

Bitcoin Crash Course



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Gautam Chhugani: Hi! Thanks for joining everyone. My name is Gautam Chhugani. I lead Digital Assets at Bernstein. We are continuing our CEO series across crypto and bitcoin related stocks. MicroStrategy is the largest Bitcoin company that we cover. It has one of the largest bitcoin balance sheets. Today, we have with us Michael Saylor, the co-Founder and Executive Chairman of MicroStrategy. Thanks for joining us, Michael.

Michael Saylor: Thanks for having me. Happy to be here.

Gautam Chhugani: The way we're going to run this today is we will have Michael talk us through his bitcoin thesis and MicroStrategy's journey, following that up with some questions. With that, I'm going to hand it over to Michael.

Michael Saylor: Yeah, thank you Gautam. I am delighted to be able to speak with all of you today. I'm an MIT graduate. I'm an aeronautical engineer. I started MicroStrategy in 1989. We came public on the NASDAQ in 1998, and I've been with this publicly traded company since then. We built a \$500mn enterprise software business, doing business all around the world. And in the year 2020, I found myself leading a low growth Enterprise Software company. We had a \$500mn business valued at about 1x revenue, and we had \$500mn cash. And the question was, do we just pay dividend to the shareholders, or do we buy back our stock? Basically, do we buy back half the market cap or half the stock of the company? Do we go do a risky acquisition, or some merger or transformational deal? But we needed to do something because we were stuck in the doldrums. And the something we decided to do was to purchase Bitcoin, and we saw Bitcoin as a big tech monetary network. I thought, this is like Google for money, or Facebook for money. And if you could buy Amazon, Apple, Facebook or Google stock 10 years before mainstream investors understood it, you would have gotten 10x, 20x or 30x return. And I thought, if we buy Bitcoin 10 years before everybody figures it out, we'll get a 10x or 20x return, and it will revive the company. It wasn't a difficult decision, because the other option was to get paid 0% interest. The head of Fed at that time said they were not even thinking about raising interest rates for 4 years. So, we were put to a question in 2020, and we felt like it was either a choice between a fast death or a slow death or take a risk. And so we took the risk on Bitcoin, and that's how we entered the space. What's happened since then is the story I'm going to share with you next.

BITCOIN THESIS PRESENTATION BY MICHAEL SAYLOR

I'll start with a question - **What is the investor dilemma?** Well, the investor dilemma is that nearly all the return in the S&P 500 comes from just 1% of the companies - the FAANG stocks, the Magnificent 7. If you're not a digital monopoly, if you don't have overwhelming force and power like Microsoft or Apple or Amazon, it is increasingly difficult to compete in the modern world. So, the question for investors is, do you want to hold 5 companies in your portfolio to get the return or do you hold the other 490 that all seem to be losing? A conventional, diversified portfolio is underperforming the Magnificent 7, and nearly all the alternative investments are either illiquid or they're not scalable. This is the struggle of every family office, every institutional investor. It's basically the subtext of the discussion on CNBC every day. What am I supposed to do other than just sit in the Magnificent 7 and wait. So, the question really is, is Bitcoin the solution? If we look at asset class performance over the past 15 years, what you can see is if your hurdle rate is the consumer inflation rate of 2%, you can probably beat it with a lot of different strategies (gold, preferred stocks, high yield bonds, US REITs, etc.). But if your real hurdle rate is the S&P Index (S&P index is like the monetary inflation rate - it's the rate at which the money supply is expanding), you realize that most of the traditional strategies are underperforming that monetary inflation level (13% p.a.). If you are tech heavy, you might beat it. But no conventional strategy is looking that good. And that's the challenge. If we consider Bitcoin, in the past 4 years, it has been returning 49% (annualized return). I am not showing you 49% because it is the highest, I am showing you 49% because it is the lowest performance of Bitcoin in the life of the asset class. It's pretty much crushing everything. and it's not just crushing it on 4 years, but it's crushing it on a 6 year, 8 year, 10 year, 12 year and 14 year timeframe (Bitcoin ARR is 46% 6 yr, 78% 8yr, 65% 10yr, 103% 12yr, 168% 14yr). Bitcoin is the strongest asset in 11 of the past 14 years. And, this is the elephant in the room here. Easy to ignore before you could buy it, and easy to ignore when it was less than a \$100bn asset class, but now it is a trillion dollar asset class, growing faster than everything else, and I think it makes sense to look at it.

Advocates for Bitcoin, of which I am a notable one, believe the following -

- It's digital gold, digital capital, digital property
- It's perfect money
- It's the greatest of all the digital transformations of the 21st century

Note: This document reflects a fireside chat hosted by Bernstein that Michael Saylor participated in on October 9, 2024. The views expressed are Michael's own and may not necessarily reflect the views of MicroStrategy Inc. This document doesn't constitute an offering of any financial instrument or legal, tax, financial, investment or other advice or recommendation.

- It's a unique diversifier
- It's the ideal capital asset
- It's a revolution in financial thinking
- It's a paradigm shift in the field of economics

The skeptics of Bitcoin say -

- It's too good to be true
- It's money for criminals
- There's no use case
- It's too volatile
- It's backed by nothing
- The government will ban it
- It will be obsolesced
- It will be hacked

You hear these criticisms all the time. But what I would offer is this wisdom, which is, **everybody is against Bitcoin before they're for Bitcoin**. I was against Bitcoin in 2013. In 2013, I tweeted this — “Bitcoin’s days are numbered. It seems like just a matter of time before it suffers the same fate as online gambling.” I thought, whatever it was, the regulators won’t let it live. I didn’t have a need to understand it then. But by 2020, I had a need, as I said, it was a near death experience. Once I saw the need, I started digging into it, and I went very deep down the rabbit hole, and my conclusion was this is an ethical imperative. This is property rights for 8 billion people on the planet. This is an escape from economic malaise for 300 million companies. This is the solution to the investor’s dilemma. This is the greatest of all technology transformations in the 21st century. And I tweeted as such - “Bitcoin is a swarm of cyber hornets serving the goddess of wisdom, feeding on the fire of truth, exponentially growing ever smarter, faster and stronger behind a wall of encrypted energy”.

The Bitcoin Journey - Everybody's bitcoin journey goes through 5 stages. You're born a denier. After 1 hour, you know enough to hurt yourself - you're just a skeptic. You think of everything that could go wrong. After 10 hours, you start to conclude it's an asset, and you're going to buy it when it's cheap and sell it when it's expensive. After 100 hours, you become an investor. And you start thinking that this is like Google or Facebook or Amazon before everybody else figures out. It's a global, digital, big tech, monopoly network. Everybody wants it. Nobody can stop it. Most people don't understand it. Therefore, I'm going to 10x my money, and that's the 100-hour point. After 1000-hours of staring at it, you think this is a lot more ethically sound than Google. It's an asset without an issuer. It's not a stock. It's not like investing in Microsoft or Apple. It's like giving the gift of property rights, integrity and freedom and empowerment to the world. It's like electricity. It's like steel. It's like fire. It's like water. It's clean air. It becomes an instrument of economic empowerment. We call those people Maximalists. We just think it's good for the world.

Well, you don't have a 100-hours, so welcome to the 1-hour Bitcoin Investor Crash Course. I'm going to try to get you from skeptic or denier to investor. The Maximalist is something that may come later.

Understanding Bitcoin requires a return to first principles. Etched in the great court of MIT are the names of Darwin, Newton, Maxwell, Curie, Archimedes, and Pythagoras, and all of the great mathematicians and scientists that gave us the modern world, the great thinkers. And Bitcoin, I would submit to you, represents the digital transformation of energy. It is an energy revolution. Most human progress is based on revolutions and thoughts around energy. The first big one is fire, and the idea of fire is just the extraction of energy from matter. This idea that there's actually a lot of energy in the matter around us, and we can set a fire, separating us from the apes. Water is the next idea. It's basically the extraction of energy from a gravitational field. There's gravity all around us. If you drop water vertically through a hundred feet, you can extract the energy, and you can turn a wheel with that, and that's pretty profound, especially if you're the one trying to grind that millstone with your animal power. Steam was this breakthrough of actually placing that energy in a factory or a ship or a train. It powered the industrial revolution, that changed the world. Oil is liquid energy. It's stable energy at room temperature. I can hold it in a barrel, and I can

use it for mechanical power, thermal power, light, electricity, etc. And oil once upon a time made the richest man in the world. Electricity is clean, silent energy, and of course it permeates all of our lives. You don't see any essays on the power of electricity from Archimedes, or from Newton, even though they were geniuses, they couldn't conceive it. Of course, now we do conceive it, and it's pretty obvious everything's got to be remade by it. Fermi developed a controlled chain nuclear reaction. So it's basically, clean, carbon, free energy.

Satoshi's contribution is the discovery of digital energy, that you can program on a computer and channel through time and space. Of course, the geniuses of the 20th century don't think about it any more than the geniuses of the 16th century thought about electricity. But what it means is I can now capture a billion dollar worth of something valuable, hold it for a thousand years in cyberspace, or move it back and forth between here and Tokyo 60 times a second. That is a profound idea. The most lucrative application of digital energy is the digital transformation of capital. Capital is a form of energy. We, as investors, are interested in making money. If you look at the wealth of the world, total global asset value stands at \$900tn. People invest in a lot of things. They're invested in bonds (\$300tn), real estate (\$330tn), equities (\$115tn), money (\$120tn), art (\$18tn) and gold (\$16tn). Bitcoin is just 0.1% (\$1.3tn) of that wealth in the world. Half of this wealth (\$900tn), are assets that are held for utility value, like a car to drive, a house to live in, a building/ factory to operate. The other half is just long-term capital. It's just store of value. People oftentimes ask what's the use case of Bitcoin. Well, the answer is right in front of their face. It's the most profound, most valuable use case in all of humanity in the history of the world. **It's long term capital preservation.** Every government, corporation, wealthy person, wants to keep their money, or they want to preserve their wealth for future, and that is the primary thing everybody's talking about on CNBC every single minute of every day. Capital is economic energy. You can call it money, or wealth, or power, or value. But whatever it is, Bitcoin represents the transformation of our capital from financial and physical assets to digital assets.

If Einstein was to articulate the 1st Law of Money, the lifespan of your asset is equal to the value of the asset divided by the annual maintenance cost to maintain the asset in pristine condition. This also is very similar to the idea of stock to flow. If you think about financial assets, we keep our capital and everything from the Argentine peso to a diversified stock fund. But it doesn't take a rocket scientist to figure out that there are risk factors that dilute the value of your financial assets every year, whether it's a tariff, a tort, a toll, or inflation, or obsolescence, or war. These things undermine you. If you're holding all your money in pesos, and the inflation rate's 40%, you're going to have to post \$400,000 of capital for every 1 million dollars every year to keep the same amount of wealth. You can see why it's a short-lived capital asset. That's why you don't store all your wealth in a hyper-inflating currency. But, the result of all that is, people oftentimes chase after physical assets. And if you talk to the wealthy in the world, they look for alternative assets. Sometimes it's a painting, sometimes it's land, it's real estate, a warehouse, a Ferrari or a yacht. But, of course, you can see the maintenance cost on a Ferrari or a yacht is so high that you won't stay rich for more than a few years if you put all your money in Ferraris. If you bought raw land, you pay 1.1% property tax. So, buying \$100mn of land comes with an obligation to pay \$100mn of tax over 90 years, if the land is not assessed up. Of course, it will be assessed up, which means that you're really plunged into a real estate business trying to find tenants that will rent the land and pay you enough to pay the tax and pay the fees, and you're going to have to deal with a bunch of risk factors over the life of the property or the physical asset - tax, competition, recession, torts, decay, storm. There's a storm about to hit Tampa. If you had all your money sitting in beachfront property in Tampa right now, you would be worried. You can't even afford the insurance on it. So, are physical assets the solution? Not any more than financial assets. **All physical and financial assets are temporary solutions.** Satoshi discovered a method to transfer value without a trusted intermediary. Every school kid can tell you this. But this is not the insight. If you're an investor, the thing you should be focused on is not that you can transfer value without a trusted intermediary. That's what the kids focus on. **You should focus on the fact that Satoshi discovered a method to store value without a trusted intermediary.** If you can store a billion dollars in cyberspace, you're not subject to all of the counter party risks that come with putting your money in a bank or putting your money in the ground. Satoshi created an asset without the risk of a currency, a stock, or a bond, and without the physical risk of real estate or property. That is the profound idea. Bitcoin represents a revolutionary advance in asset lifespan, because you've got a bunch of bad assets that have a useful life of 1-10 years. Nobody invests in those. No smart investor would. But you have a lot of mainstream assets in the 20th century. They have a useful life of 10-100 years. Everybody invests in those assets. They're all owning warehouses, buildings, paintings, land and sports teams and the like, but none of them will look at you with a straight face and say, I really believe my asset's going to last hundreds of years. It's just not going to happen. Bitcoin is a 1000year+ asset you can. You can buy a billion dollars of Bitcoin, custody it for less than 10 basis points and be reasonably sure in 100 years that you still own the same pro rata share of the network which is going to appreciate dramatically in value over that time frame.

Bitcoin represents digital capital. Think of it as a building. You have \$100mn, you buy a building in New York City. What would you like to strip away from that building? You'd like no tax, no traffic, no tenants, no torts, no trouble, no mayor, no weather, no corrosion, no regulator, nobody to rent control you. You would like to have no one to expropriate your building right, no one to reroute traffic and turn off the subway underneath the building. Those are all the risk factors of the building. But what

would you add to the magical building? You would like it to be invisible, indestructible, immortal, teleportable, programmable, divisible, fungible, configurable, musical, magical in that way. Musical means - can I vibrate the building at 60 Hertz, at 60 times a second. Can I move it back and forth between 10,000 counterparties on 16 channels at 440 Hertz? You can't do that with a building. You can do that with pure digital capital. Computers can do it. High frequency traders can do it. The AIs can do it. When a mayor, walks past a building in your city and they see someone with \$100mn building, all they think is that's an entity that's richer than me, that can afford to pay more taxes so that I can do what I want to do. Which is why you'd like the building to be invisible. No one would resent the fact that you have the money, and maybe you wouldn't be taxed on it, because they know it's teleportable, and if they jack the tax rate to 3%, or 4, or 5% a year in the city where the building is, the building teleports to Singapore. So, it's not just digital capital. Bitcoin is global capital. I am going to give you a test. I'm going to give you \$100mn, and send you to Africa, and ask you to buy anything you want in any country in Africa with the only provision that you have to keep it for 30 years. The question really is, what're you going to buy in Africa? And, the answer is nothing. There's not a single thing, not in a single country where you want to invest \$100mn (if you don't want to invest in Bitcoin). Now, I'm going to drop you in Venezuela, Cuba, North Korea, Argentina and give you the same question. Now, I'm going to drop you in Russia or China and give you the same question. I'm going to drop you in Europe. If you go to a European and you ask them if they would like digital dollars or digital Euros on their hardware wallet/iPhones? 99 to 1 favor dollars. Europeans don't even want the euro. Nobody wants to hold a foreign currency, or a foreign property, or a foreign company, or a foreign alternative asset, because they're all subject to massive counterparty risk. So, the top of the tower here, the capital market everybody loves is the most powerful nation with the most powerful currency, with the most secure property, with the most secure companies, with the most secure assets, with the deepest capital markets in the world. That's the United States. So, if you live in the U.S. you're probably heavily weighted toward those things. But if you live in Nigeria, and you're a billionaire or a corporation, what are you supposed to do? And the answer is, everything is an awful choice. Most of the choices result in your impoverishment over the course of 3 years, 5 years, 10 years, or 20 years. The Russian currency collapsed 25 years ago. The Brazilian currency collapsed 25 years ago. The Argentinian currency collapses every 20 years for the past 100 years or 200 years. So Bitcoin represents digital capital, that's global. And if you start to put yourself in the position of every country on Earth other than the US, all 300 million companies, all 8 billion people and then imagine that you're stuck outside the US, or might need to leave - you can see that Bitcoin represents the most compelling capital preservation tool that they've ever seen in the history of the world, or they're ever going to see. You want another simple metaphor. It's Cyber Manhattan. You can buy a block if you like. There'll never be more than $276 \times 276 \times 276$. It was always intelligent to buy Manhattan. Every 30 years for the past 300 years, you would have bought it from someone that paid less than you, you would pay more, and it still would have been a good trade, because one day everybody with money in the world wants to put their money in the greatest city in cyberspace.

What about volatility? Yes, Bitcoin is volatile. But volatility is a feature. It's not a bug. It's volatile because it's the most available, leverageable, liquid capital market in the world. But the volatility attracts traders because they can get superior yield. It attracts investors because they get better returns. Financiers can securitize the asset class. It fixes the problem that 300 million corporations have with a bad capital structure. And so, it's a feature, not a bug. Even Howard Marks famously says, volatility is not risk. Volatility is just vitality. It's just the motion. There are a lot of things that are volatile. The best basketball player on the court is the most volatile. LeBron James is volatile. There's a difference between moving fast with a lot of energy and taking risk. You want the energy, you know, you want to be the person holding the machine gun. The risk is not having it in your hand if the other person does.

What about performance? Everybody's searching for an uncorrelated asset to the S&P with higher returns on a risk adjusted basis. If you reason from 1st principles, you can see that Bitcoin is that asset Bitcoin is an asset without risk facing a competitor, a country, a corporation, a creditor, a culture or currency. You spend enough time, you'll determine that. You can derive it from 1st principles, from physics, from mathematics, from philosophy, from logic, if you like. But if you don't want to think about it that way, you can also simply backtest it and derive it from statistics. Fidelity's research on Bitcoin's performance shows that Bitcoin has got a 19% correlation to the S&P, and it has the highest Sharpe ratio of any asset class you can buy. So, if you want a high Sharpe ratio, and you want low correlation, Bitcoin is the answer. You don't even have to understand why, I could give you a hundred hours of why. But the statistics are what they are. Those are the facts. The result - over the past 4 years Bitcoin (49% p.a.) is outperforming the S&P (14% p.a.) by about a factor of 3 to 4. It is doubling the performance of the Magnificent 7 (27% p.a.). It's 5x real estate v(10% p.a.), 7x gold (7% p.a.), and it's utterly crushing bonds (-5% p.a.), which are just a disaster.

Now, people all say it's going to be copied. It has been copied 10,000 times. Every copy failed. All the major cryptos are collapsing against Bitcoin. You can see them in the statistics. Bitcoin dominance in the past 12 months is creeping up steadily from 50% to 58%. The number 2 crypto (Ethereum) is falling through the floor down 36% YoY against Bitcoin. So, it's a good idea. The question is, will someone copy it? Yeah. A million times, and all the smart money in the world will look at all of them and decide the best one. It's kind of like, can you copy JP Morgan? Sure you can. I can create Mike's Yo-Yo bank, but the issue is all the rich people with all the money in the world don't want to put their money in Mike's Yo-Yo bank. They want to put their money

in the bank that's too big to fail. **Bitcoin is the bank that's too big to fail in cyberspace.** Did you know it in 2009? No. Did you know it in 2014? No. But, now you've got a trillion dollars of votes in this topic. Larry Fink came on CNBC. What he says is, it's an asset class. He was wrong. He didn't understand it, then he studied it. Now he believes it's a global monetary instrument for people to express their concerns about counterparty risk, to hedge against inflation. It has a real industrial use case, you should check it out. It's got a place in your portfolio. BlackRock is now preaching this around the world. You'll see it more and more. On the heels of this, earlier this year they launched IBIT. IBIT is the most successful ETF in the history of Wall Street, and of course, the most successful Bitcoin ETF.

What backs Bitcoin? People ask what backs Bitcoin? You hear this all the time. Someone with 30 minutes of research into Bitcoin thinks nothing backs it. It has got no use case. **It is backed by power** - the only thing that backs anything in this world. US is backed by power, US Navy is backed by power. Bitcoin is backed by 700 exahash of computer power. What is that? That is more power than Amazon has in AWS, that's more power than all of the Facebook data centers or all the Microsoft data centers. How much power? More crypto power than any nation, state or company, can muster - 18 gigawatts! How much power is that? That's more power than the US Navy uses for propulsion. It's 18 full-on nuclear reactors. A lot of power. A simple back of the envelope calculation suggests that more than \$800bn has been invested in the Bank of Bitcoin, or deposited into the Bank of Bitcoin. The second most isn't even 1% of this number. 99% of all the money invested in crypto is invested in Bitcoin. But the most important point is MicroStrategy invested \$250mn in Bitcoin in August 2020. Since then, we've invested \$9.9bn total. Nobody else in the universe has announced an investment of \$250mn in anything else in the crypto universe. So, you see that smart money made a choice. That's why Bitcoin is winning. It's backed by 420 million pro-crypto people. It's got a lot of political power. They're very active. and there's 200 million people that have some bitcoin investment. So, when you look at the network, this is the too big to fail bank in cyberspace. This is the winner. This is the digital, dominant network. This is the Google of money. It's the most powerful crypto network in the world. Once everybody has decided the winner, the network effect is overwhelming. It's not just a bunch of millennials that just like the network. It's not the network effect of Snapchat or Twitter. It's the network effect of a trillion dollars deciding that they're the smart money. They want to put their money in cyberspace. They want to keep their money forever. If you want to keep your money forever, and you don't trust a government, you don't trust a company, you don't trust a bank, and you don't trust currency, you try the crypto thing. When I talk about investment thesis, what I say is, you want to get rich, find something everybody needs, nobody can stop and nobody understands. If 9 out of 10 people disagree with you, roll their eyes, or don't get what I just said, that means that you've got a 10x or more gain in front of you. For example, I bought Amazon stocks in 2010. Nobody agreed. They all thought I was going bankrupt. In 2020, everybody agreed with me because everybody was locked up, and they were all like, "You've got to buy Amazon stock". If you look at the performance of Amazon now, it is the weakest of the Magnificent 7 investments, because everybody understood Amazon was a good idea in the summer of 2020. That's why it's an awful investment idea.

You're watching the birth of a new asset class. We went through a stage of idealism, then the crazy years, and now we're in the stage of institutional and corporate adoption of this. We're barreling toward a point called "point99." If you look at all the milestones, you had an immaculate conception. Satoshi went away; IRS designated this as property. The block size wars were fought over forks and splits. There was a winner: Bitcoin came out, the winner of the block size wars. The issue of whether Bitcoin would be corrupted was largely settled by those wars. What happens if it's copied was also settled by those wars. Fidelity legitimized the space in 2018. COVID poured gasoline on this fire in 2020. MicroStrategy entered in 2021. The new administration embraced Bitcoin as a digital asset and a commodity in 2021 and 2022. The comments by Gensler, Lagarde, and Powell are quite clear that it is an asset and a commodity. The famous speech by Janet Yellen, the Satoshi Nakamoto speech, underscored that this was a digital transformation of capital markets. If you were paying attention, it would have occurred to you as an investor that the Secretary of the Treasury talking about the legend of Satoshi Nakamoto is a big deal. It's the first time in a hundred years that we've actually had a new asset class and a new way to think about money and capital that's being embraced by the regulators. In 2024, the spot ETFs launch. That's the first time you can actually buy this in a secured wrapper. The Sab 121 movement kicked up later that year. That's basically the movement to allow banks to custody, trade, and buy Bitcoin. The embrace of crypto by Trump and Kennedy in the summer was a big deal. The approval of IBIT and FBTC by Morgan Stanley for solicited sale is another big deal. The implementation of mandatory fair value accounting in January 2025 is going to be another big deal. **Basically, the three big prongs of institutional adoption are bank acceptance, fair value accounting, and regulatory acceptance** in the form of spot ETFs that you can buy, sell, and option. All of that stuff is pretty much happening for the first time in 2025. 2024 was sort of year zero of institutional adoption. 2025 begins the digital gold rush, and the gold rush is straightforward. You've got 10 years to get Bitcoin before there's no Bitcoin for you. Once you get to January 1, 2035, you've only got 1% of Bitcoin trickling out over 106 years. That's less than MicroStrategy already owns. That "point99", as we call it, is the point of reflexive supply shock. 99% of the Bitcoin will have been mined and sold into the open market by January 2, 2035. That works out to about \$71bn at today's prices, or \$20mn a day. MicroStrategy is buying half of that right now. It's not a lot of Bitcoin. If someone comes in as an organic buyer with \$10mn of purchasing demand per day, the price has got to move up to find a willing seller because nobody wants to sell their Bitcoin, as it's superior to everything else they could buy. So what you're

going to see is something quite amazing. At “point99”, the creation of Bitcoin is offset by the lost Bitcoin; the supply becomes fixed. It becomes the world’s first deflationary asset. I guess that’s a big statement: the first deflationary asset, that makes it the world’s first perfect money. The Austrian economists couldn't imagine this because they didn't know how to create it, any more than a philosopher in the 15th century could conceptualize electricity. It didn't happen until we had modern cryptography, internet and semiconductors.

This ushers in the age of institutional adoption of Bitcoin. This is an asset class. It's not just an asset. You already see an explosion of ETFs, countries, private companies, and public companies; they're all buying Bitcoin. There are 40 spot Bitcoin ETPs holding a million Bitcoin now—12 in the U.S. and 28 outside the U.S. They're all solving the problem of compliance and custody. There are 70 publicly traded Bitcoin-related securities. There are derivatives. The most successful ETF launches are Bitcoin derivatives across the board, coming fast and furious. The **factors driving Bitcoin adoption** include the approval of banking, custody, trading, and credit. The BNY Mellon move into Bitcoin is something to watch. The approval of in-kind creation and redemption, and the approval of options to trade on the ETPs, is a big deal. The approval of a digital asset framework by the administration is also significant. We've been promised one by the Trump administration if they're elected, but I think we'll get one under the Democrats or the Republicans sometime in the next four years, for sure. AI is driving capital appreciation, which will drive the adoption of Bitcoin because the companies looking to get rich off AI will buy Bitcoin. The AIs are going to buy Bitcoin because, if you're an artificial entity, how do you get a bank account? You're going to capitalize your AI with Bitcoin. The issuance of sovereign debt is contributing to Bitcoin adoption. You can count on every government in the world to issue more currency and more debt, inflate the money supply, and drive the nominal value of Bitcoin up. Integration with big tech like Apple, Microsoft, and Google will also drive Bitcoin adoption. Of course, increased awareness plays a role; everybody would like to get rich without taking risks, losing money, or having to trust anyone. It's a very simple idea: who doesn't want to get rich, avoid investor risk, and have control of their own financial destiny? That would be everyone in the human race. Once they figure out that there is a technical choice or an alternative for them, you're going to see them embrace it. Of course, chaos helps—every time a currency collapses, a government collapses, or a nation-state goes into chaos, it drives Bitcoin adoption. You might have the option to adopt Bitcoin if you live on the Upper East Side, but if I drop you in Nigeria, Syria, Iraq, Afghanistan, Lebanon, or Turkey in a war zone, it's not so optional anymore. Think about what you would do with your money if you were stuck in any of those places.

If you want to model the future of Bitcoin, there's an open-source model we call Bitcoin 24. Google it; it's on GitHub. You can plug in any assumptions about inflation, innovation, monetization, and growth. You can even run the model for an individual, corporation, your institution, or a nation-state. Here's what the model suggests when you plug in your assumptions. My forecast is the base case: Bitcoin appreciates from 0.1% of the assets in the world to 7%, it grows 29% ARR, we get \$13 mn /Bitcoin by the year 2045. A bear case is \$3mn; a bull case is \$49mn. You don't have to buy my assumptions; put in your own and come to your own conclusions. In that world where Bitcoin does go to 7% of assets, we're just assuming that equity grows fast and gets juiced by AI. We're assuming a gradual demonetization of gold and bonds, we are assuming that currencies trade sideways, art continues on, maybe a bit better. The overall monetary expansion rate is 7%, which is the number it has been for the last 100 years in the U.S. dollar. In our base case, the total global asset value stands at \$4,000tn in 2045. Equity (\$850tn), real estate (\$1,360tn), and bonds (\$840tn) are still a big deal, but Bitcoin becomes a noticeable block (\$280tn).

The MicroStrategy Bitcoin Story - So let me just switch gears to the MicroStrategy story. Our journey is defensive to opportunistic to strategic. We started, as I said, because it was either take a risk or die quickly or die slowly. I thought maybe taking a risk was a better idea. We ended up raising \$10bn in capital and acquiring 252,200 Bitcoin. We have acquired Bitcoin every quarter for the past four years—40 times. You can type "Saylor Tracker" to get this; it gets updated dynamically. We're up \$6bn on that. From a corporate point of view, we just keep adding Bitcoin. We're a very misunderstood company; people don't understand what we're doing. What we're doing is akin to a real estate development company, but we're buying Bitcoin, not real estate. I want you to imagine a real estate development company in Manhattan. They say to you, "We're going to build buildings in Manhattan because we believe in Manhattan, and we're going to buy up all the land around Central Park." You'd be like, "Okay, interesting. If I get Manhattan, I get that." Then another company comes along and says, "We have the same idea, but we're going to take ourselves public, and we're going to issue securities—public debt, public bonds, public equity. Then we're going to raise money and buy Manhattan and build buildings." Well, that's even more interesting. What if I told you I could do that, but because it's so volatile and people don't understand it, I can raise \$4 billion at 80 basis points interest and invest in real estate in Manhattan? If someone figured out how to create a company to raise money at less than 1% interest and build buildings in Manhattan or buy property there, they would have a competitive edge over all the other developers. If Manhattan is the winning city, they'd have a competitive edge over people doing this in Des Moines or Dayton, Ohio. MicroStrategy is the largest public holder of Bitcoin, but we're really pioneering this idea of recycling capital. While we've done this, we could have invested in bonds. Look at the capital structure of a company when your capital asset is -5% a year (bonds) versus +50% (bitcoin) a year; it seems pretty obvious. If you get the arbitrage, you're borrowing money at 1% and investing at 49%. You're capturing a 48%

arbitrage yield. It's a good idea. What happens? Well, MicroStrategy has outperformed all 500 companies in the S&P index over those four years—every one of them. And, of course, we've outperformed Bitcoin because what's the only thing better than Bitcoin? It would be borrowing money at 0% interest and buying Bitcoin with it, or issuing equity at a 60% premium—or 100% premium—to underlying Bitcoin and then buying Bitcoin back with it. We're just arbitraging the difference between certain fiat capital markets and the digital capital market.

You can see MicroStrategy (1455% returns since Aug 2020) compared to the top 10 constituents in the S&P 500. What I say to companies all the time is, "If you can copy Nvidia, have at it. Go ahead. Do it." Of course, you should. But even Apple, Google, and Microsoft don't think they can copy Nvidia. Anybody can copy MicroStrategy. If you want to copy MicroStrategy, you start by buying Bitcoin, then issue equity at a premium to the Bitcoin, and then issue debt backed by the Bitcoin. The big idea is that we are recycling the capital with a weak capital cycle, investing in something that yields three times the cost of capital instead of yielding 10% less than the cost of capital. In the traditional finance world, capital is toxic, and the Treasury asset has a -10% real yield. We are getting a +30% real yield versus the cost of capital, or +40%. If you can beat the S&P Index with your capital asset, then how much capital do you want? I mean, the answer is infinite. So we just keep recycling it. That's how MicroStrategy's enterprise value has grown from \$600mn to \$45bn in four years.

Of late, we have developed a company that's securitizing Bitcoin. So why do you buy MicroStrategy equity? Because you want 1.5 times the performance of Bitcoin, or you want 1.5x the volatility of Bitcoin. What's on top of it? Derivatives like MSTX and MSTU. They give you three times the volatility of Bitcoin and three times the performance of Bitcoin. And then what's on top of that? The entire options market for MSTR. It's a \$30 billion to \$35 billion open interest, giving you 10 times or 20 times. So if what you want is more volatility and more performance, you go up the stack. But if you want less volatility, less performance, and less risk, you buy a bond. So you buy one of our bonds, and you get half the upside of Bitcoin, none of the downside. Right now, we are basically creating leverage by tapping into the convertible bond market. Over time, we'll explore the fixed income market; we'll look at issuing preferred shares—things that are, in essence, a swap. I will guarantee you a x% fixed interest rate, and I will take the Bitcoin yield and put you senior in the capital structure. I will arbitrage the difference, and you will get low-risk, low-volatility performance, which is better than the comparable securities you could buy in the fiat market. In a way, MicroStrategy is eating into the equity market, the options market, the convertible market, and other markets like the fixed income market. Why? Because we have 50% ARR crude capital coming in one side of the factory (like crude oil), and out comes the other side—petroleum, kerosene, tolling, propylene, gasoline. A lot of people can't handle crude oil; they want the refined products. We're bridging the securities market with the crypto market, and we're doing it with an operating company that has flexibility and a good capital structure. Right now, we've got \$15bn to \$16bn of Bitcoin and \$4bn of debt. But the debt is no recourse, unsecured, no covenants, no liens, at 80 basis points interest. It's just about the most innocuous capital you could buy. I would say there's not a single company in the world that wouldn't be better off if they borrowed \$4 billion at 80 basis points—no liens, no covenants, no restrictions—with a four or five year duration—and invested it in whatever they're doing. It's not a complicated idea. Why can we do it? Because the underlying capital asset has a 50 volatility. We leverage it up to get a 75 to 80 volatility. We sell that instrument into the securities market, then recycle it back into Bitcoin, lever it up again, and it's a rinse-and-repeat trade. It wouldn't work with gold. It wouldn't work with real estate. It wouldn't work with a securities portfolio either, because, from a regulatory point of view, you can't lever the balance sheet, or because there's not enough volatility, or because there's not enough performance. Bitcoin is the first time in the history of the capital markets where you get a high-performance, high-volume commodity that you can hold on a balance sheet. It's very unique in that regard.

I want to thank everybody for your attention. I am happy to take any questions you might have.

Q&A SESSION

Gautam Chhugani: Thanks Michael. Appreciate it. Let's move on to the Q&A session. You explained arbitraging the fiat markets with the Bitcoin markets. With \$4bn raised from the market, scalability of the debt becomes an important aspect of the strategy. The first question on MicroStrategy playbook - given the limited operating cashflows from the business, how scalable is the debt strategy? Also, from investors point of view, what are the risks associated with the strategy that could lead to a scenario where this arbitrage strategy breaks down?

Michael Saylor: Good questions. For the first part, I think it's infinitely scalable. I don't have any problem, seeing how we could raise a \$100bn more capital and then \$200bn after that. It's a trillion dollar asset class going to \$10tn and then going to \$100tn. The risk is very simple - it's Bitcoin. You either believe Bitcoin is something, or you believe it's nothing. If you believe that Bitcoin is an asset class, not going to 0 tomorrow, then you're taking the Bitcoin risk. If you hate Bitcoin, you shouldn't be involved in any of this. Because if you think it's tulip bulbs and it's going to 0, then everything is geared to Bitcoin. But once you accept Bitcoin. Then it's just a debate about what rate will Bitcoin grow at? Does it grow at the rate of the S&P Index? Does it

grow 2X, 3X or half as fast? That's the debate. Now, why is the capital scalable? We just called our 2028 note, we're not geared to EBITDA. We don't have to pay the interest in EBITDA. Firstly, we're paying 3 quarters of a percent interest. So you could have \$10bn dollars of debt with \$75mn. Secondly, the more important point, there's no covenants that are geared to EBITDA. The operating business is not a limiting factor. There's no reason why we can't do \$4bn in debt. Then \$8bn in debt, then \$16bn in debt, then \$32bn, then \$64bn and \$128bn. What if Bitcoin goes to 0 growth and volatility at some point? If the performance and the volatility bleeds out of the entire asset class? That's what puts a ceiling on how big MicroStrategy can be. But right now that's 50-50, and if it goes to 20 ARR and 20 volatility, the strategy still works just fine, right? And I think when Bitcoin is a hundred trillion dollar asset class, it's still going to be 8 percentage points better than the S&P and 8 percentage points of volatility more than the S&P, even when it gets big. So I don't really see a practical limitation on the idea of scaling. We're not stuck with conventional metrics. The convertible bond market's been \$40-\$50 bn. But we'll grow it. And the preferred stock market is \$400bn. I mean for us to get 5-10% of that. I don't see why we can't do that. And the fixed income market is, of course, orders of magnitude bigger than that, right? So, there's massive amounts of capital that's getting inferior yields. There's a lot of people that don't want 50 ARR and 50 volatility. They want 25 ARR and 10 volatility. They would take half the performance if I just made the volatility go away. And so how do you make the volatility go away. You just put that in a capital structure where you've got \$20bn worth of permanent Bitcoin capital, and you put the bottom one to the most senior \$2bn of that tranche in, and you either strip the volatility away or strip the performance away, or you give people half the upside and capital gain. Our current convertible bonds are like 80% of the upside of MSTR and 20% of the downside. You know there are a lot of people like that, right? A lot of people want that proposition. And how do you buy Bitcoin at the all-time high and not take downside risk. I want 50% of the upside but 5% of the downside. You have to be able to issue various types of debt. So a fixed income instrument guarantees you a yield without a lot of upside. Just give them more yield than they're getting from the existing markets, and then a convertible piece of debt gives you the upside with a downside protection. And we're just feeding all those different markets right now, and I think there's no reason why we can't continue to grow vigorously because we have a deep liquidity pool. We have a deep options market. We have credibility as a bond investor, and those are unique aspects of MicroStrategy.

Gautam Chhugani: Bitcoin has followed 4-year cycles with some degree of predictability so far. We will see what happens as it gets more institutionalized, whether it continue to follow these cycles or not. In a scenario of elongated 2-3 year bear market, if the capital market shuts down for you, how does the company generate cash to pay interest and service the debt?

Michael Saylor: We can generate cash by continually refinancing all of our existing assets. We raised, \$1.1bn worth of equity few weeks ago and bought Bitcoin with it. But we didn't have to. Later, we raised \$1bn via convertible notes. We refinanced an entire \$500mn note, we paid it off and bought Bitcoin with the rest. The \$500mn cash would pay the interest bill the company currently has for the next 12 years. So the key point really is we're a bank. We are raising money via time deposits from investors. And we're loaning it to the Bitcoin network. There's a lot of people that want 7% interest. We sell them an instrument that gives them 7%, and we turn around and invest it at 50%. So when would this not work? Well, it doesn't work if Bitcoin yields less than 7% forever. That just means that our equity shareholders get diluted a little bit. It's dilutive to the equity, if we actually sell a fixed instrument that pays more than Bitcoin. But it has to kind of yield 0 forever, and volatility go to 0, for this to not work. The interest payments are so de minimis as to be a rounding error right now. But if we were to raise \$10bn, with some kind of coupon, you would be putting \$10bn of assets on the balance sheet. So, the company's got \$30-\$40 bn worth of assets. If we got too levered, we just turn around and sell billions of dollars of equity to delever. It's not like we're doing the one thing overnight, instead we are doing it in \$500mn to \$1bn tranches, back and forth of progressive delevering-levering. Right now, the company has effectively 20-25% leverage. And if Bitcoin goes to \$100,000, leverage goes below 20%. And the problem is not leverage, its deleverage. So, we're naturally delevering at the rate of 50% a year. 50% ARR on \$16bn means \$8bn of equity in the next 12 months. So growth of Bitcoin, issuance of common equity and conversion of debt is deleveraging. We just called our 2025 note. It created massive amount of equity boost. Like our 2027 notes are in the money, as our converts hit in-the-money they're again deleveraging. So, we have a set of dynamics that are continually deleveraging by building permanent Bitcoin capital. MicroStrategy has got, like \$16bn of Bitcoin. Blackrock's got \$22bn of overnight deposits. You understand the difference between having \$16bn forever that you can leverage versus having \$22bn that people can withdraw tomorrow. So, we're building up a massive, a large digital capital base that we can then lever that will support our equity, our options, our derivatives, and all the fixed income instruments we issue. The company always has the option to refinance, retire, or delever in order to get rid of the instrument that we don't like. We paid off the Silvergate Loan. We did the 2028 senior secured debt. The covenants got restrictive, we paid it off. We take out any kind of instrument in the capital structure that is getting in the way of growth. But ultimately, any given time, the capital markets have opportunities, and the question is, is it the fixed income market, the convert market, the preferred market, or the equity market that's offering cheap capital. We will just tap any and all of them, and maybe all at the same time in sequence and then wrap that back into Bitcoin. I just said \$10mn a day of Bitcoin is the difference. It's not a lot of money. It's \$8.5bn a year worth of natural selling at the current price. MicroStrategy raised nearly

\$5bn this year so far.

Gautam Chhugani: Investors often ask about MSTR's end game? You refer to yourself as the Bitcoin Bank and currently own 1.3% of world's Bitcoin. Let's say MSTR ends up owning 2-3% and Bitcoin goes \$1Mn, valuing your holdings to \$400-\$500bn and then add a premium to it. Should investors see still Bitcoin as the core business of the company, aligning with MSTR's positioning as Bitcoin Development Company, or would we see MSTR pivoting to buying other diversified assets?

Michael Saylor: This is the most valuable asset in the world. The end game is to be the leading Bitcoin Bank, or Merchant bank, or you could call it a Bitcoin Finance Company. If we end up with \$20bn of converts, \$20bn of preferred stock, \$10bn of debt and say \$50bn billion of some kind of debt instrument and structures instrument. We'll have a \$100-\$150bn of Bitcoin, the company trades at a 50% premium. With more volatility and ARR, we can build a company that has a 100% premium to \$150bn worth of Bitcoin and build a \$300-400 bn company with the biggest options market, the biggest equity market. And then we basically start to chew into the fixed income markets. And we just keep buying more Bitcoin. Bitcoin is going to go to millions a coin, you know, and then we create a trillion dollar company. The biggest risk is deleveraging. Is there a market today for people that want to buy corporate debt that's highly secure, over collateralized and pays 5% interest. Yes, Apple's proved it. Is there a market for \$400bn of preferred stock that yields 500-700 basis points? Is there a market for private credit, for junk bonds? Yes. Name a single fixed income market that yields even half as Bitcoin or 25% a year. Maybe you get a 3rd of Bitcoin's performance by taking enormous credit risk and enormous counterparty risk. Well, MicroStrategy's idea is simple. Instead of trying to figure out how to loan money to individuals and corporations and get a spread. We're selling securities to investors, guaranteeing them the performance or giving them a performance upside in equity or converts, or we'll give them a preferred yield, and we're loaning the money to the Bitcoin network. If the Bitcoin network \$10tn, why couldn't there be a \$500bn or \$1tn finance company that is stripping the risk, stripping the volatility, stripping the performance out of crude capital. What did John D. Rockefeller do, John D. Rockefeller took crude oil and gave you kerosene and gasoline and Diesel. How big can the business get? Pretty big, I think there's a room for a \$1tn company that securitizes every flavor of capital. And I'm talking about the transformation of the capital markets. All these securities are backed by digital capital, not by physical, financial or property type capital. And so that's our end game. We're not here to diversify. The whole value of the stock is that it's 150% Bitcoin. That's why people want the stock. My advice to anybody that wants to diversify is put 95% of your portfolio in something other than MicroStrategy. I promise you we will stay 150% Bitcoin. We're a play on the securitization of the asset class with the idea that the world's full of people, that they would rather have 10% ARR and 10 volatility than 50 ARR and 50 volatility, even though theoretically, why do you want 10 instead of 50. And the answer is, they just do. So we're just going to give them the 10. We'll take the other 40, and our equity holders get the 40, the fixed income people may get to 10, and it all becomes just an exercise in tapering the balance sheet capital structure to avoid being too levered or too unlevered. And we just do that quarter by quarter, bit by bit.

Gautam Chhugani: And you could describe yourself as a business that is actually pioneering or incubating Bitcoin capital markets...

Michael Saylor: I'm going to make an observation. I think that the convertible markets are kind of unhealthy until we came along. We fixed them. The preferred market is unhealthy, the fixed income market is unhealthy, and the equity market is unhealthy. A company our size, or twice as big, would have \$3mn of open interest in the options market and \$3mn or \$10mn a day of equity trading. It's unhealthy. What did we do? We went from \$3mn to \$30bn. We went from \$3mn a day of equity to \$3bn a day of equity. The big idea is that digital capital is better than analog capital. I explained why: because of counterparty risk in real estate and finance, etc. Here's the second big idea. When a small real estate investment trust raises \$500mn in the fixed income market to invest in real estate in Chicago, it faces a five-year capital cycle, and the credit is heterogeneous. They can't go back the next week and do the same trade. You can't go back month after month; you have to find a different \$1bn worth of real estate in New York or a different \$1bn worth of real estate in Chicago. All of the credit is complicated. The capital cycle is long. When we go to the convertible market and sell an \$800mn bond to buy Bitcoin with it, the credit is homogeneous, and the capital cycle is one week. One week after we started the process, we've already invested it and generated a massive yield for our equity shareholders. We make \$500mn in five days on the arbitrage - no risk. The risk is that I am long Bitcoin. Once you get long Bitcoin, the arbitrage is \$500mn made in five days. So, what happens when you do that? You put that on the wire, and the equity holders react and the stock trades up. We went back the very next week in the first quarter and did another bond issue. Our capital cycle wasn't six years; it was six days. The credit analysis is not about what the company is going to do with the money they just raised with their convertible stock. Everybody knows exactly what we're going to do, when we're going to do it, and how we're going to handle it. So, we've created a very special company. It has a super-fast capital cycle and a super homogeneous credit. We're giving everybody what they want. The investors on the bond side are getting low risk and half the upside and none of the downside, and the equity holders are getting 50% more of what they wanted and the option traders are getting what they want. So, in spot Bitcoin play, they sell you wholesale Bitcoin, charge you 20 basis points, and give you 50 ARR

and 50 volatility. We're providing you with the instruments above and below it. The point is, that's what those people do for a living, right? I have to trade the options; I have to arbitrage the debt. I want half the upside and none of the downside. My investor mandate says I have to have fixed income. We're just going to give people what they need. The capital markets are hundreds of trillions of dollars that haven't had access to these instruments. So MicroStrategy is the innovator, creating these digital capital assets as a security issued by a bank with permanent equity capital. That is how you get comfortable with the credit risk. I mean, you could do this, but if you had a dollar of capital, maybe you can't. If you're a degenerate, you could get wiped out on a Saturday afternoon. You can't make good on the swap, and one important thing with swaps is that if I'm going to swap, I want to know that the counterparty can make good on their side of the arrangement in a 30-year swap, I mean, will they be alive, and will they have a pool of capital? That's why that market is so tricky. We're basically providing people with a transparent capital base to create all those different instruments. Ultimately, the capital we raise flows into Bitcoin, and that's reflexive because you can't create more Bitcoin. I'm going to give you an objection and then the answer. Everybody says it sounds like cornering the silver market. It's not cornering the silver market because the stock-to-flow ratio of silver is like 2; silver is not scarce. Anyone can melt down their silver and make more. It's misguided to use silver or commodities other than Bitcoin as a capital asset because you can generate it indefinitely with capital, technology, and human know-how. Bitcoin is the only commodity in the capital markets that is scarce, which provides leverage on this trade. You don't have to worry about a gold miner or silver miner dumping a bunch of silver, or a nation-state dumping a lot of Bitcoin on the market, undermining the trade over the long term. I think it's the best of all worlds. But if you spend a hundred hours, you'll realize that we've thought it through. It's not silver; it's Bitcoin.

Gautam Chhugani: How do you feel about the premium on your stock price? You obviously hold about \$16 billion of Bitcoin, and your market cap is about \$38 billion. New instruments are coming along like Bitcoin ETF options, or you could have a large corporation come through and say, "I'm going to do exactly what Michael Saylor does, and I'll do it even better."

Michael Saylor: Good question. First of all, the theory of the premium: if we can generate Bitcoin yield, if we can actually accrete Bitcoin per share, then it's like generating a Bitcoin dividend for people who are Bitcoin maximalists and want Bitcoin. If you had an instrument that paid you a 5% dividend yield every year and another instrument that paid you 0%, both backed by Bitcoin, you might prefer the former over the latter. The question is, what would you value that at? Well, if I trade 30-year swaps, and on a 30-year swap, if the interest moves 100 basis points, then the paper moves 20x. The duration is 20. So, every time the interest rate moves 100 basis points, there's a 20x move or a 20% move in the actual face value of the instrument. That's like an infinite-duration bond instrument. So, what's the right multiple to put on a company that generates dividend yield? It could be 10x, it could be 20x, it could be 30x. It comes down to - do you think the yield will continue? And is there a growth rate? MicroStrategy generated close to 18% Bitcoin yield this year. So, you have 18% more Bitcoin per share now than you had on January 1st, and we did that by taking advantage of cash flows, equity, and debt. I think the premium is very misunderstood. People think we have a premium just because we're the only way to buy Bitcoin. That's not true. We're the only Bitcoin refinery; we're the Standard Oil of Bitcoin. We're the only company that can actually create bonds backed by Bitcoin. That's the big idea. What's it worth if you're the only bank that can issue bonds, or more to the point, what if you were the only real estate company in New York able to issue public securities to the marketplace while nobody else could? Regarding competitors, they're not really competitors; they're more like cooperators. If you launch an ETF and you've got overnight deposits, raise a billion dollars, that's good—you'll offer 100% upside or downside, you know, it's impermanent capital. You're going to get the return and volatility of Bitcoin. If that's what you want, that's what you should buy; it's the right instrument for it. MicroStrategy is 1.5x. If you're a Bitcoin maximalist, you're always going to want that. If you look at MSTX and MSTU, these two derivative ETFs, they've raised \$600 million in about a week and a half. Why? Because they offer 2x MicroStrategy performance and indirectly 3x Bitcoin, people just want the leverage.

So how do you achieve that in a permanent way? I think MicroStrategy will differentiate itself through intelligent leverage to have higher vol and deeper equity. We have deeper liquidity than all the Bitcoin ETFs combined right now. This is partly because we have the options market, but also because they are high-volatility options. Even if IBIT offers options, they won't be high volatility, they'll be bitcoin volatility. And if you have black scholes and you plug in 50 instead of 80, you know which one do you want to trade. I don't see them as a threat but rather a benefit. For example, if Apple or Google bought \$50 billion of Bitcoin, they could buy more than us and they could drive the price through the roof. However, the question is: what percentage of their enterprise value would be Bitcoin vs Apple? MicroStrategy is unique in this regard. We started as a small company with a \$600mn enterprise value, and now we have over \$40bn, with 98% of that value in Bitcoin. When we create leverage, we achieve 150% of Bitcoin's return and volatility. You can't replicate that with large companies like Oracle, Microsoft, or Apple. They have more capital, but they can't achieve our volatility or Bitcoin performance because they need to built it on to other good business. If Apple bought \$50 billion in Bitcoin and kept buying, they could potentially add a trillion to their market cap. While this would be good for their shareholders, only 20% or 30% of their enterprise value would be Bitcoin, limiting their volatility unlike ours. They also wouldn't be able to securitize the asset with the diverse instruments that we can. Smaller companies, such as those valued at \$1bn to \$2bn, Russell 2000 company, could buy Bitcoin and double their market cap, but only 50% to

80% of their enterprise value would be in Bitcoin. They won't catch up to us in capital. Very small companies might reach 100% Bitcoin, but they won't have our liquidity in options market, and capital position. In this context, other companies should copy us because they will make money, and yes, it will drive the price of Bitcoin into the millions. However, this doesn't threaten our franchise or premium. The key idea is that one company can be the leading Bitcoin bank or Bitcoin securities leader, and to be that company, you need to be 150% Bitcoin. You might ask, "Aren't you taking a lot of risk?" The only risk I'm taking is Bitcoin risk. If I diversify that risk, it would destroy our pure play. I could buy another \$40 billion company right now, but that would cut my volatility in half and kill the options, liquidity, and fixed income markets. MicroStrategy has made a strategic decision to securitize Bitcoin as an asset class and will live or die based on Bitcoin. If you're willing to take some Bitcoin exposure, we can outperform Bitcoin and every other instrument available. MicroStrategy's convertible securities are better to all others issued in the market. The people that bought that convert 3 weeks ago made \$300mn or something in 3 weeks with the downside protection. Our strategy recognizes that not everyone will be 150% Bitcoin, but our job is to be the Bitcoin vehicle in the 2% or 3% of your portfolio that seeks Bitcoin exposure.

Gautam Chhugani: You've mentioned the concept of a Bitcoin bank, and investors often imagine you lending your Bitcoin to generate yield. What are the steps and timing to get there, if at all? What yield could you generate by lending Bitcoin, and who would want to borrow it?

Michael Saylor: My view is that it's much more intelligent to borrow a billion dollars from the fixed income market and lend it to Bitcoin at a 50% ARR, with no counterparty risk, than to reverse that and find someone willing to pay me 12%-14%. Lending to individuals, corporations, and governments is riskier than lending to Bitcoin. We don't currently plan to lend out our Bitcoin. Instead, we think it's a better idea to borrow \$10bn from people who would be eager to lend and give them a 100 basis point more yield, and then lend to Bitcoin for 30% to 50% interest with no counterparty risk. At some point, when institutions like JPMorgan and Bank of America start to custody and include Bitcoin as part of a collateral package, they might give loans against it. For example, if you have a portfolio worth \$10 billion with \$1 billion in Apple stock, \$1 billion in Microsoft, and \$1 billion in Bitcoin, I think they'd be willing to extend loans based on that. Right now, if you want to short MicroStrategy, those big firms charge 50 basis points for a block of stock to short, and there's little bit of yield in that market, but it's with too big to fail counterparties. Why would I want a 100 to 400 basis point spread with risk when we could capture a 42% spread by paying 8% with no risk? Once you get past the volatility and learn to manage it, the bear-case scenario I foresee is Bitcoin increasing by only 22% a year over the next decade. Who would pay you 22% interest?

Gautam Chhugani: It's like a bank that decides not to lend. They profit from the deposit flow. So you're receiving cheap money from different capital market instruments...

Michael Saylor: There's hundreds of trillions of dollars in the fixed income market. The real issue is, who's going to borrow? Bitcoin wants to borrow your money. Lend your capital to Bitcoin and receive returns in Bitcoin.

Gautam Chhugani: When you're assessing the upside, if it's not much, you might consider passive capital.

Michael Saylor: You're essentially deciding whether you want it as yield or capital gain. Everyone wants a mix of both. The marketplace starts with Bitcoin willing to pay 50% interest, and you can structure it into —4%, 6%, 8%, or 10%—while also considering capital gains. We're restructuring to give the capital markets something better, focusing on a market worth trillions in equity, not to mention the massive derivatives market and fixed income market. This approach can help create a multi-hundred billion or even a trillion-dollar company.

Gautam Chhugani: What constraints do MicroStrategy face when buying Bitcoin? Are there leverage limits or specific thresholds you consider?

Michael Saylor: We're past 1% ownership now, and it may get exponentially harder. The asymptotic limit might be one Nakamoto, around a million Bitcoins. I don't say we ever stop, but I think it gets harder as the price goes exponentially higher. While we won't stop, it will become increasingly difficult as prices rise. But we could grind up, moving from 1% to 2%, but one Nakamoto is like the heaven. Half a Nakamoto would be impressive. Regarding leverage, it depends on the type. If the duration exceeds four years and the cost is low, like 80 basis points like convertibles, then 20% to 40% leverage is straightforward. I wouldn't want 40% leverage on instruments with a one-year duration or an 8% interest rate. With the current convertible bond structure, because it's no recourse, unsecured, no liens and effectively free, 20% to 40% leverage feels comfortable. As we think about other instruments like preferred stocks, our strategy will depend on market conditions. If leverage drops below 20%, we'd likely increase it for the best interest of our equity holders. If we exceed 40%, it would likely be due to different instruments like perpetual preferred stock at no interest rate. However, given Bitcoin's rapid appreciation, we may not hit that

40% threshold soon. If we do, it means our stock and Bitcoin are both performing well, which is a good problem to have.

Gautam Chhugani: If other companies adopt your Bitcoin acquisition strategy, Bitcoin demand would rise, increasing Bitcoin's price, which could benefit MicroStrategy since you've been early to the trade. Does that create a prisoner's dilemma, deterring others from participating?

Michael Saylor: There are 50,000 companies that use Treasury bills as a capital asset. When you use treasuries, you get about 3% after tax, while the cost of capital is 12 to 13%. This means you're losing 10% of your capital in treasuries every year. All these companies have toxic capital with low volatility, which basically is unhealthy capital structure. The first 10 companies to do this in a big way will make a fortune. The next 100 will make a lot, and the next 1,000 will be healthy and grow faster than they otherwise would and after the first 1,000 everyone will have to. I think it's inevitable. If I give you a choice, let's say Bitcoin becomes a hundred trillion dollar asset class. If you compare it to the S&P Index, it might provide returns of 600 to 800 basis points above the S&P. It will be a better asset to hold, and slightly more volatile. So, if Bitcoin offers a 20% ARR against S&P's 12% and the cost of capital is 12%, while after tax treasury yields drop to about 2% or 1.5%, you're faced with choices: an +8% return or a -10% return on your capital structure. Companies using treasuries create toxic capital, leading to negative working capital, which effectively decapitalizes them. The companies adopting Bitcoin have adopted virtuous capital. They don't need to dividend out their cash flows or buy back stock; instead, their stock goes up, and they end up with billions in assets. The alternative is choosing life. For instance, if I suggested to a family that they should give away all their money to charity and just tell their children to work harder, what kind of financial advice would that be? If I went to Harvard University, and said, let's just give the endowment back to the alumni, and we'll cut the teachers salaries. We'll raise tuition. We'll tell everybody just to work harder. What kind of plan is that? So decapitalizing an institution or a family is moronic. It happens to be the case that we decapitalize all operating companies today, because the act says, I can't have no more than 40% of my balance sheet in securities. The rest has to be in treasuries, and everybody's smart enough to realize that treasuries are dilutive to shareholder value. So, they just run on negative capital or negative working capital. Hence everybody's got to buy their stock back, dividend out their cash and borrow money.

Look at Meta, Apple, Google, and Microsoft—all have stock buybacks. If Apple took its buyback funds and invested in Bitcoin, it could significantly increase its market cap and build hundreds of billions in assets. This is extremely profitable for the first 10 companies, very good for the next 100, and simply a sound strategy for the next 1,000. It will eventually become essential for all others. The revolution in corporate finance revolves around a simple idea: volatility is not a bug; it's a feature. Business schools often teach to strip volatility from balance sheets and P&L statements. Stripping the volatility off the P&L is okay, but stripping it off the balance sheet is not okay. Embracing a volatile balance sheet with a stable P&L is much better, and then raise capital rather than giving it away. Before there was no perfected capital asset. I understand why companies didn't build balance sheets around it before; they could not. Now they can, and we are in the early stages. In the future, people will recognize the necessity of digital capital on balance sheets, just as they do with electricity. If I want to harm someone, I'd provide them with dirty water or food. Similarly, if I give a company dirty capital, like bonds that lose value, I'm harming it. This is why many companies fail within a decade or so. Why is it that the average life expectancy of a company is only 10-15 years. And why is the life expectancy of Yale and Harvard longer? The answer lies in the fact that one has an endowment with positive working capital, while the other has negative working capital. Once that idea clicks, I think there will be a progressive movement that will grow faster over time.

Gautam Chhugani: We have an audience question - Do you have an opinion on different companies' Bitcoin strategies, for example, Block/Square, where they offer Bitcoin on the platform and use part of their gross profits to buy Bitcoin?

Michael Saylor: My opinion is that if you have \$5bn in bonds on your balance sheet and you're making \$500mn a year from Bitcoin, you're effectively losing \$500mn a year by investing in those bonds. Every company in the crypto ecosystem, including all Bitcoin miners and exchanges like Coinbase, and Block, should adopt Bitcoin as a treasury reserve asset. They are destroying as much shareholder value with their balance sheets as they are creating with their P&L. Once that happens, they'll have access to infinite capital. Stocks are suffering because their balance sheets are invested in toxic assets that are depreciating. You're losing 10% of your capital every year. It's not just that you lose 10% of your capital annually; it also increases your cost of capital from 1% to 10%. If you have a non-volatile balance sheet, borrowing money will cost you 10%. But with a volatile balance sheet, borrowing could cost you only 1%. This gives you infinite access to capital, and you are adding 10% or 20% to your balance sheet each year instead of losing 10%. I believe every company should do this, but certainly, crypto companies ought to be the first to adopt this idea. I will continue to evangelize this concept and give boardroom lectures to persuade those at the board level to adopt a Bitcoin standard. We're gradually winning over companies, like Semler Scientific, Marathon, which has taken a new stance. I expect to see more Bitcoin miners and exchanges follow suit over time.

Gautam Chhugani: Why can't governments effectively shut down Bitcoin? For example, they could make it illegal to own or trade it, with severe penalties. Many see this as an existential risk. How do you address that?

Michael Saylor: The majority of the network hash rate is outside the U.S., and no single country has control over the majority of the network. Even when China had about 50-55% of the hash rate and made Bitcoin mining illegal, it didn't stop the network; it simply migrated outside of China. The government can't stop it any more than it can stop a virus or the English language. You can't prevent people from using base 10 math or the metric system because these are protocols that spread globally. Smart money isn't going to abandon a protocol that represents a trillion-dollar opportunity. The second point is that the government doesn't want to stop Bitcoin. While it may be threatened by its use as currency, it's not threatened by its use as a capital asset or store of value. Property rights exist in the U.S., China, Russia, and the EU, and governments haven't made property illegal. You should be concerned when a regime says that no individual can own anything. As long as there are property rights anywhere in the world, a digital property network will be fine.

Gautam Chhugani: I really appreciate it, Michael. This has been a great conversation. Thanks for doing it.

Michael Saylor: Thank you!

Gautam Chhugani: Thanks, everyone, for joining. Until next time.