

Coinbase Global, Inc.
Fourth Quarter and Full Year 2022 Earnings Call
February 21, 2023

Anil Gupta, Vice President, Investor Relations: Good afternoon. Welcome to the Coinbase fourth quarter and full year '22 earnings call. Joining me on today's call are Brian Armstrong, Co-Founder and CEO; Emily Choi, President and COO; Alesia Haas, CFO; and because regulatory questions may be top of mind, Paul Grewal, Chief Legal Officer, is also joining today.

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 include references to certain non-GAAP financial measures. Reconciliations to the most directly comparable GAAP financial measures are provided in our shareholder letter and 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 want to touch on three themes in my opening comments. The first one is going to be about how we're reducing our OpEx to operate more efficiently and better generate EBITDA in the future. The second theme is going to be about the current regulatory environment. The third theme is going to be about where we are in this crypto cycle.

So let's start with our reductions in OpEx. When Coinbase went public, our goal was to operate at roughly breakeven across crypto cycles, but the market has changed, and so we're evolving along with that. We're now evolving the business with a goal to generate adjusted EBITDA in all market conditions. In January, we further reduced headcount by 20%. This follows the headcount reduction of 18% we did last year in June. We've also worked hard to reduce the amount of dilution we're taking from stock-based compensation and adjusted our compensation policy across a number of dimensions. Our total dilution since going public in April of 2021 has been about 5%. These changes will ensure that we continue to manage dilution going forward.

Now parting ways with colleagues and changes to compensation are never easy, but I think this is helping us be a more efficient company as a result, and it positions us to better weather this downturn with a very healthy balance sheet and continue investing in the future so we can be the global leader in the crypto space.

I was also really glad to see that our subscription and services revenue grew 53% year-over-year to \$792 million in 2022. This was amidst a major downturn in crypto, of course, from 2021 to 2022. And I think this really shows that our strategy of becoming an all-weather crypto company is paying off with more predictable revenue streams.

So next, I want to talk about the regulatory environment that we're currently in. In the wake of FTX and other crypto company failures, we've seen increased regulatory scrutiny, of course. But let me be very clear, I believe this is a good thing for the space and that it will ultimately benefit Coinbase. It's really easy to look at the headlines and assume that increased regulatory activity is bad for crypto, but I really don't agree with that. There's many legitimate companies in the crypto space, like Coinbase, and those of us which prioritize trust and compliance from the beginning, I believe, will be beneficiaries.

This really goes back to the founding of Coinbase more than 10 years ago. And when I started the company, I really decided that this was going to be a compliance-focused company. We were going to do things the right way even if it was more difficult. And I knew that there were going to be companies that would come in and try to cut corners. They might even grow really quickly because it's easier to move fast when you don't have to

follow the rules. But they would inevitably come crashing down because regulators don't always act quickly, but they do eventually act.

We decided to do things the hard way, playing the long-term game and built a very different company over the last 10 years. In many cases, we actually proactively put in place appropriate controls before they were even required, anticipating that this greater regulatory clarity would be coming. So I think we're really well positioned in this type of environment and how things are changing. And we need more clarity in the United States around regulation, and we probably need new legislation at some point, but I'll talk about that a little bit later.

So third, let's talk about where we are in this crypto cycle. Now I think it's important to always look at the fundamental indicators that we have and try to separate out the signal from the noise and the negative headlines. The narrative in crypto tends to flip every 2 years, it's either irrational exuberance or despair. Neither one is true at any given time, but we're in one of those despair phases right now. And that also means there's an opportunity for builders who are focused in this space like Coinbase.

So if you take where we are now or in 2022 and compare that to just 2 years ago, you kind of have to look over at least the prior cycle. You can't just look at what happened in the last year or the last quarter. So the bitcoin price in January of 2023 is up 80% compared to the average price in 2020. The number of software developers who work in crypto has doubled since 2020, and that's a great predictor, I think, of where the future is going.

The number of major brands who've started integrating Web3 and NFT technology are totally different, Starbucks, Adidas, Nike, Coca-Cola and social media platforms like Instagram, Twitter and Reddit. These are all integrating crypto services into their products, and customers who use those things are going to need a wallet, a crypto wallet. That's where Coinbase comes in.

We even come a long way on the regulatory side. Outside the U.S., just about every major financial hub is vying to be the leader in Web3. We've seen a comprehensive crypto legislation get passed in the EU with MiCA. Even the U.K., Hong Kong, Japan, Brazil are all making very positive steps toward comprehensive crypto legislation. And I think we'll even get that in the U.S. eventually.

So in short, we remain incredibly bullish on this technology, in this industry. We're operating more efficiently at this new size. We believe that we will be a net beneficiary of increased regulatory clarity. And of course, ultimately, we've got to keep driving the utility of crypto, improving our products, driving more and more use cases so that 1 billion or more people can benefit from this technology, and we can increase economic freedom in the world.

So with that, let me turn it over to Alesia to talk about our financial results.

Alesia Haas, CFO: Thanks, Brian. First, I'm going to recap our Q4 results. Our fourth quarter net revenue increased 5% quarter-over-quarter to \$605 million. This was driven by strong growth in our subscription and services revenues.

In terms of transaction revenue first, we gained trading volume market share. Our trading volume did decline 9% quarter-over-quarter, but it outperformed the total crypto spot market, which saw a 21% volume decline quarter-over-quarter. As a result, our total transaction revenue declined 12% to \$322 million. In contrast, subscription services grew 34% quarter-over-quarter to \$283 million. This was largely driven by our participation in the USDC program which was supported by the growth in interest rates in Q4.

Our total operating expenses increased 3% quarter-over-quarter to \$1.2 billion, which was consistent with the outlook we provided. There are 3 factors that contributed to this slight increase in spend. First, we had higher seasonal marketing spend. Second, we saw a timing of certain SBC awards increased the cost quarter-over-quarter. And third, we had a \$50 million settlement with the New York DFS. Absent this settlement, expenses would have been down about 1% quarter-over-quarter.

I want to zoom out now and look at the full year of 2020. Our adjusted EBITDA was negative \$371 million in 2022, well within the \$500 million lost guardrail we've provided for in February of 2022 about a year ago. This included negative \$124 million of adjusted EBITDA in Q4. I want to note, while this was slightly lower in Q3, our revenue improved quarter-over-quarter, and our recurring expenses, excluding the impact of the DFS settlement, were lower quarter-over-quarter. So the primary reason EBITDA was lower in Q4 was due to a foreign exchange loss that we experienced in Q2 that was not fully realized until Q4.

I want to shift gears now towards our outlook. Crypto markets have improved so far into Q1 as compared to Q4. Crypto market cap is up 40% year-to-date through February 17. Crypto asset volatility is 5% higher over the same time period. As a result, we generated \$120 million of transaction revenue in January 2023. I cannot underscore this enough. We caution investors to not extrapolate these results forward. We all need to keep in mind last year's experience of how quickly markets can evolve. They evolved quickly between Q4 and Q1, and they have the potential to evolve again. And we are mindful of the industry dynamics across multiple dimensions remain in flux.

In that spirit, we've updated our outlook approach for 2023. Our outlook is reflecting what we believe are the most stable and predictable elements of our business, specifically subscription and services revenue and expenses, and we're now providing 1 quarter of outlook. With that, we expect Q1 subscription services revenue to be between \$300 million and \$325 million.

As Brian mentioned, we are focused on cost management and operating with discipline. That means we're more rigorously assessing our product market fit, we're taking a scrappier approach to investments, and we're getting back to small team sizes.

For Q1, we anticipate technology and development and general and administrative expenses, together, will be between \$625 million and \$675 million. And that sales and marketing will be between \$60 million and \$70 million. When totaling these OpEx categories, this represents a more than 30% reduction in Q1 compared to the Q4 reported results. If you back out the \$50 million settlement from Q4, we have reduced recurring expenses by more than 25% quarter-over-quarter.

Embedded in that expense outlook is an expectation of \$215 million of stock-based compensation in Q1. This compares to \$431 million of stock-based compensation expense in Q4. So we've brought that down by more than \$200 million quarter-over-quarter. Separately, our outlook includes approximately \$150 million for restructuring expenses associated with our January headcount reduction.

Overall, our goal for 2023 is to improve adjusted EBITDA in absolute dollar terms versus full year 2022. And we believe our cost reduction efforts position us to do so. As we look forward, we don't expect to meaningfully increase our head count, which is one of our largest expense drivers, compared to our Q1 levels which we anticipate to be around 3,650 people.

All right, before we go to Q&A, I want to briefly give some context around some updates you're going to see in our 10-K that we filed this afternoon. Following the events of 2022, which included failures and other situations of financial distress at certain crypto companies like FTX, the SEC has issued new guidance in December on expected disclosures for public companies like ours that are crypto market participants.

While we already disclosed much about what was outlined in the guidance, we did make some additional disclosures this quarter. So you will see an expanded discussion of how the 2022 events have impacted Coinbase, how similar events could impact our company, we've expanded disclosures of our lending activities, counterparty risk and the interconnectedness we have with other market participants. Accordingly, you'll see updates on our business section, MD&A and risk factors. These are in direct response to the new guidance. The full letter can be found on the website.

So with that, I think we can turn to questions. Anil?

Anil Gupta, Vice President, Investor Relations: Okay. Thank you, both. So with that, we'll turn to shareholder questions, and we are taking the most upvoted questions as determined by the number of shares, and we might combine questions that touch on the same themes.

The first question is about, has Coinbase considered operating an offshore business, perhaps with Big 4 audits and additional risk management controls, to offer new products to international investors while they await regulatory clarity on such products in the U.S.?

Emilie Choi, President & COO: Thanks for the question. So our mission is to increase economic freedom in the world by enabling better access to crypto. So to fulfill our mission, we have to be a global company. And as such, international expansion is going to continue to be a very core part of how we operate. In the past quarter, we had a launch in Australia. We have an upcoming launch in Brazil. And we've been very encouraged by the positive regulatory developments in the EU with MiCA and the U.K.'s long-awaited consultation. So you can expect to see us continuing to invest in the U.K. and Europe. They're really important parts of our business.

We're going to lean into working with jurisdictions to help us maximize global coverage, and we will always be focused on offering our products in a safe, compliant way with, as you referenced, good risk management and sound audit. So there's nothing to announce here today, but international continues to be a focus area for us in 2023 and beyond.

Anil Gupta, Vice President, Investor Relations: Thanks, Emilie. Next question, has Coinbase considered updating its P&L target from operating at a loss during times of the trading volumes like those in 2022 and 2023 year-to-date to operating at breakeven or profitability during such times? Alesia?

Alesia Haas, CFO: I feel like this question had a preview into Brian's opening comments. So this is not a change we can make overnight. But yes, as Brian shared in his opening comments, we have changed our approach and we are building towards the future. So we used to say Coinbase would roughly breakeven over time, over a cycle, but now we are very focused on giving a company that can generate EBITDA in all market conditions, which is to say we aspire to be an all-weather company.

Specifically, for 2023, our goal is to improve our adjusted EBITDA performance in absolute dollar terms year-over-year. And we're going to continue to work to build revenue streams with less volatility. And while the focus is on improving adjusted EBITDA, as I shared in my opening comments, our SBC, or our stock-based compensation, is coming down, too. So we are focused on overall expense performance, and we think that will set the stage for long-term financial performance.

Anil Gupta, Vice President, Investor Relations: Next question, will Coinbase expand the stocks to compete with platforms like Robinhood? Brian?

Brian Armstrong, Co-Founder & CEO: Yes, I can take that one. So the short answer is no. We feel our best opportunities are still in the crypto, in the Web3 space. There's a lot of blue ocean there. We want to go make sure we're the leader in that space. And there's a number of places people could trade traditional securities today, so I don't know how we would necessarily be differentiated on that dimension.

There is an exception to that I can think of, which is that if we found a way to tokenize or wrap traditional securities, making them more crypto native, that could be pretty interesting, I think, for our customers and for us. It would unlock some additional functionality, for instance, 24/7 trading, people could more easily trade fractions of a share or they could have access to more global capital.

But the regulatory environment in the U.S. right now is not currently hospitable to that type of product. It's something that we're working to change. We actually acquired a broker-dealer license several years ago, but it's dormant right now, and we'd like to work with the SEC to make it active. I think that something like that, that would allow us to wrap traditional securities, could -- and I also just make it really simple for people to go and register cryptosecurities, that could be pretty interesting and something we'd like pursue in the future. But I don't think that will happen in the short term. So it's something we'll have to work towards over time.

Anil Gupta, Vice President, Investor Relations: Next question, how does Coinbase plan to compete with other trading platforms that allow us users to purchase crypto without fees? Alesia?

Alesia Haas, CFO: For this question. So I want to start with just a comment that there are no true 0 fee products out there. Some monetize like Coinbase do via our fees that we post but others monetize on the back end where the fees are not transparent to the users, but there really are no 0 fee platforms. So we do generate most of our transaction revenue today from our retail customer base. They are trusting our products because they are safe and easy to use, and we're giving them an integrated platform to engage with a range of crypto assets and activities. So you can stake, you can participate and you can spend your crypto on a Coinbase card. You can do many different things. And we believe this is a premium product that our customers are willing to pay for.

But we also have our subscription product, Coinbase One, where you just can trade without fees. So we are definitely experimenting with different monetization models and different ways to offer our services to our customers. As we said before, over the long term, we believe fees will compress due to commoditization, but we have yet to see that in crypto. And we think that after coming to 2022, there is more value placed on a trusted platform, our regulated compliant approach, and people are willing to pay for that premium offering.

Anil Gupta, Vice President, Investor Relations: Next question, how is Coinbase working alongside lawmakers to shape U.S. crypto regulation? Brian?

Brian Armstrong, Co-Founder & CEO: Yes. So I've been spending a lot of time in D.C. I was just there last week, actually. And I'd say policy is my top priority for this year. So when I was there just last week, we met with a number of relevant senators that are working on different crypto bills. There's actually a lot of bipartisan support, I would say, out there for getting comprehensive crypto legislation passed. There's a recognition that in the wake of FTX, we need stronger consumer protections. There's also a lot of excitement just about the potential of this technology. And there's a lot of desire for people to have this built here in America. And they feel that it's important for all kinds of reasons: economic growth, national security, et cetera. So I was very pleased to see that.

I think the folks that I spoke with, they also realize that the U.S. is a little bit behind right now. The EU has already kind of passed comprehensive crypto legislation. They're looking at others like in the U.K., Singapore, et cetera, that are moving on this dimension and seeing what they can take and put in their bill. So I'm spending more time in D.C.

But I think what's even more important than that actually is that we can go and activate the roughly 50 million people or so who have used crypto in the United States and asking them to -- as they're very passionate about crypto, many of them. And so it's about asking them to contact the representatives and encouraging them to say we want this industry to be built in America with strong consumer protection and preserving innovation potential.

So I think we need to really make it clear that -- let's say, in the upcoming election in 2024, for instance, that this is going to be a big issue, I think, for a lot of voters. Crypto is now used by 1 in 5 households in the United States, and it's becoming a pretty powerful lobby and a constituent. So Coinbase of course, we can do our part here by helping organize them. We've been actually giving customers information right in our app about policy issues and even scores for different candidates that represent them. But we're just one company in the space. The whole industry is really going to have to come together to make this happen and -- of all the crypto users out there.

So there's lots more that we're doing. We're donating to key crypto advocates. We've hired an incredible policy team. Our Head of Policy, Faryar Shirzad, came from Goldman Sachs where he was co-leading policy. We're working with various trade groups. We actually wrote a really detailed petition that we sent to the SEC, requesting more clarity on regulation and pointing out sort of many of the areas where in the law today it's not

clear how crypto should be regulated. We have a public policy page on our website, which I encourage people to go check out. So there's a lot we can do here, and I think it's a major focus for myself and the company.

Actually, Paul, our Chief Legal Officer, do you want to add anything here?

Paul Grewal, Chief Legal Officer: Yes. Happy to, Brian. Coinbase, we have a 10-year plus record of regulatory compliance engagement, and we remain committed to working with regulators to develop solutions that are sensible, that put consumers first and protect them and ultimately help to grow the crypto economy. We are in constant conversation with all of these regulators and, of course, the policymakers as well, particularly in D.C. In those conversations, our agenda is very clear. Regulators should follow the standard course and undertake public rule-making that will give clarity, not just to the industry and to consumers but, of course, investors as well.

The bottom line is this, not everything in crypto is a security. That's just not the law today. And it shouldn't be the law tomorrow and in the future. Securities laws doesn't exist in order to turn everything of value in our economy, whether it's baseball cards or sneakers or digital assets like crypto, into a security that only a small number of people or the elite are able to buy or trade. That's why we have to get these lines right. It's not just about crypto.

And so in that same spirit, last July, in July 2022, we filed a comprehensive petition for rule-making with the SEC that outline the issues with applying an existing or the existing securities into modern digital assets. And we suggest that each area in which the SEC could and should engage in rule-making in order to provide clarity for the entire industry. We're very hopeful that the SEC and others will recognize that rule-making is the appropriate path forward. And importantly, we're not going to stop engaging until they do so. It's not too late.

One final point, just recently, the SEC issued a notice of proposed rule for safeguarding crypto assets with qualified custodians such as Coinbase. We see that as a signal that the SEC recognizes and is willing to follow a standard public rule-making process in order to get these answers right.

Anil Gupta, Vice President, Investor Relations: Great. Thanks. Next question, are there any plans to initiate stock buybacks or reduce overall debt load if the company valuation becomes low enough. Alesia?

Alesia Haas, CFO: Thanks for the question. So I would share with you that we constantly evaluate what is the most accretive way to allocate our capital, so something we've looked at, we've talked about. But today, our focus is on cash conservation and maximizing the options that we have available to us, maximizing our ability to navigate through this transition period as we shift from being a company that has volatility in our P&L to a more stable P&L where we can have the opportunity to generate EBITDA in an up and down market. So while we have the right to revisit this, we don't have anything to share at this time around a stock buyback or a debt buyback program.

I would point out that while we do not have a formal buyback program, we do generally net settle our equity awards to employees. What that means is that we pay taxes on behalf of the employees and those shares don't end up in the market. So as a result, since we went public, we've effectively bought back just over 5 million shares due to this approach. So while this is not a formal stock buyback, it has the effect of reducing shares outstanding and reducing our amount of dilution that we've put into the market.

Anil Gupta, Vice President, Investor Relations: Our next question is, with Kraken staking as a service being cracked down upon by the SEC, what differentiates Coinbase staking as a service from theirs? And what assurances can you give investors that their funds will not be affected? Paul?

Paul Grewal, Chief Legal Officer: So Coinbase's staking products are not securities, and so they are not affected by this news. Staking on Coinbase continues to be available to our customers and stake assets continue to earn rewards. The staking products that we offer at Coinbase are fundamentally different from the yield products that were described in the reinforcement action against Kraken.

The differences matter. Just to highlight a few of them, first and foremost, on Coinbase, customer assets always remain theirs. At all times, customers retain the title to and ownership of their tokens. And of course, we hold all user assets, including tokens 1:1. Another important difference is that our fees are tethered to realities. They're determined by the network protocols and commissions that we take are fully disclosed in our health center.

On Coinbase, our customers have a right to the returns. We can't simply just decide not to pay any returns at all. And critically, Coinbase customers have deep transparent insights into our financials because, of course, Coinbase is a publicly traded company with publicly audited financials. The bottom line is that Coinbase customers have access to proper disclosures. Coinbase has always disclosed critical information for its staking users, such as what happens to assets when they're staked. And we do that in our retail user agreement. Rules, making clear these distinctions would provide a very real clarity. And we think the public shouldn't have to parse complaints in federal court in order to understand what a regulator expects.

Anil Gupta, Vice President, Investor Relations: Our next question is, what is Coinbase going to do to recover the value of its stock from the initial IPO? Emilie?

Emilie Choi, President & COO: I'll take that, yes. Coinbase is focused on generating long-term value. We are the leading regulated player in a still nascent market. And as such, much of our economic potential will come in future years, much like it has for other new category leaders over time. And like all tech and high-growth companies, we've experienced a market reset over the past year. This isn't Coinbase or crypto specific. That said, we are laser-focused on driving positive shareholder value and, in particular, are focusing our energy on, one, cost management and efficiency; two, investing in core product growth so that we offer our users the absolute best crypto products and services; and three, landing a positive regulatory outcome for the ecosystem and for our users.

Anil Gupta, Vice President, Investor Relations: Next question, do you feel that Coinbase can play a big role in making cryptocurrency go mainstream? Brian?

Brian Armstrong, Co-Founder & CEO: Yes. Absolutely. I mean, one of our goals is we want to get crypto to 1 billion people globally, that would tell me that we were starting to have a real impact on a global scale around economic freedom, which the mission of Coinbase is to increase economic freedom. So I think we have a big and important role to play in that. And I think it happens -- it's going to happen across a number of different areas. I mean, one is scalability. We just -- we need to get the blockchains to be more scalable. There's a lot of important developer work happening on that dimension. And there's a couple of areas where Coinbase has been able to help on the margin, but there's many great teams doing that.

Also, in terms of usability, I think just sort of like many people don't understand how electricity works, but they can benefit from it, they can access it through a light switch. Coinbase has a role here to play and just trying to make crypto easier to use. Many people they don't even really know how it works underneath, but they just want to get paid. They want to transfer funds with less, lower fees. They want to earn a living, they want to have stable currency, et cetera, and so we can make those things easy and intuitive. And then lastly, I think on the regulatory environment, we have an important role here just to play around education, advocacy, policy. So there's a lot we can do to try to help crypto get to that 1 billion user mark and beyond.

Anil Gupta, Vice President, Investor Relations: Okay. Last question before we turn it over to the analysts, Coinbase NFT. One, what is your cumulative loss? Two, what is your plan to reduce the burn, increase market share? And overall, what's your plan in connection to Coinbase NFT? What will you do differently next time when developing new platforms? Emilie?

Emilie Choi, President & COO: So we allocate our resources, 70-20-10: 70% to core, 20% strategic adjacencies and 10% to venture opportunities. We are always looking to expand our portfolio of products to serve our customers in the best way. And NFTs were an example of a venture initiative in that 10% bucket. And we continue to see medium and long-term opportunities here. So we're -- we've got a very lean team on it now, but we're not throwing in the towel by any means.

There's a lot of Fortune 100 companies who are experimenting with NFT opportunities, including Meta, Starbucks, Nike and Anheuser-Busch. And we're proud of a product that is creating a more social customer NFT experience. We have a lot of work to do, but we want to continue to invest limited resources there.

So in terms of investments, as we indicated in the shareholder letter, we're taking a more rigorous approach to investment in new and unproven products, but we're going to do that in a very lean, efficient way and get back to just smaller team sizes and getting things out there in a more of an experimental way so that we do it in the most operationally efficient way possible. USDC was an example of something that started with just a couple of folks and has expanded to be something much bigger.

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

Operator: Your first question comes from Owen Lau of Oppenheimer.

Owen Lau, Oppenheimer: So I have a question about international expansion. So yesterday, Hong Kong SFC put out a consultation paper on virtual assets trading platform. They propose to allow digital assets trading for retail customers. So I have 2 quick questions here related to the topic. The first one is, will Coinbase apply for this license or how Coinbase will approach this regime?

The second point is the requirement seems to be that the platform operate has to hold client money on a trust to a wholly-owned subsidiary and no more than 2% of client virtual assets are stored in hot wallets. Can Coinbase be compliant with this? And based on your knowledge, how many exchanges in the world can meet this high bar?

Brian Armstrong, Co-Founder & CEO: Yes. I mean so this is a detailed question. I would say that -- in general, we don't currently have today an entity in Hong Kong, but I've been really pleasantly surprised to see that there is clarity like this -- this is a great example of what you just mentioned of the financial hubs around the world, of which Hong Kong is one of those, are making really good progress towards regulatory clarity. We'd have to look in detail to see if Coinbase met those requirements, and we don't have currently anything that we've done in that country to date. But I think it's exciting as a general trend.

I don't know, Paul or anybody else, do you want to add anything?

Alesia Haas, CFO: Other thing I would add is we do have a practice of holding the vast majority of funds on our platform in cold storage. And so we do have mechanisms in place to keep a very small amount of assets in a hot wallet or subject to cyber risk, which is one of the requirements. I also think that Coinbase has operated a TrustCo for a number of years now. And so there's definitely parts of our business that we could lean on if we chose to build in that market.

Our broad international strategy, as we outlined in previous years, we have a go broad and go deep. At this point in time, we don't have any announcements on adding additional countries to our portfolio. We're focused on building in the countries that we're currently in. But conditions like you provided, having clear regulatory structure, our markets become attractive to us. So at the time that we were adding new countries to our list, we would look at that as a positive indicator of a country that we can go into and assess our ability to comply with those standards.

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

Michael Falco, JPM: This is Michael Falco, actually standing in for Devin. I wanted to ask a quick question. You highlighted your goal for 2023 is to improve full year adjusted EBITDA in absolute dollar terms versus 2022. And then that you're setting your sights on positioning the company to generate adjusted EBITDA in all market conditions. So it seems like after the current 25%-plus expense reduction, you believe this is a

reasonable goal. Just curious on the revenue side of the equation, what are the revenue scenarios kind of underpinning that? And what's the revenue threshold that would make that goal achievable?

Alesia Haas, CFO: Great question. So as we shared in our outlook, we're really focusing our near-term outlook on things that we control. So our subscription and services revenue, we believe converts \$300 million to \$325 million in Q1 and which has healthy growth off of the reported results of Q4. We've also seen a lot of volatility in our transaction revenues, and we continue to see volatility as we saw that crypto market cap was up 40% quarter-to-date in Q1 -- transaction revenue to be volatile. It could be up, it could be down. It could be static over the year. We are preparing for that range, and we are prepared to grow subscription and services against this more moderate expense base.

There are scenarios that we could be EBITDA positive this year. But the goal, because we're preparing for the worst and hoping for best, is to ensure that we improve EBITDA year-over-year. And that is what we're setting at this point in time. We will continue to update you as we get more data points as we go through the year.

Operator: Your next question comes from the line of Kenneth Worthington of JPMorgan Securities.

Kenneth Worthington, JP Morgan: Maybe for Brian, Coinbase has historically been a large investor in crypto businesses and technology. And based on the number of developers, innovation continues at a robust pace in the crypto ecosystem. The industry has had big leaps forward with the development of DeFi and the popularity and use cases for NFTs, for example. As you look to 2023 and 2024, are there use cases or developments on the level of DeFi or NFTs that particularly excite you? And maybe broadly, what do you see as the next big leg forward for use cases in crypto?

Brian Armstrong, Co-Founder & CEO: Yes. Well, okay. So I just have to be a little careful when you're trying to predict the future, especially if it influences anything on the M&A front. So let me keep my comments just pretty broad here. But you're correct. We have been investors in the space. I think we recognize that this is the beginning of a big trend and big industry. And we're going to build our own products. We're going to also buy other companies, but we're also going to invest. And so we do all 3, build, buy and invest.

You mentioned some of these areas that got popular in prior down cycles. We had DeFi and things like that, which were exciting, and NFTs. A couple of areas that we're excited about, just kind of looking forward, I think decentralized identity is exciting. It allows crypto to move beyond just a new form of money or new types of financial services, but also it allows the beginnings of a new type of app platform, right?

And if you have a decentralized identity where people can kind of have access to their own information, and it's not owned by one of the big tech companies, then you can start to do interesting things like create social graph between those identities and have decentralized social networks. You can even have reputation associated with those decentralized identities, kind of like a FICO score, if you will, or something similar to Google PageRank algorithm, which rank different pages on the Internet, but you could sort of have the reputation for each of these decentralized identities. So that's one area, just among many that I'm interested in.

And we generally try to look at the landscape of start-ups that are coming out. There are a lot of developers, as you mentioned, operating in this space now. That has actually continued to grow even in the market coming down. And I think if you look at where the brightest young engineers are focusing their time on the weekend, what they're hacking on in their free time, I think that's a really good predictor of the future. And so by that measure, crypto is doing quite well.

Kenneth Worthington, JP Morgan: Okay. If I can sneak in another one just quickly for Paul, the SEC -- or SEC Chair Gensler continues to say that he wants crypto firms and crypto products to register with the SEC. What is the risk to Coinbase or the downside of registering either firm or products with the SEC?

Paul Grewal, Chief Legal Officer: Well, Coinbase is certainly familiar with registration with the SEC. And then, of course, as a publicly listed company, we were required to complete an S-1 back in April 2021. We're also quite familiar with the Chair's comments regarding registration of individual products and services. To the

extent that registration is appropriate because, first and foremost, products and services qualify as securities under the federal securities laws. Coinbase is quite open and eager to seek a path to registration where one is being available.

I think it's fair to say that at this point in time, the path to registration for products and services that may qualify as securities has not been open or at least readily or easily opened. So that's proven to be challenging. But we're always eager to pursue a registration where it makes sense, and we will continue to engage in conversations and dialogue where we have an opportunity to do so with the SEC or anybody else.

Operator: Your next question comes from Lisa Ellis of SVB MoffettNathanson.

Lisa Ellis, MoffettNathanson: A follow-up there on the regulatory front, I know -- and policy front, I guess, more broadly, you have highlighted now several times that you expect 2023 to be a significant year for crypto policy. There's a lot of moving pieces here for us. So in your view, overall, what are the top like 3 or 4 things that would constitute a win on the policy or regulatory front over the next year?

Brian Armstrong, Co-Founder & CEO: Yes. Well, I want to temper expectations a little bit. I think any time new legislation gets passed, it's kind of -- a lot of stars have to align for that to happen, and for good reason, at least in the United States government. So we're going to keep pushing on that. I don't -- we don't know exactly what the chances are of that happening specifically this year, but I think over time, the chances are quite good. There's a number of different areas that people are looking at.

I mean one of them is simply on the stablecoin front. And I think there's generally a pretty broad consensus amongst Congress, the folks that I've spoken with, that we do want to bring that into the regulatory perimeter and to new legislation that just had some good best practices around making sure that funds were audited, things were backed 1:1. That would be a great win, and we could see some progress there.

I think the other one is really around how to carve up the territory between CFTC and SEC, what's a crypto commodity, what's a crypto security, what is something else entirely like a stablecoin or artwork like NFTs. And I think we could use sort of an updated definition of the Howey test, which was created before computers even existed, back in the 1930s, and really kind of clarify how does this apply to digital assets. I think that would be another core piece. And there's a number of other rules there that I think just, again, apply the best practices from traditional financial services around let's have a great anti-money laundering program and get rid of any kind of wash trading and reasonable kind of KYC procedures and things like that.

So those are a couple of the things that I think would help. And then if we get all that stuff working, then we could probably think about how DeFi could fit in the regulatory perimeter or not. And so these are all different areas that could be looked at. But probably stablecoins and some of the early things would be the first ones to get looked at.

Paul or anybody else want to add anything?

Paul Grewal, Chief Legal Officer: The only thing I would add, Brian, is that back in July of last year, as mentioned earlier, we did file a petition for rule-making with the SEC that outlined dozens and dozens, something like more than 50 questions that we believe need to be answered in order to bring regulatory clarity to the digital asset space. We think an excellent start would be to initiate rule-making as we requested, so that not just Coinbase but everyone in the industry, and frankly, anyone with an interest in digital assets, can then have an opportunity to provide input to the commission and help the commission achieve the right balance between protecting consumers and investors, on the one hand, and promoting innovation on the other.

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

Pete Christiansen, Citi: I'm sorry, can you hear me?

Brian Armstrong, Co-Founder & CEO: Yes, we can hear you.

Pete Christiansen, Citi: Just remind us how much you think about how modest -- is that primarily from custody? Then I just have a quick follow-up.

Alesia Haas, CFO: I'm so sorry, Pete, you cut in and out. We heard a question on monetization, but we couldn't identify which product.

Pete Christiansen, Citi: Sorry. If you could just take us through the integration with Aladdin and how we should think about monetization progressing there? Is that going to be primarily from custody?

Alesia Haas, CFO: I'm sorry. So we don't have a material update on integration with Aladdin. As we announced, we are now integrated on the back end, but the monetization is going to be that customers who have Aladdin can also onboard into Coinbase. So we're hopeful that what this does is put crypto side by side with other stocks, bonds or tradable assets of hedge funds and asset managers. And it enables them to risk manage to have operational control commensurate in crypto that they could in other asset classes. And so those customers were also onboard onto Coinbase and trade on our products and services and monetize on our platform. And then there's going to be, obviously, some sort of commercial agreement between us and BlackRock. We haven't provided public information on at this time.

Pete Christiansen, Citi: That's helpful. And then finally, Brian, I would love to hear your take on kind of like the pulse right now at the company. Now on your second restructuring, obviously, there's just been a lot of volatility all around. Just wondering if you could comment basically on the pulse of your people there, perhaps the sense of how employee engagement is faring under these conditions?

Brian Armstrong, Co-Founder & CEO: Yes. I can touch on that just briefly. I think actually, overall engagement is pretty good. We have a lot of people who are really just passionate about the mission. And they want to see this happen in the world. And so some of them have been through crypto cycles before. I mean this is the fourth one I've been through, but many of the people at the company have gone through crypto cycles before. They're relatively unfazed by it. It's only people who maybe it was their first time going through something like this, it's a little scary.

But they've seen when people were irrationally exuberant and when people had to scare about crypto in the past and they've kept building. And I think what people ended up realizing was that actually in the down cycles, it's sometimes better, you come to appreciate the down cycles because there's less noise, all the people who are in it for the wrong reasons kind of wash out and the people who are true builders in the space kind of have some time to get some real work done. So a lot of the best innovation actually happens in down markets.

Anil Gupta, Vice President, Investor Relations: Okay. Well, we're out of time for today's call. So thank you for joining us, and we look forward to speaking to you again on our next call.