

Twitter Thread by Ellie Frost ❄️■



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@BlockBytch



1/ MicroStrategy has announced a \$600M convertible bond raise in order to buy even more Bitcoin

**How does this compare to their previous offering?
And is this their last?**

2/ First, a convert bond starts as a bond then "converts" to equity. The company pays lower interest rates b/c of this potential conversion. Aka the company will pay for it later w/ equity dilution. A company will choose this route if they have bad credit or expect high growth.

3/ In Dec 2020, MSTR announced their first convert bond offering for the explicit purpose of buying Bitcoin. Citi immediately downgraded MSTR to a "sell" recommendation. The market had a much more bullish take

4/ Investor appetite was so strong that MSTR increased the offering from \$400M to \$550M w/ the option for another \$100M. All of this was filled for a total \$650M offering

5/ MSTR also priced their bonds insanely low. Interest was 0.75% / yr. Payments were ~\$4M /yr for a company w/ an operating income of ~\$40M. That's 10x coverage. 2x is considered strong

6/ Saylor went even further than this aggressive pricing by giving themselves the option to settle the bond in shares or pay out in cash. The bond was struck for \$398 per share while the stock was at \$289. A 35% premium to investors

7/ MSTR has now announced their new offering of \$600M converts w/ a \$90M increase. Pricing is still TBD but it isn't hard to imagine it will be in line w/ the last offering. Will we even see another upsize in the offering given Bitcoin's continuous rising price?

8/ Why do investors remain excited? MSTR has no debt, apart from the \$650M note. They can handle more given a) their operating income and b) their balance sheet has more than doubled from their Bitcoin holding - from \$1.1B to \$3.4B

9/ MSTR owns more BTC than any other operating company, and it gives it a scarcity value above the value of the core business and BTC holdings.

10/ To many institutional investors, it is *the* company you want to invest in for an “almost free call option on Bitcoin”

<https://t.co/OwVM2A4c6s>

11/ Tesla’s addition of Bitcoin to their balance sheet is helping normalize corps holding Bitcoin as a reserve, but MSTR is the only public company actively taking out debt to acquire more Bitcoin

12/ And, per their “Bitcoin Acquisition Strategy” in their 10K, they have no plans to stop. For the foreseeable future, they will use excess cash flows and debt to acquire more and more Bitcoin

Bitcoin Acquisition Strategy

In September 2020, our Board of Directors adopted a Treasury Reserve Policy (as amended to date, the “Treasury Reserve Policy”) that updated our treasury management and capital allocation strategies, under which our treasury reserve assets will consist of:

- cash and cash equivalents and short-term investments (“Cash Assets”) held by us that exceed working capital requirements; and
- bitcoin held by us, with bitcoin serving as the primary treasury reserve asset on an ongoing basis, subject to market conditions and anticipated needs of the business for Cash Assets.

As part of these treasury management and capital allocation strategies, we purchased a total of approximately 70,469 bitcoin at an aggregate purchase price of approximately \$1.125 billion in 2020 for an average purchase price of approximately \$15,964 per bitcoin, inclusive of fees and expenses. These purchases included purchases of bitcoin using the net proceeds of our issuance of \$650.0 million aggregate principal amount of 0.750% Convertible Senior Notes due 2025 in the fourth quarter of 2020.

In 2021, we determined to adopt, in addition to and in conjunction with our Treasury Reserve Policy, a business strategy of purchasing bitcoin, and we may from time to time, subject to market conditions, issue debt or equity securities in capital raising transactions with the objective of using the proceeds to purchase bitcoin. Under this business strategy we also periodically engage in activities to educate the market regarding bitcoin. We believe that our bitcoin strategy is complementary to our analytics software and services business, as we believe that our bitcoin and related activities in support of the bitcoin network enhance awareness of our brand and can provide opportunities to secure new customers for our analytics offerings. We are also exploring opportunities to apply bitcoin related technologies such as blockchain analytics into our software offerings.

13/ TL;DR: MSTR remains the only public company on the market continuing to take out debt to acquire more Bitcoin. Their pricing of these bonds and rising stock price have shown their success in this strategy. They won’t be stopping anytime soon.