EDITED TRANSCRIPT

GLXY – Galaxy Digital Holdings Ltd

Second Quarter 2024

Shareholder Update Conference Call

EVENT DATE/TIME: August 1, 2024, 8:30AM ET

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PRESENTATION

Operator

Good morning, and welcome to the Galaxy Second Quarter 2024 Earnings Call.

Today's call is being recorded. If you would like to ask a question, please press star, one, on your telephone keypad. To remove yourself from the queue, please press star, two.

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

Galaxy Investor Relations

Good morning, and welcome to Galaxy's Second Quarter 2024 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 Chris Ferraro, President and CIO of Galaxy.

Chris Ferraro

Thanks Jonathan, and good morning everyone. Before I turn it over to Alex and Mike, I'll first review our operating results for the second quarter of 2024, key trends within our businesses, and the momentum we have heading into the back half of the year.

Let's start with Global Markets. Spot and derivatives trading volumes across the industry decreased in the second quarter as activity fueled by the launch of the Bitcoin ETFs in January returned to more normalized levels. As a result, in Q2 our counterparty trading revenue and volumes decreased compared to the prior quarter, largely in line with the declines seen in the broader crypto market.

Despite the quarter-over-quarter decrease in trading volumes and revenues, our counterparty-facing trading business has generated approximately $90 million in revenue year-to-date, an 80% increase relative to the first half of 2023 and nearly the same amount that we earned all of last year.

As a reminder, earlier this year we crossed $8 billion in trailing 12-month notional OTC derivatives traded, requiring us to register as a swap dealer in the U.S. and comply with a new set of regulatory requirements. As anticipated, this transition has empowered us to offer larger U.S. institutional clients the chance to participate in a well established and regulated trading environment. Through the first half of the year we have traded approximately $13 billion in notional OTC derivatives, which is already $5 billion more than we traded in all of 2023.

Further, we have continued to onboard new clients across our trading offerings and ended the quarter with over 1200 Global Markets counterparties. Notably in recent months, we have seen increased engagement with protocols and crypto-native clients who are leveraging our full product suite to engage with the broader ecosystem. We've seen an uptick in on-chain opportunities such as providing liquidity for protocols and facilitating hedging derivatives and lending for clients with BlockToken positions.

We continue to originate new loans to meet increased borrowing demand from both new and existing clients, with our average loan book size growing to just under $700 million. Despite the overall crypto market being down 12% in the second quarter, our ability to increase our lending book by 5% quarter-over-quarter signals that we are continuing to win market share and organically scaling our business.

We are seeing tangible growth in the build and client adoption of GalaxyOne, our unified technology platform offering institutions all the tools to trade, finance, store and manage digital assets efficiently. We ended the second quarter with over 100 clients and over $1.1 billion of fair market value assets being serviced by the platform.

I'm also excited to share that we continue to facilitate client purchases of locked tokens and subsequent to quarter end we closed on yet another sizable syndication deal. This deal will add approximately $250 million of additional fair market value assets to GalaxyOne. These assets will build on the already strong base of recurring service fee revenues on the platform.

And finally, in conjunction with this deal, I'm also pleased to share that our Digital Infrastructure Solutions arm will be providing staking services for these new assets as well, continuing to build on that group's quickly grow base of reoccurring client franchise revenues.

This deal, along with a number of deals like it, both closed and in the pipeline, further showcases the strength of Galaxy's diversified platform, the differentiated institutional service offerings we're able to provide our clients, and importantly, the flywheel that we set out to build here at Galaxy across the firm's operating units.

Moving to the other segment of our Global Markets business, Investment Banking. Our team successfully closed two deals in the second quarter, serving as the exclusive financial advisor to Toposware in its sale to Polygon, and to another client on a strategic financing. Additionally, in the quarter we announced that Galaxy served as the exclusive financial advisor to Bitstamp in its pending sale to Robinhood, which is expected to close in Q1 2025.

This quarter, the team also tokenized a 1708 Stradivarius violin, utilizing GK8's technology, a tangible example of our ability to monetize illiquid assets as part of our broader tokenization strategy. Since the announcement, we have received numerous inbounds from both new and existing clients who have shown interest in fractionalizing and lending against high-value, traditionally illiquid assets.

Broadly, while capital markets continue to face headwinds, we expect to see more issuers launch capital raises, as well as additional M&A opportunities in the second half of the year and into 2025.

Turning to our Asset Management business, we ended the second quarter with $4.6 billion of AUM. While this represents a 42% decrease quarter-over-quarter, the decrease was anticipated and overwhelmingly driven by our continued successful execution in monetizing the FTX estate's digital assets holdings for creditors. As of quarter end, the value of the assets tied to the various FTX mandates remaining that we are managing was US$520 million .

While the AUM and fees associated with the mandates will continue to decrease over the coming months, we have successfully returned over $8 billion to creditors, making Galaxy the only player in the space with a proven track record in executing a complex, multibillion dollar bankruptcy mandate, and we're incredibly proud to have been instrumental in rectifying the aftermath of the 2022 crypto cycle, aiding creditors in reclaiming their funds and supporting the industry in rebuilding trust and credibility.

Building on our existing partnership footprint in Canada, the U.S., Brazil and Europe, on June 26, Galaxy Asset Management announced we have joined forces with State Street Global Advisors to develop a suite of manager-directed digital asset ETFs that will offer investors exposure to companies involved in the digital asset space going beyond crypto and Bitcoin.

Since its inception, Galaxy has been a leader in active digital asset management. This collaboration with State Street leverages our combined expertise in creating and managing investment grade products and ETFs globally, positioning us to make the over $2 trillion digital asset ecosystem more accessible to a broader investment community.

We are aiming to go to market with three ETFs in our initial product launch, and we'll keep you updated on progress here.

The team has also remained focused on the U.S. ETF landscape and subsequent to quarter end announced the launch of the Invesco Galaxy Ethereum ETF, QETH, in partnership with Invesco. This offering builds on Galaxy and Invesco's existing product suite following the launch of the Invesco Galaxy Bitcoin ETF, BTCO, earlier this year.

Finally, on the Venture side of our business, we conducted a $113 million initial close for Galaxy Ventures Fund I, our inaugural crypto venture fund focused on investing in early-stage companies across crypto protocols, software infrastructure and financialized applications. Given that this fund has garnered stronger-than-expected interest, and that opportunities to deploy capital have expanded meaningfully in recent months, we expect to continue fundraising into next year to reach, if not exceed, our $150 million target, aiming to build a targeted portfolio of approximately 30 exciting new digital asset companies.

The official launch of this fund marks an over year-long process of moving Galaxy's core venture investing team off the balance sheet and into Galaxy Asset Management, which we believe will provide long-term, sticky management fee revenues.

Galaxy Asset Management's strong track record and global product reach has laid the groundwork for us to continue to attract institutional capital throughout the second half of 2024 and beyond. With nearly $2.4 billion in passive AUM, over $630 million in active AUM, and $1.5 billion in venture AUM, Galaxy is one of the largest and most trusted digital asset managers globally.

Turning to our Digital Infrastructure Solutions business, let's start with Blockchain Infrastructure. This team had an exceptional quarter with our Assets Under Stake reaching $2.1 billion, representing an over 340% increase quarter-over-quarter. This significant growth has not only bolstered our staking operations meaningfully, but also established Galaxy as currently the largest validator globally on the Solana network. We are also excited to share that in July, Galaxy announced the acquisition of CryptoManufaktur, the leading Blockchain note operator that provides trusted secured services to decentralized protocols across the digital asset ecosystem. In addition to enhancing our position as a leading technical partner to protocols and builders, this strategic acquisition expands our staking capabilities even further, increasing our Ethereum Assets Under Stake by approximately $1 billion, which brings our total Assets Under Stake to over $3.3 billion as of today. By integrating CMF's engineering expertise and resources, Galaxy is positioned as a more prominent player in the Ethereum ecosystem, providing enterprise-grade support and innovative solutions to every corner of the digital asset space.

Now turning to Mining, our mining business continue to be positioned as a leading Bitcoin miner globally, reporting revenue of $24 million for the second quarter. Our net power purchase costs and external hosting expenses were approximately $10.5 million, resulting in a 56% direct mining profit margin.

In the second quarter we operated at 5.6 exahash per second of combined Hashrate Under Management, down 3% quarter-over-quarter despite network difficulty declining almost 10% during the quarter. And despite the Bitcoin halving event in April, which reduced block rewards by 50% for all miners, we maintained a low marginal average cost to mine of less than $22,500 per Bitcoin in the second quarter. As Q3 will be the first full quarter post-halving, and we expect the network hashrate to increase significantly in the second half of the year, we do anticipate our marginal cost to mine will increase next quarter.

We have been very discerning in when and towards what end we direct our capital investments, with our focus on securing long lead time electrical infrastructure that is portable across mining and other computing applications. We have also opportunistically upgraded our ASICs fleet when marketing conditions have been attractive, which is what we did in the first quarter of 2024 when we purchased 3,000 new Bitmain S21 machines. These machines are online today and we expect to be able to scale to 6 exahash of Hashrate Under Management by the beginning of the fourth quarter without any further material capital expenditures.

Now, I want to take a step back and talk a little more detail about our flagship Helios campus located in Dickens County in West Texas. Currently, Helios has 200 megawatts of energized mining capacity. We have firm capacity approval from both ERCOT and the Wind Energy Transmission of Texas to scale up to 800 megawatts of power from the existing interconnect.

Today, the majority of our site is cooled using liquid-cooled infrastructure with our main data center representing one of the largest liquid-cooled data centers in the world. For a smaller portion of our site, we use newly developed and engineered evaporative cooling units for which we now own the IP, and earlier this year Galaxy built a fresh water pond with storage capacity of nearly 10 million gallons, to expand our cooling capabilities in the most efficient way.

We have six main power transformers installed at our existing project substation, two of which are currently energized and powering our Bitcoin mining operations. We plan to energize the next two transformers by this time next year, which will add an additional 300 megawatts to the site's current capacity, bringing our total capacity to 500 megawatts, and the final two power transformers are expected to be energized in early 2027, which will enable us to deliver the full 800 megawatts of high voltage capacity for which we are already fully approved.

Helios is also strategically positioned adjacent to the Cottonwood switching station, one of the largest electrical switches in Texas. Several gigawatts of electricity generated by wind and solar energy are delivered through ERCOT's transmission system here, providing us with an incredible amount of reliable power right next door.

Our positioning in Texas also allows us to benefit from the competitive deregulated market structure employed by the ERCOT grid, and the relatively high degree of renewables in the region, given the feasibility of wind and solar gen.

Last quarter we expanded our campus by purchasing an additional 160 acres adjacent to Helios. We now have a total 320 acres of contiguous land and we've submitted additional load studies and new interconnect requests that are pending approval to service our expanded footprint and expected future growth at Helios.

Additionally, the Helios campus has the opportunity to enhance our network presence by connecting to existing long haul, dark fiber routes that provide scalable bandwidth, low latency, and redundancy between the Helios campus and the Dallas area. We have done the work to define the engineering requirements, received quotes on the components required, and reviewed proposals to construct scalable fiber for the Helios campus.

When we acquired Helios back in December of 2022, our thesis was simple. To be a leader in the Bitcoin mining industry over time you need, one, to own your own infra, and two, to have access to low-cost power at scale. Our Helios acquisition checked these boxes and we've seen that in the ongoing success of our mining operations.

However, as we've scaled we've also seen the opportunity set in front of us rapidly evolve. Advancements in both AI and HPC industries are driving what appear to be the early innings of an insatiable demand for data center capacity with access to low-cost power and with the ability to scale on an expedited timeline.

We have been evaluating the sector and the possibility of utilizing Helios beyond the scope of just Bitcoin mining for the past several months. With land to scale, an approved interconnection of 800 megawatts, long lead time components already acquired and scheduled to be energized, access to water and the low-cost power, Helios is positioned to be one of the most optimal sites to build and operate large-scale data centers for a variety of different computing applications. We recognize the value of the asset that we have and we do not need to make a quick or reactive commitment, but rather are going to take a long term, measured approach to scaling this facility.

Our primary goal is to monetize our electric capacity and existing infrastructure in the most profitable way possible and I am unbelievably excited for what is to come.

The strong performance of each of our three operating businesses in the first half of this year underscores the strength of our diversified business model and our ability to both support and capitalize on the influx of institutional capital into the digital asset ecosystem. I am more confident than ever in Galaxy's strategic vision and our team's ability to drive continued growth and success.

Alex, over to you.

Alex Ioffe

Yes. Thank you, Chris. Good morning.

In the second quarter we reported a net loss of $177 million, primarily driven by reduced values of digital assets after a steep run-up of prices in the first quarter. This affected our digital assets and investment line items on the P&L. As a point of reference, at the end of this quarter we held more than $900 million of net long digital assets and spot Bitcoin ETFs.

Our equity capital was $2.1 billion as of June 30. We opportunistically completed a capital raise of $120 million net of fees, during the second quarter.

For the first half of the year, we generated $245 million in net income, driven by positive digital asset price movements and strong operating business performance described by Chris, with strong momentum heading into the second half of this year.

Our operating expenses increased by approximately 16% quarter-over-quarter, primarily driven by an accounting measure that requires Galaxy to capture staking rewards that Galaxy generates from staking for others on a gross basis in lending and staking revenue with rewards passed through to the customers that delegate to us shown as an expense. This business grew sufficiently to have a new line item on the P&L named Staking Costs. Excluding (inaudible) staking costs, we decreased our operating expenses by approximately 5% quarter-over-quarter.

Our liquidity remains strong. Our total liquid assets were $1.3 billion at the end of this quarter, consisting of $409 million of cash and stablecoins, $501 million of net digital assets excluding stablecoins, and $418 million in spot Bitcoin ETFs.

We continue to make progress on our U.S. listing. Last Friday, we filed an amendment to our registration statement, responding to the seventh round of SEC comments. We feel encouraged by the progress we have made and by the last set of comments from the SEC staff. We will keep you updated as we continue to advance through this process.

Now, I will turn the call over to Mike and then we will take questions.

Mike Novogratz

Guys, good morning. It's a beautiful day here in New York and I literally want to kind of mark this moment. I know we're supposed to talk about our quarter, but we're kind of at a spectacular place for this industry. I have literally never been more bullish on Galaxy and never been more bullish on our whole industry.

When I think about two years ago even, we were often seen as pariahs, like, "What's up with this industry? Do we trust them?", and literally 24 months later we have a presidential candidate who made a Bitcoin speech, or a crypto speech at the National Bitcoin Conference, which if I had written it would have been a dream. He left everything in that our industry wants. And how do we go from here to there?

Listen, even on the Democratic side, which have been really not helped with our industry for the last four years, we had already seen a big shift towards pro-innovation and pro-crypto. And I am fairly certain and hopeful that nominee Harris, Kamala Harris, the Vice President, is going to soon make comments that show that she's from San Francisco, the land of innovation, and that she wants to be a pro-innovation, pro-crypto president.

And so, hats off to everybody at Galaxy that has worked so hard to build this acceptance, to everyone in the community. We are now a political voice. I said over and over there are 80 million crypto owners. That's more people that own dogs in America, and I think people are finally listening, right? Crypto is here to stay. Bitcoin is here to stay. Our industry is here to stay. That beyond anything is wildly important for how I look at this business, how Chris looks at this business and how Galaxy is prosecuting this business.

We come at this with a whole new renewed sense of confidence. You never get the timing perfect on when this happens, but I am fairly certain we will get a market infrastructure bill in the next 6 to 12 months; we will get a stablecoin bill, and maybe more importantly, we'll get direction to the Fed and the OCC to allow the trade/buy companies to participate on our industry. That will bring in a wave of capital. So, what does capital do? It drives prices up, but more importantly it drives innovation. It drives people into the space. And so, I literally want to just start by saying I couldn't be more bullish, and quite frankly, thankful to everybody because this is—Galaxy has done our part 100%, but it's taken an entire movement to really orange pill the majority of sceptics out there who now see Bitcoin as an asset class and (inaudible) see crypto as an asset class, and who believe in the transformative power of this decentralized technology.

Starting there, what does that mean? It means that in time we're going to have a lot more competition, and so I think that's a great thing, right? Competition makes you sharper. One way we've approached that is we are already in great partnerships with lots of powerful trade/buy companies, and I think our evolving role will probably include a lot of those, helping people access on chain, helping people access our acumen. The partnership with State Street comes to mind. And so, you're going to see more of that in the future I think from us and probably from other crypto companies.

We're already seeing the changes. You might not have noticed, but Steven Fulop, who's the mayor of Jersey City and is a friend of mine, their pension fund is invested in Bitcoin. The State of Michigan's pension fund has invested, and so I think you're going to see more and more institutions. In 2015, I started talking that the herd is coming, and I meant the institutions would come to Bitcoin. I was way early and probably looked a little silly for a long time. Let me tell you the herd is now here. We get calls every day from new clients who want to either understand or participate in this ecosystem. And so I would guess that our business grows quarter-on-quarter for the foreseeable future. I say I guess, I see it. I see our sales force being more stressed as people want to onboard. I see our bankers doing more pitches; ICR Asset Management group coming up with more products, and so couldn't be more bullish.

Listen, the macro backdrop is also helping. Right? The global economy is slowing, period. The Fed will be cutting rates in September unless something dramatic happens. Lowering rates adds to the narrative of crypto.

The other thing I would say is we have two candidates running for President in America and neither of them have talked about cutting the deficit. Neither of them talked about reducing spending on entitlements, Social Security and Medicare, reforming Social Security and Medicare over the—and they're very politically unpopular things to talk about. We're at $35 trillion of debt. We are adding a trillion dollars of debt every 100 days. Until that paradigm shifts—and it's hard to see it shifting—Bitcoin as a store of value, Bitcoin as digital gold is going to have an amazing appeal to investors around the world.

Bitcoin has traditionally driven our whole industry. Money comes into Bitcoin, then it finds its way into the rest of the industry. And so I think we've got a macro backdrop. Now we have a political backdrop. That's all bullish.

Listen, Galaxy, I couldn't be more proud of what's happening here. Chris did a nice job of going through the quarter and through some of the really exciting things. But when I think about Digital Infrastructure, one of our three businesses, right, this mining stuff is real. AI is not going away. The big companies, Google, Meta, Microsoft, OpenAI, their CapEx budget on data centers is supposed to be $300 billion a year as far as the eye can see. We are going to participate in that. We have gotten very focused on the Helios asset. Chris was just down there yesterday. Stay tuned, but that's very exciting. Then, the staking business. Out of nowhere, six months ago, we're now over $3 billion of assets staked and growing and I think that's going to be a bigger and bigger business for us. So Digital Infrastructure feels pretty good for me.

Our Asset Management business, Steve Kurz and his team are hustling new products. We launched our first in-house venture fund. We've always done a venture on the balance sheet and now we're bringing clients into that expertise, and that's exciting. Asset Management is working.

Our flagship, our Markets business, Jason Urban and his team, new clients, record derivative exposure, our lending business continues to grow, and so I couldn’t be more bullish there.

When I wrap it all up, I'm bullish and couldn't be more excited for the future.

Galaxy Investor Relations

Operator, I think we're ready to open it up for questions.

Operator

Thank you. At this time, if you would like to ask a question, please press star, one, on your telephone keypad. You may remove yourself from the queue by pressing star, two. Once again, that is star, one, to ask a question. We will pause for a moment to allow everyone an opportunity to signal.

We’ll take our first question from Joseph Vafi from Canaccord.

Joseph Vafi

Hey guys, good morning. Great to see all the operational progress and the industry backdrop here looking a little bit better.

I was wondering, I know, Chris, you mentioned that your loan book was up while volumes were down. I think that's a sign of gaining share. Are there any other metrics to point to in the Markets business on potential share gains and how you look at your position there? Then I have a quick follow-up.

Chris Ferraro

Hey Joe, good morning. Appreciate you joining. Thanks for the question. Loan book was one big metric that we looked at. That's been part of our bread and butter at the firm from generating good risk-adjusted returns with our capital from the very beginning. So we're excited about that growing. We're actually looking to the future of that. That business today is still a largely bilateral relationship with our clients on sort of a one-off basis. GalaxyOne's development focus on the go-forward is really tying that into trade opportunities. The clients, we're actually directly financing trades and holding those trades in a prime brokerage-like fashion. That margin-based financing product, we're already in testing on and are pretty excited to launch and it's the focus for the back half of the year. On the go-forward basis, that lending business, we think, has the opportunity to scale value and a lot faster than we've done one-off hand-to-hand combat historically growing the book. To add a little more color on the lending business alone, that book generated approximately $11 million in net profit so far.

The other metrics in the business we look at are—there's a bunch going on. The crypto spot exchange volumes were down 18% quarter-over-quarter in the second quarter. Our businesses volumes and revenue declines were similarly in line. The same token is the other thing we pointed to was we have been growing our derivative volume fast and much faster in a declining market than we see on the screens and than we see with our competitors. That business, having crossed through $8 billion of TTM notional volume and then jumping to 13 now just year-to-date alone, I think is both a pretty tangible data point in where we obviously have edge and where we're gaining share, and it's also a business that has a moat around it because it's complicated to manage risk there; requires capital, requires pretty heavy regulatory infrastructure around it, which we now have and are one of one or one of two in the market who even have that. It provides us an opportunity to really have a base of profitability as opposed to the base spot business, which generally in crypto and across all [indiscernible] assets is really a scratch at best kind of business. That's where I would point to.

Joseph Vafi

Sure. That's great. Thanks, Chris. On Helios, it's still kind of early days on maybe monetizing the asset other than Bitcoin, but in a sense maybe it's not that early if you've got, I think it's over 200 megawatts that are going to be energized next year. Just wanted to drill down there on how—I know you're going to try to monetize it the best way possible, but any other additional color, especially on this next phase of energization since it's coming, what you're looking at, potential timing on any deals, etc.? Thanks a lot.

Chris Ferraro

Let me start by being a little more specific and clarifying what we see as the electrical road map, the capacity for electricity.

Today, we have 200 megawatts energized and operating consistently every day dedicated towards the Bitcoin mining. The big electrical infrastructure that we have installed and is going to be energized this time next year adds another 300 megawatts of electrical capacity that currently does not have a tie-in to an existing data center that exists there today and so that additional 300 megawatts is available for either us to develop additional data center capacity that would be 1.5x our current size for Bitcoin mining, or to greenfield a data center dedicated towards other uses.

This time next year from a base electrical capacity, which is really the most important foundation for anything we're going to do next, it gets us to 500 megawatts and we can increase that further to 800 megawatts by 2027, which is what we're currently approved for.

Now, I think you've probably seen other people in the market throw out big numbers on their electrical capacity and how big they could be. The fact for us is, in addition to our 800 megawatts that we already have approved and we have the long lead time infrastructure purchased and installed already, we have two other workstreams that can more than triple that capacity over the long, long term. One is an additional 800 megawatts that we've done load studies for that we've submitted, which relate to our existing tie-in at the existing substation. That would be capacity going 800 already approved to 1.6 gigawatts. Then we have also submitted for an additional interconnect with ERCOT for the new land we purchased, which is for another 900. So 1.6 would go to 2.5 gigawatts total on our existing land footprint at Helios, assuming over time we get that approved. That is a massive scale of electricity relative to any other asset in the country in terms of potential for unlocking opportunity.

In terms of what we do next, we feel like it's a little premature to land on anything specifically, but what I would say is we have been relentlessly investigating and having higher and higher level conversations with the biggest companies in and around HPC and AI data centers around a number of different potential models as that industry opportunity develops. Those models range anywhere from partnerships on greenfielding new dedicated data centers for specific AI HPC end uses with partners for our electricity capacity growth that we have there, to potentially retrofitting existing data center capacity—which the bar is higher for us because there's an opportunity cost because we have a great Bitcoin mining business already today—to partnering and joint ventures with those operators or chip manufacturers to operate AI as a Service, for example, in certain megawatt, small megawatt clusters within our existing data center or in the data center growth that we're going to pursue. There's actually a pretty wide palette of opportunity sets, all of which are partner-dependent, end-use dependent, capital need and economics-dependent, but all of which are super exciting economically, we think, relative to just our base existing business that we've built today.

Joseph Vafi

That's great. A lot to do, exciting stuff, exciting times. Thanks a lot, Chris and everybody else.

Operator

We'll take our next question from Martin Toner from ATB Capital Markets.

Martin Toner

Thank you very much for taking my question. I want to circle back to Mike's comments about Trump's speech and regulation. Mike, can you talk a little bit about what some of the regulation you mentioned would do for your business?

Mike Novogratz

Listen, one of the great overhangs that our whole industry has had is the fear of the SEC Wells notice, the fear of Department of Justice saying, "Hey, you're trading assets that we think are securities and you think are not securities." Just the clarity around a market infrastructure bill, which tells you what is what, who regulates what, will unleash people's confidence to invest in this business from the players here. But more meaningfully, will unleash asset managers' willingness to hold these assets. It's been the uncertainty and, quite frankly, the cost, right? Our legal costs, our accounting costs are significantly higher than they would be if we are trade/buy company, partly because of this uncertainty. In some ways—I was arguing this in D.C. 12 months ago—it doesn't even matter how perfect the bill is. I now think we're going to get a very good bill, but even back then I was just give us a bill because it takes the uncertainty down. That's the first thing.

The second thing, I guess, is around what we'd call Operation Choke Point 2.0. There was a determined and methodical move amongst the government to really stifle crypto innovation. Banks were told don't lend to crypto people. Plenty of cases where clients of ours, friends of ours had their accounts shut down at major institutions because they were involved in this industry. That's changing. It will change really fast when it gets direction from the top. I think, certainly, the Republican side has said that's coming. I believe the Democrat side will as well. They haven't done it yet. It's early. Vice President Harris has only been in this seat for less than 10 days. But all my intel and all my instinct tells me—and I think what is best for crypto is that this is bipartisan. I am working really hard on the Democratic side now, mostly because we don't want to be a one-party industry. We're a technology and a movement and it should be bipartisan. If we get the Democrats to go where I think they're going—and plenty of them we're already there. Hakeem Jefferies was very open-minded to crypto, Ritchie Torres. There's a litany of Democrats that were supporting. Then it's like Yahtzee, as Arthur Hayes would say, because now we got both sides and we can be less worried about who wins in Washington and more worried about prosecuting our business.

When Joe Biden stepped down, Elizabeth Warren's power was diminished immensely, and she was the one who really was slowing down the growth of crypto. She had a banner ad, 'Join my anti-crypto army,' so not a real good look if you're a crypto voter. I think her influence is waning. We will see, but I think that really will be the big shift. If Republicans win, he laid out a plan that is unbelievably bullish for our industry. I'm hoping and thinking that Democrats are going to do something similar.

Martin Toner

That's great. Thanks very much. We had a bumpy quarter for digital asset prices in Q2. Can you talk a little bit to Galaxy, specifically GGM's strategy to make money, not lose money, and what you did with leverage over the quarter?

Mike Novogratz

Sure. Our franchise businesses, the businesses that buy and sell with clients, that lend the clients, the do derivatives with clients, as Chris said, volumes there were down roughly in line with the volumes in the overall industry and profits came down accordingly, but still a profitable business.

Our balance sheet—I'll call it treasury—we were long, call it a billion dollars of crypto and crypto went down 14%, and there's $140 million. That's simplifying it. With hindsight, I guess I was long less crypto and sold more on the high and bought more on the low.

In general, we try to outperform the overall market, but we have a very long bias to this firm. I believe Bitcoin will be a lot higher a year from now. I believe digital assets as a total market cap will be a lot higher a year from now. So, again, we try to stay long assets that we think are core foundational assets and we trade around others that we think are overvalued in the short run. This was mostly just a beta move.

Chris Ferraro

A couple of things I'll add. One, in my comments earlier, I highlighted a strategy that we saw as a market opportunity pretty early on late last year and we've been executing on, which is of syndicating BlockToken deals to clients. That is an example of things that, that business has done to evolve, to turn what is a largely transactional revenue-driven business into something that has a base of reoccurring revenue. When we bring clients on platform, by facilitating purchases of assets that have long-term lockups that are going to sit on our platform and be clients on our platform, by definition for years, that also generate annual management fees and provide captive clients to then add trading services, those are the kinds of things that we are doing to build ballast in the business that don't necessarily wax and wane with the price of crypto directly every day. The cool thing about that whole platform in GGM now is it's starting to reach across and connect to other parts of the business, like our Blockchain Infrastructure group, where those assets and the clients of that group then have an opportunity to stake their assets in our own blockchain node, which also creates a recurring revenue line item. All still have some level of correlation to the price of crypto. That is something that is impossible to eliminate solely in our industry today, but create sticky revenue streams that while they have some correlation are sort of there quarter in quarter out. The more we layer those on top of one another, the more the quarter-to-quarter movements in the underlying price are going to be a lot less impactful on revenues and earnings.

Martin Toner

That's great, Chris. Thanks very much. Last one for me. Your curtailment revenue in the quarter, 10 million on 5.6 exahash, it looks like you punched above your weight. Can anyone just talk to what was at work there?

Chris Ferraro

The $10 million you're referencing I believe is actually our total cost to produce, so that's electricity cost plus give up to…

Martin Toner

Oh, I see. Okay, apologize. Okay, okay.

Chris Ferraro

I was going to say I can address a couple of things what I think you're getting at there, which is ultimately, in the quarter we mined at a marginal cost at approximately $22,500 per Bitcoin, which I don't think all the numbers have come out but I'm pretty confident puts us in a pretty high quartile or decile in the whole industry in terms of cost.

What we're doing there today, in addition to just the fact that we operate in an area where we correctly selected that, on average, is going to have pretty low cost of electricity, we've taken the view that riding index in those markets is the right strategy. Index has closed significantly lower than where we otherwise or market participants otherwise would be paying had they hedged out exposure. All that is to say that just paying market prices for electricity has been the smart decision to make for the entirety of this year so far, and that's what we've done.

In addition to that, the flexibility of our load there allows us to add some shape to when we mine and when we don't, and therefore, the costs that we incur or don't incur per unit of production. Just to add a little bit more clarity to that, like in Q2, on average we mined 22 out of 24 hours per day and that produced 56% gross margins. Based on where Q2 power prices were, as an example, just deciding to not mine on average, those two hours a day—although it's concentrated when we make those decisions—we reduced cost by 38% in the quarter. By taking less than 10% of your time offline, you're reducing cost by almost 40%. That trade-off is a very smart one economically and I think decisions like that and how we operate is what we think have driven our performance to be pretty best-in-class.

Martin Toner

That's great color. Thank you very much.

Chris Ferraro

Is that helpful? Is that what you were trying to get at?

Chris Ferraro

Yes, that's great. Thanks. That's all for me.

Operator

We'll take our next question from Joe Flynn from Compass Point Research.

Joe Flynn

I've got a question on the Helios asset. It looks like there's significant expansion potential there. But just with regard early stages with customers are you currently at the stage of any LOIs signed? Anything you could comment on regarding the structure? Whether that be more of a cost-plus type deal for the land or a colocation where you actually build the data center and deliver to suit. Thanks.

Chris Ferraro

Hey Joe, good morning. We don't have anything to report tangibly, yet, on any specific deals or what the structures will look like. I think it's a little early, but the progress we've made over the last quarter in understanding what we have, understanding what we would need to invest in to service various potential partners and clients and structures has gone from very early exploratory stage to us having spec'd out how we're going to lay dark fiber, what it's going to cost us, all that kind of stuff. We've made a ton of progress in understanding what we're going to need to do, what it's going to cost and what the opportunity set is. We're at the stage now where we are sorting through a number of conversations, very specific conversations on different opportunities, that by the way are not mutually exclusive. The good thing about what we have is we have a campus both in terms of geographical footprint and electrical footprint that would allow us to do a number of different things with the site.

We don't have a single data center that provides constraints around what kind of deal we could do. What we have is a large campus with an incredibly talented team, access to more talent in our way in the City of Lubbock with Texas Tech and flexibility to sort of pick and choose how we want to develop the whole footprint in a number of different ways. That's the way we're thinking about it today. We're pretty bullish and pretty excited about what it could be. We're just a little early to be able to announce anything or guide one towards anything specific.

Joe Flynn

That's fair. Piggybacking off a question earlier with lending being up quarter-over-quarter, can you give a sense of just what the overall environment looks like? Crypto credit conditions, whether they're improving or if we're still relatively early, what it would it take to rejuvenize this kind of the space?

Mike Novogratz

Do you want me to handle that?

Chris Ferraro

Yes, you can start.

Mike Novogratz

Listen, the crypto credit conditions often track crypto enthusiasm and crypto pricing, so certainly are improving. When people are more optimistic, they want to use more leverage and so I see that business going up, not down. We have plenty of people that have created a bunch of crypto wealth that don't want to lose their crypto and will borrow dollars against crypto, so you can take in collateral. We are pretty conservative lenders still. I think that DNA comes from Chris' background as a credit guy, not my background as a macro guy.

We're also lending on chain. We're looking at where do we borrow and where do we lend? That business is growing for us. We injected more talent into it. We're looking at it more systematically. As Chris said, once we add prime, these are going to hopefully going to turbocharge it.

I would hope that 12 months from now, 24 months from now, it's one of our biggest businesses. It's one of our most steady revenue generators.

Chris Ferraro

The only thing I would add is an important part in addition to risk managing of building a good financing business is having good, consistent access to capital. On our end, since the beginning of the year, you've seen our own book value increase—which is part from performance, part from also raising a small bit of equity, which we did—but you've also seen our balance sheet expand. So if you just look at debt to equity, for example, to give you an order of magnitude, we went from roughly 1.05x to 1.4x as a business. from the end of the year to June 30. A big part of that is our access to be able to borrow capital from clients and from market participants has opened up again after a pretty long wave of everyone being pretty constrained in terms of their willingness to provide credit.

I think it's an important point just to note Galaxy's brand reputation, balance sheet, creditworthiness and the counterparties view of our creditworthiness is paramount to our success, and we're proving it by being able to show that we can expand our balance sheet, which would then allow us to use that balance sheet to help clients finance their trades more efficiently. I think I'd point to that as like there's clearly some (inaudible), capital flows to the most trusted market participants, and we're seeing that. We're seeing that we think we're the beneficiary of that early on.

Mike Novogratz

Finally, let me put an emphatic point on this. We have been trying and continue to try and are more optimistic of redomiciling to the U.S. and listing in the U.S. That access to capital markets, which the U.S. really is the dominant platform of, is wildly important to us. I think once we make that shift, once SEC opens the gates again and allows crypto companies to tap the U.S. capital markets, you'll see our cost of funding go down and our businesses grow accordingly.

Joe Flynn

Thanks. That's helpful.

Operator

We'll take our final question from Bill Papanastasiou.

Bill Papanastasiou

Hi. Good morning. Thanks for taking my questions. For the first one, I'm wondering whether you can provide your outlook on Bitcoin mining economics over the near to medium term. In this quarter, Galaxy achieved a marginal cost to mine, as mentioned, of less than $23,000 per Bitcoin, which is not only attractive, but yes, the lowest we've seen thus far. Maybe you can draw some parallels or contrast to the margin profiles in the HPC verticals that Galaxy is considering here.

Chris Ferraro

Let me give an attempt to this. We have a perspective—and I think this is generally held—that hashrate is likely to increase over the near term. That is largely because there have been backlogs of both older machines that have been on the sidelines for a long time, as well as new production of new and more efficient machines from the ASIC manufacturers that are in the channel and that are making its way into the market. There is still a reasonable dearth of good, reliable data center capacity to house all that and so I would temper it a little bit, but our expectation is that hashrate over the near term is going to go up. Absent price going up, which I'll leave to Mike to predict, all else being equal, hashrate going up, it's going to impact all miners.

For our business—and I think we've started to prove it, which is the most important part than me just saying it—in Q2 is a good example of where we sit and our power management strategy and the flexibility of our asset is such that we can make small changes in our decisions of when to produce and when not, that can have a big impact positively on ultimately bottom line. So our positioning to be able to manage through a flat or declining price environment, while hashrate near term is going up, we think is a real competitive advantage and a real moat around the way we operate our business, and we intend to operate it profitably month-over-month, over month, over month going forward.

Now, there is a bigger macro dynamic, which is hard to predict, which we're not factoring in yet, but I do think over the longer run we think is going to have a big impact, which is—you alluded to this—the value per megawatt of infrastructure that's installed now looking like it's—I'll directionally make up a number but in order of magnitude larger per unit of megawatt—in other computing environments like AI HPC versus Bitcoin mining suggests that hashrate may not perform the way everyone thinks over the medium to longer term because the economics suggests that electrical capacity will be deferred towards other uses, which could put a ceiling on hashrate and actually could be beneficial to Bitcoin miners over the medium to longer term. So, we're looking at that dynamic. We're obviously at play in that all dynamic as well, It's going to be a factor in what we decide to do, but I do think you have to zoom out a little bit and look at those dynamics and think about what that means for the economics of Bitcoin mining, specifically going forward.

I think within that I hit a lot of what you were trying to get to. The opportunity cost for other compute now appears to be significantly, significantly higher per unit than Bitcoin mining and I think that's going to have a related impact for what Bitcoin miners decide to do, which is going to then have a downstream impact on hashrate, too.

Bill Papanastasiou

Awesome. I really appreciate the color there.

Shifting gears to the final question, I want to ask one that's more bigger picture. Understanding that Galaxy has built a solid institutional focused digital asset business, Mike has previously mentioned that one of the next stages of evolution will be for the firm to have a higher on-chain presence. Mike, perhaps you can speak to some of the infrastructure gaps that need to be solved before we teleport to this new Galaxy, for lack of better terms. Thank you.

Mike Novogratz

We are actually there now. We've got a great on-chain lending team. We've got a on-chain—we're providing validator service for lots of different protocols. We've got an on-chain trading team, and so stay tuned. We've hired the teams. We're participating in the markets. We're building our confidence and couldn't be more excited.

Bill Papanastasiou

Appreciate it.

Mike Novogratz

It took us a while to get there and (inaudible) the delay was part of our DNA. We were very cautious about making sure we weren't going to violate KYC—Know Your Customer—anti-money laundering levels. When you're trading in pools, how do you make sure they are “clean pools”. Now we've gotten comfortable and we’re—the gas pedal is fully pressed.

Chris Ferraro

I also think in addition to the regulatory side, security is a pretty big component of it. All the protocols and everything on-chain, they're all still very nascent. As time goes on, time shows whether there are security gaps or not in any one given protocol, security audits happen and happen on top of each other and continue to prove which protocols and which on-chain menus have gaps or don't have gaps. From our perspective, seeing that develop is critical to us deciding whether we would put any capital at risk, let alone open up windows to allow clients to put capital at risk. Time is actually a necessary component to solving the adoption curve on on-chain activity, I think, (inaudible) large broadly from our participants.

Bill Papanastasiou

Thank you.

Operator

With no further questions in the queue, I will turn the program back over to Mike Novogratz for any additional or closing remarks.

Mike Novogratz

Guys, I think I was relatively clear: bullish, for the industry and for Galaxy. Really appreciate your time. Look forward to getting back to you in a few months. Take care.

Operator

This concludes today’s conference. We thank you for your participation. You may now disconnect.

No Offer or Solicitation

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.sedarplus.ca.

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In addition, any statements that refer to estimates, projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “intend,” “may,” “might,” “plan,” “possible,” “potential,” “predict,” “project,” “should,” “would” and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. The forward-looking statements contained in this document are based on our current expectations and beliefs concerning future developments and their potential effects on us taking into account information currently available to us. There can be no assurance that future developments affecting us will be those that we have anticipated. 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These risks include, but are not limited to: (1) the inability to complete the proposed domestication and reorganization transactions, due to the failure to obtain shareholder and stock exchange approvals, or otherwise; (2) changes to the proposed structure of the transactions that may be required or appropriate as a result of applicable laws or regulations or as a condition to obtaining shareholder or stock exchange approval of the transactions; (3) the ability to meet and maintain listing standards following the consummation of the transactions; (4) the risk that the transactions disrupt current plans and operations; (5) costs related to the transactions, operations and strategy; (6) changes in applicable laws or regulations; (7) the possibility that the Company may be adversely affected by other economic, business, and/or competitive factors; (8) changes or events that impact the cryptocurrency industry, including potential regulation, that are out of our control; (9) the risk that our business will not grow in line with our expectations or continue on its current trajectory; (10) the possibility that our addressable market is smaller than we have anticipated and/or that we may not gain share of it; and (11) the possibility that there is a disruption in mining impacting our ability to achieve expected results or change in power dynamics impacting our results, (12) any delay or failure to consummate the business mandates or achieve its pipeline goals in banking and Gk8, (13) liquidity or economic conditions impacting our business (14) regulatory concerns, technological challenges, cyber incidents or exploits on decentralized networks (15) those other risks contained in the Annual Information Form for the year ended December 31, 2023 available on the Company's profile at www.sedarplus.ca and its Management’s Discussion and Analysis, filed on August 1, 2024. Factors that could cause actual results to differ materially from those described in such forward-looking statements include, but are not limited to, a decline in the digital asset market or general economic conditions; the possibility that our addressable market is smaller than we have anticipated and/or that we may not gain share of the stated addressable market; the failure or delay in the adoption of digital assets and the blockchain ecosystem; a delay or failure in developing infrastructure for our business or our businesses achieving our banking and Gk8 mandates; delays or other challenges in the mining business related to hosting, power or our mining infrastructure; any challenges faced with respect to decentralized networks, considerations with respect to liquidity and capital planning and changes in applicable law or regulation and adverse regulatory developments. Should one or more of these risks or uncertainties materialize, they could cause our actual results to differ materially from the forward-looking statements. We are not undertaking any obligation to update or revise any forward looking statements whether as a result of new information, future events or otherwise. You should not take any statement regarding past trends or activities as a representation that the trends or activities will continue in the future. Accordingly, you should not put undue reliance on these statements.