

Coinbase Global, Inc.
First Quarter 2022 Earnings Call
May 10, 2022

Anil Gupta, Vice President, Investor Relations: Good afternoon and welcome to the Coinbase first quarter 2022 earnings call. Joining me on today's call are Brian Armstrong, co-founder and CEO, Emilie Choi, President and COO, and Alesia Haas, CFO.

I hope you've all had the opportunity to read our shareholder letter which was published on our IR site earlier today.

Before we get started, I'd like to remind you that during today's call, we may make forward-looking statements. Actual results may vary materially from today's statements. Information concerning risks, uncertainties, and other factors that could cause these results to differ is included in our SEC filings. Our discussion today will also include references to certain non-GAAP financial measures. Reconciliations to the most directly comparable GAAP financial measures are provided in the shareholder letter on our Investor Relations website. Non-GAAP financial measures should be considered in addition to, but not as a substitute for, GAAP measures.

We are once again using the Say Technologies platform to enable our shareholders to post questions. In addition, we'll take some live questions from our research analysts.

With that, I'll turn it over to Brian and Alesia for some opening comments.

Brian Armstrong, Co-Founder & CEO: All right. Thanks, Anil. So before we dive into our results this quarter, I think it's worth just addressing the elephant in the room, which is that, of course, the broader markets are down. We're seeing a down market for growth tech stocks and risk assets. And of course, Coinbase and crypto is no exception to that. So, the good news is that as a crypto company, we've lived through many different cycles in crypto, including major drawdowns which, I think, make us well-suited to operate through these environments.

And I have to tell you kinda going back over the last 10 years in crypto, the up periods, we tend to focus mostly on scaling. There's so many customers beating a path to our door that we have to have all hands on deck just to keep everything running. And so the down periods are often sometimes kind of a welcome change from that in the sense that we get to focus on building the next layer of innovation that will benefit us in the next cycle. We also tend to see the down periods as a big opportunity because we're greedy when others are fearful, we tend to be able to acquire great talent during those periods and others pivot, they get distracted, they get discouraged. And so we tend to do our best work and down periods.

So ironically, I'm actually, I've never been more bullish on where we are as a company. And I think it's really important to separate our performance, how are we executing towards our goals versus how is the broader market doing? And I think in terms of how we're executing, executing towards our goals. I really, there's a lot of bright spots. I couldn't be happier. For instance, this quarter we had positive EBITDA despite the market being down, which I think speaks really highly of the resilience of our business. We're incredibly well capitalized during this period - so we have over \$7 billion on the balance sheet of cash and crypto, which gives us lots of opportunities, as I said, to continue to bring in the top talent, acquire companies. 54% of our active users now are doing something other than just trading crypto. They're actually using crypto in a variety of ways. And so our thesis about moving away from just being a trading

platform to enabling the entire cryptoeconomy and being that primary financial account people, it's really starting to work. The majority of our active users are now doing something other than trading.

And even the trading business itself is going really well. Despite crypto trading volumes in the macro environment being down 44%. We were down about 44% as well. But in the assets that we support, including the core ones like Bitcoin and Ethereum, we actually gained share.

There's been a lot of talk in the past about fee compression. But, we've seen in the last few quarters that that hasn't been the case. In fact, our take rate is slightly up over the last few quarters. And there's a lot of new emerging revenue streams like staking and our subscription and services, which grew 169% year over year.

So things I think we're executing really well towards our goal. And I just want to read a quote from our S-1 when we went public about a year ago that kind of laid some of this out. And we actually talked it in our earnings call last year, sort of anticipating this downturn.

So the quote is that "you can expect volatility in our financials given the price cycles of the cryptocurrency industry. This doesn't faze us because we're always taking a long-term perspective on crypto adoption. We may earn a profit when revenues are high, we may lose money when revenues are low. But our goal is to roughly operate the company at breakeven, smoothed out over time, for the time being. We're looking for long-term investors who believe in our mission and will hold through price cycles."

So of course, this is the early days of this industry and we are going to continue to invest as the industry matures over time, we're going to be a very profitable company and more consistently profitable. But for now, regardless of whether the market is up or down, we're going to keep building. And I think the real key is to mentally flip from seeing down markets as being scary to actually being our opportunities to pull ahead. And that's exactly what we're going to be doing in this environment. Alesia, anything you want to add?

Alesia Haas, CFO: Thanks Brian. Just want to reiterate what Brian said that the good news is that we have a decade of experience in managing this type of volatility. And we expected Q1 to be down from Q4 of last year. And our approach to planning is very deliberate and it considers how we would manage through all types of market conditions. And this is definitely within the range of market conditions that we considered in our 2022 plans.

So I want to switch over and talk about our Q2 outlook. So we note in our letter that the softness that we saw towards the tail end of Q1 has continued into April with crypto market cap and volatility both down compared to Q1. Volatility in particular was at its lowest level we've observed since mid-2020. Our April MTU average is around 8.9 million users. Our trading volume was approximately \$74 billion. And as a result, we expect Q2 to have both lower transaction volume and lower MTU than the Q1 levels.

In terms of our subscription and services, we anticipate this being similar to modestly lower as the Q1 levels. On the expense side, we anticipate transaction expenses to be in the low 20s driven primarily by the growth of our blockchain rewards revenue. Sales and marketing to be in the mid to high teens as a percent of net revenue. And tech and dev and G&A will range between \$1.1-\$1.3 billion. We really recognize that we are navigating through uncertain and volatile markets, and we plan to continue to invest prudently to drive long-term growth. As such, our outlook for 2022 is largely unchanged and I want to reiterate that we are aiming to manage to a maximum \$500 million Adjusted EBITDA loss, even if we are in a prolonged market downturn. We've historically planned our spending under a conservative

assumption of a multi-year period of low volatility. And we believe with our balance sheet and resources, we are well capitalized to sustain our operations. And as Brian said, continue to make our focus on building great product experiences, building up our user base, and getting ready for the return of the markets. So with that, let's go to questions.

Anil Gupta, Vice President, Investor Relations: Great, thank you both. So before we get into Q&A, wanted to reiterate our Q&A principles. First, we'll answer the most upvoted questions determined by the number of shares, and we might group some questions together that touch on the same themes. Second, we don't plan to answer questions related to the potential listing of new assets. And third, we'll avoid questions we've answered in the past if there are no updates. For example, we still don't plan to issue a dividend.

So the first question here, we're combining two questions. The top one is about M&A. George R. asked if we see a strategic advantage in acquiring or merging with Robinhood? Noah P. asked about Ventures and how we think about exiting or monetizing the investments made there?

Emilie Choi, President & COO: This is Emilie, thanks for the questions. So we don't comment on rumors or speculation on any specific M&A transactions. But I think that the question actually was more about the strategic advantage of owning a traditional securities platform. And we are a crypto company. Crypto is in our DNA. Everything we do is in service of building the crypto economy and increasing economic freedom. So we don't plan to offer traditional securities unless this somehow would help us massively accelerate crypto adoption.

I also think this is a great opportunity to talk about our invest and acquire strategy more broadly. On the venture side, we are one of the most active corporate investors in the world and we've made more than 300 investments to date. We take minority positions in tons of companies that we think will have great potential, including OpenSea, Alchemy, Dapper Labs, TaxBit, Uniswap, and Compound. And we're very proud to be in these companies and support their growth.

The goal of ventures is to grow the overall cryptoeconomy and to support the ecosystem and get differentiated insights. We look for the best teams and projects to invest in. And we spend a lot of time working with protocols, Web3 infrastructure, DeFi, CeFi, NFTs and the metaverse. We also care about ROI and we're happy with the returns that we've generated since 2018.

For the most part, we don't have any intention of selling or monetizing those stakes because we're just long the whole crypto sector. To me, it would be like Facebook or Google having bet on a large portfolio of the most promising tech companies back in the day, and then just having held them through long periods.

That takes me to the second pillar, which is Corp Dev. And we are very focused on acquiring great companies that can supplement or accelerate our plans. Another secondary goal of Ventures is M&A pipeline and/or partnerships. So an example of this is Bison Trails. We invested early through Coinbase Ventures. They turned out to be a great company and so we acquired them as the foundation of Coinbase Cloud. We've also acquired companies like Xapo and Tagomi, which helped us become the number one crypto custodian in the space, as well as the foundation for our Prime offering. The final benefit of all of this is that we have incredible entrepreneurial teams in place who are running important parts of the business.

Anil Gupta, Vice President, Investor Relations: Sorry, I was on mute. The second question is about our NFT marketplace, have we've been pleased with the activity thus far on the platform? Any metrics we can share for investors to get a sense of the progress?

Brian Armstrong, Co-Founder & CEO: Yeah, I'm happy to share an update. So in general, I have been really pleased with the results so far. We've gotten really positive reactions from customers. A lot of inventory has been listed on the site for sale. And customers are really engaging with our social first approach to NFTs, which I think opens up some really interesting strategic opportunities in the future. In terms of adoption, we've really been slowly rolling out invites from our waitlist for a while, and then we just recently opened up to the public beta. We haven't actually really connected the NFT product into our main distribution channel yet, though, which is through our main retail app and of course, Coinbase Wallet. So we'll be looking to do that in the near future.

And then we don't really share metrics about any of our venture bets internally, any of our new initiatives. But I can just say that there's a lot to build and the opportunity in the NFT space is enormous, so there's a lot of features we're plenty to add – the ability for people to do NFT drops, mint their own NFT tokens, there's token-gated communities we want to support, and even the option to buy NFTs just directly with your credit card or any funds that you currently have in your main Coinbase account, which isn't possible today in the app. We also want to support more chains over time. People are minting NFTs across more and more chains. And we want to continue to decentralize the NFT experience and really embrace the onchain native protocols and make sure NFTs don't become a centralized experience. So overall, I've been really happy with how it's gone. And this is the beginning of a long journey. We've only built a small fraction of what we're gonna do in the NFT space. It's probably worth mentioning also that just reminding everyone, I think NFTs, it's not just artwork or collectibles, digital collectibles. I think NFTs are going to play a big role in gaming, in music, in the metaverse, decentralized identity, and even in the real world, items like tickets to events, proof of attendance, and maybe even digitizing real estate in the real world. So a lot to do in the NFT space, Coinbase NFT is really exciting and we're going to keep investing in it.

Anil Gupta, Vice President, Investor Relations: Our next question comes from Tom W., who asks how we can do a better job clarifying Coinbase's vision to investors and the general public? He observes the major narratives as a) competition is growing, b) trading fees are therefore shrinking, and c) Coinbase has no other meaningful revenue. How would you respond to that? And then related, Patrick N. also asked, what's our biggest competitive moat versus competitors?

Brian Armstrong, Co-Founder & CEO: Yeah, so this is a big question. Let me, let me start off and then I'll turn it over to Aleisa.

So just zooming out, what is the vision for Coinbase? Well, we use a different word. We use mission, but our mission is to increase economic freedom in the world. And I really believe that cryptocurrency is this unique technology that's been invented and along with the cell phone, it can be used to create good financial infrastructure for people all over the world and to enable this new, more internet native, global, fair and free economy for the world. So that's the vision for what we want to accomplish.

And of course, in that world, Coinbase is going to be the primary financial account, the primary way that people access the cryptoeconomy. It's going to help them not just buy and sell crypto a brokerage, but also to store crypto and then use it in all of these novel ways. And as I mentioned earlier, we're already seeing that trend play out – 54% of our active users are now doing something other than trading with crypto. And if you're wondering what are they doing? It's all the things you would use money for and more. They're earning money with crypto, they're spending it with merchants using Coinbase Card.

They're earning yield on their assets. There's borrowing and lending opportunities, and increasingly, there's this huge ecosystem of third party applications or "dapps" – decentralized apps – probably over 1,000 of them now that people are creating all kinds of new stuff with – games and social and art and music and all kinds of things.

So in my mind, this is a little bit like the early days of the Internet where you saw the birth of e-commerce in the late 90s, early 2000s, and now fast forward 20 years, e-commerce is something like 15% of global GDP. And I think if you fast forward 20 years from here, the cryptoeconomy is going to represent probably a large portion like that, 15% or so of global GDP. And so Coinbase can help create that vision and make it a reality in the world.

So in terms of our competitive moat, which the question also asked about, there's a couple of main things that I think about. So trust and ease of use are really big moats for us. You know, trust is – it comes down to compliance, a concerted effort to go work with policymakers around the world. It comes down to cybersecurity – we're storing more crypto securely for our customers. And so whenever people are coming into a new industry, they generally want to go with the one that it's been around the longest, it's trusted by the most people, it has the most number of users. Coinbase is really the only crypto company that's public in this environment. And we're storing such a large amount of crypto that I think that's a defensible moat because basically when people trust us, they store crypto with us. And then when they start a crypto with us, they then use Coinbase to go use their crypto in a variety of ways. And so it has, it has a nice kind of defensible position there.

The other piece is ease of use. So crypto is still very complicated. And what we really wanna do is help bring it to a billion people and then eventually the majority of people in the world. And so most people don't understand exactly how private keys work or they don't understand how electricity works either, or the Internet underneath, but they're able to benefit from it because people have built applications that make it accessible to anyone. And so that's the other big piece that we're doing, trust and ease of use.

I guess the last thing I'll say is that Coinbase is really a multi-product company. It's a platform in a way so many of our products are well integrated. They'll be even better integrated over time. If you have crypto that you buy with us and you store it with us and then it's easy to use things like Coinbase NFT. And so our suite of products, I think makes us a little bit unique out there in the sense that you'll see some of those will be in later stages maturing revenue wise, otherwise, other ones will just be starting. And so it makes us a pretty unique company from that point of view as well.

Alesia, let me turn it over to you and maybe talk some about some of the narratives that were mentioned around competition and trading fees and other types of revenue.

Alesia Haas, CFO: Thanks, Brian. To underscore what you just said, which is that we are a platform and that we're building suites of products and services around each of our user bases. Our retail users, our institutions and developers. And so while we do have increasing competition, which we welcome, we want crypto to be adopted by every business out there, every human out there. But the competition we see is largely for point solutions. And no one is competing against the breadth of our platform offerings.

So for example, if I look at our institutions, our Coinbase Prime offering provides an integrated suite of products that includes custody, trading. We have the ability to route orders through our broker, through our prime broker, to more than ten different liquidity venues. That means that you're always guaranteed to find the best price when you're trading on the Coinbase platform. This is different because we compete with others for just a custody standalone solution. There's other exchanges where you can go and trade

directly on that exchange. But if you want the ability to see price across all 11 exchanges, that's best to come through our smart order routers and route your trades to Coinbase and be an integrated settlement back to our cold storage custody solution. So this is an example of how we compete and we use the breadth of our product offerings to really serve our customers in differentiated ways.

Similar on retail. We started our retail app with a very simple experience able to buy and sell crypto. Now, many people offer that – you can get crypto exposure on a number of different platforms. However, once you buy what we've seen as our users want to be able to use their crypto. Really benefit by that utility that Brian was talking about. So on Coinbase, we're looking to provide all of those transaction experiences on a single platform in an easy to use way. And now we have 54% of our users earning yield so they can stake their assets. They can spend their assets on a credit card, they can receive a loan against those assets. And increasingly they were seen as there then transferring assets into their wallets and using those with DeFi. We're bringing that all over time into one easy to use platform. And we believe that will really differentiate us against these point-to-point competitors. Now, this speaks to our brand promise of easy to use, and this speaks to us growing and why we're so focused on diversification.

I want to then bring that back to trading fees. Just factually, our fees actually have not declined. In fact, our blended fee rate is up over the last two quarters. Our transaction revenues are down on an absolute basis in Q1, and that reflects the broader weakness in the markets, which is not surprising given crypto volatility in price cycles, which we previously talked about. But we're not seeing that competition on fees. We are seeing that we want to experiment with different price structures. We've announced a subscription product, Coinbase One, and we're excited about the opportunity to continue to best serve our users and find the price models that work as they engage with more and more products on our platform.

And lastly, that speaks to why we're focused on revenue diversification. We are diversifying our revenues. We're continuing to invest in new products and services to drive differentiated revenue streams. Our subscription and services revenue counted for \$150 plus million of revenues and Q1, or roughly 13% of our total net revenue, which increased 169% year over year. As I mentioned, 54% of those users are engaged with additional products beyond investing. The largest driver of this is staking, where we're continuing to add new assets and we just added Cardano in April.

Lastly, we've touched on it, but we're excited by the launch of the NFT beta, which will be the general release. And we think this will be a driver of future growth. So to conclude, we are a platform. We're adding more assets and products to enable new ways for users to engage. And we'll compete by being the trusted and easy to use platform, as Brian said.

Anil Gupta, Vice President, Investor Relations: Our next question is from several shareholders who would like to know what we see as the biggest opportunities to drive shareholder value over the next few years. Emilie?

Emilie Choi, President & COO: Sure. So we often get the question from investors, how do we think about resource allocation and our expense base, and how we're going to drive revenue growth over the long term from that. So let me take a moment to talk about our investment pillars.

We invest in the core pillars mentioned before, crypto as an investment, crypto as a new financial system, and crypto as a new type of platform. And we map roughly 70% of our budget at any given time to core activities around those first two pillars, such as trading, custody, and international expansion. This would also include things like listing more assets and expanding payment rails. Then we allocate another 20% to strategic products such as wallet and staking. So for example, we made Cardano staking available for

retail users in Q1 and we would expect to see a revenue impact and coming quarters from that. Wallet, which we also mapped to strategic, is the gateway to entering Web3, and that should drive long-term growth of users, engagement, and eventually monetization. And then finally, we allocate roughly 10% of our budget to longer-term investments such as the NFT marketplace.

We listen to our customers in the market to understand which products and features are the most important and then we make bets on those products. So a good example of this is custody, which we knew was going to be an important institutional product. We began building this several years ago and then we made a bet on acquiring Xapo during the last crypto winter. This now has helped us to become the largest regulated crypto custodian.

And I think this is what leads to an important point, which is that Coinbase has only been public for a little over a year. So for many of you following the story, this might be the first real crypto market slowdown that you've seen. I personally signed my offer letter for Coinbase in December 2017, which was kind of peak of the last cycle. And promptly, the market started falling. It was an incredible lesson for me in terms of thinking about long-term crypto cycles, and Brian and others helped me to think through how you power through and not overreact. It's a rare attribute in being able to weather the storm. And I think that's why this company has been around for more than a decade at this point.

What we do is we focus on the things we can control, which is strategy and execution. So we build great products, we onboard more users, and we grow our business. That's what our executive team is focused on. We don't make short-term decisions that jeopardize future growth vectors like wallet. We're making those big investments. And we don't underinvest in the business generally. We need to maintain foresight and conviction on the product strategy. Now that said, we recognize that it's imperative to be prudent on the opportunities we pursue. And so we're always going to build in flexibility around headcount or other fixed resources. And if we do all of that, the rest is going to take care of itself.

Alesia, anything you want to add on that?

Alesia Haas, CFO: Thanks, Emilie. I agree with everything you said. But, I also think it's important that we share a little about profitability and unit economics. We've proven that our core products have strong unit economics and we've demonstrated that Coinbase can be profitable. For example, we delivered over \$4 billion of Adjusted EBITDA in 2021. We are highly competent that we could choose profitability over re-investing in the business. However, we chose investment. As we shared with you last quarter, we're choosing to make 2022 an investment year. And that's because we believe that investing now is key to our future of becoming a multi-product platform serving a diverse customer base.

And so this is the year we chose to make marked bets on NFTs, on derivatives, and going deep and proud with international growth and expanding Coinbase Wallet functionality as some key examples. We could have done more of these sequentially. We could have moved more slowly and focused on profitability. But we have the resources. We have a disciplined approach to managing our business through peaks and valleys. And we are confident that investing now will yield diversification in the future and will expand the engagement and revenue opportunities on our platform when market conditions change. And so I just think it's really important that investors understand that we do have the ability to have the profitability, but we've consciously made the choice to focus on growth and diversification.

Anil Gupta, Vice President, Investor Relations: Our next question is about India. So some shareholders are curious about the recent developments in India. Can you explain the halting of UPI transfers there and what impact will that have on your expansion plans in the market? Brian?

Brian Armstrong, Co-Founder & CEO: Yeah, sure, I can give an update on that. So for those of you who may have missed the news, so we launched Coinbase in India on April 7th. And this includes fiat on ramps into the cryptoeconomy. There's a lot of interest in crypto amongst the people there in India. So we had an integration with what's called UPI. And this was a great example of just our international strategy.

So a few days after launching, we ended up disabling UPI because of some informal pressure from the Reserve Bank of India, which is kind of the Treasury equivalent there. And India is a unique market in the sense that the Supreme Court has ruled that they can't ban crypto. But there are elements in the government there, including at the Reserve Bank of India who don't seem to be as positive on it. And so they, in the press, it's been called a "shadow ban" – basically they're applying soft pressure behind the scenes to try to disable some of these payments which might be going through UPI. I guess we have a concern that they may be actually in violation of the Supreme Court ruling, which would be interesting to find out if it were to go there. But I think our preference is really just to work with them and focus on relaunching. I think there's a number of paths that we have to relaunch with other payment methods there. And that's the default path going forward. So my hope is that we will live back in India in relatively short order along with a number of other countries where we're pursuing international expansion similarly.

I guess just to zoom out for a minute, one of our theories here and my theories is that, you know, action produces information. So it's not always clear as we go to these countries all over the world, everybody is in varying states of education or lack thereof about crypto. And there's a lot of work to go meet with policymakers around the world and, and kind of teach them about what the AML capabilities are and what are the positive benefits. The people of these countries generally really want crypto. And so to me that says that in most places in the free world and in democracies, crypto is going to eventually be regulated and legal, but it's going to take time for them to get comfortable with this. And the way that we push the conversation forward is by taking action. That's why we're going to go launch, even if we're not exactly sure how the reaction is going to be received. We're going to launch because it forces the discussion to be had. Now the press is talking about it in India. Now there's meetings happening that are going to talk about how we get to the next step. So that's generally our approach with international expansion.

Anil Gupta, Vice President, Investor Relations: Our next question is about Coinbase Cloud. What update can we provide for shareholders there? What are the principal hurdles to growth, education, functionality or anything else? Brian?

Brian Armstrong, Co-Founder & CEO: Yeah, so Coinbase Cloud, I'm really excited about. I mean, if you just again zoom out, crypto is such a new market, that means there's a lot of startups being funded that are coming in to build applications in this space. And it's not just startups, there's actually existing Fintech companies, Neobanks, traditional financial service companies. They're all thinking about how they integrate crypto. Their customers are asking for it. And even non-financial service companies, by the way, just who want to accept crypto payments or they're integrating crypto into their web2 companies.

So I actually think in the same way that most companies use the internet now, I think most companies are going to end up using crypto in some way, shape, or form in the future. And they don't need to reinvent the wheel. You know, Coinbase has spent a lot of time and energy over the last ten years building a lot of this core, these core technologies like how to store crypto securely and how to connect into all the blockchains, make sure they're staying in sync. How to do blockchain analytics to make sure it's done in a compliant way. How to trade crypto and stake, and mint NFTs, and index of the metadata that's out there. It's almost like another segment of the Internet that companies need help accessing it. And so I think for

many of these companies, they're not going to want to, in the same way that they don't want to run their own data center, unless that's their core competency, they're going to use a cloud product.

Well, for many of them, crypto is not their core competency, but they do want to integrate crypto in their products. So they're going to use a vendor. And my hope is that basically, you know, Coinbase is going through a transition where many of the services that we've had to use internally for our products over the years. We're now in the process of externalizing them through our Coinbase Cloud product and building that in a way that's robust and actually makes our internal services better to have them cleanly decoupled and architected in a way where any third party can also use them.

The question also asked about growth and education and things like that. So of course first we just need to get the product functionality to where we want to be. That's a good first step. But when we started sponsoring hackathons, engaging with the developer community in various countries around the world. It's pretty exciting to see the amount of interest from developers. By some indications, the most common elective in computer science programs today is like AI and crypto are the two biggest ones. So I think as more and more crypto companies keep getting built and the existing companies integrate it. We're just going to sell picks and shovels during this gold rush.

Anil Gupta, Vice President, Investor Relations: Great. Okay, Well, let's switch gears and take some live questions from our analysts. Operator, can you start us please?

Operator: Your first question comes from the line of Pete Christiansen from Citi. You are now live.

Pete Christiansen, Citi: Thank you. Good evening. Alesia, I was just hoping if you could qualitatively give some color on how funded account retention is looking and cost of acquisition there? Just generally with what trends are you seeing now year to date, and perhaps how they differed from last year? And then finally, I looked at your balance sheet and it looks like cash is more than a third of your market cap right now. I know there's a lot of reserved firepower in there, but is there a point where Coinbase would consider repurchasing its stock? Thank you.

Alesia Haas, CFO: Thanks for the questions, Pete. So let me just start with color on funded accounts. We don't give a specific metric on funded accounts, but I think the best way you could look at that in our shareholder letter is to look at our assets on platform. So we ended Q2 with \$256 billion dollars of assets on our platform, of which \$123 billion were retail, and \$134 billion were institutional. Now that is down off of Q4 of \$278 but it's roughly flat to Q3. And see what you'll see there is we add growth in retail funded accounts between Q3 of 2021 and Q1 of 2022, as well as materially higher from earlier in 2021 and beyond. So we're continuing to see growth in total retail funded accounts.

With regards to then your second question about cash on the balance sheet. We use our cash for four buckets. We think about our cash for funding our operating needs. We use it for self-insurance of potential risks on our platform. We're using a portion of it for lending off of our balance sheet to facilitate bootstrapping, essentially, the borrow/lend markets for crypto and allowing institutions to trade on margin, eventually, providing loans to our retail users backed by crypto. And so that is a growth vector for us of that cash. We have not made any commitments to return capital to shareholders that I'm prepared to share today, either in the form of dividends or share buybacks.

Operator: Our next question comes from Ken Worthington of JP Morgan, you are now live.

Ken Worthington, JP Morgan: Hi. Good afternoon. I'd love to follow up on the earlier question on the NFT platform and maybe extending it to the network effect here. My opinion is success can be measured by building users and getting inventory. So maybe fleshing each of those out, how are you marketing the platform to get more users? We can see the emails to existing customers and the commission free trade was hoping you would flesh out the social strategy and other things you're doing to build out the users?

And then on the inventory side you mentioned minting, that teams to be a part of it. But are there steps you're taking to attract either big projects to list on your platform, maybe getting projects to sole list on the Coinbase platform? So what are going to be the drivers also to build the inventory? And then cleaning up here, can we talk about the network effects of developing the crypto trading together with the Wallet, now together with the crypto NFT Platform on a common platform with lots of users engaging globally – it would seem to be something powerful here but I'm hoping you could flesh that out.

Brian Armstrong, Co-Founder & CEO: Yeah, thanks for the question. I'll start off and then Emilie, Alesia, feel free to add anything. So I think you're correct that there is a network effect here, both in the traditional sense and that we've added social features to NFTs. And so people are coming in and discussing and liking. And there's basically a ranking algorithm that we put in there, which is a primitive one today, but it'll get better and better over time. Recommending NFT content that customers may want to see based on their prior activity onsite and also on chain data that's publicly available out there, but there's certainly a network effect there.

And then as you pointed out, there's also, I'm not sure it could be a network effect, what you could call it that, which is basically, I would call it vertical integration really, which is that Coinbase already has many, many customers where that's where they store their crypto, and that's where they bought it. And so if they store their crypto there, then it's just much easier if it was one more click to just buy NFTs. That would be much easier than having to move their crypto to another wallet and then connect it to a third party application using a Chrome extension or something like that.

And so this piece, you're absolutely correct. We actually, this is the part where we haven't actually fully leveraged our distribution and it's on our roadmap. If we can just natively integrate the NFT app into our existing products and your crypto is already on Coinbase, then it is just one more click to buy it. I think that'll be really powerful. You touched on marketing and there's certainly a number of efforts there. I mean, we ran some really cool product ads during the Olympics, for instance. I think some of our marketing around the launch was really cool. I certainly liked it.

I think there's a lot more we can do with marketing, especially as the product matures. But I also feel like we haven't even built the majority of the functionality that we really want. And so I think we'll dial-up marketing as the product matures a little bit. And that the best marketing we can do is kind of what you alluded to earlier, which is just, let's leverage our existing user base. That's going to be really powerful.

Emilie, Alesia, anything you want to add?

Alesia Haas, CFO: Nothing, that's awesome.

Emilie Choi, President & COO: Yeah.

Operator: All right. Next question comes from the line of Lisa Ellis from MoffettNathanson. You are now live.

Lisa Ellis, MoffettNathanson: Terrific. Thanks guys. Thanks for taking my question. As painful as this downturn is, I mean, Coinbase seems like they're sitting in a very unique competitive position. Meaning, in a much stronger one than a lot of other players in the market, given the cash on the balance sheet, talent, etc. Can you discuss or elaborate a bit further like how if you look out having lived through these downturns before, how a year from now, you anticipate that you will emerge actually in a much stronger competitive position coming out of it? Thank you.

Brian Armstrong, Co-Founder & CEO: Yeah, I can start off and then feel free anybody to jump in. So I mean, look, we've been through enough of these where I think in the up markets, people are irrationally exuberant and then in down markets people are irrationally pessimistic, right? And remember this is just like we had one-quarter that where the market kinda pulled back. I think they'll be real kind of blood running in the streets or something like that if it continues for four quarters or something like that.

And I will say that our cash balance does give us a big advantage here in the sense that we can actually continue to invest. In the past, we've seen people get distracted, we've seen people get discouraged. We've seen companies pivot to try to do something unrelated. It's generally been a mistake. So honestly, I feel like we're better operating in this environment. It's somehow like the long-term focus and the rigor and how we just allocate capital, and how we plan different scenarios. It's allowed us to really pull ahead in down periods. And so I think coaching the team on that mindset is really important too, because a lot of our team has joined since, they've only joined when the crypto was in an upmarket. And so people oftentimes have to see their first cycle. Then they kinda get it at a deeper level and the future ones are less and less scary.

Alesia Haas, CFO: I'd like to expand on that. I think that what Brian said, it's important that this was in the range of scenarios that we've already planned for. And so we're committed to our product roadmap, we're committed to build great products irregardless of what the market is. And we put on a little bit of a blinder because at the end of the day, we think that building great products, serving our users will then be the right long-term outcome for Coinbase. And that gives us dry powder then when the market's down to do strategic acquisitions, as Emilie alluded to earlier, we bought Xapo in the last crypto winter. When other companies are needing exits, we hope that we will be sitting strong and be prepared to then expand as well, both organically and inorganically.

Brian Armstrong, Co-founder & CEO: Yeah, I guess the last thing I'll just mention is that there's a pretty big gap between revenue multiples for us as a public company and what we're seeing and private market crypto investments currently. And so I think the reality is probably somewhere in the middle, that gap probably needs to close. And so we anticipate probably over the next year or so that we'd see corrections in private markets for that or, in both directions, frankly. So that'll take some time to kind of move through the private markets. And I think that could change the outlook on the M&A front as well.

Operator: Your next question comes from the line of Will Nance from Goldman Sachs. You are now live.

Will Nance, Goldman Sachs: Hey guys thanks for taking all the questions tonight and I appreciate all the color on the – your thoughts on managing the business and its macro environment. I wanted to ask a question on just the hiring that you guys have done. One of the facts that stood out to me and the report this quarter was for 1,200 people added. And I know I think Emilie talked earlier about the investment strategy around 70/20/10, which is obviously very helpful. But I guess I'm wondering if you could just provide a little bit more color on what exactly the 1,200 people are doing, how you're kind of allocating? It just strikes, it's just a large number relative to where you guys are off. And I think we know with all kind of part of the plan in the beginning of the year. But we get the question a lot around, what are these

investments and where they actually being diverted to? So any additional color you have. And related, guys have this guidance and for the negative, no more than \$500 million in EBITDA losses for the year. Could you just talk, I mean, it looked like the exit run rate for the quarter on sARPU with something like \$25, if I'm not mistaken, there just any color on how close we are to having to take action to mitigate the loss? And where would those kind of come from for the remainder of the year. Thank you.

Emilie Choi, President & CFO: Why dont I start and then Alesia, and Brian, you can pipe in. Thanks for the question, Will. At the highest level, when we think about adding headcount, we think about how, what the product goals are and then how do we amplify them through the addition of headcount. And when we think about the composition of headcount, roughly speaking, we're aiming for 50% at any given time of our headcount being in product engineering and design.

And the reason that matters is because we're a technology company and we want things to be done in as automated a way as possible thinking nimbly about the suite of products we offer. For example, if we build trading services, we want to be able to use one trading services layer to then power retail and institutional trading and to be as efficient as possible.

And then as you mentioned, we think about the 70/20/10 split such that of those 1,200 product engineering design folks and the rest of them, how do we map them against those things? The other thing I'll mention and then, Alesia, pipe in is, you know, I think that one of the things as we've grown is just making sure that we're building the right infrastructure as we scale up and have ever new increasing requirements on reliability and scalability. And the other thing is, as a regulated company, we invest pretty heavily in compliance. And we know that that is important to us because it helps us solidify our relationship with our customers and regulators. And so that's another piece of headcount that matters.

Alesia, anything to add?

Alesia Haas, CFO: I'll just address the ARPU part of the question, Will. So you're correct. As we look at recent times, we're heading into the high 20s and we shared a chart and our shareholder letter on page 15 that everyone can take a look at that gives you a sense of 2017 to date, what ARPU has kinda fluctuated out. And you can see on a month-to-month basis, there's a lot of volatility. But it kind of then on an annual average, kind of has hit between the 30s and 40s with the exception of 2021, which was all-time high levels. So it has trended down, but it hasn't changed materially from the 2019 kind of other crypto winter time period. The levers that we have at our disposal is we can slow the hiring ramp. We obviously spend a fair amount of our expenses in our CX and BPO costs, which were at very high levels and Q4 given the volumes that we've seen. And so those costs will come down as volumes temper. We also have other levers around other variable costs spend that we will then adjust to ensure that we can try and hit that \$500 million EBITDA cap. That's what we need to do.

Anil Gupta, Vice President, Investor Relations: Great. Operator, we have time for one more question.

Operator: Our final question will be from Owen Lau from Oppenheimer, you are now live.

Owen Lau, Oppenheimer: Good afternoon and thank you for taking my questions. I have two quick questions. The first one, is how will Coinbase potentially participate in the adoption of Lightning Network and the progress of Coinbase integrating the exchange into Lightning Network? And then the second one, is on Coinbase Wallet. Can you talk about the penetration and how you measure success and potential next step for Wallet? So Lightning Network and wallet. Thank you.

Brian Armstrong, Co-Founder & CEO: Yeah, I can start off on that. So, Lightning Network – for those who don't know, Lightning Network is a layer two solution for Bitcoin which lowest fees and improves payment capabilities. And we think it's a really important innovation that we would like to support. There's of course, Layer two solutions across a variety of block chains. And so Ethereum has some layer two solutions as well. And just broadly, I'd say we're seeing a lot of interest from customers in layer two solutions. You can think of it as, I think it could be as important as the Internet moving from dial-up to broadband in terms of the new applications and utility that it will unlock. So we're working really hard to integrate every layer two solution out there that our customers want. Have a specific date to share with you about the Lightning Network specifically, but it's certainly one of the ones on our roadmap.

Let's see, you'd asked about Coinbase Wallet and how we measure success. So we look at similar metrics to the rest of our business – we look at MTUs – monthly transacting users. We look at the amount of crypto that's custodied in Coinbase Wallet, we look at revenue, things like that. There's a lot that we're doing on Coinbase Wallet. We have a Chrome extension that's out now so that can link directly to your mobile wallet. You can connect your ledger to it. We're supporting new blockchains through Coinbase Wallet. We are making it easier for people to connect to third-party applications, both on mobile and through the web browser on desktops. And they want to access like the whole wide world out there.

And then similarly, you know, making it seamless to go through the process of buying crypto or topping up your wallet to connecting it to an app. Using that app without needing to have a computer science degree, and then making sure that it's secure. And so people don't accidentally lose their funds or forget their password or anything like that. I personally think Coinbase Wallet is one of the most important things we're working on because it's going to allow us to offer the same functionality and services that we do with our retail app in a lot of emerging markets where the regulatory environment is less clear. It's going to allow people to use the very latest stuff happening in crypto in a more decentralized way. Things like decentralized exchanges and DeFi and DAOs and NFTs – a lot of this stuff is coming first to Coinbase Wallet, self-custodial wallets out there – and even Coinbase NFT, we launched first with support only for self custodial wallets including Coinbase Wallet. So we're making a big investment in that. I think trust and ease of use are the core things that we focus on, just like all of our products, and anticipate that to be a bigger share of our MTUs over time.

Emilie, Alesia, anything you want to add?

Emilie Choi, President & COO: I think that the only thing I'd end with is just that we really do think Wallet is the gateway to Web3. And that's why we have such a strong belief that making the investment is the right thing to do for the long-term.

Anil Gupta, Vice President, Investor Relations: Great. Well, thank you all for joining us today and we look forward to speaking to you again on our next call.