



JUNE 2026

STRATEGY: THE CAPITAL STACK MEETS A FALLING BITCOIN PRICE





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Contact

Email: research@theblock.co

X : [@TheBlockCo](https://twitter.com/TheBlockCo)



ACKNOWLEDGEMENTS

We would like to thank everyone at The Block who assisted with this report.

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AUTHOR



Larry Cermak
President
[X](#) | [LinkedIn](#)



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ABSTRACT

Strategy Inc., formerly MicroStrategy, faces the first real test of its Bitcoin-treasury model. It holds 847,363 BTC acquired for \$64.10 billion, or an average of \$75,651. At a treasury value of about \$54.7 billion, it is about \$9.4 billion underwater, about 14.6% below cost.

This is also the first time the full preferred-funded capital stack has been in place during a deep drawdown.

There is no mechanical liquidation price. Strategy's core debt is senior unsecured and the Bitcoin is reported as unencumbered. The question to watch is whether future secured financing or senior preferred issuance changes the waterfall.

The real exposure is liquidity, carry, and capital-markets access: roughly \$1.7 billion of annual preferred dividends, noteholder put dates beginning in 2027, and a \$1.4 billion USD Reserve that covers only months of those dividends on its own and is management-designated; it is not escrowed.

MSTR common is not "Bitcoin at a discount." It looks cheap on the headline ratio (market cap over gross Bitcoin), but once debt and preferred claims are subtracted it trades at a premium to what the common actually owns, its residual common NAV. Because that claim is levered, it falls faster than Bitcoin. Whether the premium then widens or compresses as Bitcoin moves is a behavioral question the NAV section takes up, and the caution here does not depend on resolving it.

Strategy is a meaningful but pro-cyclical force in Bitcoin, and that bid is now structurally weaker. Its accumulation is accretive only while the headline ratio sits above its ~1.22x breakeven, and the ratio now screens at ~0.76x, so the bid fades just as the market falls. That reading is partly cyclical and would reverse on a rally. Even so, the threshold keeps ratcheting up as debt and preferred are layered on, while the gross-NAV premium's demand drivers (ETF competition, copycat issuers, the frozen index weighting) erode independently of price. A recovery therefore restores a lower gross-NAV premium against a higher bar.



A growing share of new capital now funds dividends, not Bitcoin. The software business has revenue and gross profit, but it did not generate positive operating cash flow in 2025, so issuance fills the shortfall. Capital that once bought coins is increasingly diverted to service the carry. That works in both directions at once: fewer dollars reach Bitcoin (less buy pressure on spot), while the common sold to plug the gap dilutes existing holders (sell pressure on MSTR). Leaning on preferred to bridge the gap only raises next year's dividend bill.

The bear case is a slow grind: dilution, a rising senior claim, reserve drawdown, and occasional Bitcoin sales while the company waits for the next up-cycle. The damage accumulates; it does not arrive in a single liquidation event. The bull case is that the structure has bought enough time for Bitcoin to recover and for capital markets to stay open. Yet that recovery is partly endogenous. A known, fragile holder of ~4% of all Bitcoin weighs, at the margin, on the very price it is waiting to recover, even though the ETFs, not Strategy, are the market's primary bid.

Both outcomes are credible, and the cautious read does not turn on which way the premium breaks. It rests instead on four things already visible: the common still trades above residual NAV, the claim is levered, the gross-NAV premium that funds accumulation has compressed, and the structure depends on continued issuance.

The path of Bitcoin, and the market's willingness to keep funding the stack, decides which side wins.



SECTION I: THE TREASURY IS UNDERWATER

THE BLENDED BASIS MASKS THE MARGINAL LOSS

The starting point for any view of Strategy is simple: for the first time at this scale, its Bitcoin position sits significantly below its blended cost basis.

Metric	Value
BTC holdings	847,363
Aggregate purchase price	\$64.10 billion
Average cost per BTC	\$75,651
BTC price	about \$64,600
Approximate gross BTC value	~\$54.7 billion
Approximate unrealized loss	~\$9.4 billion (~14.6% below cost)

The blended \$75,651 is correct for the whole treasury, but it conceals a barbell. The 189,150 BTC held at end-2023 cost \$5.895 billion, about \$31,168 each, and averaging those cheap early coins in flatters the figure.



The 658,213 BTC bought since tell a different story. This is the leveraged-accumulation cohort that the debt and preferred stack financed, and it carries an average of about \$88,429, because the bulk was acquired through the \$90,000-plus stretch of late 2024 and 2025. (The \$80,340 implied by the May 2026 STRC-funded week sits below that post-2023 average.) At about \$64,600/BTC, that marginal cohort is about 27% underwater, well beyond the 14.6% blended figure.

This matters for any “is the financing trade in the money” question. The headline loss is propped up by coins bought long before the financing structure existed, so the position the recent stack actually put on is deeper in the red than the blended basis implies.

One change for underwriting is in the accounting. Under the crypto fair-value standard the company adopted, Bitcoin is now marked to market through net income, so a drawdown shows up directly as reported losses, no longer buried in impairment. Reported earnings volatility is therefore mechanical and large.

The deeper change is to the financing calculus. The whole model was built to issue securities above the gross value of the Bitcoin they buy, then accumulate more. With the asset below cost and that premium compressed (the headline ratio now ~0.76x), every financing decision turns on whether it is accretive to BTC Yield or merely liquidity-preserving.

THE FLYWHEEL NOW RUNS IN REVERSE

The scale is the product of a reflexive flywheel rather than operating cash flow. After its first Bitcoin purchase in August 2020, the company, then a mid-cap business-intelligence software firm, saw its equity volatility climb sharply. That volatility made the conversion option in its bonds valuable enough to issue converts at 0% coupons.

The loop followed: cheap debt and premium-priced equity bought Bitcoin; the Bitcoin amplified both the volatility and the gross-NAV premium; the richer premium lowered the cost of the next raise. Formalized in the October 2024 “21/21 Plan” (\$42 billion of equity and fixed income over three years) and helped by index inclusion, it carried



market capitalization from about \$1.44 billion at the August 2020 first Bitcoin purchase to \$100.08 billion on May 2, 2025.

The same loop now runs in reverse. With that premium gone, each turn raises less and accretes less. The compression is partly cyclical and would ease on a rally, but the breakeven the loop must clear has ratcheted up with every layer of debt and preferred, while the premium's demand drivers erode independently of price. So even a full price recovery would reopen the loop on worse terms, restoring a lower premium against a higher bar: a weaker version of the machine that built the position, well short of the 2021 one.



SECTION II: THE CAPITAL STACK AT A GLANCE

SEPARATE THE CLAIMS FIRST

The stack holds three categorically different obligations, and the most common way it gets misread is to sum them into one “what they owe” pile. Separate them first; the sections that follow take each in turn.

Bucket	What it is	Amount	Nature
1. Recurring cash carry	Preferred dividends + note interest	~\$1.7bn dividends + ~\$35m interest \approx ~\$1.7bn/year before any software contribution	Largely discretionary: only the ~\$35m interest must be paid; suspending the preferred avoids default but breaks the model. The software business has revenue, but did not generate positive operating cash flow in 2025
2. Dated repayment	Convertible note principal	~\$6.7bn : ~\$1.01bn put in Sep 2027, a ~\$5bn cluster across 2028, and ~\$0.8bn put in 2029	Hard principal with hard dates; repay, refinance, or convert



WHAT THE BUCKETS MEAN

The table repays a closer look.

The notes appear in both bucket 1 and bucket 2 with opposite significance: only ~\$35 million a year of interest, because most of the stack is zero-coupon, but ~\$6.7 billion of principal. The coupon is trivial; the principal wall is the real constraint.

The ~\$15.5 billion preferred, by contrast, is not a repayment obligation and should not be added to the debt. Because the preferreds are perpetual, the going-concern burden is the dividend in bucket 1; the par notional comes into play only on liquidation, where it ranks ahead of the common.

Finally, the recurring carry assumes every series pays cash. STRK (~\$112 million a year) can be settled in common stock, which would lower the cash figure to roughly \$1.57 billion. This report keeps the full all-cash ~\$1.7 billion throughout (including the bridge below) as the conservative case, since settling STRK in stock only swaps the cash saving for more common dilution.



SECTION III: THE DEBT: SMALLER, UNSECURED, AND NOT THE NEAR-TERM PROBLEM

LIABILITY MANAGEMENT REDUCED THE WALL

Strategy has actively reduced and reshaped its debt. It carried about \$8.25 billion of total debt at March 31, 2026. On May 26, 2026 it announced a completed repurchase, executed over May 11–25, of \$1.5 billion principal of its 0% 2029 convertible notes for roughly \$1.38 billion in cash, an approximate 8% discount to par. That cut convertible principal from about \$8.2 billion to \$6.7 billion and left total debt at roughly \$6.7 billion, effectively all convertible notes.

Capturing the ~8% discount and shrinking the 2028 to 2029 refinancing wall reads as prudent liability management, and the market took it that way. The move still cuts against this report's own thesis that capital-markets access is the binding constraint. The ~\$1.38 billion was funded mainly by drawing the USD Reserve down from roughly \$2.25 billion to ~\$871 million, so dividend-earmarked cash went to retire a zero-coupon note that carried almost no interest and was not due until a 2028 put.

That liquidity may have been worth more held against the dividend and the STRC par anchor. The discount makes the trade defensible, though not obviously optimal.



The remaining risk is calendar and collateral. The remaining converts after that repurchase:

Instrument	Approx. principal	Coupon	Holder cash put date	Maturity
2028 notes	\$1.01bn	0.625%	Sep 15, 2027	Sep 15, 2028
2029 notes	~\$1.50bn	0%	Jun 1, 2028	Dec 1, 2029
2030A notes	\$0.80bn	0.625%	Sep 15, 2028	Mar 15, 2030
2030B notes	\$2.00bn	0%	Mar 1, 2028	Mar 1, 2030
2031 notes	\$0.60bn	0.875%	Sep 15, 2028	Mar 15, 2031
2032 notes	\$0.80bn	2.25%	Jun 15, 2029	Jun 15, 2032

Three structural facts define the debt risk:

1. It is senior unsecured, with no collateral. The old 6.125% 2028 secured notes were redeemed in 2024 and their collateral (roughly 69,080 BTC) released. Strategy’s filings describe the remaining convertible notes as senior unsecured obligations, and with no secured debt outstanding, the Bitcoin carries no lien.

That is true, but nothing in the covenants locks it in. The disclosures leave open future secured financings backed directly or indirectly by its assets, including Bitcoin. Any such layer would sit ahead of both the notes and the entire preferred stack, reintroducing the collateral-driven liquidation dynamic the structure avoids. This is the key structural watch item.

2. The coupons are trivial. Much of the stack is zero-coupon. After the 2029 repurchase, contractual cash interest runs only around \$35 million per year, small next to the software business’s gross profit, though not something the company can treat as covered by free software cash flow. A Bitcoin crash alone does not create a coupon-driven forced sale.

3. The risk is the put and maturity calendar, years out. Holders can require repurchase for cash at par on the put dates. The first hard cash wall is the September 15, 2027 put on the 2028 notes, up to ~\$1.01 billion.



The dangerous cluster is 2028: up to \$2.0 billion on March 1, ~\$1.5 billion on June 1, and ~\$1.4 billion across the 2030A and 2031 notes on September 15. Conversions can be settled in cash, stock, or a mix at the company's election. That helps only if the stock is high enough to make conversion attractive.

The takeaway: relative to a roughly \$41.8 billion equity value, \$6.7 billion of unsecured, mostly zero-coupon, long-dated debt is not the thing that breaks the company in the near term.

VOLATILITY IS ITSELF A FUNDING INPUT

The converts were cheap because MSTR's volatility makes the embedded conversion option valuable, a reflection of option value rather than any market verdict that Strategy is low-risk. VanEck's 2026 decomposition put MSTR's 30-day historical volatility near 113% against Bitcoin near 55%, a little above 2x.

The dominant buyers are convertible-arbitrage desks. Calamos, Millennium, and Linden have been reported as holders, alongside some traditional credit buyers on earlier issues. These desks buy the bond, short the stock delta-neutral, and harvest the gap between the converts' implied volatility and MSTR's higher realized volatility. Their position is a volatility bet with no directional view on Bitcoin, which makes them structurally different from the largely retail base that holds the preferred.

The corollary is a funding risk independent of the Bitcoin price. If MSTR's volatility compresses, borrow tightens, or convertible-arb appetite fades, access to cheap option-financed capital can deteriorate even with Bitcoin unchanged. With the stock near \$117, below even the lowest conversion price of \$149.77 (the 2030A notes), every convert is now out of the money, and the gross-NAV premium the option ultimately rides on has itself largely collapsed.



SECTION IV: THE PREFERRED STACK: WHERE THE CARRY LIVES

Strategy's center of gravity has shifted from debt to perpetual preferred stock, roughly \$15.5 billion in aggregate notional, spread across four dollar series (STRF, STRC, STRK, STRD) and a smaller euro series, STRE, listed in Luxembourg. All five rank above the common and below the convertible notes, and all are perpetual: no maturity, no principal repayment, only a standing dividend obligation. What separates them is coupon, whether missed dividends accrue, and where they sit relative to one another: in rank order STRF, then STRC, then STRE, STRK, and STRD, all senior to the common.

WHY THE STACK EXISTS

Each series exists to do one thing: raise capital and buy Bitcoin without selling common stock. The original engine, issuing common above gross Bitcoin, only adds coins per share while the gross-NAV premium (the headline ratio above 1.0x) stays wide, and that premium has compressed steadily since its late-2024 peak. The company could always sell stock; the binding constraint was that selling had stopped accreting Bitcoin per share.

Preferreds route around that. As permanent capital they carry no refinancing pressure and no covenants, and they reach yield-seeking buyers who would never hold the



common, so the company can keep levering into Bitcoin without spending a gross-NAV premium it no longer reliably commands. STRK and STRF began as diversification while that premium was still rich. STRC is what the model leaned on once it compressed: its variable-rate par anchor keeps it issuable at scale no matter where MSTR trades, which is why it became the marginal funding engine and now dominates the stack.

Series	Name	Coupon	Cumulative?	Distinctive role	Notional
STRC	Stretch	Variable, 11.5%	Yes	Semi-monthly cash (from July 2026); rate flexed to hold a ~\$100 par; the funding engine	\$10.5bn
STRD	Stride	Fixed 10%	No	Most junior preferred; a missed dividend is lost permanently	\$1.4bn
STRK	Strike	Fixed 8%	Yes	Convertible into MSTR; can be paid in common stock; lowest cash cost	\$1.4bn
STRF	Strife	Fixed 10%	Yes	Most senior preferred; cash only; plain fixed-rate credit	\$1.3bn
STRE	Stream	Fixed 10% euro	Yes	Euro-denominated, Luxembourg-listed; broadens the investor base	\$0.9bn

That dominance is lopsided. STRC is roughly two-thirds of the notional, and because it also carries the highest rate, its share of the cash drain runs higher still: about \$1.21 billion of the ~\$1.7 billion annual preferred dividend, or 72%. It reached that size fast, climbing from ~\$2.8 billion in the third quarter of 2025, just after its July 2025 IPO, to \$10.4895 billion now, about 7.5x the next-largest U.S. series.

By comparison, STRF, STRK, and STRD are static fixed claims, and their protections set the baseline for what a missed dividend actually costs. STRF, the most senior, steps its rate up 100bp for each missed payment to an 18% cap and hands holders a board seat after four consecutive or eight total misses (STRK carries a similar board-seat remedy; STRC, STRE, and STRD do not). These discourage casual non-payment without ever



rising to a covenant: there is no acceleration and no claim on the Bitcoin. Under a sustained suspension, STRF simply behaves like a long-duration subordinated bond, carrying credit risk and no equity upside.

STRC is the opposite of static. It is the live, growing instrument the company actively sells through the ATM to fund both its dividends and new Bitcoin, and the rest of this section follows it.

HOW STRC WORKS

STRC is a variable-rate perpetual preferred built to trade near a \$100 par; the rate sits at 11.50%, paid in cash, and the instrument is marketed to a largely retail base as a low-risk, treasury-like, high-yield holding. The company flexes the dividend to hold that anchor, but the trigger is the 5-day VWAP over the five trading days before each month's last trading day, not a fixed \$99 average price, mapped to a published recommendation schedule the board can override or suspend at will:

5-day VWAP	Rate action
Below \$95.00	+50bp or more
\$95.00 – \$98.99	+25bp or more
\$99.00 – \$100.99	No change (± 25 bp discretionary)
\$101.00+	-25bp or more, and/or follow-on offering

So the dividend is lifted when the price sags below par and trimmed when it runs above. A price above par also serves as a cue to issue more. In June 2026 shareholders approved a move from monthly to semi-monthly payments, beginning July 15 at the same rate and total cost, a change that halves the price sawtooth around par. This is par-anchor maintenance: a shareholder vote spent to defend the very price stability the funding channel runs on. It happened to land in a week with no STRC sales, which reads as coincidence; it is not evidence of strain.



Step back from the par mechanics and the instrument has a cleaner economic reading from Strategy's side: it is the financing leg of a leveraged Bitcoin position. The company pledges no coins and posts no collateral, yet in substance it is borrowing against its treasury at a funding-like rate to hold more Bitcoin than its own capital would support. That is the same exposure a coin-margined perpetual future expresses when a trader posts Bitcoin to lever a Bitcoin long. The ~11.5% coupon sits close to where Bitcoin perpetual funding has tended to annualize, which is the natural benchmark for the cost of that leverage.

What separates them is who sets the rate. A perp's funding resets every few hours against a volatile market that can spike past 100% annualized and force the position out. STRC's resets monthly along the schedule above, one Strategy itself controls. That leaves Strategy with similar leverage but swaps mark-to-market liquidation for market-access stress: weak tape can drain STRC's issuance capacity, de-rate its price, lift the yield buyers demand, and shut the funding channel outright.

What makes the instrument work also makes it fragile.

Discretion comes first. The company can cut the rate by up to 25bp a month along a multi-year glide path toward a SOFR-linked floor, and because dividends are payable only when, as, and if declared, it can suspend outright. The two cannot be stacked, though: the rate cannot be cut while dividends sit in arrears, so the cleaner route to relief is to keep paying while ratcheting the rate down, not to suspend and then slash. That discretion runs against the published table, which says to *raise* the rate when the price sags below par: under stress, Strategy can override the par defense, conserve cash, and let both the rate and price fall rather than sell Bitcoin. The prospectus warns that the rate can be cut low enough to leave holder protections "inadequate." A full suspension remains a last resort, since it would drive STRC well below par and cripple the company's most important funding channel even without any legal default; a cut while STRC already trades weak would be the earlier signal that liquidity has displaced the par anchor.

Next is cumulation. A missed STRC payment accrues, compounds on the unpaid balance, and blocks dividends on, or repurchases of, any parity or junior stock, the common included, until it is cleared. But the stopper reaches only capital-stock payments:



it leaves Strategy free to service debt, pay the senior STRF, meet operating costs, and keep buying Bitcoin while STRC sits unpaid. That is protection next to non-cumulative STRD, though still well short of a debt default.

Reflexivity comes last. The software business produced \$477 million of 2025 revenue and \$328 million of gross profit, but after operating expenses the company says the enterprise analytics business did not generate positive operating cash flow. At the margin, the preferred dividend is therefore filled by fresh STRC issuance through the ATM, common issuance, or from a reserve that issuance itself refills. Cash is fungible, but by any funding-source view the same machine that pays existing holders also buys the next tranche of Bitcoin, and it runs only while STRC trades near par and investors keep buying.

That dependence has a sharper edge when supply outruns demand, the live risk now that the float has climbed toward \$10.5 billion. Holding the par anchor against a demand shortfall comes down to two levers, and they are not equally good.

One is to lift the coupon until buyers return. But the response is not linear: past some point a higher rate does little to revive demand while adding directly to the carry. It is not even clear a clearing rate exists at this float, since demand for a retail yield product moves with competing fixed-income supply and the perceived safety of the instrument, with the coupon only one input among several. Each 100bp on a \$10.5 billion balance is ~\$105 million a year of fresh dividend for a price effect that fades as the rate rises, so beyond a point the lever works against the company it is meant to help.

The other is to shrink the float by buying STRC back below par. Because the preferred is perpetual and non-amortizing, retiring a claim Strategy is never obliged to repay at \$88.59 captures the discount as a gain to the common and permanently removes carry. That is the same discount-capture already realized on the converts in the May 2026 repurchase. The catch is that the cash has to come from somewhere, most naturally from selling Bitcoin into the same weak market. So the buyback that would repair the anchor and the Bitcoin sales the model is otherwise built to avoid are two halves of one move.



The round trip also leaks value at both ends. Selling Bitcoin in size pushes the fill below the screen price, while bidding for STRC walks it back toward par and surrenders the discount the moment the bid is lifted, so the captured gain is narrower than the quoted gap between the repurchase price and par. A thin cash buffer sharpens this: with little dry powder the program has to run through mandatory disclosure, and a pre-announced seller of Bitcoin and buyer of its own paper gets the worse side of both prints.

This stopped being hypothetical when STRC closed at \$88.59, its lowest level since the July 2025 launch and 11.4% below par, after an intraday low of \$82.53. The break came weeks after Strategy's first Bitcoin sale (32 BTC in late May, to fund a preferred dividend), and it prompted the company to pause the STRC ATM, the funding engine described above shutting off in real time, no longer just in prospect.

The declared rate is unchanged at 11.50%, but at \$88.59 that translates to about a 13.0% effective yield, so the cost of the marginal STRC dollar has risen even though the headline rate has not. The same session saw MSTR fall 5.09% to \$116.56, with Bitcoin near \$63,850 in contemporaneous market coverage. This is the demand-shortfall case above arriving in fact: the anchor slipping, the ATM idled, and the carry repricing upward all at once.

CONTROL

Every one of these levers sits with a board controlled by a single person. Strategy's 2026 proxy puts Michael Saylor at 37.6% of total voting power on just 6.1% beneficial ownership of class A stock, a gap explained by his 99.9% hold on the ten-vote class B shares, held through his wholly-owned Alcantara LLC. The class A figure also folds in foundation shares he disclaims. So for any junior holder, whether the dividend is paid, cut, or suspended comes down to a founder whose incentives plainly favor protecting the Bitcoin position and the equity narrative over maximizing cash returns to the preferred.



SECTION V: LIQUIDITY: THE RESERVE BUYS MONTHS, NOT YEARS

THE RESERVE IS A TIMING BUFFER

Strategy maintains a management-designated USD Reserve to support preferred dividends and note interest. The balance stood at \$871 million on May 25 (down from roughly \$2.25 billion before the late-May convertible repurchase drew it down), \$900 million on May 31, \$1.0 billion on June 7, \$1.1 billion on June 14, and \$1.4 billion on June 21, 2026, including expected proceeds from ATM sales that had not yet settled. The latest increase came from common, not preferred: Strategy sold 2.7 million MSTR shares for \$335.5 million of net ATM proceeds, sold no STRC or other preferred, bought 520 BTC for \$34.9 million, and left roughly \$300 million to rebuild the reserve.

It is not a lockbox. The cash is not escrowed, segregated, or pledged to securityholders, and the company can increase, reduce, eliminate, or reinvest it, including back into Bitcoin, at its discretion. The runway math below is therefore an economic view of an internally labeled cash pool; it carries no commitment to pay.

Set against the dividend, \$1.4 billion covers about 9.9 months of the ~\$1.7 billion annual obligation, or about 9.7 months after including the ~\$35 million of annual note interest. On its own, the reserve is a timing buffer before the next capital-markets test.



Preferred dividends are flexible enough to avoid an immediate solvency wall, but every relief valve has a cost: a lower STRC rate breaks the par anchor, equity-funded dividends dilute or subordinate the common, and a drained reserve must be rebuilt through the same issuance channels. Those levers also stop at the recurring dividend. They conserve cash for the carry alone, leaving a ~\$1 billion note put demanded in cash in 2027 to 2028 unaddressed, so the forced-sale path runs through the principal wall.

THE FORWARD BRIDGE SHOWS WHAT STANDING STILL COSTS

The whole thesis reduces to whether the company can keep the machine open until Bitcoin recovers through cost, so the bridge to the 2027 to 2028 put wall is more useful than any static balance-sheet view. The figures below are illustrative and assume a flat-to-down Bitcoin path, which is the case that matters: conversion is unavailable because the stock stays below the ~\$150 conversion price, the puts must be met in cash, and the gross-NAV premium that funds the ATM is compressed throughout.

Bridge, mid-2026 to end-2028 (~10 quarters)	Amount
Recurring cash carry (~\$425m preferred + ~\$9m interest, before any software contribution)	~\$4.3bn
Note puts, if not converted (~\$1.0bn Sep 2027 + ~\$5bn across 2028)	~\$6.0bn
Gross cash need	~\$10.3bn
Less USD Reserve	(\$1.4bn)
New external capital required	~\$8.9bn (~\$890m/quarter)

A few things fall out of the arithmetic.

- Standing still is not free even before the wall. Just covering the carry takes about \$435 million a quarter of new capital or reserve drawdown before any software contribution, and the reserve funds only about three of those quarters, so issuance



has to run continuously from now, not only at the put dates. The 9.9 months cited earlier measure the same reserve against the larger gross dividend.

- The dilution path feeds on itself. Funding ~\$8.9 billion with common against a \$41.752 billion market cap is roughly 21% dilution at a constant price, but flat-to-down Bitcoin compresses the gross-NAV premium, so each raise prices lower and takes more shares. Because the headline ratio already screens at ~0.76x, well below its ~1.22x accretion breakeven, that issuance is already non-accretive to BTC Yield, and further premium compression only drives it deeper below the line. Dilution is already running: Class A common rose ~13% year-to-date, from 292.4 million shares at end-2025 to 332.9 million by May 31, 2026, before another 2.7 million shares were sold in the June 15 to 21 week. That growth front-loaded into Q1 and slowed through the spring as the funding mix rotated from common toward STRC. In June the pattern reversed, with STRC stress forcing the rotation back to common, the early-June weeks funded by common issuance and the STRC ATM paused.
- Funding the carry with preferred compounds it. Every ~\$1 billion of new STRC adds ~\$115 million a year to the dividend, so leaning on STRC to bridge only raises next year's stand-still number; covering even half the bridge that way would push the ~\$1.7 billion annual dividend toward ~\$2.2 billion.

The loop therefore stalls at a financing condition, and specifically a demand condition: the ATM shelves remain large (roughly \$17.5 billion of STRC and \$25.4 billion of common still available), so what binds is the market's willingness to absorb the paper near these terms. The moment STRC can no longer be sold near par, or the common can no longer be issued above its ~1.22x breakeven on the headline ratio, roughly \$890 million a quarter has to come from a reserve that holds less than two quarters' worth.

With the headline ratio already at ~0.76x and the gross-NAV premium gone, the equity leg of that bridge is already past its accretive boundary. The June 1 to 7 and June 15 to 21 weeks, both funded entirely by common with no STRC sold, are consistent with that picture without establishing it on their own. The remaining relief valves are timing tools: STRC rate cuts pressure preferred holders, and cash-or-stock conversion pushes dilution onto the common.



A RECOVERY CAN DISSOLVE THE BRIDGE, BUT NOT AUTOMATICALLY

The bridge assumes flat-to-down because that is the binding case, but the mirror image deserves stating plainly, since it is the bull's strongest card. A Bitcoin recovery does not merely slow the grind; it dissolves much of the bridge outright. Carry the common far enough above the ~\$150 conversion price, comfortably above rather than merely through it, and much of the ~\$6 billion of 2027 to 2028 puts could settle in stock rather than cash, materially relieving the hard leg of the wall.

That relief is not automatic. Holders, not the company, choose whether to convert, and one near the strike will still prefer the cash put's downside protection and remaining time value to converting. The stock therefore has to clear the strike by enough to make conversion clearly dominate, and the company can force the issue only once the notes pass their provisional-redemption trigger (roughly 130% of the conversion price).

With that proviso, a re-expanding gross-NAV premium turns the ATM accretive again, so STRC clears near par, the common issues without punishing dilution, and the flywheel that built the position spins forward rather than in reverse. With the treasury back above its \$75,651 cost the reported losses reverse on top, so this is a recovery bet; the loss is not foregone. The catch is the one the flywheel discussion drew out: what reopens is a weaker version of the old machine, far from the 2021 one.



SECTION VI:

NAV: GROSS BITCOIN IS NOT COMMON EQUITY VALUE

Three ratios are routinely conflated, and pinning down which is in use matters because the company reports on a different one than the common holder should. Throughout, mNAV means the market-to-NAV multiple, market value divided by some asset value, a distinct thing from NAV itself. This report uses three named ratios, and every later use of “premium,” “discount,” “accretive,” and “neutral” is tagged to one of them:

- **Headline ratio:** market cap ÷ gross Bitcoin (the optical, equity-based mNAV), ~0.76x. This is the gauge the accretion math and management’s ~1.22x breakeven are measured on, since both govern issuing *common*. A “gross-NAV premium” means this ratio above 1.0x.
- **Whole-stack ratio:** enterprise value ÷ gross Bitcoin (the EV-based mNAV: market cap plus the notional of debt and preferred, less cash, over gross Bitcoin), ~1.14x. This is the metric Strategy’s own dashboard and SEC filings report.
- **Common-holder ratio:** market cap ÷ residual common NAV, where residual common NAV is gross Bitcoin plus cash less the ~\$22 billion of debt and preferred ranking ahead of the common, ~1.23x on a par preferred deduction and ~1.15x when the U.S.-listed preferreds are marked to market while STRE is left at par. It is the only



one that approximates what the common actually owns. A “residual premium” means this ratio above 1.0x.

Only the third approximates what the common owns. The most common error in the Strategy debate is reading the headline ratio as a net asset value: it divides a residual equity claim by a gross asset base, two different layers of the balance sheet. The filings themselves caution that the whole-stack ratio, despite its “Bitcoin NAV” label, is “not equivalent to net asset value” either, since it puts the senior stack in the numerator while dividing by gross Bitcoin, gauging coverage of the whole capital stack rather than what the common owns. The residual claim is captured by neither.

Most of the logical friction in this debate comes from sliding between two distinct premiums. The gross-NAV premium (headline ratio above 1.0x) is the one that funds accumulation, because issuing common above gross Bitcoin adds coins per share; it has now compressed to a $\sim 0.76x$ discount. The residual premium (common-holder ratio above 1.0x) is the one the common pays over what it actually owns, and it is still positive at about 1.15x to 1.23x, depending on whether preferreds are marked to market or carried at par. The two can point opposite ways at once, as they do here: a gross-NAV discount alongside a residual premium.

Putting the numbers together, with 847,363 BTC worth about \$54.7 billion and a common market cap of \$41.752 billion (MSTR at \$116.56):

- Gross Bitcoin value is about \$54.7 billion.
- The headline ratio (market cap over gross Bitcoin) is $\sim 0.76x$, a gross-NAV discount.
- Residual common NAV, that $\sim \$54.7$ billion plus $\sim \$1.4$ billion of cash, less $\sim \$6.7$ billion of debt and $\sim \$15.5$ billion of preferred, is about \$33.9 billion.
- The common-holder ratio (market cap over residual NAV) is $\sim 1.23x$, a residual premium.

Both are arithmetically correct: the common trades below the gross value of the Bitcoin while trading above the net claim that actually belongs to common holders, and the gap between the two is the capital stack. This is why describing the $\sim 0.76x$ headline ratio as “Bitcoin at a 24% discount” is wrong for a common holder. The headl-



ine and whole-stack ratios both ignore the roughly \$22 billion of debt and preferred ranking ahead of the common; only the common-holder ratio reflects what the common owns, and on that basis MSTR trades at a residual premium. The $\sim 1.14x$ whole-stack ratio expresses the same result on a gross-Bitcoin denominator: it is not common NAV, though $1.0x$ on that measure is the residual-neutral point.

The residual premium depends on the preferred mark. Deducting the full \$15.5 billion of preferred at par is the liquidation lens, distinct from the going-concern burden of the $\sim \$1.7$ billion annual dividend, so the $\sim 1.23x$ reading is the downside bookend, the one least favorable to the common. Marking the U.S.-listed preferreds to market (STRC \$88.59, STRF \$91.03, STRK \$60.53, STRD \$62.20) while leaving STRE at par lowers the preferred deduction to about \$13.1 billion. That lifts residual NAV to about \$36.3 billion and lowers the multiple to about $\sim 1.15x$. The defensible statement is therefore a $\sim 1.23x$ par-lens premium and a $\sim 1.15x$ market-marked premium, with par marking the conservative end.

The figure is also sensitive to the market-cap input. The \$41.75 billion above uses CNBC's market cap for MSTR, with 358.20 million shares out. Using only class A shares or a different intraday BTC mark moves the result, but the par-lens figure still sits close to $1.23x$, not the broader $1.3x$ to $1.4x$ mNAV shorthand sometimes used around the stock.

The sensitivity is modest. Each \$1 billion shaved off the preferred deduction lifts residual NAV by \$1 billion, worth only about \$1,180 of breakeven Bitcoin price, which is why the static balance-sheet lenses bracket roughly $1.15x$ to $1.23x$ here. The one place par is unambiguously right is the coverage tests at the end of this section, which ask what ranks ahead of the common in a wind-down. There the liquidation preference, not the capitalized carry, is the relevant claim.

1.0x is not a floor. A levered residual claim need not sit above its liquidation NAV. The textbook reason it might, that equity is a call option on the assets worth at least its intrinsic residual value, assumes a zero-coupon strike with nothing leaking out before maturity. Here the $\sim \$1.7$ billion annual preferred dividend is a continuous senior cash drain, funded by diluting the common or selling Bitcoin, and that negative carry to the residual claimant is exactly the force that can push the claim below its static intrinsic



value. The drain persists by choice, since suspending it would break the par anchor and shut the funding channel the company needs to roll its debt, which is why it still falls on the common.

This is not hypothetical: the residual premium was negative earlier in this cycle. In May 2026, with Bitcoin near \$82,000, MSTR traded at roughly 0.85x residual NAV (about 0.59x gross), a discount, at a market cap (~\$41 billion) essentially identical to today's. Most of the common's ~62% decline since October 2025 predates that mark, and from May to June its market cap held roughly flat while Bitcoin fell about 24%. The apparent flip to a premium since is residual NAV collapsing against a roughly flat common, with no floor reasserting itself, so the static lens reads ~1.15x to ~1.23x now, with the coupon drain able to carry the common through 1.0x to a discount with no change to the balance sheet at all.

The residual claim is levered, which makes it convex. The senior claims are largely fixed in dollars and do not shrink with Bitcoin, so as Bitcoin falls, residual NAV falls faster than Bitcoin itself: at this coverage, a 20% drop in Bitcoin takes about a third out of residual NAV. The senior stack absorbs coverage first and the common absorbs the convexity, so the headline ratio looks optically cheaper at exactly that moment, the number a casual reader anchors on.

The table below isolates the effect by holding common market cap constant at \$41.752 billion and varying only the Bitcoin price. It is a sensitivity, not a forecast: it shows what residual premium each Bitcoin price would imply if the market did not reprice the common.

BTC price	Gross BTC value	Residual common NAV	Headline ratio (mcap / gross BTC)	Common-holder ratio (mcap / residual NAV)
\$50,000	~\$42.4bn	~\$21.6bn	~0.99x	~1.9x
\$64,600	~\$54.7bn	~\$33.9bn	~0.76x	~1.23x
\$75,651	~\$64.1bn	~\$43.3bn	~0.65x	~0.96x
\$100,000	~\$84.7bn	~\$63.9bn	~0.49x	~0.65x



Whether the residual premium then widens or compresses as Bitcoin moves is a behavioral question, and a priori it cuts both ways. It turns on whether the common re-rates down more slowly than its residual NAV falls, that is, whether the stock's sensitivity to gross Bitcoin sits below the residual leverage of about 1.6x. The caution here does not depend on resolving it: falling Bitcoin makes the residual claim deteriorate faster than the gross asset either way, and a widening premium only means the buyer pays more for the same deteriorating claim.

That convexity sets the breakeven. On the same held-constant basis and the conservative par lens, Bitcoin would need to recover to roughly \$73,800, close to the company's \$75,651 cost basis, for residual common NAV to equal the common market value used here. The proximity to cost is structural rather than coincidental: residual NAV equals market cap exactly when gross Bitcoin equals enterprise value, i.e. when the whole-stack ratio hits 1.0x, so the breakeven price is simply EV (~\$62.6 billion) divided by the coin count, and that lands near cost because the market currently values the entire capital structure at roughly the ~\$64 billion cumulative outlay on the Bitcoin. This is also not an artifact of the par lens: on the lighter market-marked preferred bookend it eases only to about \$71,000, still near cost basis and far above spot.

These are the recoveries that would erase the residual premium entirely, a fair-value test that holds only if no premium is warranted. Some premium is warranted, by the demand drivers the next subsection sets out (expected accumulation, an access premium, non-recourse leverage, and the volatility bid), so with those drivers intact the recovery needed to reach fair value is smaller, and on the lighter lens the common can sit close to fair without a full round-trip to cost.

The bite is the combination with timing: the same drivers are eroding, so the warranted premium is converging toward 1.0x just as one would need it to hold, and in that limit the breakeven converges back toward cost. The common is best read as a joint bet, on a material Bitcoin recovery and on the residual premium's drivers surviving it; it is not a claim that any residual premium must close. And that is before crediting the software business.



WHY THE RESIDUAL PREMIUM EXISTS, AND WHAT COULD ERODE IT

The residual premium reflects identifiable demand drivers, and underwriting the common means asking whether they persist. Four stand out: expectations of continued Bitcoin accumulation; an access premium, as investors who cannot hold spot or run futures buy MSTR as a proxy; the value of Saylor's patient, non-recourse leverage, which a margin-financed investor cannot replicate; and outright speculation tied to the volatility.

Each can fade independently of the Bitcoin price. A maturing market for spot and leveraged ETFs erodes the access premium, copycat treasury companies fragment demand, and a sustained gross-NAV discount (the headline ratio below 1.0x) undercuts the accumulation expectation on its own, since the model only accretes coins per share when it can issue common above gross Bitcoin. Working against all of them is the structure's own drag: the ~\$1.7 billion preferred dividend, a founder-controlled board whose incentives diverge from holders, and a common with no redemption right to close any gap. The base rate for a structure like this is therefore a residual discount as readily as a premium, and the drivers above are what hold the common on the premium side; they are not a floor that keeps it there.

The access premium is the one that now has the most to answer for. Since the U.S. spot Bitcoin ETFs launched in January 2024, the simplest reason to own MSTR, plain unlevered exposure, has largely been competed away. What an ETF cannot replicate is the leverage: MSTR uses convertible debt and premium equity to grow Bitcoin per share, so in a rising market it can outperform spot while an ETF tracks one-for-one.

The reasons left to choose the stock are narrower: embedded non-recourse leverage with no margin call; mandate, custody, jurisdiction, or tax constraints that bar some buyers from spot and ETFs but permit an index-eligible common usable as collateral; and the volatility itself. These are real but slimmer than the original draw, and both the leverage and the volatility cut the other way once Bitcoin falls and the gross-NAV premium inverts to a discount, the regime in place now.



THE ACCRETION ENGINE AND ITS CEILING

Management's headline KPI is BTC Yield, the growth in Bitcoin held per fully diluted share, against a long-standing target of roughly 10% a year, with issuance at a gross-NAV premium (the headline ratio above 1.0x) framed as accretive on that metric. It faces sharply diminishing returns to scale: by order-of-magnitude estimates, the capital needed to add one basis point of yield rose from low six figures in 2021 to several million by 2025, so the narrative weakens mechanically over time even before Bitcoin moves.

Management has put a number on the ceiling. On its Q1 2026 call, Strategy placed the accretion breakeven at roughly 1.22x mNAV, up from 1.0x before leverage and rising as debt and preferred are layered on. Above it, selling equity to buy Bitcoin is accretive; below it, as president Phong Le put it, "it is actually more accretive for us to sell Bitcoin and pay off our dividends." The threshold clears 1.0x because the preferred carry skims part of every raise: if only a fraction of proceeds buys Bitcoin and the rest services dividends, the breakeven is the reciprocal of that fraction, about 1.2x at ~80% deployed, and higher as more preferred is added. Le scoped it explicitly to "selling our equity and buying Bitcoin" and flagged "a misconception that the breakeven point is 1.0x."

One definitional point makes or breaks the comparison: this 1.22x is measured on the headline ratio (the equity mNAV, market cap over gross Bitcoin), not the whole-stack ratio (the EV-based mNAV the company's own dashboard reports), because the breakeven governs issuing *common* and the reciprocal-of-deployment logic above is denominated in exactly those market-cap-over-gross-Bitcoin terms. So the gauge is the headline ratio, now ~0.76x and well below the line, with the preferred added since Q1 only pushing it higher. The comparison is therefore like-for-like, whereas mapping the threshold onto the whole-stack ratio (~1.14x) instead would spuriously read as closer to the line and soften the conclusion.

Reading sub-1.22x as value destruction is the error to avoid. The 1.22x test is about *coins per share*, not dollars, and the two diverge in this window: at a ~1.15x to ~1.23x common-holder ratio, issuing equity to buy Bitcoin can raise residual NAV per share



because new buyers pay more than the residual claim each existing share represents, while the same issuance lowers BTC Yield because the headline ratio is below the 1.22x line. In the residual-NAV lens this section treats as correct, sub-1.22x issuance is therefore not automatically value-destructive to the common; the error is sliding from “dilutive to BTC Yield” to “destroys value for the common.”

What makes the regime bearish is reflexive rather than mechanical. That residual accretion is a transfer from new buyers who pay the residual premium *because* they expect coins-per-share growth. If BTC Yield stalls, the story those buyers are paying for weakens, and management has said it will withdraw the bid, selling Bitcoin rather than issuing, below the line.

Its 32 BTC sale in late May (May 26–31, disclosed June 1), described by management in exactly these terms, is a first token instance of that stance, well short of proof of a settled policy: at roughly \$2.5 million it is trivial against the position, and the very next week (June 1–7) common issued below the line bought another 1,550 BTC and topped up the reserve, the opposite move. By June 15 to 21, the bid was still present but much smaller: common issuance bought only 520 BTC while roughly 90% of the raise went to cash. The sale matters as precedent, the first crack in “never sell,” while showing that the policy has not hardened.

This also disposes of the bull rejoinder that BTC Yield is running well above target (roughly 23% in 2025 and a double-digit pace early in 2026), so the model is plainly working. That does not rebut the caution. BTC Yield measures coins per share rather than dollars, and can compound at double digits while the treasury sits about 14.6% below cost and the dollar value of the common de-rates.

And a positive reading can be manufactured through liability management, with no accretive accumulation behind it: repurchasing converts below par shrinks the diluted share count and lifts Bitcoin per share without buying a coin, and a single quarter can swing negative purely on a large cash raise, as Q4 2025 did. A healthy headline yield driven by buybacks and denominator math is exactly what the sub-1.22x regime predicts, so it confirms the regime, and it leaves the carry, the put wall, and the residual-NAV premium untouched.



Some of the recent issuance has not gone to Bitcoin at all, and the mix is shifting toward liquidity. In the June 8 to 14 week Strategy sold roughly \$209 million of common through the ATM and routed \$100 million of it into the USD Reserve, roughly a half-reserve, half-deployment split. In the June 15 to 21 week it sold another \$335.5 million of common, bought only \$34.9 million of Bitcoin, and lifted the reserve to \$1.4 billion, meaning roughly \$300 million of the raise went to liquidity rather than coins.

That lowers Bitcoin per share with little offsetting purchase, and the year-to-date BTC Yield duly ticked down from 13.0% on June 1 to 12.5% on June 15 over the first two reserve-building weeks. The June 15 to 21 split pushed in the same direction but more sharply: new common mostly became reserve cash, not Bitcoin. It is the per-share narrative the company championed running briefly in reverse, financed by dilution of the very holders it was meant to reward, and it sits oddly beside management’s stated preference to sell Bitcoin rather than issue below the line.

WHERE THE STRUCTURE GETS FRAGILE

The same price ladder shows where the claims themselves stop being covered, framed as thresholds rather than a single trigger (all illustrative gross tests, not legal triggers):

Coverage test	Implied BTC price
BTC value equals ~\$6.7bn convertible debt	~\$8,000
BTC value equals ~\$6.7bn debt + ~\$15.5bn preferred notional	~\$26,300
Debt + preferred notional + one year of preferred dividends	~\$28,300

The debt-only level near \$8,000 is why the margin-call narrative is misplaced; the economically meaningful zone is \$26,300 to \$28,300, where the preferred claims, not the converts, stop being fully covered by the Bitcoin and the common’s residual value erodes. Even there, nothing triggers mechanically.

The hard forced-sale path is the 2027 to 2028 put calendar covered in the liquidity section, reached only if the stock sits far below conversion prices and credit is shut. The one development that would turn “no liquidation price” into a real level is a future sec-



ured or senior layer ahead of the existing claims – which the STRC certificate permits without STRC-holder consent.



SECTION VII: THE IMPACT ON BITCOIN

THE MARGINAL BID IS PRO-CYCLICAL

Strategy holds roughly 847,363 BTC, on the order of 4% of all the Bitcoin that will ever exist and a larger share of the liquid float. Its influence on the price runs through three channels.

When the flywheel spins, Strategy converts capital-markets inflows straight into spot demand. In the single week of May 11 to 17, 2026, it raised roughly \$2 billion of STRC and bought 24,869 BTC, one of the largest persistent bids in the market.

What matters is that this demand tracks whether MSTR and STRC can be issued on acceptable terms, which is distinct from the spot price. Those conditions correlate with price and volatility without being pinned to them, which is what makes the bid reflexive: strongest when prices are already strong, and weakest exactly when the market is falling.

Index and passive flows modify that bid mechanically. A slice of common-stock demand is set by index membership, independent of any view on Bitcoin. MicroStrategy entered the Nasdaq-100 after its 2024 surge and held its place through the December 2025 reconstitution despite a steep decline.



Then in January 2026, MSCI declined, for now, to remove digital asset treasury companies, but it froze the share counts used to weight them. New issuance therefore no longer pulls in an automatic passive bid, and more of the burden of absorbing new paper has shifted onto active, price-sensitive buyers. Index classification stays an open risk: a forced removal would likely pressure the gross-NAV premium and weaken ATM capacity even without a fresh leg down in Bitcoin.

THE BID CAN DISAPPEAR, THEN REVERSE TO SUPPLY

What happens when issuance stalls is what decides a falling market. If STRC slips below par and the common's gross-NAV premium compresses, the ATM-funded purchase program shrinks or stops, and the market loses a large structural buyer at the worst moment. Worse, if liquidity needs force discretionary sales, Strategy flips from sponsor to supply. The same reflexivity that adds demand into strength can withdraw it, or add supply, into weakness.

SIGNALING AND CONCENTRATION CREATE AN OVERHANG

Strategy is the flagship of the "Bitcoin treasury company" model, so everything from its issuance cadence to its disclosures to any outright sale is read as a sentiment signal far beyond its literal size, all the more so given how many smaller imitators copied it.

Across the three channels, Strategy acts more like a pro-cyclical accelerant than a stabilizer.

The marginal buyer may be shrinking, not just pausing. Read alongside the accretion logic from the NAV section, the sharper concern is that this demand is at risk of contracting structurally, beyond the cyclical pullback. Management has set out a framework in which premium-funded accumulation is worth pursuing only while the headline ratio sits above its ~1.22x accretion breakeven. Below the line, it has signaled it would rather sell Bitcoin than issue, the 32 BTC sale to fund a preferred dividend being the first sign of that stance.



So far, though, that remains a stated tendency the company has not hardened into a rule. The very next week, June 1 to 7, Strategy issued common through the ATM to buy another 1,550 BTC, well below the breakeven, and the June 15 to 21 week added 520 BTC from common proceeds, so the bid is better described as conditional and intermittent than withdrawn.

What makes the structural concern more than a drawdown mark is two things. First, the breakeven keeps rising as debt and preferred are layered on, so each future cycle must clear a higher bar to reopen the bid at scale. Second, the gross-NAV premium that bid depends on is eroding for reasons unrelated to price, through ETF competition, copycat issuers, and the frozen index weighting, while the ~\$1.7 billion preferred obligation diverts incoming capital from coins to dividends.

The cyclical and structural pieces therefore separate. The sub-breakeven reading reverses on the next rally, but as the flywheel discussion noted, a rally reopens the loop on worse terms: a purely cyclical buyer returns at full size, while one whose accretion math has structurally worsened may return smaller, or not at all.

The scale is bounded, even so. Over 2024 to 2026, the spot ETFs absorbed far more new capital than Strategy did. IBIT alone drew over \$60 billion of cumulative net inflows, roughly Strategy's entire ~\$58.2 billion of purchases since end-2023, the post-launch window on which the two are comparable. (The remaining ~\$5.9 billion of Strategy's \$64.10 billion aggregate cost basis is the 189,150 BTC it already held at end-2023.) The ETF complex holds ~1.29 million BTC against Strategy's ~847,000.

Strategy ranked as the largest single corporate buyer while remaining well short of the market's primary bid, so its retreat removes a pro-cyclical accelerant while leaving the market's main source of demand intact.

The other side of concentration: a latent overhang. This next point is a structural inference about how the price should respond rather than a discount one can observe, since it cannot be cleanly isolated in the Bitcoin price from everything else moving it. In theory, even if Strategy never sells a coin, its concentration can weigh on Bitcoin demand through a risk premium, working independently of sentiment.



A known holder of ~4% of all Bitcoin is a standing supply risk with a named source and a visible trigger: a balance sheet that stresses if the gross-NAV premium stays gone and access closes. The trigger keeps growing, since each new preferred series and added turn of leverage enlarges the block that could come loose, so the overhang expands with the financial engineering instead of sitting still.

It should price like an equity discounting a large insider lockup, only worse, since a lockup is dated and bounded while this position has no expiry and is actively enlarged. For a large allocator the discomfort is concrete: taking Bitcoin exposure now means inheriting second-hand exposure to one named, ever-more-levered holder's possible forced unwind. And because any such discount would sit in the spot price itself, no choice of vehicle, ETF or direct coin, diversifies it away.

Through the pro-cyclical bid above and this latent overhang, the recovery the bull case waits for is partly endogenous: a known, fragile holder of ~4% of all Bitcoin weighs on the very price it is waiting to recover.

The risk is bounded by how the block would likely clear. Even in a true unwind, the stack most likely changes hands as a single negotiated block sale rather than being dumped tick by tick. But a risk premium is priced off the whole distribution rather than its mode: the orderly sale is the benign branch, and buyers are compensated for the residual tail in which the unwind is disorderly. So the overhang is smaller than a raw 4% implies, though still nonzero.

For years the same 4% read as unambiguously bullish, a supply sink tightening the float while Strategy was a committed accumulator with no reason to sell. The holder's role has now acquired a potential-seller component, which stalled accretion and the 32 BTC precedent make credible. The sale was not forced, yet it establishes a willingness to use the treasury as a funding lever and dents the "never sell" commitment.

There is a trap in this that has no clean exit. The only way to kill the overhang would be a credible, binding promise never to sell, but the option to sell Bitcoin is also the back-stop for the ~\$1.7 billion dividend and the 2027 to 2028 cash puts. A treasury that could not be sold would deepen the company's reliance on issuing into a gone premium, while a sale option keeps spot holders pricing the overhang.



SECTION VIII: OUTLOOK

If management wants to repair the structure, the optimal path is not to defend every coin. It is to make the balance sheet harder to force while the company still controls the terms. The ~\$9.4 billion paper loss demands no immediate decision; the ~\$1.7 billion annual carry, the 2027-to-2028 put wall, and a funding channel that just broke (STRC at \$88.59 with the ATM paused) do. The governing metrics should therefore be net carry and senior claims per BTC, set against quarters of runway with zero capital-markets access. BTC Yield does not belong at the center of the plan, since at ~0.76x it rewards issuance that deepens the hole it measures.

On that lens, the company's own discounted paper is more attractive than another coin. Retiring STRC and the converts below par captures the discount and removes carry permanently, which beats buying Bitcoin financed at 11.5 percent or more. But absent an orthogonal cash source, the treasury itself funds the trade. The repair path therefore requires accepting what the model resists: there is no version that preserves every coin and fixes the stack at the same time.

The least-bad answer is a defined, capped, and time-bound deleveraging program before circumstances force one. A monthly drip risks creating a recurring-seller narrative; a single oversized sale risks looking like an escalation. The cleaner structure is a tranching program of negotiated OTC blocks, drawn from the worst-basis coins, with proceeds run through a disclosed waterfall into STRC and convert tenders.



The program should start small, because starting too small is recoverable and starting too big is not. It should scale only when tender discounts are demonstrable and retiring senior claims creates more value than retaining incremental Bitcoin exposure. The goal is not to abandon the Bitcoin thesis, but to lower the carry and claim stack enough that the company can survive long enough for that thesis to matter.

A few constraints should hold regardless of how tight conditions get. No secured Bitcoin layer while the common's premium depends on unencumbered, non-recourse Bitcoin exposure: a lien manufactures the liquidation price the structure lacks and destroys the non-recourse quality the premium rests on, and the temptation to pledge rises precisely when it is most fatal. No common buybacks, because the common trades at a premium, not a discount. No open-ended defense of par. Any STRC repurchase should sit inside an explicit asset-liability plan and proceed only where the tender discount creates more value than retaining the cash or incremental Bitcoin exposure, with STRC reframed honestly as the high-yield perpetual it is.

Equity is not banned, but it is narrowed to one use: retiring senior claims while the common-holder ratio sits above 1.0x, a trade that is residual-NAV accretive and self-closes the moment it is not. Binding some of the founder's discretion, through independent oversight of preferred decisions, a published capital-allocation policy, and a credible commitment to keep the Bitcoin unencumbered, is among the cheapest ways to lift the residual premium, and is what gives any repair plan its teeth.



SECTION IX: CONCLUSION

The single question is whether you are being paid to own the residual common claim after the senior stack, or paying a premium for a gross-asset story while Bitcoin trades below the company's cost. On these numbers the honest answer is the latter, though not because the existence of a residual premium is itself the problem. Limited liability gives the levered common option-like value over the senior stack, so a premium by itself is not damning.

The problem is magnitude and timing. Strategy is a levered, residual claim on an underwater Bitcoin position, ranking beneath roughly \$6.7 billion of unsecured debt and a \$15.5 billion preferred stack that costs about \$1.7 billion a year. That claim deteriorates faster than Bitcoin as the price falls, and the direction of the residual premium offers no rescue. If the premium compresses, the common drops faster than its NAV. If it widens, the buyer simply pays more for the same deteriorating, recovery-dependent claim.

The residual premium is wide, and all of its drivers are eroding at exactly this point in the cycle: expected future accumulation, the access premium, the non-recourse leverage benefit, and the speculative bid on volatility. As they fade, the warranted premium converges toward 1.0x and, with the coupon drain working against it, can fall through to a discount, while the recovery needed to reach fair value climbs back toward cost.



The near-term risk is therefore a self-reinforcing grind, with no margin call or default in it. A falling Bitcoin compresses the gross-NAV premium, accelerates the residual claim's decay, threatens the STRC par anchor, and pushes the accumulation engine below its ~1.22x accretion breakeven, the level at which management has said it would rather sell Bitcoin than issue. The marginal bid that built the position fades, and can even reverse to supply, just as the latent overhang stops reading as one-way bullish.

Nothing in the debt calendar bites until 2027 to 2028. Absent a future secured or senior layer ranking ahead of the existing stack, there is no mechanical trigger and no liquidation price, only the grind. The binding question is whether capital-markets access stays open long enough to carry the dividends and the put wall through, on terms that turn not only on Bitcoin but on index status and the volatility regime that prices the converts.

What makes the structure resilient is also what allocates its cost. Discretionary preferred rates and cash-or-stock conversion, backed by unencumbered Bitcoin, keep Strategy from being forced, but they push the cost of time onto securityholders, with those levers controlled by a founder whose incentives favor the Bitcoin position and the equity narrative over cash returns to the preferred. For the common holder, that cost is dilution and a rising senior claim. For the STRC holder, it is the risk that a "stable" instrument stops paying and de-rates all at once, with no maturity, acceleration, or missed-dividend put through which to force payment.

The position is rich because a wide premium rests on weakening justification. It is a levered bet on three things at once rather than a discounted proxy for spot: Bitcoin recovering through its cost basis, the capital-markets machine staying open, and the residual premium's drivers outlasting the drawdown.

None of this substitutes for Bitcoin recovering through the ~\$75,651 cost basis, which management does not control. The controllable task is to make the balance sheet harder to force: deleverage into discounted paper and surrender a defined worst-basis slice on its own terms, spending discretion slowly enough to still be standing when the cycle turns.