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## UK Small-Cap Firms Embrace Bitcoin Treasury Strategy

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Several UK-listed small-cap companies are adopting a bold financial strategy pioneered by American tech firm MicroStrategy, transforming themselves into vehicles for Bitcoin investment. This move, rooted in issuing new shares to raise funds for purchasing Bitcoin, aims to boost share prices by offering investors indirect exposure to cryptocurrency, a market that remains challenging to access directly in the UK.

The strategy gained attention through a research paper by TOBAM, a Paris-based asset manager. In a recent interview, Axel Cabrol, Co-Deputy CIO at TOBAM, highlighted how British firms are emulating MicroStrategy's approach, which saw its stock soar 7.5 times between 2021 and 2024, outpacing Bitcoin's 3.2-fold rise over the same period. "Bitcoin adoption is no magic wand that turns lead into gold," Cabrol cautioned, stressing that success hinges on precise execution and alignment with a company's broader objectives.

The mechanics of the strategy are straightforward but high-stakes. Companies issue new shares at a premium, convert the proceeds into Bitcoin, and increase their exposure to the cryptocurrency over time. TOBAM's study, co-authored by Cabrol, Yves Choueifaty, and Tristan Froidure, identifies three drivers of MicroStrategy's success: leveraging the stock's premium to acquire more Bitcoin, timing share issuances to capitalise on market enthusiasm, and managing the Bitcoin Price Premium, the difference between the company's share price and the value of its Bitcoin holdings. This premium, when it expands, amplifies returns. For instance, in 2021 and 2024, MicroStrategy achieved a "Bitcoin Yield" of approximately 50%, significantly boosting shareholder value.

However, the approach carries risks. In 2023, MicroStrategy's Bitcoin holdings grew by 43%, but a 48% increase in shares outstanding led to a negative Bitcoin Yield, dragging down performance. The strategy's success depends on maintaining a high Bitcoin Price Premium and carefully managing share dilution. In 2022, a crypto market crash saw MicroStrategy's stock trade at a discount to its Bitcoin holdings, pushing its exposure ( $\beta$ ) above 1.0. By 2024, starting with a lower exposure ( $\beta_0 =$

0.75), the company's 61% Bitcoin Yield drove realised exposure to 1.2, delivering outsized returns compared to Bitcoin alone.

UK small-caps see this as a lifeline to revive interest in their often-overlooked stocks. Cabrol noted, "This will allow UK wealth and retail investors to gain exposure to cryptocurrency where it has previously been more challenging." With the UK lagging behind the US in regulated crypto investment options, this strategy offers a rare entry point for investors. However, the Labour government's regulatory stance on cryptocurrencies remains unclear, and firms pursuing this path face a complex landscape.

TOBAM's research underscores that execution is critical. Missteps in timing share issuances or managing dilution can erode equity value and undermine returns. For UK firms, this strategy could be a final gambit to remain competitive on the London Stock Exchange. Done right, it might rekindle market interest; done poorly, it risks further marginalisation. As these companies venture into uncharted territory, their success will depend on navigating volatile markets with precision and discipline.