Block's bitcoin investment strategy

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How do companies – and in particular listed companies – that are active acquirers of bitcoin actually make their investments?

In this research note, we analyse the approach of **Block, Inc**.

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Summary

- Block is a US$40b listed financial technology company that has been actively investing in bitcoin since 2020.
- In its Q1 2024 financial update, the company highlighted why and how it dedicates some of its resources to bitcoin.
- Its new bitcoin investment strategy involves using 10% of the company's gross profit from bitcoin products to make purchases of bitcoin, every month.
- This dollar-cost averaging (DCA) through P&L approach to investment has some advantages and disadvantages to other approaches.
- This contrasts with the aggressive investment approach used by MicroStrategy of leveraging the corporate balance sheet to acquire bitcoin.

Block's latest filing

Block, Inc. (NYSE: SQ) is a listed financial technology company that was co-founded and is run by Jack Dorsey – one of the world's most prominent bitcoiners – with a current market cap of US$40b. In its Q1 2024 financial update, the company highlighted why and how it dedicates some of its resources to bitcoin. It also published a Bitcoin Blueprint for Corporate Balance Sheets.

Digging into the reasons why it focuses any time at all on bitcoin is worthy of a separate analysis and discussion. But one of the more interesting aspects of Block's involvement in bitcoin is its investment strategy in the asset:

> *We also believe in investing in the overall asset of the ecosystem, and holding bitcoin in our treasury.* ***Going forward, each month we will be investing 10% of our gross profit from bitcoin products into bitcoin purchases.*** *We were one of the first public companies to put bitcoin on our balance sheet: we invested $220 million into bitcoin, and that investment has grown by approximately 160% to $573 million as of the end of the first quarter.* (emphasis in original)

Previous bitcoin investments

Up to now, Block had invested in bitcoin by buying bitcoin in two lump sums. The first was a $50m purchase in October 2020, and the second was for $170m in February 2021. Rather than buying through the open market on an exchange, a liquidity provider was used in order to maintain transaction privacy and manage price slippage on execution.

Those initial investments have performed spectacularly well for the company since (based on the current price of ~US$70,000 per BTC):

- October 2020 purchase: $10,618 / BTC **559% return**
- February 2021 purchase: $51,236 / BTC **37% return**

These past purchases and any subsequent investments will be held on the corporate balance sheet.

New DCA strategy

What is most interesting is that, as per the company's shareholder letter, Block will now be using 10% of gross profit from bitcoin products each month to directly buy bitcoin. They term this their 'new corporate balance sheet dollar cost average ("DCA") program'.

This seems like a bit of a misnomer. Rather than using the corporate balance sheet, Block is actually leveraging the company's P&L – what it makes in gross profit as a going concern – and then throws a small portion of that onto the balance sheet as bitcoin. And the company seeks to do that consistently every month through 2024.

In Q1 2024, Block's gross profit from bitcoin products was $80m. This implies a monthly bitcoin buying run rate of approximately US$2.67m, or US$32m in annualised terms. In April 2024, Block bought US$4.4m worth of bitcoin under the DCA approach.

The DCA approach smooths out the volatility that comes from making one-off investments into assets like bitcoin and optimises the company's long-term investment position while minimising the challenges of timing the market.

But it also means that not all profits generated are reinvested back into the business, which may raise questions among shareholders that don't share the company's view of bitcoin as an attractive long-term investment.

Corporate best practice for investing and 'hodling'

The company has taken a long-term view that bitcoin is an important technological innovation in the global monetary system which aligns with the company's vision of individual economic empowerment.

Aside from documenting Block's changing approach to and reasoning behind making bitcoin investments, the Bitcoin Blueprint also sets out the company's approach to:

- storage/custody
- insurance
- accounting treatment
- financial inclusion

It is, in effect, sharing best practices openly based on its experiences as a multi-year holder of bitcoin.

By being transparent about its investment strategy in bitcoin and sharing what it believes are corporate best practices regarding these investments, Block is encouraging other corporates to at least consider adopting some aspects of this strategy.

MicroStrategy's balance sheet approach

Another listed company that has been actively acquiring bitcoin is MicroStrategy (NASDAQ: MSTR). In contrast to Block's use of gross profits to buy bitcoin, MicroStrategy has been raising debt and equity capital to put nearly US$15b worth of bitcoin on its corporate balance sheet. MicroStrategy is directly leveraging its balance sheet to grow its bitcoin investment in a significant way.

This quantum of investment is orders of magnitude larger than Block's investment, which seems conservative in contrast. MicroStrategy's more aggressive investment approach has allowed the company to acquire over 214,400 bitcoin – which equates to more than 1% of the total 21m maximum supply.