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30-Jul-2024 | 15:47 EDT

MicroStrategy Inc. Upgraded To 'B-' From 'CCC+' On Improved View on Bitcoin; Outlook Stable

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- Over the past few years, S&P's view on bitcoin's ecosystem has become incrementally more positive such that we no longer view any non-zero price as being dependent on favorable market conditions.
- That is due to the higher price and favorable accounting adoption and regulatory development of bitcoin, which MicroStrategy continues to acquire through debt and free operating cash flow (FOCF).
- Therefore, we raised our rating on MicroStrategy Inc. to 'B-' from 'CCC+'.
- We also raised our rating on MicroStrategy's $500 million senior secured notes to 'B' from 'B-'. The '2' recovery rating is the same.
- The stable outlook reflects our expectation that while MicroStrategy's strategy to pursue debt-funded bitcoin purchases is aggressive, our view on bitcoin's ecosystem has become incrementally more positive such that we do not view a non-zero bitcoin price as being dependent on favorable market conditions. While the business operation is going through a transition to subscription products, which is hampering EBITDA, given the low interest expense from its mostly convertible notes and no near-term maturities, we believe that MicroStrategy business operations and financial policy can sustain its capital structure over the next 12 months.

NEW YORK (S&P Global Ratings) July 30, 2024—S&P Global Ratings today took the rating actions listed above.

We are taking an incrementally more positive view of the bitcoin ecosystem given favorable accounting and regulatory developments

When MicroStrategy became a new issuer back in 2021, with a financial policy centered on pursuing debt-funded bitcoin purchases, we believed that it was dependent on favorable financial conditions, which was a non-zero bitcoin price, to support its capital structure. However, given the longer track record of price, volatility, and favorable rules bitcoin has shown over the past few years, we believe that bitcoin being a non-zero price is no longer dependent on favorable market conditions that would make MicroStrategy vulnerable to nonpayment on its debt obligations. These incrementally positive developments notwithstanding, bitcoin remains a speculative and highly volatile asset and we don't incorporate any value from it in our credit metrics for MicroStrategy.

While MicroStrategy has accumulated a significant amount of debt on its capital structure to purchase bitcoin such that its S&P Global Ratings-adjusted leverage is above 40x because S&P Global Ratings does not assign any cash value to bitcoin in our ratio analysis, we believe that it can sustain its capital structure. MicroStrategy has mostly used convertible notes to pursue its debt-funded bitcoin purchases, which usually has lower interest expense and no mandatory amortization payments. Even with EBITDA generation coming down due to its transition to subscription revenue, we believe that MicroStrategy can pay down its interest expense and amortization payments with its business operations over the next 12 months. MicroStrategy also has no near-term debt maturities because it recently paid back its 2025 convertible notes with shares, leaving its next earliest maturity date for its convertibles notes in 2027.

We have seen bitcoin receive more favorable accounting and regulatory outcomes, which we believe will help somewhat limit extreme price volatility.

While we believe that bitcoin will still be very volatile in terms of price, we do believe that there were favorable actions that should help keep it more stable. We note that the Financial Accounting Standards Board adopted a new accounting standard in December 2023 which stated that bitcoin must be measured at fair value of each reporting period, which is intended to better reflect the underlying economics of the assets and an entity's financial position. This fair value measurement approach gave S&P more comfort around using a more qualitative or quantitative approach when considering bitcoin in our credit analysis.

In January 2024, the SEC approved the launch of several bitcoin exchange traded funds (ETFs). This approval, with regulations on bitcoin, gave investors more ways to safely invest in bitcoin as large asset managers such as Blackrock, Fidelity, Invesco and others launched bitcoin ETFs. Given the more mainstream investments by these large asset managers, this should give bitcoin even more stability because these funds look to hold bitcoin for longer periods of time.

The good growth rates of MicroStrategy's subscription products as it continues its transition to subscription revenue will limit its revenue decline in 2024.

MicroStrategy decided a few years back that it wanted a mostly recurring revenue model such that it pivoted from selling perpetual license revenue to subscription revenue on its business intelligence (BI) solutions. We have seen this with other technology software companies because they want a more recurring revenue model that will create a stickier product and eliminate some of the lumpiness that comes with perpetual license revenue.

Due to this transition, we have seen strong growth rates in the low-20% area for MicroStrategy's subscription revenue year over year in the first quarter of 2024. While we believe that subscription revenue will grow at least 20% in 2024, that is not enough to offset the decline in perpetual, maintenance, and other revenue such that MicroStrategy is expected to see low-single-digit revenue decline. However, we do believe that MicroStrategy will soon be able to turn that around because growth in subscription revenue will help drive low-single-digit percent growth in 2025.

The stable outlook reflects our expectation that while MicroStrategy's strategy to pursue debt-funded bitcoin purchases is aggressive, our view on bitcoin's ecosystem has become incrementally more positive such that we do not view a non-zero bitcoin price as being dependent on favorable market conditions. While the business operation is going through a transition to subscription products, which is hampering EBITDA, given the low interest expense from its mostly convertible notes and no near-term maturities, we believe that MicroStrategy business operations and financial policy can sustain its capital structure over the next 12 months.

We could look to lower our rating if we believed that MicroStrategy's capital structure was trending toward becoming unsustainable due to the price of bitcoin approaching $20,000. We expect this threshold to increase as the company makes new bitcoin purchases at higher prices. We could also look to lower our rating if the business operation were not able to fully transition to subscription revenue, hampering EBITDA such that it could not pay its mandatory debt obligations.

We could look to raise our rating on MicroStrategy if we had an even more constructive view on bitcoin's ecosystem. This could occur if there were even wider adoption of bitcoin use, improved government regulations, price stabilization, and less price volatility, among others.

https://www.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/13359822

12-Dec-2024 I 16:26 EST

MicroStrategy Inc. Ratings Withdrawn At Issuer's Request

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NEW YORK (S&P Global Ratings) Dec. 12, 2024--S&P Global Ratings today withdrew all of its ratings on MicroStrategy Inc., including the 'B-' issuer credit rating, at the issuer's request. MicroStrategy paid off its $500 million secured debt on Sept. 26, 2024. At the time of the withdrawal, our outlook on the company was stable.

https://www.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3466223

27-Oct-2025 | 12:28 EDT

Strategy Inc Assigned 'B-' Issuer Credit Rating; Outlook Stable

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- Strategy Inc (formerly named MicroStrategy Incorporated) is a bitcoin treasury company that uses proceeds from the issuance of equity and debt financings to accumulate bitcoin on its balance sheet. The company's securities provide investors varying degrees of exposure to bitcoin across its capital structure. The company also has a relatively small software business that provides AI-powered enterprise analytics.
- We view Strategy's high bitcoin concentration, narrow business focus, weak risk-adjusted capitalization, and low U.S. dollar liquidity as weaknesses. These are only partially offset by the company's strong access to capital markets and prudent management of its capital structure, including maintaining no maturities in the next 12 months and financing its business primarily with equity.
- We assigned our 'B-' issuer credit rating to Strategy.
- The stable outlook reflects our expectation that Strategy will continue to prudently manage maturities of its convertible debt. We also expect the company will continue to finance payments of its convertible debt and preferred stock dividends via issuances of debt, preferred equity, and equity while maintaining sufficient capital markets access.

NEW YORK (S&P Global Ratings) Oct. 27, 2025--S&P Global Ratings today assigned its 'B-' issuer credit rating to Strategy Inc (formerly named MicroStrategy Incorporated). The outlook is stable.

Our ratings on Strategy incorporate our view of the company's narrow business focus, high bitcoin concentration, low U.S. dollar liquidity, and very weak risk-adjusted capital offset, only partially by Strategy's strong access to capital markets and prudent management of its capital structure.

The company's concentration in bitcoin is key to its strategy and will likely continue to weigh on our ratings. Strategy's treasury reserve strategy gives indirect exposure to bitcoin to investors who can't have or prefer to avoid direct exposure to bitcoin. While the strategy is public and easily replicable, the company is unique in its scale, and investors have ready access to invest in its convertible debt, preferred equity, and common stock. Replication of this strategy would likely pressure the multiples at which company's securities are valued, but higher bitcoin demand from new entrants would also likely be a tailwind to bitcoin valuations.

The strategy also creates an inherent currency mismatch: The company has a long bitcoin position and a short U.S. dollar position. Debt maturities, interest on the company's debt, and dividends on its preferred securities are all due in dollars, while Strategy holds mostly bitcoin. While the company maintains some balance of dollars on its balance sheet, it mostly uses this cash for operational purposes to support its software business. It invests any excess cash into bitcoin. The concentration in bitcoin also exposes Strategy to potential regulatory changes in the treatment of bitcoin that could be detrimental to its business model.

We believe the company's negative total adjusted capital is a significant ratings constraint based on our treatment of its bitcoin assets in our

calculation of risk-adjusted capital (RAC) . As of June 30, 2025, Strategy's RAC ratio was significantly negative, which drives our view of the company's capital and earnings. Because we deduct bitcoin assets from equity when we calculate adjusted common equity, the company has negative total adjusted capital of as of second-quarter 2025. We take this approach because we believe bitcoin has significant market risk that is uncorrelated to traditional market risks. Because most of the company's assets are in bitcoin, and its bitcoin holdings are likely to continue to grow materially, we are likely to continue to view capital as a weakness.

The ratings also reflect the firm's lack of operating cash flow generation. Cash flow from operations for the first six months of 2025 was negative $37 million. The company's main source of earnings is appreciation in the value of its bitcoin holdings. Its bitcoin assets do not generate cash flows, and its software business is approximately breakeven on an earnings and operating cash flow basis. We think this is unlikely to change in the foreseeable future. For the first six months of 2025, Strategy reported $8.1 billion of earnings before taxes, of which just over $8.1 billion was from the appreciation in fair value of its bitcoin holdings.

While there are inherent risks from the inherent currency mismatch and cybersecurity, we believe our view of capital captures these risks. Due to the company's concentration in bitcoin assets, we view cybersecurity risk as heightened. If private keys for digital wallets are lost, stolen, or destroyed, the company may be unable to access at least some of its bitcoin. Strategy mitigates some of this risk by holding bitcoin across multiple U.S.-based institutional-grade custodians, though bitcoin holdings may sometimes be concentrated in a single custodian. As of Dec. 31, 2024, the company disclosed that the insurance that covers losses of its bitcoin covers only a small fraction of the value of its total holdings. However, the company negotiates liability provisions in its custodial contracts pursuant to which its custodians are held liable for their failure to safekeep its bitcoin.

The company maintains strong access to capital markets, though this could change in a severe bitcoin stress. Strategy's stock has a market cap of approximately $80 billion, while it has issued almost $15 billion in combined notional value of convertible debt and preferred equity. However, the company will likely keep relying on its ability to raise additional capital via stock, preferred equity, and convertible debt to finance additional purchases of bitcoin, meet debt maturities, and to cover debt service costs. We view this as a weakness, particularly since the company is reluctant to sell bitcoin it holds as investments. In our view, this increases the likelihood that when the company does have to sell bitcoin to generate cash as a last resort, it is likely to do so at severely depressed prices.

There are liquidity risks, in our view, from the company's convertible debt. Strategy has just over $8 billion in notional value of convertible debt, of which $5 billion is currently out of the money (has not met the conversion price) and maturing beginning in 2028. We think there is a risk that the convertible debt will become due at the same time as a severe bitcoin stress, leading to liquidation of the company's bitcoin at depressed prices or a restructuring of its convertible debt or preferred equity that we would consider tantamount to default. That said, the company may settle conversion obligations in cash, shares of its class A common stock, or a combination of both.

In addition, the company has historically managed convertible debt maturities prudently, and it holds bitcoin with a fair value that is multiples of its outstanding convertible debt. Currently, the company's bitcoin has a fair value of approximately $70 billion, and the nearest convertible debt maturity is 2028 (with a noteholder put right in September 2027).

We see some liquidity risk from dividends owed on the company's preferred dividends. As of Oct. 20, 2025, total preferred dividends based on the company's outstanding preferred equity totaled just over $640 million per year. Coupons owed on Strategy's convertible debt are much smaller, at approximately $35 million per year. The company expects to complete at-the-market issuances of preferred and common equity to fund these payments.

While the company can defer dividends on all four tranches of its preferred equity, it does not intend to defer dividends, and there are disincentives to deferring. For example, of its three outstanding series of preferred equity with cumulative dividends (Strife, Stretch, and Strike), two of those classes (Strife and Strike) each entitle preferred equity holders to a board seat if dividends are deferred for four consecutive quarters and an additional board seat if dividends on the applicable class are deferred for eight consecutive quarters. In addition, the company's Strife preferred equity earns interest on deferred dividends at a compounded dividend rate that is higher than the regular rate.

The dividends owed on the company's preferred equity are very small relative to the current fair value of the company's bitcoin holdings.

The stable outlook reflects our expectation that Strategy will continue to prudently manage maturities of its convertible debt. We also expect the company will continue to finance payments of its convertible debt and preferred stock dividends via issuances of debt, preferred equity, and equity while maintaining strong capital markets access. We also do not assume any meaningful regulatory actions that could materially hamper Strategy's business model in our base case.

Over the next 12 months, we could lower the rating if:

- Strategy's access to capital markets is impeded either due to a marked deterioration in bitcoin valuation or for any other reason; or
- We believe there is increased risk that the company will not be able to manage maturities of out-of-the-money convertible debt.

An upgrade is unlikely in the next 12 months. Over the longer term, we could raise the ratings if:

- We expect the company to improve U.S. dollar liquidity;
- Strategy reduces its use of convertible debt; and
- The company continues to demonstrate strong access to capital markets even during a bitcoin stress.