

# EDITED TRANSCRIPT

GLXY – Galaxy Digital Holdings Ltd

Second Quarter 2023

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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## C O N F E R E N C E C A L L P A R T I C I P A N T S

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

### Operator

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

Today's call is being recorded.

At this time, I would 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 Second Quarter Earnings Call.

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



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

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

**Michael Novogratz**

Guys, good morning. Listen, the second quarter, the results are out and they're kind of what I expected, in a quarter where the crypto prices went down and back up. That's not really the news I want to talk about.

I would tell you, when we were leaving the first quarter, I jokingly said I went to bed every night and said prayers asking for four things, right? That the Fed would be closer to ending their tightening cycle and starting an easing cycle; that an ETF would be approved; that Ripple would win its case; and that Binance would settle with regulators.

On three of those four dreams, or wish list items, we've made great progress. The Fed is closer, maybe they raise one more time; I don't think they do. China's economy's slowing, our economy's slowing. I think we're probably in a rate cut cycle early next year, which is very supportive of Bitcoin, but all of crypto.

The news of both BlackRock filing the ETF and, quite frankly, Invesco plus Galaxy, we're going to fight like cats and dogs to win market share there once it gets approved. It's a big, big deal. It's a big deal because both our contacts, from the Invesco side and from the BlackRock side, gets you to think that this is a question of when, not if. That the outside window, this is probably six months, and so you're getting your four to six months if you had to pin the tail on the donkey on it, that, the SEC's going to approve a Bitcoin ETF.

It's significant that Larry Fink, who runs the largest asset manager in the world, BlackRock runs \$7 trillion, is out, having been orange-pilled, talking very positive about Bitcoin and the crypto universe, Bitcoin as the first global money. That's a huge change of heart from where he was five, six years ago, but where the institutional world was. I think once we get this ETF in, it just makes it very easy for people to make large allocations into the space.

The Ripple case is a big deal. It's a big deal mostly because the SEC and Gary Gensler has been saying over and over, "Hey, the rules are clear. Just come in and register, the rules are clear." A federal judge made it really clear: the rules aren't clear. They're nothing close to clear. What I think happens there is, it forces—and I'm already seeing it. We're seeing it in D.C. It pressures the Democrats to finally come to the table with the Republicans and try to put forward some legislation to give us clarity.

If I had thought there was a 10% chance of legislation getting done, pre-election, before this Ripple case, I think it's got to get up to at least 35%, 40%, but lots of momentum there.

It also emboldens the crypto community. The one thing about our broad community, it includes our own employees in the Galaxy world, is that this is a very, very resilient group of people. There was a Chumbawamba song in the late '90s. "I get knocked down but I get up again." That really is, I think, the ethos of crypto. This was a revolution started by people who didn't believe fully in centralized systems, and aren't going to be pushed away easily.

I think what heartens me, in the last year, because it's been a tough year, is just seeing that resilience; seeing it with our employees, seeing it with our customers, and broadly seeing it with the crypto community.



What does that mean? It means that we went from having a headwind to, at least not a headwind. I don't say we have a tailwind yet. Listen, retail has come back, and you see it in U.S. stock performance of crypto stocks that are listed in the U.S. Big volume numbers, nice price appreciation. You see it in volumes at some of the exchanges, you see it in Bitcoin price, Ethereum price and other tokens. We certainly have seen retail come back.

Institutions have come back some, in the immediate-term. They've come back in futures, they've come back in some of these stocks. But importantly, they're coming back in structural ways. The announcement yesterday of PayPal issuing stablecoin, or Deutsche Bank getting into custody, we're seeing all kinds of indications that institutions are getting ready, and getting ready for the digital age, or the crypto age. That is promising.

What it means for Galaxy is, it gives us more confidence to continue to build; we're building for 2025 and 2026 with the real understanding that this year and next year, we're going to be scrappy, we're going to hustle after loose balls, we're going to try to win every fight we can. We're definitely seeing that what we expected in the year, that we would get a larger share of a smaller pie, is happening. We're getting a call on almost every interesting opportunity around. That's a lot because our competitors failed, we have a lot less competition. Not that we have no competition; we're up against Coinbase, head-to-head, all the time, and lots of others. But you think about Genesis and BlockFi and Celsius, and lots of others have gone by the wayside. I'm optimistic. I'm realistic in the short-term, but very optimistic in the medium-term.

With that, I'm going to let Chris take you through how Galaxy did in the quarter and how each of our businesses is looking right now. Thanks so much.

#### **Christopher Ferraro**

Thanks, Mike.

As Mike noted in his remarks, we remain focused on driving growth in our three operating segments, and are both proud of, and encouraged by the resilience our firm and various teams demonstrated in the quarter.

Starting with the Global Markets team, our trading desk experienced lower volumes and counterparty activity during the second quarter, as liquidity across digital asset markets remained challenged amidst a difficult macro and regulatory backdrop. Despite the fact that volumes were lower broadly, the desk continued to onboard new trading counterparties, bringing the total count from just over 960 at the end of the first quarter, to nearly 1,000 counterparties at the end of June.

Importantly, in recent weeks, the desk has witnessed an uptick in active client activity, with both crypto-native and traditional asset managers and hedge funds reengaging our desk to express their crypto investment views via spot and derivatives. Public filings in the U.S. for a spot Bitcoin ETF has been a major catalyst, with investors reinvigorated to seek upside potential in Bitcoin and the broader asset class.

One trend we've seen amongst counterparties since the meltdowns of several trading venues over the past year is an increase in demand for on-chain OTC options. To meet this demand, in the second quarter, Galaxy completed the world's first bilateral OTC option trade settled entirely on-chain, making the expansion of the firm's trading capabilities by leveraging the benefits of decentralized financial infrastructure. This is just one example of many of how we're continuously innovating to meet the evolving needs of our clients.

The lending side of our business was not immune to the broader slowdown in capital markets' activity. Our quarterly loan originations did decrease from \$160 million to \$115 million quarter-over-quarter. However, despite the deceleration in new originations, our loan and yield portfolio increased by approximately 10%, growing to \$550 million notional, as of June 30th,



a confirmation that we remain one of the largest collateral-backed lending counterparties in the digital asset space, and are continuing to gain share in an otherwise fairly slow market.

We also continued to bolster our Sales team in the second quarter and are excited to announce that we recently hired Leon Marshall as our Global Head of Sales. Leon joins Galaxy from Genesis, where he spent more than four years as its Global Head of Sales. Leon brings a unique combination of digital asset expertise, an institutional mindset, and international experience, which will further position Galaxy to capture client flow and expand our strategic footprint.

On the last earnings call, we provided an update on the development of GalaxyOne and the steps we are taking to establish the product as the leading institutional-grade digital asset services platform. In the second quarter, we continued to make strong progress, and anticipate initial product launch by the end of this month, with a diverse group of 10 initial clients. We have successfully on-boarded three digital asset custodians, as well as two FIAT custodians, onto the platform, to support our multi-custodial model. We plan to continue onboarding additional custodians over time.

We also continue to pursue additional licenses to expand our jurisdictional presence, and can now operate in 38 states and eight countries globally. Importantly, we have initiated the BitLicense and New York money transmitter application process, which will enable us to serve New York customers while adhering to the state's regulatory requirements.

Our team is also working diligently to achieve SOC 1 and SOC 2 compliance to ensure the highest level of security and transparency for institutions transacting on the platform. We will continue to iterate and improve GalaxyOne based on client feedback during this organic development phase.

Now turning to investment banking; while the backdrop for deal execution broadly remained soft, our Investment Banking team successfully closed one transaction in the second quarter, a secondary sale of an equity interest in Bitcoin custodian and lender, Unchained Capital. Additionally, in early July, post the end of the quarter, Galaxy advised on a primary financing round for Gamercraft, a blockchain and AI-enabled competitive online gaming platform. This represents the team's first transaction in the Web3 gaming space and underscores our Investment Banking team's broad and diversified expertise and deal-sourcing funnel.

Furthermore, and quite notably, just last week, Galaxy was selected to represent Prime Trust in the Nevada receivership, in its first restructuring mandate, one for which the team has worked very hard over the past year to build the necessary credentials. Our Investment Banking pipeline remains strong, with 15+ active mandates being pursued by the team right now, and we remain committed to seizing emerging opportunities in the space and strategically positioning ourselves for future growth.

Now moving onto our Asset Management business; we ended the second quarter with \$2.5 billion of AUM, up 2% quarter-over-quarter. The increase in AUM was driven by market appreciation, but also \$67 million of net new inflows, driven primarily by institutional demand for our passive strategies. As we noted in the last earnings call, in April, we announced a partnership with DWS Group to develop digital asset management exchange-traded products in Europe. Our teams have been working diligently together on product development since the announcement, and we expect to launch our first products in the region by year-end.

Our Asset Management team has also been very focused on the U.S. ETF landscape. As a reminder, we have a partnership with Invesco to develop a comprehensive suite of U.S.-listed digital asset ETFs, including a spot Bitcoin ETF. Invesco manages \$1.5 trillion in assets, including nearly \$500 billion in Index-based ETFs and other passive mandates, making it the fourth largest ETF issuer in the United States.



Galaxy Asset Management has years of experience building and launching spot crypto ETFs in jurisdictions across the world, which gives us confidence that we are very well-positioned to capture the market opportunity in the U.S. when the SEC approves such an investment vehicle.

On the active and venture side of our business, we have been spending a significant amount of time analyzing and underwriting opportunistic investments, including secondaries, bankruptcies, and other idiosyncratic events. While these opportunities generally take more time and effort on average to come to fruition, we believe strongly that this is an area where Galaxy specifically can provide the most alpha relative to all their market participants, and that having a clear focus on this is critical for the future franchise build.

Galaxy's central positioning in the ecosystem, coupled with our expertise in underwriting digital asset tokens and companies, provides us with a robust sourcing funnel and a unique ability to correctly price digital assets and portfolios.

Our third operating segment, Digital Infrastructure Solutions, made strides in the quarter in supporting the build-out of the industry at the base blockchain level. Let's start with mining.

Our total mining revenue, which includes both our proprietary mining, as well as our hosting operations, was \$15.4 million in the second quarter, relative to hosting fees and purchase power costs, net of curtailment credits of \$5.5 million, resulting in approximately \$10 million of quarterly mining direct margin, a 64% direct margin.

We continued to execute an effective power management strategy and kept our costs of power extremely competitive, with our average marginal cost to mine between US\$9,000 and US\$10,000 per mined coin in the quarter.

We reached approximately 3.7 exahash of hash rate under management, across our proprietary and mining and hosting footprint, keeping us on track to achieve our goal of four exahashes by year-end. Our proprietary mining operations represents roughly 45% of our hash rate under management, while our hosted mining business represents the other 55%.

We continue to make strong progress on the next phase of the build at Helios, our flagship mining site in West Texas, which we anticipate will bring an additional 1.3 exahash online beyond our four exahash end-of-year target, by early next year. I'm continually impressed by our team's wealth of knowledge in managing power and mining infrastructure which, coupled with our proficiency in navigating capital markets, bolsters our competitive edge among the industry peers.

Quickly turning to GK8; since the close of the acquisition earlier this year, GK8 has added seven net new clients, to reach 14 total clients as of Q2 quarter-end, and has played a growing role in support of our own internal infrastructure and ambitions to be a technology provider to key industry partners. We're excited about the pipeline of potential enterprise clients the team has engaged with, and are encouraged by the growth we've seen to-date.

Moving to Validator Solutions; in the second quarter, our team achieved a significant milestone by successfully deploying its first set of ETH validators, which reflects our continuous commitment to support blockchain networks in fostering the growth of ecosystem, and Galaxy's aim of becoming one of the most trusted nodes of the decentralized future.

We're also pleased to announce, the team earned a sizable delegation through operating in the Genesis set of validators, supporting the Sui network, a new decentralized Layer 1 blockchain. This is a huge win for Galaxy and demonstrates the strength of our business development efforts and engineering support. We have an exciting path ahead with the go-live of our ETH staking capabilities and infrastructure, and have a number of additional select Layer 1 and Layer 2 deployments in the pipeline. We will continue to update you on progress here as we execute against our commitment in building the future of decentralized networks.



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

**Alex Ioffe**

Thank you, Chris. Good morning.

In the second quarter, Galaxy performed well against the backdrop of muted trading volumes and regulatory uncertainty. We reported a loss of \$46 million compared to income of \$134 million for the first quarter. The decrease was primarily attributable to lower gains on digital assets and net unrealized losses on investments.

Total operating expenses were down 6% quarter-over-quarter, and 34% from the same quarter last year. For the first half of this year, total operating expenses were \$176 million, or 27% lower than the first half of last year. Our equity capital remained strong, with \$1.5 billion at the end of this quarter, a 3% decrease from the prior quarter. We were pleased to see operating leverage continuing to build from mining in this quarter, with 51% increase in revenue quarter-over-quarter and a larger increase in profit.

In the second quarter, we opportunistically divested two private investments at what we consider to be attractive valuations, maintaining discipline of only keeping investments with the highest upside potential. You can see this in our financials, in realized gains and investments, offset by unrealized losses on investments. We ended the quarter with more than \$600 million in investments on our balance sheet.

Total liquid assets were \$696 million at the end of this quarter, consisting of: \$302 million in cash and cash equivalents, \$167 million of non-algorithmic stablecoins, predominantly USDC or Circle coin; and \$228 million of net digital assets, excluding stablecoins.

Our liquidity position was \$118 million lower from the prior quarter, primarily due to a larger balance of fully secured loans to our customers. We did not repurchase shares in this quarter.

Now back to the Operator. Thank you.

**Operator**

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

**Michael Legg**

Good morning, thanks.

Wanted to understand a little bit about GalaxyOne, DWS and ETF. What type of timeframe you have to pull revenues on that? I know you mentioned that Galaxy One's going to have the initial launch next month. DWS, obviously, is on its way, and we're obviously waiting on ETF approval. But can you just comment a little bit about what type of revenue expectations, time-wise, you expect?

**Christopher Ferraro**

Sure, I'll take this one. Thanks for joining us, Mike. Really appreciate it.



A couple different products; GalaxyOne is the client-facing platform, largely focused on prime brokerage services, to begin with, in the markets business. That product, we've been in development for the better half of the past year. That'll be launching, officially, with external clients, this month, by the end of this month, in August. It's currently finishing up final pen-testing. That's a long-build product. When we think about prime brokerage services, it's a pretty wide array of services meant to work with the biggest, most needy institutions, from a regulatory compliance risk standpoint, before we even get to the actual execution services.

The product, over the long-term, is meant to be a product where institutions can bring in their assets, both FIAT and digital assets, custody through the platform, trade, get best-in-class trade execution, reporting, and get other services, including margin-based financing and other capital-efficient ways to express positions, all held within the four perimeters of the Galaxy product. We're going to launch the product this month, with simple functionality. It is going to be trade execution, custody, and report. That's sort of always been the initial phase. We're going to start with an initial small client list.

Because what we want to do is, we want to make sure what we've built works well for clients. We want to take feedback and get the right product development feedback loop with those clients, so that we can fast-follow and continue to roll out and build the product. It'll start off relatively slow this year, but as we get towards the end of this year and we add on additional functionality, ultimately ending with margin-based financing, that's when we really expect the opportunity set, from a revenue perspective, on the Galaxy side, to take off. That's GalaxyOne.

On the exchange-traded products side, in the Asset Management business, we've got two lanes there; one, the partnership with DWS, which covers Europe. That is, as we said—so that partnership's already inked. The products are in development, and the jurisdictions in Europe have been targeted that either already have exchange-traded products that are in existence today, and therefore approval is not a concern, or we're breaking into new markets where there's a clear lane to be able to launch new products in Europe.

Those products, we expect to be in-market before the end of the year. Again, those are co-branded, exchange-traded products with Galaxy and DWS. Those are going to look like a lot of the passive products you see in the marketplace across all asset classes, from a fee perspective, and those are shared fees between the two institutions. You should think about—whenever we think adoption of those exchange-traded products are going to be by European institutions, times a market, probably better than market rate given the asset class, and a fee share on the Galaxy side.

Then, in the U.S., we have the partnership with Invesco. That's meant to also cover a wide range of exchange-traded products, one of which we expect to be the spot Bitcoin ETF. Timing on that, I probably don't have to comment on, is unknown at the moment and sits with the SEC.

#### **Michael Legg**

Great. No, congrats on all that progress. Want to also hear a little bit about if you've heard anything from NASDAQ, if there's any new news there, if we're still just waiting? Then, relatedly, any key points on the regulatory environment? Are you seeing anything change there? Thanks.

#### **Michael Novogratz**

Maybe I'll answer that. Listen, I do think, like I said, this SEC loss to Ripple sent some shockwaves through the SEC that they need to respond to. Their story of being everything is clear was undermined pretty dramatically. Even though they got a small win in the Terra-Luna case, that just even more, I think, highlights how unclear the rules are.





It wouldn't surprise me if we see moves their way to shore up their credentials, saying, "We're not an obstructionist." I think that's where the potential ETF approval comes in, saying, "Hey, you can't call us anti-crypto, we just approved an ETF." We're hoping that that's the same for our filing, but that's just a hope.

What I would point out is, it is costing us, and it's costing our shareholders. If I look at the volumes and the turnover and the valuations of crypto stocks that trade on the NASDAQ versus any other market, including Canada, it's night and day. I'd be lying to you if I didn't tell you I was wildly frustrated and very focused on trying to get through the gauntlet here, because access to the U.S. capital markets is why we started this whole process. It remains a real goal of ours. It has been an unbelievably frustrating 24 months. I think that the process has been un-American at its core, but I'm hoping we're coming to the end of that.

**Michael Legg**

Great. Thanks, guys, and congratulations on continuing to build out the platform during tough times. Doing a great job. Congrats.

**Michael Novogratz**

Thanks.

**Operator**

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

**Andrew Bond**

Hey, thanks. Good morning, Chris, Mike, wanted to get some additional thoughts on the long-overdue potential approval of the first Bitcoin ETF.

As you guys noted in the prepared remarks, it seems we're getting closer. But just in terms of adoption and (inaudible) that we're making from Congressional leaders, do you think it serves as more of a catalyst? In terms of Galaxy specifically, you have the partnership with Invesco, but how would an ETF approval benefit some of your other businesses like trading, and maybe the opportunity to create more novel exchange-traded products?

**Michael Novogratz**

Yes, listen, I think what the ETF does in lots of ways is it gives a strong signal that, at least for Bitcoin, and that's where they would start, that the government is behind it. That's a real shift of attitude. It allows every institution, if you're a pension fund—remember, pre Sam Bankman-Fried blowup, lots and lots of institutions got to the starting line. A few crept over it, a few got to the starting line, and then they all backed away.

When I'm saying those institutions, I'm talking college endowments, pension funds, big asset managers. It just got scary for them, and I think this pushes them back. This was an easy product; it drives price. That allows us to, A, create other products that the broad community can buy in the ETF space, and we would do that with our partners. But it also allows people then to start looking into crypto deeper.



I constantly talk about crypto adoption, and it got stunted by the bad actors of 2021. It's not just Sam Bankman-Fried, there are plenty of them. But it certainly stunted the overall growth of the space, and this gives us kind of a jolt of adrenaline in the rear end, pushing us in the right direction.

**Andrew Bond**

Got it. Just a follow-up on the volumes broadly, volumes remain soft but options volumes haven't really seen the same declines. Given your strength here in options, can you talk about why this market caught up a bit better, and how Galaxy's overall share is trending?

**Christopher Ferraro**

Yes, sure. Agree with you on those points; derivatives, broadly, and options specifically, is where one of the strong locus of our talent sits in the Company is where the trading business has focused in terms of building out capabilities, in terms of risk pricing, in terms of client development, in terms of automation in the backend to be able to quote, and we think it's the future.

It has held up broadly, I think for a few reasons. One, dealing in derivatives tends to be a little more capital-efficient, particularly in this market, than dealing in a fully-funded spot. Any institution's buying power tends to be higher on the derivative side than it is on the spot side, generally. That's seen in the broader asset class markets as well, where the derivatives markets dwarf the size of the spot market and other assets. While that's not actually the case today in crypto, we do have a thesis that, over time, it's going to develop that way, which is why us having the extra piece in-house and having that as one of our core legs of the franchise is super critical for us to stay on top of.

**Andrew Bond**

Great, thanks.

**Operator**

The next question comes from Joe Flynn with Compass Point. Please go ahead.

**Joe Flynn**

Hi. We were just wondering if you could provide some more color on the deterioration of the liquidity environment and declining volatility levels seen through the third quarter. As it relates to that, maybe talk about the, maybe on-ramps at centralized exchanges, and most recently, the imbalance you'll see on stablecoin pools across the DeFi space? Thanks.

**Michael Novogratz**

Yes, I'll take a crack at that. Listen, we're still in some transition growing pains, I'd say. There's a lot of Tether FUD out there. I would argue that Tether most likely, and of course we never have 100% certainty on these things, but with a high confidence, certainly has enough assets to pay for any liabilities they have and then some. It's run by very savvy guys.

Of course, it's been offshore the whole time. Their approach to KYC offshore is very different than ours, on-shore. I'm sure there will be some skirmishes around the sidelines, but I don't think there is any significant risk or any real risk of a big run on Tether, which sometimes just scares the market.



The curve exploit was a big deal, right? We are not used to DeFi projects that have been around the market for two, three, four years to be exploited. Usually, these things, once they're battle-tested, are really robust. Even though it was like an upgrade to the protocol, that certainly rattled people. It's a good reminder that—I always say Bitcoin is a finished product. The Ethereum network is really strong and stuff's going to get built on it, but we're still in the building phase in the Web3 revolution. There's going to be fits and starts.

Liquidity in the broader markets, it's interesting. If I look at—I said the stocks that trade, from the mining stocks to Coinbase, monster liquidity in some of these stocks, retail liquidity, right now. They're certainly showing lots of interest in crypto. In the trading all coins, trading on centralized exchanges, less so. That is the regulatory onslaught, still, is them getting their house in order. It's not having the big profits to then plow in the marketing to bring more people in.

The process of rebuilding momentum for a bull market happens slowly. You first got to wash out the bad, then you stabilize, and then you build momentum. But we're not at that point where momentum is building on itself yet. You just look around. Hop on the subways, you don't see as many crypto ads, or you don't see as many stadiums being named Crypto.com.

I do think that's going to come again; it's not coming in the next few months, but we're just in that in-between process. Or in-between phase, I should say.

**Joe Flynn**

All right, thanks, that's helpful.

**Michael Novogratz**

Again, the last thing I'd say is, I was more cautious four months ago. Even at the same price. These things I talked about, right, the Ripple win, the ETFs coming, the Fed's finishing just gave me more confidence that we're going to get a tailwind at one point. At that point, you'll start seeing the robustness of those markets you're talking about.

**Operator**

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

**Bill Papanastasiou**

Good morning. Thanks, guys, for taking my questions.

The first one is related to that digital asset regulation. We saw the FIT for 21st Century Act pass in the House Committee for financial services, which was obviously a positive. Legislators are finally tackling contentious issues, and are doing so in a bipartisan manner.

However, taking a step back and being a little bit realistic, financial services regulation typically takes years from being introduced to actually cementing itself into law. Galaxy is obviously well-positioned. I'm just wondering what your thoughts are on a potential shift by the rest of the industry allocating more resources and capital towards the Bitcoin ecosystem. We recently heard Coinbase also announced integration of The Lightning Network, and just wondered what your thoughts are on that?



**Michael Novogratz**

Listen, we've always loved Bitcoin. We're a Bitcoin miner. We always hold a bunch of Bitcoin, we own Mt. Gox claims. You're never going to hear me say a bad word about Bitcoin.

I do think that's the easiest first step right now with this uncertainty, and there is more and more clarity around Bitcoin, and so it's going to continue to, I think, be a stalwart performer. But the rest of the crypto revolution is equally important.

Stablecoins, you saw what PayPal did yesterday. Stablecoins are going to grow globally. There's complexity around regulation. You think about what PayPal did, which was just a stablecoin lite to the stablecoins we see. If they could end up creating a stablecoin that gives interest, which right now would be a security, that really destabilizes the banks. Why would you leave your money in a bank if you could put it in stablecoin and get 5% interest on it and have it linked into all the payment networks?

It's a radically transformative technology, and there's lots of people, including ourselves, working on how that's going to be implemented. This is not going to be a Bitcoin-only world. Web3 and the decentralized system, it's got a steeper hill to climb than Bitcoin. That's both regulatory-wise, but also product-wise. We haven't had great product markets sit in a lot of apps, or a lot of applications, that the broad consumer would get engaged with. It's imperative for the crypto community, in some period of time, to have stuff on your iPhone where you look at and you're like, "Oh, that's a decentralized app", or, "That's a Web3 app."

We continue to invest. We think a lot about this stuff. But I'm just trying to be realistic, crypto isn't one thing. It's a bunch of different things. Like I said, Bitcoin's an easy one right now because it's, in my mind, a finished product, and now it's just about adoption. When you have the largest asset manager say and relate this, and have got \$7 trillion of assets under management, you can just bet on which way adoption is going.

**Bill Papanastasiou**

Great, I appreciate that color, Mike. If I can just fit in one more question, I want to shift gears towards the Infrastructure Solutions segment of the business. For the majority of the year, hash price has remained somewhat flat or range-bound, and it's been a headwind for operators that don't have access to the same cheap power that Galaxy has. We've seen them diversify into other data center offerings, such as high-performance and cloud computing. While, again, the Company saw a very impressive direct cost to mine in Q2, has the team considered diversifying data center operations at all?

**Christopher Ferraro**

Yes, thanks, Bill.

Our primary focus, after having acquired Helios, was to make sure that we stabilized the asset and then reinvested in it, purely from a Bitcoin mining perspective. It's a highly strategic asset, within that segment, we think it sits in a super attractive energy zone and that the team on the ground, and the bones that Argo previously built there, are excellent, and are going to be long-lived and really strategic for us. That's been the primary focus.

In terms of expanding beyond that, we are looking at it. It was not part of the primary underwriting, but it is something that is impossible for us to ignore. We're looking at it, we're seeing how it could fit in, we're doing our work, but that will be—if that becomes an opportunity for that particular site, it's going to be something that we're going to do pragmatically. We're



going to underwrite it and we're going to invest in, properly, over a long period of time. It's not an actionable thing for us in the near-term, for sure.

**Bill Papanastasiou**

Great, thanks, Mike and Chris. Really appreciate it.

**Operator**

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

**Kevin Dede**

Thank you. Good morning, gents.

Curious how you guys see crypto development within this world of regulation by enforcement. Anecdotes suggest that lots of development is leaving U.S. shores, and I'm wondering if you recognize that, and how Galaxy can position itself to take advantage of it.

**Michael Novogratz**

Chris, do you want to take that?

**Christopher Ferraro**

Yes, sure. I think the good thing is that Galaxy, historically, has built a platform with a global presence, not just here in the U.S. We have had operations in Hong Kong, a pretty sizable office there. We've had a pretty sizable office in London, historically. Today, we have over 20% of Galaxy's employees who operate and sit fully outside of the U.S. already, as a starting place.

The Company was founded here in the U.S., some of the Senior Management team are born and bred Americans and live and reside in New York. We want to see the United States push forward and regain competitiveness globally; generally as a matter of national security, but also in our industry. We don't want that to be the outcome, but we are positioned to watch where the ball is going and watch which jurisdictions are proactively moving forward, sandbox opportunities and full-bore regulation to allow the asset class to persist.

Where that's happening is where we will, at first on the margin and then with some aggression, move headcount, either existing headcount or grow into that opportunity, because it is truly a global asset class. We are building a global business. We're going to move our resources where opportunities present themselves. I think it is a keen focus for us.

You will see additional job recs and headcount coming out, if not already out, in some of the jurisdictions, non-U.S., that I've mentioned. We will be expending there, because the opportunity is truly on the ground for capital formation, and for client activity, are growing there outside the U.S.

**Kevin Dede**



Chris, just reading between the lines, it seems as though you agree with the anecdotes that I suggest, in that you're positioning—you feel the Company is well-positioned to address the shift and exploit it. I'm wondering if you've really seen it manifest itself in the way that Galaxy's had to make development investments.

**Michael Novogratz**

Well, yes, let me jump in. Yes is the answer. Right? We've increased our Hong Kong office pretty intensely in the last four months. We are moving people to London and we have people in the Bahamas. We're going to do what we can offshore to, A, take advantage of the opportunities there, but also take advantage of the opportunities we can there that we can't in the U.S., until the regulatory environment is more clear.

**Kevin Dede**

Maybe this one's best for Alex, but how would you expect we'd be able to recognize your international business, versus, say, North American business in financial reporting?

**Alex Ioffe**

Well, it's not—we don't really separate our businesses by region, except some supplementary reporting. It's really done by product line, and that's going to be driven by regulation, so that's going to be fairly clear from what's allowed in the U.S., versus not.

**Kevin Dede**

Oh, fair enough. A question on crypto infrastructure, congrats on the nice mining results. I'm wondering how you're positioning yourselves, given power costs, changes in the efficiency of mining machines and where you think hash price might go?

**Christopher Ferraro**

Yes. A couple things on that front; from a mining machine efficiency standpoint, it's one of the reasons why the model we run, and we intend to run, is a mixed strategy with regards to our own owned ASICs, as well as our hosting business. For our own ASICs that are on our balance sheet, those are more directly exposed to useful life depreciation because of efficiency gains in new equipment. Now, anecdotally, while new equipment is coming out and does have some efficiency gains, we really do believe that the curve has dampened quite dramatically in terms of new efficiency of new-gen machines coming out. The impact on legacy ASICs has been, and we think is going to be, much more muted than it has been in the past.

But that being said, what we did with the Helios acquisition was we purchased a data center and the full infrastructure to be able to sup-post (phon) ASICs, whether ours or clients. As new efficient ASICs come out, that's an opportunity for us, as other folks re-up or build, or grow their fleet, to offer rack space for those newly efficient machines in a profitable manner. It takes the exposure away from us and makes it an opportunity.

What's really important there is that we have an asset that we run, that we run efficiently, that we are able to acquire power cheaply and consistently. We think we have that in the location we have. We've also employed a pretty aggressive hedging strategy, in terms of hedging out our forward power price, which is different from the way this particular site was operated historically. We've done that throughout the forward curve, past the end of this year.



From a power perspective, we've got visibility on efficient power that allows our site to operate profitably, either with our chips or external clients' chips, which is really the core of the business strategy. That's how we think about it.

Going into the halving, the last thing I'll say there is there's obviously some profitability risk to anybody in Bitcoin mining leading into the halving. Post-halving, all else being equal, hash price will decline by 50%. What happens next is actually the more interesting piece, because you'll have both Bitcoin price going one direction or another, and you'll have hash rate either coming in or going offline as a result of who's operating efficiently and who's not.

The best thing we can do is make sure that our thesis is correct, and our asset and our team is operating efficiently so that we are on the cheap side of the cost curve and can be the beneficiary of the trend going the other way, post-halving.

**Kevin Dede**

Thanks, Chris.

Just a quick follow-up; you mentioned 1.3 exahash additionally, early next year. I'm wondering if that's just an expansion within the current facility that you're running at Helios, or if you think you'll need to make more facility investment? To exploit, I think you have access to, what, 800 megawatts there?

**Christopher Ferraro**

Yes. The additional 1.3 of capacity is a small expansion of the existing footprint, which has a capital cost associated with it, which we've already approved and already is being recognized and being invested in. That's a, roughly, \$20 million or less capital item to expand the existing actual building and footprint. That's already in motion and we're already receiving equipment on the ground and have pretty clear visibility on that getting up and running towards the back half of the year.

That will take us to just over 200 megawatts of nameplate capacity in operation there at Helios. The other 600-plus megawatts of availability is the growth opportunity we have, above and beyond the 1.4 additional I referenced. That 600 million megawatts-plus of capacity is the thing that we're looking towards the longer-term future on, in terms of how we grow the site and what the opportunity is. That would be a separate and distinct and larger capital investment, for which we are spending a lot of our time thinking about what's the most efficient way to finance that for the opportunity set.

**Kevin Dede**

Wonderful. Thank you so much, gentlemen. I appreciate the attention and color.

**Operator**

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

**Michael Novogratz**

Yes, guys, I appreciate all you guys taking the time to be on the call. We're working our tails off. We do feel a little bit lighter than we did in the last couple quarters, but certainly, it's not full sunshine. Like I said before, this is a year of picking up loose balls. Hopefully next call we'll talk about a few of those.



Until then, we're just going to keep building. Take care.

**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](http://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. This document does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote of approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of any such jurisdiction.

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