# EDITED TRANSCRIPT

GLXY – Galaxy Digital Holdings Ltd

Fourth Quarter 2022
Shareholder Update Conference Call

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## PRESENTATION

**Operator**

Good morning, and welcome to Galaxy Digital's Fourth Quarter 2022 Earnings Call.

Today's call is being recorded.

At this time, I would like to turn the conference over to Elsa Ballard, Head of Investor Relations. You may begin.

**Galaxy Investor Relations**

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

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

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

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

**Mike Novogratz**

Good morning, everyone.

The last time we did this was November 9, it was two days after the FTX debacle, and so, man, it seems like a year, though it hasn't been that long.

I thought about my remarks today and at one point I thought about calling them the *Tail of Two Cities*, because it feels like overseas crypto is really doing really wonderfully, and domestically, there seems to be a regulatory onslaught, but I changed my pitch to *The Good, the Bad and the Ugly*—it was a Clint Eastwood movie, for you youngsters.

Listen, there is a ton to talk about today. I'm going to try to focus on high level stuff, why I'm excited right now, what I see going forward, why am I excited about Galaxy's opportunities, how I'm framing the world, and I'm going to have Chris Ferraro kind of really take you through our businesses and our strategic opportunities, and then Alex Ioffe, to really bring you through the numbers.

Let's start with the good, I don't want to bury the lead. This is crypto's moment, right? Crypto was, in lots of ways, created for this point, right? Satoshi Nakamoto, way back in 2009, worried about the breakdown of the legacy financial system, he worried about populism infecting our politics and a constant printing of Fiat currencies and a debasement of money, and created Bitcoin. Bitcoin really is the first decentralized store of value, or money, which then really gave birth to this whole industry of a decentralized revolution. So, there is nothing like a banking crisis in the United States, where one day Silicon Valley Bank is healthy and three days later it's out of business, where Signature Bank is a key part of the infrastructure for lawyers in America for crypto, for real estate in New York, and a week later it's out of business.

To remind you that our system is fragile, we have been on a debt orgy, literally, gorging ourselves with cheap money for years—really, post '08, certainly—and have built up a debt to GDP ratio in this country that might be unsustainable. I always say I go to bed and I say a Hail Mary, hoping that the stewards of our country and our economy can land the plane, can actually maneuver our economy into something that's sustainable, without a real disaster. But, that challenge is real, and the challenge gets worse and worse, and so things like this banking crisis are a great reminder, and it gives Bitcoin and Bitcoin's community unbelievable resilience, right? It gives the crypto community unbelievable resilience. Because, literally, it's like an adrenaline shot of "this is why we got into this."

I look right now and say, "What's the good?" Bitcoin is trading over $27,000, Ethereum over $1,700. On a risk-adjusted basis, that's volatility adjusted, Sharpe ratio adjusted, Bitcoin and Ethereum have been the two best-performing assets in the world this year. They've been the two best-performing assets in the world over the last two years. They've been the two best-performing assets in the world over the last three years. So, whatever Jamie Dimon wants to say, whatever the Biden administration wants to say, they're just wrong, and the world knows that, right?

Crypto started as a retail phenomenon. It started as the little people's revolution, and it continues to be. We got into this business wanting to connect institutions to this market, to this new phenomena, to these new technologies, and continue to see a really interesting lane for Galaxy. We're as resilient, I think, as the crypto community, and so you can take shots at us, you can knock us down, but we're going to be here, we're going to be coming to work every day, and we're going to continue to try to build these bridges.

When I say "good," it's good in price action, it's good in spirit, it's good in narrative, and it's good, quite frankly, overseas we see unbelievable adoption, right? If it's the Middle-East, if it's Hong Kong's new regulatory regime, and we see lots of exciting things happening in Europe, so lots of progress being made.

What's the "bad"? In some ways, the regulatory regime in the United States is very tough. My own narrative on it is it was making lots of progress until FTX, and then the Democratics felt foolish that they were so close to Sam Bankman-Fried from the SEC, to the CFTC to the Biden administration, and have used this one example of, you know, horrific fraud and being snookered by a guy in Bermuda shorts to just say the whole thing is bad.

Katie Haun wrote a great editorial in the Wall Street Journal yesterday. People should read it. She was really articulate about you don't want to throw the baby out with the bath water, but we see that consistently.

So, if it's the government trying to pressure banks not to be in crypto, if it's regulatory enforcement after regulatory enforcement, the SEC seems to be issuing Wells letters weekly, there's going to be a huge backlog of judicial proceedings. That's not good for innovation, it's not good for America's chance to lead this industry, it's pushing people offshore, and so we're fighting back. We've got a guy in D.C. today trying to educate. I've been on the phone plenty with both Republican and Democratic congressmen and senators trying to make the case that the Biden administration's, really, attack on crypto is shortsighted.

Again, what's good about this is despite all that, despite what you would think are insurmountable odds, crypto prices are higher, activity is moving up, and we see a pretty promising future.

Listen, we have three main focuses this year in each of our businesses. We've broken our businesses up—by next reporting cycle, we're going to re-segment our earnings, so you can see them more clearly—into the Markets business, the Asset Management business and the Infrastructure business.

In Markets, we are frantically trying to finish and launch our Galaxy Prime, our G1 offering. We think it's going to be best-in-class. Chris Ferraro is going to talk about that.

In Asset Management, we're trying to, and I think we'll be successful, raising active, as opposed to passive, asset management, active, you know, money to manage for other accounts, higher fees. It plays into our strength of being able to navigate these markets.

On the Infrastructure side, right at the end of the year, we spent a whole bunch of money buying Helios, a big data center, a mining operation in Texas. That is coming online as fast as we hoped it would. So, you're going to see our mining revenue and our hosting revenue pick right up. I think that will be a positive EBITDA business for us this year, and are really excited about it.

So, things feel good on the Galaxy level, but *The Good, the Bad and the Ugly*, what's ugly? Well—and I feel for you—our stock price has been ugly, right? I said last earnings call I care a lot about the stock price, and it's lower, not higher, and it's lower with Bitcoin, it's higher and it's lower with our Company doing better. I looked, as of Friday, best estimate for partners' equity, our book, was roughly CAD$6.60, with the stock trading close to CAD$4.00. The way I look at things is we have an operating business that I think will make money, or at least breakeven this year, and if not, should come close, and, again, I said by next reporting, we're going to break that out in a more clear way for people to see it. We've got a book that certainly feels like it's bottomed. Alex will take you through the markdowns in 2022, and our private portfolio losses, you know, the FTX loss, and everything else, that hits partners' equity. We've cut costs. We took the bonus pool way down last year. We continue to understand that we need to grow, but at the same time be very prudent with how we spend our money.

So, the way I look at it, if book has bottomed and it's heading up, and our operating businesses should at least breakeven, or come close to it, our stock is just at the wrong price. We had bought stock last year. The Canadian rules, the Exchange rules, limit how much you can buy per year. We can't start buying our own stock again until May 15, but hear me loud and clear, if our stock is still anywhere close to here, we will file with the Canadians to be able to use some of our capital to buy back stock.

With that, I want to close and pass to Chris to kind of cover the detail of Galaxy itself. I would tell you, I'm proud of our team. This has been a trying five months. It was an all-hands-on-deck event just two weeks ago, weekends ago, and I think our team handled it wonderfully. We've got diverse bank and brokerage accounts. We were ahead of the game in lots of ways. I think we're coming out stronger than we were, with our peers and lots of our competitors either out of this business or weakened, and so I'm optimistic and bullish.

With that, I'm going to pass it to Chris.

**Chris Ferraro**

Thanks, Mike.

I'll now cover some of the more detailed updates for the three strategic priorities that Mike mentioned earlier.

First, we have GalaxyOne. One the last earnings call, we highlighted that we began to build the GalaxyOne, our unified technology-first platform for institutional clients to engage with digital assets. Our first product release will be Prime, integrating custody, trading, lending and derivatives for institutional participants through a unified tech and regulatory-compliant platform. We've dedicated a significant team across all areas of the organization focused on the buildout, the majority of which are in our Product and Engineering Teams.

Some specifics on what differentiates our GalaxyOne offering are:

- a licensed regulatory-compliant, institutional-only platform with a focus on robust risk management and reporting;
- a multi-custodial model that will include a number of different qualified custodial integrations;
- a hybrid liquidity model that leverages our best-in-class principal liquidity, powered by our in-house Smart Order Router;

- integration with our existing financing and derivative offerings, in order to provide cross and portfolio margining;
- access to our in-house research; and
- a dedicated customer success group to provide white glove client coverage.

Given the events of 2022, not just in crypto, but throughout the broader financial system, we believe trust and transparency will be the quintessential factors for early success.

We recently launched a demo of the trading stack and have been giving sneak previews to prospective beta customers. The initial feedback has been overwhelmingly positive and people have been asking for documentation to onboard. We intend to release our beta to select customers in Q2, fast-followed by margin and secured funding capability in the second half of the year.

We've also begun the groundwork of the future of GalaxyOne beyond just Prime. We're aiming for it to be the single pane of glass of Galaxy customers to access existing and new products that Galaxy can offer. This includes SaaS-based offerings integrating with GK8 for out-of-the-box financial services infrastructure. These capabilities can give rise to future Galaxy offerings for global settlement, payments and commerce, and, through a potential SaaS partnership, help elevate the entire ecosystem. We can also expand into private markets and look at issuance, tokenization and fund management. This is also very early, but we intend to prove our product and engineering capabilities step-by-step to meet the market as it evolves.

The second priority in the Asset Management business is an acute focus on launching liquid active and alternative investment strategies in order to grow higher fee-paying AUM, while leveraging and growing a regional partnership model to expand our passive product reach.

One key initiative that is well underway at Galaxy today is the migration of all of our Alternative Venture Investing Teams into the Asset Manager, with a goal of creating a unified venture platform for institutional LPs to access out talent and our products, and, as a result, soon, you will see previously reported balance sheet investments reflected in the AUM of Galaxy Asset Management, but that does not mean shareholders no longer receive the benefit of the venture investments on balance sheet. On the contrary, Galaxy will continue to own and manage our existing portfolio and is committed to seeding new funds we bring to market, ensuring shareholders retain exposure to venture investing through our stock. However, what this will do is add larger investment buying power to the Galaxy platform, while at the same time generating incremental high margin management fee and carry interest operating revenue streams, alongside our already scaled Galaxy interactive venture product.

In addition, we also intend to expand our actively managed liquid product suite to include a long/short fund, providing investors with lower vol, risk managed exposure to liquid crypto assets, and expect to launch this fund in the second quarter.

We've also added some exciting LPs this year, as well. Galaxy Interactive Fund II received a capital commitment from Texas Teachers just this February. Also, in the fourth quarter, we announced a strategic partnership with Itaú Asset Management to develop a comprehensive suite of Brazilian-listed, physically-backed digital asset ETFs, and are actively exploring regional partnerships in both Europe and Asia.

Finally, the third priority Mike mentioned is integrating and scaling our recent acquisitions in our digital infrastructure business. In terms of our mining strategy, we are focused on significantly growing our capacity for both proprietary and hosted Bitcoin mining, expecting a total targeted hash rate under management of over 4x of hash by the end of 2023, with an approximate 50/50 split between prop and hosted Bitcoin mining. That's nearly 3x where we were at the end of 2022. This is all while mining Bitcoin well below its fair market value, growing reoccurring hosting fees and focusing on our energy management strategy. We'll get there by integrating the Helios site we acquired in December, which provides access to tax-efficient mining infrastructure and removes any material reliance on third-party hosting providers we previously had. We expect to energize approximately 200 megawatts of mining capacity at Helios alone by 2023 year end, and with incremental investments, the facility has the potential to scale to north of 800 megawatts.

Another important element to this operation is how we manage power. While the previous owner was generally unable to enter into fixed price hedges, we do have this capability due to our credit-worthiness and have already begun to implement this strategy.

As of today, we have also begun to energize our smaller organically built mining site in Diboll, Texas, with a plan to have over half of this site energized in the next three weeks, with the full 16 megawatts of capacity scheduled to be available by the end of Q2.

Finally, we remain committed to our goal to reach an 80% sustainable energy mix and are actively pursuing multiple long-term solutions to achieve this target.

Additionally, on February 21, 2023, we acquired the assets of GK8, a secure institutional digital self-custody solution. The transaction accelerates Galaxy's product innovation and development by adding a team of nearly 40 professionals, mostly in technology and R&D roles, that include cryptographers and blockchain engineers. The deal also expands Galaxy's international presence with the addition of an office in Tel Aviv, where just this week we have a team over there working with integration and a product roadmap with Lior and Shahar. Galaxy will assume all GK8 clients, the majority of which are net new to the firm.

We believe the market opportunity for GK8's custodial technology services is expanding rapidly, particularly as institutional demand and the asset class grows, and as the need to safely and securely hold cryptographic key material has become a global focal point for regulators and market participants alike. As such, our primary focus today is to let that talented team there do what they do best, build great cybersecurity tech, while we help to invest in GK8's sales footprint and existing product roadmap to begin capturing market share this year. We also intend to utilize GK8's custody solution as an internal customer in the ongoing development of GalaxyOne.

Now, looking ahead to 2023, and starting with our capital allocation priorities, as Mike shared before, we are positioning our balance sheet in a conservative way, with more cash held in U.S. depository accounts and less balances on exchanges. While you can look at our financial statements for results as of December 31, 2022, I'm more focused on the quarter-to-date preliminary results we published this morning. You'll see our preliminary 2023 year-to-date earnings estimate of approximately US$150 million as of Friday, March 24, bringing our partners' capital back above US$1.5 billion.

Our liquidity position remains intact, even after recent dislocations in the commercial banking sector. In the first three months of the year, we are expecting to show both net profits in our operating businesses, as well as positive gains from our balance sheet holdings of liquid coins and investments.

Our trading operating business benefited from heightened market volatility, increased volumes from existing clients and counterparties, as well as market share gains. Moreover, we remain focused on surviving the downturn in crypto markets by continuing to manage costs, with the goal of running our operating businesses at breakeven or better.

I was proud to see that in our cost control efforts in 2022, including, while our overall cash compensation rose 12%, because headcount rose nearly 40% year-over-year, we were laser-focused on variable compensation and subsequently reduced 2022 cash bonuses, on average, 63% per employee from 2021 levels; noting that cash bonus reductions disproportionately impacted the senior team. We also focused on cutting non-personnel costs, with professional fees down almost 50% year-over-year. However, we do expect our audit and legal costs to remain elevated for the time being as a cost of doing business as a highly regulated public company in our industry, and in the United States, in this environment.

Turning to capital markets, we continue to remain focused on our U.S. listing and are working diligently through the process, which has remained frustratingly slow.

We also purchased and cancelled $55 million worth of the 3% convertible notes we issued in December 2021. We purchased those notes for approximately $30 million, including accrued interest.

We also plan at this time on restarting a share buyback program in May, when we are allowed to by the TSX.

Before handing it over to Alex, I just want to reiterate some of Mike's comments from earlier and share an update on the impacts on the business from the banking crisis earlier this month.

We've continued to operate business as usual, while helping institutions navigate highly uncertain volatile market conditions 24 hours a day. As we previously disclosed, Galaxy has no material exposure to SVB, nor do we bank with them. Moreover, we continue to have no material impact from additional bank closures, including Signature and Silvergate. We have a diverse group of U.S. and global banking and brokerage relationships across our business lines as part of our vigorous risk management process, and we remain committed to helping clients navigate the everchanging market environment and ensuring firm and client assets remain secure. Most of our deposits are at a large U.S.-based bank. All company and client assets are currently secure and accessible. Moreover, in the midst of a banking meltdown, our Trading Desk saw one of its busiest days, in terms of client activity and volume, in its history, with no interruptions. This is even with the loss of the Signet and SEN networks. Our Desk continues to settle Fiat 24/7, and we remain overallocated to Stablecoins in order to ensure our ability to serve our clients. We have seen many market cycles in both crypto and TradFi. While we continue to use that experience to successfully navigate short-term downturns, we remain committed to ensuring Galaxy is positioned for the inevitable adoption of digital assets.

With that, I'll turn the call over to Alex to briefly cover our financial results.

**Alex Ioffe**

Thank you. Good morning.

Mike and Chris covered a lot of ground. I will stick to essentials.

Market conditions for crypto were challenging last year, with a number of adverse events during the year, ending with FTX markets failing in the fourth quarter. In light of that, our business performed well. We ended the year in strong balance sheet position, with over $0.5 billion in cash and $1.4 billion in equity capital. We reported a loss of $1 billion for the year and $288 million for the fourth quarter. These losses were primarily attributable to unrealized marks-to-market on our investment portfolio and on our long digital assets positions. In the first quarter of this year, some of these marks reversed. Overall, through last Friday, we estimate profit before tax of $150 million, which brought our equity well over $1.5 billion, a good start to the year.

As Chris mentioned, we navigated recent discombobulation in commercial banking without issues. At the end of last year, we held approximately $960 million in liquid assets, consisting of $540 million in cash, $130 million of net liquid digital assets and $280 million of Stablecoins.

Now, back to the Operator to take your questions. Thank you.

**Operator**

We will now begin the question and answer session. At this time, we will pause momentarily to assemble our roster.

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

**Andrew Bond**

Hey, thanks. Good morning. Just in light of the recent banking crisis, with the most widely used banking off-ramps being shut down in recent weeks, have you seen any impact to your trading business? When you look at the impact of the tighter lending and venture market, can you talk about the opportunity to win share across your businesses and perhaps make more strategic acquisitions, where others are capital-constrained?

**Chris Ferraro**

Hey, Andrew, and welcome to join us here at Galaxy and covering us, really appreciate it. As I mentioned in my prepared comments, the banking crisis actually provided a pretty good opportunity for us to prove our resilience, and the fact that we have multiple providers. We actually operated as a pretty important liquidity center during all that for market participants. We saw some of our best volume days we've ever had in the history of the firm, and we also—we're here for portfolio companies, we spent all weekend with portfolio companies working on different potential alternative financing solutions for them, for our portfolio companies and companies that weren't in our portfolio, in the instance where those banks ultimately fail, which they didn't, and so ultimately it ended up not being a problem broadly.

But, I think that event proved the resilience of the way we built the business, proved our own risk management, and those are the kind of events where, if we've done things right, we can actually act on the front foot and be offensive, which we did, in a way that, as Mike articulated, we were all very proud and humbled from the team side.

So, yes, we think we performed well, we were there for clients, and going forward, I think it is an event that we will look back on historically and it will give us the opportunity to now be one of the main go-to places in the market going forward, who has those relationships with major banks, that are going to be scarcer to find going forward. So, since we have those, we think it actually positions quite well to be an aggregator for the end client points in the industry going forward.

**Andrew Bond**

Great, thank you.

**Operator**

The next question comes from Deepak Kaushal with BMO Capital Markets. Please go ahead.

**Deepak Kaushal**

Hi, guys. Thanks for taking my questions. I've got a lot of them, but I will try and limit it to one. Just big picture, you guys refiled your S-4. What's left to be done between the back-and-forth with you and regulators before they consider effectiveness? Is there more on the to-do list, or is it just to wait and see how the SEC feels about your filing application? Any thoughts there?

**Mike Novogratz**

Deepak, maybe you should email gary.gensler@sec.com.

**Chris Ferraro**

Dot.gov.

**Mike Novogratz**

Yes, dot.gov, right. Listen, we are answering the questions they ask us. We send our answers in and then we wait for their responses. I am not optimistic that this happens quickly, just given the overall tone of the SEC and the Biden administration towards crypto. I think the people that we deal with at the SEC are answering our things earnestly, they take their time to try to dig into these questions, but it feels like not like one crypto company has made it through that process this year—or last year, and so to be optimistic might be a little foolhardy.

That said, from the regulatory environment, we get lots of—we have lots of touchpoints with lots of regulators and we, as Chris mentioned, spend a whole lot of money and time answering questions, and we will continue to do so. I mean, it's the lane we chose, right? We chose this lane to be a regulated player trying to bridge the unregulated crypto community with institutions, and it's a damn painful lane. I do think there will be light at the end of the tunnel. I'm just not sure when.

**Alex Ioffe**

Yes, Deepak, we cleared, roughly, 70 questions on the last filing. We'll see what comes back from SEC this time. It's been about two months since we submitted.

**Deepak Kaushal**

Thank you.

**Operator**

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

**Michael Legg**

Thanks, and good morning. On GalaxyOne, you mentioned that you're fully licensed and regulatory-compliant, but in today's regulatory environment, where we really don't know what's coming down the road, except that the governments are obviously all over the industry, can you talk how you navigate that regulatory environment when we really aren't set on what we have down the road, and how you can assure your clients of that? Then, second, just on that, you mentioned margin in the second half. Can you talk a little bit about the leverage you'll allow and the collateral? Thanks.

**Chris Ferraro**

Sure. Thanks for joining us today. The answer on how we navigate a dynamic and changing regulatory environment is we try to, ourselves, be dynamic and to evolve as it changes. Today, we already operate, through FinCEN, a money services business, and we have over 30 state-level MTLs here in the U.S., and growing every day. We have line of sight to getting all 49, except New York. We are also in-flight, in process with NYDFS for a New York Bit license and trust.

So, from our layer, in terms of building the platform through which clients are going to sort of come in the door and then sit one level above the actual custodial layer, we intend to be U.S. state-regulated in all aspects that we understand allow that business to operate, and that's not a new regulatory regime, necessarily, in broader financial services, we sort of fit under the same umbrella.

One layer below, we also only work with companies that we believe are qualified custodians that have state level trust charters here in the U.S. today, and obviously we're looking, hopefully, for the OCC, and maybe for the federal side, to come through and provide those charters for the digital asset custodians, as well, and as that happens, those groups are going to be at the front of the line to plug into GalaxyOne. We're really meant to be a regulated, transparent layer for clients to interact with, who then have integrations to other best-in-class regulated participants.

It's also important to note we have the ability to operate that platform outside the U.S. through regulatory licenses in, I think, seven different international jurisdictions today, and we're looking to expand that as we see demand show up for it.

On the margin side, we haven't yet finalized exactly what the level of collateralization and margin trigger levels are going to be, but you should think about that as being a white glove institutional platform, but having a lot of technology and a lot of prescriptive automated rule sets around risk and margining and deleveraging and moving on collateral, and things like that. We're going to operate that business with a lot of tech behind it, but in the same way that we've operated our lending in the past, where I think, objectively, on the lending business, we've done a pretty good job in terms of risk management and understanding volatility when you're adding a small amount of leverage to these assets.

**Michael Legg**

Great, thank you.

**Operator**

The next question comes from Chase White with Compass Point Research and Trading. Please go ahead.

**Chase White**

Thanks. Good morning, guys. You guys have obviously grown counterparties, and continue to do so, in the trading business. I'm curious if you're seeing the average counterparty increase its kind of activity in recent weeks, given the moving crypto prices; and kind of following up on that, would you expect in a normalized environment for newer counterparties to be bigger trades than earlier onboarded counterparties, or is the kind of average trading volume per counterparty getting smaller on the margin? Thanks.

**Mike Novogratz**

You know, it's a good question, and I don't have the exact numbers in front of me, but we can certainly get back to you with what they are. What I've seen, anecdotally, is there are some TradFi hedge funds that all had good 2022s, if you think of the multi-strats, you think of the macro funds, that have all created a crypto sleeve or a crypto pod, and those guys are well capitalized. So, there are new participants, or enhanced participants, right, from kind of the traditional hedge funds space, both here and in Europe, that are participating, that weren't as big last year, and so those are bigger tickets. The crypto hedge fund universe really got kneecapped in 2022, and so just started with a much smaller asset base. While they've had, I'm sure, a decent first quarter, it's coming from a smaller asset base, right? If you do the old math, someone who's down 80% and then makes 50%, that 20% goes to 30% and they're still down, they're still down 70% from the high, right? When you have losses like people did last year, it takes a while to kind of rebuild that.

What's promising, and what has driven crypto broadly this year, is two things. One, all the selling that needed to get done got done, right? There was so much bad news, if you had to sell, panic selling and just the nervousness of "Oh my God! This thing could go to zero," and people were in sheer panic, you had seller's exhaustion. But, you've had Asia reopen. China has—you know, post the Xi protests around COVID Zero, China took the regulatory boot of the necks of their tech companies, and that includes crypto, so you're seeing, with Chinese traveling, you're seeing more activity from Asia.

And you're seeing retail, who is just resilient, they believe in this space, and it's one of the things that drives me crazy with our politicians who try to be paternalistic and say, "Oh, we need to protect retail." I've said again, Bitcoin and Ethereum have been the best risk-adjusted investments over two years, three years, four years, this year, year to date, and retail gets that. This has been their way of participating in financial markets, or one of their ways, and a lot of the price appreciation is coming from retail. We see that not directly, because we don't do retail directly, but we do a lot of B2B2C, and so we see it through counterparties of ours. But, the market feels strong, and when I look at it technically on charts, we've had big weekly closes. I'm surprised to hear myself say this, given where my mindset was in late December, but it would not surprise if we were substantially higher three months, six months, nine months from now.

**Chase White**

Great, thanks.

**Operator**

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

**Bill Papanastasiou**

Hi, good morning, everyone, and thanks for taking my questions. I just wanted to focus on the Infrastructure side of the business. The Company is now guiding towards a 4.0x of hash, hash rate under management by the end of the year, and an increasing portion of that is expected to be derived from self-mining operations, or a 50/50 mix with hosted mining. From a mining perspective, I was hoping to gain a bit more insight on your outlook and strategy going forward, just given the fact that the halving is expected to occur in about 12 to 13 months. Thanks.

**Chris Ferraro**

Yes. So, you have those numbers right, in terms of what we guided towards to the end of the year, this year. The strategy there in the mining business was really solidified at the end of last year, when we made the strategic decision to jump in and purchase Helios. So, point one on the strategy was, vertically integrating ourselves in the business was really something we decided was critically important if we were going to stay in the business, because controlling our own destiny, from a counterparty perspective, being able to be the manager of power, the number one input cost in the mining business was something that we've just seen market participants whiff on over and over again over the last few years and was not something that we were going to do, we were going to go forward sort of relying on other parties to do. So, owning the data centers vertically was strategic priority number one.

What we're focused on there—and the reason we chose that asset, after looking at many assets, was we believe that asset is, one, located in a really attractive regional area that has long-term positive power dynamics for us. Because, as you point out, as you think about Bitcoin mining going forward, as it relates to having overtime and competition coming in, what really matters is having a very efficient, low-cost operating site with redundancy that can always have uptime and can drive costs down and maintain low power over time. So, those were the key criteria that made us choose to go towards Helios.

We've previously invested in ASICs directly in the business, which you've seen grow over the last year-and-a-half. That investment in ASICs is the investment today we're prepared to make, in terms of allocating our own capital to the ASICs specifically. Getting those ASICs online now in our new data centers that we own is going to be the process in 2023, and so that's part of the—when we talk about the ramp-up to ultimately being roughly 50/50 self-mined hosting, that's our own ASICs we've already owned sort of coming in and being energized.

We like the idea of having a balanced mix of our own ASICs and having hosted clients. We think that that is a smart way to balance capital investment in the space, to add in clients to the Galaxy platform overall. It plays into the story of having a virtuous cycle here at Galaxy, where you can have a client who, for example, hosts a number of ASICs at your data center, but then also is a client of the Markets business, to manage its liquidity as they mine Bitcoin to hedge exposure, forward production, etc.

So, our core tenets are we're vertically integrated, being a low-cost center, aggressively manage costs from a power management strategy, and then balance our own capital investment with having clients who have their machines that they've invested capital in come host with us, and so we have a balanced mix of capital-light and capital-intensive profitable streams going forward. That's the plan.

**Bill Papanastasiou**

Thank you, Chris, I appreciate the color.

**Operator**

The next question comes from Rich Repetto with Piper Sandler. Please go ahead.

**Rich Repetto**

Good morning, Michael and team. Thanks for, I guess, the assessment of regulation you did in the prepared remarks, and contrasting what's gone on in the U.S. and overseas. I guess, with your title, too, you offer some balance, some optimism, but I guess my question, Michael, is when it comes to the regulatory environment here in the U.S., and you being a spokesman for the industry, it appears like we're at rock bottom. Maybe the best thing is that it is so bad. Then, I guess the other part of the question is, you know, you expressed some optimism, but where are the institutional adoption, do you think that they're seeing the same things, the balance that you sort of outlined in your title, *The Good, Bad and Ugly*?

**Mike Novogratz**

Yes, it's a great question. Listen, we have checks and balances in our government and the Republicans on the House, they are certainly more pro Bitcoin, pro crypto than the Dems at this point, and there are lots of vocal spokespeople. Tom Emmer, if you followed him, he's the minority whip—I'm sorry, the majority whip right now. He's on the side of fairness for Americans, right, and that if I want to store some of my hard-earned wealth in Bitcoin, it should be my right. So, I do think you're going to see no legislation go through that really harms the industry.

Then, we've got the courts. We will watch these court cases very carefully. There are a bunch that will come up. Judges, generally, you've got half Republican- and half Democratic-appointed judges and most of them are independent thinkers and not that political. There's some political judges on the fridges, but, broadly, our judiciary is an independent acting body. Certainly, it feels like the Biden administration—and this feels like it comes from Elizabeth Warren, who's been very vocal on Twitter and in speeches about hating crypto, and SEC Chair Gensler is very close to Elizabeth Warren, and so you can kind of at least guesstimate where this comes from—has not been helpful. There's an election cycle coming up. So, I think it's a stalemate with constant little punches, but I don't think you push the thing over the edge where it unravels, and partly because the American voter cares a lot about crypto, and politicians get that.

It was funny. Before Sam Bankman-Fried, all the Democrats were coming around. I was in D.C., I did the rounds. We sponsored a Black Blockchain initiative at Howard University. Cory Booker was there, Kirsten Gillibrand, they understand crypto, they get it, they like it, they want to make sure it's fair for everyone.

This is, I think, a moment in time. There was a vacuum created with Sam Bankman-Fried. I mean, it was embarrassing for people, right. He was Biden's biggest donor. He was a huge donor to the Democratic party. He was very close with the SEC. I mean, they fired their number two guy at the SEC because of it. He was close with the CFTC. So, in a lot of ways, the whole group got egg on their face, you know, all through this one guy, and it just allowed this vacuum, and I don't think that lasts forever. As well, America's competitive at its core and to see this business going to Hong Kong and Abu Dhabi and Europe, at one point starts pissing people off.

The crypto industry, I remember—I'll give you one metaphor. I was on TV randomly when they decided to try to push wrestling out of the Olympics and I remember making this quippy line. I was like, "Maybe this is the stupidest thing I've ever heard, is someone wanting to pick a fight with 400,000 wrestlers around the world." I feel a little bit the same thing. Like, picking a fight with this community, that really believes in the technology, that you've got over 250 million, 300 million people around the world, 50 million Americans, that care desperately about crypto, they care about this new way of potentially orchestrating their finances and the financial system, and so picking a fight, it seems foolhardy, and I think that, in the long run, wins out.

**Rich Repetto**

Thank you, Michael.

**Operator**

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

**Owen Lau**

Good morning, and thank you for taking my question. Just going back to the previous question, could you please talk about how these regulatory regimes could potentially impact your priority this year? I think you mentioned the profit in the first quarter, but can you also talk about any other potential opportunities for Galaxy Digital this year? Thank you.

**Mike Novogratz**

Yes, listen, I mean, the regulatory regime, while it makes it harder for us, it makes it harder for lots of people. Chris gave one good example of, you know, we have good banking relationships and some of our competitors didn't, and so that, in the short run, became a competitive advantage. I think banking will be an issue for lots of people. Without big balance sheets, without reputation, without activity, it's just harder for people to get banked. So, us figuring out how we can fill that void—in the long run, what fuels any new industry is capital, and so one of the real tricks is how do you bring capital into this space, right? If we're going to lend more capital, how are we going to get that capital to lend? I think the first step is going to be from this crypto community itself, and it's tapping the $1 trillion worth of crypto wealth out there, and doing that in very direct and smart ways. Over time, capital looks for returns, right? With short-term rates at 5%, if it's growth equity or if it's crypto, there's just a higher bar to be able to pull in capital from people that are used to making that asset allocation decision, but I think you hit an equilibrium and you start growing from that. Like I said, we kind of bottomed out. So, that's the real trick.

Chris Ferraro came from a cap structure, credit background, and we think we understand how capital moves and how you can structure things better than most of our peers in the crypto space, and so we think there's just going to be an advantage of being thoughtful and having a lot of knowledge and history of how to operate in challenging markets.

**Chris Ferraro**

Yes, and the only thing I'll add is, while it's hard to see right now where we're all sitting and where the market is sitting, we think that regulation, ultimately, long term, is going to be our moat. It's going to be the thing that really catalyzes all of the headlines that you've seen about institutions coming into crypto, about 90-plus percent of custodians and custodial bank clients wanting to be in crypto. Regulation coming into the fold in the U.S. is going to catalyze the real wave of institutional capital's comfort level of operating in the space, and we have built our business to fit into whatever regulatory regime comes. Now, that takes, as I said, a lot of planning and then replanning and then refiling and relicensing, and that's fine, that's what we're prepared to do. Ultimately, we've built the company with the mindset of that's going to be our moat, because as it comes, we're going to be the company in the space that has followed the rules and that has built an institutional-grade platform, that's able to serve clients when they're ready.

**Mike Novogratz**

Yes, and I guess let me just—last thing to chime in. I don't want to let off the hook the crypto participants that were fraudulent, that behaved with stupid risk management, that created so much of this reputation that the regulators are fighting back against. I want them brought to justice. I want them put out of business. They've cost me money, they've cost our investors money, they've cost me unbelievable headaches, and so I, in some ways, welcome the sweep of the bad actors. What I don't welcome is this idea that you're going to throw the baby out with the bath water. I referenced Katie Haun's editorial. Like, this is a real technology that people care about. This is the real alternative to a way to save money in a world where it feels like the dollar will be debased, or all Fiat will be debased. The real way of monetizing IP in the NFT space, and lots of other—this isn't tulips in sixteenth century Holland. This is a real technological breakthrough.

When I think about AI, it shocks me that we're talking so much about crypto regulation and nothing about AI regulation. I mean, I think the government's got it completely upside-down. In lots of ways, one of the best use cases for crypto is going to be identity around AI, because pretty soon you're going to get a fake Mike Novogratz, hopefully with hair. You know, like, the deep fake world is going to be so much more prevalent, and so how do you prove identity in a world like that? Crypto and Blockchain is going to have a huge role in that. It is dumb to think that we should cache this industry because of Sam Bankman-Fried in his Bermuda shorts, period.

**Owen Lau**

Thanks a lot.

**Operator**

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

**Joseph Vafi**

Hey, everyone. Thanks for taking my question here this morning. It would be interesting—we kind of have talked about it a little bit here and there during this call, but just what are—if you look at the current environment, it could not be more interesting. You've got rates still rising, we've got this regulatory backdrop, we've got a lot of other asset classes not performing as well as Eth and Bitcoin, and so we've got kind of a—we've got a lot of moving parts all over the place. What are institutional clients saying, like, right now, in real time, with Bitcoin where it is and its outperformance on one side, but on the other side, we've got these overhangs on regulatory and this dynamic interest rate environment? Thanks a lot.

**Mike Novogratz**

Yes, I think, if you're talking, like, macro hedge funds, almost every macro hedge fund I know likes gold and likes Bitcoin, right? It's a pretty straightforward vet, right? You've got geopolitics. You literally had the President of Kenya standing in front of his country telling his countrymen to sell the dollar. That's unprecedented, and this war between China and the U.S., with Russia as a proxy, is going to push the gold narrative, and the digital version of that is Bitcoin. So, I think, from a macro investor perspective, it's very clear.

I work at the endowment or the pension, that game, everyone's slowed down a little bit, and you've got a couple of different buckets. If you invested late in the cycle, you have burned your hands and you feel dumb and you're just watching. If you were just getting started, people are dipping their toes in more. Chris mentioned an investment from Texas Teachers in one of our funds. That's a very positive sign. But, we're not seeing a stampede there, by any stretch, the institutional space is still slow. What would change that? An ETF, right? Follow the news, or follow the judicial news. Grayscale had a pretty significant short-term win in their fight with the SEC about approval of an ETF, where the judge basically said, "What are you guys talking about?" to the SEC. "You approved the a futures ETF and not a cash ETF. That just makes no common sense," and the SEC was like, "Uh, uh," and so we'll follow that. Like, you could legitimately see an ETF this year, and that would be a huge game-changer in terms of institutional adoption, because institutions want to participate, they just don't want to participate and look dumb.

Again, so much—Sam Bankman-Fried, may he spend his days staring at his navel—so much was set back by that event and it just takes time to heal.

**Joseph Vafi**

Thanks, Mike.

**Operator**

The last question today will come from Kevin Dede with H.C. Wainwright. Please go ahead.

**Kevin Dede**

Thanks for taking me last minute here. Mike, when you look a little bit deeper, maybe a little more granularity on where you expect or what you've seen in the form of SEC pushback. I mean, what we've seen historically in the space is more push against lending and token creation. I'm just kind of wondering what your big fight is with SEC pushback.

**Mike Novogratz**

Well, listen, the basic issues that most people have had is what constitutes a security and what doesn't constitute a security, and how we test, which is an early century rule, that doesn't seem to fit the crypto architecture nearly as well as one would like, and the SEC has been very reticent to say, "This is a security. This is not." Gensler at times says that they're all securities and then at times Bitcoin is not and Ethereum's not, but Ethereum might be. So, there's just been a lack of clarity for companies. You can follow this live in the Coinbase. I think it's interesting that Brian Armstrong and Coinbase, it looks like plans to litigate this in the public forum, to say, "Hey, we've gone to the SEC and said tell us what are securities and they won't," and so there's this kind of Mexican standoff. What we've been asking for all along is just clarity. Like, give us a regulatory framework where we can work with it.

Galaxy has a really detailed process of what we decide to participant in with our clients. There's outside attorneys, there's a whole process that we go through. We think we're doing the right thing, and we'll see. So, it's a bizarre position to be in, where you've been doing this since 2017, '18, right, so it's not like this just happened. Five, six years, people have been going there and saying, "Well, this is our process. What do you think?" and not getting any clarity back from the SEC, and it's been disingenuous, where they say, "Well, just come and register. You can register online." It's actually not the case. There's lots of nuance about qualified custodians and not qualified custodians.

It's a space where I would have hoped our government and our regulators would have sat down, worked with the industry, understood it's a new industry and there's a lot of nuance to it, to come up with rules both for custody, for trading, for who regulates what. I mean, one of the issues is that if these things aren't security, the SEC has no standing, and so they're in this very bizarre position of playing poker, in essence, with do they have the right to regulate or not.

They're not easy answers, and politics doesn't do well with nuance. This has been politicized, which is damn unfortunate, because you need really smart people thinking about how do you take this new industry, create a set of rules that allows legitimate players to forge this industry in the U.S. and grow it, and it just hasn't happened.

**Kevin Dede**

Thanks so much for the color, Mike.

**Operator**

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

**Mike Novogratz**

Guys, I appreciate all your time this morning. I hope you catch some of our enthusiasm. Again, it's not all wine and roses over here, it is tough sledding, but we're optimistic. We have a 400-person workforce that shows up excited to work every day and is trying to forge head. I do think, like I said, this is a year we will, surprisingly, have macro tailwinds, and big ones, that I think allows us time to continue to build, and by 2024, hopefully, the regulatory regime is starting to shift, but, more importantly, from a Galaxy perspective, our tech build comes online, our mining comes online fully, and you start seeing the fruits of all our investments that we've been working really hard on.

I'll leave it at that. Thanks a ton, and we'll be back.

**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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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.sedar.com.

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