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PRESENTATION

Operator

Good morning, and welcome to Galaxy's First Quarter 2024 Earnings Call.

Today's call is being recorded. After the presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one on your telephone keypad. To withdraw your question, please press star, then two.

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

Galaxy Investor Relations

Good morning, and welcome to Galaxy's First 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. We're changing up a little this morning, so I'll start by wishing everyone a good morning from sunny New York.

Before I jump into our business results and performance, I want to spend a few minutes discussing the recent equity capital raise we completed last month.

Over the past several months, we have seen a confluence of sizable growth opportunities across our business amidst a backdrop of accelerating digital asset adoption globally. And in mid-April, we executed a strategic equity capital raise of US$125 million to help us capitalize on these trends. In our global markets business, the opportunity set has expanded dramatically. Client spot and derivative flow volumes, position financing, asset sales indications, and on-chain liquidity pool provisioning, just to name a few, have all begun to show strong recurring demand growth.

In addition, and consistent with our platform objectives, we recently crossed $8 billion in trailing 12-month notional over-the-counter derivatives traded, requiring us to register as a swap dealer in the U.S. and comply with a new set of regulatory requirements. These obligations will drive additional operating expenses and capital requirements, but, importantly, will enable us to provide increasingly larger institutional clients an opportunity to engage with us in an established and regulated trading business, a format that many of the world's largest asset managers, hedge funds, and allocators already operate within and, in fact, require at scale.

And you don't have to just take our word for it. In the preceding months, the trading desk carefully manages derivatives business opportunities, allowing it the necessary time to implement its swap-dealer framework prior to exceeding the de minimis threshold. Post-exceeding the $8 billion threshold, we have seen a significant uptick in client activity leading to an approximate 25% increase in notional derivative volumes relative to the 12-month period prior to crossing.

Outside of the U.S., we are pursuing various sets of licenses to operate client businesses in Europe and Asia to bolster our product and service offerings in two regions that are experiencing meaningful growth and adoption of digital assets. And in addition to expanding our business operations in the U.S. and internationally, we are also investing a portion of the capital we raise in the next phase of expansion of the Helios mining facility's infrastructure, which I'll provide more detail on in a few minutes.

We are expecting returns on these investments to be well above our cost of capital, which we believe will drive significant shareholder value over the long term.

Finally, Galaxy has a six-plus year track record of being good stewards of our balance sheet. Over the past two years, while some of our peers have raised billions of dollars through at-the-market offerings to scale their businesses, Galaxy had repurchased approximately 12 million shares of our stock at an average price of CAD$6.44 and leveraged the gains on our investments, digital assets, and operating businesses to fund our growth. The roughly 12 million shares we repurchased over the past two years and just reissued to the market through this most recent equity raise represents a return on investment of over 100%.

Now, while we absolutely do not intend to prioritize trading our stock with investors for profits, we do recognize more than anyone the cost of not myopically and maniacally focusing on building an industry-leading franchise. We have employed capital market activities when either the returns on our stock were unavoidably attractive or when the opportunity set to grow our business was unavoidably rich, as it is now.

Moving on to our first quarter results, let's start with global markets. Our trading desk strategically positioned itself to be a beneficiary of the positive momentum in market conditions and digital asset prices throughout the first quarter, generating $66 million in counterparty trading revenue in Q1. This 79% increase, quarter-over-quarter, was primarily driven by continued growth in our derivatives book, where we earned more revenue in one 1Q ‘24 than we did in all of 2023. In line with this increase in revenue, we also saw counterparty trading volumes increase 78% quarter-over-quarter. Our desk continued to onboard new counterparties, bringing our total count to over 1,160 at the end of March.

This continued growth in client trading volumes and engagements with our desk is confirmation that Galaxy is earning more wallet share amongst our existing clients, and that we're becoming the trusted partner to new institutional asset managers and hedge funds as they begin to enter the space.

Our lending business has also been a beneficiary of increased institutional activity, with our average loan book size growing to $664 million, up 5% quarter-over-quarter. And we continue to make meaningful progress on the build of GalaxyOne, our institutional client platform, and ended Q1 with approximately 75 clients with over $1 billion of fair market value assets being serviced by the platform.

Moving on to our other segment of the global markets business, our investment banking business. Our team successfully closed one deal in the quarter, having served as an advisor to CryptoSlam, the leading aggregator of NFT data across blockchain ecosystems, who received a strategic investment from Spirit Blockchain Capital. In Q1, rising crypto market optimism spurred M&A interest with even traditional non-crypto firms looking at M&A opportunities to enter the space at scale. On the capital markets front, we are seeing a tale of two markets, strong valuations for tokens and early stage raises, reminiscent of 2021, while generalist investors have not yet returned to growth stage companies.

Our expectation is that capital deployment and acquisition appetite will increase with a prolonged positive market sentiment, which we anticipate will drive pipeline monetization for the business and growth in the second half of the year and into 2025.

Turning to our asset management business. We ended the first quarter with $7.8 billion of assets under management, a 50% increase quarter-over-quarter. This increase in AUM was primarily driven by GAM being awarded an additional mandate in the FTX bankruptcy process, net inflows into our global range of ETFs and market appreciation. As I mentioned on our last call, over the past few months, Galaxy's asset management's mandate to monetize FTX estate's digital asset holdings for creditors has increased in both scope and complexity. In addition to managing certain assets within FTX's liquid portfolio, as well as various trust assets, in January we were awarded a third mandate to wind down the estate's sizable locked token positions.

In the first quarter, we kicked off the first of many dispositions of those locked assets. And although this brought our AUM down from our record $10.1 billion in February, the decrease in assets is a reflection of the team's successful execution in aiding creditors in reclaiming their funds. Additionally, the associated fees were meaningful revenue drivers for the business, as evidenced by a 113% increase in GAM’s management fees quarter-over-quarter.

As of quarter end, the value of assets tied to the various FTX mandates we are managing was $3.4 billion. Although, the assets under management and fees tied to the FTX mandates will decrease over time, as we continue to monetize the portfolio, we are the only firm with a proven track record of executing a multi-billion dollar, complex bankruptcy mandate in the crypto space, which we believe has bolstered our franchise value significantly.

Building on GAM's existing partnership footprint in Canada, the U.S., and Brazil, on April 4th, GAM announced the European launch of Bitcoin and Ethereum ETPs with DWS Group's XTracker franchise. X Tracker is a leader in ETFs globally with $200 billion in AUM, and we couldn't be more excited to scale and grow these products together.

Finally, on the venture side of our business, we are currently raising external capital for our inaugural Crypto Venture Fund. As you recall, in 2023, our proprietary crypto venture franchise moved into the asset manager with the intention of opening their investing program to external LPs. We are currently raising capital for this inaugural vehicle, which will complement our existing interactive and crypto-funded fund franchises. We think the market opportunity for the fund is $150 million to $200 million, and institutional interest from the allocator community early on has been stronger than expected. We are on schedule for a quick first close in Q2.

Galaxy Asset Management is well positioned to leverage its strong track record to capture new institutional demand in this next wave of growth. With over $2.7 billion in passive AUM, $3.6 billion in active AUM, and $1.5 billion in venture, Galaxy is one of the largest and fastest-growing digital asset managers globally.

And finally, turning to our digital infrastructure solutions business. Our mining team continues to demonstrate success in operating and scaling the Helios facility and in the first quarter reported record revenue of $31.5 million. This represents a 69% increase quarter-over-quarter and an over 200% increase when compared to the same quarter prior year.

For the first quarter, our power purchase costs and external hosting expenses, net of curtailment credits were approximately $15 million, resulting in a 52% direct mining profit margin. Our strong mining margin quarter-over-quarter continues to position us as a leading Bitcoin miner globally. We maintain a low average marginal cost to mine of less than $19,500 per Bitcoin, with the quarter-over-quarter increase driven primarily by all-time high network difficulty.

As everyone already likely knows, the Bitcoin halving occurred on April 19th, resulting in the Bitcoin block subsidy dropping from 6.25 to 3.125 Bitcoin roughly every 10 minutes when a new block is found. All else being equal, this means that, predictably, the first post halving block reduces the block subsidy portion of the block reward by 50%. From there, there are several factors that impact the collective industry's go-forward profitability, including transaction fees, Bitcoin price, network difficulty, machine efficiency, and energy prices.

So what does this mean for Galaxy mining? Well, to give everyone a tangible sense, our preliminary mining gross profit for April, which included 19 days pre-halving and 11 days post-halving, was still largely in line with our March profitability. While we do acknowledge that heavy on-chain fee activity did help to offset much of the halving impact and are generally less predictable today, as we've discussed, Galaxy's mining assets also benefit from an attractive power market and our proprietary active power management software, which allows us to adjust our operations based on real-time profitability and either mine Bitcoin or curtail. And also helpful, the first post-halving Bitcoin network difficulty adjustment occurred on May 9 and resulted in a 6% downward adjustment in line with our previous expectations.

In the first quarter, we continued to add both proprietary and host Hashrate, bringing total Hashrate under management to 5.7 exahash per second, representing nearly 1% of the entire Bitcoin network. Helios currently has 180 megawatts of energized mining capacity, and we have started construction on the next phase of our substation to bring on an additional 300 megawatts of high-voltage capacity in the third quarter of next year. We believe this project in and of itself will add significant incremental value to our asset base and will set the foundation for our growth opportunities at Helios while we monitor the Bitcoin mining and capital market conditions closely to determine how best to prudently expand our operating data center capacity in the future.

Development of that substation capacity is well underway. We have already purchased and taken delivery of some of the long lead-time electrical infrastructure, including four main power transformers, which are fully paid for and already installed at the Helios substation. We're also excited to share that in Q1, we purchased an additional 160 acres of land adjacent to Helios. This gives us the optionality to further scale our mining operations, but also to opportunistically pursue other high-power computing business models that rely on access to quality infrastructure and inexpensive power.

Our blockchain infrastructure business beyond Bitcoin mining also had a strong quarter and continues to position Galaxy as one of the most trusted nodes in the decentralized ecosystem. Our assets under stake doubled relative to the prior quarter to reach $486 million. And as I previewed on the last earnings call, we had line of sight to scale this number further and I'm now pleased to share that as of April 30th, our assets under stake has grown to $1.5 billion, with Galaxy growing to become the number two validator globally on the Solana network.

The performance of each of our operating businesses this quarter highlights how our diversified business model is uniquely positioned to benefit from the institutional capital we are seeing begin to flow into the ecosystem. My conviction in what we have built at Galaxy and our ability to execute has never been higher.

I'll now turn the call over to Alex to cover financial results and then he'll turn over to Mike to close. Alex?

Alex Ioffe

Thank you, Chris. Good morning.

We had a great quarter. We reported net income of $422 million, up $120 million quarter-over-quarter, and an increase of $287 million compared to the same quarter last year. This was primarily driven by market appreciation and growth in our operating businesses. Chris covered most of it, to highlight a few key trends.

First, in this past quarter, we had the launch of the SPOT Bitcoin ETF in the U.S., which facilitated adoption of the largest crypto asset by mainstream investors. We believe full-scale adoption of the Bitcoin ETF will take time to propagate, and it is a beginning of a multiyear cycle with institutional allocators and wealth platforms. We expect there to be market retrenchments along the way, but we believe that the demand for this product will continue to increase.

Second, our trading, asset management, mining, and staking operating businesses made significant gains in the past quarter. Our equity capital was $2.2 billion as of March 31, up $400 million quarter-over-quarter. And after the quarter ended, as Chris noted, we raised $125 million of additional equity capital. Total liquid assets were $1.5 billion at the end of this quarter, up from $910 million at the end of 2023, and consisting of $163 million in cash, cash equivalents, and stablecoins, $821 million of net digital assets, excluding stablecoins, and $515 million of spot Bitcoin ETFs that started trading this quarter.

We continue to make progress on our U.S. listing. We have thought and received preclearance from the SEC on a number of accounting issues. In April, we received significantly fewer comments from the SEC on our latest round of comments compared to the prior round. This was the sixth round of comments from the SEC. We can't be sure that the comments will continue to decrease, but we are encouraged by the progress we have made. Yesterday, we filed our responses to the latest round of SEC comments, along with a registration statement, updated for the full year 2023, and for the latest accounting guidance. Of note, starting in 2023, for the U.S. GAAP financials included in the latest step four, we early adopted fair value accounting for digital assets, covered by a new accounting standard published by FASB at the end of last year.

Now to Mike. Thank you.

Mike Novogratz

Good morning, everybody.

Listen, we changed the order up a little bit today, because I wanted Chris to lead off with what a strong quarter we had, and I wanted to talk and put that in context of how I see the business right now, and how I see Galaxy and how I see it going forward.

Crypto is a very interesting industry in that the main asset, Bitcoin in the crypto space, really drives a lot of things. It drives activity in all your different businesses. It drives enthusiasm for the space. It drives adoption. And so when markets are going up, businesses always feel great. Markets don't always go up. And so what's important to note, and I think this is really important, is sometime in the last, I'd say three to nine months, our Company and the whole industry crossed a rubicon, where while we are still going to have quarterly results that are somewhat correlated to the price of crypto because activity goes up and down with crypto prices, my confidence that institutions are coming for long-term stays has increased immensely.

We've seen it in our own business, people willing to lend us crypto for long periods of time, unsecured. That didn't happen six months ago, and it's happening now. Counterparty is growing, engagement around the space, just at a different level than it was before. And so it makes it easier for us to invest long term. It makes it easier for us to really have a strategy that we can think, hey, in two years, we have a good sense of where things are going much harder two years ago. And so if there's one message to take is that while we will still have volatility in Bitcoin price and hence volatility and earnings, the whole industry will, I feel really confident that it's heading in a pretty bright direction.

Listen, we had a great quarter, right. Asset management fees had a record, mining revenue had a record. We really jumped bootstrapped and got into the staking business in big way. Our derivative business is jumping to a new level, trading opportunities are abound and so all feels pretty good.

Where's Bitcoin right now, right, 62,000 at end of the quarter at 73,000 and where's it going? Listen, we had a lot of tailwinds in Q4 and Q1. The adoption of the ETF by far the biggest, right, that was the giant kind of wake-up call that this is now an institutional asset. We also had the halving that we've now put in the rearview mirror. There was also a view that the Fed would bring rates down significantly this year and that view has changed. It's changed in the market. It's changed here in Galaxy. And so I think we're at a consolidation phase in crypto.

Bitcoin, Ethereum and everything else, Solana, will consolidate. What does that mean? It means probably somewhere between 55 and 75 until the next set of circumstances, the next set of market events brings us higher. And so when we're in those periods there's still trading opportunity but I figure on, I always use these words, it's a grind and it's time to build, and we are frantically doing both of those things. But I say grinding, it's coming in every day, being in touch with clients, trading the opportunity set you see but more importantly it's the build, it's the technology build, it's the relationship build, it's the corporate opportunities build and I think that's probably where we are certainly for this quarter, maybe next quarter, until A, either the Fed starts cutting rates because the economy finally slows or B, we get through the election and I think the election will bring clarity, one way or the other, to the crypto regulatory landscape.

And so, I'll leave it there. We had a great quarter; the business feels good. I think there's nothing on the horizon that gets me panicked, oh my God, crypto could crash, don't see it, prices can go up and down with the macro forces. We continue to see adoption growing. As Alex talked about, the ETF got launched. Big players are just now starting to put it through their system. You've read about Morgan Stanley, who's just getting started. And so, that whole process of wealth managers selling it to their clients isn't an overnight process. And so, feel pretty good, both here in the U.S. and more importantly, abroad that, crypto has found a lane in people's portfolios and will continue to grow.

And with that, I'll turn it over to Q&A.

Operator

We will now begin the question-and-answer. To ask a question, you may press star, then one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster.

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

Andrew Bond

Hey, thanks, and good morning, guys. Chris, I believe you mentioned that platform derivative volume Q1 almost greater than all '23. Are you seeing a greater percentage of this volume and kind of your revenue being driven by more traditional institutional market participants and market makers as counterparties post-ETF approvals, and is this kind of where you're seeing growth or expect to see more growth with your additional regulatory approvals?

Chris Ferraro

Yes, good morning, Andrew. Thank you, man. Yes, I'd say early on it's a bit of a mix. There are existing market participants who are more and more using more capital-efficient ways to get their positions on and hedge their positions. We are seeing institutions who previously were not participating coming in and using more and more derivatives and basic exotics to create their positions, but it's like very early stages on that front. And so we were holding the dam back truthfully, proactively on what we were doing in that business, specifically to get ourselves ready from a regulatory compliance and from a tech perspective for swap deal registration. We're going to be actively registered starting June 1, and once we let that dam down, like we said, sort of the business expanded 25% very quickly and that whole apparatus is being set up to accept traditional financial institutions coming into the space and like I said, that's been very early stages. So a mix of both but not anywhere near what we expect the market to do and what we expect the platform to be built for.

Andrew Bond

Got it. And just to follow up maybe for Mike, you kind of talked briefly on the political and regulatory environment, obviously a lot going on, heading into the election cycle. I just wanted to see if you could share your view on, your thoughts on what the best outcome would be for crypto markets and your businesses as we head into the cycle here?

Mike Novogratz

Yes, let me talk a little bit about like politics and crypto over the last 10 days because I think something significant happened. And it's interesting, it's been kind of a buildup, right? Crypto should be bipartisan and apolitical, right. There's a libertarian streak, right, freedom and privacy to Bitcoin. And there's a cut out the middleman, really progressive side to so many of these crypto ecosystems, right. If it's in music or in finance and how do we cut out the middleman, right, which should be seen as progressive. And so that has been politicized is a damn, damn shame. I blame that almost squarely on Elizabeth Warren and Gary Gensler, to be honest. And I don't think the Dems realized it was a problem. And just last week, there's a thing called SAB121. It's an accounting rule that forces institutions to hold crypto as an asset and a liability on the balance sheet, even if it's in custody. And so that's stopped banks, like Bank of New York, the biggest custodian in the world from custody and crypto is a—it's going to blow their balance sheet up and it's going to look really foolish.

Republicans put forth a bill to overturn that accounting rule and, President Biden said he'd veto it. And I'm thinking, like, the insanity of a president vetoing an accounting rule. But it just read to the crypto community as the Democrats saying no to crypto. And it's unfair. There are tons of Democrats that are pro-crypto, guys like Ro Khanna and Ritchie Torres. And there are lots of them. But the power has been held by Elizabeth Warren, the Senate Banking Committee and Gensler and a few others. And so I think you saw something. The same day Trump came out with Ryan Selkis alongside him and gave a speech that said, I'm the pro-crypto president. And there was just a shift. There was a shift in the Twitter space. There was a shift in people I spoke to saying, wow, Republicans good, Democrats bad. I think that's kind of dangerous thinking in that broadly for our industry to thrive you're going to need bipartisan support because you can't go from one regime to the next and not knowing where you stand.

But it's definitely heightened the power of crypto, right. There's been over $150 million. It will be $250 million, I bet, within two months of PAC money, super PAC money raised. You can credit Brian Armstrong in his effort, but there's other efforts as well to be spent in this election. And so races like John Tester’s and Sherrod Brown's, key democratic states for the Dems are seeing a ton of crypto money pouring in. And, I was talking to a senator, a friend of mine yesterday, I was like, guys, this is the definition of stupidity if you're a Democrat. It is literally like saying, hey, we're the party against dogs, right. There are more crypto users in America than there are dog owners. Can you imagine a party coming out and saying, oh, we don't like dogs. Like, it's just terrible politics, but that's where we're at.

And so I think you're going to see this issue stay politicized unless the Democrats can do a real pivot. I think they finally are waking up because this week they heard it, but we'll see. Like, on its face, Trump has now said he's going to be a pro-crypto president. And so you probably get better and faster regime shift if Trump wins than if Biden wins, right? Does it happen overnight? Nothing happens overnight. But he's broadly wanted to endorse it. And so I think if you're crypto and you're a one-issue voter, the Republican ticket is looking better than the Democratic ticket at this point.

Andrew Bond

Awesome. Thanks guys.

Operator

The next question comes from Martin Toner with ATB Capital Markets. Please go ahead.

Martin Toner

Good morning, folks, and congrats on another strong quarter. I'd like to ask a couple questions around costs. Can you talk a little to costs in infrastructure? The $40 million, I mean, where is it going? And how much of it is unrelated to power? And then what are you doing with it?

Alex Ioffe

Yes, so the increase in costs from prior year are driven primarily by mining in three pieces. There are more electrical costs. There's greater depreciation because we have more machines online. And last year, there was this funky thing where we had to reverse impairment on the mining machines that we wrote down in 2022 when the Bitcoin prices were down. And hence, the useful effectiveness of those machines was somewhat curtailed, right. But in 2023, when the prices increased, we were able to reverse those impairments back to the original cost basis. That's under Canadian rules in the U.S. That's not allowed. Once you write something down, it stays down. But in Canada, and that was the other piece of the difference.

Martin Toner

Got it. Okay, thanks so much. Next question is on global markets. Given that the price of digital assets has kind of stabilized, lack of a better term here, volumes, institutional retail have gone down. Just wondering what impact that's going to have on your business here in Q2.

Mike Novogratz

Yes, listen. I said that in my opening remarks, our business is still correlated with both price and volatility. And so when we go into consolidation periods, you see volumes of overall crypto trading goes down and our activity goes down. Now listen, we're still young enough business and we're bringing on new customers. So we're going to try to kind of offset the macro of less activity overall with the micro of bigger market share. And so as we are expanding, Leon Marshall is now our head of sales based in London. He's bringing on new clients every week. And so we're trying to balance that off. But overall, when you see Bitcoin price goes sideways or lower, you can expect activity to come down.

Chris Ferraro

Yes, Martin, the only thing I'll add to Mike's comments is your question focused mostly on global markets. But if you zoom out to the overall business. We've made a concerted effort to build and add business lines that help balance and add ballasts to sideways down markets generally. And so the asset management business, while it's exposed to some data, has had a significant ramp in AUM, which has just started flowing through from a P&L and profitability standpoint in the first quarter. And so that's a good ballast to the more volatile trading business. Our mining business correlates to Bitcoin, but has its own consistent profitability dynamics based on our cost structure and the way we built that business.

Our illiquid portfolio, I'll highlight, is one that generally lags the public markets. And so while we've had some appreciation in that portfolio, a lot of the marks and a lot of the exposures there, we don't expect to come through and show up relative to the public markets for one or two quarters later. And so on a go-forward basis like there's an expectation that that part of the business too is going to start flowing through and offset what is overall general market slowness.

So I think the overall platform, you should expect to be more balanced and more consistent in production these days than they have been in the past.

Martin Toner

Fantastic. Thank you. Last one from me. How do you guys think about market share in institutional trading volumes?

Chris Ferraro

I'll start with that one, and maybe Mike could add. I think it's just very early. There's far, far, far more white space than there is filled space and it being a zero-sum game for market participants, and so it's a hard metric to measure when you're talking about a relatively small percentage of total addressable market only being serviced today and talking about market share amongst that little zoomed in piece. So our business as you saw in the first quarter grew pretty dramatically, close to 80% on revenues and volumes. But like I said, we think about it in the context of how much white space is crypto actually touching and are we getting our piece of it. And so as long as we're focused on that, it's not just about trading zero to zero, there's some gains with other markets.

Mike Novogratz

It's going to be very—I think it's going to take a couple of years until there's a established enough set of competitors and a decent way to try to understand who's getting what business. The volatility of our space is so dramatic that even in derivative business, the P&L is often determined by not just clipping a spread on the trades you do but how you've positioned it in that 24-hour period or 48-hour period. And so that over time you'll be able to see some leaderboard of us versus the competitors, but we're still very early.

Chris Ferraro

Yes. I mean, demonstrably on the derivative side of the business, we are the largest market share participant, I think almost definitionally given the swap dealer designation in crypto. And the spot side of the business is a lot more dispersed and globally and is also a much, much, much lower margin business generally. And that's shared not just by ourselves, Coinbase, other big intermediaries globally, but also exchanges, retail platforms and the like. And so that's how we think about the landscape.

Martin Toner

Very helpful Thanks very much. I'll pass the line.

Operator

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

Joseph Vafi

Hey, guys. Good morning. Nice to see all the progress in the business. Congrats on that. Just wondering here, three businesses all with growth drivers, lots of opportunity across all three, plus you've got a recent capital rate. Is there a way that you're thinking about where you are prioritizing investment across the three units, and I guess kind of how you prioritize which one of those three units may get more investment attention versus others, and then I have A follow-up. Thanks.

Chris Ferraro

Sure. Good morning, Joseph, appreciate you are joining. Yes, so where we've circled the capital to be allocated are in a couple places. And again, for us, this is somewhat dynamic. And we live and breathe and watch the markets every day and sort of reassess our priors often, as we should. But the places that we've focused on is, one, in the trading side, sales and trading side of the gold markets business. As we've said, we have seen a significant influx, early influx of demand, from bigger trading counter parties and bigger clients who want access to trade services, want positions financed, et cetera. In addition to that, the regulatory regimes, we are eyes wide open, proactively walking into to service these clients, both in the U.S. with swap dealer designation and internationally with different licenses, require an OpEx investment as well as capital requirements. And so that area of the business is one where we had the capital base to support BAU. We thought it was prudent to do a small capital raise to help supplement that based on the demand, the forward demand that we were seeing form at the end of the last year in the first quarter in that business specifically to support the growth.

And so that area of the business is one. Another area of the business, in our mining business, we have actually, even post-halving, we have a number of opportunities. We have an asset that we acquired that was deeply undervalued in our strong opinion. And it's still today not fully understood by market participants in the market in terms of its potential value. And so now the capital that goes into the mining business is a lot longer-lived permanent capital than capital that we move in and out of the market's business with demand. And so the decisions we make on the mining business are more permanent and as such we take a lot more scrutiny and have a lot higher bar to make investment decisions.

The opportunities we see now for the mining business and the Helios asset are very attractive and we think are our full cycle opportunities. And so part of the capital that we raised and the equity raise we've ring fenced to make the next steps we need to help grow the footprint at that asset in particular in the longer-lived, longer duration but high value in electrical infrastructure side of the business. And so that means expanding the substation at Helios which we've said now will give Helios the opportunity to expand its data center capacity by over 300 megawatts by Q3 of next year.

We also did a small acquisition of land to expand the footprint and all that looks towards both Bitcoin mining now that hash price has settled post-halving looks towards Bitcoin mining as being still a very attractive investment return on capital, but also speaks to a pretty early nascent opportunity that we're seeing, and have not yet formulated yet of, if you look more broader outside of crypto there is a somewhat insatiable demand that's already formed and is being executed on by the major hyperscalers thinking about the need for power to power data and data science in particular behind AI.

We ourselves are not committed to that business model yet but I will tell you the number of early stage conversations and interest level in the asset that we have, given that it is reliable electrical infrastructure at low cost and ready built, and in the process of expanding, is interesting to everybody in that market.

And so those are the two prime areas that we've allocated capital to today. Again, it's dynamic, but that's the most interesting return on capital for us right now.

Joseph Vafi

Sure, that's very helpful, Chris, and exciting to see those investments being put to work. And then just secondly, I know it's a little early days with DWS and those ETPs you're launching in Europe, but any real-time update there would be appreciated. Thanks a lot, guys.

Chris Ferraro

Yes, thanks. No real-time update there. The products are pretty early on in their launch. We just went out, rang the bell, and started sort of preliminary official launch on the marketing side there with DWS in region and those are going to take time to build interest and get distribution to proliferate across the pipeline.

Joseph Vafi

Great. Thanks Chris.

Operator

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

Owen Lau

Good morning, and thank you for taking my questions. Going back to regulations, could you please talk about your view on how likely the U.S. can pass a stablecoin deal this year? And Mike, you just talk about Democrats are finally waking up this week. Do you think it will increase the chance that they will support the stablecoin bill or bundle with another bill and tell the world that they are pro-crypto? And also, if you can also give an update on your AllUnity partnership and when you expect to launch your Euro stablecoin, that would be great. Thanks.

Mike Novogratz

On the regulations, there's a vote this week on SAB21, and I think that will tell us a lot in the Senate where that comes out. Apparently, Chuck Schumer has told people to vote your conscience, and so we'll get a sense of both how many Dems support it, and you'll have all the Republicans with how many Dems. If there are enough Dems, can it get through, and then we'll see if Biden vetoes it. That'll be the first litmus test.

I think there's a very, very remote chance. I put it at 15% that the stablecoin bill gets through this year, and even the market structure bill even less. We're in an election year. You're having a hard time getting Dems and Republicans to do much together. And while for us this is unbelievably important, and for a handful of senators and congressmen, it's important. Broadly, it just doesn't rise to the level of important enough for the mass of Congress to care enough about it.

Owen Lau

Got it. So any update on the AllUnity?

Chris Ferraro

No worries, I was going to hit that. So on the AllUnity side, we are driving forward there in partnership with DWS, Deutsche Bank, and Flow Traders to get the application together with BaFin to launch the business and launch the product through German regulation, which we think is the most robust and will be the most easily past portable (phon) throughout the entirety of the continent and is the right entry point and the right place to really build the foundation for a private euro-based stablecoin, regulated stablecoin.

We have hired and brought on and he has been spearheading the effort and awesome CEO, Alex Hoeptner, there. And he's doing everything that an early stage founder needs to do now to get the business running. He's driving the application process on the regulatory side with BaFin. He's attracting talent to the team and hiring the people we need to really execute on the plan. And so between him, ourselves and our partners, we're off and running there.

In terms of timing, the choice we made as a group with AllUnity was to launch a euro-stablecoin with fully MyCar requirements. And so that process is pretty much untapped and there aren't comps to it. And so timing wise, our expectation is that's likely going to be a 2025 event. We would love for it to be 2024, but working with BaFin to create a euro-stablecoin. That's going to proliferate throughout the entire continent, is not something that I think anyone takes lightly, but it is something that we think has a—is the right approach and has a shot of becoming financial infrastructure in Europe. And so all good things take their proper amount of time and investment.

Mike Novogratz

Let me chime in for one second because there was an alternative path, right, which was to go the unregulated version which you already see some out there. And just talking—and our partner is talking to the big corporates in Europe, I think the adoption from a payments perspective, from an Internet of Things perspective amongst big corporate players in Europe it's not going to really accelerate until you've got a Deutsche Bank bless or touch even like our compliant product. So we're taking the longer route that we think will lead to a much bigger pie versus launching an unregulated version of that, which is playing out there.

Owen Lau

Got it. That is super helpful. And then on your venture side, raising external capital, could you please talk about the LPs there? Have these LPs already invested in this space, or do you see new investors coming in? You also talked about the $150 million, $200 million market opportunity. Do you have any inspiration to go on how large the fund can be, and when can you get there? Thanks a lot.

Chris Ferraro

Sure. I'll hit the last one first, and then I'll go to the LP demand. So when we say $150 million, $200 million market opportunity, like, the worst thing we think you can do in investing, particularly with external capital is to raise too much and then feel compelled to have to put money to work. That's what big asset aggregators do. That's not what we think alpha generative asset managers should do. So, $150 million, $200 million is probably low, relative to what the market opportunity will be over a three year investment period. But the resurgence of the crypto ecosystem, the beginnings of a plethora of new use cases for blockchain and decentralized crypto applications are real, but they're nascent, and they're just picking up steam. And so, it's really hard to size the market the right way for two years forward, three years forward from an investment program perspective.

And so, we say $150 million, $200 million because we know that's an opportunity size, that if we take in LP money, we can put to work and make LPs a ton of money, given what we see today. That may change as the year progresses. If it does, then we will likely invest the capital a little bit faster than we thought into great positions, and then we'd resize and talk about sort of what the next leg for that opportunity set is. But we very strongly feel like, from a franchise perspective, sizing the opportunity on the small side incorrectly is the right way to generate alpha for investors, and that's how you build the right asset manager long term.

That's how we think about fund size for that. Sorry, I'm blanking on the other question, LPs. The other question on who are we talking to, the answer is a mix of both. We benefit from the fact that we've been in the business generally with LPs and talking with institutional LPs and allocators for five, six years now. We have investors who have previously allocated to our own passive products, Bitcoin Fund, Ethereum Fund, Index Fund. We have investors who have allocated to our interactive funds. We have investors who have allocated to our funded funds.

That pool of investors is one that we now can more quickly go back to, and because we've generated good returns for them, and we've done right by them, are more apt to very quickly make new decisions to re-up. And so that's like that the initial base that we go to. That's hundreds of high net worths and institutional allocators, and then we've also used the opportunity to engage in prior conversations from investors who haven't yet invested and new conversations. It's a pretty healthy mix. And venture exposure tends to be a place where risk forward, sort of thesis forward allocators and investors start to look and be interested and write checks because they know that that's where the best returns happen in crypto. And so, yes, hopefully that's some helpful texture.

Owen Lau

Got it. Thanks a lot.

Operator

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

Bill Papanastasiou

Yes. Good morning, gentlemen. And congrats on another strong quarter. I just have one question here. I'm hoping you can comment on what you think the adoption curve for tokenization will look like over the next few years. I believe it was Larry Fink that said that the ETFs were enablers for adoption. How is Galaxy positioning for this trend and do you see an opportunity to have a larger on-chain presence over time as momentum propels? Thank you.

Mike Novogratz

Yes, listen, I think tokenization is going to go slow until it goes fast. And I know that's a cheeky answer, but that's actually what I really believe. And you don't know where that inflection point is. I know we're closer to it now than we were last year. I know lots of our competitors in the trade fight space, this is what they really are freaking out about or are staying up at night thinking about as the world moves to more tokenization. So what are we doing, right. We have an effort. We're constantly looking at potential partnership. We are building our on-chain capabilities as fast as we can, both in trading and lending and everything else. And so by the end of the year, you'll see a significant, I think P&L impact from stuff we do on-chain that we didn't have last year.

That all prepares you for the day that you really start seeing bigger tokenizations. You haven't seen it yet is the reality. This BlackRock fund is pretty fascinating and we'll see how that pans out. But I know we're closer. And like I said in my early remarks, when I said this business is a little bit easier to run, it's not easy to run, it's a little bit easier because it really does feel like we crossed a rubicon in adoption of this whole idea of digital assets and crypto being part of the financial infrastructure of the world. I fully believe that. And tokenization is a big part of that.

Bill Papanastasiou

Thank you for the color, Mike. Thanks.

Operator

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

Mike Novogratz

Yes, guys, thanks for your time, your support. We are working really hard. We continue to think this will be an opportunistic year, a good year, but a year where we really need to build. And so I'm hoping this time next year we're looking at you guys with a much more robust firm because we had 12 months to work our tails off. Be well.

Operator

The conference has now concluded. Thank you for attending today's presentation. 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. This document shall not constitute a solicitation of a proxy, consent or authorization with respect to any securities or in respect of the domestication or any of the other proposed reorganization transactions.

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Statements that are not historical facts, including statements about Galaxy's anticipated use of proceeds from the capital raise, business pipelines for banking and Gk8, mining goals, focus on self custody and validator solutions and our commitment to the future of decentralized networks and the pending domestication and the related transactions (the "transactions"), and the parties, perspectives and expectations, are forward-looking statements. 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. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. 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 anticipated use of proceeds (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 March 26, 2024. 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