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

Anil Gupta, Vice President, Investor Relations: Thank you. Good afternoon and welcome to the Coinbase first quarter 2022 Analyst Q&A call. Joining me on today's call is Alesia Haas, CFO. 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 our shareholder letter on our Investor Relations website. Non-GAAP financial measures should be considered in addition to, not as a substitute for, GAAP measures. And so with that, Chris, let's turn it over for the first question.

Operator: Your first question comes from the line of Rich Repetto of Piper Sandler, your line is open.

Richard Repetto, Piper Sandler: Yeah. Good evening. So my question is a bit of a follow-up from the other call, and that's on the cash you know the $6.1 billion. And I guess first, I guess a good part of the question is, should we be looking at investments in crypto as liquid cash as well? Or is it more, is that an operating, what you need to operate the business to hold that crypto? And then the second part of the question is, but the cash did go down by a billion quarter to quarter and you list three things I won't go through, but if you could sort of, I guess walk us through the basics of the drop in cash quarter to quarter as well.

Alesia Haas, CFO: Sure. So in our 10-Q you'll see a disclosure that breaks out or crypto that we think of as an investment versus crypto we need for operating purposes. And so I do think of the crypto as an investment to be part of our broader liquidity resources that we can use as cash and cash equivalents. We could use it for investing in the business. And so when we think about what free resources essentially that we have, I do add our cash plus our USDC plus the fair value of our crypto investments to kinda look at what my capital and liquidity resources are that I have available for decisioning.

When I look at the quarter over quarter change in the cash and cash equivalents, we did increase our crypto asset investments as we talked about on the call, and so you can see the delta in both the USDC balance from December to March increased, as well as the overall crypto assets that we hold as investments increased. So more money moved from cash to crypto. But again, I view that as if I combine those, that's just a shift in allocation that's still available resources that we have for the business.

We also completed two acquisitions that you'll see articulated in the 10-Q for FairX and Unbound. So that was cash spend. And then we also had an amount of cash that was not transferred out of our custodial funds by quarter end. And so that you will see be just a quick one-day settlement that would move back into corporate cash. So when I really look at what was cash was spent, it was the cash on acquisitions for the quarter. And as you work through our cash flow statement, you can see how those numbers will ultimately tie out.

Richard Repetto, Piper Sandler: Got it. That's helpful. And then I guess my follow-up would be on the institutional fee capture. I know you made some adjustments and it's not that actually not that big a part of revenue either at this point, but hopefully getting larger, but the fee capture has gone down now for six quarters in a row, I believe, with volume up and down. I guess, can you give us a better feel? Is that still experimentation and trying to get the right level and you know, what, what should we expect from the fee capture on the institutional side?

Alesia Haas, CFO: Sure. So Institutionally, I really think of it as two products under the hood. One is the exchange and the other is the institutional Prime Broker. And what we see going on is that we are lowering fees on the exchange component to drive liquidity, to provide deeper markets that serves both Institutional customers on the Prime side as well as on the Retail side. That is where we're seeing the fee rates go down as we implement liquidity programs and programs for the market makers. We are not seeing the fee compression on either the Retail side or on the Prime Broker for institutions. And that is a platform in which we are serving institutional clients, largely corporates or other funds who are not directly connecting via API to our exchange. So that is growing, but it′s a much smaller percent of the total revenue today than the exchange revenue has been because that historically was the big product. Over the long-term, we do see future growth in the Prime offering, which is then the broker product for institutions.

Operator: Your next question comes from the line of Chris Brendler of D.A. Davidson. Your line is open.

Chris Brendler, D.A. Davidson: Thanks and good evening. Thanks for taking my questions. I'm missed the beginning of the first question so apologies if this was asked before, but just circling in on that floor EBITDA guidance and how poorly activity has trended so far this quarter, does your sort of commentary that you don't need to make any adjustments at this point does that include a significant recovery or conditions remain the same in terms of trading activity or does it include new revenue streams? Because the way I look at it, you know, we're pretty close to or even greater than a $0.5 billion loss if these conditions continue given your expense outlook. Thanks.

Alesia Haas, CFO: Sure. Thank you for the question. So first of all, our expense outlook includes stock-based compensation, and so when we are focusing on the EBITDA floor we do add back, it's an Adjusted EBITDA figure. So I just want to make that clarification.

In our commentary we do, we run scenarios as we've shared with you all. We run a wide range of MTU scenarios from 5 to 15 million. That on the upper range does assume that we see an uptick and a recovery in market activity, but on the downside, it does not assume an uptick in market activity. It does assume that we add new products and features. It does assume that we're continuing to roll out, for example, the things that we shared earlier around continuing to grow the NFT platform, continuing to focus on adding new assets, adding new staking services, etc. So it assumes product growth, but it does not assume that the market has a significant turn around and crypto prices rise and that we see a kind of a rebound. So that would have to assume also, is that we will exercise the levers that are more discretionary expenses and adjust those to ensure that we can stay within our outlooks.

Chris Brendler, D.A. Davidson: Okay, great. My follow-up is a related question on revenue. Just looking at the different components of the non-trading revenue, and I guess I was a little surprised to see custody, which I think is more should be more steady quarter to quarter obviously assets went down, but custody revenue as a percentage of AUM went down pretty significantly, and also the blockchain and staking type revenue went down sequentially, which I thought would potentially go up, but I guess maybe people are selling and and exiting of their staking. Just give me a little more sense of the sensitivity to those two items to overall trading activity and Bitcoin prices or crypto prices.

Alesia Haas, CFO: Sure. So I'm going to take them separately as the drivers are different for each of them. So with custody, we did see AUC come down, but that was driven by price for the most part. And so we calculate our custody fees as a percent of Assets Under Custody. And so as the total price came down, it brought down Assets Under Custody, and that's what drove down the revenue. We saw inflows of native units. We signed up new customers. But price effect was the sole driver or the custody fee coming down quarter over quarter.

When I turn over to staking, there is actually two drivers. One is price is an impact, but also the staking rewards rates were changed on Ethereum during the quarter. And so the reward rate, i.e. what the protocol is paying out for a staking reward, was reduced. And that reduced the amount of staking rewards that we earn. As a result, we saw many new users sign up as we shared with you by the end of the quarter, we now have our size million users sign up for staking. And so we're definitely seeing strong user growth here. But we have the price effects and then the underlying reward rates which can change the quarter over quarter revenue opportunities.

Operator: Your next question comes from the line of John Todaro, Needham & Co.

John Todaro, Needham & Co.: Great, thanks for taking my call. Two questions here. One, on the Retail take rate increasing can we just drill down a little bit more to what caused that and if we should kind of be expecting similar take rate moving forward or if it's going to fall back in line with some of the other quarters. And then two, we haven't really addressed regulation much yet, but a lot happened the last few days with the whole Terra ecosystem and the UST stablecoin just wonder if there′s any thought there about regulation increasing because of that, anything you guys are seeing on that front and whether that can increase compliance costs.

Alesia Haas, CFO: Good questions. First of all, with regard to the Retail take rate, there were no changes to our fee structure in the first quarter. And so as I've shared before, this is really a result of math and activity on our platform. So some mix of customers that use Consumer versus Pro. On Pro it's a mix of volume, so with lower volume quarters, people are at higher dollar fee tiers. It also is depending on the payment method. So there's a different price for ACH, etc. So I think it's really a mix shift that you're seeing in that fee rate. And that because of those inputs, it makes it very hard to predict. What I would comment on is that we've seen Retail fee rate, stay within a pretty tight band, but it does change in terms of basis points period over period. And so in periods of higher volume, it's going to come down a little bit. In periods of lower volume, it goes up a little bit, but it's staying within that tight band.

We are experimenting with fee structure. So as we shared, we are rolling out a subscription product, Coinbase One, that we expect to have an impact over time. We're seeing really positive results there in terms of engagement & user activity. As also, the other thing that you know about is happening is that we are adding more and more users to our new advanced trading platform. As we move to consolidate both the Pro and the Consumer platforms into one platform. We haven't seen any fee cannibalization as we've done that, it's now rolled out to 100% of our Pro users and we′ve rolled it out to our historic Consumer users as well. And so we're seeing good adoption without fee compression at this time. But as we move in that world, we still are going to experiment to see what happens. So right now, I can't give you a specific for the future. It is really just math and we believe that our fee rates are pretty sustainable at this level. So we're not changing them due to competition.

Switching over to regulation. There has been a lot of news lately and a lot of that we view as quite positive. So we continue to be enthusiastic about the Biden Executive Order and having a seat at the table to drive thoughtful regulation for crypto. We like that there's been a lean in to make sure that we are promoting innovation and the United States. Gavin Newsome has come out with some new information as well as we kind of shared as well as the UK regulators. We're optimistic that we're going to lead to proper regulation for crypto, and proper is probably the wrong word to use there, but thoughtful regulation is what I should say, for crypto in the coming quarters.

With regards to UST, I think it's important to start with UST was always viewed as an algorithmic stablecoin. It was never guaranteed to peg to a dollar, but it was one that was attempting to maintain the value of a dollar. And this is something that I think we've obviously seen tested in the market over the last couple of days, and I think that it will be driven towards more regulation to have better disclosures around what the structure is behind various coins and then what the reserve policies are and how those reserves are invested to ensure that users really understand the risks that they're taking in buying certain assets.

John Todaro, Needham & Co.: Great, Thank you for that.

Operator: Your next question comes from the line of Simon Clinch of Atlantic Equities. Your line is now open.

Simon Clinch, Atlantic Equities: Hi Alesia, thanks for taking my call. I was wondering if you could just talk a little bit about some of the comments Brian was making around NFTs. I agree with him that some of the really exciting opportunities is with the sort of functional and durable applications that he mentioned beyond just art work. And I'm wondering how Coinbase is looking to tap/encourage/promote that kind of opportunity longer term.

Alesia Haas, CFO: Such a good question. I think that we just have to keep remembering how early we are with NFTs and both early in the industry and early for Coinbase. So we just released our first beta last week, and we do view the long-term potential as one that is going to bring all sorts of use cases, whether it's in gaming or with music or with tickets or a variety of activities around creator communities. What we're doing right now is focus first and foremost on providing functionality on our platform for the existing NFT opportunities in the market, which are largely collectibles. We′re building social communities. We′re engaged with lots of conversations around various corporate entities, various different community groups about how NFTs could impact both their business models, as well as how they can leverage the power of crypto and NFTs to really innovate within their respective spaces. So these are what I would consider sort of developer conversations. They′re early days, but we think that there's going to be long-term growth and excitement in this space.

Simon Clinch, Atlantic Equities: Okay, well that′s great. My follow up question. Thinking conceptually, if we go through a crypto winter, prolonged crypto winter where you have low volumes, low prices, but probably you, you see a lot of assets being withdrawn from exchanges as people look to sort of hold through the cycle. I was just wondering should we expect that to compound the downside risk to the asset base and the trading fees as a result of that, beyond just price.

Alesia Haas, CFO: Meaning that you can withdraw assets from our platform?

Simon Clinch, Atlantic Equities: We′ve seen Bitcoin being removed from exchanges to hold into the hard wallet, and I'm just kind of wondering if that's something that happens even more during downturns and what that means for your business model.

Alesia Haas, CFO: You know, I think that it's going to be very hard to predict. What I think is interesting about 2022 is we've seen greater institutional adoption in 2022 than we did in the last crypto downturn in 2019. Where in 2018/2019 crypto was still predominantly a retail activity. So what we would see, I think, is that one part of the volatility we see today is largely because institutions are just reallocating capital amongst various investment opportunities. Where in the past, retail was really the crypto advanced users were in the space. We have not seen significant outflows of assets from our platform at this time. I think that what we would see is people trading less, but leaving the assets in place is what we saw in the last downturn. If we see them flow off our platform, it's likely that they're going to move into fiat and then into other asset classes. And it's too early. We have not seen that in Q1, but it's too early to say how broader market impacts will exist if this is a prolonged period.

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

Michael Falco, JMP Securities: Thank you. This is actually Michael Falco filling in for Devin. Thanks for taking my question. Maybe just to dig in a bit around the subscription & services revenue guide. I believe in the full-year guide, you expect strong growth compared to 2021. But if you take the implication that the second quarter will be similar to 1Q or a little lower, the first half quarterly run rate will be, I think, quite a bit lower than the fourth quarter, and if we hold that steady for the rest of the year, that would imply mid-teens growth for for 2022, which I'm not sure what would be considered strong after 1000% growth in 2021. So taking that into consideration, I think the interpretation is that you expect a pretty meaningful uplift in the back half, can you provide any more color on what strong growth for the year might imply and what the drivers of that will be, whether it's improvement in the environment or perhaps new solutions that are not on the platform yet?

Alesia Haas, CFO: Sure, thanks for the question. So within our subscription & services revenue one of the most active investments for us this year is around adding staking assets. So when I look at the future adding assets pipeline, as I mentioned, we just added Cardano at the very tail end of Q1. And we've seen significant uplift in the users who've signed up for that asset. We believe we can add a number of new assets over the course of this year. But the other thing on the horizon is the Ethereum merge, and that is expected to be in 2022. There's an expectation as well that is going to increase the reward rate on Ethereum2 for staking yields. So what I would say is there's a lot of drivers underlying blockchain rewards, some in our control, some out of our control, and we kind of balance all of those, and we kind of err on the conservative side when we make those statements and more focus on things in our control. But that's what gives me some confidence that we're going to see growth in blockchain rewards revenue.

Now obviously there could be headwinds as well if we see further price declines in these assets. Similarly, we're building a lot of new products and services around some of our Cloud offerings and some of the other lending products which are all in the other subscription services revenue line item today. And that we're optimistic that we're going to see growth in a number of these green shoots that will add to full year 2021 to 2022 growth. And so we're looking at the whole bucket of subscription and services for 2022 that we think will be higher than the 2021 total levels. We're not focused on just a run rate of Q4.

Michael Falco, JMP Securities: Thank you, that’s very helpful.

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

Harshita Rawat, Bernstein: Hi, good afternoon. I wanted to ask about talent. You have more than doubled the headcount over the last several months, can you talk about your ability to retain and attract talent given the share price performance. And then just as a follow-up on MTUs, if I look at 2018/19 when the crypto market cap declined significantly your MTUs also declined quite a lot. Can this time be different in the crypto winter because you have non-trading products such as staking, etc. Thank you.

Alesia Haas, CFO: Great questions. So starting with talent and headcount, we have found that we've had a very easy time quite candidly at attracting and retaining talent on our platform. Obviously, the recent stock price moves have been recent, and so we have nothing to say about how that has impacted talent. Obviously doesn't feel good to anybody to see this talk move in this direction, but it's an awesome time to come to Coinbase and get new shares at this level. It's quite a wonderful experience to get a new grant right now, in my opinion, because I do think that you have long-term value potential.

We have seen talent inflows coming from all firms in the tech industry as well as in financial services as we build our relatively heterogeneous population. And our focus right now is really ensuring that we onboard people, that we get people in seats aligned to our product initiatives and really executing as quickly as we can to build out this product suite that we've spoken about.

With regards to MTU? Yes. In 2018/2019 for all intents and purposes, the only real product we had on our platform was trading, or the ability to buy, sell, send, and receive crypto. And so what's very different about this winter is now we have, as we've mentioned, a number of times now we had 5.8 million users signed up for yield or for staking by the end of the first quarter. Staking, especially with ETH2 where effectively you're locked in that contract, really provides a floor base because people are investing in these as more like a savings account. They're earning a yield on something. They want to keep that return. And so they tend to be recurring MTUs as opposed to someone who comes in, buys or sells and then sort of maybe steps back and watches the market.

So what we see in downturns is that the trading-only MTUs tend to go down, but we have a bigger base of recurring MTUs in those markets. That will have an impact when you look at our ARPU, that ARPU perhaps compared to the 2019 levels, could be deflated because now you have some users who are not trading and so you don't have any transaction fees, but they're in the MTU count. So it may not be a 100% apples to apples when you look at the 2022 ARPUs to the 2019, but we're heartened to see that everything is staying in the same level, even with many now users who are engaged solely in non-invest activities today.

Harshita Rawat, Bernstein: Great, Thank you.

Operator: Your next question comes from the line of Chris Allen from Compass Point. Your line is open.

Chris Allen, Compass Point: Evening, thanks for taking the question. Wondering if you could comment on the SEC guidance on accounting of custody of crypto assets. Whether you've talked to the ratings agencies about that, whether it'll have any impact from their perspective. Any color there would be helpful.

Alesia Haas, CFO: Sure, happy to. We have some disclosures in our 10-Q on this as well, but SAB 121 is new guidance that effectively requests that we put all assets of customers on our balance sheet. So the effect of this is that you'll see our balance sheet grossed up where we'll have an asset and a corresponding liability, much like we do for customer fiat today on our balance sheet. The way that I think about this is we have long disclosed what we have as Assets on Platform, and so for us it's moving from a key business metric now to a balance sheet disclosure metric where you see all of the custodial balances of our customers and on our balance sheet. We don't believe this will have any impact at this time based on our analysis on ratings, on capital, on anything other than disclosures.

Chris Allen, Compass Point: Thank you.

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

Kyle Voigt, KBW: Good evening. Maybe a follow-up series of questions on the Coinbase One beta. Just wondering how many users that the beta's been open to or actively marketed to. I guess what's the uptake relative to that figure? And I guess given the data you gathered thus far on Coinbase One, do you think you really need to tweak that pricing model versus what we see for that beta today? Really just trying to better understand whether or not you're seeing a positive ARPU dynamic for the users that switch to Coinbase One beta from from where you're at. Thank you.

Alesia Haas, CFO: Sure. Thank you for the question. For those, just to give a little more context, Coinbase One is our subscription product, and what we've done is we've waived the fee but you continue to receive the spread on a crypto transaction, and then there's a monthly service fee. It also comes with benefits around account protection in the event of an account takeover, better customer service, and some other benefits. We've rolled it out in Q4 to what we considered our initial test group. We expanded that in Q1, and now we're marketing it more broadly because we have seen some very positive signal both on ARPU as well as adoption of more products and services for users who are engaged with Coinbase One. I'm not prepared to give specific data today. It is still not a material number of users compared to our 9 million MTU. But as that grows and becomes more material, we'll expand our disclosures and share with you.

Klye Voigt, KBW: Understood. Where are those subscription fees coming through today or is it still coming through as a trial?

Alesia Haas, CFO: They're coming through in other subscription and services with regard to the monthly subscription fee, and the spread would still come through transaction fee.

Operator: Your next question comes from the line of Pete Christiansen of Citi. Your line is open.

Pete Christiansen, Citi: Thank you, and thanks again Alesia for hosting the call. I was wondering if you could help clarify the monetization strategy for Institutional staking. Grasp maybe how that might be differently structurally versus Retail. Is there a sense that institutional investors who transact through Coinbase hold on to their, to their private keys themselves. I'm asking those questions because as more coins/tokens turn to proof-of-stake, could that be a tailwind to the custody revenue as well? Thank you.

Alesia Haas, CFO: Good questions. Thanks, Pete. So today or in Q1 I would say we did not offer Institutional staking in the same way we offer to our Retail users. The model that we offer to our Retail users is effectively called delegated proof-of-stake, where we are staking on behalf of our users directly at the protocol, we're controlling those keys, we receive the reward and we pay out a portion of that reward to our users and retain the balance as a commission for our services. We have not yet rolled out that specific product to institutions, although it is on the roadmap to do so. The way that institutions can currently stake through Coinbase is through our Coinbase Cloud offering, where they're actually using the nodes that we provide to stake more directly and more in control. We do believe that there's a large opportunity for us to offer the delegated staking product to institutions, and we do see demand there, and that's something that we think that we will provide through Coinbase Prime. In that case, it would be very much like we offer for our Retail users where we protect the private keys for our users.

But to a broader point that you're making, we do think as institutions go up the crypto learning curve, they're increasingly interested in decentralized finance and ways to participate in DeFi. And in those situations they will need to have custodial-grade wallets solutions and take more control their private keys to be able to participate in those markets. And so we're looking at how we can best serve those and provide the services that Coinbase provides which is really security and trust and ease of use that we talk about all the time to institutions but enable them to scale into DeFi, and I do think that there's some exciting technology on the future that will enable us to do so.

Pete Christiansen, Citi: That's a really interesting comment. Thanks.

Operator: Your next question comes from line of Owen Lau of Oppenheimer. Your line is open.

Owen Lau, Oppenheimer: Thank you for taking my question. Just a housekeeping question on diluted share count. I think the first quarter was 217.5 million down from 252.3, what was the driver of that? And how should we think about share count in future quarters? And then similarly for the 'other expense line item, I think first quarter was $259 million and last quarter was $74 million, what was driving that? Thank you.

Alesia Haas, CFO: Thank you for those questions. So firstly, the undiluted share count, we had a loss in Q1. And when you have a loss under GAAP, the diluted share count is reflected just as basic shares. And so we've removed all dilutive securities from them. In quarters where we have earnings as we did in Q4, we then do a fully diluted character count, which includes the conversion of all of those securities as if they were in our share count. What you have right now is the 217 million which is just the basic shares. If you look in our 10-Q disclosure, you can see all of the shares that have been included and then not included. So for example, options that haven't been exercised, the convertible preferred notes, etc. So that's really the delta that you're seeing quarter over quarter. There has been no major changes to our share count. We didn't retire any shares, we didn't buy back any shares, but it's really just a reflection of basic versus fully diluted based on GAAP requirements given we switch to a loss position for net income for the quarter.

With regard to other expense. Within other expense, we don't provide an outlook on it because it's something that's very difficult to do so. It is largely our crypto asset impairment. So on the crypto investments, we hold on our balance sheet both for investment purposes as well as for inventory. When the crypto price drops at any point in time, like if it drops like it did today, in that it drops below the cost basis of the asset or the impaired value, we have to take an impairment and we mark it down even if the crypto price goes back up tomorrow. And so in Q1 when we saw the large drop in January, it dropped below the basis that we had some of our investments on the balance sheet. And so you're seeing that crypto asset impairment run through that line item, that is a non-cash expense. We have reverted back to being in a fair value gain on everything that we hold on balance sheet. And so we are not in a true realized loss position, but we did have to take that impairment in the first quarter. That is the overwhelming amount within that line item.

The second thing that is in that line item is we had a few incidents that we took losses through customer reimbursements on the platform in the quarter, and we ran those through other expense. Historically, the other expense that's been significant in that line, and then of which there was basically zero in Q1 was when we have exchange outages. We have historically ran trading through our own inventory to be able to maintain the consumer trading while the exchange is down. And when that occurs, we then show gross up on our P&L where we say we have the revenue reflects the volume and the expense is what the cost basis of the asset was. And so it was in both other revenue and other expense. We did not have any exchange outages within Q1, and so there was no consumer principle trading that occurred within Q1. And so within Q1 it is just crypto asset impairment and then incidents that we took a loss on.

Owen Lau, Oppenheimer: Extremely helpful. Thank you.

Anil Gupta, Vice President, Investor Relations: Chris, We have time for one more question.

Operator: Our final question will come from the line of Will Nance at Goldman Sachs. Your line is open.

Will Nance, Goldman Sachs: Hey guys, just a very quick one from me. The mix shelf that you guys filed after the close today, could you provide any details on the thought process behind that. I got a couple questions on it after the close around capitalization levels, things like the balance sheet is super liquid and you guys have laid out a pretty clear strategy for how you're going to manage through the macro environment, like what's the thought process there?

Alesia Haas, CFO: Sure, we also published sort of free writing sample to the SEC, so there's another 8-K that kind of articulates our view. We view this as frankly good housekeeping. It's a three-year shelf. We wanted to have it in market so that in the future, which we have no immediate plans to use it, we had the ability to issue shares efficiently or access capital markets if and when we needed to. So no immediate plans, but it's the first time that we've really been eligible since we went public about a year ago. And we want to just file it with the 10-Q just have it on file.

Will Nance, Goldman Sachs: Got it. Great. Thank you for taking the question, appreciate you doing this..

Alesia Haas, CFO: That's no problem. Thanks Will. Thanks all for the great questions.

Anil Gupta, Vice President, Investor Relations: All right. Thank you all for joining us and we look forward to speaking with you again on the next call.