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Chief Executive Officer
Chairman of the Board
MicroStrategy

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Webinar

Moderator: Anna Nikolayevsky
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Introduction

President Barbara Van Allen

Okay, first, good afternoon and welcome to the 648th meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club. And it's certainly an honor for me to be here with everyone. And I want to be sure that everybody is aware that this year is actually the 115th anniversary of The Economic Club of New York. So here's to the Economic Club. So it's really nice also to be back together in person since our last in-person event in December with Commerce Secretary, Gina Raimondo, which was also a wonderful event. And we'll be telling you more in-person coming up at the end of this hour.

As many of you know, The Economic Club of New York is the nation's leading nonpartisan forum for discussions on social, economic and political issues, and we believe our mission is as important today as it's ever been in its 115 years. A special welcome to members of the ECNY 2022 Class of Fellows – a select group of diverse, rising, next-gen business thought leaders as well as students joining us virtually from CUNY Graduate Center, Rutgers University, and Fordham University.

This is actually our second discussion, I'm sorry, third discussion in our Club's Crypto Series. And we're particularly honored to have in person today our guest, Michael

Saylor. Michael is a technologist, an entrepreneur. He's a business executive, a philanthropist, and best-selling author. He currently serves as Chairman of the Board of Directors and Chief Executive Officer of MicroStrategy.

Since co-founding that company at the age of 24, Michael has built MicroStrategy into a global leader in global intelligence, mobile software, and cloud-based services. He's authored *The Mobile Wave: How Mobile Intelligence Will Change Everything*, which earned a spot on the *New York Times* bestseller list. He attended MIT, receiving a S.B. in Aeronautics and Astronautics and an S.B. in Science, Technology, and Society.

The format today will be a conversation with our moderator and Club member, Anna Nikolayevsky, founder and CIO of Axel Capital Management. As a reminder, this conversation is on the record. We do have media in the room and participating virtually and it's being live-streamed. Now, without further ado, if both of you would like to come forward, the stage is yours. And I'll come back up at 12:58. Thank you.

Conversation with Michael Saylor

ANNA NIKOLAYEVSKY: ...start by just telling us how you got interested in crypto and what was the method by which you educated yourself about this technology?

MICHAEL SAYLOR: Sure. In March of 2020, we had a publicly-traded company with a billion-dollar market cap and we had about \$550 million in cash, a \$500 million revenue run rate, and we were generating, we expected to generate about \$75 million or more in cash flow a year. The stock was in the tank. We'd been forsaken by our investor, beta.

The view from the investment community was the cash is generating zero percent yield. Interest rates are going to stay at zero for the next few years. The cost of capital traditionally was the S&P index, which has been 10% a year return for 100 years. But by the second quarter of 2020, it was pretty clear that the S&P was going to be up 30% on the year. The cost of capital had tripled. We, in essence, had a negative real yield of -25% on \$500 million and we were looking at destroying \$250 million of shareholder wealth.

Meanwhile, if 2,000 people worked themselves as hard as they could, we could generate \$75 million of cash flow. And what I saw was we were on this inflationary treadmill where everybody working as hard as they can doing 100,000 things right would generate \$75 million in value and we would destroy \$150 million in value just by holding the cash. And that was frustrating.

You know, if you were a high-growth digital monopoly – Google or Facebook – you're going 20, 25% a year, or Amazon, you have infinite money, a lot of power. But if you're

a low-growth, like 2, 3, 4% growth company and if the monetary supply, if the monetary supply expands at 20% a year and you're growing 2% a year, you can't keep up. So we were on this treadmill, like a gerbil wheel, and I would say my conclusion is the road to serfdom is working exponentially harder for a currency growing exponentially weaker.

And the reason I discovered crypto was I realized that if we basically bought our stock back and returned all \$500 million of cash to the shareholders, our stock would go from \$120 a share to \$60 a share. We'd have no capital. The stock options to the employees would be under water. A third of our employees would be sniped away by Amazon, Google and Facebook. It was a fast death. We were going to go to zero. Our revenues would go negative. Our cash flow would go negative. We'd have no assets and that's the end.

So if we held the cash, it was a slow death. We're basically losing \$100 million in shareholder value a year while we're making \$50 million. We could work for a decade. We're going nowhere. The stock was dead money. It was not a speculation. I would go to an investor conference and like eight people would show up. Like no one cared. We were a publicly-traded company and I thought this is a problem. And so our choice was a fast death, a slow death, or take a risk.

And while we were, we had in the second quarter of 2020, we had the example of Main

Street companies shut down, restaurants are closed. Everything is difficult if you're manufacturing, if you're providing services, you know, cruise lines, no airlines. Difficult. But then you had Wall Street's example, which is if you had a few billion dollars of S&P stocks, first there's a panic and then they recovered when the Fed started loosening our monetary policy. And what I realized was if you were an asset-rich or property-rich business, then loose money supply, loose monetary policy is beneficial to you. But if you were working for future cash flows through manufacturing or service, loose money policy is detrimental to you.

So we decided that we would try to convert our company from holding dead assets, cash, to holding a property that would appreciate in value faster than the money supply expanded. And so the question is what would that be? And that's when we discovered crypto, I thought, can I buy \$500 million of real estate? Can I buy \$500 million worth of art? Can I buy \$500 million worth of gold? Can I buy \$500 million worth of stocks? Well, we're an operating company, a public operating company so you can't have more than 40% of your balance sheet invested in securities. So that was a little bit of a problem. You can't just go buy an S&P index.

But even if I could buy the S&P index, my shareholders would have said we can buy the S&P index, that's not differentiating for you. So it wasn't really politically viable and it wasn't technically viable for us to just go buy a portfolio of stocks. In April or May of

2020, you can't just go buy a well-priced portfolio of art or real estate either. So I thought gold or something that looks like digital gold.

And I thought about gold really hard and then I discovered crypto and what I realized is, you know, what if I could design a crypto gold? I think the idea that Satoshi came up with bitcoin was let's perfect gold. So you could think about bitcoin as many things. You can think of it as digital gold, digital property, digital money or digital energy but I'm just going to roll it back to digital gold and say what is that?

What if I took 6 billion ounces of gold and I said, no, I'm only going to have 21 million ounces and I'm going to put it in a virtual coin and I'm going to make it sub-dividable by eight decimal points, by 100 million. If I only had 21 million virtual ounces of gold and if I took the weight out, and then if I eliminated gold mining forever, you can never, I reduced the supply and I made it impossible to make any more.

And then if I said you can program it and put it on an iPhone, and you could move it at the speed of light, you know, a billion dollars of virtual gold moving on a crypto L1 network, the base layer network, moves in a few minutes for a few dollars. But that billion dollars of gold moving on the L2 network, the Level 2, what we call lightning, moves in a few seconds for a few pennies. And that billion dollars moving on a Level 3, what you would think of as Coinbase or Cash App, or Binance or any other, or FTX, that

moves in milliseconds for nothing.

So I thought, well, that's, it's kind of interesting because it's a better gold than gold because you can't make any more of it. Also you can take personal custody of a billion dollars of it and no one can take custody of a billion dollars of real gold. It would be 30,000 pounds. So real gold is centralized with custodians. You don't have a lot of options for counterparties. Real gold is dead money. It sits in a vault. You can't get rent on it. And we'll get to that when we talk about DeFi, right? You can't get rent on it. On the other hand, you can't really develop, an Apple computer is never going to want to give 8 billion ounces of real gold to people with iPhones. Not going to happen.

So real gold was this idea of portable money in a bearer instrument. But bitcoin was crypto gold, this idea that I want portable money in a bearer instrument that also is digitally transformed into a digital asset. And once I saw that, I thought, well, I really want gold, but I really want a big tech monopoly network. Like I want the Facebook of money, or I want the Google of money. I want to own Facebook stock.

I had an experience about ten years ago when I wrote *The Mobile Wave*, I said, well, the world's going to be transformed by billion person networks – Apple, Google, Facebook, Amazon. And they are the digital transformation of retail, digital transformation of maps, of music, of messages, of relationships. And that's a pretty

good idea because you've got a billion people in a network and you could shoot the product to them over the weekend for a nickel. And you could change the world. It's worth a trillion dollars. You buy the stocks, hold them a decade, you get a 20X return.

Pretty much all the good tech ideas were something everybody needed, nobody could stop, and few people understood. And that describes FAANG stocks about ten years ago. As a personal investor, I made \$500 million as a personal investor on those FAANGs. And I did it in, I did it literally on a phone call, 15 minutes, buy the thing and wait. But as a professional investor, as a MicroStrategy CEO, I worked 2,500 people to death for ten years to get nowhere. And the experience of working as hard as you can for a decade to get nowhere versus holding an asset that's a monopoly and getting a 20X return was indelibly inscribed on my brain.

So in March of 2020 came, I said, you know, the last time I saw this a decade ago, we just bought, you know, digital monopolies and I waited. This time around, what's the next digital monopoly and I thought, well, a digital monetary network that a billion people need, nobody can stop, not many people understand, and that looks like bitcoin. So I found the bitcoin, asked the question, the institutional question you've got to ask, if I showed you crypto gold, it's perfectly engineered. It's like, you know, if you wanted to design perfect gold, you can't make any more of it, you can't re-hypothecate it. You can move it at the speed of light. What's not to like? And the answer is the Ray Dalio

answer. It's too good to be true, someone's going to ban it.

So the question is, will it be banned? Will it be hacked? Will it be copied? Right? And you can't really know that for the first ten years, but my exercise was once I saw it engineered, what in theory is the perfect, perfect synthetic, non-sovereign store of value instrument, in theory it's great. But is it Yahoo or is it Google? Is it MySpace or is it Facebook? You've just got to figure out if it's the winner. And you want Apple because Apple made all the profit in the mobile phone market and everybody lost money to compete with them. So there's a winner and there's the followers. And so is bitcoin the winner?

And I had studied. I looked at all 10,000. And I had the advantage of hindsight because I had seen 10,000 things launch and bitcoin had beaten all of them. I had the advantage of the block size wars. When bitcoin was forked and copied and all the copies went towards zero. They were failing. And I had the advantage of lots of more intelligent people than me taking risks and I was able to duck all the other historical challenges. And we came in at just the right time.

So our conclusion was, no, it's not going to be banned, because it's digital property. The IRS designated it as property. If you thought it was a currency, it might be banned. Currencies are a medium of exchange that are taxable on transfer, so it's not a

currency. If you understand it as property, then you're over this Treasury issue and you're over the tax issue. Then the question is will it be hacked? No, it's the most secure network in the world and it's running on millions and millions of computers. And even when it's hacked by a nation-state, no one is able to hack it. And the copies failed.

So we were able to get comfortable that this is the institutional grade reserve asset in the crypto space. And since it wasn't feasible for me to buy \$500 million of Picassos and it wasn't feasible to buy a sports team. You could buy trophy assets, right? Not feasible for me to do it in July or August of 2020. Then what is the fungible, liquid, scarce, desirable property that you could buy as an inflation hedge that might accrete in value faster than the rate that the money lost its value? And the answer is bitcoin. So that's why we got into the business.

ANNA NIKOLAYEVSKY: Can you compare bitcoin to real estate and the correlations and differences?

MICHAEL SAYLOR: Yes, good question. If bitcoin was digital gold, well, I'd buy a block of it and I'd sit on it for a decade or for 100 years and then it's a store of value. It's a little bit better than gold, but a lot of investors realized you're not going to make any money in gold. Gold is a fanciful, mythical idea, but it's not really a winning idea.

It's hard to find, you know, of the Top 100 richest people in the world, you're not going to find anybody that made their money by investing in gold. Why? Because you can't rent it and you can't develop it. It's dead money. No one even wants to; they don't want to rent your gold. You can't put a lien on the gold. It's hard to upgrade the gold. So real estate is a better idea.

And the idea behind real estate or property is if I knew that the money supply was going to expand at 7% a year and I could borrow money at 3% or 4%, then I'd borrow a billion dollars, buy a billion of real estate. It accretes at 7, 8, 10% a year. My interest on it is 3, 4% a year. The arbitrage is plus 6 or plus 7. So everybody in New York knows this. The time-tested way to get rich is borrow a billion dollars, buy a billion dollars of real estate in New York, hold it for 20 years. And then refinance it, never sell it. Right? Just keep rolling it forward and refinance it. And if your grandmother or grandfather was smart enough to have bought New York City real estate and it's still in the family, you're probably doing okay. Well, that's the proper, you know, long property is a value proposition to get rich or to stay rich.

What is bitcoin? Well, bitcoin is digital property. The advantage of bitcoin over gold is I can have a billion dollars of bitcoin and I can rent it out to someone. The advantage of a billion dollars of bitcoin versus a billion-dollar building in New York City is the New York City building is interesting to people that want to do business in New York City, but a

billion dollars of bitcoin is interesting to someone that wants to do business in Singapore or Monaco or Hong Kong or London or Paris or San Francisco. In fact, it can be teleported anywhere on earth. Right? And that's one big advantage.

If you're lucky enough to buy the building in New York, good for you. But what if you were unlucky enough to buy the building in the wrong city, or what if there's a war, what if you owned a building in Kyiv or in Moscow right now? Right? You can't move the building. And that's the problem with real estate. What if you bought a billion dollars of real estate in Kansas or in Dayton, Ohio? Does it accrete at the same level as Manhattan? And the answer is no. So you have to pick the right place to put your billion dollars in the real estate business whereas with bitcoin, you invest a billion dollars and you can move it anywhere.

There's a couple of other advantages. When you think of it as digital property, imagine I re-conceptualized Manhattan as 21 million city blocks and I made it impossible to make any more. Okay, that's an upgrade because people can create more land. If you go to Dubai or Abu Dhabi, you can see they're literally creating land the same as in Monaco. And if I change your air rights, I can move up. And so you can't guarantee scarcity in real estate because of political interference and capital incentives to create more square footage. But if I'm capped at 21 million square feet in cyberspace and you can't make any more, then I've got a scarcity.

The other advantage is if I had a billion-dollar hotel, maybe I could rent out the rooms by the room night to people that want to be in New York. But what if the Olympics are in Tokyo and I wanted to move the hotel to Tokyo for a week? You can't do that. But if I have digital property, I can move the digital property to wherever the highest bidder is at any given time. And then I can get even cuter. You can only rent out a room in a hotel by the night, but I can slice up a digital property and rent it by the minute.

And now here's where we start to think, well, what if I had a hotel and I could rent it by the minute and I had bots cleaning it up and I could break it into 10,000 pieces and I could move it to Tokyo and Paris and London, put it to the highest bidder and recombine it and I didn't have either the maintenance headaches of wear and tear and weather. If you put a massive hotel tax on me, in New York, I'm stuck here. But if you put the massive tax on the bitcoin, it's going to Singapore or somewhere else.

So there's a lower cost to carry digital property. There's a higher yield on it. And I can program it with a computer. So I've got a higher velocity on it. And in the extreme, I've just described the DeFi value proposition, which is I have a block of a billion dollars of property but what I really want to do is I want to generate the highest yield on Saturday afternoon against 87 different counterparties for 87 minutes. You can't do it with something in the physical realm, but you can do it with something in the crypto realm.

And so when bitcoin moves from crypto gold to crypto property, you have the potential of accelerating the velocity of the rent of it. You can also put a lien on it. You can also develop it or upgrade it by building it into an iPhone or building it into a website. And, of course, you can sell it to anybody. You can only sell a building in Istanbul to someone that wants a building in Istanbul. But you can sell bitcoin to anybody anywhere on earth and transfer it to anyone on earth.

So instead of the lowest common denominator, you have the highest common denominator. And look, maybe you're absolutely sure that Paris is the place that you want to have your property, but are you sure that in 100 years, Paris is going to be the place you want your property? And they say time is the ultimate stressor. It's the ultimate volatility driver. The appeal of bitcoin as digital property is I don't know where in time or where in space I'm going to find the highest bidder to rent or to buy my property. And I also don't know where I will find the most hostile malefactor to impair my property. Maybe you're going to get rent controlled in New York City. Right? Maybe you're going to find that your property in Moscow is not as valuable as it was last year. And so if I take an entire business school education and I boil it down to one sentence, I think it all boils down to keep your options option.

ANNA NIKOLAYEVSKY: So there have been two incredible outlier events recently that affected crypto. The first one is that Canada and Trudeau tried to freeze the accounts of

people who supported the trucker demonstrations. And secondly, we've had the devastating war between Russia and the Ukraine. Can you talk about what that's taught the world about individual holding and access to individual ownership?

MICHAEL SAYLOR: I think that a lot of people have been driven to ask the question, what are property rights? And do I really own something? And I think that what we're learning is, like if you're a Russian oligarch and you don't own the country, you don't own your yacht. You don't own the building that is in the country if the country is not friendly to you.

In Canada, the trucking crisis reminded a bunch of people that if their interests are counter to whoever controls the government, they can have their money turned off. And they literally had their bank accounts turned off by executive order and when they tried to raise money to protest, the money was sitting in centralized custodians and that was seized too. And the result is, you know, maybe 50% of the Canadians are in favor of what happened and 50% are maybe against. They're not sure. But millions and millions of people started feeling insecure about money in a bank. And I think in Russia and the Ukraine, millions of people, I think we're talking about 300 million people, feel insecure about their money in a bank in Ukraine or their money in a bank in Russia. And everybody on earth feels insecure about any property they hold in the physical world.

This is exploding, I mean you've got like 400 million or 500 million people now that are staring at this. But if you roll the clock back a year, Lebanon was an instructive example where people in Lebanon had had dollars, U.S. dollars, sitting in a Lebanese bank, found that their bank accounts were frozen, forcibly converted to local Lebanese currency and devalued by a factor of 10. And now they're impaired from being able to extract their seven cents on the dollar for another 15 years. The same thing happened in Argentina. The same thing happened in Afghanistan when we pulled out. And so I think the world today realizes that the local currency probably can't be trusted. The ruble is collapsing. The Ukrainian currency is collapsing. The Argentine currency is collapsing.

So if they don't trust the currency, they can't trust the local banks. Most of the local banks, you know, will either freeze their assets or forcibly convert them and devalue them. They can't necessarily trust that they can store their life savings in physical property. Like if you had a billion dollars, what would you buy in Africa that you would think is a better idea than owning an asset in the United States? So if you had a choice in Africa, would you rather own a million dollars of bitcoin or a million dollars of something. The same in South America, what would you buy? And so what you have, and it used to be people in North America were oblivious. People in the United States and Canada say, well, we have a rule of law here, we can trust the banks. I think the significance of the Canadian trucker incident is a lot of people thought Canada was safe

and now they feel like they can't trust the banks. And I think the significance of the Ukraine...

ANNA NIKOLAYEVSKY: And a democratic country of all things...

MICHAEL SAYLOR: Yes, democratic country, but if you happen to disagree over a tax mandate or disagree over something, then we just take your money. And I think that the significance of the Ukrainian-Russian issue is the United States has declared economic war on private citizens in Russia and economic war on everyone that works for them, which means that any property that you thought you owned might be seized by another government even without a war. Right? There's no congressional declaration of war. Right? There was not even a debate in Congress as to whether or not a bunch of private citizens would lose their property.

So now you start asking the question, where is my property safe? And, of course, the irony is a lot of the oligarchs in Russia were buying these yachts to get their money out of Russia because they didn't trust their money in Russia. Right? They didn't trust any property in Russia. So if your property is not safe out of your country and if it's not safe in your country, where can you go? And the answer is cyberspace. Right? I mean bitcoin is the American dream.

People came to America; the Huguenots came because they didn't have property rights. Right? Once upon a time, the Jews fled Spain because they lost property rights. My family, they were Palatines. They were Protestants in Switzerland, which was a Catholic state and they lost property rights. So people all come to America – John Jay came for property rights. The du Ponts came for property rights. So people come to America for life, liberty and property. And if you're the wrong religion, you don't have any property rights. And that's what created this country. It used to be you went west and you kept going west. Now you can't go west anymore.

So where do you go? And the answer is you go into cyberspace because maybe that's where I can find property rights. And there's 250 million people that are stampeding into cyberspace because for them it represents freedom and a hope and property rights against a government which might seize whatever they have whenever it likes for whatever reason.

ANNA NIKOLAYEVSKY: So can we talk about environment concerns. The European Union is actually voting against proof of work. How do you think that will resolve itself? And is the environment actually a big consideration when mining crypto?

MICHAEL SAYLOR: Bitcoin won that vote. I just tweeted about it a few minutes ago. And I think it was two-thirds in favor of digital assets and one-third not so informed. So I

consider that to be a rousing victory. On the matter of, first environment, then regulation, the first thing to understand about the environmental issues is proof of work is, in essence, taking energy and then encrypting it through a SHA-256 mining rig. And so it's digitized energy. It's not pure energy, but it's digitized energy. And the efficiency with which we digitize that energy is increasing at about the rate of 36% a year. It's a very rapid improvement. And so we're like 1,000 times more efficient in the way that we generate bitcoin hashes today than eight years ago. This is a technology business. It's not a raw energy business.

Now, the use of proof of work in order to create and secure the network is the only settled, the only proven method that we have arrived at to create a property in cyberspace, a digital property. And by that I mean bitcoin is acknowledged as common property and not a security. Right? That's been made clear by the SEC. It's been made clear by anybody that's studied it. It's pretty critical that you have a digital property and not a digital security because the security would be subject to SEC rules regarding disclosure and trading and the like. So my company couldn't have more than 40% of its balance sheet in a security. A public official can't really endorse a stock in a company or an equity. It's a conflict of interest and it violates all sorts of rules.

And so what you have with digital property is like an ethical basis for the crypto economy. On top of it, you can build lots of other interesting things that may include

securities and exchanges and the like, but at the base layer you need energy to create real property. If you don't use energy and you don't use the hardware technology, what you have generally most likely is a security or a coupon that's circulating on a network and there are 10,000 of them. And you can create value circulating those things but they're very competitive and there's marketing issues and there are security laws to be considered when you're moving securities around.

So ultimately people that are skeptical of the energy use, they generally don't understand that you need the energy in order to make it common property ___ to gold or real estate or other kinds of commodities. And if you take the energy away, you don't have real money. You have imaginary money. And if you want an imaginary building or an imaginary car or imaginary money or imaginary healthcare, you can do it in the Metaverse with imaginary energy, but it's not the same thing. It's a false equivalence.

ANNA NIKOLAYEVSKY: And the Metaverse is also unlimited.

MICHAEL SAYLOR: Yes, I mean everybody can have their own jet in the Metaverse for free. It's just not the same as having a real jet. Right? And so, yes, someone's going to say that the real jet uses energy. Yes, it does. And if you don't like it, then you don't like it. But they're not the same thing, imaginary things versus real things. The energy in the bitcoin network is what makes it secure and gives it integrity so that you can put a billion

dollars on the network and think that 100 years from now, no one would have copied, hacked, or corrupted the network. It's what makes it incorruptible.

If I take away the tens of billions of dollars of special purpose hardware and the millions of mining rigs and the energy, then I lose the incorruptibility and now what I have is I have an equity. I have a company. And that's fine, but are you going to trust your life savings for the next 100 years to a company? And if so, which of 17,000 companies do you want to trust? And the problem with a company is companies are subject to nation-state attack. You know when the Canadian government sends notes to GoFundMe that they just want the \$10 million that was yours, then GoFundMe will give it to them because no one is going to jail. Right? So bitcoin established itself as open permissionless and that's what makes it a property and not a security. And that's what makes it ethical. That's what makes it global in its appeal and a good foundation.

ANNA NIKOLAYEVSKY: So you recently sat down with Jack Dorsey. Jack Dorsey is obviously one of the top fin-tech innovators over the last decade who has recently pivoted away from Twitter and even renamed his company, Block. Can you tell us what exactly came out of that long conversation?

MICHAEL SAYLOR: Jack is what they call a bitcoin maximalist. He is a believer in bitcoin. And what he thinks is this is the native currency of the internet. Right? Because

it's a pure and true and beautiful thing. Now, why does he think it's pure and true and beautiful? He sees it as incorruptible money, but he also sees it as a currency you can move at the speed of light on a computer network.

And so because he founded Twitter and because he's been in the computer business his entire life and because he founded Square and he's very sensitive to payments, he's aware that, you know, if someone is starving to death in Nigeria and the government is the reason they're starving to death and you try to send them money on a credit card network, the government blocks the credit card network. The people starve. And that bothers him. And he thinks perhaps it would be nice if you were able to send money to people and the government would not block the money and the credit card network would not fail.

So Jack sees the old 20th century world which consists of a central bank, a fractional bank, Mastercard and Visa, that works, it's like bailing wire and rubber bands, and it doesn't work on a Saturday and it takes 2.5% of your money every time you do a transfer. And if you transfer money to someone that the government, that anybody doesn't like, the money just doesn't get there.

ANNA NIKOLAYEVSKY: And their fees are about to go up.

MICHAEL SAYLOR : And their fees are about to go up. So he sees that world and then he sees bitcoin and lightning, which I can send a million transactions a minute and I can send it for a 20th of a penny.

ANNA NIKOLAYEVSKY: So can you explain just what lightning is?

MICHAEL SAYLOR: Yes. Lightning is a layer 2. It's an open source, non-custodial protocol for doing transactions on top of bitcoin. So if I wanted to send a billion people \$5 today, I wouldn't send it on the bitcoin network because the bitcoin network is a first layer settlement network. Bitcoin is good for moving a billion dollars from me to you in half an hour for \$5 safely, which is fine. But it's not good for sending \$5 to a billion people for less than a penny. Right? That's a transaction network.

So how do you actually create an open, permission-less, non-custodial transaction network that will move money at the speed of light for free? Well, what you do is instead of having hyper-nation-state proof security on \$800 billion, I just take a million dollars or \$100,000 and put it in a channel, a lightning channel, and now I can move money within that channel instantly for free. All I risk is the \$100,000. So it's kind of the layer 2. And, of course, most people don't need to move a billion or protect \$800 billion. What they need to do is move \$5 fast and cheap. So lightning is that open-source protocol on top of bitcoin that enables you to implement friction-free transactions.

And the significance of this, to the world, is if you see the future of eight billion people with mobile phones and 100 million companies with websites, and what you want is to see 100 million companies trading with eight billion people at the speed of light, friction-free, 24/7/365, with computers accelerating the rate at which the money moves, then you need something like bitcoin and lightning.

You know, I've been in business, I'm a public company since 1998, I could spend 20 years and never be able to trade with a company in Nigeria. In 20 years, I will never be able to do it because I'd have to find a bank that my auditors signed off on, that my bank signs off on, you know, that the governments sign off on, and there's politics involved. So even if you gave me a billion dollars, in 20 years I cannot trade, I cannot help a lady walking down the street with two children. I couldn't sell anything; I couldn't buy anything from her. On the other hand, with bitcoin and lightning, on a Saturday afternoon, a couple of programmers could set up a website to enable that trading and then be up and running by Monday morning because it's an open, permission-less, global protocol.

Jack Dorsey wants to deliver economic empowerment to billions of people that are unbanked. It's utterly impossible to do it with the 20th century banking system and the credit card system. Even if the CEO of Visa and Mastercard swore that that's what they wanted to do, they couldn't do it. So you need a new technology and the new

technology is open, permission-less protocols. And if you want to change the world and give billions of people economic empowerment, you're going to have to do it with a different idea.

And that's why Jack is passionate about it. You could say he's passionate because it's a moral imperative, but you could also say it's a technology imperative because if you're Apple Computer and you want to actually move money at the speed of light on an iPhone to everybody on earth, you can't do it with the 20th century apparatus.

And I think El Salvador is an instructive example here where in the course of 100 years they managed to give 2.5 million people a traditional bank account, but in the course of three weeks, they managed to give 3 million more people a mobile bank account. And I think, I wrote this book, *The Mobile Wave*, and *The Mobile Wave* was about what happens when you digitally transform music and messages and maps and put it on a mobile device.

But the next chapter of *The Mobile Wave* is what happens when you digitally transform money and property and energy and you put that on a mobile device? What happens if Apple Computer can actually let everybody in the world carry their life savings on an iPhone and store it in the iCloud and Apple goes from being what they are today to being a \$10 trillion bank trading with hundreds of, millions, billions of people at the

speed of light? This changes the balance of power and technology. So you could say Jack wants to make the world a better place or you can say Jack wants to create the ultimate fin-tech company. It doesn't really matter because you're not going to do it with 20th century approaches. You're going to have to have a new approach.

ANNA NIKOLAYEVSKY: Where is your bitcoin stored? Is it cold-stored?

MICHAEL SAYLOR: We have it in cold storage with institutional grade custodians, which we've vetted. And if you're a publicly-traded company, you have to make sure you trust the accountants and the security protocols and the Sarbanes-Oxley procedures of the institutional counterparty, and they have the right licenses. Three that are well thought of in the U.S. right now, Coinbase has \$400 billion of assets, \$250 billion of institutional assets in it. Fidelity is another big institutional grade holder. NYDIG in New York City is another big institutional grade holder.

ANNA NIKOLAYEVSKY: So what's your strategy for acquisition? Do you look at timing? Do you look at what the cost of debt is? Do you do dollar cost averaging? Do you do it whenever you can? What's the strategy?

MICHAEL SAYLOR: We're very fortunate because we're the one publicly-traded company that rotated and migrated our entire shareholder base to be long bitcoin. And

we did it through a series of transactions starting with a Dutch auction where we offered to buy back \$250 million worth of our stock while pursuing a bitcoin strategy. And people that didn't like the bitcoin strategy tendered their shares. They tendered their shares at \$140 a share.

So, Anna, the interesting example is we bought \$250 million worth of bitcoin with Treasury reserves and then we bought \$175 million more of bitcoin once our Dutch auction ended. That was opportunistic. Our stock tripled. We went to the market; we did a convertible debt offering and raised \$650 million of convertible debt at 75 basis points. And we bought bitcoin again with that. That was sort of opportunistic. The first was defensive, the next was opportunistic.

Then our stock doubled again. We went back to the market in February. We raised more than a billion dollars at zero percent interest, and then we bought bitcoin. That was strategic because if someone wanted to give you a billion dollars for seven years at zero percent interest to invest in your business strategy, would you take the money? Hopefully. Hopefully, right? Otherwise it's not a business strategy.

So then bitcoin traded down after the Chinese exodus and we went back to the market and did a junk bond offering for \$500 million. That was strategic but we tapped the debt markets because that was more, that was accretive. And then when bitcoin traded up

again, our stock traded up again, we issued a billion dollars of equity, and then we bought bitcoin with that. That was strategic again.

ANNA NIKOLAYEVSKY: So now it's like 80% of your market cap.

MICHAEL SAYLOR: Yes, so we have now bought bitcoin...I bought bitcoin in the \$9,000s, the \$10,000s, the \$11,000s, the \$16,000s, the \$20,000s, the \$30,000s, the \$40,000s, the \$50,000s. I'll be buying it at the all-time high forever because of one simple principle, which is there's less than a trillion dollars in this digital asset, this digital property. There's \$500 trillion of other property. A lot of the other property are currency derivatives like bonds with negative real yields or value stocks or other currencies. They're all losing purchasing power as the money supply expands.

As the world gets more educated, people are migrating capital at a progressive rate into the digital property from the physical property and from the currency derivatives. And so, if bitcoin is digital gold, it goes to \$10 trillion. And if it's digital property, it should go to \$100 trillion. If it's digital money or something better, it goes beyond that. But it will do it like this.

ANNA NIKOLAYEVSKY: Scott Shay, the Chairman of Signature Bank, had a question.

SCOTT SHAY: I have a question and then a quick correction. One is listening to your views about trust and trust in currency, one would wonder whether a CBDC, a central bank digital currency has any future. And I'd be really interested to know whether you think that folks would trust their net worth to a Federal Reserve or other state designed and controlled and custody central bank digital currency.

But I do have one quick correction to make, just because it's an important correction. The Spaniard said that any Jews in Spain past a certain date would be murdered so they fled their property. They didn't have their property rights taken away. It's a very different thing.

MICHAEL SAYLOR: Okay. I grant it to you. They had to leave their stuff behind but they could take their life. If they had bitcoin, they could have taken their bitcoin with them, or they could have sent it away somewhere in a few minutes. So I parsed every word spoken by Gary Gensler. I've talked to dozens of politicians off the record. I have read, you know, every word in the President's working group on stable coins, and I've talked to everybody in the industry.

Here's my opinion. The world wants two things badly. The world wants crypto dollars, digital dollars. It knows it wants them. There's a \$10 trillion demand for digital dollars. They want them in Turkey. They want them in Ukraine. They want them in Russia right

now. Why do you want them? Because otherwise you lose everything. Right?

Everywhere in Africa, everywhere in South America, people would sell their local currencies and they would buy dollars if they could put them on their mobile phone. It's not very hard to convince someone they'd rather own dollar than the peso or the lira or the whatever. And right now they're going to stable coins like Tether and Circle issued by private issuers because that's all they have and that business is booming.

And you know there's massive demand for this because it's 24/7/365. The world wants that. The world is beginning to realize they also crypto property, bitcoin, 250 million people know that. And every single day, every month there's millions more people that know they want that. Property is your savings account for the long term. Dollars are your checking account for the near term. The world wants that.

The world doesn't generally want the CBDC because they don't want central governments to control their currencies. And I think that the consensus in the U.S. right now is that the U.S. should allow banks, FDIC-insured banks especially, to issue stable coins. That's the administration's view. In the Senate, the view is state-chartered banks should be able to issue this. Right? Cynthia Lummis would say state-chartered banks should issue, not just federally-chartered banks. There's a tension there.

In the commercial market, in the crypto industry, the consensus is crypto companies

with some moderate license should be able to issue stable coins, like a la Circle or Tether or the like. I think that the way it will resolve itself is somewhere between the administration position and Congress's position, and it will be private entities that will release them. And I think that the world will go to a trillion dollars of U.S. dollars and maybe \$10 trillion. I think the big winners will be institutions that can get the licensing and deal with the political requirements. Your bank would be an obvious candidate, anybody that's got an FDIC charter that wants to get into the stable coin business.

You know, Facebook was ready to do it with Silvergate and they got slapped on the hand just because, right, just because. So there are politics involved. I don't think anybody, there's no consensus in Congress or the Senate to allow the federal government to issue these things because of the privacy issues. Not in our country. In a more authoritarian nation, in China, I think that there the central government probably has the inside track and they will issue them.

So ultimately, I think that the world wants dollars, though, they don't want digital euros. They don't want digital yuan or CNY. They don't want digital pesos or lira. They want digital dollars. And ultimately the big winner is the U.S. dollar. Look, the industry, despite the support of the U.S. government, is still propagating the digital dollar through, you know, Tether and through Circle. Right? The world wants that badly. The dollar will be the winner. And if the U.S. government allows banks and allows other entities to

issue these faster, if J.P. Morgan did this, it would be a trillion dollars of stable coin.

ANNA NIKOLAYEVSKY: So why bitcoin over ethereum? Is it the founder, the presence of a founder?

MICHAEL SAYLOR: I think if we move to the subject of, look at digital, digital property is bitcoin. Digital dollars is some stable coin. Now you've got digital platforms. Ethereum wants to be a digital trading platform, and then there are digital security tokens or digital applications. When you get into the issue of platforms and applications, then the challenge is you need functionality and performance. And when you get into functionality and performance, now you've got issues with competition and you've got securities issues because to get functionality and performance, you generally need to go to software-related protocols. And software-related protocols tend to be centralized and centralized things look like companies.

And so most of the stuff in the crypto space, which has sexy functionality and performance, the NFTs, the DeFi exchanges, SHIB coin, whatever you might want, they look like companies with security tokens. And now we're into this regulatory question of, what are going to be the rules around DeFi? What are the rules around exchanges? What are the rules around securities? Under what circumstances can I sell them, trade them, promote them? And we're not going to have, we'll have 80% clarity by the end of

the first Biden administration. I think the next 36 months, we're going to see people trying to sort this out.

But I mean ethereum, if it stuck to proof of work, and if its aspirations were less ambitious, it would be a digital property competitor to bitcoin. We would have that debate. But their aspirations are much more aggressive. They want to be a Turing computer and they want to compete with Solana and Binance Smart Chain and the like. And they want to switch from proof of work to proof of stake. And now it becomes a question of is this staking token a security? Gensler has implied it is. Right. In congressional testimony, he's implied that anything that does staking is a security. If it's a security, then what are all the rules?

I would say if you're a venture capitalist or a speculator and you have a pool of capital for technology VC, then those are all things you can pursue. If you're a public official, a public investor or a public company and what you want is a safe harbor for making a simple investment where you understand the regulatory treatment, this safe harbor here is I buy a billion dollars of bitcoin as property to hold for a decade with the understanding that should I sell it, I owe capital gains on it. That's what you would do. And you have to wait until these agencies sort out, you know, what DeFi and what kind of centralization are you allowed to have. We're waiting for clarity and the executive order that came out last week is the White House endorsing the search for clarity.

ANNA NIKOLAYEVSKY: Which is huge.

MICHAEL SAYLOR: It's huge. I mean the White House said there's 40 million Americans with crypto and we need to give them clarity with regard to how it will be regulated. Since when did the President of the United States endorse any other new asset class and order the government to figure out how to regulate it? I think it's a good thing, but what we want is we want bright lines for what's the definition of digital property? What's the definition of a digital security? What's the definition of a digital exchange?

The SEC has been holding up the spot ETF for bitcoin and in every single legal opinion they say we're not going to approve the spot ETF until all the crypto exchanges adopt the principles and the protocols of national security exchanges which means everybody trading any crypto asset. And so we're waiting for that to happen. And with stable coin, right, you can't really invest in a stable coin to make 100X your money. You're buying the dollar and the dollar is losing one to two percent of its value a month. Right? You can make money if you're a bank, if you're an issuer of stable coin. Right? Issue \$100 billion of stable coin and you can make money. But the issue is you better figure out the regulatory issues and the licensing issues.

So what you have here is one simple idea. Digital property is better than physical

property. A bunch of sexy ideas, DeFi is cool, stable coins are cool. They're going to change the world. We all know moving money at the speed of light and being able to trade every second against the counterparty that wants to give you the most money on a computer, that's a pretty good idea. We're just trying to sort through the regulatory issues and the compliance frameworks to get there. And so that's what I think.

ANNA NIKOLAYEVSKY: Michael, thank you. I think we're out of time. We could sit here for hours, but unfortunately, we're at the end.

MICHAEL SAYLOR: Thanks for your time today. I appreciate it.

ANNA NIKOLAYEVSKY: Thank you so much.

PRESIDENT BARBARA VAN ALLEN: So, Michael, Anna, that was just amazing. I think, I'm sure everybody here, and we have almost 100 people watching virtually, enjoyed it very much. I'm pleased to say we have a lot of additional prominent speakers coming up.

Just to name a few, Glenn Hubbard and Larry Summers will be coming back, I think for the fourth time, for a conversation where they share their points of view on important economic matters. That will be March, the 22nd. Esther George, the President and CEO

of the Federal Reserve Bank of Kansas City, will join us digitally on March 30th. Roger Lowenstein, the author of the book *Ways and Means*, which is all about how Lincoln financed the Civil War and the recovery after, will be in a conversation with Greg Mankiw from Harvard on April 4th. We have Thasunda Brown Duckett, President and CEO of TIAA, joining us in person, here actually, April 11th. And Brad Jacobs, the CEO of XPO Logistics, on supply chain will be joining us April 13th. Rochelle Walensky, the Director of the CDC, April 14th. Other in-persons include John Rogers, the CEO of Ariel Investment, Co-CEO actually, May 16th, and then Arvind Krishna, the CEO of IBM, will be joining us June 8th. And we actually have many more to come.

So, again, thank you for being here today. A special thank you to our members of the Centennial Society who have joined us and continue to be the financial backbone of the Club. And just a reminder for members in attendance, both virtually and in the room, you'll be receiving an email post-event survey. Please take a moment to fill that out so we can continue to refine our event experience. So, again, thank you for being here, whether you're in the room or online. And for those in the room, enjoy your lunch. Thank you.