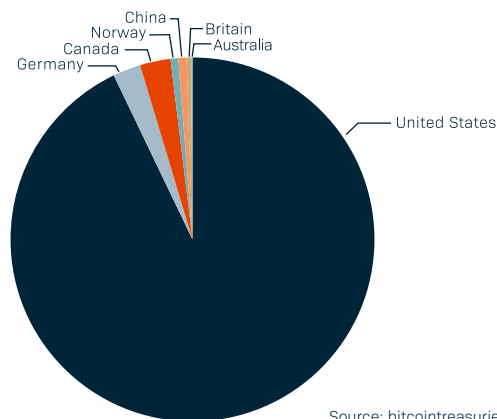


# OPTIMIZING BITCOIN IN CORPORATE TREASURIES

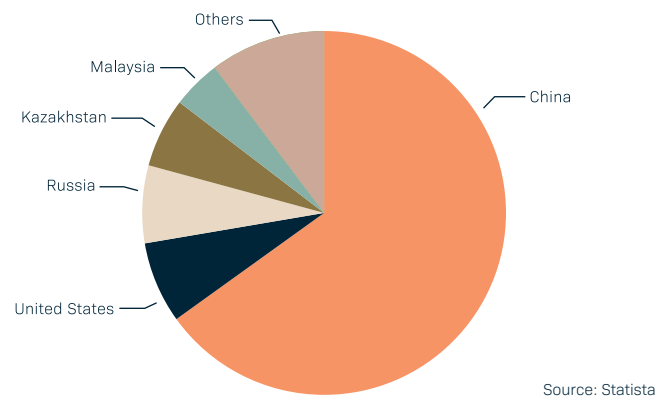
**Crypto-backed loans can help drive down various risks associated with corporates investing in Bitcoin. EquitiesFirst takes a deep-dive look at this trend and the implications for Asia. EquitiesFirst is active in the crypto backed lending sector.**

## BACKGROUND

**BREAKDOWN OF DISCLOSED CORPORATE BITCOIN HOLDINGS**



**DISTRIBUTION OF BITCOIN MINING HASHRATE AS OF APRIL 2020**



The otherwise conservative world of corporate treasury is experiencing a new form of innovation. Many high profile companies have begun to diversify away from cash holdings and into long-term positions in Bitcoin (BTC). The catalysts for this change have been mainstream acceptance of digital assets and aggressive government fiscal policies raising concerns of long-term decline in the value of fiat currencies.

However, there is a clear regional discrepancy in the number of disclosed corporate bitcoin holdings, with Asia lagging significantly behind the U.S. and other Western nations. According to bitcointreasuries.org (April 2021), there were 27 public companies which have disclosed holdings in Bitcoin. We note that most of them are US companies and which, in aggregate, own approximately 93% of all disclosed corporate Bitcoin holdings, globally.

This imbalance is surprising given that Asia accounts for nearly 70% of the global Bitcoin hashrate.

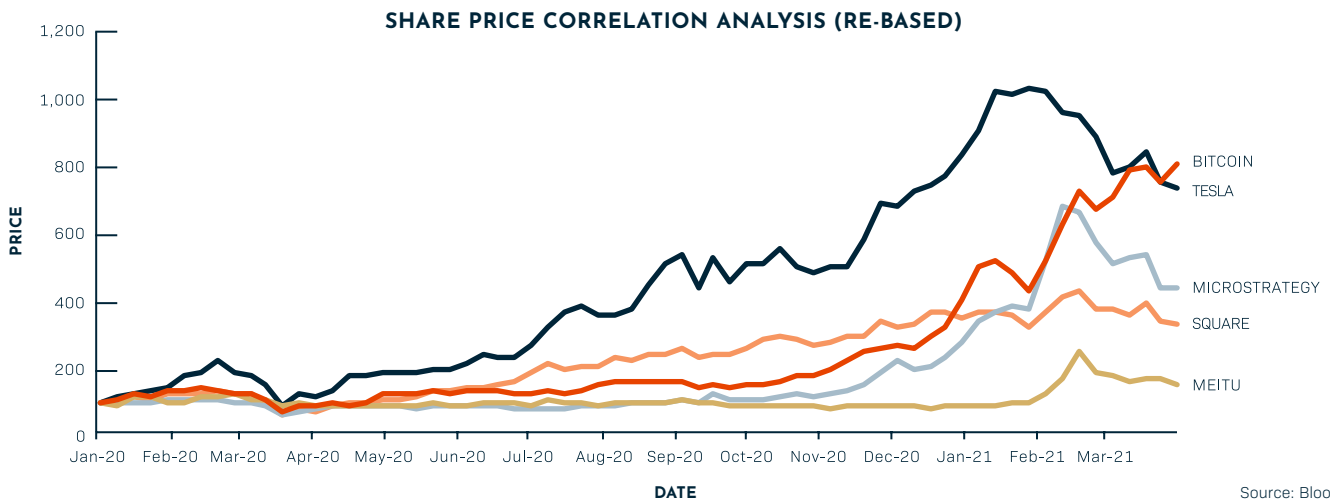
We believe the discrepancy implies:

1. There are Chinese companies which have invested in BTC but have not disclosed publicly;
2. There will be more Asia corporates investing in Bitcoin given the number of Bitcoins and crypto activity in the region.

## KEY TAKEAWAYS

- Trend among some high-profile companies allocate a portion of their cash holdings to BTC as part of an overall strategy to preserve wealth, hedge against inflation and find yield.
- Most common in the US and other Western nations, there is reason to believe Asia-based corporates will follow suit.
- Corporates can employ BTC-backed loans to lock-in profits, reduce downside volatility and retain upside exposure while overcoming accounting limitations associated with directly holding BTC on their balance sheets.

## BITCOIN AS A TREASURY ASSET



The most well-known corporate investors in BTC are Microstrategy, Tesla and Square. However, according to [bitcointreasuries.org](https://www.bitcointreasuries.org) and EquitiesFirst's research, there are 49 public, ETF-like and private companies, globally, who in aggregate hold nearly USD 79.7bn in BTC or 7.4% of the total supply.

70% of these firms are either directly involved in cryptocurrency-related businesses (including miners, digital asset technology companies and Bitcoin

tracker ETFs). 48% are in the financial industry; followed by technology (20%) and funds (11%). According to a Gartner survey of CFOs, 50% of CFOs in the tech space said they expected to hold BTC at some point in the future whereas only 16% of total respondents expressed a willingness to include BTC as part of their treasury.

Public companies which have purchased BTC have seen an increase in correlation to Bitcoin in their share price. Based on

our analysis, the share price movement of Square, Tesla, Microstrategy and Meitu had 53.5% correlation with Bitcoin from 1 January 2020 to 30 March 2021.

The current regional distribution of corporates investing in BTC is highly bifurcated between Western nations and Asia. 95% are North America or Europe-based and only one, Meitu, is based in Asia.

## ACCOUNTING FOR BITCOIN

One of the most significant challenges corporates face investing in BTC is the approach to accounting for it on financial statements. According to guidelines from Deloitte, the most appropriate treatment of BTC for accounting purposes is as an "intangible asset". This means price declines in the asset's value must be recognized for accounting purposes, but cannot be revalued upwards.

According to US general accounting principles, intangible assets are recorded at cost. Any impairment is recognized and cannot be reversed by subsequent price increases. Value appreciation can only be recognized for BTC holdings upon an actual sale of the asset at its market price.

The asset must be "tested" for impairment at least annually and at any time where it can be considered to have been impaired. By this standard, impairment must be recorded even if the price decline occurs in the middle of an accounting period and then subsequently recovers within the same period. This is especially relevant for BTC whose volatility has seen its price gap lower or higher before mean reverting.

Despite the long-term price appreciation of BTC, the short-term performance has seen significant volatility. In Q1 of 2021, we have seen single week drawdowns in Bitcoin's price



of 24%, 21% and 15%. We also analyzed the price movement of bitcoin in the last 5 years and observed 32 weeks in which the price dropped >10% WoW. There were 11 weeks in which BTC dropped by between 20% and 30%.

## OPTIMIZATION STRATEGY

One of the ways to address the issues associated with holding BTC in a corporate treasury is to use it in an asset-backed loan, structured as a sale and repurchase (repo):

### 01

The corporate can recognize the value appreciation of its BTC holdings for accounting purposes while still retaining all of the future upside exposure.

### 02

For positions that are in-the-money, pledging BTC puts the company back in cash and avoids the risk of impairment.

### 03

The non-recourse feature of the loan provides a price floor on the BTC investment, reducing the risk of downside volatility.

## WHERE ARE THE ASIA CORPORATES?

The low adoption rate of BTC by Asia-based corporates is surprising given the region accounts for 31% of all cryptocurrency transactions according to Chainalysis.

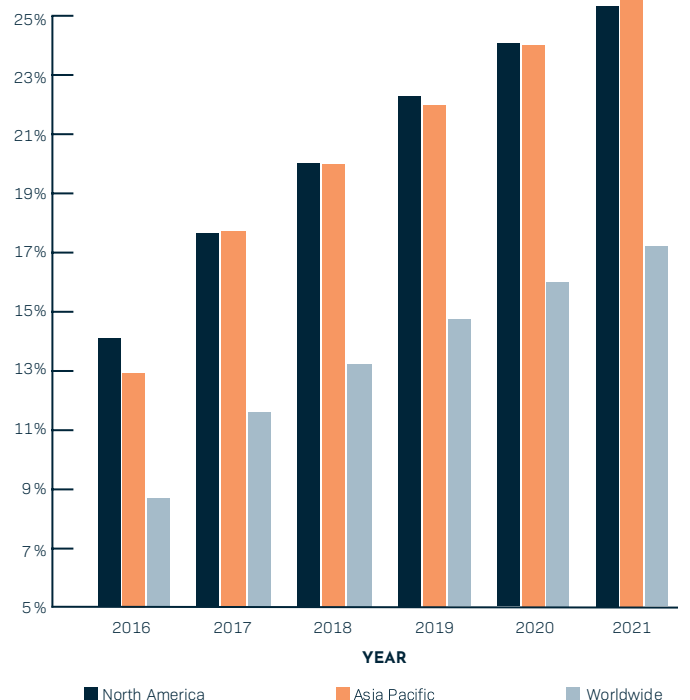
So far in Asia, mainly “crypto native” listed companies, including Ebang (EBON:US) and Canaan (CAN.US) have indicated plans to invest in BTC. These are both producers of crypto mining equipment which have decided to start mining Bitcoin and other digital assets for their own account.

Outside of the crypto industry, Hong Kong-listed Meitu (1357:HK), a mobile app technology company, has made a direct investment. This move was approved by Meitu's board and was driven both by a desire to diversify its holdings away from cash and keep the company relevant by embracing new technologies.

One of the reasons Asia corporates may be lagging Western nations in this regard may be regulatory pressure, with India, China and Korea all enacting strict restrictions on “private” blockchains (such as BTC) to the point of virtual embargo.

However, there is reason to believe that we are still in the early stages of the general adoption of BTC. Using the user penetration of mobile payments as a proxy, we can see that Asia initially lagged behind North America before quickly closing the gap.

MOBILE PAYMENT USER PENETRATION BY REGION



Source: eMarketer

## LIMITING THE DOWNSIDE?

One of the chief criticisms investors have levelled at corporates allocated to BTC has been the potential downside risk. Asia management and CFOs have been particularly attuned to these concerns and this accounts for some of the reticence to explore BTC as a treasury asset.

By employing a non-recourse crypto-backed loan with its BTC holdings, gains potential can be locked-in and the potential downside from the position may be capped. The transaction also enables the company to avoid unexpected downside impairment which is the risk of holding BTC directly as an intangible asset. However, the company can still retain all of the potential upside exposure to BTC they wished to secure in the first place.

## LIST OF PUBLIC, ETF LIKE &amp; PRIVATE COMPANIES WITH BTC HOLDINGS

#	TYPE	COMPANY	# OF COINS	VALUE (30 MAR 2021) - USDmn
1	ETF Like	Grayscale Bitcoin Trust	654,885	37,983
2	Private	MTGOX K.K.	141,686	8,218
3	Private	Block.one	140,000	8,120
4	Public	MicroStrategy inc.	91,326	5,297
5	ETF Like	CoinShares / XBT Provider	69,730	4,044
6	Public	Tesla, Inc.	48,000	2,784
7	ETF Like	Ruffer Investment Company Ltd	45,000	2,610
8	Private	The Tezos Foundation	24,808	1,439
9	ETF Like	3iQ The Bitcoin Fund	23,563	1,367
10	ETF Like	ETC Group Bitcoin ETP	21,679	1,257
11	ETF Like	Purpose Bitcoin ETF	14,660	850
12	ETF Like	Bitwise 10 Crypto Index Fund	13,650	792
13	Private	Stone Ridge Holdings Group	10,889	632
14	Public	Square inc.	8,027	466
15	ETF Like	Grayscale Digital Large Cap Fund	7,369	427
16	ETF Like	21Shares AG	6,945	403
17	ETF Like	WisdomTree Bitcoin	5,700	331
18	ETF Like	Ninepoint Bitcoin Trust	5,578	324
19	Public	Marathon Digital Holdings	5,067	294
20	Private	Coinbase Global, Inc.	4,487	260
21	Public	Galaxy Digital Holdings	4,000	232
22	Public	Bitcoin Group SE	4,000	232
23	ETF Like	CI Galaxy Bitcoin Fund	3,216	187
24	ETF Like	VanEck Vectors Bitcoin ETN	3,209	186
25	Public	Hut 8 Mining Corp	3,012	175
26	ETF Like	Leonteq Bitcoin Tracker USD	2,174	126
27	ETF Like	Osprey Bitcoin Trust	1,639	95
28	ETF Like	Evolve Bitcoin ETF	1,484	86
29	Public	Voyager Digital LTD	1,239	72
30	Public	Riot Blockchain, Inc.	1,175	68
31	Public	Seetee AS	1,170	68
32	Public	Meitu	765	44
33	Public	Argo Blockchain PLC	599	35
34	Public	Coin Citadel Inc	513	30
35	Public	Bit Digital, Inc.	489	28
36	Public	Bitfarms Limited	489	28
37	Public	BIGG Digital Assets Inc.	300	17
38	Public	Cyberpunk Holdings Inc.	292	17
39	Public	Advanced Bitcoin Technologies AG	254	15
40	Public	DigitalX	215	12
41	Public	Digihost Technology Inc.	184	11
42	Public	Fortress Blockchain	163	9
43	Public	Hive Blockchain	140	8
44	Public	Banxa Holdings Inc	136	8
45	Public	Mode Global Holdings	85	5
46	Public	Neptune Digital Assets Corp.	82	5
47	Public	FRMO Corp.	63	4
48	Public	MOGO Financing	50	3
49	ETF Like	QR Capital ETF	N/A	N/A

As observed from the 49 holders (as disclosed), they make up 1.3mn coins or USD 79.7bn of value, accounting for 7.4% of bitcoin's total market capitalization.

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Source: [bitcointreasuries.org](https://www.bitcointreasuries.org)

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