term on the balance sheet.

Chase White

Makes sense. Thank you for that color and then you mentioned in the release that there was a prominent shift towards M&A in the market right now. Can you help us size that opportunity up and how quickly could this M&A shift take place? Is it happening very quickly and then it will be over quickly or is it a prolonged environment, do you think?

Damien Vanderwilt

Yes, so let me give you a little bit of color around that and some data. The answer is we don't know. A lot of the contributing variables to the answer to that question are linked to capital and whether or not it will continue to flow into the sector. If you look at the data that we use in our advisory business, M&A in '21 where you look at, at least one company in the crypto sector being part of that transaction, we saw 180 transactions.

In the first half of this year, that pace exceeded last year with 92 deals looking at the same metric. If you look at what Sam and the FTX team have done in the very recent past, they've been extremely active in this down market. Reference BlockFi, Bithumb, Bitvo, and Embed, just in the last two months alone.

If you look at assets raised or capital raised by companies in the sector, in July alone, \$1.3 billion continued to get raised. That was across 89 deals and so year to date capital raised is just over \$21 billion. The capital raising side in terms of financing has slowed a little bit. That's reflected in what our bankers are working on. We have been very active on the buy side for some of our customers. That continues to be the case.

I think you're going to see a lot more M&A than the run rate suggested in '21 in the back end of this year and the first half of '23. But I think that's going to be—the increase will be largely led by TradFi players who are able to participate now in the sector at valuation ranges that are a lot more digestible than they had been in 2021 and the first part of this year. The activity that we're working on reflects that type of dynamic.

Chase White



Got it. Very helpful. Thanks, guys.

Operator

Thank you. We have next question from the line of Deepak Kaushal with BMO Capital Markets. Please go ahead.

Deepak Kaushal

Hi. Good morning, guys. Thanks for taking my questions. I've got three. I'll try to make them brief. First, just on the U.S. listing process. I know it's hard for you guys to talk about it. Any other color that you can give us, Mike? Is there still some back and forth going on or is there a stall or is there a bit of a summer pause here until we get back in the fall? What's the activity level and how is that changing (inaudible)?

Michael Novogratz

I would, I guess, point you to the other companies that are in the same process, right. If you think about Bullish and Circle and eToro and there's a bunch that have been in the same queue. Just looking at those, it doesn't seem to be great progress. I think when the market sold off as aggressively as it did, it probably took a lot of resources and a sense of caution.

We're hitting a new equilibrium. Things have balanced out. The players that needed (inaudible) that were getting washed out and so I'm hoping it gets back to normal (audio interference). But I can only tell you what we're seeing and (audio interference) continues to be slow.

Deepak Kaushal

Okay, got it. We can leave it at that then. Then just on the competitive side, obviously BlackRock and Coinbase have their partnership and that's helped Coinbase's stock a bit. Are you finding that you're handcuffed from a prime brokerage perspective, that you haven't been able to close BitGo yet? Is that affecting you guys competitively at all? How is that side of the market shaking out?

Damien Vanderwilt

Yes, let me give you some color around that. I think it's really important to ask the question of what does prime brokerage mean. It's a term that gets thrown around a lot, both in TradFi and our sector. I think when you dig into different providers and different clients, what they really mean by it can be different.

The layer of services that we're building at Galaxy that are very important to our institutional cost are execution, liquidity, margin lending, and netting, and leveraging all of the additional service and products. It's ultimately going to be critical for us to be able to stake ETH when that comes online. We're going to have to re-hype bitcoin for customers that need that. All of the things that we have become expert in for our own (inaudible) activity we're going to roll out to our customers and that will happen agnostic to the downstream custody provision.



Galaxy today in our asset management business and in our balance sheet leverages several different custodians to provide the backend solutions that we need, depending on what the coin is that we need custodied and the services attached to that. We can plug in the downstream custody services to our prime from a number of different providers if needed, and of course, we're hopeful that BitGo will be one of those. Really, from a prime services product delivery perspective to our institutional clients, that front end service solution is what we're good at and what we're continuing to build. That will not limit us in any way to providing services to our institutional clients.

Deepak Kaushal

Okay, so it doesn't sound like it's a competitive handcuff at the moment but is it delaying opportunities that you haven't been able to close the deal yet?

Damien Vanderwilt

I would say, no, for the reasons I highlighted.

Michael Novogratz

Yes, and listen, we are investing a lot in our technology buildout here. It's building products that will service those institutional clients. The interesting thing is when you think of it something like Aladdin, it's an agnostic platform. They will have lots of people that plug in once there is product to plug in. Our race is to get that product built sooner rather than later.

Deepak Kaushal

Okay, thank you. Then my last question, just on the M&A front, again related to competition. I think the prior question around M&A, I think a lot of the answer was related to your investment banking side of the business. How does Galaxy's M&A activity—you mentioned FTX buying a lot of companies? What is your approach to the market like? You haven't seen enough blood on the Street yet, Mike, to (inaudible) things or...?

Michael Novogratz

I was really focused on cleaning our house, getting our understanding of how we spend money and where we spend money, getting our eight businesses, our eight operating businesses really mission driven and steely eyed and focused. It's stage one, clean our own house up and get set and stage two, look for the offense.

We've been going through lots of opportunities during stage one as well and haven't found the exact fit yet. It would have been a huge mistake to have gone through this full cycle and not done something offensively. Listen, we have \$1 billion in cash, and we think we're on a cash flow positive operating run rate at this point, and so I want to be offensive and we're looking.

Deepak Kaushal



Okay, that makes a lot of sense. It was certainly a tumultuous quarter. You guys are on the right side of the regulations. When do you think you start getting credit for that?

Michael Novogratz

I used to sit at conferences and tell the space, especially when it was much smaller, that we need to self-regulate as a space or the regulator are going to regulate us. When I look around at some of the behavior of our industry, there was not a whole lot of self-regulation going on, right. There was asset liability mismatch. There was excessive leverage. There was all kinds of crappy behavior in our space. We are hoping to be a model of what regulation should look like. That's been our play.

I do think the regulatory landscape in DC is still in a bit of a standstill, right. There was some great legislation, bipartisan pushed. The ag committee recently moved bitcoin and ether to the CFTC. We'll see if that gets any traction. Probably not until after the election but my sense is we're not going to see much movement until after the election and that it's going to be one of these frustrations. Our plan is to stay in contact with everybody, to try to be a role model and hopefully you will see.

When markets crash and everyone gets scared, the first reaction is everyone running for the hills. I think what you're going to see next is companies realizing, hey, I've got a sustainable business model, or I don't. This is where we talk about the M&A activity picking up. I think you'll see some people go out of business. Others grow. You're seeing TradFi guys deciding to get in at this opportunity. I think the next six months will be pretty interesting for us and hopefully our framework on how we do business leaves us in a good position, both with regulators and helping set the new rules but also with customers.

Deepak Kaushal

Okay, well, look, I'll leave it at that. It looks a lot better than it did back in 2018. A billion in cash is great, so thanks for taking my questions. I'll pass it on.

Operator

Thank you. We have next question from the line of Ken Worthington with J.P. Morgan. Please go ahead.

Kenneth Worthington

Hi, good morning. Thanks for taking the questions. Maybe first higher level, is the contagion from Terra and LUNA over and if we're going to see more fallout, where does it come from and what drives it?

Michael Novogratz

Listen, I think what you saw was a big deleveraging of a whole group of players that has in many ways borrowed customer deposits in these lending platforms, if it was Celsius or Voyager or BlockFi or many of the exchanges, and then lent them out into less liquid and longer duration assets. I think that deleveraging happened. That was the wash down to (inaudible).



We've seen a bounce from there as the fear went away. Those companies still are going to be absorbed or liquidated and so there will be some pressure on it, asset sales that happen over time, but it becomes a smaller and smaller portion of the market. I don't think there is another shoe to fall in terms of bad credit or someone who needs to be liquidated. I think now the industry needs new energy, right.

Energy comes from narrative in our industry and so we're seeing it in Ethereum with the merge. Ethereum is outperforming because there's a story to tell and there's a really exciting shift in the supply/demand equation of Ethereum, right. You're going to have a less inflationary currency. You're going to have people who are incented and paying to huddle or to stake their Ethereum. Prices are set on the margin, that's a story that Ethereum is shifting into a new chapter.

The bitcoin story continues to just slowly gain traction and adoption. We'll see what the macroenvironment is, if the Fed flinches, if we have inflationary accelerate. But I think that story is less exciting than it was, certainly when federal banks were pumping in tons of liquidity.

The third part of our business, which is really the long-lasting part, like building out Web 3, that just keeps grinding away and it takes time, right. That's the NFT space. That's the DeFi space. That's not going away. There's a lot of venture money funding that but again, I think for the industry to take that next big leg up we're going to need to see this institutional money come in and we're going to need to see that narrative. Again, is it going to happen in the next two months? I cross my fingers and say a few Hail Mary's but we're taking a much more sanguine view that over the next 18 months, 24 months all the stuff will happen.

Kenneth Worthington

Great, and then following up on M&A, which seems like the topic du jour. You talked about comp getting outsized in the bull market and my opinion is a bull market can also support maybe too many companies. Is the crypto ecosystem in need of some consolidation and if so, what parts of the ecosystem seem to be more ripe? I think you mentioned the lenders might be ripe. Then you also mentioned that TradFi buying into crypto, what parts of the crypto ecosystem do you see TradFi firms most interested in?

Michael Novogratz

What's interesting is, who were the big winners in crypto? They were the exchanges and exchanges really weren't even exchanges, right. They were broker dealers in lots of ways. Some like Voyager was a brokerage shop. Others, blockchain.com or Coinbase, they collected customers who were playing in this new world.

They were high margin businesses, and the customers were really resilient and really sticky. It's a pretty good business. I think you'll see some consolidation there. We've seen that with Sam and FTX already with both Voyager and BlockFi. I think you're going to continue to see some consolidation there.

When you think of things like custody, you're going to need a lot more custodians if you really believe that we're going to start having tokenization at one point in the future of other assets and that the crypto economy is going to continue to grow. I think you'll see some, you know, we already have big, traditional players investing lots in custody. They don't have the regulatory framework to do it yet but they're investing in advance. That will be an interesting space.



What we do, there's not a ton of competition in. We have competition in each of our segments but in the derivative business, institutional lending business, Genesis is a big competitor. They've had their own issues recently. I think they'll continue. They're not going away but we don't have a lot of institutional level broker dealer derivative businesses to compete against, or even credit businesses, right. The big credit business that had suffered so much were places that were taking in retail dollars and then lending them back out. I think that game is probably over for a while.

Damien Vanderwilt

Ken, I will just add a couple of things to help answer your question, in addition to Mike's comments. I think every subsector of digital assets has a group of firms that are larger and in many cases, they were able to raise capital in the 2021 and Q1 of '22 period. A lot of these subscale smaller firms weren't as able or inclined to do so. I do think you're going to see a natural runway driven M&A cycle in almost every subsector. Mike mentioned a bunch of them and that's going to be something that we're right in the middle of in our advisory business.

We take a lot of queues from that through our venture investing business where Chris and the team really monitor very carefully all of our portfolio companies which now total 100. To give you a sense, I think an interesting stat for our portfolio, the average runway across the majority of those companies is just over 33 months. That informs a lot, I think when you look at the sector through that lens and where runway is. It really is more prevalent in some of the larger firms and that's why you'll see a driver of roll up in M&A.

Michael Novogratz

The last thing I'd say and flip my head for a second. The one area that I think needs capital and got off size in this space is mining, right. I think the mining space, it just looked like it was such a good business that people were raising capital instantly, committing it to buy chips and shelf space in the future. That space we find pretty interesting. We think we've got a role to play in both lending and potentially consolidation in that space. But if you think about the one sector that's probably got the weakest legs right now or the most challenges it could be the mining space.

Kenneth Worthington

Great. Thank you very much.

Operator

Thank you. We have next question from the line of George Sutton with Craig-Hallum. Please go ahead.

George Sutton

Thank you. Just one question. Mike, I appreciate the bifurcation you made relative to retail versus institutional. In past calls you've talked about a mountain of institutional capital teeing up to invest in crypto. Obviously, the world has changed a bit but where does that stand today in terms of potential, in your view?

Michael Novogratz



That mountain looks more like a hill for 2022 but the momentum is still headed that direction, right. Even if one of the publicly big funds that said they were going to put a whole bunch of money in, they're going to put some money in this year and a lot more next year. I think this sell off slowed people. Just think of the process of investment committees of more conservative institutions. They don't like to put themselves in harm's way in the middle of a perceived crisis.

I think as this space bottoms out and starts rebuilding both narrative and price you're going to see those institutions come in. Damien has been on tons of calls, as has Steve Kurz, as has Michael Ashe. Our team is out there talking to people, and we don't see a retreat. We see a pause but just a slow march forward. I read something this morning about Morgan Stanley hiring more people. I don't have the full story.

We're seeing that consistently and so what was refreshing is I didn't have to in my conversations relitigate the basics of why we're doing this. People still get it and still believe in Web 3. Still believe that bitcoin is going to be a macro asset for a long period of time and still believe that we're going to build a more decentralized blockchain, a public blockchain ecosystem that things will be built on in the future.

After 80% sell off, sometimes you worry like are we starting over. We absolutely weren't starting over and so in that respect, you know, we don't have the mountain of capital coming in this year, but I still feel like there's a put almost in terms of time and capital marching towards our space.

George Sutton

That's great. Actually, one other question while I'm thinking about it. You did mention the senate ag committee proposed bill. They're suggesting the CFTC be the regulator. Can you give us your thoughts on the CFTC? Obviously, understand it's sensitive relative to the SEC right now but curious your thoughts there.

Michael Novogratz

Yes, we just want clarity. What has been so frustrating as a guy that has been in this space since 2013 is the lack of clarity. Once you tell us the rules, we'll play within the rules but when they constantly ask the players to figure out what the rules are when the rules aren't clear, it really makes things complicated. The nice part of the CFTC is it's got a pretty straightforward regulatory mission. It's not consumer and the SEC has got a much bigger, workforce and much bigger (inaudible). I just want them to make a decision.

George Sutton

Perfect, thank you.

Operator

Thank you. We have next question from the line of Rich Repetto with Pipe Sandler. Please go ahead.

Richard Repetto



Yes, good morning, Mike. The first question is just looking at or listening to a lot of your comments. As you describe yourself sanguine. Would you compare—looking at the length of potential correction here, is it comparable to the Internet for a few of us that were around when the Internet bubble bursting which went for probably three years? Have you done any comparisons of or any clues that you have into the length of the correction time here?

Michael Novogratz

I've looked at all those analogs. I looked at them in '17. When we crashed in '18 that was the first thought I had was like, how long is this going to take? What has been refreshing and surprising to me is just the resiliency of this community, right. Right and I think it's because it's a purpose driven community, like a revolution in lots of ways.

The young people still believe this is their break. If you think about why people got into crypto, it was this breakdown in confidence in institutions. If you look around the world at our institutions, right, if you look at a potential election between Trump and Biden, people are looking at politics and economics and the whole system.

Nancy Pelosi going to Taiwan and almost creating World War 3, so the frail state of relations with China, with Russia. There's nothing in the world that says, hey, this is the great moderation again. We're going back to the good old times, right. We have this breakdown of trust, which is really fuel for the crypto revolution. What's interesting is how resilient it is, even retail.

You can beat the heck out of retail, and they still keep coming back. It surprises me in some ways how strong this community is. I'm more optimistic than I would normally be as just a macro thinker that things could come back quicker. We're preparing to be pessimistic and hoping to be optimistic and so that's how I'm thinking of things. But what we're seeing is really promising.

My best forward indicator is the smart kids coming into the space. I said this in my remarks. If you look at our 15 analysts, you're like, damn. Those guys are as sharp as an analyst class as you're going to get in any firm from big tech firms to big Wall Street firms. As long as that youth is pouring into our space I'm pretty optimistic.

Richard Repetto

Got it. That's helpful, Mike. Then you talked earlier about M&A, and you talked about certain sectors you might be more interested that have gotten more beaten up like mining or lending. But I guess the question is, as you look for your own M&A, how have the guidelines changed? Are you more focused on sustainability and resilience versus valuation or strategic fit with other Galaxy? Has anything changed in the lens if you look at M&A, given what's gone on here for the last several months?

Michael Novogratz

Listen, when I look at our businesses and if I keep our balance sheet aside for a second because in our balance sheet we have lots of future hopeful businesses, right. The businesses are going to change the way things happen. When I look at our businesses, in lots of ways they're bread and butter businesses that will be here in a year, that will be here in four years and in five years, right: lending, derivatives, asset management, advisory. They're kind of core businesses. In some ways, they're the more boring businesses than what the future is going to hold.



When we think about M&A, is there something that could roll into what we do already and strengthen that position? That's one lane. The other lane is do we bolt on something, or do we think about acquiring something that plays to where the world is shifting in the next 36 months? We're looking at both. The more decentralized, you know if it's tokenization, if it's that space appeals to me personally because that's why people got into this revolution and so that's on my radar. But it's something I think we can be a little patient with.

What I like about the portfolio businesses we have now is I'm completely certain that in four years they'll be important businesses. The move to a decentralized world is not happening in the next four years when everything's decentralized. I don't think it will ever get there but we'll trend that way. Why I felt pretty strong coming into this call is I look at each of our businesses and I was like, hey, we should gain market share in each of them, and we should be profitable and they're good, solid businesses run by a really strong team. I think if you see us add something, unless it's a fill in, it will be stuff that we don't have.

Richard Repetto

Got it, and just wanted to squeeze one last quick one on regulation because it did—it seemed like you had a tilt that the CFTC might be a little bit more user friendly. I think you were referring to like their principal-based regulatory, what do you call it? Oversight. But the question is when you—I think the SEC is certainly going to get some portion of it with tokenization what Chair Gensler thinks is really securities. Maybe a little bit more on the balance between the CFTC and the SEC. We know how aggressive Chair Gensler is as a regulator too.

Michael Novogratz

What is frustrating me is I saw a lot of companies or collectives issue tokens and the token economics were created to get around this archaic security definition that comes from whatever, 1936 or whenever the Howey test showed up. It's not the way it really should work. I think token economics needs to do a better job of reflecting what people want to get out of buying those tokens. Some do look like security tokens or should look like security tokens but maybe the lane that we have existing right now is too restrictive. There hasn't been any good back and forth dialog of creating a new regulatory framework for this new technology, which is not exactly the same as what an old security used to look like.

Why the CFTC is appealing for something like bitcoin and Ethereum, it just takes those things off the plate. Okay? We know now they're not in the mix. Yes, the SEC is going to be involved somehow unless they create a new industry. I just want clarity, so we start moving forward. Because quite frankly, I think our industry needs to create token economics for lots of things that I can convince my mother, hey, this is why you're buying this token and it's not some mumbo jumbo, but she can actually understand it. That's not the case in lots of tokens out there and so—and I think part of that is because the creators of tokens were operating and trying to figure out how to operate in this gray space. Let's get out of the gray space.

Alex Ioffe

Richard, just to be clear, we welcome clarity in the rules, and we look forward to working with all regulators.

Richard Repetto

I fully understand that. Thank you very much.



Operator

Thank you. We like to ask participants to limit their questions to one per participant. The next question from the line of Mark Palmer with BTIG. Please go ahead.

Mark Palmer

Yes, thank you. Good morning. We are seeing a lot of the crypto institutional trading focused on the derivatives space, which has been huge in the rest of the world for a long time. It's really beginning to gain some traction in the U.S. or at least it was prior to the recent downturn. Can you talk about Galaxy's derivatives offering, how you are shaping that up to not only fit client needs but also taking into account the competitive environment and the regulatory state of play?

Michael Novogratz

Sure. We think it's one of our best businesses and one of our advantages. Partly, that's just the team we have on the field and their knowledge of how to run a derivative book. When I think about our loans to miners and why we didn't suffer any losses in this big draw down, it's because we went to most of them and said, hey, we think you should collar up your loans, buy put sell calls and build it into structured notes or build it into their loan agreements.

That's that collaboration between our credit business and our derivative business and I think our clients were happy that when crypto went down they didn't have to puke out all their bitcoin. We were happy because it made our loan book much safer. I think that structured product actually selling TradFi and crypto hedge funds volatility products, using it for private equity people that want to hedge. That business is only going to grow and so our derivative business is almost a classic TradFi derivative business, moved over to crypto.

When people talk about crypto derivatives, mostly what they're talking about are the futures that players like FTX and (inaudible) offer, which are overnighter actually instant representations of a potential token. We're not in that business yet. We trade them a lot but that's a business that we're not in. That word derivative is a little tricky in the crypto sphere. Our derivative business looks more like a TradFi derivative business in terms of it's a big options book. It's structured product. We think that's only going to grow.

Operator

Thank you. We have next question from the line of Owen Lau with Oppenheimer. Please go ahead.

Owen Lau

Good morning and thank you for taking my questions. Given what the industry has been through over the past few months, and I know, Mike, you just talked about regulations, and we appreciate your color. But what are the top priorities that the industry can do to regain some of the credibility? Then in terms of directing your investment dollars into private companies, have you changed any of your philosophy that you would allocate more into certain projects if their industry should do more and also less on certain projects that you think the industry shouldn't go further? Thank you.

Michael Novogratz



I think the big takeaway from the last quarter was that the on chain, why people get into crypto, one of the dominant reasons was transparency. If you think of things that were on chain, on chain lending, it was all transparent and so no one is bitching about Compound or Aave, these on chain lending platforms. There's no—it's all right there. Where it was the lack of transparency at places like Celsius or other credit shops where retail depositors left their bitcoin or their Ethereum or their stablecoins and next thing you know, had their money levered up 30, 40 times and invested in other projects and they were taking lots of risk.

I think if there's one lesson, it's the industry needs more transparency. You could run those same businesses and actually put the portfolio on chain. We're somewhere halfway in between in that we're a public company and we offer transparency quarterly. We run a much more conservative shop and so, but we are still a TradFi company that deals in crypto.

I think that push to having certainly the retail facing clients a lot more transparent, right. They needed to operate like they were regulated entities and they didn't. Now they're either going to get regulated or they got to operate with a lot more transparency and I think there's probably a lane in there for us to exploit because I think we'll pull our skirt back and show our balance sheet and we do it every quarter.

Owen Lau

Got it. That's very helpful. Then the public market has come back quite a bit so far in the third quarter. Could you please talk about the activity in the private market, maybe including how much capital on the sidelines, fundraising and valuation over the past few weeks compared to the second quarter? Thanks.

Michael Novogratz

If there's a hot deal, it's still trading at—there's a couple deals out there that surprising me at the issuer getting terms that we don't think they should. It looked like an old deal. If there's a really hot deal, it feels like lessons weren't learned. There are not a lot of those, and so really good teams and really good tech are still attracting money. Everything else seems to be wait and see.

I think there's a come to Jesus moment coming where companies that raised at really high valuations have enough cash, but their next round might be a down round and there's probably a big opportunity in raising a convert fund or being in that restructuring biz. Because people have just raised money, if you were lucky enough to have raised money, you can wait and see. But the private valuation game changes much slower than the public valuation game.

We marked our private book down a lot and but I'm not sure other people are marking their books down or how companies are thinking about it. I don't think you can expect that gap to close in three months. I think that's a 15-month wait and see thing. I would tell you that a lot of participants, because it was only a bull market, don't even really understand the mechanics of when money is raised at a high prep valuation and gets crammed down, what it does to the other shareholders or quite frankly, the employee stakes.

Owen Lau

Got it. Thanks, Mike.



Operator

Thank you. We request participants to limit their questions to one per participant. We have next question from the line of Jamie Friedman from the line of Susquehanna. Please go ahead.

Jamie Friedman

Hi. Thank you. Damien, I think in your prepared remarks you mentioning, and it says in the press release that you onboarded over 40 new counterparties to the trading platform. This one is about GDT. I was just wondering, yes, how do we think about critical mass? I think you have 850 some odd. Is boarding an incremental 40 important? How much concentration is there within the 850 that you have on the counterparty side? Thank you.

Damien Vanderwilt

Yes, so it's a good question. The answer is it depends on who they are. Of the 40 that have been most recent, encouragingly they are some larger AUM organizations that have taken time for us to get onboarded. The large TradFi asset management groups do, as you would expect, an extra amount of diligence and the institutional negotiations just take that much longer as people have to get comfortable with our credit and a whole host of things. The 40 that have come recently, in a lot of cases, have been really significant institutions, so we're very excited about that.

The competitive landscape that we've talked about a bunch on this call has allowed us to advance those onboardings and develop those relationships more quickly as services that those clients need are less easily available from some of our competitors than they used to. You should expect to see a continuation of that, and I think a lot more of our onboards as a percentage are in the TradFi space, relative to the asset management groups, of which there are many who are crypto native and focused on crypto. They are important.

The second part of your question, much like in TradFi books when you look at the Goldman, Morgan, J.P. Morgan distribution of businesses, the 80/20 rule applies here in the same way that it broadly does there.

Jamie Friedman

Got it. Thanks for the color. I'll drop back in the queue.

Michael Novogratz

One last comment I'll make. I qualify this. My numbers aren't going to be perfect. But when I think about how to become 400 people. I look at our stock sometimes and where it's trading. I was like, geez, last time it was down here we had \$700 million of book and our operating businesses probably were doing less than \$15 million of revenue and we think they'll do \$200 million this year. We really had a business plan in late 2019 for great operating businesses but not a lot of juice flowing through the machine.

In the last two years we've spent a lot of money, time, and effort building up these franchises which are starting to hit critical mass. I don't want—sometimes the volatility of our book just outweighs or obscures the actual business that we're



trying to build, which is a long-term, sustainable business servicing the institutional clients. That's why we have 400 people, right. If we were just an investing business we'd have 40 or 50.

It can frustrate me at times because the way we set this Company up has both businesses under the same roof, but I just want to keep that focus on really this grinding growth path to building sustainable, profitable businesses on the institutional front.

Operator

Thank you. Your next question from the line of Kevin Dede with H.C. Wainwright. Please go ahead.

Kevin Dede

Good morning, Mike. Thanks for fitting me in at the end. Listen, I'm just curious. As you see the whole crypto space move through this downturn, which businesses do you think, of your eight operating businesses, respond most favorably as the environment changes? You talked about your derivative business being pretty strong and helping manage your lenders and you're also talking about your mining business and wanting to see more investment there. What do you think is the best way for us to think about Galaxy rebound here?

Michael Novogratz

Yes, listen, mining is just going to happen because we had an investment in it and the miners are coming off online. You will see us going for mining. I don't know if it's 1.5 or two coins a day towards 10 coins a day over the next period of time. That's going to happen.

Listen, I think my general (audio interference) consolidate mining but it's a tough business. A lot of money got invested and so cash rate continues to stay high. People are having a hard time finding good places to plug in their chips. Being excellent at mining means a lot more than it did in a complete bull market. Being excellent, what do I mean by that? It's having access to low power. It's having teams that actually know how to keep their chips online and actually having shelf space.

The business I think we have the most upside in is, from where we are now, is our asset management business. Listen, we did a lot of our best investing on balance sheet at the expense of really asset management in the past. If you look at our balance sheet and I talked about it at the start, right. We've turned \$350 million into \$1.8 billion or wherever we are today with spending a lot to finance the rest of the growth of our business.

That wasn't in asset management, and so we're now building out, we think world class product, right. Our interactive fund, our venture fund to fund business, our alpha fund and I think you'll see that as a continuing theme. Growing that business is a real focus here. We've got great partners but in some ways, that suffered at the expense of our balance sheet growing, right. We had a lot of our best investors on the balance sheet side and as we migrate more of that to the asset management business, I think that should be a big growth opportunity.

Kevin Dede



Thanks, Mike.

Operator

Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session and I would like to turn the call back over to Michael Novogratz for closing remarks. Over to you, sir.

Michael Novogratz

Yes, guys, I hope you've got my enthusiasm for our team. Listen, I didn't tell you like we're bullish. We've come out with a new brand. We're rolling out a complete new brand for Galaxy, cool logo and a feel with our website and our brand that our marketing team had worked on for a long time in the next few weeks. We've got our new office, remodeled it a bit and so we are in this for the long haul.

Like I said, I will never be happy losing 29% of my balance sheet in six months and as an investor, it has kept me up at night. But I'm really optimistic about the runway for our businesses and I still think this is a space that over the next two to five years should be a really interesting and bullish place to be. I hope you've got those messages and look forward to talking to you next quarter.

Operator

Thank you very much, sir. Ladies and gentlemen, this concludes today's conference. Thank you for your participation.

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.



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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.

