



Presto Original

Why MSTR's NAV Premium Can Go Higher

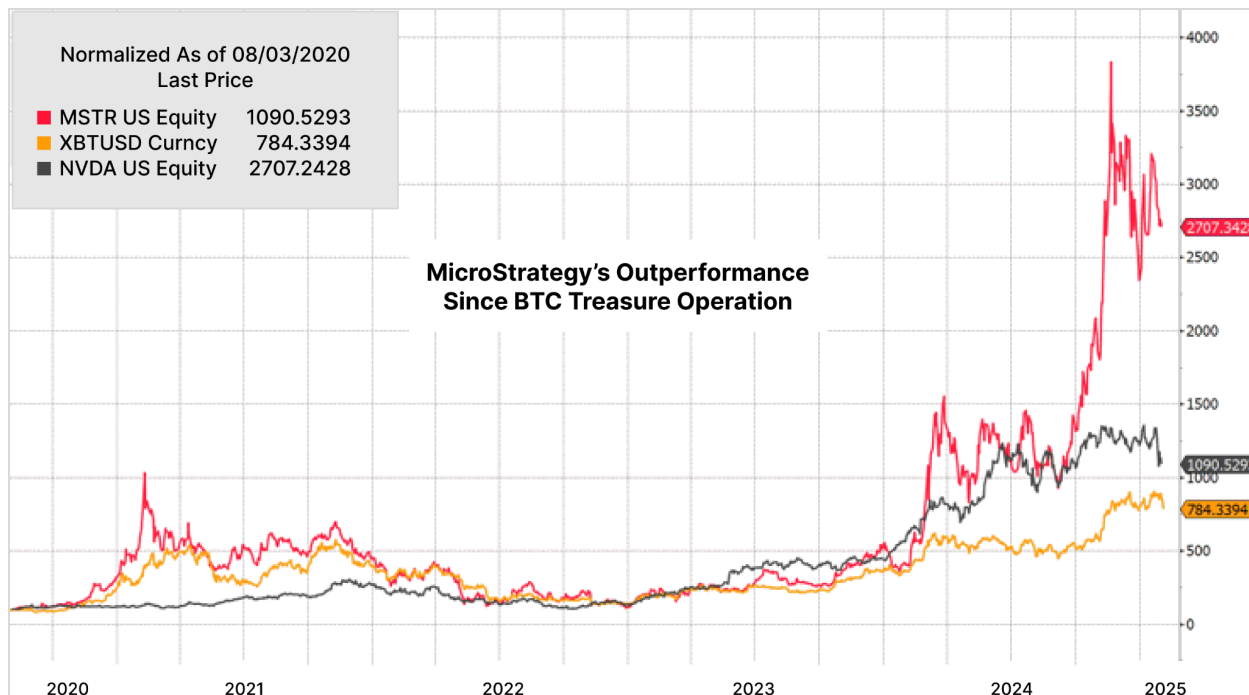
Feb 4, 2025

Peter Chung | Head of Research

peterchung@prestolabs.io

Contents

- Summary
- 1. Introduction
 - 1.1. Disclaimer / Disclosure
- 2. 4Q24 Earnings Preview
 - 2.1. BTC Yield
- 3. 2025 Outlook
 - 3.1. Accounting Change
 - 3.2. S&P 500 Index Inclusion
- 4. Making Sense of MSTR's Valuation
 - 4.1. Revisiting Earnings-Based Approach
 - 4.2. Valuing MSTR as a BTC Earner
 - 4.3. A Full-Spectrum Valuation
- 5. Risks
 - 5.1. BTC Liquidation Risk
 - 5.2. Other Risks
- 6. Final Words



Source: Bloomberg

Summary

- MSTR's NAV premium is justified when its BTC acquisitions are seen as recurring value accrual in BTC, and BTC itself is accepted as a legitimate monetary asset, on par with other cash equivalents. This mirrors how a company's export earnings, denominated in a foreign currency, are assigned a multiple to value its export business.
 - Using a 6% BTC Yield, our valuation framework – applying a 6x multiple to MSTR's average annual BTC 'earnings' – aligns with its current market value. This suggests the market is beginning to embrace the narratives behind this approach.
 - MSTR's ability to consistently deliver BTC yield (i.e. 'BTC earnings growth') is critical, as it would further legitimize an earnings multiple approach. While BTC liquidation risk from debt repayment could arise in a severe multi-year downcycle, such an event remains unprecedented.
-

1. Introduction

MicroStrategy's BTC treasury operation is not only driving Bitcoin adoption among publicly listed companies worldwide, but also has the potential to reshape the corporate landscape. Yet, mainstream investors – stuck in dogmatic thinking – see it as little more than a leveraged BTC ETF at best, or a reckless punt at worst. As is often the case in crypto, there's a massive perception gap, and this report aims to bridge it. To that end, we'll cover the 4Q24 earnings preview, the 2025 outlook, the valuation framework, and key risks to consider.

1.1. Disclaimer / Disclosure

This report is for informational purposes only and does not constitute financial advice. Presto does not hold a position in any securities issued by MicroStrategy. Any opinions expressed are based on our analysis and should not be construed as an offer to buy or sell securities or a solicitation to engage in trading activity of the securities issued by MicroStrategy.

2. 4Q24 Earnings Preview

MicroStrategy (MSTR) is scheduled to report its fourth-quarter earnings on Wednesday, February 5 Eastern Time, followed by an analyst call the next day. The consensus earnings estimate, based on eight analysts, is shown in Figure 1.

Figure 1: MicroStrategy Inc. 4Q'24 Earnings Estimates

In US\$ million except Per Share	Q1 2024	Q2 2024	Q3 2024	Q4 2024 Est
3 Months Ending	03/31/2024	06/30/2024	09/30/2024	12/31/2024
Revenue	115.2	111.4	116.1	125.4
- Cost of Revenue	30.0	30.9	34.3	
Gross Profit	85.2	80.5	81.7	92.5
- Operating Expenses	288.9	280.8	514.3	
+ Selling, General & Admin	68.1	70.4	68.9	
+ <i>Selling & Marketing</i>	33.5	34.3	35.4	
+ <i>General & Administrative</i>	34.7	36.1	33.5	
+ Research & Development	29.2	30.3	33.3	
+ Other Operating Expense	191.6	180.1	412.1	
Operating Income (Loss)	-203.7	-200.3	-432.6	-14.5
- Non-Operating (Income) Loss	10.2	14.8	46.1	
Pretax Income	-213.9	-215.0	-478.7	-27.0
- Income Tax Expense (Benefit)	-160.8	-112.5	-138.5	
Net Income, GAAP	-53.1	-102.6	-340.2	-23.4
Net Income Avail to Common, Adj	98.3	39.7	1.5	4.6
Net Abnormal Losses (Gains)	151.4	142.3	341.6	
Basic Weighted Avg Shares	171.9	178.6	197.3	
Basic EPS, GAAP	-0.31	-0.57	-1.72	-0.12
Basic EPS, Adjusted	0.57	0.22	0.01	0.06
Diluted Weighted Avg Shares	171.9	178.6	197.3	
Diluted EPS, GAAP	-0.31	-0.57	-1.72	-0.12
Diluted EPS, Adjusted	0.57	0.22	0.01	0.06

Source: Bloomberg

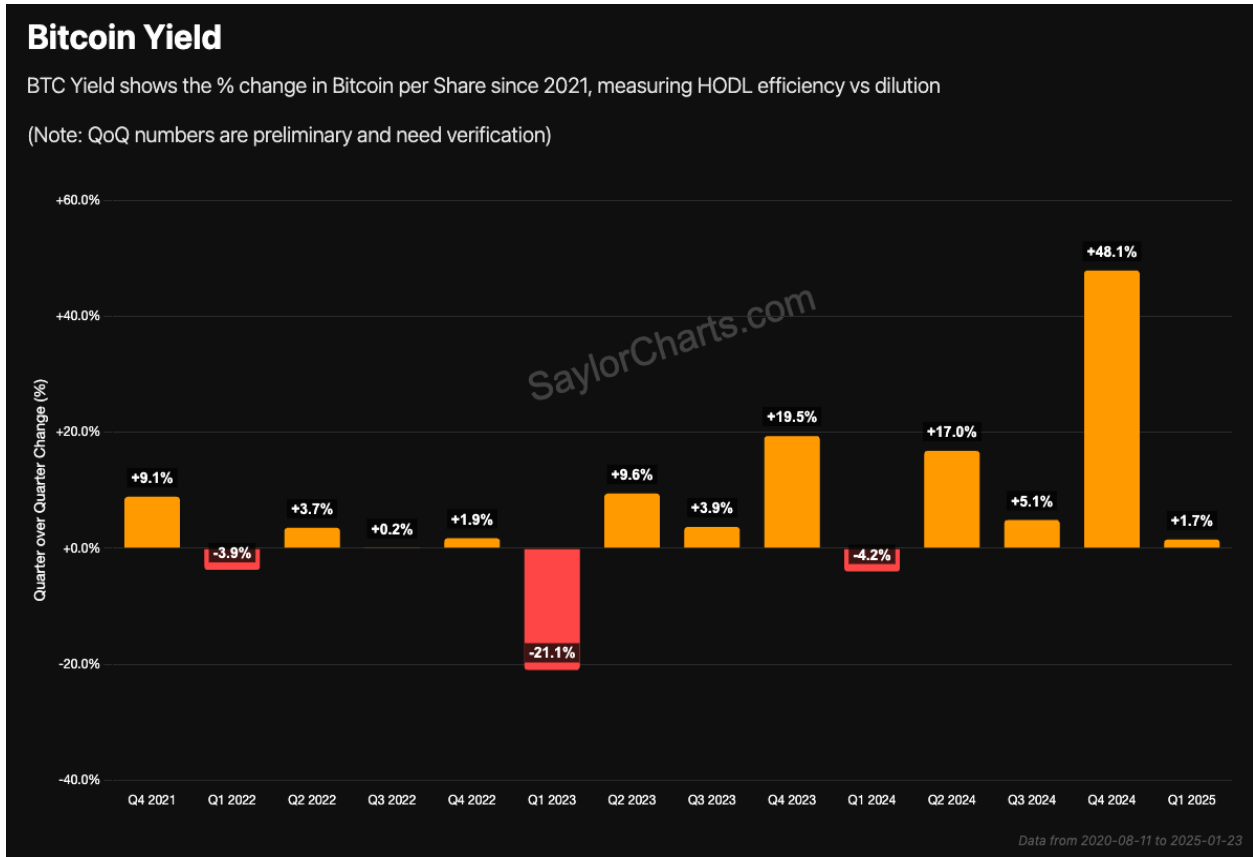
A caveat is that MSTR's reported earnings fail to capture the value accrual from the company's Bitcoin treasury operation, primarily because the current accounting treatment of its BTC holdings does not reflect market value (more on this later). Therefore, the additional metrics and guidance from the earnings call are essential for evaluating the investment merits. BTC Yield is one of them.

2.1. BTC Yield

In August last year, MSTR introduced a concept called "BTC Yield." BTC Yield represents the percentage change in the ratio of the company's BTC holdings to the company's fully diluted shares over time. Another way to think of it is as BTC per share growth rate on a fully diluted basis. MSTR uses BTC Yield as a KPI for shareholders, believing it to be a more useful measure of the company's value accretion.

MSTR's real-time announcements of each round of Bitcoin acquisitions mean investors don't have to wait for quarterly earnings releases to monitor the KPI. MSTR achieved a 48% BTC Yield in 4Q24, translating into a 74% BTC Yield for full 2024. BTC Yield is important because the consistent growth of its BTC holdings is touted as what justifies MSTR's NAV premium, which has been the subject of heated debate in recent months. More on this later in "4. Making Sense of MSTR's Valuation."

Figure 2: BTC Holdings Have Been Growing Faster Than Dilution



Source: saylorcharts.com

3. 2025 Outlook

Significant changes await MSTR in 2025, the most notable being the accounting treatment of its BTC holdings. This change may, in turn, have implications for a major index inclusion.

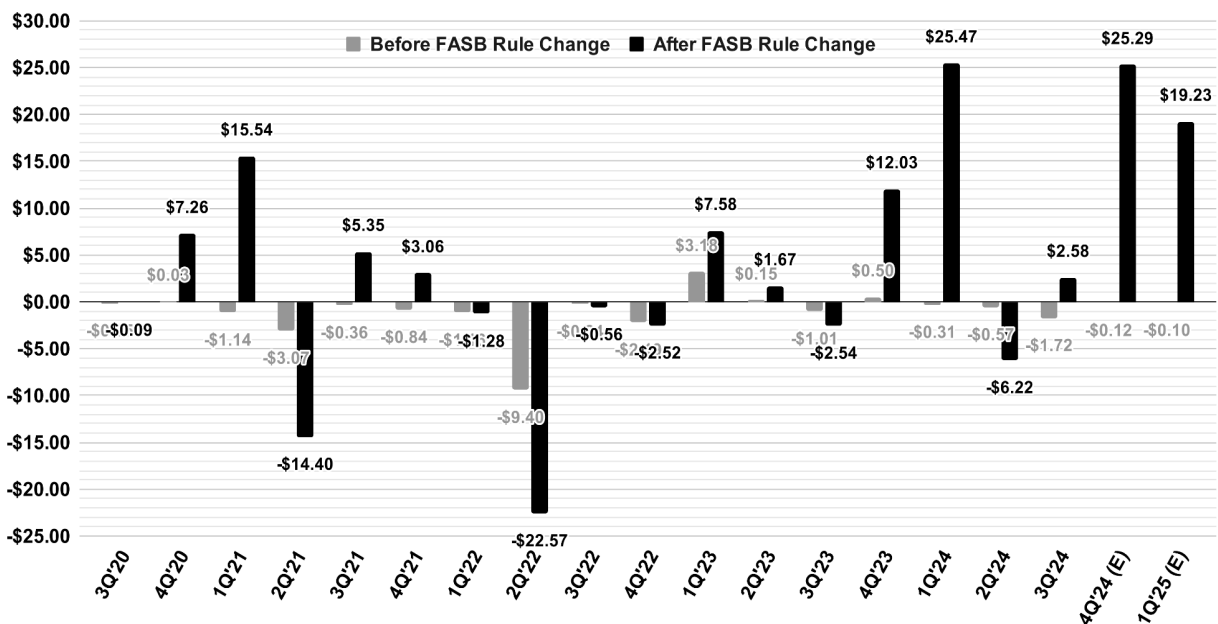
3.1. Accounting Change

When reporting earnings, MSTR currently treats its BTC holdings as an intangible asset, following the rules set by the Financial Accounting Standards Board (FASB). However, these rules were revised in 2024, and MSTR plans to adopt the changes starting in 1Q25.

Under the FASB's rules, intangible assets are valued using the 'lower-of-cost-or-impaired-value' method, where assets reflect value declines (in the form of impairment charges) but not value increases, unless the assets are sold. In contrast, the FASB's revised rules will allow digital assets to be "marked-to-market," enabling unrealized gains and losses to be reflected in earnings.

This change is expected to boost MSTR's bottom line substantially. Under the old rules, MSTR rarely reported profits due to large impairment charges from its BTC holdings (booked under "Other Operating Expenses" in Figure 1). This trend is likely to reverse in 2025, helped by sizable unrealized investment gains (Figure 3).

Figure 3: MSTR EPS Before and After



Source: Bloomberg, Saylorchart.com, Presto Research

3.2. S&P 500 Index Inclusion

A key benefit of the FASB rule change is that it brings MSTR closer to S&P 500 inclusion. One key eligibility criterion for the index is profitability based on reported earnings, which MSTR fails to meet under the old FASB rule (Figure 4). While S&P has significant discretion in the final decision, and inclusion may take time (for reference, Tesla’s inclusion took five months after meeting the quantitative criteria), the FASB rule change at least clears a path. Inclusion would bring further legitimacy to MSTR’s BTC treasury operation, potentially encouraging more public companies to follow suit.

Figure 4: MSTR Likely To Tick All The Boxes Soon

Eligibility Factors ¹	Criteria	MSTR (as of 1/31/25)	Eligibility
Domicile	US-domiciled	Tysons Corner, VA	✓
Exchange Listing	Listing in NYSE, Nasdaq, or Cboe	Nasdaq Global Market	✓
Market Cap	US\$20.5 billion or more	US\$84 billion (#119 of 500)	✓
Liquidity	- The stock should trade a minimum of 250,000 shares in each of the six months leading up to the evaluation date. - A float-adjusted liquidity ratio (FALR) must be greater than or equal to 0.75 at the time of evaluation.	US\$5.4 billion (#9 of 499)	✓
Financial Viability	- The sum of the most recent four consecutive quarters’ GAAP earnings (net income excluding discontinued operations) should be positive as should the most recent quarter.	-US\$407 million (4Q23-3Q24)	<i>NO but likely to change in 2025</i>

Note:

1. For a full description, see [S&P U.S. Indices Methodology](#)

Source: S&P Global, mstr-tracker.com, Presto Research

4. Making Sense of MSTR’s Valuation

MSTR’s value accretion comes from its BTC treasury operation, which involves acquiring Bitcoin using funds raised through equity and debt issuance. Traditional investors often dismiss this as a gamble on a speculative asset and see MSTR shares – trading at a 220% premium to NAV – as a bubble waiting to burst. However, for those who see Bitcoin as a monetary asset and trust MSTR’s execution, that premium may not only be justified but even undervalued. To understand why, a refresher on equity valuation is in order.

4.1. Revisiting Earnings-Based Approach

For illustration, imagine a company called XYZ in a hypothetical country, Mango Republic. XYZ farms mangos and sells them both locally and abroad. Its annual cash earnings from domestic sales are MG\$100 million, growing at 5% per year, while export earnings amount to US\$10 million, growing at 10% per year. The company also holds US\$70 million on its balance sheet, accumulated from its export business. A traditional equity investor would value XYZ’s equity as shown in Figure 5 in this scenario.

Figure 5: How To Value Company XYZ

	Annual Cash Earnings		Multiple ³	Value	
	US\$ mn	MG\$ mn ¹		US\$ mn	MG\$ mn
Core Business (mango sales in home market)		100	5		500
Net Cash, [A]+[B]-[C]					200
Cash & Cash Equivalents [A]					20
US\$ Holdings [B]				70	210
Interest-bearing Debt [C]					30
Export	10		10	100	300
Equity Value (MG\$)²					1,000
NAV⁴ Premium					41%

Note:

1. US\$1=MG\$3, where MG\$ is the fiat currency of the Mango Republic
2. Equity Value=Enterprise Value (EV)+Net Cash, where EV=cash earning x fair value multiple, and net cash=cash & cash equivalents-interest-bearing debt
3. Fair value multiple=long-term annual growth rate
4. NAV=Value of Core Business+Net Cash

Source: Bloomberg, Presto Research

As the table shows, XYZ’s value consists of three parts: its core business, net cash, and export. For the purpose of our discussion, it’s important to note that XYZ’s fair value of MG\$1 billion is nearly 5x its US dollar holdings worth MG\$210 million. This is because the export business is valued as a recurring earnings stream. If, on the other hand, one views exports as ad hoc rather than a going concern, the export business would not command a valuation in the multiples of its cash earnings and the MG\$1 billion valuation would merely be described as a 41% premium to NAV.

This, in essence, explains the controversy around MSTR’s NAV premium valuation. Investors who view MSTR’s BTC treasury operation as sustainable would value it as recurring earnings denominated in BTC, and be willing to pay a multiple, similar to a P/E ratio. Those who don’t would limit their valuation to the market value of MSTR’s BTC holdings and its software business – i.e., a traditional NAV approach.

4.2. Valuing MSTR as a BTC Earner

MSTR can be valued in the same framework, as summarized in Figure 6.

Figure 6: MSTR’s Fair Value Estimate

Base-Case	Annual Cash Earnings		Multiple ³	Value	
	BTC ¹	US\$ mn		BTC	US\$ mn
Core Business (Software)		29 ⁵	15		435
Net Cash, [A]+[B]-[C]					39,893
Cash & Cash Equivalents [A]					46
BTC Holdings [B]				471,107	47,111
Interest-Bearing Debt [C]					7,264 ⁸
BTC Treasury Operation	103,846 ⁶		6 ⁷	623,076	62,308
Equity Value ²					102,679
NAV ⁴					40,328
NAV Premium					155%

Note:

- 1 BTC=US\$100,000
2. Equity Value=Enterprise Value (EV)+Net Cash, where EV=cash earning x fair value multiple, and net cash=cash & cash equivalents-interest-bearing debt
3. Fair value multiple=S&P 500 average from Bloomberg
4. NAV=Value of Core Business+Net Cash
5. 12-month Qtr3 trailing EBITDA 5yr average from Bloomberg
6. MSTR’s average annual BTC acquisition from Aug 2020 through Dec 2024
7. Based on 6-10% BTC Yield target as guided by MSTR
8. Sum of all outstanding debts at issuance

Source: Bloomberg, Presto Research

Here, we value MSTR's BTC treasury operation as a separate business unit generating 103,846 BTC annual earnings with 6% growth rate p.a. Fundamentally, this is comparable to valuing the Company XYZ's export business generating US dollar earnings in the earlier example (Figure 7). According to this approach, the BTC treasury operation is worth 623,076 BTC based on a 6x multiple (based on the lower end of the 6-10% BTC Yield guided by MSTR), or US\$62 billion.

Figure 7: Not So Different After All

	Company XYZ	MSTR
Home Currency	MG\$	US\$
Value Accretion Outside Home Currency	Accrued in US\$ (via export)	Accrued in BTC (via outright purchases)
Ad Hoc or Recurring?	Recurring	Recurring
Valuation Method	A multiple of recurring earning	A multiple of recurring earning
Fair Multiple	Average annual earnings growth	Average annual earnings growth
Net Cash Breakdown	MG\$ cash US\$ cash Interest-bearing debt	US\$ cash BTC Interest-bearing debt

Source: Presto Research

Interestingly, our fair value estimate of \$104bn above more or less matches MSTR's current market value on a fully diluted basis (\$97bn based on 1/31/25 closing price of \$334).

4.3. A Full-Spectrum Valuation

Viewed through this framework, MSTR's ability to consistently deliver BTC acquisitions is critical to its value accretion, as this consistency shapes the market's perception of MSTR's treasury operation as a going concern. In October, MSTR announced the "21/21 Plan" to buy \$42 billion worth of BTC over the next three years for precisely this reason – it aims to instill market confidence that BTC acquisition will be a recurring activity.

The sustainability of MSTR's BTC treasury operation largely depends on its ability to raise capital from the public market, which, in turn, is tied to the Bitcoin market cycle. To assess MSTR's fair value across different scenarios, we've also estimated its value under both worst- and best-case scenarios using our own set of parameters (Figure 8).

Figure 8: MSTR's Fair Value Estimates Under Varying Scenarios

Worst-Case	Annual Cash Earnings		Multiple	Value	
	<i>BTC</i>	<i>US\$ mn</i>		<i>BTC</i>	<i>US\$ mn</i>
Core Business (Software)		29	15		435
Net Cash, [A]+[B]-[C]					39,893
Cash & Cash Equivalents [A]					46
BTC Holdings [B]				471,107	47,111
Interest-Bearing Debt [C]					7,264
BTC Treasury Operation	6,000 ¹		1 ²	6,000	600
Equity Value					40,928
NAV					40,328
NAV Premium					1%

Note:

1. Assumes: 1) MSTR's market cap drops to \$30bn (1/3 of today's level), and 2) MSTR can raise capital equivalent to 2% of its \$30bn market cap, consistent with its operating environment during the 2022 bear market
2. Assumes the market assigns zero value to the BTC treasury operation as a source of recurring value accrual

Best-Case	Annual Cash Earnings		Multiple	Value	
	<i>BTC</i>	<i>US\$ mn</i>		<i>BTC</i>	<i>US\$ mn</i>
Core Business (Software)		29	15		435
Net Cash, [A]+[B]-[C]					39,893
Cash & Cash Equivalents [A]					46
BTC Holdings [B]				471,107	47,111
Interest-Bearing Debt [C]					7,264
BTC Treasury Operation	296,484 ¹		15 ²	4,447,260	444,726
Equity Value					485,054
NAV					40,328
NAV Premium					1,103%

Note:

1. Assumes MSTR acquires BTC at the Jan 2025 run rate
2. Assumes 15% BTC Yield, based on 296,484 BTC acquisition in 2025

Source: Bloomberg, Presto Research

The key drivers of the two scenarios' divergence are the size of BTC acquisitions and valuation multiples. In our worst-case scenario, MSTR returns to parity with NAV, which could itself decline in a bear market.

5. Risks

Like all investments, MSTR carries its own share of risks, impacting not just MSTR-issued securities but also the broader BTC market due to its large BTC holdings. This section addresses some of those risks.

5.1. BTC Liquidation Risk

MSTR's recent BTC acquisitions were funded through debt issuances, summarized in Figure 9. Given their size, there's concern that MSTR may be forced to liquidate BTC holdings upon maturity.

Figure 9: MSTR's Outstanding Debts

Issue Date	Call Start Date	Maturity	Amount Issued (mn)	Coupon Rate	Annual Interest Expense (mn)	Conversion Price	Moneyness
2/17/2021	2/20/2024	2/1/2027	\$1,050	0.000%	\$0.0	\$142.38	ITM
3/6/2024	3/22/2027	3/1/2030	\$800	0.625%	\$5.0	\$149.77	ITM
3/15/2024	3/22/2028	3/15/2031	\$604	0.875%	\$5.3	\$232.72	ITM
6/14/2024	6/20/2029	6/15/2032	\$800	2.250%	\$18.0	\$204.33	ITM
9/17/2024	12/20/2027	9/15/2028	\$1,010	0.625%	\$6.3	\$183.19	ITM
11/20/2024	12/4/2026	12/1/2029	\$3,000	0.000%	\$0.0	\$672.40	OTM
TOTAL :			\$7,264		\$35		

Source: Bloomberg

The catch is that all outstanding debt consists of convertible bonds, meaning they may never need to be redeemed if converted into shares. This depends on where MSTR shares trade near maturity. Additionally, call options offer MSTR some protection, allowing it to force conversion when BTC trades above the conversion prices.

That said, MSTR would likely have to liquidate at least part of its BTC holdings if all the following conditions are met:

- MSTR shares fall and remain below the conversion prices at maturity.
- MSTR fails to call, leaving the full debt amount outstanding.
- MSTR cannot raise additional capital due to poor market conditions.

This scenario could unfold if BTC enters a severe multi-year downcycle, though such an event would be unprecedented. In this unlikely case, MSTR wouldn't have the opportunity to exercise its call option in time, bondholders wouldn't convert since MSTR shares trade below conversion prices, and the public market might be unwilling to underwrite refinancing.

5.2. Other Risks

Key Man Risk: As founder, chairman, and a major shareholder (~8% stake via Class A and B shares), Michael Saylor plays an outsized role on MSTR's board. It's unclear whether there's enough talent capable of replacing him – someone who understands both Bitcoin, and capital markets well enough to exploit their idiosyncrasies.

Control Dilution Risk: Repeated share issuances expose existing shareholders to ownership dilution and could eventually lead to a loss of control for major shareholders. If MSTR trades at a significant discount to NAV and shareholder support for Saylor's Bitcoin treasury operation weakens, its fragmented ownership could leave the company vulnerable to a hostile takeover aimed at liquidating its BTC holdings.

Competition Risk: As more companies adopt MSTR's BTC treasury model, the supply of Bitcoin-fueled securities will grow, intensifying competition for public market funding. While MSTR's first-mover advantage remains strong, this could change if large-cap firms – worth hundreds of billions – enter the space.

Figure 10: MSTR Shareholder List (as of 1/31/25)

Holder Name	Source	Position	% Outl
	All		
1. + Capital Group Cos Inc/The	13F	18,409,129	7.92
2. + Vanguard Group Inc/The	ULT-AGG	16,303,720	7.01
3. + Morgan Stanley	ULT-AGG	9,595,008	4.13
4. Jane Street Group LLC	13G	9,550,491	4.11
5. + Blackrock Inc	13G	9,477,813	4.08
6. + State Street Corp	ULT-AGG	3,322,631	1.43
7. + SIG Holding LLC	ULT-AGG	2,776,199	1.19
8. + Geode Capital Management LLC	13F	2,766,283	1.19
9. + Norges Bank	13F	1,578,900	0.68
10. Clear Street Derivatives LLC	13F	1,307,134	0.56
11. + UBS AG	ULT-AGG	1,095,991	0.47
12. + Legal & General Group PLC	13F	945,131	0.41
13. + Northern Trust Corp	13F	865,188	0.37
14. + Goldman Sachs Group Inc/The	ULT-AGG	840,298	0.36
15. Bank of America Corp	13F	794,455	0.34
16. + Charles Schwab Corp/The	ULT-AGG	664,261	0.29
17. + JP MORGAN CHASE & CO	13F	660,693	0.28
18. + Leverage Shares PLC	MF-AGG	620,751	0.27
19. + Bank of New York Mellon Corp/The	ULT-AGG	588,811	0.25
20. + State of California	ULT-AGG	528,473	0.23

Source: Bloomberg

6. Final Words

If a company in an emerging market with a hyper-inflating currency generates recurring US dollar income, investors typically assign a multiple to its US\$ earnings stream. In many cases, the market even applies a premium multiple, as hard currency earnings are seen as superior to local currency earnings. This pattern is commonly observed in emerging market equities worldwide.

MSTR's situation isn't much different. Its BTC acquisitions can be viewed as recurring value accrual denominated in BTC, warranting an earnings multiple rather than a simple mark-to-market valuation. If you believe the U.S. dollar is heading toward eventual hyperinflation due to rising national debt, the comparison to an emerging market exporter becomes even more relevant.

What justifies a multiple in the case of MSTR is consistent BTC holdings growth that outpaces share dilution. As often seen in equity market valuations, its multiple can expand over time as MSTR consistently delivers BTC earnings growth, reinforcing confidence in its execution. Growing adoption of BTC as a legitimate monetary asset – on par with other cash equivalents – would further support this trend. Our base-case valuation, which aligns with MSTR's current market value, suggests this shift is already underway.

About Presto

Presto is an algorithmic trading firm where researchers and engineers solve challenging problems in global financial markets. Our core strength lies in combining engineering, mathematics, and science to navigate both digital asset and traditional finance markets with precision. Presto Research, our research unit, provides expert-driven insights to help navigate these markets effectively.

Find out more at <https://www.prestolabs.io>.

Follow Presto for more content: [X](#), [LinkedIn](#)

Follow Presto Research for latest research : [X](#), [Telegram](#)

Authors

Peter Chung, Head of Research [X](#), [Telegram](#), [LinkedIn](#)

Required Disclosures

Any expression of opinion (which may be subject to change without notice) is personal to the author and the author makes no guarantee of any sort regarding accuracy or completeness of any information or analysis supplied. The views and opinions expressed herein are those of the author(s) and do not necessarily reflect the views of Presto or its affiliates. This material by itself, is not and should not be construed as an offer or a solicitation to deal in any investment product or to enter into any legal relations. This material is for informational purposes only and is only intended for sophisticated investors, and is not intended to provide accounting, legal, or tax advice, or investment recommendations, or an official statement of Presto or its affiliates. Presto, its affiliates and its employees make no representation and assume no liability to the accuracy or completeness of the information provided. Presto, its affiliates and its employees also do not warrant that such information and publications are accurate, up to date or applicable to the circumstances of any particular case. Certain statements in this document provide predictions and there is no guarantee that such predictions are currently accurate or will ultimately be realized. Prior results that are presented here are not guaranteed and prior results do not guarantee future performance. Recipients should consult their advisors before making any investment decision. Presto or its affiliates may have financial interests in, or relationships with, some of the assets, entities and/or publications discussed or otherwise referenced in the materials. Certain links that may be provided in the materials are provided for convenience and do not imply Presto's endorsement, or approval of any third-party websites or their content. Any use, review, retransmission, distribution, or reproduction of these materials, in whole or in part, is strictly prohibited in any form without the express written approval of Presto. Presto Research and related logos are trademarks of Presto, or its affiliates.