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Shareholder Update Conference Call

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C O R P O R A T E P A R T I C I P A N T S

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Rich Repetto, *Piper Sandler*

P R E S E N T A T I O N

Operator

Good morning, and welcome to Galaxy Digital's First Quarter 2021 Earnings Call.

Today's call is being recorded. At this time, all participants are in a listen-only mode. Following the formal remarks, we will conduct a question-and-answer session. Webcast participants can submit a question online directly through the webcast. Further instructions will be provided as Q&A begins.

At this time, I would like to turn the conference over to Galaxy's Investor Relations Team. Please go ahead.

Galaxy Digital Investor Relations

Thank you. Good morning, and welcome to Galaxy Digital's First Quarter Shareholder Update Call.

Before we begin, please note that our remarks today may include forward-looking statements. Actual results may differ materially from those indicated or implied by our forward-looking statements as a result of various factors, including those identified in our filings with the Canadian securities regulatory authorities, on SEDAR, and available on our website, or in future filings we make with other securities regulators. Forward-looking statements speak only as of today and will not be updated.

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

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

Michael Novogratz

Thanks (inaudible).

Listen, we're in a beautiful New York spring day, almost summer. Spring is about growth. Our earnings, our sector, our Company is all about growth. My job today is to kind of highlight some key level things that happened in the quarter, that are happening in our space, and I'm going to turn it over after that to Chris, Damien and Alex to give you the details, to fill in the blanks.

I don't want to bury the headline. Listen, \$860 million earnings for the first quarter, pretty spectacular, from what we've said. That's three times what we delivered in the fourth quarter, which we thought was pretty great. Our counterparty trading values grew 50% quarter-on-quarter, 290% year-on-year. Our Asset Management increased 58% on the quarter. Our largest and most mature business lines are now running at a profit. We're on track to continue the strength in the quarters ahead.

We've continued to rapidly grow our team, onboarding world-class talent at a staggering rate. Since last I spoke to you, we've added 30 employees, and now nearly 200 people across the globe, and that's pre-BitGo. By the time we integrate BitGo, we'll be 350-plus employees.

I said earlier this is about growth. We see this space as an unbelievable growth space. I'm going to talk a little bit about what I see. You know, it's easy to get buried in the volatility of the day. Elan Musk's Twitter comments, Bitcoin going down 4,000 points, and everyone starts running around like chickens with their head cut off. I don't want to miss the big picture, the big picture that is this space is growing. Total crypto assets right now are about \$2 trillion. That's a half-a-percent of global growth. All the trends we see have that heading towards 2% to 3% of global growth in the next 24 to 36 months. So, the expansion of our opportunity set is really, really exciting.

Where's that coming from? It's coming from institutional adoption as investors. We see hedge funds, insurance companies, pension funds, all walks of investors participating in this space at an accelerating rate, but we also see corporates and new companies building in the space at an accelerating rate, right? The tech companies are moving in, the banks, traditional investment banks all moving in. You can see that this quarter just by the acceleration of the Ethereum price. You want to talk about the big picture building blocks of what's happening. You have Bitcoin, that continues to be bought as a store of value by more and more institutional investors. That continues to be a strong thesis, especially with the monetary and fiscal backdrop that we have around the world. But, almost more exciting right now, you have this explosion of the Ethereum ecosystem, and ecosystems like Ethereum, where people are building the new generation of financial market companies—we call them DeFi. We're building the new generation of IP, creativity, art, collectibles and NFTs. In each of these spaces, we are well positioned, right? We've been investing in blockchain and DeFi from the very beginning. We've got a wonderful Investing Team.

Galaxy Interactive, with Sam Englehardt and Richard Kim, are real pioneers in the NFT space. We were literally investing in this two-and-a-half, three years, when no one else was, and so we have a wealth of knowledge and a portfolio of wonderful companies that are benefiting in this space. I would tell you stay tuned; we're going to have a big announcement in the next few weeks, but we think this is going to be a big part of the future.

When I add it all up and I see what else is happening, you've got Coinbase's listing, the institutionalization of this space is happening. We are well positioned, and we feel like we're in the middle of it, and so I couldn't be more bullish. Our Company, I couldn't be more bullish, and the overall space.

Before I turn it over, I also want to talk about two senior additions we have.

We've announced this before, but I want to highlight Michael Daffey, who had been the Chairman of Global Markets at Goldman Sachs, is joining us in September as the Chairman of our Board. I think that's important, because Daffey is probably—has been, probably, the best client guy on Wall Street for the last 25 years. By bringing him in, we wanted to be loud and clear that we are a client-first merchant bank for the 21st century, and we think his relationships, his judgment, his energy is going to do nothing but help us.

We also are bringing in Erin Brown, who will be joining as our COO, effective immediately. Erin has great experience, recently serving as the Chief Risk Officer at Jump Trading. When we think about BitGo, we think about building our business this fast, Erin is really going to be the Chief Integration Officer. As we put this stuff together, we need someone with expertise, her acumen, and so couldn't be more excited to welcome Erin, as well.

With that, I'm going to turn it over to Damien, Co-President and Head of Capital Markets.

Damien Vanderwilt

Thank you, Mike. Good morning, everybody.

I'd like to start by extending a warm welcome to Erin Brown. I can speak for Chris, I know, in saying that we are both delighted to have her part of the Executive Team, and to work with us in this period of hyper-growth in the Company.

Today, I'd like to focus my remarks, really, on three key areas: the key industry trends and client discussions we're having, a strategic overview of the BitGo deal, and an update for our Asset Management and Investment Banking businesses.

I've spent the last few months with our business leaders and clients, learning about their goals, pain points and ideas, really, with an eye towards scaling the Galaxy platform. The biggest news, I would say, on the client discussion front is the shift from "How do we get into crypto?" to "What more can you offer me in crypto, now that we're here?" Some of the client trends we've been predicting for the past year are now really coming to fruition. Clients who started out just trading in Bitcoin looking at more (audio interference) into the crypto space and using us as a thought partner for how to achieve this positioning across markets, asset management and investment banking.

Growth equity and strategic capital is making its way into the sector quickly. It's beginning to appear now as several Series A rounds. Valuations are at significant highs. Some clients are coming to us to play catchup, noting that they are really underweight crypto and asking for guidance on how to get proper exposure sensibly. Our Investment Banking business is also seeing increasing inbounds from crypto companies, companies in our sector, who are actively pursuing M&A or SPAC combination strategies. Our growing Sales Team is connecting clients to Galaxy products and teams to meet this growing demand to varying degrees of crypto exposure, and I'm excited to report a marked uptick in requests to net new products from existing Galaxy customers. Chris and I'll share some examples across our business lines later in our remarks today.

Our initial feedback from clients is that they are absolutely thrilled with the addition of BitGo and how it will allow them to get the benefits of BitGo's offerings, while remaining a client of our firm at Galaxy. For some clients, particularly hedge funds, being able to transact prime and custody digital assets with the same firm is preferable and valuable. Other clients will prefer to diversify where their digital assets are custodied. We can now do both and provide clients with the combination of products and services that exactly fits their needs.

Speaking of BitGo, and before I jump into some highlights of our operational performance, I want to spend a moment reiterating some of the strategic and client benefits that the BitGo acquisition will bring.

First off, a combined client base which supports Galaxy's robust, long-term growth through cross-selling opportunities. BitGo alone is going to add 400-plus net new clients to Galaxy on day one, representing a huge opportunity for us to cross-sell our wide Galaxy offerings into the BitGo client base, and, of equal importance, to sell BitGo products to our existing clients at Galaxy. This transaction solves a frequent friction point for Galaxy clients, providing a scaled, reliable custody product that doesn't require these clients to look outside of our doors, and we're adding over 10 experienced sales leaders to our institutional sales team globally.

Secondly, adding BitGo enhances both our product innovation and our development capabilities. After this deal closes, we'll have a staff that's a lot more balanced between technology and finance expertise. Roughly, 50% of BitGo is R&D and engineering personnel. Mike Belshe also brings significant technology experience and credentials to the combined company, and we're adding a West Coast presence via BitGo's Palo Alto headquarters.

Third, post-close, we're going to be able to tell clients that they have the option to custody where they transact, which is a request our clients have made frequently. We think this could really well be the lynchpin to mainstream digital assets for institutions. All that being said, we will continue to support all our current custodial relationships and allow our clients to custody with any onboarded and approved external custodians that they would choose to do so.

Now, turning to our business units, I'll provide an update for our Asset Management and Investment Banking segments, and Chris will provide updates on Principal Investments portfolio, Trading and Mining.

Beginning with our Asset Management business, we continue to see strong demand for both passive and active exposure to cryptocurrencies, and we remain committed to providing affordable and diversified portfolio solutions for investors seeking exposure to this asset class. We saw significant net inflows into our funds since we last updated you, as we recently reported our assets under management grew to \$1.6 billion as of the 30th of April. To give a sense of drivers of that growth, approximately 37% of the increase in AUM year-to-date is attributable to net inflows. In fact, we had nearly as much in year-to-date inflows as we had in assets under management a year ago.

We launched the CI Galaxy Ethereum ETF on the Toronto Stock Exchange, which is the world's first ETF to invest directly into Ether. This ETF is designed with our clients' and the industry's needs in mind, as a convenient and expedient way to gain exposure to Ether, the cryptocurrency built on the Ethereum blockchain, through an institutional quality platform. To date, this remains the largest E3 ETF in the world.

We also saw notable inflows into Galaxy Fund products during the first month of our partnership with Morgan Stanley, which we announced last quarter.

Turning to our actively managed fund solutions, the Galaxy Interactive Fund has seen some significant financing rounds in their Fund I portfolio companies, providing healthy uplift to market positions across numerous names. Building on the successful deployment of Fund I, we're excited to announce today an initial close on \$80 million of capital into the Galaxy Interactive strategy, which will accelerate our ability to invest more in the intersection of blockchain technology and interactive content.

Moving now to our Investment Banking Team, who have successfully converted a number of exciting mandates recently. When I spoke to you last quarter, we shared the team has increased client coverage to over 90% of the target universe. I'm now proud to share details about some of the key activities we are working on in the advisory space.

The team is heavily involved in two separate SPAC transactions within the crypto space and as an advisor on a large M&A deal. We're also working on a significant late-stage capital raise for a well known, large crypto player, which we'll be excited to share more about in subsequent calls.

Last, but not least, our Investment Banking Team provided some invaluable internal support for our BitGo transaction.

Overall, I'm really excited by the growth I'm seeing in our Asset Management and advisory businesses, and the infrastructure both Steve and Michael and their teams are building to support future growth.

Before I turn the call to Chris, I'd like to leave you with a few points about Galaxy's strategy going forward.

Our notable addressable market is expansive and growing quickly, bolstered by increasing institutional demand and a significant serviceable TAM, as discussed during our announcement of the BitGo acquisition, but the industry is still nascent enough that the sophisticated infrastructure institutional investors demand isn't yet widely offered. Our clients are asking for next-gen technology that can adequately handle sophisticated needs safely, but that's also tailor-made for crypto. When we close on BitGo, clients will have the option to custody where they transact, and Galaxy will own the entire client lifecycle of transacting and holding digital assets. This is transformational for both Galaxy and BitGo's clients, as all current Galaxy clients and the over 400 net new BitGo institutional clients will have access to a one-stop infrastructure and financial services provider with critical institutional-grade security and functionalities.

I'd now like to turn the call over to my Co-President, Chris Ferraro, who will walk you through some of the investment trends we're focused on, additional business details, and some more color on the BitGo acquisition.

Christopher Ferraro

Thanks, Damien.

Before jumping in, I want to spend some time on the BitGo transaction and what it means for Galaxy. Damien highlighted some of the strategic merits and I'll hit on some of the financial impacts, but remember, Galaxy plus BitGo means we can now deliver increased value to our clients with a comprehensive suite of solutions covering the entire ecosystem.

As a reminder to the transaction details, we're acquiring 100% of the outstanding shares of BitGo in a stock and cash deal with an implied value of US\$1.2 billion, based on Galaxy's closing share price on May 4, 2021. The purchase price reflects the strength of BitGo's technology-focused, reoccurring revenue business model and the strong growth prospects we see for our combined businesses.

The cash portion of the purchase, we funded using Galaxy's balance sheet, and we will issue incremental common stock to acquire BitGo's net digital assets at closing. The transaction is expected to close in Q4 of 2021, subject to regulatory approvals, approval of our domestication to the United States by Galaxy shareholders, and other customary closing conditions.

Turning to BitGo's financials, this deal diversifies Galaxy's business with the addition of revenue streams that are significantly less correlated with digital asset prices. About 75% of BitGo's revenue is reoccurring in nature, in the form of contractual monthly fees based on transaction volume through wallets, average assets under custody, and other ancillary recurring services, with monthly minimum fee requirements in some cases. We will also benefit from the roughly 50% of revenue coming from clients abroad.

BitGo has demonstrated a strong ability to build a high-value, reoccurring revenue customer base and grow assets under custody through its core wallet and custody services technology, as well as grow key new lines of business. In its institutional custody business, sitting with over \$40 billion of assets under custody, which they've now grown 150% this year alone, BitGo is one of the largest crypto custodian providers in the market. While that progress includes asset price appreciation, new inflow clients accounts for over 50% of that growth over the prior year.

We're also really excited about BitGo's more nascent cross-over product offerings, like Prime Lending and Trading, which we believe will fit well within Galaxy's Institutional Trading and Lending offering on day one, and additional platform services, like BitGo's portfolio and tax products, will be excellent value-added offerings for clients as we progress to build our single-dealer platform out.

I'd now like to spend some time walking through the performance of Trading and Investing businesses and share some of the specific opportunities and trends I'm seeing across the space.

Our Trading business continued the momentum we reported last quarter, resulting in yet another record quarter across all our key operational measures, including counterparty trading volumes, the size of counterparty loan book and gross counterparty loan book originations. Counterparty trading volumes were up over 50% quarter-over-year in Q1, and nearly 300% year-over-year from Q1 2020. Our Lending business continues to be a source of strength and we've added multiple sophisticated clients in the past months. In the first quarter, our Lending book grew in excess of 290% over the previous

quarter to approximately \$440 million, and our gross counterparty loan originations grew over 500% to approximately \$670 million.

Just to give you line of sight into activity to date, that dramatic growth in our loan book has continued through April of this year, and I'm thrilled to share, inception to date, counterparty loan originations are now well over \$1 billion as of last week.

We're also excited to see multiple bespoke lending deals live over the last few months; notably, a partnership with Hut 8, and multiple long-term credit facilities for our clients across the globe.

Turning to derivatives, under the leadership of Rob Bogucki, who joined us late in 2020, and has been working side-by-side with Jason Urban in building out the Franchise Trading business, we've more than doubled client-facing derivative trading volumes over the previous quarter, and we're seeing strong demand for hedging and volatility management strategies on the derivatives desk. The demand for hedging strategies has migrated from just Bitcoin and Ethereum-based to DeFi and names like Uniswap and Solana.

Also, I'm thrilled to share we onboarded over 100 new clients to our Trading business in the quarter and increased the number of tokens we make markets in to over 90. We believe this scale and scope will continue to offer our clients unparalleled access to liquidity and bespoke hedging strategies for nearly all the tokens they hold and want to transact in.

This quarter, the Trading business' income increased to \$509 million, excluding additional unrealized gains and other items of an additional \$162 million of income, versus a loss in the prior year.

Moving to our Principal Investments business, we've continued to invest in the most compelling opportunities across the DeFi and blockchain ecosystem, now holding approximately 80 investments across 60 portfolio companies. In Q1 of this year, our team made 12 new investments, including Bullish Global, Radical, Growth Labs, Komainu, Hashrate, Ancor and TaxBit, as well as an add-on, pro rata, into Fireblocks' Series C, to just name a few.

We remain focused on ensuring that not only are we out in the marketplace and gaining access to all the most cutting-edge cryptocurrency and blockchain network projects early, but that we can also provide a value-add above and beyond just capital to these founders and teams.

Investing into network protocols is not just about capital deployment. There is no such thing as set-it-and-forget-it in crypto. We believe that investors also need to be community builders, contributors and, most importantly, participants in this new world, and so, to that end, we are currently in the process of significantly expanding our Principal Investments Team to include a diversity of talent and background experience across fundamental investing, software engineering, data analytics and advanced mathematics.

Finally, as we mentioned during our Q4 earnings, the team successfully realized a \$125 million liquidity event this quarter from one of our portfolio companies.

Now, turning to Mining, where the team has had a busy quarter. As we shared last quarter, the team closed their first two mining finance deals for two separate North American miners. The deals were structured to provide clients with mining project and equipment finance needs, as our clients were struggling with procuring next-generation mining devices from Asia due to high down-payments, ranging from 50% to 100%, and significant lead times.

We were also excited to announce our partnership with Hut 8, one of the largest Bitcoin mining players, on a tailored lending deal that will enable Hut 8 to earn yield on a Bitcoin on their balance sheet, while simultaneously minimizing their fee out

expanse, by providing access to a US\$20 million credit facility. We look forward to offering more bespoke deals to clients, like Hut 8, in the future, demonstrating the synergistic ability of Galaxy to provide access and offerings to the unique needs of all infrastructure investment players in the ecosystem.

And, of course, we continue to mine Bitcoin on a proprietary basis, and continue to do so at a significant discount to spot, mining at a greater than 80% discount to fair market value in the quarter. I'm excited to share that we have forward purchase commitments that we expect will allow us to achieve mining capacity of just shy of 2,000 Petahash, with monthly deliveries slated through the end of 2022, which is in excess of 1% of the total Bitcoin network hash rate as it stands today.

With that, I would now like to welcome Alex to his first earnings call with Galaxy and turn it over to him to walk through the specifics of our financial performance. Alex?

Alex Ioffe

Thank you, Chris. It's good to be here.

Some of what I say will be a repeat, but we think these are important measures.

Galaxy had a record first quarter. We earned \$860 million in the three months ended March 31. This was the second consecutive record-setting quarter for us, as we earned \$336 million in the fourth quarter of last year. In this quarter, each of our product lines set new records, as Mike, Damien and Chris already described. However, profits in the quarter came predominantly from our Trading segment. The gains were driven by higher digital asset prices during the quarter, as well as performance of our proprietary and counterparty trading desks. In addition, in this quarter, we realized a gain of \$155 million from Principal Investments, primarily driven by one investment that came to fruition. Our portfolio of investments continues to grow, with 12 new investments in this quarter. Currently, we hold positions in 60 companies, which we expect to gain value over time.

Turning to expenses, operating expenses for the quarter were \$130 million, compared to \$50 million in the same period last year. As Mike mentioned, expenses increased from the year-ago quarter, reflecting our growing employee base. However, most of the increase was from setting aside a larger amount of discretionary equity and cash-based compensation. We determined this amount as a proportion of profits. To be fair, this is not a set parameter. We plan to make adjustments to this allocation as we go through the year, depending on market conditions and the absolute total set aside for the bonus.

As a result of our strong profitability, we also recorded \$48 million in tax expense as a public company corresponding to the share of income allocated to the public holders at the relevant corporate tax rate.

Finally, balance sheet. Our equity grew to \$1.7 billion at the end of this quarter, up from \$800 million at the end of last year, giving us flexibility to take advantage of market opportunities.

Now, back to the moderator for questions.

Operator

Thank you. We will now be conducting a question-and-answer session. One moment, please, while we poll for your questions.

Our first questions come from the line of Joseph Vafi with Canaccord Genuity. Please proceed with your questions.

Joseph Vafi

Hey, everyone, good morning. Congratulations, and thanks for taking my questions. Maybe I'll start one kind of more on an operational and go-forward basis. I know you mentioned the counterparty loan book growing nicely and growing again in April. What does the addition of BitGo do to that part of the business moving forward, in terms of now being able to custody in-house, relative to lending and counterparty loans? Thanks, and then I have a quick follow-up.

Christopher Ferraro

Yes, thanks for the question, and great to have you on the call. This is Chris here. The most immediate and simple answer for us in the combination is BitGo has over US\$40 billion of assets under custody with clients who currently today, while they interact also with BitGo's lending book, don't have a product tied to direct access for yield, for example, on their assets, and so our near-term opportunity, that makes the most sense in the world, is to offer up to their custodial clients access to different types of yield strategies, one of which would be participating with our lending book and getting yield on their assets. For us, that's a huge well of client demand that we're not currently accessing today. Even BitGo is not really fully monetizing it.

Joseph Vafi

Okay, that's helpful. Then, at a high level, when we kind of think about some of the different digital currencies out there—if Mike's still there on the call—how do we think about Ethereum being kind of a store of value? Clearly, Bitcoin is a store of value, but if the Ethereum network continues to gain value, and part of the value of any digital asset is the underlying blockchain itself, does Ethereum become a store of value, as well as Bitcoin, and other digital assets are used for other things? Just some thoughts there at a high level. Thanks a lot.

Michael Novogratz

I think Ethereum is better thought of as a network, network effect. So, the more people that build on it, the more people that build on top of it and use it to be the base layer of trust for their transactions, the more valuable it's going to be. It's hard to differentiate where store of value switches to use, right? It's going to get its value because it's used, and it's going to be used a lot. I think there's not an easy mathematical calculation on how to value it is, and so I would probably say we think of it as network effect and not just pure store of value, but it would be naïve to think people don't want to put some value in. Think about it, you could have bought into the Internet, bought into the base level of the Internet, you're storing some of your money there, just like you store it in Google. But I don't see it the same as gold.

I know it's kind of a wishy-washy answer. Gold is the only element on the periodic table that really just gets valued because there's a social construct that says it's valued, and I think Bitcoin has that space in the crypto universe. I don't think Ethereum would be where it is today if it wasn't for all the DeFi being built on it and all the NFTs being built on it, all the Stablecoins, and Central Bank issued digital currencies, that I think could be built on it. So, it really becomes the Web 3.0.

To be clear, there are competitors to it, there's lots of them, right? I call them BINOs, blockchains in name only. They are less decentralized than Ethereum and, therefore, much more efficient and faster right now. So, there's a grand experiment going on with lots of other ecosystems and there's going to be—this debate is not going to get settled in the next six months, or even a few years. Tons of innovation is happening around ecosystems, like Solana or Terra or the Binance Smart Chain, which, quite frankly, don't have near the decentralization that Ethereum does, but we'll see what the consumers demand. I think, in the long run, regulators and consumers will demand a very decentralized blockchain. So, my thought is, even

though these other blockchains are flourishing, they're going to either have to figure out how to decentralize or tie into Ethereum at one point.

I think that whole ecosystem really isn't just store of value, it's where the growth of the financial system is going to happen, but if you look at the market cap now, at \$400 billion, it's really hard to do a discounted cash flow model to get you anything close, and so you have to assume that there is a lot of—we're in this transitional state, going from a non-blockchain world to a blockchain world, and so there is certainly store of value as part of the formula right now.

Sorry if that was a convoluted answer.

Joseph Vafi

No, no, that was helpful, Mike, I get it. It's moving, it's evolving fast. It's not just store of value, it's the actual blockchain itself. There's going to be competitors. There's going to be a lot of thought as to how it evolves, but it's going to evolve somehow. That's helpful. Much appreciated, Mike.

Michael Novogratz

Thanks.

Operator

Thank you. Our next questions come from the line of James Friedman with Susquehanna. Please proceed with your questions.

James Friedman

Hi, thank you for taking my question. Chris, in your prepared remarks, you talked to the recurring revenue attributes of BitGo. I was wondering if you could revisit that, elaborate on it, because I wasn't sure, intuitively, why it's so recurring.

Christopher Ferraro

Sure. BitGo's most mature business lines, that make up over 75% of the Company's revenues—and we're working towards, and will have, more detail and disclosure around BitGo and Galaxy and what BitGo and Galaxy look together combined as we go here in the next couple of months. Those business lines, the Company generates revenue in a couple different ways.

One way most pertinent is the Company has contracts with clients that are, in some cases, single-year, in some cases, multiyear in nature, that generate monthly recurring fees, that are driven by a percentage of value transacted through BitGo's wallets, but those transactions also have minimum monthly fees associated with them, as well. So, there's a recurring revenue nature to the business model, as well as—the way we think about it is a sort of kicker to the upside, depending on volumes, which are denominated in dollars, and also correlated with price on the upside. So, you're protected on the downside and benefit on the upside, just from a revenue model basis.

The same thing on the custody side, we think about it more as reoccurring revenue, in that our custodial clients there don't have necessarily long-term contracts, but, certainly, we view those assets, generally, as sticky, and the revenues are generated on a monthly basis and are driven by the total value in custody.

Is that helpful?

James Friedman

Yes, that's perfect, that makes sense, and if you don't mind, if I could ask one more. If you guys were to isolate just a couple of KPIs that you use to run the business—and I realize saying “the business” may be too general, because there's a lot of businesses here. But, yes, I mean, for someone in our seat, if there's a couple of things you could boil it down to, what should we be looking at?

Michael Novogratz

It's a good question. To some degree, we are correlated to the growth of this whole ecosystem, and so you can look at the total market cap of crypto assets. I'd like to think as that grows, we grow faster, that our economies of scale and our first-mover advantage and the knowledge base we have should let us continue to take a bigger share of the market. But, I think, first and foremost, this is a growth industry, and so I would look at total crypto market cap as the primary—you know, because we're playing it in so many ways. We're playing it as a primary investor, so a lot of our near-term big wins are going to come from these bets we make in the DeFi space, because we're making really early bets, and as those things mature, they mature fast, those are big wins. Our more stable, longer term money is going to be connecting to all these institutions that are slowly getting involved, and it takes time to get them involved. They start small, they have to get onboarded, they've got to get comfortable, they've got to get their risk management systems in place, and so we're making a giant investment in connectivity to those organizations. That's salesmen, that's operations, that's risk.

But, if I'm right on my assumption that we're going to go from \$2 trillion of total wealth in the space to three or four times that, all of those businesses should really grow. If I'm wrong and if we're sitting here next and that's a \$1 trillion number, we're going to have looked a little bit overly aggressive in hiring as many people as we're hiring, right? We are making a growth bet.

Maybe it's too macro of an answer for you, but I think that's the easiest way to think about the Company.

Internally, we have so many different pieces kicking and we're hoping that gives us a diversity of earnings. Normally, when the markets have a down day, our arbitrage businesses have a good day, and so we're trying to build in both long-term and short-term diversity of earnings to create some stability, but when you're trading in instruments that are 80-vol, 90-vol, 100-vol, I don't want to mislead people to think that our earnings are going to be as stable as more traditional businesses. We are in a really high-growth volatile industry.

James Friedman

Got it. Thanks for that.

Operator

Thank you. Our next questions come from the line of Rich Repetto with Piper Sandler. Please proceed with your questions.

Rich Repetto

Yes, good morning. This question is for, I guess, Michael. You mentioned—I believe you mentioned regulatory issues earlier, and I'm just trying to understand. In the U.S., you have a new head regulator, the Chairman of the SEC, Gary Gensler,

who's thoroughly familiar—I believe he's thoroughly familiar with blockchain and Bitcoin. I believe you know him pretty well, as well. I guess the question is what regulatory changes could come out to increase the adoption, or not, and what are you expecting from a regulatory stance, I guess, and some of the specifics, as well, that might benefit the space?

Michael Novogratz

Yes, it's a great question. Listen, I think, first and foremost, which is going to be helpful, is just clarity, right? The old SEC had Jay Clayton, for whatever reason, didn't really want to engage in crypto. He didn't completely disengage, but there were plenty of things that he just passed on, and I think Gary will address those.

The most positive thing could be a regulatory sandbox for smaller projects to get started, without the same safeguards that larger projects would have. That's where innovation happens. I think everyone's pushing for some form of that.

There's going to be clarity around an ETF at one point. I'm almost certain that at some point in the next 12 months, we will get an ETF, and I think that will help retail adoption.

There's a lot of wonder on what is decentralized enough for the SEC not to think of it as a security. They've already said Bitcoin is in that bucket, and Ethereum is most likely in that bucket—well, they said Ethereum is in that bucket. But, there are lots of other projects, are they going to be seen as securities or not securities. So, just tighter definitions.

I think, listen, in lots of ways, the institutional market will benefit in a big way from clarity from the SEC. It allows you to know what bets to make, should you build offshore or onshore. Right now, our uncertainty is pushing lots of people to develop things offshore, which isn't good for the U.S. in the long run.

He's only been in the seat for less than six weeks. Give the new administration six months and I think we'll have a lot more clear rules.

Rich Repetto

Okay, and one other follow-up, I guess, more broad, as well. You have Coinbase public. They do some of the—it's certainly not as—I don't believe it's broad and has as many business lines as you all, but do view them—they certainly do custodian and have an institutional focus. Do you view them as competitors? Do you sort of view them as helping to grow the space, I guess?

Michael Novogratz

Yes, the interesting thing about the whole community of people that operate in crypto is all of us were kind of frontiersmen and it has been this collaborative/competitive environment. Coinbase has mostly been focused on retail. They are moving more and more into institutional, but they were retail-based business, right, they've got an amazing brand that pulls in tons of retail investors, and we've been focused almost solely on institutional. But, listen, we'll compete with them in some things and we'll collaborate with them in some things, and I think that's the spirit of the crypto community, in general.

Like I said, none of this is going to work for any of us if a year or two years or three years from now the overall market cap of the space is a lot lower, not a lot higher. I think Brian Armstrong at Coinbase and all our competitors/collaborators are making the same bet, that this crypto revolution, this shift to a blockchain-based ecosystem is happening, and it's going to happen at an accelerating rate.

I hope that's not a wishy-washy answer for you. That's the way we think about it.

Rich Repetto

No, understood. Thank you very much, very helpful.

Operator

Thank you. I would now like to turn the call back over to Galaxy's Investor Relations Team for any webcast questions.

Galaxy Digital Investor Relations

Thank you. The first question we're getting from the web, "Chris, you gave some good detail on the investments made through the quarter. Any trends that you're seeing or large liquidity events that we should be expecting going forward?"

Christopher Ferraro

Sure. Trend-wise, I would break it into two different buckets. The sort of centralized crypto infrastructure businesses, custodians, wallets, exchanges, centralized exchanges, that side of the business, we're seeing big players break out in terms of both performance and valuation, and consolidations on the lower end. We have a number of companies in our portfolio that will likely get consolidated and bought and rolled into bigger platforms, and we're seeing it pretty widely across the space. As you guys have seen, we are likely to be a big player in that, as well, and we're very focused on it.

On the decentralized side, our team is spending most of their time on the sort of forefront of new technologies in building Web 3 and decentralized finance. The trends we're seeing there are rapid, rapid, rapid, higher pace of development, capital investment, and proliferation of new technologies. Whether it's figuring out how to bring in real world data through oracles unchained, whether it's creating bridges that allow cross-chain compatibility, all of those different kinds of automated market-making technologies that function as decentralized exchanges that allow for quick peer-to-peer transfer of value, all of those different technologies, which some are in test phase and some are actually launched commercially and being used at increasing scale, is what our team is focused on.

Like I articulated in my comments, the most important thing for us to focus on is not about us just finding those projects early and committing capital to them, but having the full force and weight of the Galaxy team, our expertise, behind supporting those projects, actually getting in and helping develop where we can, participating on network, and being community builders for those projects. That's where the real value-add and the real gains are going to be made for us, we think, and for the whole industry.

Galaxy Digital Investor Relations

Great, thanks, Chris. We just got another one in here. "Is there any comment that you guys have around tweets and news flow impacting the recent price of Bitcoin, and then the volatility related to that? Does it have any impact on our fundamentals and the overall crypto industry, beyond Galaxy Digital, and would you expect it to be part of the crypto development going forward?"

Michael Novogratz

Listen, sure. I mean, crypto grew up, in some ways, on Twitter. It's where information is passed. It's where communities are built. So, I think Twitter will continue to be a big part of the crypto ecosystem.

Elon Musk has caused a lot of volatility in the last few weeks, certainly in the last few days. The way I take it, and look at it, is to take the guy at face value. He pointed out that with the growth of Bitcoin comes the growth of electricity use, with the growth of electricity use, it means not all of it is going to be green, and he wants to see the Bitcoin universe and the overall electricity universe migrate to more green sources. Now, he's got a vested interest to do that, he's well invested in green, and so I think there's too much conspiracy theory stuff going on in the market right now.

I do think you're going to see an ESG response from the crypto community, specifically, around Bitcoin, but all crypto, knowing that all companies need an ESG response. Every single industry is moving towards some carbon neutral 2040, or carbon neutral 2050, or carbon neutral at some point, and I don't think our industry will be any different. I think it's unfair that—to point out one reason Bitcoin particularly gets criticized for electricity use is that it's very clear about exactly how much it uses. If I told you that YouTube uses as much as electricity, or more, you'd kind of scratch your head, or hairdryers, or all kinds of things.

I do think I would have rather had those comments pointed at the power business, in general, but I think it's going to be here to stay and we're going to address it as a company, address it as an industry. I don't think it's long-lasting damage. I think it's caused short-term volatility. I do think the fundamentals of our industry are so strong and accelerating, that some of this stuff is meant—is expected to happen, right? When you get so much capital flowing into the space, people get too long and then they get scared for something, and so we're not going to go from being a volatile space to a non-volatile space overnight, it's going to take years.

Anyway, long answer.

Galaxy Digital Investor Relations

Fair enough. Next question from the web is, "Could you speak more about your Terra (LUNA) partnership?"

Michael Novogratz

Yes, listen, we invested in Do a while ago. I met him years ago in Korea and didn't invest the first time, which was a mistake, and luckily got invested—I don't know how many months ago now—seven months ago, or something, maybe eight, and was just impressed. He's one of the most impressive young CEOs in the space. He's built an amazing ecosystem. I like the CHAI payment system. It's kind of one of the first examples of crypto being used beyond kind of the crypto sandbox. There's a real-life use application in Korea for payments. I haven't kept up, but the last I saw, I think it was like 7% of all payments, and the payments get processed in six seconds, as opposed to six days. So, consumers are enjoying using a blockchain-based system, better than the system they were using before. He's an innovator. We're supportive of stuff he does.

But the world is kind of simple in some ways, right? When you bet on someone and they make you money and they build something great, you want to keep betting on them, and we're hoping, in each of these cases, that we provide value to those ecosystems. We provide value though our investment expertise, and some advise, we provide value by using their products, by promoting their products, by shining a light where other people might not see them, and so we think there's a symbiotic relationship with all the guys we invest with.

Galaxy Digital Investor Relations

Great. The next one is a follow-up from Owen Lau, Oppenheimer. “Do you think Ethereum 2.0, Lightning Network and sharding can be a cleaner option in crypto?”

Michael Novogratz

Again, it’s an interesting question. In some ways, Bitcoin is supposed to—if you think about Bitcoin as a store of value, which is \$1 trillion, hopefully going to \$4 trillion, \$5 trillion, \$10 trillion, who knows, it’s supposed to be expensive to secure, right? If it wasn’t, I’d be scared. I think the bigger question is how do we get—and this whole energy of clean, like, the whole question of clean, we’re going to see most electricity usage move towards green in seven/eight years, only because it’s going to be, by far, the cheapest, right? People still migrate to cheap electricity. I think, in the interim, you’re going to need to see stopgap measures, if it’s carbon segregation, carbon credits, or some version of that, like you’re going to see with every industry, not just our industry. The faster processing ecosystems are certainly going to be part of the solution, 100%, but I don’t think we should steer away from, and shy away from, the fact that this is a really important new industry and it’s going to use a lot of electricity, just like all important industries do.

Galaxy Digital Investor Relations

Thanks for the question there, Owen. The last one we have here in the queue, “Any comments or progress to speak to on blockchain NFT-related gaming company investments from Galaxy Interactive?”

Michael Novogratz

You know, just that it’s one of the most exciting parts of our portfolio. I was actually out with, I guess what I’d call the founder of the NFT, yesterday morning for brunch, a guy named Eric Fuller, who we’ve invested with for a long time, and it’s just such an exciting space. That Galaxy Interactive portfolio has, I don’t know, 40/50 investments in it, sprinkled all around that ecosystem, and so I expect that to be a big contributor in the future. They are adding to the assets they manage. We’re putting stuff both on balance sheet and in third-party managed funds in that space. So, I couldn’t be more excited about that.

Galaxy Digital Investor Relations

Great. That concludes our Q&A. I’ll now turn the call back to Mike for closing remarks.

Michael Novogratz

Guys, I just want to reiterate two things. One is I’m unbelievably grateful for the hard work of the Galaxy team and the BitGo team out in California, and where else they are. The last five months has been an unbelievable pace for our industry, but certainly for our two companies. I’m bullish on this space, I hope it comes loud and clear, that we see ourselves as a growth company. We’re going to continue to invest in this space, both with our own capital and other projects, but in our company, and look forward to seeing you guys, or talking to you guy’s next quarter.

Operator

Thank you for your participation. This does conclude today’s teleconference, you may disconnect your lines at this time. Have a great day.