

Coinbase Global, Inc.
First Quarter 2021 Analyst Q&A Call
May 13, 2021

Operator: Good afternoon. My name is Christian and I'll be your conference operator. At this time, I would like to welcome everyone to the Coinbase First Quarter 2021 Analyst Q&A call.

Your first question is from Ken Worthington from JPMorgan. Your line is open.

Ken Worthington, JP Morgan: Hi, good afternoon. Thank you for taking the question. You increased the line of credit to \$100,000 on Bitcoin balances and it would seem logical that you would start expanding that lending business on Ethereum and other coins at some point. I guess the question is, does Ethereum have the liquidity to support credit at this point, and if not yet, how close might Ethereum be to that point? And if it does have the liquidity but there's other factors that are sort of preventing you from lending out of Ethereum, what might those factors be?

Alesia Haas, CFO: Great question, Ken. And you're absolutely right. We assess every coin that we are lending against for liquidity. Is there enough depth to liquidity on our exchange that we might be able to liquidate the collateral if we found ourselves under collateralized. Ethereum is very, very close, quite candidly, and I think that we could look to expand collateral to Ethereum in the coming months and quarters, and it is a combination of one, the asset being sufficiently there as well as making sure that our systems are built to enable liquidation protocols as needed.

So, I can see us expanding the lending program. We just launched it as you know in Q4 of 2020 where we started a wait list and it really started to expand in Q1. We're in the earliest days of our portfolio line of credit and the borrow/lend suite of products that we hope to roll-out. So we approach all of our product offerings in sort of a crawl, walk, run style, where we start small sandbox and continue to expand and to invest. Over time you'll see us expand to multiple assets underlying our loans and then also more geographies and higher dollar balances that we would lend out.

Ken Worthington, JP Morgan: Awesome. Thank you. And then just maybe one follow-up. In the last day we've seen cryptocurrencies in general pull back kind of across the board in terms of price and this sort of follows up on one of the questions on the public call. Maybe talk to us more about how the investors and traders behave kind of during and following bigger downward type moves. You mentioned on the public call greater client engagement. How long does this greater client engagement tend to last? Do you also see more assets sort of transfer to Coinbase as well? You mentioned the app store downloads increased, but do you also get existing customers to put more money in? Are there other implications on borrowing or earn from downturns in the currencies?

Alesia Haas: Sure. As I've shared in previous communications the overall price of bitcoin and then crypto asset volatility tend to be the two drivers that are most highly correlated with trading volume and revenue on our platform, and so volatility comes when price is moving in any direction, whether it's moving up or moving down, that can lead to higher crypto asset price volatility. And so, yes, we tend to see higher volumes during the significant price moves because significant price moves are directly correlated with volatility.

The second answer to your question on do we see this environment having more impact on the other more nascent revenue streams, any single day of activity is not yet a trend, and so it's important to not overly

extrapolate or take too much signal from a single day or a couple of days of activity. We really need to see longer-term trends, months, quarters at a time for it to really have a meaningful impact.

So, what we saw in the last crypto winter when we started to see price decline, for example, in early 2018, it really took multiple quarters for that to really be embedded in the financial statements, and then in 2019 is when we were truly in the winter when you could see how our financials performed during that time period.

So, at this point in time, we know there'll be volatility in crypto, we know that volatility then translates to different ways in our P&L, but we don't have a long enough term to see any impact at this time.

Ken Worthington, JP Morgan: Great. Thank you again.

Operator: Your next question is from Rich Repetto from Piper Sandler. Your line is open.

Rich Repetto, Piper Sandler: Yes, good evening, Alesia. Some of the crypto volatility over the—at least today, it appears it was from a high profile supporter—or at least former supporter of crypto, but he talked about some of the power consumption and the ESG concerns with the miners. I know this isn't financial but this is—and I think this is a longer-term issue. But there's conflicting reports in regards to power consumption, the energy efficiency of some of the main areas and I read somewhere it was 47% of the miners use renewable energy. I guess, could you clarify those? I think it did drive a lot of the volatility to that.

Alesia Haas: We agree with you. There's been a lot of focus on some of those tweets and what that impact to the bitcoin price has been. So, just dialing back and talking about energy usage in crypto in general. First of all, we really appreciate the focus on energy consumption and we welcome the discussion on the topic. Crypto is such a nascent industry. It's nice to see the industry pointing in the right direction and getting focused on issues that are important to investors early on and we have a chance to move the needle meaningfully.

From the bigger picture, we expect the cryptoeconomy by design to bring that benefit to the world, both from an environmental standpoint and from a social perspective as it proliferates, especially relative to legacy fiat financial systems. And that while the industry is really nascent, we are really encouraged to see the shift in new protocols from proof of work to proof of stake. So, for example, Ethereum 2 is now a proof of stake network, and proof of stake are inherently more energy efficient than proof of work protocols, which is what bitcoin was based on.

But on the proof of work protocols, we know that the miners, again, are very incentivized to find forms of energy that are clean energy, that are cheap forms of energy. And so what you often see is they're locating their mining operations near renewable energy sources. They also have the ability to mine in the off hours when there's excess energy available and they have full ability to structure their operations in that way, which is dissimilar to so many other industries which are large fossil fuel consumers.

So, one, the data that we have, which is actually that 76% of proof of work mining is actually using renewable energy sources. So it is very high. We can share those research studies with you. And, as I mentioned, we also see just that incentivization to find that inexpensive clean energy really driving new miner behavior. So on the proof of work we think that'll be a positive trend. And then with the shift in these new protocols moving to proof of stake, which is more energy efficiency, we think that that is also a really positive trend for the overall crypto economies' energy usage.

So we believe that, again, over time that crypto will become a relatively low consumer of energy, especially when compared to other industries and the traditional fiat system.

Rich Repetto, Piper Sandler: Thank you. That's super helpful. Just one quick follow-up. You gave additional guidance—the second quarter seems like momentum is continuing with volumes. I guess the question is, any significant change in mix between institutional and retail given the indications you've given us on volume quarter to date?

Alesia Haas: If you look back over the last five quarters in our shareholder letter, you'll note that there hasn't been meaningful mix shift between retail and institutional. We've seen really strong growth in both of those lines, and so there's nothing that we observed at this time to suggest that there's going to be a meaningful deviation from the historic trends.

Rich Repetto: Got it. That's all I had. Thank you.

Alesia Haas: Thank you.

Operator: Your next question is from Moshe Katri from Wedbush Securities. Your line is open.

Moshe Katri, Wedbush: Hey. Thanks for taking my question. Can you talk a bit about how do we drive the non-trading revenues down the road at the ancillary services side, the user engagement side of the business? Maybe also talk about the dynamics in terms of the margins or the yields on that business versus the more, the larger core business at this point. Thanks a lot.

Alesia Haas: Sure. The way that we think about our business is driven by our different customer segments. So we think about building a product suite around our retail users, around our institutions and then the ecosystem platforms. Retail today is by far the largest revenue contributor amongst our various customer groups. When we think about retail users we really think about those monthly transacting users and what is the average net revenue per user that we are earning. Today, that ARPU is really driven by transaction volume and trading revenue, but over time we're really looking to diversify that into staking, into lending, into other revenue streams.

So we really focus on just driving that MTU, driving engagement with multiple products, and as we shared with in our letter, as of the first quarter, 25% of those MTUs are now using both the investing product they're buying and selling digital assets, plus one of our other non-investing products. So, we think that that will lead to a more stable revenue over a long period of time. Obviously, again, trading is so high today that it was really weighted in that direction. So modeling that we think of as MTU times ARPU.

And on the institutional side, it's been, as you know, 5%, 6% of total revenue. So we haven't disclosed the monthly transacting users on the institutional side to you yet. We have shown trading volume and then assets under custody for institutions. So those could be separately modeled. But over time we'll start to be more thoughtful about how we disclose our institutional user base to get to a similar type of metric.

Operator: Your next question is from Sean Horgan from Rosenblatt Securities.

Sean Horgan, Rosenblatt: Hi. Thanks for taking my question. I actually have a follow-up on the last question there. I just wanted to touch on the engagement levels from the retailer users. I think you said 25% in Q1, and that's up from 21% in 2020. But is there any change in the revenue uplift for users that have engaged with one

or more non-investing products? I think it was 90% in 2020. Just trying to get a sense of the uplift there. And then what are some of the top non-investing products amongst retail users?

Alesia Haas: Sure. The top non-investing products amongst the retail users are participating in earned campaigns where they will watch educational videos and then earn some of that new crypto that they learn about. Staking, we shared with you on the call that we now have a million users using our staking products. Those are the top two most popular non-trading products that our users engage in at this time.

We didn't actually disclose the uplift from retail users that they're using more than one product. But it is still very high and that those users tend to be then are more power users who are really engaged in crypto. Because what happens is when a user participates in an earn campaign, as an example, and they learn more about a new crypto asset that tends to result in them going and buying that new crypto asset. So it drives additional transaction fee revenue when we have users engaged with these non-invest products as well. So that drives up then the overall ARPU for that user.

Sean Horgan, Rosenblatt: Okay. Thank you. And then if I could just ask one more on the subscription services side, whether there are products for institutions or retail. Just try to parse about any—I like the breakout this quarter. That was helpful. But just trying to parse out which line items are growing the fastest? It looks like custodial fee revenue probably is. And which ones are less determined by trading volumes and the same factors that sort of the rest of the transaction-based revenue is driven by?

Alesia Haas: Sure. Price impacts most everything that we do, but the subscription services revenues are not impacted by volume, because these are recurring fees in many ways because they're based on assets on our platform. So, for example, the custodial fee revenue is a calculation based on total assets on the platform subscribed to the custody product times then a fee rate. So the value of the assets on platform can fluctuate with price but we reflect to you what our market share of the overall crypto economy is, and so we've been able to demonstrate that we've grown total native units or the total number of assets on our platform, even though the value of those assets can shift quarter to quarter.

Staking, similarly, this is a reward that we earn based on the number of assets that are engaged in staking. I mentioned we had a million users who now own a staked asset, and we're optimistic this is going to grow with Ethereum 2. ETH2 we began to offer staking on in the second quarter, but we had announced that we had done it in the first quarter. And ETH is the second largest total crypto. So we're optimistic we're going to see significant growth in staking as more and more users take advantage of the opportunity to earn a reward on the Ethereum that they hold and they convert from ETH1 to ETH2 over time.

Sean Horgan: Got it. Thanks for taking my questions.

Operator: Your next question is from Owen Lau from Oppenheimer.

Owen Lau: Thank you for taking my question. Could you talk about maybe the progress of converting that 56 million verified users to MTU? I think there was a good uptick of active engagement rate quarter-over-quarter. I think it's up to like 11% in the first quarter. What marketing effort have you done in the first quarter? Is there any additional effort you can do to drive further active engagement?

Alesia Haas: Absolutely. Thank you for that question. Marketing is a huge focus of ours, and it's something that we under invested in, frankly, prior to 2021. As we shared with you before, less than 5% of revenue was spent on sales and marketing efforts in 2019 and 2020, and we're significantly increasing that in 2021. We

have a full suite of marketing initiatives that we are focused on. Some are traditional growth marketing efforts. But we're also spending on product marketing, brand marketing, and really focused on one, growing to top of funnel, but meaningfully working on engaging users deeper in the funnel. So moving users from verified users as you mentioned down the funnel to monthly transacting users.

This is being done through a combination of just product marketing to really educate our users on what products are available to them, we're doing a fair amount of referral programs, as well as overall brand engagement. As I mentioned in my remarks earlier, we're cautiously optimistic that we're seeing some traction from that program. We have seen MTU levels increase from our Q1 levels. We've also started to see our app on the app store be within the top 10 on a regular basis. That's demonstrating that our marketing efforts are paying off with more and more users joining and looking to download that app and then participate on our platform.

Owen Lau, Oppenheimer: Got it. Just one quick follow-up. Can you add a little bit more color on your retention rate? Do you have any visibility on how many exchanges or broker accounts do your users have? Thank you.

Alesia Haas: We haven't disclosed any of that, and we don't actually know how many accounts they have. That's not something we're able to track and I'm not able to talk about our retention rates at this time. We haven't shared those numbers.

Owen Lau, Oppenheimer: All right. Thank you very much.

Operator: Your next question is from Simon Clinch from Atlantic Equities. Your line is open.

Simon Clinch, Atlantic Equities: Hi, thanks for taking my question. I was wondering if we could start just by—is there any implication from the falling dominance of Bitcoin within the crypto markets? Does that have any implications for the model in any way in terms of either the assets or the trading volumes or profitability of the business at all?

Alesia Haas: No, we don't think of it that way. What we think about is just crypto has a thousand flowers blooming and that we are seeing the denominator increase so materially with all these new assets that are being introduced to crypto that bitcoin is now a smaller percentage of the overall crypto market cap with every new asset added. However, they're still the largest, it is still the most typical first asset bought as new users enter the crypto economy, it is the most well-known and has the most well-established store value investment thesis behind it at this time.

However, we are asset agnostic and our platform is designed to introduce all users to all crypto assets, and we benefit from users engaging with every single asset on our platform and we are not beholden to any single asset being the driver of our revenue and the assets on our platform.

Simon Clinch, Atlantic Equities: Great. Thanks. Just following up on the discussions around staking. From where I'm at in the U.K. there's not a huge number of crypto currencies you can actually stake with at the moment. I was wondering if you could update me on what the number is across all the different regions you have that those million plus people are earning a yield on across the currencies that you trade on.

Alesia Haas: Sure. You're absolutely right. This is not available on very many assets. We offer it on four different assets today, but we see a trend as more and more of the new crypto currencies that are being

introduced are being introduced on proof of stake per call. So, as those are introduced, we will offer staking on an increasing number of assets as we go forward.

Simon Clinch: Okay. Great. Thank you.

Operator: Your next question is from Lisa Ellis from MoffettNathanson. Your line is open.

Lisa Ellis, MoffettNathanson: Terrific. Thanks for doing this follow-up call. I had two questions related to monetization, the first one on Coinbase Cloud and then the second one on Stablecoins. Can you just talk a little bit about on Coinbase Cloud how you will be—I know it's brand new, but how will you be monetizing it and how you expect it to ramp? And then also, on Stablecoins, obviously, Coinbase is a big backer of USD coin, but the dynamics of Stablecoins are a little different. So just kind of curious how we should think about how you're monetizing on the Stablecoins as well. Thank you.

Alesia Haas: Sure, happy to answer both. Coinbase Cloud we plan to offer a number of products underneath that. Some of those will be monetized as a traditional license fee where we will license our technology to other users. So that is a future line item that I would expect in our financials as that grows over time.

And then USD coin, as well as other stablecoins that we offer, they all monetize a little bit differently. USD coin specifically, we earn interest on the underlying USD deposits, and so you'll see that come into our interest income line item on our P&L. That is because we are a member of the Centre Consortium that we can participate in that way as we are effectively participating in issuance of that coin even though we structure that minting and burning through Circle, our partner.

The other coins we monetize in a similar way is just the buy/sell fee. I think that Stablecoins will have an interesting way to change over time. As you think about potentially building global payment networks on top of Stablecoins I think that there'll be more development, APIs and other services like that we can offer to others that would monetize in new ways. But today, it is interest income.

Lisa Ellis, MoffettNathanson: Okay. And then maybe just a quick comment. I know that current events would be the DoJ and IRS looking at Binance. Are those types of investigations into sort of the semi-regulated exchanges ultimately good for Coinbase in your view or bad?

Alesia Haas: We have embraced regulation from the earliest stage and we've sought to be the most compliance crypto company and we believe that regulation is really an enabler. We don't consider it a burden. Others have taken a different approach. So we do welcome the creation of a level playing field. As Brian shared earlier on the call, sometimes we're slow to market on certain things because we have taken the long road and the regulated approach and others can capture more market share or beat us in certain things that have not taken that path.

So, I would say, yes, to have a level playing field where regulators are enforcing regulations would be a win for Coinbase and we believe that's a competitive advantage of ours that we have also sought to do things the right way and try to partner with regulators to bring thoughtful regulations to the crypto markets.

Lisa Ellis, MoffettNathanson: Terrific. Thank you.

Alesia Haas: Thank you.

Operator: Your next question is from Harshita Rawat from Bernstein. Your line is open.

Harshita Rawat, Bernstein: Hi. Thank you for taking my question. Alesia, two quick questions. One, can you—I know it's very, very early days, but just the behavior of new cohort of users you're acquiring, how that's different from your core users, especially if you compare the users that you've acquired in the last five, six months. And then the second question is just on the borrow and lend on the institutional side. It looks like some of your peers are doing a tremendous amount of lucrative businesses. What's the kind of plan there?

Alesia Haas: Sure. New meaningful learnings on new cohorts versus old cohorts at this point in time, what we observed, frankly, is that when price goes up you see people transact at higher dollar amounts, meaning they're doing more volume, and that has been consistent in all cohorts that we've ever seen. So it's not so much the time that one engages with our platform but it's more the market conditions existing at a given time.

With regards to the second part of your question—I'm sorry, can you just repeat that? I missed the second part.

Harshita Rawat: Yes. So it was about institutional currently is borrow and lend product...

Alesia Haas: Yes. We're excited to continue to expand the borrow/lend business. We are focused right now on building out our prime broker. We had acquired to Tagomi as you know in the fourth quarter of 2020 and are really integrating that into the full suite of products and services that we have and building then the borrow/lend on top of that prime broker experience where, as I mentioned earlier, we are able to offer best ex by routing orders across a number of different liquidity venues to get to the best pricing for our clients.

We think that there's a lot of growth to be had by doing borrow/lend and offering margin products in the right way over time and we look forward to rolling those out to our clients.

Harshita Rawat: Great. Thanks.

Operator: Your next question is from Kyle Voigt from KBW. Your line is open.

Kyle Voigt, KBW: Hi. Some of your competitors in the U.S. are offering customers relatively high interest rates on crypto assets just by lending those crypto assets out. I know you anticipate giving your retail customers the ability to opt into lending their crypto at some point. Just wondering if you could talk a bit more about the potential timeline for rolling out that capability? And also wondering if you could speak to some of the operational challenges of being able to offer that to your customers just given your scale and your focus on trust and security. Thank you.

Alesia Haas: Sure. So you're absolutely right. Our focus is on being able to offer trust in products and scalable products. Some of our competitors are offering yields on products that may not be possible at the same scale that Coinbase has. That is one of our goals, it is the most requested feature is you get yield on one crypto asset. So it's a high priority feature for us to be able to roll out for our customers that we hope to do in the relative near term. But I can't commit to a certain date on it.

The operational challenges in doing so are no different than any other product, that we want to build something that is compliant, is scalable, that has the right risk characteristics and the right disclosure so that we can be proud of what we're offering and make sure that our customers can interact with the crypto economy in a safe way that they've come to know Coinbase is a trusted platform to offer.

Kyle Voigt, KBW: Great. Thank you.

Operator: I'm showing no further questions at this time. I would like to turn the call back to Mr. Anil Gupta for closing.

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

Alesia Haas: Thank you everyone.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.