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Digital Assets - Comments

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MSTR INCREASES RESERVE TO 17.4 MONTHS OF DIVIDENDS, FORMALLY MAKES BTC A FUNDING SOURCE (THIS IS OVERALL A NET POSITIVE)

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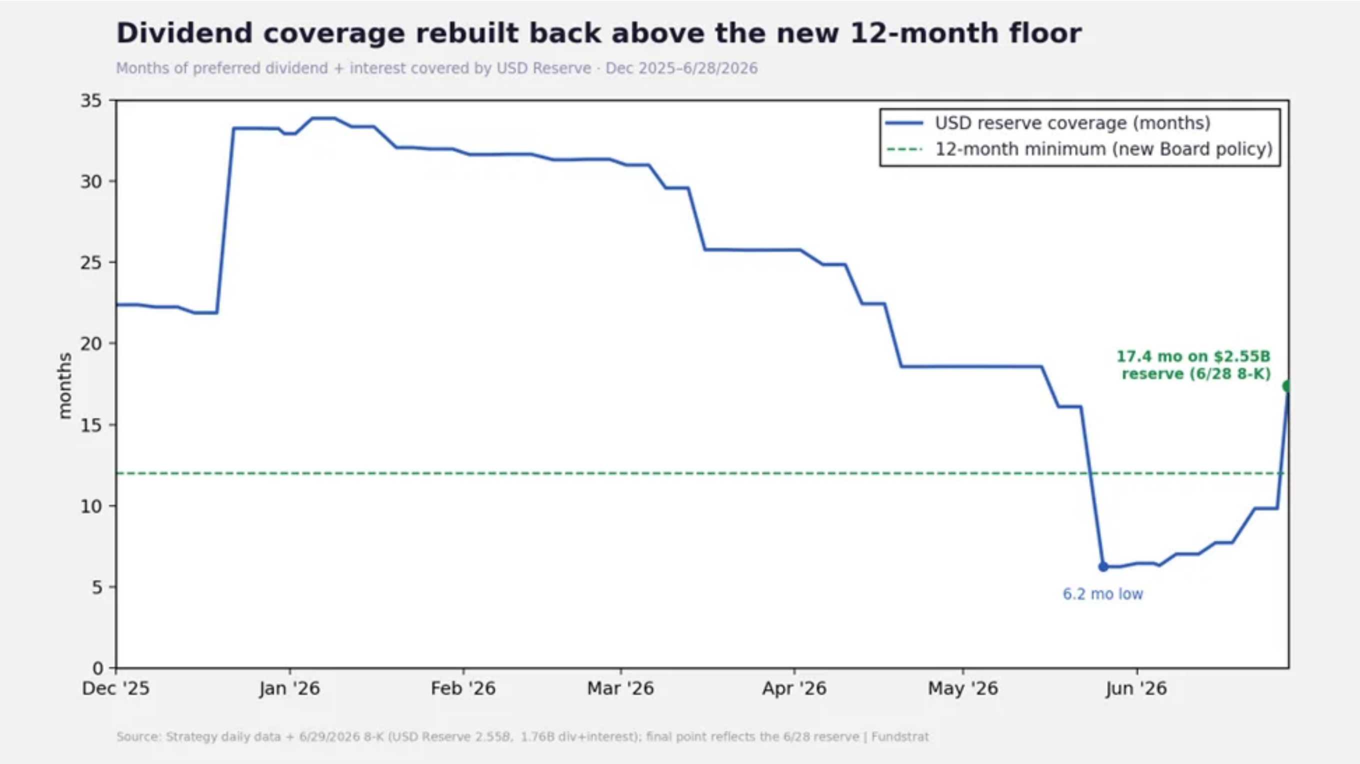
Strategy Strengthens the Preferred Structure - The biggest development today was Strategy's latest 8-K, which, in my view, meaningfully reduced the immediate risks surrounding the preferred complex. The company issued more than $1.1B of common stock during the week, directing all of the proceeds toward rebuilding the USD reserve rather than purchasing BTC. As a result, dividend coverage increased from roughly 9.8 months to 17.4 months, while the company also formally adopted a minimum reserve policy requiring at least 12 months of preferred dividend and interest coverage. This is an important development because it largely addresses the concerns that had emerged over the past several weeks regarding reserve depletion and the potential for a recursive loss of confidence within the capital structure.



Source: Strategy Filings, Fundstrat

The Company Prioritized Balance Sheet Strength Over BTC Purchases: Perhaps the most important takeaway from today's filing is that management appears willing to prioritize restoring confidence in the balance sheet ahead of maximizing BTC accumulation. While this may make them net sellers of BTC near-term, I think it is ultimately the correct decision. Confidence in the balance sheet is foundational to Strategy's ability to continue raising capital over the long run. Without that confidence, the flywheel itself becomes increasingly fragile.

Dividend Flexibility Is Helpful, Though the Increase Was Less Encouraging: One positive change in today's filing was the clarification that future dividend increases are discretionary rather than automatic whenever STRC trades below par. That gives management considerably more flexibility to prioritize capital allocation decisions rather than mechanically increasing funding costs. That said, the company ultimately chose to raise the STRC dividend by 50 bps anyway. Personally, I would have preferred to see management hold the dividend unchanged and continue directing every available dollar toward reserve rebuilding. In my view, reserve coverage (not dividend yield) is ultimately what has contributed to the increase in risk premium of STRC over the preceding month.

Bitcoin Is Now Explicitly a Funding Source: Another notable announcement was the formal introduction of a BTC monetization program. Under this framework, Strategy may sell BTC to replenish the USD reserve, fund preferred dividends, repurchase preferred securities, or repurchase common stock when appropriate. While management had previously suggested this was possible, today's filing formally establishes BTC as a source of liquidity within the capital structure. I view this as modestly negative for BTC because it increases the likelihood that future capital needs are met through selective BTC sales rather than continued common stock issuance alone.

The Implications Differ Across the Capital Structure: Taken together, I think today's announcements have different implications depending on where investors sit in the capital structure. For the preferred securities, this is clearly constructive. The larger reserve, formal reserve policy, and broader funding flexibility all improve confidence in the sustainability of future dividend payments. For common shareholders, I view the changes as roughly neutral. The company appears willing to issue common above 1.0x mNAV while also reserving the ability to repurchase shares below that level, potentially reducing some of the reflexivity that previously characterized the strategy. BTC, however, formally became a funding source which does create a bit of an overhang.

Removing the Overhang May Matter More Than the Lost Demand: The encouraging aspect is that today's filing largely removes the idiosyncratic overhang that has weighed on crypto over the past several weeks. While Strategy may not be purchasing meaningful amounts of BTC in the near term, investors also no longer need to worry about the same degree of recursive downside risk that had developed as reserve coverage deteriorated. In other words, crypto is now more likely to trade alongside broader macro and equity markets rather than remaining hostage to concerns surrounding Strategy's capital structure.

Bottom Line: I view today's filing as a net positive. Strategy appears to have done what investors had been asking for over the past several weeks: aggressively rebuild the USD reserve, formalize a reserve policy, and restore confidence in the preferred complex. The tradeoff is that BTC demand from Strategy is likely to remain subdued for the foreseeable future, while BTC itself has now been formally incorporated as a funding source within the capital structure. On balance, I think eliminating the recursive downside risk outweighs the loss of near-term BTC demand. While I am not making any portfolio changes today, I do think today's developments increase the probability that crypto can participate in any broader risk-on move over the coming months, rather than remaining constrained by Strategy-specific concerns.

Tickers in this video: #BTC $STRC $MSTR

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