Coinbase Global, Inc.
First Quarter 2023 Earnings Call
May 4, 2023

Anil Gupta, Vice President, Investor Relations: Thank you. Good afternoon, and welcome to the Coinbase First Quarter 2023 Earnings Call. Joining me on today's call are Brian Armstrong, Co-Founder and CEO; Emilie Choi, President and COO; Alesia Haas, CFO; and Paul Grewal, Chief Legal Officer. I hope you've all had the opportunity to read our shareholder letter, which was published on our Investor Relations website 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, 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 will take some live questions from our research analysts. So with that, I'll turn it over to Brian and Alesia for opening comments.

Brian Armstrong, Co-Founder & CEO: Thanks, Anil. So I think it's always helpful to zoom out and remind everyone why Coinbase exists with our mission and vision. And our mission at Coinbase is to increase economic freedom in the world. We think crypto is the most important technology out there to do that. So many people today, they're still thinking about crypto as an asset class that people like to trade, and that certainly is part of it. But it's actually a technology that can be used to update many different aspects of the financial system.

And we think that's really important because 80% of Americans believe the financial system doesn't work for them. They see issues with it. They see that it's too slow. It's too expensive. There isn't equal access for everyone. And that's not really surprising. A lot of the traditional financial system is running on outdated code with laws that, in some cases, are 100 years old.

So crypto can help improve this. It can help make payments fast and cheap and global like sending an email. It can improve settlement times, it can reduce fees. It can even tokenize different asset classes to make markets more efficient and help with nonfinancial use cases like decentralized identity or voting and new types of ways for artists to monetize their content.

So you can think of crypto as the technology to update the financial system, it's also kind of the next generation of the Internet, if you will, what people are calling web3. And Coinbase has a very important role to play here we’re people's primary financial account in the crypto economy, making it trusted and easy to use, and we're going to hopefully help bring the power of this technology to eventually 1 billion or more people someday. So with that background, I just want to touch on two areas that are most relevant for Q1.

The first one is going to be about how we've shifted the business to operate more efficiently in this down market by driving positive adjusted EBITDA in Q1. And secondly, we're going to talk about how we've had a really impressive pace of product innovation, again, even in this down market, operating in a more lean environment. So let's talk about operating more efficiently.

Q1 marked a real turning point in our financial performance. Revenue was up and costs were down. So net revenue increased 22% quarter-over-quarter, while we decreased total operating expenses 24% quarter-over-quarter. The net result of this is that we had positive adjusted EBITDA in Q1. We're better positioned at Coinbase to generate adjusted EBITDA in all market conditions as I mentioned on our last earnings call.

And to cut the expenses 24% quarter-over-quarter, we had to take a close look at every investment we're making, every vendor we work with, every dollar that goes out the door and frankly, even every headcount in the company.

And we ask ourselves how can we do more with less to be a more efficient company. We conducted a reduction in force in January. We reduced costs substantially from our top five vendors by rebuilding parts of our technology stack to do things like optimizing data storage and CPU utilization in the cloud.

We also reduced our real estate footprint to achieve additional savings. And just in general, took a much scrappier approach with more nimble teams. All of this, of course, we continue to have a strong balance sheet of $5.3 billion of USD resources. And with this more nimbler, efficient team, we've still been able to ship an incredible amount of product. So that's my second topic here. Let's talk about how we've been continuing to drive product innovation in the crypto space.

We have a more nimble team, and we're also in a bit of a down market in crypto. And I've said this in the past that actually I think down markets are the best time to do the building of new things. Because in the upmarket, things seem to be growing so fast that we often have to focus most of our time on scaling.

And so we've gotten a chance to build a lot of great stuff even as we've become more efficient. Some recent examples of that just in the last week, we launched our International Exchange, which helps us get into the derivative space. We acquired One River Asset Management, which helps us get into the asset management business.

I think this could be a really interesting source of subscription and services revenue over time. We launched our Base Layer 2 solution which is a really important way for us to help scale blockchain. This is going to be one of the most important ways we unlock the next wave of crypto adoption. And we launched something called Wallet as a Service, which is an important part of our Coinbase Cloud offering. It helps any business out there integrate crypto custody into their services.

So just zooming out, crypto, obviously, goes through many up and down cycles, but the best companies in the world, including the most trusted brands like Coinbase, they tend to get stronger in down markets.

This is the fourth crypto cycle that Coinbase has been through, and we've emerged stronger after each one of them. So I think we've built a really resilient business here. We've diversified our revenue stream away from trading fees, and we're in a really strong financial position with positive adjusted EBITDA in Q1. With that, let me turn it over to Alesia to discuss our financial details -- our financial results in more detail.

Alesia Haas, CFO: Thanks, Brian. I'm going to start with our market conditions and the trading volume in the quarter. Average crypto market cap increased 16% quarter-over-quarter. Meanwhile, crypto asset volatility increased 8% quarter-over-quarter. And it's important to note that crypto asset volatility remained at multiyear lows. Consumer trading volume grew in line with the overall U.S. spot market at 5% quarter-over-quarter.

And on the institutional side, trading volume was roughly flat, and we made an intentional trade-off to focus on revenue over market share by removing some discounts, and I'll talk about those in a minute. We're really happy to show that trading volume through our prime application reached record volumes in the first quarter. Against this backdrop, we generated $736 million in net revenue, a 22% quarter-over-quarter increase, and we saw revenue growth across the board.

Transaction revenues increased 16% quarter-over-quarter to $375 million. Consumer revenue grew 14% quarter-over-quarter, and we grew trading volume in fiat-to-crypto faster than the market. Fiat-to-crypto is the market where we are strongest, and it's also the market where the majority of revenue is generated in the spot market. Institutional revenue grew 67% quarter-over-quarter, and this was driven by our decision to roll back aspects of our discounted pricing for certain market maker clients. Again, this is an intentional trade-off on our part.

Subscription and services revenue grew 28% quarter-over-quarter to $362 million, which exceeded the high end of our outlook range. This strong increase was driven by a growth in market cap, notably with Bitcoin and Ethereum prices in the quarter, and this contributed better-than-expected revenue, particularly across staking and custody. We also saw growth in interest income, in particular, our USDC revenue, which was driven by higher interest rates.

Switching to the expense side. As Brian shared, total operating expenses declined 24% quarter-over-quarter to $896 million. This is the lowest level of expense we've seen since Q1 of 2021. Included in this number includes $144 million of onetime restructuring charges related to our January headcount reduction. When I look at recurring operating expense, including technology and development, general and administrative and sales and marketing, fees would have collectively declined 37% quarter-over-quarter.

Lastly, it's important for me to note, stock-based compensation declined 54% quarter-over-quarter to $199 million. Combined, these results generated a net loss of $79 million and a return to positive adjusted EBITDA of $284 million. Brian shared that we ended the quarter with $5.3 billion of USD resources.

I want to note that while corporate cash declined $172 million quarter-over-quarter, this spend included $204 million in one-time items, and we deployed $112 million towards our financing products. We saw inflows of custodial cash and crypto during the quarter, and we believe this is a direct result of our trusted brand and ongoing commitment to risk management.

To touch briefly on the bank failures in Q1, we maintained operational and risk excellence throughout the banking turbulence. We experienced no loss of corporate or customer funds, and we largely maintained business as usual operations. As of today, we replaced lost banking services, we've rebuilt our layers of redundancy and we've restored access to 24/7 instant settlement, which is a critical infrastructure component to our market maker clients.

Next and last, I want to turn to our outlook for Q2. Crypto market cap and asset volatility have diverged in Q2 compared to Q1. In April, we've seen average crypto market cap up 17%, while volatility was down 25%. This market dynamic is reflected in our April transaction revenue, which is approximately $110 million. Again, I need to caution investors to not extrapolate these results. We here at Coinbase continue to run scenarios where crypto market cap could increase, decrease or remain flat from these levels.

So I want to shift and talk about the more predictable elements of our business. We expect subscription and services revenue in Q2 to be around $300 million. This decline is largely driven by USDC market cap which fell 23% in April from the Q1 average levels directly correlated with the banking crisis.

For Q2, we anticipate technology and development and general and administrative expenses will be between $600 million and $650 million and that sales and marketing will be between $80 million and $90 million. We expect higher general and administrative expenses due to higher legal expenses and a short-term increase in our rent expense associated with the lease termination.

We also expect some seasonal spend associated with our NBA partnership to increase our sales and marketing for the quarter. We don't anticipate any meaningful changes to our headcount. Overall, I just want to repeat what Brian said that Q1 marked a real turning point in our effort to operate a more efficient company. We're controlling what we can control and are really pleased with our execution and financial results. Anil, back to you for Q&A.

Anil Gupta, Vice President, Investor Relations: Great. Thank you both. So with that, we'll turn to shareholder questions. We're taking the most upvoted questions as determined by the number of shares, and we might combine some questions that touch on the same themes. So the first question is, is Coinbase planning to build a DEX that uses Base, Brian?

Brian Armstrong, Co-Founder & CEO: Yes. So for Base, if people don't know, Base is our Layer 2 solution that is helping scale the blockchain and allow developers to build all kinds of different applications. We at Coinbase don't have any specific effort to build a DEX at the moment. Our main goal is to just build the ecosystem and actually get Base from testnet to mainnet. So I just want to temper people's expectations a little bit. Base is still on testnet, we're still trying to build it out.

And in the future, I hope that people are able to build all kinds of things with it, and a DEX is one of many possibilities. The last comment I'll just make is that I think this is such a great example of the breadth of innovation we're able to do right now. Base is a really on-chain, crypto-forward effort that's been really awesome to see come out of Coinbase. At the same time, we've been launching innovation in our centralized aspects of our company like our international exchange that's entering the derivative space. So it's been really cool to see the breadth of innovation happening at the company right now.

Anil Gupta, Vice President, Investor Relations: Next question from a number of shareholders is if we have plans to move operations outside of the U.S. and what the implications would be. So some specific questions are, is Coinbase leaving the U.S.? Are we willing to fight tooth and nail before making a move out of the country? And how are you thinking about the prospect of moving operations outside of the U.S.? And what would the implications be for U.S. customers, if you did? Brian?

Brian Armstrong, Co-Founder & CEO: Yes. So let me be clear, we're 100% committed to the U.S. I founded this company in the United States because I saw that rule of law prevails here. That's really important. And I'm actually really optimistic on the U.S. getting this right. When I go visit DC, there is strong bipartisan support for Congress to come in and create new legislation that would create a clear rule book in the U.S.

And I think it's really important for America to get this right. There's a number of other countries around the world, pretty much every other major financial hub or they're vying to take the top spot here in the crypto space. And so the rhetoric that we're seeing from the U.K. or Hong Kong or Singapore, et cetera, it's a little different. It's more optimistic, frankly, than the U.S. right now. And the EU actually has already passed comprehensive crypto legislation, so they're actually kind of in the lead at this point.

But I really think the U.S. is going to get this right. And we're a global company. So we started in America. We have a big mandate to be an international, a multinational company, and we want to serve as many people around the world as we can.

Obviously, we have to make choices about where we're going to allocate our capital every year. And so we do look at where we could think that can have the greatest ROI. But yes, the leading financial centers, they're all working to create responsible crypto rules and clarity right now and the U.S. is going to follow suit, I believe.

Anil Gupta, Vice President, Investor Relations: Our next question is when is Coinbase expected to be a profitable company like PayPal or Cash App, Alesia?

Alesia Haas, CFO: Thanks for the question. So when we went public, we shared that there's volatility in our business and that our business performance historically had been commensurate with crypto asset price cycles.

So we have had periods in the past where we've been net income positive, and we had had periods in the past where we lost -- had net income loss. Last quarter, we spoke about our intention to evolve the business with a goal to generate positive adjusted EBITDA in all market conditions. That was the goal that we set forth.

And we've been working hard towards that goal. And as we mentioned in our prepared remarks, we believe Q1 was a turning point where we really focus on lowering our expenses and operating more efficiently.

And we believe these are setting the stages to get to a future place where we can generate positive EBITDA in all market conditions. I shared all the details on revenue and expense in my prepared comments. But what I want to emphasize here is we're pleased to see the diversification of revenue in the business. We're continuing to invest down that path to ensure that we have revenue that is driven by different macro drivers.

We're also seeing the benefits of increased cost efficiencies, and we've taken deep lessons from growing too quickly and believe that we are going to be prudent in our spend going forward. And last, we believe that this improved cost structure will serve us well to hit our goal for 2023, which is to improve adjusted EBITDA on a year-over-year basis.

Anil Gupta, Vice President, Investor Relations: Okay. Next up, we received several questions from shareholders regarding the SEC. So if Congress doesn't pass any bill for crypto, how many years do you expect Coinbase to fight the SEC in court for clarity? Will Coinbase be able to operate the business during that time? Should the SEC rule that all tokens other than Bitcoin and Etherium are securities, what would be the impact on Coinbase? And what plan do you have to protect the investment of all stakeholders should this occur. Paul?

Paul Grewal, Chief Legal Officer: Let me just say at the beginning that we're committed to being transparent about our engagement with all of our regulators, including the SEC, as much as we can. We want to share that information with our customers, our stakeholders, investors, of course, as this process plays out over time. As for the engagement itself, unfortunately, despite our ongoing engagement with the commission, they have not been as clear about what their specific concerns are with Coinbase as we might like.

And so I have to refrain from speculating too much. It's especially difficult to predict the timeline of any potential SEC litigation that we might face. There are a number of factors that would apply. It would, of course, depend upon the type of case that the SEC chose to bring and the schedule that a court would set for that case. It could be lengthy, to be sure. And at the same time, we fully expect that we will be fully operational during whatever time period is required in order to resolve the matter.

The last thing I'll just say on this is that the SEC, of course, itself does not get to decide which tokens are securities. It does not have that authority. What the SEC could do is begin the rule-making process to set up standards for figuring out whether or not a given token is a security.

And of course, we've repeatedly asked them for that. Those determinations ultimately are going to be made in court of law. And as that process plays out, we're going to continue to see regulatory clarity. And we're going to support legislation that we believe will be of value not just to Coinbase but the entire industry, which, of course, is going to protect the value and investments for all shareholders.

Alesia Haas, CFO: Maybe I can jump in and just talk a little bit about the business impact of these questions. Paul shared this, but it serves to reiterate that the Wells notice is vague -- among other things, it was not made clear to us which assets they take an issue with and so we're left to guess.

But I want to assure you as part of our ongoing commitment to risk management and the way that we manage our business, we have proactively worked to identify a number of different scenarios and evaluate a number of different impacts to our business.

I want to remind everyone listening to this call that staking represented roughly 3% of net revenue. I want to remind everyone that Bitcoin and Ethereum represent the majority of our trading volume and transaction revenue attributable to those assets. I also want to remind you that just under 20% of our business is international.

So while this is a meaningful notice from the SEC, we have many different revenues that we are looking to grow on our platform, and we're looking for revenue diversification. So at this point, we're running scenarios and we feel really confident in our ability to operate through any of these scenarios and deliver on the financial objectives that we've laid out for this year, which is to improve adjusted EBITDA on a year-over-year basis.

Anil Gupta, Vice President, Investor Relations: Okay. So combining a couple of additional questions. Next one is: what kind of new features are coming down the pipeline? And what's the product roadmap for the next five years?

Brian Armstrong, Co-Founder & CEO: Yes, I can take that one. So just specifically on new features coming down the pipe, I mean, we try not to ever pre-announce things. We try to announce them only when they're ready, not vaporware. So I'll just try to focus on the broader question here about the types of things that we think about putting on the roadmap over a longer time period.

So to answer that, I'll talk about how we see crypto evolving over time. Now of course, crypto started as an asset class that people want to trade, and so a lot of the features that we launch are still around trading, both in the spot market and also with derivatives, as you heard with our international exchange. The second phase of crypto adoption, we think will really be about crypto as a new type of financial services or crypto as a technology to update the financial system.

And so you've seen us launch products there around commerce, making global payments easier, staking, et cetera. And then the third phase of crypto adoption, we think will be about crypto powering the future of the Internet.

So things that are not even necessarily related to financial services at all like this is commonly called web3, but it could include everything from decentralized identity, voting and governance systems, games, social, et cetera. There's a long tail of new applications now being built with crypto. So we're doing this across multiple different customer segments, by the way, retail, institutional and developers.

And the common theme that we try to inject into all of our products is to make them the most trusted and the easiest to use. And so trust can come from a lot of things. It can come from being compliant, having great cybersecurity, having great customer support, having great design. We try to be the most trusted brand out there in the space. I think we've accomplished that.

And we also try to make our products the easiest to use. And so crypto can be complicated underneath, but that doesn't mean that people can't benefit from it. They don't have to understand all the complexity underneath what's happening in those products, kind of like people can benefit from using electricity, turning on a light switch. It's really simple, even if they don't understand how electrons move through copper wires.

So this is the way we think about the product road map. And ultimately, we're really just trying to drive the utility of crypto, create more and more compelling use cases, help the network scale so that we can eventually get 1 billion people accessing the open financial system through our products every day.

Anil Gupta, Vice President, Investor Relations: Okay. We'll take our final prepared question before moving over to the analysts. So the final question for you, Brian, from the Say platform is: any update on crypto regulations?

Brian Armstrong, Co-Founder & CEO: Yes. So I think the general update is that there is broad consensus amongst financial hubs that crypto is here to stay. It's not going anywhere, and the centralized actors in crypto, like the exchanges and the custodians, they should be regulated. It's pretty common sense. I think there's a broad view that new legislation is going to be needed for these centralized players to ensure that crypto is safe to use.

As I mentioned earlier, the EU is out in front on this. They've adopted comprehensive crypto legislation called MiCA, it creates a single clear rule book for the entire region. It's pretty powerful. I just got back from a trip from the U.K. and D.C. Both of those have draft bills in the works that are working on things like around stablecoins and market structure. Singapore, Hong Kong, Australia, Brazil all are essentially following in this direction.

And so I think it's really a miss that countries have to pick between keeping investors safe and embracing this next generation of technology. That's really not the case. I mean, even in the U.S., we're seeing broad bipartisan support for new crypto legislation that protects investors and also embraces this technology as a really important way to update the financial system.

And frankly, I mean, the citizens of these countries are demanding it, right? 20% of U.S. adults now own crypto. It's become a major constituent in elections. And I think -- the U.S. is still lagging here a little bit behind, but I'm optimistic we'll get there. And one of the ways Coinbase is helping do this actually is that we're trying to help shape a grassroots effort in the U.S. around crypto advocacy from all of the people. Those 20% of adults that have now used crypto.

It can be a really powerful constituent and voice. So we've launched things like Crypto435, which we now have 40,000 people signed up for that. It's named after the 435 congressional districts, and we have people in every single one of those districts who raised their hand and said, "I want to be an advocate, a champion for crypto going to town halls, donating, voting, calling, writing congress people, things like that. We also launched something native on-chain, which was an NFT called Stand With Crypto. And it's a way for people in the industry and the community to raise their hand and say, "I want to support sensible crypto regulation." And so we've had over 100,000 of those NFTs now minted so far. So that's been a great way for us to sort of roll this out on-chain. So yes, just zooming out, I mean, crypto is here to stay, every major market that we're seeing is moving towards sensible crypto regulation, and I think that's where this is going to go.

Anil Gupta, Vice President, Investor Relations: Okay. So with that, Christy, let's switch and take some live questions from the analysts.

Operator: Your first question comes from the line of Benjamin Budish with Barclays.

Benjamin Budish, Barclays: I wanted to ask about -- Alesia, you talked about sort of the divergence between volatility and market cap and just sort of thinking about your business in terms of retail engagement. I'm curious, what do you think are the major reasons why Coinbase retail engagement hasn't really tracked the growth in crypto asset prices?

And I guess, kind of along the same lines, it almost would suggest from your trading yields that we're seeing a lot more kind of resilience from like the more simple experience trader versus the advanced traders. I wonder if you can kind of comment on that as well? And how sustainable you think that may be going forward?

Alesia Haas, CFO: Thanks for the question, Ben. So historically, we've seen correlation between our retail transaction volumes and revenues, highly correlated with volatility and crypto asset prices.

And so as I shared with you in my opening remarks, we have seen crypto asset prices increase, but volatility is still at multi-year lows. And that has been one of the factors that we attribute to the change in volume at this time. However, we are engaging our customers in new ways, and so we're really excited to see the engagement with our staking products. We're excited to see the growth of our subscription services revenues quarter-over-quarter.

And we're really excited by the growth, as I mentioned, we reached all-time highs with our institutions on the prime platform in the quarter. So we're continuing to see good engagement.

The market conditions are the things that we cannot predict precisely, but they do have a big impact on the trading volume and the trading revenue from the consumer side of our platform. But our focus is growth overall, our focus is diversification and getting engagement with these new products that Brian talked about and continuing to roll out new innovations.

Operator: Your next question comes from the line of John Todaro with Needham & Company.

John Todaro, Needham: Two here, if you don't mind. First one, just on that take rate the Ben had hinted at a little bit the prior question. But really what is to kind of explain the increase there? And then second question on volumes. Just wondering how you reconcile a strategy with encouraging customers to move more on chain, but at the same time, is it encouraging some of those customers to pick up decentralized exchanges and other exchanges that might cannibalize some of Coinbase's volumes.

Alesia Haas, CFO: Great questions. I'll do the first one, and then Brian, maybe I'll pass it over to you. So with regards to pricing, as I mentioned in my opening remarks, on the institutional side, we rolled back certain discounts for our market makers, and we saw an increase in the take rate and the pricing on the institutional side based on that decision. On the consumer side, we had increased our spread in the quarter.

We're frequently assessing pricing on different transaction types and in Q1 due to an increase in spread on certain simple trades that began late last year and rolled into Q1, we saw an increase in the consumer side as well. Consumers have a choice of which product to trade on between our simple trading and our advanced trading, they can choose whatever suits them best. But that's what's driving the results in the quarter.

Brian Armstrong, Co-Founder & CEO: Yes. Thanks, John. On your second question about are we encouraging volumes to move to decentralized exchanges and things like that. So look, I think there's going to be a big market for both centralized and decentralized exchanges and Coinbase wants to play in both of those categories.

So, the centralized exchanges, they still have a scalability that really can't be achieved on chain. And so I think that's going to -- is going to be a very deep liquid market. We're going to see that with derivatives and spot all over the world for a long, long time. I don't see that really going away.

At the same time, decentralized exchanges offer some interesting advantages and we want to make sure we're providing that to customers as well. It doesn't do us any benefit to pretend that doesn't exist or something like that. And as long as we're providing what customers want, I think there will be interesting opportunities to monetize on the decentralized exchange side as well.

Operator: Your next question comes from the line of Owen Lau with Oppenheimer.

Owen Lau, Oppenheimer: So I think there are some positive developments going on in the regulation side. More crypto bills may come out soon, SEC will respond to Coinbase petition. But could you please talk about how much of the current regulatory regime has actually impacted your ability to launch new products, both locally and internationally? And how much it has impacted your confidence to generate positive adjusted EBITDA in all conditions?

Alesia Haas, CFO: Why don't I take the first stab and please, Paul, Brian Emilie, please add in. So our product roadmap has not been impacted by the Wells notice. We are pleased to have, as Brian shared with you, a very active quarter of product innovation from Base, our new protocol, to acquiring an asset management arm to launching just this week, the International Exchange, including our first derivative product in the market. So we are feeling very excited about building through this winter and about the breadth of offerings that we can continue to have.

And at this time, as we shared previously, we've run scenarios, but we are business as usual, and we feel really good about being able to deliver on the financial goals that we set forth at the beginning of the year, which is to improve adjusted EBITDA on a year-over-year basis. And we don't see anything at this time to share that would derail us from that objective.

Operator: Your next question comes from the line of Rich Repetto with Piper Sandler.

Richard Repetto, Piper Sandler: And sorry to stay on the regulatory question, but it is important. And you say, Brian, in the shareholder letter, on Page 14, you say that we could -- we believe we could see real action on the legislative side before the end of 2Q. So we're getting towards the end of 2Q. And just trying whether you could give any more detail on that statement that the bipartisan legislation and any more details?

And have you been able to engage with the SEC since the Wells notice? And then lastly, with Ripple and the XRP case, do you think that that will have any precedent or how will that clar – would that provide any clarity on the regulatory plan?

Brian Armstrong, Co-Founder & CEO: Paul, I can share a thought and then turn it over to you. I mean, on the timing of legislation, obviously, we can't predict anything like that exactly, but I don't want to reveal something sensitive that may be being worked on over there. But there are various parties that have a real motivation to help get that clear rule book in the U.S. through new legislation. And we're certainly supportive of seeing that happen. Yes, Paul, go ahead and jump in.

Paul Grewal, Chief Legal Officer: Just want to underscore that, as you pointed out earlier, Brian, we're seeing draft legislation not only here in the United States coming together largely on a bipartisan basis and hopefully, moving forward in the coming quarter, but also outside the United States.

We're seeing the U.K. and other jurisdictions move on and move ahead with their own legislative proposals and initiatives. So while no time line is certain, it certainly appears that we're seeing progress in legislation, not just in the United States, but in jurisdictions all over the world.

And I should also speak to the question about engagement with the SEC as well since the Wells. We always remain open to dialogue with the SEC in conversation with them wherever it makes sense and is appropriate.

And at the same time, we are fully committed, if necessary, to defending any case that we may face in court if for no other reason than crypto and not just Coinbase or crypto as a whole needs clarity in order to move forward as an industry, and we're confident that we will be able to provide that clarity through any action that may take place in litigation.

Operator: The next question comes from the line of Lisa Ellis with MoffettNathanson.

Lisa Ellis, MoffettNathanson: I like this Exhibit you outlined on Page 11 in the shareholder letter showing the three pillars of your product strategy and how they align to your long-term vision. Can you elaborate a little bit on how we should think about Coinbase's both revenues and investments sort of now and in the future outlined across the spectrum?

Alesia Haas, CFO: Thanks for the question, Lisa. So we are in what we consider the first phase, which is crypto as an asset class. And that's where the majority of our revenue is earned today, as you can see by the products that we highlighted and eventually you're alluding to. So this includes coinbase.com, which is our consumer trading platform, the Prime business, Custody and the spot market, which is what facilitates the trading and liquidity for those front-end customer experiences.

We are actively looking to diversify our revenue streams, and we have many products, as you can see listed here that are in our earlier stage. We've shared with you previously that we consider things in our core, strategic, and ventures portfolio and are constantly looking at new venture products.

We don't give long-term outlooks, but over time, we believe that these other revenue streams will become a larger part of our revenue stream. Just like in Q2, we saw subscription and services revenue get to about 49% of total revenue for the quarter. We have many new revenue streams in that other subscription and services revenue that are beginning to generate what we call little green shoots, small dollars. We're not able to give an outlook at this time.

But the goal is to get a diversified portfolio that has different drivers that some will perform stronger in some market conditions and some will perform better in other market conditions. And that diversification will lead to an overall platform where we can engage our customers with many different products and services. But I don't have a specific number to give you today.

Operator: Your next question comes from the line of Kenneth Worthington with JP Morgan.

Kenneth Worthington, JP Morgan: Alesia, you indicated a number of times that Coinbase increased spreads on retail trading this quarter. How are you determining the right spread for retail orders? What sort of capacity do you have to widen spread further over time? And then maybe for Paul, what ultimately gives Coinbase comfort that spread adjustments will be okayed by regulators over time?

Alesia Haas, CFO: Thanks for the question, Ken. So we're frequently assessing pricing for different transaction types. So for example, spread applied to the consumer simple trading experience. It doesn't apply to advanced trading where customers are directly interacting with the order book and our customers have the choice of which products suit their experience best.

So, price is evolving. We don't have a specific number that we're targeting or a number of shares. We're constantly assessing the right balance of meeting customer needs and driving our business and monitoring our pricing elasticity to see what resonates best with our user base.

Paul Grewal, Chief Legal Officer: On the question of what gives us comfort that we'll have the regulatory flexibility to continue with those practices, the simple answer is that it all comes down to our transparency about how we go about this and our commitment that we will honor whatever practices we disclosed as part of our terms of service and user agreements.

We're constantly evaluating these issues. And to the extent there are questions or concerns, of course, from any regulator, we will always respond to those promptly and appropriately.

Operator: Your next question comes from the line of Bo Pei with U.S. Tiger Securities.

Bo Pei, US Tiger: Hi management, thanks for taking my questions. So congrats on launching the Base Layer 2 testnet. I have two questions about Base. So first is well, if it's still early, what is going to be the monetization model for Base? Do you plan to make money from Base or will be it more likely public and you plan to fully decentralize the network?

And the second question is, while it's not common for crypto exchanges to launch their own blockchains. The other exchanges are outside of the U.S., so less regulated. However, Coinbase is a U.S. entity so faces a more challenging regulatory environment. How do you manage the risks of running a blockchain as a U.S. public company? For example, if some dapps on Base offer noncompliance services to U.S. residents, how do you make sure Coinbase will not become the target of U.S. regulators? Thanks.

Brian Armstrong, Co-Founder & CEO: Yes. Thanks, Bo, for the question. I'll start off and then Paul, if others want to add anything, feel free. So the first part of your question was on monetization. And it's too early to say how Base could be monetized. Again, we're still in testnet. We haven't even launched mainnet. We're just trying to build out the ecosystem at this point. We definitely made a conscious decision not to have a token associated with the blockchain, which touches on the second part of your question.

Because we are a U.S. entity and this blockchain is something that we're helping initiate, we wanted to make sure there was no token associated with it because we didn't believe that there was a way to do that. There wasn't a way to basically register a token to do that in the U.S. at the moment.

But our goal is for this also to be decentralized over time, and that's another big piece of the puzzle. Base is going to be a decentralized chain. And so it's something we may contribute to as one of many parties that contributes to it, but it's not going to be something that's run solely by Coinbase. Paul, anything you want to add?

Paul Grewal, Chief Legal Officer: I think, Brian, you said it well. This is not something that over time will be run by Coinbase. Our goal is decentralization. We consciously chose not to include a token as part of the offering. And we think that in combination with increasing adoption over time as we move out of testnet, hopefully, sooner rather than later, but that remains to be seen. We're going to see a very positive response not only from the public but also from regulators as well.

Operator: Your next question comes from the line of Devin Ryan with JMP Securities.

Devin Ryan, JMP: Just a question on the international derivatives exchange. Just great to hear how quickly you guys think you can scale it to become a material contributor if you can quantify the addressable revenue market for Coinbase? And then on the expense side, will there be incremental expenses needed to get to where you want to go versus how much kind of existing infrastructure of the firm can you leverage just as you scale that?

Alesia Haas, CFO: Great. Well, we're not providing a revenue outlook at this time. But as you know, the derivative markets are multiples of the spot market in crypto generally, and that's true in TradFi as well. So this is large volume opportunities.

This is our initial launch. We have two order books. We are just beginning to onboard market makers. So this is early days, and we'll give you more updates as this product matures. All of the expenses needed to operate this platform are included in our current expense base and in our Q2 outlook for expenses.

Operator: And your final question comes from the line of Joseph Vafi with Canaccord Genuity.

Joseph Vafi, Canaccord: Hey guys, good afternoon. Just I thought maybe we'd circle back, Brian, to your original comments here on financial enablement. And perhaps you could give us a view on some of the things you're working on on that front? And then just on just kind of interested also in your Layer 2 rollout and what you're thinking there and the strategy?

Brian Armstrong, Co-Founder & CEO: Yes. Well, in the opening comments, I did talk about our mission around increasing economic freedom and how we think crypto is the most important technology out there to do that and how we really think it's a technology to update the financial system.

So that's kind of what you're referring to, I think, around financial enablement and empowerment. Look, I mean there's a lot of people around the world today who don't have good access to good financial infrastructure, right? And it can be really holding them back in many ways. Payments are this thing that if you make it lower friction to both move money and settlement times and various asset classes can become more efficient if you tokenize them. This is just to speak, by the way, of the financial use cases, there's a whole set of nonfinancial use cases for crypto. That can kind of really grease the skids of the economy and unlock growth and potential in many different ways.

It also increases people's freedom just with basic property rights and things like that. And so it's a really powerful idea now that anybody who has a cellphone and an Internet connection, which is the majority of humans on the planet, they can now get -- start to get access to good, sound financial infrastructure. That's a really powerful thing. It's really good for the world. So those are my high-level thoughts. And yes, I'll leave it there.

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

Operator: This concludes today's call. You may now disconnect.