

Coinbase Global, Inc.

First Quarter 2021 Estimated Results and Full Year 2021 Outlook Earnings Call

April 6, 2021

Anil Gupta, Vice President, Investor Relations

Good afternoon and thank you for joining us on today's conference call to discuss Coinbase's Q1 2021 estimated results and outlook for full year 2021.

Joining me on today's call are Brian Armstrong, co-founder and Chief Executive Officer and Alesia Haas, Chief Financial Officer.

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 our risks, uncertainties, and other factors that could cause results to differ from these forward-looking statements is included in our SEC filings and press release available on our Investor Relations website at investor.coinbase.com.

Our discussion today will include Adjusted EBITDA, a non-GAAP financial measure. We believe that non-GAAP measures of financial results provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and results of operations. Non-GAAP financial measures should be considered in addition to, not as a substitute for, or an isolation from, GAAP measures. You can find additional disclosures regarding Adjusted EBITDA, including a reconciliation to net income, the comparable GAAP measure, in our press release today and current report on Form 8-K which are posted on our IR website.

Hopefully many of you have had the opportunity to watch the series of videos we published on March 17th, as well as the Reddit Q&A session we published on March 23rd - all of which are available on our IR website.

Since we have elected to pursue a direct listing, we will not be taking live questions on this call. Instead, I will be asking Brian and Alesia a series of questions that may be top of mind for many people who are on the call today.

And with that, let's get started.

Brian, can you start by talking about the Coinbase mission and why you started the company?

Brian Armstrong, co-founder and Chief Executive Officer

Sure. Thanks, Anil.

Our mission is to increase economic freedom in the world. Economic freedom is something I've long been passionate about and I talk more about it in the video we recently posted for investors on our IR site.

I first realized in 2010 when I read the Bitcoin white paper that this breakthrough technology could create a more fair, free, and open financial system. Coinbase was founded in 2012 to pursue this mission and today we're the category leader in the rapidly evolving cryptoeconomy.

It's helpful to think about this in terms of the Internet. The Internet was created as a system of decentralized protocols to enable the free transfer of information. Crypto is very similar, but for moving value. By democratizing financial services in the way the Internet democratized access to information, crypto will increase economic freedom in the world.

When people think of crypto, the first thing that comes to mind is Bitcoin. Bitcoin is critical to the cryptoeconomy, but it's just the beginning. In recent years, we have expanded to be much more than a place to buy and sell Bitcoin. We are innovating and creating new products and services to get more people and institutions into the cryptoeconomy, and to help our ecosystem partners and developers grow their offerings.

Anil Gupta: *How should investors think about the total addressable market for Coinbase?*

Brian Armstrong: As we look to the future we see huge market opportunities ahead as more and more people are participating in the cryptoeconomy:

In terms of users, we announced 56 million Verified Users for Q1 of 2021. We often talk about our addressable market as anyone with a smartphone, which is 3.5 billion people today and growing. Coinbase is a safe and secure on-ramp into the cryptoeconomy for people around the world.

Another way to think about our opportunity is to look at the total market capitalization of crypto, which is now nearly \$2 trillion¹. Currently that's 55% Bitcoin². You'll often hear the comparison of Bitcoin to "digital gold". But crypto is bigger than just Bitcoin -- and Coinbase will ultimately strive to support every legitimate cryptocurrency in the market. In Q1 alone, we added support for 18 new assets, bringing the number of unique assets supported on our platform to 108. For comparison, this is up from over 40 assets at the end of 2019 and 90 assets at the end of 2020.

A good comparison for today's stage of the cryptoeconomy might be the dawn of e-commerce in the late 90s. The initial application was powerful, but the amount of innovation over two-plus decades has transformed e-commerce relative to the traditional ways goods are bought and sold. We think as innovation continues to rapidly transform and grow the cryptoeconomy that you'll see crypto power a substantial proportion of economic activity over the next decade.

Anil Gupta: *How should investors think about the product roadmap for Coinbase? What do you envision happening over the next several years?*

¹ Source: CoinMarketCap as of March 31, 2020

² Source: [CoinMarketCap BTC dominance chart](#)

Brian Armstrong: Right. So, one of our most important attributes is our track record of repeatable innovation. We want to be at the center of powering the cryptoeconomy. To do that, we need to deliver powerful, simple, and compelling product experiences.

Investing was the first and still biggest use case. Crypto investing is bootstrapping a large and growing network of crypto holders, and we are rapidly seeing innovation of new and novel financial services, distributed applications and more growth on top of this network. We make it possible to use all of these products and services through Coinbase, and making it faster, cheaper, and more accessible than in the traditional economy, which is largely using infrastructure built decades ago.

To that end we are investing to broaden the types of services people can access through Coinbase. We see a lot of opportunity ahead. For example:

- On retail: We'll be adding more assets, and we'll be increasing in our marketing efforts, and giving people more access to third party apps, such as DeFi or decentralized finance applications.
- On Institutional: We are investing in our prime brokerage product.
- And for our Ecosystem Partners: We recently acquired Bison Trails - which you can think about as us building Amazon Web Services for crypto. This will allow us to offer crypto infrastructure as a service to developers and companies that want to offer crypto to their customers.

Anil Gupta: *Thanks. Can you highlight what you think are Coinbase's key competitive advantages?*

Brian Armstrong: Sure. Crypto is very complicated. We've built a lot of different technology solutions to help our platform grow and make it easy to use for our customers. There are four key pieces to it.

The first is powerful product experiences that make crypto easy to use. The technology is complex, but users need to be able to invest and exchange currency quickly. It needs to just work. And we've done that. We will continue to invest heavily in building the best product experiences and infrastructure to support a growing user base.

The second layer is a compliance infrastructure that allows us to operate a regulated financial services business in over 30 countries. We've created software that enables us to verify users, use blockchain analytics to provide transaction monitoring, and coordinate closely with regulators and law enforcement.

Third, we've invested heavily in cybersecurity to ensure assets and our platform are safe. Storing crypto safely is complex and we've created a lot of intellectual property in this area to help guard our customers against loss.

And finally, we've built deep integrations across all of the different blockchains. Blockchains are developing rapidly and Coinbase must always be in sync with these blockchains so that our customers' transactions can confirm quickly, and also so developers can easily integrate with our

platform and ecosystem. In other words, we run custom “nodes” for each blockchain on a 24/7 basis to support each of these networks.

All of these investments support an underlying and essential goal: trust. Our customers need to have trust in Coinbase. And we think the \$223 billion in assets on our platform, up from \$90 billion at the end of 2020, speak to the success we have had in building that trust.

These are the key competitive advantages that we think will differentiate us.

Anil Gupta: *Brian, crypto is becoming more and more mainstream, and lots of other companies are offering some basic functionality. So why do you think more people and institutions are choosing Coinbase?*

Brian Armstrong:

- First of all, it's great that more companies are starting to integrate crypto. We truly want crypto integrated into every aspect of the financial system. So we'll start with that.
- Now, while some of them are offering the most basic functionality in crypto, and introducing new people to crypto in the process, some of those customers will also go create a Coinbase account when it comes time to actually do something with their crypto, buy other crypto assets or do something beyond the most basic functionality.
- We are 100% focused on crypto, and the feature set and number of assets is expanding rapidly. There will be a long term differentiation for a company that is 100% focused on crypto, who has solved the hard challenges I mentioned in the previous answer.

Anil Gupta: *Great. Thanks Brian. Let's turn to Alesia for some questions. Alesia, let's dive into the estimated results for Q1 2021 that was included in today's press release. Can you elaborate on these results and explain what is driving the business?*

Alesia Haas, Chief Financial Officer:

Thanks, Anil.

2021 is off to a strong start. We have seen all-time high crypto asset prices drive elevated levels of user activity and trading volume on our platform. We started the year with Bitcoin at \$29k and ended Q1 at \$59k -- up nearly 100%. We also saw the price of Ethereum more than double in the quarter.

We believe we entered into a bull run or a new crypto price cycle in Q4 of 2020, and this price cycle like all prior cycles has drawn new market entrants into the cryptoeconomy and delivered elevated activity. We saw strong growth in essentially every corner of the cryptoeconomy in Q1.

Before sharing our estimated results for Q1 2021 included in our press release, I want to note that these results are being provided specifically as part of our direct listing process and are not a format we intend to replicate in future quarters.

Let's start with our key business metrics. We currently expect end Q1 with:

- Verified Users of 56 million
- Monthly Transacting Users or MTUs of 6.1 million
- Assets on Platform of \$223 billion, which represents 11.3% crypto asset market share
 - This includes \$122 billion of Assets on Platform from Institutions
- And lastly, we had Trading Volume of \$335 billion within the quarter

Turning to our financial performance for the first quarter:

- We generated Total Revenue of approximately \$1.8 billion
- Net Income between \$730 million - \$800 million
- And Adjusted EBITDA of approximately \$1.1 billion

Anil Gupta: *Alesia, you mentioned all-time high crypto asset prices in Q1 of 2021. Can you contextualize where we are in the current crypto price cycle?*

Alesia Haas: Yeah. As a reminder and as detailed in our prospectus, crypto markets have observed four major price cycles since 2010 which have typically had durations ranging from two to four years. On average, these price cycles have increased the overall crypto market capitalization significantly from the prior cycle and attracted new users into the cryptoeconomy. We believe we entered the fourth price cycle in late 2020. We do not know where we are though in the current price cycle, but we can already see that we expect to reach a peak materially higher than the last all time high.

Since crypto asset prices and crypto price cycles can be highly volatile, one way we measure our performance is over price cycles. For example, our Q1 2021 MTUs of 6.1 million is approximately 2.3x higher than our Q1 2018 MTUs of 2.7 million, which was one of the peak quarters in the last price cycle. We believe that we can create long-term value across these price cycles by bringing more people into the cryptoeconomy and serving as the primary crypto financial account for millions of users.

Anil Gupta: *As CFO, how do you forecast revenue and plan for the future?*

Alesia Haas: To state the obvious, our business is difficult to forecast. Our approach to sharing information with you will be consistent with how we operate the business. Due to the inherent unpredictability of our current business, our approach to planning includes assessing and planning for a wide range of outcomes. We forecast multiple revenue scenarios and we plan for expenses against that range of outcomes.

Lets shift and let's talk about our full year 2021 outlook. We may or may not provide a detailed outlook on a go forward basis due to the inherent unpredictability of our business, but felt it was important to share a range of possible outcomes given we are a new market entrant. As we have shared with you, our revenue is highly correlated with the price of Bitcoin and crypto asset price volatility. We cannot forecast the price of bitcoin any better than you can and as a result, it is very difficult to accurately forecast our revenues.

We approach this challenge by running multiple scenarios and examining the associated financial performance. We do not extrapolate the most recent quarter, nor do we think a run rate of a single month or quarter is the right way to forecast our potential financial performance. Our approach is to look at longer term averages to mute any potential effects of highs or lows.

Revenue from our retail users and specifically retail transaction revenues are our largest revenue stream today. We forecast our retail revenue as MTUs times Average Net Revenue per User. We are currently running MTU scenarios that help inform our potential average MTUs over the full year 2021 that we shared in the press release today. These scenarios focus on the average MTUs over the full year 2021. To be clear, these are annual averages, or a straight average of all four quarters in 2021, including our estimated results for Q1 2021. That means there could be fluctuations on a quarter to quarter basis.

Starting with the first scenario, our high scenario: this includes average 2021 MTUs of 7.0 million. This scenario assumes an increase in crypto market capitalization and moderate-to-high crypto asset price volatility. In this scenario, we expect MTUs to continue to grow for the remainder of 2021.

Our second scenario is a mid scenario: with average 2021 MTUs of 5.5 million. This scenario assumes flat crypto market capitalization and low-to-moderate crypto asset price volatility. This scenario assumes a modest decline in MTUs from Q1 2021.

The third scenario is: average 2021 MTUs of 4.0 million. This scenario assumes a significant decrease in crypto market capitalization, similar to the decrease observed in 2018, and low levels of crypto asset price volatility thereafter. In this scenario, we assume MTUs will decrease in a corresponding manner and end 2021 at similar levels to Q4 2020.

Anil Gupta: *Thanks, Alesia. You've talked about Monthly Transacting Users, but how should investors think about average net revenue per user, or ARPU, for the remainder of 2021?*

Alesia Haas: Average net revenue per user varies period to period due to fluctuations in crypto asset prices and trading volume. Given this short term volatility, we focus on annual averages. Over the last 2 years, we have seen average annual net revenue per MTU range between \$34 -\$45 per month, with the low end of this range occurring in 2019, a period of low Bitcoin price and low crypto asset price volatility, and the high end of the range occurring in 2020, a period of rising Bitcoin price. Given the strong performance of Q1 2021, it is likely that annual average net revenue per user will exceed this historical range.

Anil Gupta: *Coinbase disclosed that Assets on Platform are \$223 billion in Q1 2021, of which \$122 billion are Institutional. Assets on Platform from Institutions is up significantly compared to December 31, 2020. At a high level what is driving the Institutional business?*

Alesia Haas: Our Institutional business is still in its early days but we are pleased with the strong growth we continue to see, with Assets on Platform growing to \$122 billion in Q1 2021 from \$45 billion at the end of 2020. We are seeing a wide variety of Institutional clients ranging from hedge funds and corporate treasuries to pension funds and insurance companies, many of whom are entering the asset class for the first time. We think our combination of best-in-class Custody, advanced execution tools and deep exchange liquidity are leading Institutional clients to choose Coinbase. Looking ahead, we see the opportunity to provide sub-custody and execution as a growth opportunity. These opportunities have a longer sales cycle and therefore are harder to predict in terms of precise timing.

Anil Gupta: *Ok. So, we've talked about revenue. The other side of the income statement is obviously expenses. At a high level, can you help investors understand how Coinbase will approach expenses particularly through periods of volatility?*

Alesia Haas: We are in the early stages in the development of the cryptoeconomy and are investing here at Coinbase for long-term growth.

As Brian shared in his founder letter, we seek to roughly break even in terms of profitability over time. This means that we may earn a profit during periods of strong crypto asset prices when our revenues are high and we may lose money during crypto winters when revenues are low. For example the first quarter of 2021 that we just reviewed - we saw high revenue which led to a meaningful amount of net income and adjusted EBITDA. We clearly did not spend to the level of revenue growth in Q1, instead we plan our investments over a longer term taking historic financial performance and our projected revenue scenarios into consideration.

We plan to invest for growth even in periods where crypto prices are low in order to capitalize on the many opportunities we see ahead and make progress on our mission.

We use periods of profitability to build our balance sheet which we then use to continue to fund our business and growth investments if we enter a crypto winter -- such as in 2019 when the price of Bitcoin had declined significantly year over year and volatility was low. Over time, for example over a price cycle, we seek to roughly break even in terms of profitability.

We plan our expense investments to drive our product roadmap, geographic expansion and to build infrastructure capacity to support the next price cycle which we have learned drives higher volumes and traffic to our platform.

Anil Gupta: *So, let's dive into the specific expense line items. Can you elaborate on each line and what the key drivers are?*

Alesia Haas: The primary driver of Coinbase's cost structure is people, which drive both our technology and development and our general and administrative expenses. In 2020,

personnel-related costs were our largest expense and comprised approximately 50% of our non-transaction expenses.

Transaction expenses will vary with revenue and include verification fees, blockchain network fees, fraud losses and wallet fees.

Lastly, our sales and marketing expenses primarily include costs related to consumer acquisition, advertising and marketing programs, and personnel-related expenses that are associated with these functions.

Anil Gupta: *Alesia, can you elaborate on the Company's 2021 expense outlook that was provided in today's press release?*

Alesia Haas: To scale our operations and to continue to drive product innovation, we expect our technology and development expenses and our general and administrative expenses combined to be between \$1.3 billion to \$1.6 billion, excluding stock based compensation, in 2021. The majority of this growth will be driven by additional headcount as we continue to scale the business

We plan to augment our historically strong organic growth with customer acquisition and engagement by meaningfully increasing our investment in sales and marketing. We plan for sales and marketing to be between 12% and 15% of net revenue in 2021.

In terms of transaction expenses, on average these have historically been in the low-to-mid teens as a percentage of net revenue. We occasionally see transactional expenses outside of this range driven by a number of factors, for example higher activity on the blockchain can increase blockchain network fees or months with very low or high fraud loss events. We currently anticipate transaction expenses will be in the low-to-mid teens as a percent of net revenue in 2021.

Lastly, in the second quarter of this year 2021, we expect a one-time expense of approximately \$35 million related to the Company's direct listing.

Anil Gupta: *Great. Well, thank you, both Brian & Alesia. Are there any closing comments you would like to share?*

In closing, we are excited to begin the journey as a public company and appreciate the opportunity to share our view of Q1 and how we are thinking about performance moving forward. Thank you everyone.

Anil Gupta: Great. Well, thank you everyone, for joining us today. We look forward to speaking with you on our next call.