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Strategic Treasury Transformation and Bitcoin Adoption by Metaplanet

Executive Summary

Metaplanet, a publicly traded corporation listed on the Tokyo Stock Exchange, has announced a strategic shift in its treasury management strategy. Recognizing both the challenges and opportunities within the current global financial landscape, Metaplanet has adopted bitcoin as its strategic treasury reserve asset. This move is a direct response to sustained economic pressures in Japan, notably high government debt levels, prolonged periods of negative real interest rates, and the consequently weak yen. Metaplanet's strategy unequivocally prioritizes a Bitcoin-first, Bitcoin-only approach for the Company, with the potential use of long-dated yen liabilities and periodic share issuances as strategic financial options to continually accumulate more bitcoin instead of retaining the ever-weaker yen. This approach is designed to be accretive on a bitcoin per share basis, underpinning shareholder value on a long term basis.

Current Economic Climate

Japan's economic environment is overshadowed by the highest government debt-to-GDP ratio in the developed world, currently standing at 261%. This condition has necessitated a prolonged phase of monetary easing, which includes debasement of the national currency to manage existing and future debt burdens. Furthermore, the Bank of Japan (BoJ) had implemented a negative interest rate policy since 2016, only recently adjusting policy rates to a range of 0-0.1% from -0.1%.

As a result of the crippling relative size of the national debt and structurally low interest rates, the Japanese yen has weakened significantly, depreciating by 50% against the dollar over the past decade. This weakness is evident to all market participants, and is only temporarily masked by sporadic interventions from the BoJ in both the government bond and foreign exchange markets.

The two-pronged policy of the BoJ, which has involved printing yen to purchase government bonds, thereby artificially suppressing borrowing costs, while simultaneously intervening in the foreign exchange market to curb the yen's depreciation triggered by this very money printing, represents a double-bind and unsustainable monetary paradox.

These very actions reveal the unsustainable nature of Japan's financial trajectory, with the demographic picture aligning to all but ensure that an increasing rate of monetary debasement is in Japan's future.

The precarious state of the yen was thrust front and center for the world to see at the end of this April, with the yen plummeting to 34 year lows against the dollar, before recovering on the backs of an unprecedented one-day currency market intervention from the Bank of Japan estimated to have been ¥5.5 trillion (~\$35 billion).

Strategic Rationale for Bitcoin Adoption

In response to these challenges, Metaplanet has pivoted its treasury strategy to bitcoin (BTC), focusing on a number of complementary strategies designed to be accretive on a per-share basis in bitcoin terms. This strategic decision is driven by both the need to mitigate the yen currency risks associated with Japan's fiscal policies, as well as the opportunity to capitalize on the continued monetization process of bitcoin as it steadily entrenches itself across the balance sheets of the world. The key advantages include:

- 1) **Protection Against Currency Depreciation:** *As the yen continues to weaken, Bitcoin offers a non-sovereign store of value that has, and may continue, to appreciate against traditional fiat currencies.*
- 2) **Speculative Arbitrage in Capital Markets:** *Leveraging the extreme opportunity present in Japanese capital markets, Metaplanet intends to use its incumbent cash reserves and excess cash flows from asset holdings to execute strategic currency arbitrage, acquiring bitcoin through the issuance of long-dated yen liabilities when the opportunity arises.*
- 3) **Bitcoin Proxy as an Operating Company:** *While various forms of bitcoin exposure exist globally, including direct spot exposure and ETFs/ETPs, Metaplanet is implementing a bitcoin reserve strategy as a public operating company. This will give the company optionality unavailable to many global investors, including the potential for accretive capital market corporate management to acquire additional bitcoin exposure should the opportunity arise in public capital markets using debt or equity.*
- 4) **Preferential Tax Regime:** *Additionally, for individuals in Japan, taxes are calculated on realized gains as miscellaneous income, which can reach up to 55% in the highest bracket. Meanwhile, the tax environment for listed shares/securities are notably less, with tax on realized shares coming in at 20%. While Japanese corporations previously paid tax on unrealized crypto gains, that has since changed due to the passing of favorable regulation. With that said, a core tenant of the Metaplanet Bitcoin strategy will be a focus on a long-term oriented HODL, keeping realized taxable gains minimal for the Company. Additionally, Metaplanet does currently possess in excess of JPY 10 billion*

tax loss asset from previous endeavors, which can be used to offset potential realized gains in the future should that be necessary.

Bitcoin First, Bitcoin Only

Metaplanet views bitcoin as fundamentally superior to any and all other forms of political currency, traditional stores of value and investment, and all other crypto-assets/securities. Bitcoin is an absolutely scarce digital synthetic monetary commodity, with no central issuer. Bitcoin's monetary policy is rigidly set in stone through 2140, setting it apart from both monetary metals and competing crypto projects operated at the whims of centralized developer teams. There will only ever be 21,000,000 bitcoin.

Contrary to common portrayals in the media, Bitcoin's Proof-of-Work (PoW) consensus mechanism is not a liability but a profound asset. This mechanism is intricately linked to real-world energy inputs, mirroring the cost dynamics seen in traditional commodities. However, bitcoin is unique in that its marginal production becomes increasingly difficult as more computation and energy resources are allocated, an ingenious feature called the mining difficulty adjustment. This dynamic points to a programmatically rising marginal cost of production for the remaining 1.3 million bitcoin yet to enter circulation. This is one of the many features setting bitcoin the monetary commodity apart from its predecessors, whereas traditional commodities face headwinds in the form of increasing supply as investment is made into additional production.

Implementation and Future Outlook

Metaplanet is committed to utilizing the entire range of capital market instruments to strategically bolster its bitcoin reserves. This method not only fortifies the Company's balance sheet against perpetual debasement of the yen, but also positions Metaplanet as a Bitcoin-focused investment vehicle globally. The strategy not only leverages a Bitcoin-centric approach, but also harnesses Japan's unmatched global capital cost advantage, amplifying the Company's competitive edge internationally.

Conclusion

Metaplanet has sharply adjusted its treasury operations in order to navigate through Japan's challenging economic landscape while at the same time setting a local precedent for corporate innovation in asset management. By aligning treasury management with these forward-looking strategies, the Metaplanet is constantly enhancing shareholder value while maintaining a unique market position in not just Japan but also in the rapidly shifting global economy.

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