

BITCOIN'S GROWING DEMANDS PART 1: BALANCE SHEETS TO THE MOON?

Wisdomtree EU
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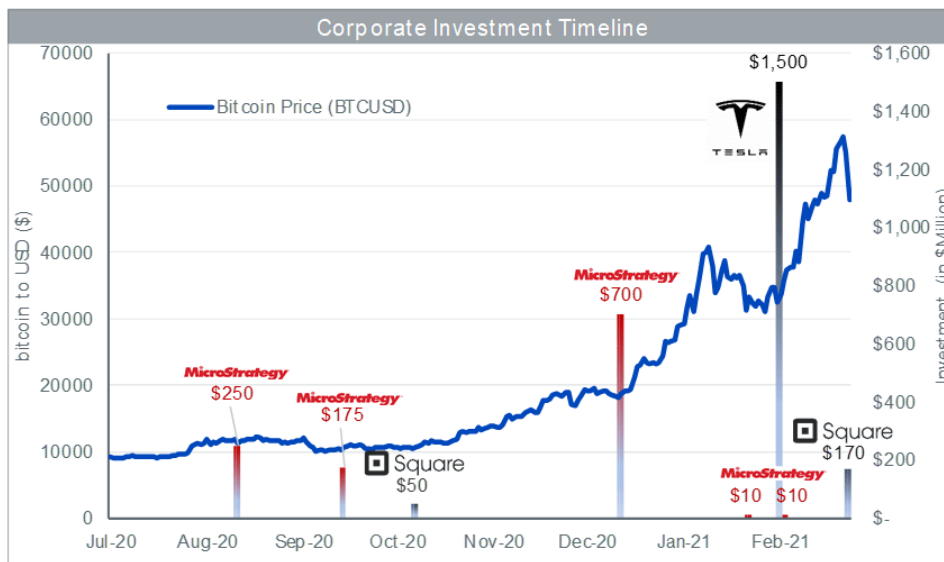
Bitcoin has come under heavy scrutiny from the investment community. The fact that its price skyrocketed to \$58,350 – almost three times higher than 2017’s peak – has attracted people’s attention.

A flurry of news signaling institutional investors and corporations’ adoption of the asset fuels optimistic expectations for future demand. One of the most prominent examples is Tesla, which revealed a surprising \$1.5B investment in bitcoin in early February.

In a series of three blogs, we will examine three potential sources of bitcoin’s demands: corporations taking on bitcoins to their balance sheets, investment funds allocating capital to bitcoin, and payment platforms accepting bitcoin as a possible payment.

Here, we introduce the first source – corporations’ balance sheet trades.

Figure 1: Recent Notable Balance Sheet Trades



Source: WisdomTree, Bloomberg, as of 2/23/2021.

Historical performance is not an indication of future performance and any investments may go down in value.

MicroStrategy

MicroStrategy is one of the first public companies to invest a significant portion of its treasury to bitcoin, treating “bitcoin... as the primary treasury reserve asset.”¹

As of February 8th, 2021, MicroStrategy holds a total of ~\$3.17B (71,079 BTC)² in bitcoin, which is more than 53x its cash and cash equivalents.³ It recently completed a \$1.05 billion debt offering to take its bitcoin investment one step further.⁴

Its aggressive allocations stem from CEO Michael Saylor’s bullish view on bitcoin, which he deems as a superior investment than fiat money to store value.

Square Inc.

Square invested \$50M (4,709 BTC) to bitcoin on October 8th, 2020.⁵ It completed a second purchase of \$170M (3,318 BTC) on February 23rd, 2021.⁶ Together, Square’s bitcoin investment represents 18% of its cash and cash equivalents.⁷ The move was motivated by its strategic plan to develop bitcoin trading business, as well as the desire to “expand [its] largely USD-denominated balance sheet” in the low-yield and weakening-dollar environment.⁸

B2C2, Genesis, BCB

Cryptocurrency market makers such as B2C2 (now acquired by SBI Financial Services), Genesis, and BCB have been reported pitching the bitcoin balance sheet trade to large firms. B2C2’s Yamazaki said:

“We believe that allocating a part of a company balance sheet is a great way to market hedge, settlement hedge, [and] it is also a good PR campaign.”⁹

Similarly, Genesis believes that bitcoin is a good investment for corporates to improve returns, liquidity and yield.¹⁰ BCB also launched a solution called BCB Treasury to help institutional investors bring bitcoins to its balance sheet.¹¹

Tesla

On February 8th, 2021, Tesla announced its purchase of \$1.5B of bitcoins in an SEC filing.¹² The \$1.5B purchase equates to approximately 8% of Tesla’s cash and cash equivalents.¹³ Tesla explains that it bought bitcoins to “diversify and maximize returns on our cash that is not required to maintain adequate operating liquidity.”¹⁴

Why are Companies Getting Bitcoin Exposure on their Balance Sheet?

The reasons of allocating bitcoins to treasuries are debated, but there are two common factors driving the balance sheet trades.

First, some companies -- and especially tech companies -- have piles of extra cash sitting on the balance sheet earning diminished returns in the current low-yield environment. Corporates are seeking alternatives to better invest their cash. Bitcoin, an asset class historically uncorrelated to equities and bonds, not only diversifies

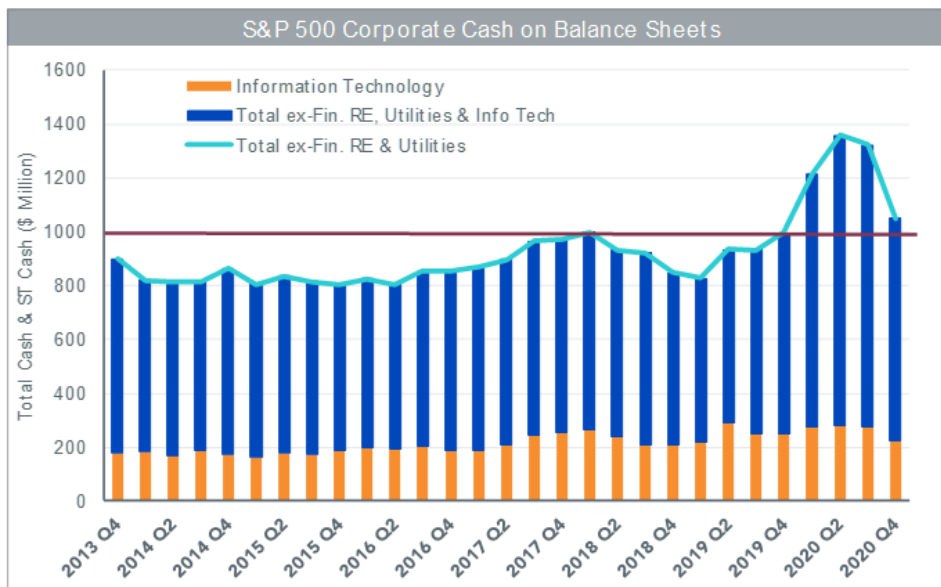
portfolios but can also generate significant returns. Excess cash not required for operating liquidity warrants taking on some volatility and investing a small portion to participate in the digital assets potential.

Second, most companies invested in bitcoins have business models related to it. Online payment companies such as Square adopted bitcoin to complement its bitcoin trading product and its blockchain technology teams. It is a more natural decision when the company has already gotten into the crypto space. Other examples include Tesla – it plans to accept bitcoin as payment to purchase products. Adopting bitcoins to its balance sheet helps it build infrastructures to handle bitcoin transactions and to prepare for any accounting guidance changes.

Who’s Next?

There are many companies that could potentially take on the balance sheet trade.

S&P 500 companies¹⁶ are sitting on over \$1T dollars in cash, a 20% increase compared to the average from 2013 to 2018. The highest cash level comes from Information Technology. In particular, the top five companies are Amazon, General Electric, Apple, Oracle, and Alphabet.¹⁷ Together they hold 16% of the total cash in S&P 500, excluding Financials, Real Estates, and Utilities.



Source: WisdomTree, Bloomberg, as of 2/17/2021.

Historical performance is not an indication of future performance and any investments may go down in value.

Tech companies with large amounts of cash are most open to make the switch, since bitcoin fits their business development and can offer meaningful return at the same time. Some of these tech companies could include:

- **Apple:** In its latest 10-K, Apple holds \$189B of cash, cash equivalents and marketable securities.¹⁸ Apple Pay also started accepting bitcoin for the first time through supporting the BitPay Prepaid Mastercard on February 16th, 2021.¹⁹
- **Twitter:** Twitter could follow its sister company Square's path to invest in bitcoin. Twitter's CFO hints at its interest in buying bitcoin in an interview with CNBC.²⁰ Bitcoin can be incorporated into its digital payment system to facilitate transactions.
- **Amazon:** Amazon is preparing to launch a digital currency project to create its own cryptocurrency.²¹ Although it hasn't disclosed any plan to adopt bitcoin, Amazon's interest in the crypto space is undeniable.
- **Uber and Airbnb:** Although Uber stated that it would not buy bitcoins with cash in the near future, Uber is considering accepting payments via bitcoins.²² Airbnb seems more open to cryptocurrencies compared to Uber. It stated in the prospectus when filling for IPO that its "future success will ... depend on our ability to adapt to emerging technologies such as tokenization, cryptocurrencies [and] new authentication technologies."²³

To conclude, we are seeing encouraging signs of potential new demands coming from corporations. This trend might accelerate in the coming years as more and more companies start to offer crypto services or accept crypto payments. Although this was an unexpected new source of demand for bitcoin for many, it has the potential to become significant.

In the next blog of this series, we will discuss a second important source of demand for the asset class - adoption in the investment management industry.

The views expressed in this blog are those of Jianing Wu, any reference to "we" should be considered the view of Jianing and not necessarily those of WisdomTree Europe.

Sources

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² 71,079 BTC valued at a market price of \$44,691 on February 8th, 2021.

³ https://www.microstrategy.com/content/dam/website-assets/collateral/financial-documents/financial-document-archive/Form-10-K_01-12-2021.pdf

⁴ https://www.microstrategy.com/en/investor-relations/press/microstrategy-completes-1-05b-offering-of-convertible-senior-notes_02-19-2021

⁵ <https://squareup.com/us/en/press/2020-bitcoin-investment>, https://s21.q4cdn.com/114365585/files/doc_financials/2020/q3/Q3FY20-Square-Inc-10-Q.pdf

⁶ <https://www.cNBC.com/2021/02/23/square-buys-170-million-worth-of-bitcoin.html>

⁷ 8,027 BTC valued at a market price of \$47,962.9 on February 23rd, 2021. Cash and Cash

Equivalents stand at 2,118,808,000 as of latest annual report.

⁸ https://images.ctfassets.net/2d5q1td6cyxq/5sXNr1Eh2mEnTvvhgtY0m2/737bcfdc15e2a1c3cbd9b9451710ce54/Square_Inc._Bitcoin_Investment_Whitepaper.pdf

⁹ [Crypto market maker B2C2 is pushing Japan's biggest trading houses to buy bitcoin \(theblockcrypto.com\)](https://www.theblockcrypto.com/post/95146/coinbase-tesla-bitcoin-buy?utm_source=coinmarketcap&utm_medium=rss)

¹⁰ <https://genesistrading.com/treasury/>

¹¹ <https://www.theblockcrypto.com/linked/95421/bcb-group-treasury-service-companies-bitcoin-btc-balance-sheets>

¹² <https://www.cnbc.com/2021/02/08/tesla-buys-1point5-billion-in-bitcoin.html>

¹³ https://www.sec.gov/Archives/edgar/data/1318605/000156459021004599/tesla-10k_20201231.htm

¹⁴ https://www.theblockcrypto.com/post/95146/coinbase-tesla-bitcoin-buy?utm_source=coinmarketcap&utm_medium=rss

¹⁵ Specifically referring to Cash App, Square Crypto, Cryptocurrency Open Patent Alliance.

¹⁶ Excluding Financials, Real Estates, and Utilities.

¹⁷ WisdomTree, Bloomberg, as of 2/17/2021.

¹⁸ [https://s2.q4cdn.com/470004039/files/doc_financials/2020/ar/_10-K-2020-\(As-Filed\).pdf](https://s2.q4cdn.com/470004039/files/doc_financials/2020/ar/_10-K-2020-(As-Filed).pdf)

¹⁹ <https://hypebeast.com/2021/2/apple-pay-wallet-bitpay-bitcoin-btc-support-news>

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²¹ <https://www.coindesk.com/amazon-digital-currency-mexico>

²² <https://www.cnbc.com/2021/02/11/uber-wont-buy-bitcoin-with-its-cash-may-later-accept-it-as-payment.html>

²³ <https://www.coindesk.com/airbnbs-ipo-prospectus-says-firm-may-consider-crypto-and-blockchain>

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