

MicroStrategy Case Study

December 2020

Overview

Highlights

- In two landmark investment tranches, MicroStrategy became the first publicly traded company to acquire a large allocation of bitcoin to hold on its balance sheet as a primary treasury reserve asset.
- Coinbase was selected as the primary execution partner for the transactions.
- Using Coinbase's agency OTC desk and suite of routing and algorithmic trading tools, Coinbase was able to help MicroStrategy acquire its desired position without incurring market impact while beating the market VWAP in the process.

Background

MicroStrategy (MSTR) is a publicly traded business intelligence and software company, with a market cap of \$2.50bn (as of 11/25/2020). Michael Saylor, Chairman and CEO of MicroStrategy, has become a pioneer for CEOs looking to diversify their capital. The MicroStrategy team spent months deliberating their new capital allocation strategy amidst a macro backdrop which includes an economic and public health crisis driven by COVID-19, unprecedented fiscal stimulus measures, including quantitative easing, around the world, and political and economic uncertainty.

Challenge

In June 2020, MicroStrategy expressed interest in investing their own capital in bitcoin. The company found bitcoin to have distinctive properties that allow it to be used as a hedge against inflation and, in addition, earn higher returns than other asset classes. To start, MicroStrategy was looking for a leading partner with the crypto and institutional expertise and experience to help them invest in bitcoin as part of their new capital allocation strategy.

“Our investment in bitcoin is part of our new capital allocation strategy, which seeks to maximize long-term value for our shareholders. This investment reflects our belief that bitcoin, as the world’s most widely-adopted cryptocurrency, is a dependable store of value and an attractive investment asset with more long-term appreciation potential than holding cash.”¹



Michael Saylor

Chairman and CEO, MicroStrategy

For more information please contact sales@coinbase.com

¹Source: <https://ir.microstrategy.com/news-releases/news-release-details/microstrategy-adopts-bitcoin-primary-treasury-reserve-asset>

Solution

MicroStrategy was interested in learning about Coinbase's execution expertise, experience with corporate customers, security standards, and white glove customer service.

Choosing Coinbase

After carefully evaluating multiple providers, MicroStrategy chose Coinbase as their primary execution partner based on the following three criteria:

1. Smart Order Routing

Individual exchanges do not have sufficient liquidity to service large, institutional-sized orders. Coinbase's smart order router solves this problem by aggregating liquidity from multiple venues (exchanges and market makers) and routing orders algorithmically to find the best all-in prices possible.

2. Trading Algorithms

Coinbase's trading algorithms are used to work large orders over longer periods of time in order to minimize price impact and help achieve the best average price. Each algorithm is optimized to take into consideration the client's degree of urgency for their trade, ranging from very passive to more aggressive. For example, Coinbase's Time Weighted Average Price (TWAP) algorithm will complete an order over a specified window of time, splitting the main order into many smaller orders that are then sent to different pools of liquidity, using the Smart Order Router to choose the best pool. In the example of the MicroStrategy execution, while the human traders input a few hundred orders, the algorithms converted that into close to 200,000 child fills, where the average fill size was less than 0.3 BTC. Having lots of experience executing larger orders, we have tuned our algorithms to minimize impact, using techniques like placing smaller orders across many liquidity pools to not disturb the market, and randomizing the size and timing order orders to not leave a noticeable pattern to other traders.

3. White Glove Service

Coinbase's experienced trading, coverage and client services teams helped MicroStrategy plan and execute the trade, taking into consideration market liquidity and other factors. Our "agency" trading model means that we have one job which is to get clients like MicroStrategy the best price possible because we are not trading from our own inventory. We are never put in the conflicted position of having to manage our own profit and loss, and keep the clients' best interest in mind at the same time. That puts Coinbase in the critical position of being the client's partner and trusted advisor, especially important when helping clients enter cryptocurrency markets for the first time.

Experience

MicroStrategy's initial \$250M investment in bitcoin took place over a period of five days. Each day the Coinbase trading team had numerous calls with MicroStrategy to check in, provide updates, and review reports on all of the trading fills.

Onboarding

The Coinbase coverage and OTC teams had a series of pre-trade calls with MicroStrategy to better understand what trade execution goals we should work towards and then worked with MicroStrategy to develop a trading plan. Together, the team evaluated data and analysis provided by Coinbase on global liquidity and the most optimal pace to minimize impact, and decided on a plan of action.

The first step was to conduct a small "test trade" so that MicroStrategy could evaluate the effectiveness of the trading strategy. MicroStrategy reviewed the post-trade report for the test trade and gave the trading team the green light to proceed with the larger investment.

Trading Experience

Following the successful test, Coinbase began to execute the larger trade. The plan was to use the Time Weighted Average Price algorithm to execute the trade over a period of five days, while staying in close contact with the MicroStrategy team to evolve the execution instructions based on where the market traded. This enabled MicroStrategy to take advantage of any weakness in the Bitcoin price and buy more, while also slowing down the execution at less attractive price levels.

Each day, MicroStrategy had a 9am call with the Coinbase trading team to start trading and report overnight fills. At 2pm MicroStrategy had another call to check in to review progress from the morning. At 9pm MicroStrategy had an additional scheduled call with the Coinbase trading team to settle the last trade and report afternoon fills. Throughout the trade, the Coinbase trading team proactively reached out to provide useful market information at the appropriate times and the MicroStrategy team had a point of contact they could speak to 24/7 if they had any questions or wanted to amend instructions.

MicroStrategy went on to invest an additional \$175M in bitcoin following the success of the first trade, for a total investment of \$425M.²

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