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

Anil Gupta, Vice President, Investor Relations: Good afternoon and welcome to the Coinbase First Quarter 2023 Analyst Q&A Call. Joining me 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 the Shareholder Letter on our Investor Relations website. Non-GAAP financial measures should be considered in additional to, not as a substitute for, GAAP measures. And so with that Christy, I'll turn it back over to you for the first question.

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

Pete Christiansen, Citi: Thank you. Good evening, Alesia. Thank you for allowing me to ask questions here. Apologies if this was asked before, there's a couple calls going on tonight. From what I did hear of the call, bipartisan came up quite a bit. I think listening to Chair Gensler's testimony to the House Finance Committee, I kind of got a different impression. Certainly seems like things are certainly tilting a little bit toward the right. Just curious if you've seen any noticeable changes on the political front as you're going through the current process. And then I had one follow up, thanks.

Alesia Haas, CFO: Thanks for the question. No, we continue to see bipartisan support and are pleased with the engagement that we're getting from various members of both the House and the Senate.

Pete Christiansen, Citi: That's fair. And then I guess institutional volumes still look pretty good, flat quarter over quarter. Since the Wells notice, have you noticed any business impact, particularly on the institutional front or any behavioral changes from some of your key institutional clients? Thank you.

Alesia Haas, CFO: Thanks for that. So, we were pleased to see record volume on our Prime platform from institutional clients in Q1. We did see a change in market maker behavior as we shared on the call and in our prepared remarks as a result of rolling back some discounts that we had for our market makers.

And the market makers are very price sensitive and so we do see that volume and engagement on our platform can be tied to price. But we have not seen a change in business on our platform and we have had no change for our products and services as a result of the Wells notice.

Operator: Your next question comes on the line of Kyle Voigt with KBW.

Kyle Voigt, KBW: Hey, good evening. Maybe just a follow-up on a question from the earlier call on the spread fees for simple trading, Alesia. I just want to confirm that you've increased that spread-based fee to closer to 150 basis points from 50 basis points previously. So, I think the all-in for simple trading on the retail is now closer to 300 basis points. I just wonder if you can confirm those numbers.

And then also, is there a specific date that the new fee schedule went into place? Really trying to understand if it was in place for the full quarter in 1Q or whether or not we should expect another step up in 2Q.

Alesia Haas, CFO: Thanks, Kyle. So, we haven't shared specifically what the change in spread was and the reason here is that we are frequently assessing pricing for different transaction types and across our products and pricing varies by product.

So, as we explained in our Help Center, we embed spread on simple trades. We also have spread on Coinbase One and on fiat-to-crypto, crypto-to-crypto. And pricing is evolving. We don't have a specific number to share.

We had begun to increase spread on simple trades late last year and we rolled it out to a larger percentage of users in Q1, but it was not 100 percent in Q1. We are constantly assessing the right balance of meeting our customer needs and driving the business and monitoring price elasticity.

Our focus here, as we've kind of shared in previous calls, we are focused right now on growing revenue, growing engagement. So, pricing fee plus spread is an important component on this, but I don't want to forecast a certain amount for anyone right now and I want you to think about this as evolving as we assess the impact on our customers.

Kyle Voigt, KBW: Okay. So, is it fair to say that those changes occurred throughout the quarter in the first quarter --

Alesia Haas, CFO: Yes.

Kyle Voigt, KBW: -- in terms of pricing? Okay.

Alesia Haas, CFO: That is it, yes.

Kyle Voigt, KBW: Okay. And has there been any response from those users that you have changed pricing? Can you share any type of response? Are you seeing lower?

I know that the idea is to drive higher engagement rates, but you're raising fees. So, I'm just wondering, is there some level of lower activity that you're seeing from those users at all or anything you can share on that side in terms of where you've made those changes at?

Alesia Haas, CFO: So, what we've seen so far is our consumers really value the trust, the ease of use of the Coinbase platform and the breadth of products and services that we've offered. We continue to see retail and consumers trade in relation to crypto asset volatility, crypto asset prices.

This is in contrast to the market makers on the institutional side who we do see different volumes and different behaviors to different pricing schemes or different pricing plans on our platform.

Operator: Your next question comes from the line of Will Nance with Goldman Sachs.

Will Nance, Goldman Sachs: Hey, Alesia, just one question for me. The USDC revenues this quarter came in a lot better than we had expected, and, I mean, I know these are still kind of estimates, but it seems like the revenue sharing percentage was up quite a bit based on what the publicly available information would suggest the total revenue is on outstanding USDC.

I'm wondering if you could maybe touch on some of the dynamics that led to that and if there's anything about trailing 12-month mint burn and how that's been trending recently and what that look-back period looks like as you're thinking about interest income over the next couple of quarters. Thank you.

Alesia Haas, CFO: Thanks, Will. So, as we shared in our shareholder letter, the interest rate was the key and primary driver of the increase in USDC revenues. We are actively working to increase our distribution, making USDC more available to our customers.

We are rolling out USDC rewards with the goal of engaging more and more USDC as an on-platform balance to grow the market cap and to see that USDC growth. So, the primary driver in Q1 was interest rates.

Will Nance, Goldman Sachs: I guess, is there any -- is there -- has there been any changes or do you expect any changes in the amount of revenue sharing?

Alesia Haas, CFO: There's nothing that I have to share at this time on that.

Will Nance, Goldman Sachs: Got it. Okay. Appreciate you taking the questions.

Operator: Your next question comes from the line of Alex Markgraff with KeyBank Capital Markets.

Alex Markgraff, KeyBanc: Yeah. Hi. Thanks for taking my question. I guess just around the institutional trading commentary and some of the pricing commentary, it sounds like the expectation is to continue to kind of be firm on pricing. I'm just curious if there's a certain breakpoint here just considering some of the other institutional oriented products and the importance of market makers to the platform. Any thoughts around if there's some sort of pricing breakpoint where it makes sense to start to be competitive again?

Alesia Haas, CFO: It's a great question and it's something that we are constantly assessing, the pricing on our platform, and making decisions to trade off market share for revenue, there's different goals.

And so, this was the corner that we decided to roll back, as we mentioned, certain of those discounts, but those are tools we have for us as we optimize for different things on our platform. And we agree with you, engaging with that critical customer base is important in finding the right level of descent, but we're happy with the results of the Q1.

Alex Markgraff, KeyBanc: Okay. And then maybe just one follow-up, is it possible just to kind of elaborate on some of the changes that were made around some of the challenges in the banking space? I know there were some details in the letter, but just kind of a -- I don't know if you can give some sort of pre- and post-crisis description of exposures and kind of what's in place today and how that maybe inflates Coinbase from future disruption, that'd be helpful.

Alesia Haas, CFO: Sure, happy to. So, banking partners are critical partners to us to enable our fiat on-ramp, to enable fiat-to-crypto trading. We have a fairly robust risk management plan here around how we manage both corporate and customer cash.

In the U.S. prior to the crisis, we had five U.S. banking partners. For customer funds, 100 percent of our customer funds are either FDIC insured, so held below the FDIC insurance limit at our customer banking partners, or swept into government money market funds and held in treasuries and other government offsets.

We have a description of this on our website and how we store our customer cash. So, while we did have exposure to Silvergate at one point in time and Signature at one point in time, there was never principal risk of those funds.

We had exited Silvergate prior to their decision to wind down operations. We did have funds at Signature over the weekend that they went into receivership. But as I said, customer funds were never at risk, and we had a small percentage. We had shared -- we had $240 million of corporate funds held at Signature over that weekend, which represented about 3 percent to 4 percent of our corporate cash.

We have since rebuilt redundancy, so we quickly switched all of our operations over that weekend to other banks, other payment rails, and we were able to continue business as usual to support all of our customers throughout that time period. There was, over that weekend, we had to stop minting and burning USDC for 48 hours based on lack of liquidity for actually getting USDC from the issuer.

However, for all of our products, for trading in crypto on the Coinbase platform, we were business as usual throughout the banking crisis. Since then, we have onboarded new banking relationships, so we have new partners where we can offer 24/7 instant settlement again, that is the 24/7 instant settlement today is offered through Customers Bank.

And we are continuing to build more and more layers of redundancy, given that we do not think we are through the banking crisis, given that we're seeing First Republic events last week where we did not have any accounts or balances, but just -- I do not think we're through it all. And so, we are continuing to invest in resiliency and redundancy here and are happy with what we've been able to achieve so far.

Operator: Your next question comes from the line of Jason Kupferberg with Bank of America.

Eric Dray, BAML: Hey, guys. Thanks for taking the question. This is Eric Dray on for Jason. Really just one for me, kind of on the back of that one. Have you guys disclosed who the new banking partners are, and if not, are you able to tell us that?

Alesia Haas, CFO: We share on our website all the banks in which, at current time, we're holding customer funds. We have not disclosed all of our corporate banking partners publicly. However, they are broad and diverse, and we don't have concentration of deposits outside of GSIB banks.

So, on the customer side, yes, and so the new one that is on the website is Customers Bank that we're holding funds. We've onboarded other accounts that we have approval to hold customer funds, but we haven't integrated them into our payment platform at this time.

Operator: Your next question comes from the line of Stephen Glagola with TD Cowen.

Stephen Glagola, TD Cowen: Yeah, thanks for the question. I just wanted -- two weeks ago, SEC, I think it was two weeks or so or something, the SEC charged Bittrex with operating an unregistered exchange and they named a non-exhaustive list of six crypto asset securities, and I just wanted to ask, like, what is the strategic rationale for Coinbase?

Today, you can still buy and sell those and you still offer one of those for staking, for listing those securities, despite what the SEC said. I know you delisted Ripple post-SEC action in the past, and if it's because you think they aren't securities, maybe can you just elaborate where you think the SEC is wrong in their analysis of those tokens? Thanks.

Alesia Haas, CFO: Our process for listing securities and providing custody service -- I'm sorry, roll that back. Our process for listing assets on our platform is that we run through a robust process that we assess a legal analysis, a compliance analysis, and a cyber or a physical security analysis.

Our legal analysis assesses each asset based on a robust set of questions about whether or not we think it is at risk of being deemed a security, and that we will not list assets that we believe are at risk of being a security. In fact, we've rejected over 90 percent of the assets that we've analyzed for trading on our platform.

So, the assets that we list on our platform, based on our assessment, do not have risk of being a security, and that is why we are continuing to list those assets. Every time that the SEC puts new information in the market, as they did in Bittrex and as they've done in prior cases, we look at that information and we run it through our processes. If there's any new information that would give us new facts, that would change the outcome of our analysis.

And at this time, we have not made any decisions to delist assets in the Bittrex case.

Stephen Glagola, TD Cowen: Okay. Thank you very much. And if I can just squeeze in one quick one on the offshore exchange and the mint share impact, because I know you're going to settle trades in the USDC. I just was curious, how does that -- would that drive COIN's mint share, the payout ratio from Circle potentially higher? Any color there would be appreciated. Thank you again for both questions.

Alesia Haas, CFO: Of course. It's possible. So, customers could obtain their USDC from Circle, from Coinbase, but the goal is to drive overall USDC market cap, which broadly benefits Coinbase. And so, yes, we think that could have a benefit to our USDC interest income through generating more activity on the international exchange, but it's not unique to the benefit of the Coinbase mint share.

Operator: Your next question comes from the line of Jeff Cantwell with Wells Fargo.

Jeff Cantwell, Wells Fargo: Okay. Thank you very much. I wanted to ask you on the international moves that you're discussing. I just want to understand the framework for that as an extension of your U.S. business versus a longer-term substitution effect.

I mean, we get this question a lot from investors and they want to better understand how you're thinking about international, just given what's happening with the regulatory environment here. Thanks very much for framing that for us. Appreciate it.

Alesia Haas, CFO: Thanks for the question. So, as Brian shared in his remarks earlier, we are a U.S. company. We chose to be domiciled here. We think this is a great market, but we also are a global company and we're looking to grow internationally.

Some aspects of our business are extensions of the U.S. So, we are looking to add more users to our platform via our initiative to expand in Canada, in Australia, Brazil, once we consider those extensions of our U.S. platform.

The new international exchange is distinct from that, where this is an independent international entity to serve specifically international clients that does not serve U.S. customers. And it is offering the first derivative products of Coinbase to an international customer set.

So, to serve a billion people, which is our long-term goal, we need to be a global company. But as Brian shared, the regulatory environment in a variety of countries around the world may influence where we allocate our share of wallet and our dollars for expansion. But our goal is to be a strong U.S. company as well as a strong global company.

Jeff Cantwell, Wells Fargo: Okay, great. I appreciate that. And do you mind referencing the consumer take rate again, which was clearly stronger than everyone was expecting? How sustainable do you think that is and how -- what's driving that?

It sounded like you have a little bit of pricing power in the near term. So just trying to think about that a little more. Thanks.

Alesia Haas, CFO: So, we don't -- in our financial statements, we share our consumer trading revenues and our consumer trading volumes. And I think what you're referring to is people have done the math to look at what that rate is.

That rate is combined with a number of things underneath. So, our pricing includes fees and spreads. It includes revenue from our simple platform. It includes revenue from our advanced platform. It includes different trading pairs that have different pricing associated with them and different ways that customers buy also drive different pricing.

So, it's an amalgamation of many different fees and mix. However, we did share that the driver of the increase in revenue, in addition to the growth in volume this quarter, was that we increased spread on our simple consumer trades.

This is something we're constantly assessing. And we are looking at the impact of customers to make sure that we are meeting their needs in this market. We've just come through a pretty hard market and trust is an important, important part of a customer's decision and why we think they choose Coinbase to trade on our platform is because of our long-standing commitment to trust.

So, I can't speak to the sustainability over the long term. As we've said, over the long term, we believe there's a point in time where crypto trading becomes more commoditized and we believe that over the long term that we'll see compression in spread. So, we do not see that at this time.

Jeff Cantwell, Wells Fargo: Right. Right. Okay. Great. Thanks very much.

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

Bo Pei, US Tiger: Hi, thanks. Just two quick questions, if I may. First is for the fee dynamics. So, we saw the trading volume of other crypto assets surged to 41, I think 45 percent in 1Q compared with 30 something percent in 4Q. However, the transaction value from those other crypto assets remain largely unchanged. Could you explain the dynamics here a little bit more?

And then the second question, a quick one, do you see increased interest in ETH staking after the Shanghai upgrade, especially from the institutional side? Thank you.

Alesia Haas, CFO: Thank you. So, it's a good observation. So, trading volume, you see a shift from Ethereum and Bitcoin into other assets in Q1. However, the revenue has been relatively the same mix.

What's happening here is the market makers who have lower pricing due to the volumes that they trade, as we rolled back the pricing discounts that we had, we saw some of those volumes for those Bitcoin and ETH pairs move to other platforms, and we saw more of that trading volume on our platform be on the longer tail of assets.

What we've seen also in the quarter is other platforms have offered zero fees at various times. Some of those have been rolled back. There's a lot of dynamic movement around pricing on the market maker platforms across all of the various trading platforms.

So, market makers are looking for where they can find the most efficient trades and the right arbitrage. And so, in the quarter, more of that was in the longer tail on our platform. And that's what drove more volume in the long tail, but the revenue didn't really follow that.

And on the second question you had on the increased interest in staking on ETH from Insta post-Shapella, I would say I don't have anything to speak about quite yet on that, where it's not having a material impact on our Q2 outlook.

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

Rich Repetto, Piper Sandler: Hi, Alesia. Good evening. I just got two accounting questions. One is on the tax rate. Is there any way for us to have a reasonable chance at estimating the tax going forward?

We don't know what your earnings are, but as a percentage, I know it has to do a lot with stock-based comp, but is there some formula that might get us close to try to predict the taxes in the quarter? That's the first one.

Alesia Haas, CFO: Q1 was heavily influenced by a valuation allowance reversal. As crypto asset prices rose, we were able to reverse an impairment we had against our crypto asset investment portfolio that we held, that we had taken last year during price declines.

So, there was a lot of one-time noise, unfortunately, in our tax rate in the quarter. Our tax rate, Rich, is heavily influenced by R&D credits, by stock-based comp, as you note. Those are the two most material impacts.

Otherwise, we are a fairly predictable, I would say, company in terms of the federal plus the state rates because most of our income is U.S. So, I don't have an outlook to provide to you because of the nature of those one-time items and how material they are to the overall rate. We haven't provided that outlook at this time.

Rich Repetto, Piper Sandler: Okay. And then just a quick follow-up about what you mentioned, the crypto impairment. I know you -- I hate to be repetitive. I know you explained it before, but you marked down crypto, there's a trigger, and then it needs to be marked down and it can't be written back up, as I recall.

Alesia Haas, CFO: You got it. You got it. Yep, that's right. So, crypto from an accounting presentation today is as an intangible asset, which means that we write down and we impair our crypto assets to the lowest price that existed during the quarter.

So, not just the end of the quarter, not the average of the month or the week, but the lowest price during the quarter. And we do not mark those back up. The only time that we see a gain is if we sell an asset and we had an embedded gain.

It's interesting, the FASB has put out a proposal for rulemaking that comments are due this June that we could actually move to fair value for crypto asset accounting, which I personally would be a big fan of. But right now, it's treated as an impairment and we do impair and write down to the lowest level each quarter.

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

Owen Lau, Oppenheimer: Yeah, thank you for taking my question. So, in Europe, given that the vote for MiCA was approved, could you please talk about your plan to launch products there? What are the key considerations for expansion in Europe? Thanks.

Alesia Haas, CFO: Thanks for the question. So right now, the focus on Europe is actually product excellence and operational excellence where we are working to improve onboarding. We're working to ensure a more localized user-friendly experience and really work through to make sure the product is best in class against competitors in that market and also at par with what we have in the U.S., which is our more mature product offering.

So, we're not -- we don't have any announcements around new products or a new roadmap, but we are excited about MiCA because it provides clarity. We feel that this is a good framework for other countries to look to in terms of rule adoption.

It doesn’t change our roadmap for the products that we could offer at this time and that we're really, as I said, focused most and foremost on product excellence for the EU countries.

Owen Lau, Oppenheimer: Got it. So quickly, on ETH staking, would you be able to share your market share in ETH staking? Is it around 15 percent? And then how much percentage of the customers' ETH has been staked? Would you be able to share some of these numbers for us? Thanks.

Alesia Haas, CFO: Sure. We shared in our shareholder letter that we are staking about $5 billion of Ethereum as of Q1, $5.2 billion.

Operator: Your next question comes from the line of Ken Worthington with JPMorgan.

Ken Worthington, JP Morgan: Hi, thank you for taking the follow-ups. Just a couple of numbers of questions. What were customer fiat levels in the quarter and customer USDC levels in the quarter? You might have mentioned it and I missed it, and if so, I apologize.

Alesia Haas, CFO: Sure. So, on the balance sheet, you can see our customer fiat was about $5.4 billion in Q1, which is up from the December level. And customer USDC balances we share in our disclosures around assets on platform, and they were about $900 million as of Q1.

Ken Worthington, JP Morgan: Okay. Great. And then to follow up on Rich's question, because I got a little confused here, the reversal of the impairment was the original impairment that was, I guess, this past quarter reversed, did that have anything to do with crypto price impairment or was the impairment that was reversed something completely unrelated to crypto price impairments?

Alesia Haas, CFO: I want to make sure I understand the question. So, what I shared was the reverse was a tax valuation allowance that we had against our crypto investment portfolio.

So, it was a valuation allowance because as crypto prices came down, we thought we had a deeply impaired price. As crypto prices came back up, while we can't mark the asset up, we now don't believe we're going to take that tax. We believe that we can take that income again. So, that was the tax reversal.

Ken Worthington, JP Morgan: Got it. Okay. Crystal clear now.

Alesia Haas, CFO: So, a little bit different from like -- yes. Okay.

Ken Worthington, JP Morgan: Awesome. Thank you.

Operator: Your next question comes from the line of Ben Budish with Barclays. Ben, your line is open.

Ben Budish, Barclays: Sorry. Can you hear me now?

Alesia Haas, CFO: We can.

Ben Budish, Barclays: Apologize for that. I wanted to ask about what's sort of embedded in your, pardon me, the subscription & services outlook for Q2, particularly regarding USDC market cap, just curious if you can share what sort of the expectation embedded in the $300 million for Q2.

Alesia Haas, CFO: So, we didn't share that in our outlook specifically, but we are recognizing that market cap has come down from the Q1 level and it's roughly 23 percent lower than the average Q1, which the average in Q1 was $41 and now it's in the $30 billion range. The average in April was 31.7. So, we are taking that $10 billion change and rolling that into our outlook for Q2.

Ben Budish, Barclays: Got it. That's helpful. And then I'm curious, you talked a little bit earlier about the pricing change on market makers. Can you maybe talk a little bit more about that decision? Just given that your revenue mix is so heavily skewed towards retail, why choose to optimize revenues with -- on the institutional side rather than volumes?

Alesia Haas, CFO: This is something that we constantly evaluate and assess pricing on all our products. We wanted to understand the overall price sensitivity to the market makers in these discounts.

The market has been rapidly changing, too. Obviously in Q4, we had FTX, that was a large reason we had put discounts in place. And so, we were looking at the overall market and assessing what the market may look like in Q1 if we rolled back these discounts.

We think about this as a dynamic pricing model to make sure that we are balancing market share and revenue at the same time. So, we are looking to optimize for the right mix on our platform and think that we struck a nice balance for Q1.

Operator: And your final question comes from the line of John Todaro with Needham & Company.

John Todaro, Needham: Hey, great. Thanks for taking my question. I have two here for you. One, just trying to understand, what would it take for Coinbase to broadly delist tokens or if it got to it to discontinue the staking business, would there need to be a definitive court case or could we infer something from a Ripple case if there is a negative summary judgment there? That's my first question.

Alesia Haas, CFO: So, first of all, we constantly are looking at our portfolio for new facts, looking at trends to see if we should delist. We do delist tokens on a regular basis as part of our own assessment, independent from regulatory action.

I don't want to speculate what it would take for Coinbase to delist tokens at this time. This is early and yes, obviously, if there is a court case that said we have to delist, we will delist as a response to that court case, but I don't have a specific scenario to share with you.

John Todaro, Needham: Okay. Thanks. And then second question, just kind of going back to the retail takeaway a little bit, do you break out the percent of advanced trading versus consumer and if not, is the mix though, is that similar to Coinbase Pro or have we seen Coinbase Pro users convert over to consumer?

Alesia Haas, CFO: We don't break it out specifically in our disclosures. As we shared with you in Q4, we saw -- as we did the conversion from Coinbase Pro over to retail advanced trading, we did see a pickup on simple. But as we shared in our current shareholder letter, we've seen the mix now between simple and advanced revert to historic levels.

Operator: And there are no further questions at this time.

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

Alesia Haas, CFO: Thanks all.

Operator: This concludes today's conference call. Thank you for joining. You may now disconnect your line.