Architect Partners

Eric F. Risley Managing Partner efr@architectpartners.com
Adlee Heshmat Senior Financial Analyst adlee@architectpartners.com
Dong Yang Term Analyst dong@architectpartners.com

August 24th - August 30th (Published August 31st)

PERSPECTIVES by Eric F. Risley

You can't do everything.

This week, NYDIG's institutional trading business was sold to BitGo for up to $57.5M. This is another reminder of the importance of focus. In the heady days of 2017, NYDIG was founded as a Bitcoin-only financial services firm. This translated into offering institutions custody, trading and asset management for Bitcoin, only. An admirable commitment to Bitcoin and a genuinely focused strategy, mirroring many successful traditional and crypto finance businesses.

By December 2021, NYDIG had raised a total of $1.4B from a who's who of decidedly old-school financial and strategic investors, posting a $7B peak valuation. These included names like Soros, several insurance companies, Morgan Stanley and Bessemer Venture Partners, which traces its roots to one of the Carnegie Steel founders.

By then, the business spanned a diverse array of fundamentally different businesses including regulated custody, trading execution, asset management, enterprise software for banks, consumer fintech infrastructure (Bitcoin rewards programs), a consumer payment app, a payment network and equipment finance (Bitcoin mining equipment lending). Again, admirably, the core tie was enabling Bitcoin to demonstrate its value proposition. However, many of these efforts are fundamentally very different businesses, requiring unique strategy and talent.

The irony is that its Bitcoin mining equipment finance business turned into a nightmare, and then AI emerged, helping to reverse fortunes. During the 2022 downturn, Bitcoin mining was under stress, which resulted in several workouts and bankruptcies. NYDIG was one of the largest lenders to Bitcoin miners and during 2022 and early 2023 found itself owning tens of thousands of mining rigs as it accepted the collateral in return for the debt it held, forcing NYDIG directly into the business of operating one of the larger Bitcoin mining businesses. Today, NYDIG describes itself as a vertically integrated power generation, Bitcoin mining and high-performance computing data center development business.

This week, the original core business of institutional trading was divested to BitGo for $7M in cash, $35.5M in BitGo stock and potential earnouts of up to another $15M.

RECENT CRYPTO M&A TRANSACTIONS (click here for full AP M&A Tracker)

Target	Acquirer	Transaction Summary	M&A Alert
NYDIG Institutional Trading Business	BitGo	**Transaction Value:** $57.5M **Rationale:** To layer derivatives and capital markets trading onto its institutional custody platform **Sector:** Investing & Trading Infrastructure **Target Description:** NYDIG's institutional crypto derivatives, structured products and capital markets unit	○
ORBIS Blockchain Technologies	OrangeKloud	**Transaction Value:** $600M **Rationale:** To combine licensed digital IP platform and a marketplace into a single publicly listed platform **Sector:** DApp: Consumer **Target Description:** Licensed digital collectibles and NFT marketplace for major entertainment brands	○
RELAYER CAPITAL	RockawayX	**Transaction Value:** Undisclosed **Rationale:** To add directional liquid-token trading in addition to its venture and market-neutral lineup **Sector:** Investing & Trading Infrastructure **Target Description:** Crypto long/short hedge fund with directional liquid-token and equity strategies	○

OVERALL CRYPTO M&A ACTIVITY LEVELS