TON618 Capital

BITCOIN CREDIT · FOLLOW-UP TO THE JUNE 2026 VALUATION & Q2 ADDENDUM · STRATEGY INC. (NASDAQ: MSTR)

The Solvency Map Is Not the Credit

Strategy published an interactive chart of the bitcoin prices at which each of its credit instruments goes undercollateralized. We reproduced its floors to the dollar, reverse-engineered its formulas — and found the market charging up to sixty-three times the model's spreads. Both are measuring the same balance sheet. Only one of them is pricing the risk that matters.

TON618 CAPITAL RESEARCH · MSTR $96.09 · BTC ~$63,467 · CLOSES 11 AUG 2026 · · JUNE 2026 VALUATION · Q2 ADDENDUM

−68%

THE FALL FROM SPOT TO THE FIRST FLOOR — STRD'S $20,587. EVERY OTHER INSTRUMENT SITS DEEPER.

The verdict, up front: the floors are honest; the spreads are not credible. The dashboard's undercollateralization prices are straight balance-sheet arithmetic — we verified every preferred floor and the marginal convert floor against the published claim stack, exactly. The credit spreads built on top of them price a benign world: terminal-date breaches only, 40% volatility, a 10% bitcoin drift, no cross-default, and a dividend machine assumed to run forever. The market prices the listed preferreds at roughly 570–1,000 bps over Treasuries — high yield to distressed *by the model's own color legend*. Read the converts off this map. Do not read the preferreds off it.

$53.3B
BTC reserve behind $21.95B of debt + preferred claims (~840k coins at the $63,467 input).

3.9x
Coverage on STRC — the $10.3B keystone of the preferred stack, and the instrument that funds the dividends.

2.6 yrs
USD reserve ($4.65B) against management's ~$1.76B/yr of dividends + interest, static.

9 → ~570
STRF in bps over Treasuries: the model's spread vs the market's, same instrument, same day.

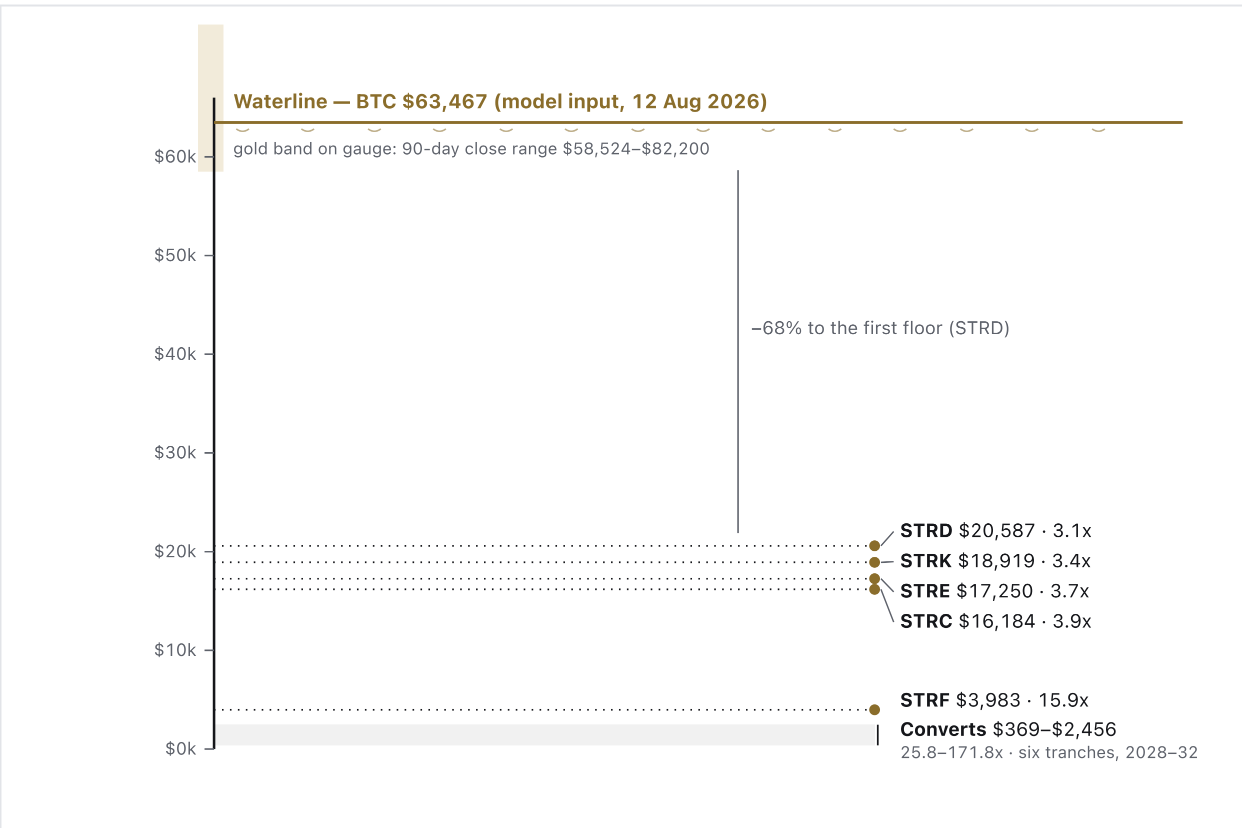
A flywheel at 1.0× needs a new story

The context is the story. MSTR trades at roughly 1.0× our estimate of common net asset value — $37.8B of market capitalization against ~$36B of bitcoin and cash net of senior claims, before a modest software value. The accretive-issuance premium that powered the 2024–25 flywheel is gone, and with common-at-a-premium unavailable as the marginal funding source, the capital machine has rotated to credit: five preferred series totaling $15.2B of notional, led by the $10.3B variable-rate STRC. Strategy has sold bitcoin five times in 2026 — most recently 1,690 BTC for ~$108.6M on 10 August — and directed the latest proceeds, for the first time, to repurchasing its own discounted preferreds rather than adding coins.

Credit buyers need a story about why these instruments are money-good. The **BTC Credit model**, unveiled by Michael Saylor on X last week and live at strategy.com/credit, is that story, quantified: an interactive table with three user-adjustable inputs — bitcoin price ($63,467 at our read), volatility (40% default), and a bitcoin expected-return assumption ("BTC ARR," 10% default) — that assigns each instrument a coverage multiple, a probability of undercollateralization, a model credit spread color-coded *investment grade / high yield / distressed*, and the headline number: the **BTC Floor**, the bitcoin price at which that instrument's claim stack stops being covered.

The soundings: what the model says

Dropped onto one gauge, the model reads as a mariner's chart. The waterline is spot. The preferred floors cluster at $16,000–$20,600 — 68–75% below it. The convertible floors are abyssal: $369–$2,456, requiring a 96–99% drawdown *held to maturity* before the debt is uncovered. The headline stats above the table: a $53.34B bitcoin reserve, a $4.65B USD reserve, a "BTC duration" of 30.7 years, and a "breakeven ARR" of 3.25% — the annual bitcoin return at which everything is covered at terminal.



THE MODEL'S TABLE, CONDENSED — PLUS WHAT THE MARKET PAYS (CLOSES 11 AUG 2026)

INSTRUMENT	NOTIONAL ($M)	DUR (YRS)	COVERAGE	MODEL PD	MODEL BPS	BTC FLOOR	MARKET YIELD / SPREAD
Convert 2028	$1,010	1.1	171.8x	0.00%	0	$369	—
Convert 2030 B	$2,000	1.6	57.7x	0.00%	0	$1,101	—
Convert 2029	$1,500	1.8	38.5x	0.00%	0	$1,650	—
Convert 2030 A	$800	2.1	29.3x	0.00%	0	$2,163	—
Convert 2031	$604	2.1	29.3x	0.00%	0	$2,163	—
Convert 2032	$800	2.8	25.8x	0.00%	0	$2,456	—
STRF	$1,284	9.8	15.9x	0.91%	9	$3,983	10.4% / ~569 bps
STRC	$10,254	8.0	3.9x	8.89%	116	$16,184	$95.32 vs $100 par
STRE	$896	8.3	3.7x	10.07%	129	$17,250	euro-listed
STRK	$1,402	8.8	3.4x	12.09%	147	$18,919	11.7% / ~700 bps
STRD	$1,402	7.1	3.1x	11.67%	176	$20,587	14.7% / ~997 bps

Coverage declines monotonically down the waterfall because each instrument is tested against the cumulative claims senior to and including it. Market spreads: current yield on stated rates (STRF 10.00%, STRK 8.00%, STRD 10.00% per $100) minus the 10-year Treasury at 4.70%. STRC's rate resets monthly; we quote its price against its $100 par instead.

The math checks out — we ran it

Strategy publishes no methodology page, but the mechanics can be recovered from the numbers, and three of them reconcile against the live dashboard:

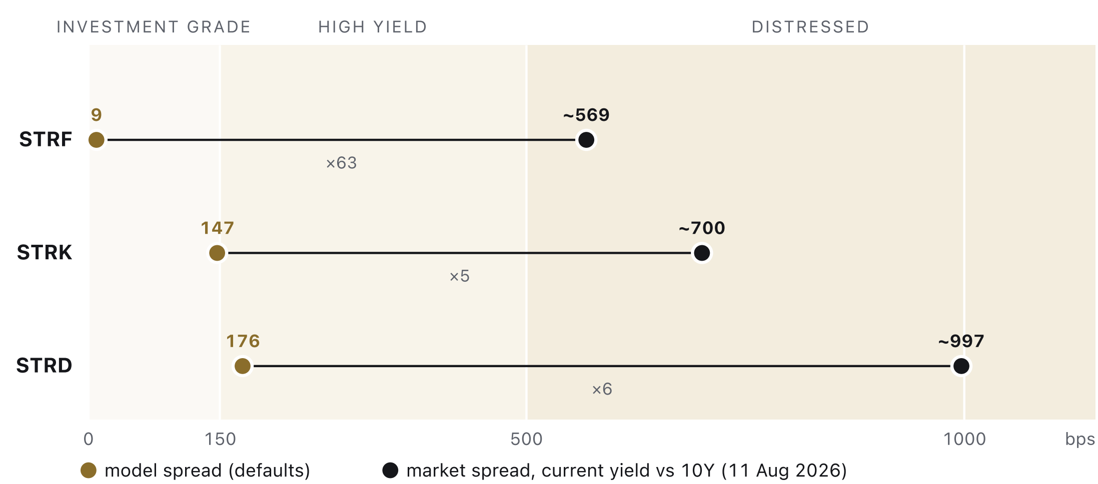
`Floor × coins = cumulative claims − USD reserve`	STRD: $20,587 × ~840.4k = $17.30B, its published cumulative notional	**EXACT — all preferreds + 2032 convert**
`PD = Φ([ln(F/S) − (ln(1+ARR) − σ²/2)T] / σ√T)`	lognormal terminal breach at the displayed duration	**±0.6pp on all five preferreds**
`spread = −ln(1 − PD) / T`	a zero-recovery survival spread	**STRC 116 bps, STRD ~175 vs 176 bps**

Two loose ends matter for a product marketed as transparency. The near-dated convertible rows carry an undocumented adjustment — Convert 2028 shows $310M of cumulative notional against a $1,010M note, which does not reconcile under the formula that fits every other row and appears to phase the USD-reserve credit in over time. And the "BTC Floor ARR" column for the preferreds implies horizons of roughly 10–15 years rather than the displayed 7–10 year durations. Neither changes the picture; both mean the methodology should be published.

Credit where due. The floors are honest, independently checkable arithmetic; the seniority ordering matches both the documented capital structure and the yield ordering the market charges; and publishing any of this, with adjustable assumptions, is a transparency step almost no issuer takes. The 40% volatility default is not even a cherry-pick against current conditions — we measure realized bitcoin volatility at 28% (30-day) and 34% (90-day). The problem is not the defaults' honesty. It is what the machine built on them leaves out.

What the market says back

Put the model's spreads next to the spreads the market actually charges — same instruments, same day — and the model's tier legend grades its own output:



By the model's legend, STRF, STRC, STRE and STRK print *investment grade* and STRD barely clears into high yield. The market prices STRF at ~569 bps, STRK at ~700, STRD at ~997 — and will not hold STRC, engineered to sit at $100, above $95.32. A gap this wide is not a liquidity premium. It is the market pricing what the model omits: path risk, dividend sustainability, subordination beneath a growing senior stack, and cross-default — which the site's own disclaimer concedes it ignores, along with liquidation preferences that can exceed notional.

×63

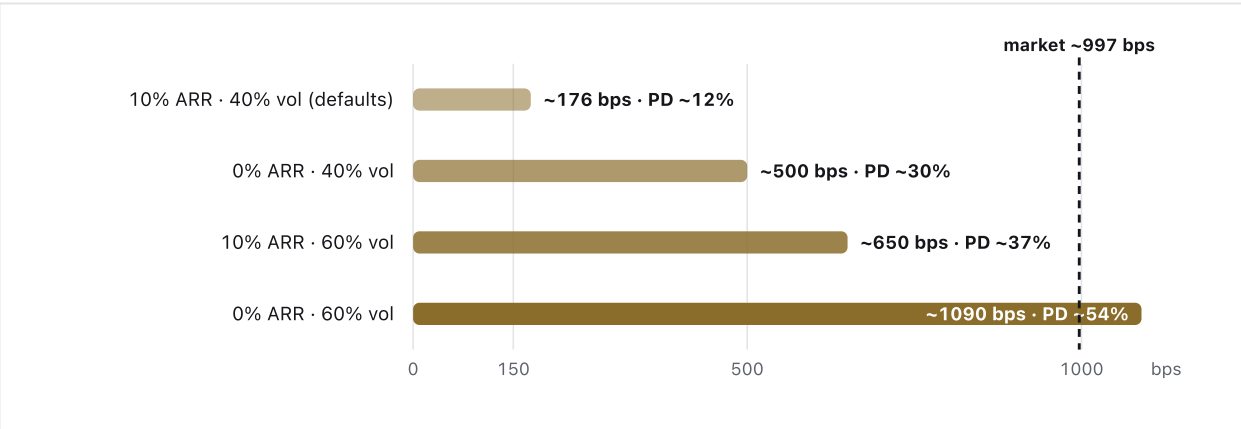
The multiple between the market's spread on STRF (~570 bps) and the model's (**9 bps**). Both are looking at the same 15.9× collateral coverage. One of them is also looking at everything else.

Where the model breaks

It prices terminal solvency, not the way credits die. The breach test is European — does bitcoin sit below the floor *on the horizon date*. There is no path dependence, and first-passage probability is always higher than terminal probability. The instruments that matter near-term, the 2028–2030 converts, face refinancing walls, not collateral shortfalls: a 2027 drawdown that never touches any floor can still close the capital markets, stall the ATMs, and force coin sales. That is not a hypothetical — it is a description of 2026 to date.

The flow problem sits entirely outside the model. Management's own figure puts fixed obligations — preferred dividends plus interest — at roughly $1.76B a year against a $4.65B USD reserve: about 2.6 years of runway with no new issuance, and the software business does not bridge it. The model nets the reserve as a static stock against terminal claims while the same dollars are consumed quarterly. Worse, the funding is reflexive: dividends are paid substantially by issuing more STRC — *senior* to STRE, STRK and STRD — and every $1B of STRC issued raises STRD's floor by roughly $790 even after crediting the bitcoin it buys. The coverage ratios are endogenous to the market's willingness to keep believing the model.

The spread outputs are two honest inputs away from distressed. Hold the model's own math and move only the dials:



The same exercise moves STRC — the $10.3B keystone — from 116 bps to roughly 375–910 bps. Bitcoin realized 60–80% volatility in the 2022 drawdown; a credit model whose rating tier flips from investment grade to distressed on a volatility regime the asset has entered repeatedly — 2018, March 2020, 2022 is a scenario tool, not a rating. The 10% drift does quiet work too: pricing credit off a favorable real-world drift rather than anything risk-neutral flatters every spread, and the headline "3.25% breakeven ARR" is a certainty-equivalent statistic that ignores sequence risk entirely.

And the denominator is no longer sacred. The floors assume the coin count. Strategy has sold bitcoin five times this year. Directed at buying back preferreds at 68–96 cents on the dollar, sales currently *improve* junior coverage — retiring $1.00 of claim for well under a dollar. The same lever, run to pay dividends in a deeper drawdown, shrinks the collateral the entire model rests on. *Never sell your bitcoin* is no longer an assumption anyone can grant — our Q2 addendum traced its formal retirement.

Verdict

As disclosure, the dashboard is genuinely good — best-in-class for the asset class, and the floors are numbers a reader can verify from the page itself. As credit analysis, it is not decision-grade. It answers *will the bitcoin cover the stack at maturity under friendly assumptions* — almost certainly yes, for the debt — while the live question the preferred market is pricing is *can the dividend machine keep running through a bear market without eating the collateral*. CONVERTS: READ THEM OFF THIS MAP PREFERREDS: DO NOT

Three tripwires

- **STRC against its $100 par.** The $10.3B keystone and the dividend-funding instrument. Sustained trading below par is the market refusing the model's central claim.

- **What bitcoin sales buy.** Repurchasing discounted preferreds is credit-accretive; paying dividends with coin sales is collateral-erosive. The same headline, opposite credit events.

- **The 2028 convert refinancing.** The first hard market test of the structure — a maturity the model scores at 171.8× coverage and the refinancing market will score on that day's terms.

Sources & Method

The model. All model outputs — per-instrument notional, cumulative notional, duration, BTC Rating (coverage), BTC Risk (PD), BTC Credit (spread), BTC Floor and BTC Floor ARR, plus the header stats (BTC Reserve $53.34B; USD Reserve $4,650M; BTC Duration 30.7 yrs; BTC Breakeven ARR 3.25%), the input defaults (BTC $63,467 / volatility 40% / BTC ARR 10%) and the tier legend (IG ≤150 bps; HY 151–500; distressed >500) — were read directly from the live dashboard at strategy.com/credit on 12 Aug 2026; a verbatim transcription of the table as read, including the site's own disclaimer, is archived with this note (dashboard-read-2026-08-12.txt). The dashboard is interactive and recomputes every output from the live bitcoin price, so all model figures here are specific to that read at the $63,467 input; contemporaneous press snapshots taken near $64,000 report correspondingly different values (e.g., breakeven ARR 3.22%, STRF 16.1x, Convert 2028 173.5x — Yahoo Finance, 12 Aug 2026), consistent with the same model at a different spot. The coin count (~840,400) is derived ($53.34B ÷ $63,467); Strategy does not publish it on the page. Model launch via Michael Saylor on X: Yahoo Finance, 12 Aug 2026.

Reverse-engineered formulas (ours, verified against the published outputs). Floor identity: BTC Floor × coins = cumulative notional net of the USD reserve — exact for all five preferred series and the 2032 convertible. PD: $\Phi([\ln(F/S_0) - (\ln(1+ARR) - \sigma^2/2)\cdot T] / (\sigma\sqrt{T}))$ with S_0 = $63,467, $\sigma = 0.40$, ARR = 0.10, T = displayed duration; reproduces the published BTC Risk within ~0.6pp (STRC 9.4% vs 8.89%; STRD 12.3% vs 11.67%; STRF 1.0% vs 0.91%). Spread: $-\ln(1-PD)/T$ (zero recovery); reproduces published BTC Credit within rounding (STRC 116 bps; STRD ~175 vs 176 bps). The scenario exhibit applies these same formulas at the stated inputs; scenario PDs/spreads are conditional arithmetic, not forecasts. The near-dated convertible cumulative-notional rows do not reconcile under this construction and are flagged in the body as undocumented.

Market prices. MSTR $96.09, STRF $96.29, STRK $68.35, STRD $68.18, STRC $95.32: official US-composite daily closes for 11 Aug 2026 (Massive.com, US equities daily aggregates, previous-close endpoint; pulled 12 Aug 2026). Current yields use stated dividend rates on $100 liquidation preference — STRF 10.00%, STRK 8.00%, STRD 10.00% (issuer offering documents); market spread = current yield − DGS10. STRC's dividend rate is variable (monthly reset), so its exhibit quotes price against par rather than a spread. 10-year Treasury: FRED series DGS10 = 4.70% (vintage 11 Aug 2026; pulled 12 Aug 2026).

Realized volatility and the range band. X:BTCUSD daily closes, 1 May–12 Aug 2026 (Massive.com crypto daily aggregates; pulled 12 Aug 2026). Realized volatility = standard deviation of daily log returns × $\sqrt{365}$ over trailing 30-observation (28.0%) and 90-observation (34.3%) windows ending with the 11 Aug 2026 close. The gauge's range band uses the same series: close high $82,200 (10 May), low $58,524 (30 Jun), last close $63,541 (11 Aug).

Company figures. MSTR market capitalization $37.84B and weighted shares outstanding 393.8M: Massive.com reference data, pulled 12 Aug 2026. The common-NAV estimate (~$36.0B ex-software) is the model's own balance-sheet inputs recombined: $53.34B + $4.65B − $6.714B convertible notional − $15.239B preferred notional; adding the $1–2B software value from our June methodology puts mNAV near 1.0×. Fixed obligations of ~$1.76B/yr: management figure from the 30

Jul 2026 earnings webinar, as recorded in our Q2 addendum; runway = $4.65B ÷ $1.76B/yr, static, before any new issuance or software cash flow. 2026 bitcoin sales (five year-to-date; 1,690 BTC for ~$108.6M on 10 Aug; proceeds to preferred repurchases): The Block, 10 Aug 2026, and Yahoo Finance, 12 Aug 2026.

Assumptions and estimates, labeled. The STRC-issuance sensitivity (+~$790 on STRD's floor per $1B issued) assumes issuance at par with proceeds fully deployed into bitcoin at $63,467. The buyback illustration assumes purchases at 11 Aug closes. The historical volatility reference (60–80% realized in the 2022 drawdown) uses the same √365 log-return convention over 2022 windows.

Prior TON618 notes relied upon. Strategy (MSTR): What Are You Really Buying? — full valuation, 28 Jun 2026; MSTR Q2 2026: The Drain, Made Visible — addendum, 31 Jul 2026.

DISCLOSURES

Methodology & data. This note evaluates a third-party disclosure tool published by Strategy Inc.; all "model" figures are Strategy's own published outputs, and all "market" figures are exchange closes as dated. Our reverse-engineered formulas are inferences verified against published outputs, not Strategy's stated methodology, which is unpublished. Scenario figures are conditional arithmetic on the model's own formulas with altered inputs; they are estimates with wide uncertainty and are not forecasts. This is a point-in-time evaluation and should be read with our 28 Jun 2026 valuation and Q2 2026 addendum.

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