

## MicroStrategy Incorporated (MSTR) Case Study

MSTR was a holding in **The Valkyrie Balance Sheet Opportunities ETF (Nasdaq:VBB)** as of 12/14/2021.

VBB is an actively managed ETF available through Nasdaq that invests in innovative public companies with exposure to bitcoin. Ask your financial advisor or search your online account for “VBB”.

SHARE PRICE	454.28*
MKT CAP	4.67 billion*
BTC HOLDINGS	121,044
BTC HOLDINGS VALUE	5,059,760,244
BTC % MKT CAP	108.3%
LOCATION	TYSONS CORNER, VA
CEO	MICHAEL J. SAYLOR
FOUNDED	1989
IPO DATE	JUNE 1998
URL	<a href="http://www.microstrategy.com">www.microstrategy.com</a>

\*data as of 3/18/22

### What is Microstrategy’s core business?

Microstrategy (MSTR) is a software platform providing business intelligence tools to global corporations. This software, which can be deployed locally or as a cloud application, allows firm managers to immediately see business operating trends on customizable dashboards. Microstrategy tools can also be embedded in web sites to optimize customer experience. Their hyperintelligence product integrates into Microsoft Office and Salesforce applications. Key clients include Pfizer, ebay, Visa, Service Now, and Disney ABC.<sup>1</sup>

For the years ending 2018, 2019, and 2020, the revenue to Microstrategy’s software business was relatively stable between \$480 million and \$500 million per year. For the three years combined, the firm had after tax net income of about \$50 million.<sup>2</sup>

In December 2020, Morgan Stanley announced that it had raised its ownership stake to 10.9% of outstanding Microstrategy stock.<sup>3</sup>

### What is Microstrategy’s Bitcoin investment strategy?

Microstrategy is a large investor in bitcoin and is advising other companies on how to invest corporate treasury assets into bitcoin. MSTR’s CEO, Michael Saylor, personally owns nearly \$1 billion in bitcoin, and has purchased 124,391 bitcoin for MSTR at an average purchase price of \$30,159.<sup>4</sup>

1 <https://www.microstrategy.com/en>

2 <https://www.microstrategy.com/en/investor-relations/financial-documents>

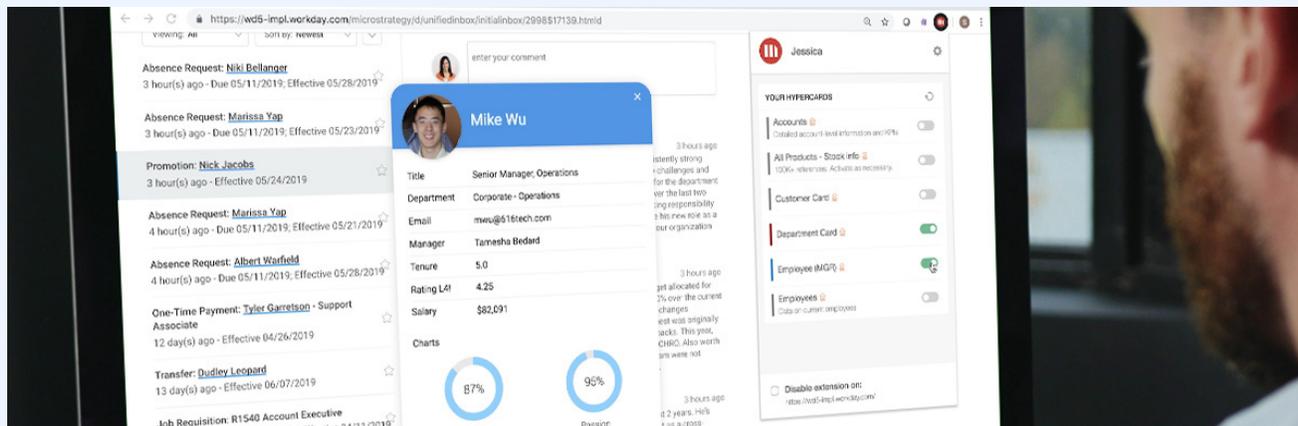
3 <https://www.coindesk.com/markets/2021/01/08/morgan-stanley-boosts-stake-in-bitcoin-laden-microstrategy-to-109/>

4 <https://news.bitcoin.com/microstrategy-buys-more-bitcoin-holding-124391-btc/>

Interestingly, the market capitalization of MSTR is around \$4.1 billion, less than the \$4.6 billion value of their corporate bitcoin holdings. After subtracting the value of bitcoin from the market capitalization of MSTR, investors are ascribing nearly zero equity value to the software business. Given the large holdings of bitcoin, the stock price of MSTR is highly influenced by changes in the price of bitcoin. This ratio can be affected by the timing of changes in the price of bitcoin, the stock price, and the reporting date of the bitcoin holdings.

MicroStrategy issued convertible debt<sup>5</sup> and bought bitcoin with the proceeds, making for a truly innovative balance sheet. In February 2021, the firm borrowed \$1.05 billion at a zero interest rate,<sup>6</sup> while a previous \$650 million borrowing in December 2020 has a coupon rate<sup>7</sup> of 0.75%.<sup>8</sup> The interest rates are very low for corporate debt, reflecting the value of the stock options embedded in the convertible bond offering.

Buyers of convertible debt have an option to seek repayment in cash or in shares of the company. For the earlier issue, investors will likely choose stock if the price is above \$397.99 per share by December 2025,<sup>9</sup> while the later issue will be converted if the stock price exceeds \$1432.46 in February 2027.<sup>10</sup> If the stock price exceeds these levels at the call date<sup>11</sup> or maturity date<sup>12</sup> of the convertible debt, MSTR will not need to repay the \$1.6 billion in cash, but will retire the bonds with the issuance of 2.1 million shares of stock. The stock will be issued at a price substantially higher than the prices prevailing at the time of the issuance of the convertible debt.



- 5 Convertible debt is a corporate borrowing where investors can choose to be repaid in cash or to convert the debt into shares of the company's stock.
- 6 [https://www.microstrategy.com/en/investor-relations/press/microstrategy-completes-1-05b-offering-of-convertible-senior-notes\\_02-19-2021](https://www.microstrategy.com/en/investor-relations/press/microstrategy-completes-1-05b-offering-of-convertible-senior-notes_02-19-2021)
- 7 The coupon rate is the stated rate of interest on a bond issue.
- 8 <https://www.microstrategy.com/en/company/company-videos/microstrategy-completes-650-million-offering-of-convertible-senior-notes>
- 9 <https://www.microstrategy.com/en/company/company-videos/microstrategy-completes-650-million-offering-of-convertible-senior-notes>
- 10 [https://www.microstrategy.com/en/investor-relations/press/microstrategy-completes-1-05b-offering-of-convertible-senior-notes\\_02-19-2021](https://www.microstrategy.com/en/investor-relations/press/microstrategy-completes-1-05b-offering-of-convertible-senior-notes_02-19-2021)
- 11 The call date of a bond is the date at which, based on certain conditions, the borrower may choose to repay the bond before its maturity.
- 12 The maturity date of a bond is the date at which the final payment of principal must be made.



## Disclosures

The Valkyrie Balance Sheet Opportunities ETF is an actively managed ETF. The Fund seeks to provide investors with capital appreciation. There can be no assurance that the Fund will achieve its investment objective.

For Valkyrie Balance Sheet Opportunities ETF current holdings, [click here](#).

This document does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial advisor/financial consultant before making any investment decisions.

**Investing involves risks. The loss of principal is possible. The Fund investment objectives, risks, charges and expenses should be considered before investing. The fund may not be suitable for all investors. The prospectus contains this and other important information, and it may be obtained at <https://valkyrie-funds.com/>. Read it carefully before investing**

Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Any applicable brokerage fees and commissions will reduce returns.

VBB is indirectly exposed to the risks of investing in bitcoin through its investments in companies with exposure to bitcoin. Bitcoin is a new and highly speculative investment

Bitcoin and bitcoin futures are a relatively new asset class. They are subject to unique and substantial risks, and historically, have been subject to significant price volatility. The value of an investment in the Fund could decline significantly and without warning, including to zero. You should be prepared to lose your entire investment.

The Shares will change in value, and you could lose money by investing in the Fund. The Fund may not achieve its investment objective.

The Fund is distributed by ALPS Distributors, Inc. Valkyrie Investments and ALPS Distributors, Inc. are not affiliates.

VLK 1000202

This is a new ETF with limited operating history

