Coinbase Global, Inc.
Second Quarter 2023 Earnings Call
August 3, 2023

Anil Gupta, Vice President, Investor Relations: Good afternoon, and welcome to the Coinbase Second Quarter 2023 Earnings Call. Joining me on today's call are Brian Armstrong, Co-Founder and CEO; Emilie Choi, President and COO; Alesia Haas, CFO; and Paul Grewal, Chief Legal Officer. I hope you've all had the opportunity to read our shareholder letter, which was published on our Investor Relations website earlier today.

Before we get started, I'd like to remind you that during today's call, we may make forward-looking statements. Actual results may vary materially from today's statements. Information concerning risks, uncertainties and other factors that could cause these results to differ is included in our SEC filings.

Our discussion today will also include references to certain non-GAAP financial measures. Reconciliations to the most directly comparable GAAP financial measures are included in our shareholder letter on our IR website. Non-GAAP financial measures should be considered in addition to, not as a substitute for GAAP measures. We are once again using Say Technologies to enable our shareholders to post questions. In addition, we will take some live questions from our analysts. With that, I'll turn it over to Brian and Alesia for opening comments.

Brian Armstrong, Co-Founder & CEO: Thanks, Anil. Q2 was a strong quarter for us as we demonstrated operational discipline, focused on product excellence and helped drive regulatory clarity for the industry. I'll start by touching on operational discipline. We drove $194 million of Adjusted EBITDA in Q2, marking the second consecutive quarter of positive Adjusted EBITDA.

About a year ago, we started executing on cost reductions, and I'm happy to say that in Q2, our operating expenses are now down nearly 50% year-over-year. We ended Q2 with 3,400 employees, and we've been able to get a lot done by being a more efficient company at this size.

Next, let me touch on product excellence. People use Coinbase’s products because we're the most trusted brand, and we made crypto easier to use. Over the past decade, we focused on compliance, cybersecurity, great design, user experience and customer support. We've always taken a long-term view and tried to do the right thing even when it wasn't easy or the rules weren't clear.

Today, Coinbase is consistently ranked as the most trusted crypto platform across multiple markets, and this is a huge competitive differentiator for us. We have great product coverage in this industry and serve 3 distinct customer groups: retail, institutions and developers.

For our retail customers, Coinbase and Coinbase Wallet have moved beyond our best-in-class trading use cases. We now help customers make payments, save, earn rewards, access NFTs, use Coinbase Card and access third-party applications in web3. Coinbase has become a platform for a broad set of first and third-party use cases with an increased range of functionality. And our goal is to become the primary way people manage their financial lives all over the world, enabled by these powerful decentralized protocols that will become a larger fraction of the global economy over time. Coinbase Wallet provides a way for retail customers to access this functionality while storing their own funds via self-custody.

Now moving on to our institutional customers. We provide an integrated trading, custody and financing solution through Coinbase Prime. And for our developer customers, we're building Coinbase Cloud with a powerful set of APIs and native onchain solutions like Base that allow every business to integrate crypto technology.

In Q2, we launched our derivatives exchange in select markets outside the U.S., and we were also selected as the custodian in a number of ETF applications in our institutional business. A big focus for us over the next year is how we're going to be driving utility in crypto that goes beyond just trading. The first 10 years in crypto were primarily about trading, but we've seen our customer base shift its activity over time where the majority of our active customers now do something with crypto other than trading.

My belief is that the next 10 years in crypto will become predominantly about non-trading use cases. So what could some of those be? Well, payments is a big one. As the scalability of blockchain improves by moving to Layer 2 solutions like Lightning, Optimism and Base, we'll see payments emerge as a larger use case. Getting more scalable blockchains will be as important as the Internet moving from dial-up to broadband.

We'll also see the rise of decentralized identity systems with decentralized messaging and social apps that will accompany those connected right into those decentralized identities. And we're working hard at Coinbase to make it easy to connect your Coinbase Wallet to any third-party app or dapp, which stands for decentralized app.

In the Coinbase app today, you can actually visit the web3 tab at the bottom right of our app and connect it to any third-party application out there in the ecosystem. More and more crypto utility will be happening onchain. And Coinbase, we like to say that onchain is the new online. So we're fully embracing that. As we continue to make crypto trusted and easy to use with these new use cases we'll help update the financial system globally and help a billion or more people benefit from this technology.

So finally, I want to touch on how Coinbase is driving regulatory clarity for the industry. One of the biggest items holding back adoption of this technology is the lack of clear rules and both regulation by enforcement that's taking place in the U.S. to date. While the rest of the world has made great strides in embracing crypto and web3 technology with clear legislation, the U.S. has struggled to keep pace.

Coinbase has an important role to play here. When the SEC refused to engage in rulemaking and instead pursued a regulation by enforcement approach, we availed ourselves of the court to help bring regulatory clarity to the United States and help get case law created. We've also been actively engaged with Congress, where we've seen bi-partisan support to pass crypto legislation.

In just the past few weeks, the House Financial Services Committee and the House Ag Committee passed the landmark crypto market structure bill (FIT21) and the stablecoin bill with bi-partisan support. These bills go to the House floor for a full vote later this year and from there advance to the Senate.

Coinbase is committed to helping ensure America passes crypto legislation, and it is not left behind. We've also begun activating crypto users across the U.S. to ensure their voices are heard in our democracy. 1 in 5 Americans have now used crypto—more than hold a union card, as one point of comparison. And our Stand with Crypto campaign has signed up about 60,000 crypto advocates to date across all 435 congressional districts.

As an example of how we're activating them in New York City today, we're hosting an in-person gathering with representatives from the offices of Senator Gillibrand, Mayor Adams, and Governor Hochul and hundreds of crypto enthusiasts. By the way, you too as an investor can help in this effort by visiting standwithcrypto.org to sign up as a crypto advocate. If you want to ensure America embraces crypto technology and helps create clear rules around it, please help us by visiting standwithcrypto.org.

Congressional town halls are happening all throughout the August recess, and we're encouraging Stand With Crypto advocates everywhere to reach out directly to their policymakers to support innovation in clear crypto regulation. Crypto is even proving to be an important topic in the upcoming 2024 presidential election with most of the challenger candidates staking out a positive position.

In a democracy, the government is for the people and by the people and the citizens of the United States have made it crystal clear that they want to use crypto and they believe in the potential of this technology. We will not allow America's leadership here to be destroyed by a few outliers in our government painting outside the bounds of the law. The various court cases being decided now at a minimum prove that we're -- what we've been saying all along, that there is no regulatory clarity, new legislation is needed and the underlying assets themselves, as decided in these cases, are not securities.

In conclusion, although we're in a crypto bear market with volatility the lowest we've seen in years, Coinbase is financially healthy with our second quarter of positive Adjusted EBITDA. We even generated $156 million in cash in Q2. We intend to hold headcount flat for now as we keep making progress on the above items that I mentioned.

Meanwhile, we have the most trusted brand and the easiest to use products, and we're showing up day in and day out to do the hard work of running a trusted, secure and compliant crypto platform. This is our competitive advantage. Our long-term focus on following the rules has proven to be the right strategy as regulators have closed in on companies who didn't, another competitive advantage for us. And we're driving regulatory clarity in the U.S. while expanding abroad in places where the rules are already clear.

All of this sets us up to be the global leader across a variety of products and our three customer groups. Crypto is the most important technology we have to update the financial system globally, and Coinbase is the leading company in this space. With that, I'll hand it over to you, Alesia, to tell us more about our Q2 performance.

Alesia Haas, CFO: Thanks, Brian. So as Brian shared, in Q2, we made good progress on our journey to build an increasingly efficient and financially disciplined company. As he said, we generated $194 million of Adjusted EBITDA, and we generated $156 million of cash. We ended the second quarter with a total of $5.5 billion of USD resources on our balance sheet.

I want to shift and talk about the drivers of our results, starting with the macro backdrop and then discuss the financial performance. In Q2, crypto volatility, which is a key input into our trading business, continued to decline, and it reached multi-year lows. Our trading volume declined 37% in this environment. But importantly, it outperformed the global spot market, which declined 48% as we gained market share in the quarter.

This provides the backdrop to our transaction revenue. The low volatility environment contributed to transaction revenue of $327 million, which was down 13% quarter-over-quarter. The average blended fees for both Consumer and Institutional increased quarter-over-quarter. This increase in fees was driven by a mix shift of trading volume. We offered a Simple and Advanced trading experience in Retail, we offer trading through the Exchange and through the Prime platform in Institutional, the fees differ by product and the mix shift drove an increase in fee rate during the quarter.

Subscription and services revenue was $335 million and exceeded our outlook. The outperformance was driven by Blockchain Rewards, notably higher MEV boost rewards and higher asset prices. In addition, we saw a higher percentage of cash invested in accounts that generate interest income.

On the expense side, we continue to operate with a heightened focus on cost and efficiency. As Brian mentioned, our quarterly recurring operating expenses – these are Technology & Development, General & Administrative, Sales & Marketing – are down nearly 50% compared to the second quarter of 2022 when we really started to focus on financial discipline.

In Q2, our total operating expenses were $781 million. Our recurring operating expenses were $664 million and lower than our outlook, mostly driven by our ongoing operational efficiencies. We provide a lot of detail in our letter.

Lastly, I want to turn to our outlook for the third quarter. In our letter, we note that July transaction revenue was approximately $110 million. We expect Subscription and services revenue to be at least $300 million, assuming no material changes to assets on platform or the average crypto market capitalization compared to the end of July.

In terms of our expenses, we expect Tech & Dev and G&A to be between $575 million and $625 million, which is a slight increase from Q2 levels. This increase is driven by our Stock-Based Compensation expenses. Due to our Stock-Based Compensation recognition timing, we will have elevated Q3 levels, but we expect the second half of 2023 to be largely consistent with the first half of 2023. We expect Sales & Marketing to be consistent with Q2 at $80 million to $90 million, as the lower Q3 spending from our NBA partnership is being offset by higher USDC reward payouts to customers.

To conclude, I want to reaffirm our goal of improving Adjusted EBITDA in absolute terms on a year-over-year basis. With that, Anil, back to you and let's take some questions.

Anil Gupta, Vice President, Investor Relations: Thank you both. So let's turn to questions. We are taking the most upvoted questions as determined by the number of shares and may combine questions that touch on the same theme. For the first one, starting with the big picture, a number of the most asked questions from shareholders touch on the next 3 to 5 years in crypto and for Coinbase. Maybe a question for you, Brian. What do you think or hope happens to the crypto industry over the next 3 to 5 years? And what does Coinbase's role in that look like?

Brian Armstrong, Co-Founder & CEO: Yes. So there's a couple of big themes that we think about over the next 3 to 5 years. So scalability, regulatory clarity, driving utility in crypto, that's non-trading, these are 3 of them. I'll touch on each one briefly and then talk about our role in it at Coinbase. So in terms of scalability, having more scalable blockchains, it's hard to overstate the importance of this. It's -- again, it's kind of like the Internet moving from dial-up to broadband. I think it's going to unlock a lot of new use cases. It's going to make things like payments more viable. Today, unfortunately, on Layer 1 solutions, it's still fairly slow, fairly expensive to get payments to final confirmation. And ultimately, we hope to get every payment in crypto under 1 cent and in 1 second confirmation, and that would be a real game changer globally.

The second one is -- and by the way, the way that that's going to happen is these Layer 2 solutions, right? Coinbase has our own initiative there around Base, but there's many others out there, Lightning and Optimism, Polygon, et cetera, which are really good efforts here.

The second big trend here is around regulatory clarity, which I mentioned in my opening comments. So the status quo really isn't working here. We're getting -- there's conflicting statements being made by the two federal regulators in the U.S., the CFTC and the SEC.

There's consumers being harmed, as we all know. It's just not a level playing field, where internationally, companies like Coinbase are welcomed with open arms. There's a clear regulatory framework; for instance, the MiCA legislation that we saw passed in Europe, but the U.K., Singapore, Brazil—every financial hub out there is really making an effort to pass legislation and they're, frankly, ahead of where the U.S. is.

So we were excited and really heartened to see that a few weeks ago that the market structure bill and the stablecoin bill did pass the committees in the House, and that's a really important first step, and we're hoping that the U.S. can build on that to get going even further.

I guess the last one here I'll touch on is about utility. So again, trading was the big use case in the early days of crypto, but it's already started to move away from that. Things like stablecoins for payments, DeFi, NFTs, these have already gotten substantial traction. But I think with Layer 2 solutions coming online, these can get much, much bigger.

There's an analogy that -- an example I think it's interesting to look at around text messages, I think, at their peak, reached about 25 billion text messages a day. But when WhatsApp came online, it got to 100 million or 125 billion messages a day. And it just showed you, people wanted to send more text messages. It's just that the friction was high. It costs a little bit too much. The friction internationally was there. The features weren't there. And so I think the same thing could happen with payments and various types of utility with these new types of decentralized identity and messaging and things built in this crypto-native way, the demand for it will go much higher as the friction is reduced. And there still is a lot of friction in the way money moves around the world today.

So those are a couple of things on the horizon. Coinbase has a big role to play here. With scalability, I mentioned we're working on Base. With regulatory clarity, I talked about how we're organizing our users in D.C. with Stand With Crypto. We're doing our own court case to get case law created. We're also supporting these legislative efforts in Congress. Around utility, we're building a lot of this stuff natively into our own products, right?

So just try to make all these things enterprise identity and and just make it easier to easier to use, how people interface with Layer 2 solutions as well. So I think Coinbase is really the only company in the world that has the trust and the scale internationally and the expertise around crypto to actually make this happen. And that's a really important thing that we can go do.

Anil Gupta, Vice President, Investor Relations: Next question. Recent enforcement actions remain top of mind for many shareholders. To that end, can you give an update on the litigation process with the SEC? What are the key issues at stake? And how should we think about the timeline and milestones from here? Paul?

Paul Grewal, Chief Legal Officer: Thanks, Anil. Well, with respect to the litigation with the SEC, I want to be very clear, we do think we can win. We expect to win. But it's important to understand that our goal across not just the litigation but all of our efforts engaging with the SEC and engaging with the U.S. government as a whole is to achieve regulatory clarity to protect consumers, promote innovation and essentially establish clear rules of the road that everyone can understand and follow. We think that's how we all win regardless of the outcome of any particular case. And that's why while we are focused on the enforcement action, we are also focused on legislation and other efforts that may provide the clarity that I speak of.

Now the reason why we are so focused on pushing for regulatory clarity here in the U.S. is that at present, under the status quo, we have very conflicting messages about what the law provides, especially considering that many of these laws were written well before the Internet even existed. Take, for example, conflicting statements from the Chair of the SEC and the Chair of the CFTC on whether Ethereum is a security. Or consider the fact that the Chair of the SEC has taken very different positions in just the last 2 years about whether or not there are even regulatory authorities that apply to cryptocurrency exchanges like Coinbase. So the outcome in any particular case, it's clarity that we ultimately define as winning.

Now let me talk a bit about the case. Obviously, we are disappointed that despite our good faith efforts and our efforts to be as transparent as possible with the Commission and with the markets as a whole, the SEC did choose to bring an enforcement action against us earlier this summer. And in response to that, we are pushing hard and making the same points that we have made throughout this entire challenge.

Number one, that Coinbase does not list securities on its platform. We have a lot of confidence in that because of a rigorous asset review process that we've undertaken. Number two, the SEC lacks any authority to regulate digital asset exchanges, exactly in the way in which Chair Gensler acknowledged when he testified to Congress to that effect in May of 2021. And third, that when the SEC declared our registration statement effective in April of 2021, a month earlier, it never suggested whatsoever that there was any requirement to register. So what happens next?

Well, tomorrow, as it turns out, in our case in the Southern District of New York, we will be moving the court for an order dismissing the case in its entirety. And we're going to be submitting a brief to that effect, which lays out all of our arguments for the court consideration, which we expected to be fully submitted and taking under consideration at the end of October. We have full confidence in the argument we're making to the court. We're certainly grateful for the opportunity the court has provided us to be heard early in the case after we've been working so hard and so long for clarity.

Regardless, again, of any particular outcome on any motion or any court case, clarity itself is the goal. That's how we define winning, and that could come either through a court decision or legislation passed by Congress.

Anil Gupta, Vice President, Investor Relations: Thanks, Paul. Our next question is, how does Coinbase plan to derive revenue directly or indirectly from the upcoming Base L2 platform? Does this hurt trading volumes by encouraging more users to go onchain away from Coinbase? Brian?

Brian Armstrong, Co-Founder & CEO: Yes, I can take this one. So first, I just want to correct a misconception in the question itself. So the question asked, will more users go onchain away from Coinbase? Coinbase is fully embracing onchain. And actually, I think it's going to be the easiest way to access everything you want to do onchain. This is actually nothing new. It's been that way for a long time, even 10 years ago when Coinbase was live, we allow people -- when you're sending and receiving transactions, for instance, those would happen onchain when you sent on and off the platform.

And in more recent years, we've allowed people to access decentralized exchanges, various smart contract protocols through Coinbase Wallet and we've made that easier and easier in the main retail app as well. So just to be clear, we want Coinbase to be the easiest way to access everything onchain. We think onchain is a very important part of where this industry is going. And people are going to do that with Coinbase. So those are not contradictory items.

Now I think the heart of the question really asks about how we're going to monetize directly and indirectly Base, which is our Layer 2 solution. And just a quick background, everybody is not fully aware today, blockchains transactions are happening on what's called Layer 1. And they tend to be a little bit -- they take longer to confirm. There's a little bit of a higher transaction fee and so the industry has been working for a long time and how to make that more scalable, how to make it lower cost, how to make it easier for developers to build on what's called Layer 2.

It's kind of like, again, the Internet moving from dial-up to broadband. So Coinbase has tried to help this happen as a company in the space, driving innovation. And on top of the Optimism stack, which is one of the Layer 2 protocols, we've launched our own Layer 2 solution called Base, which is being decentralized over time. And a lot of developer interest has happened, and there's a lot of activities we're doing around that.

So how will we monetize it? Well, the short answer is that Base will be monetized through what are called sequencer fees. These are -- sequencer fees can be earned when any transaction is executed on Base and basically, Coinbase can run one of these sequencers as others can over time. Now indirectly, it helps us monetize as well because it helps us grow the size of the pie. It helps us grow the ecosystem. Again, it comes back to these Internet analogies. But if we can make the utility that much better, the payments faster and cheaper globally, more and more people will use crypto every day, and that's how indirectly it will just help our business grow. So I'll leave it there.

Anil Gupta, Vice President, Investor Relations: Thanks, Brian. Okay. We'll take one more before jumping into live questions. So question from a shareholder based on some recent news, how will Coinbase generate revenue from its custody of the upcoming spot ETFs. Emilie?

Emilie Choi, President & COO: Sure. Well, we're proud to be on this journey with some of the world's most trusted financial leaders. The primary way that we'll monetize in the near term is via AUCCs. And then down the line, we think there's a good deal of ancillary revenue that we can generate from things like settlement and other services. The reason we're excited is that this really should expand the pie and create positive impacts for the space. It should broaden our reach and we'll bring new people and institutions into the crypto economy. Should these applications get approved, it should broaden the reach of the asset class that some of the biggest institutions in the world seek to gain exposure to Bitcoin and eventually to other crypto assets for the very first time. It will generally create more legitimacy of the asset class.

ETFs should also increase liquidity and market stability as we've seen with other asset classes, and it increases revenue opportunities for many industry participants, ourselves included. We're proud that Coinbase is at the center of applications. And as you know, these institutions have rigorous diligence processes. We've been selected by many of the high-quality applicants because of the capabilities and brand we've built.

ETF applicants have selected Coinbase due to our compliance pedigree, customer trust and scale. So how does Coinbase add economic value to these ETFs and their issuers? We offer, first and foremost, secure crypto custody. And over the longer term, we'll explore ways to drive monetization via settlement, advanced trading and API reporting. We're also entering into bilateral surveillance sharing agreements with major ETF listing exchanges, including the NASDAQ and CBOE.

We're definitely in the early innings, and it's important to note that these products are still going through the registration and approval process. So I just want to emphasize that while the whole opportunity is exciting and has the potential to expand crypto adoption, there's a lot of work to be done before the ETFs are even approved and available, but the future is very exciting.

Anil Gupta, Vice President, Investor Relations: Okay. Thanks, Emilie. Tameka, let's open it up and take questions from the analysts.

Operator: Your first question is from the line of Devin Ryan with JMP Securities.

Devin Ryan, JMP Securities: I guess first question on just the market share backdrop. So trading volumes, I think, were down 37% quarter-on-quarter, but the global spot market was down 48% quarter-over-quarter, which you mentioned. So that obviously indicates some market share gains. And so I'd just love to talk about the competitive landscape. And particularly, if that's changing quite a bit here, just speaking to the opportunity for the firm to capture additional market share from here and just the things that you're doing to position – to gain more market share, it seems like you did just this past quarter.

Brian Armstrong, Co-Founder & CEO: Yes, I'll start it off and then Alesia, feel free to jump in. So I think, in general, we've seen a flight to quality. And that's been really validating of our long-term strategy at Coinbase, right? We've always tried to take this perspective of let's do the right thing, let's follow the rules, let's work with regulators around the world. Let's go out and advocate for regulation when it doesn't exist. And if the rules aren't clear, let's do the right thing kind of what we think they would be if and when they come around.

So that wasn't always the easiest approach to follow. It caused us to have to move slower at times. But I think it's been the right approach. So for instance, we did see that gain in share with simple trading in the U.S. There's a variety of factors that could go into that, but we did see Binance.US exit the market, which could have been one of the factors.

We have seen other markets around the world, for instance, in the U.K. where Binance existed and we saw our share gain. Now I think Binance offers lots of different products and services, not all of those we are going to be able to offer, frankly. We may not be allowed to offer. So I want to make sure to temper people's expectations a little bit there. For instance, we launched our Derivatives Exchange internationally in the last quarter. We recognize that as a very important part of the market that historically we hadn't really been playing in. We think that's a good opportunity to go and invest in, and we're going to continue to do that in more and more markets around the world.

But as in everything we do, we're going to do it in a compliant and trusted, legal, regulated way. And so we may not be able to offer everything that competitors have offered in the past. That being said, I think it's the right long-term solution. And so hopefully, we continue to gain share where people start to value trust and compliance and a flight to quality.

Devin Ryan, JMP Securities: Okay. Terrific. Just a follow-up here on institutional adoption. Obviously, regulatory challenges continue to be an overhang, but the Ripple summary judgment was seemingly something to help build some confidence here for a number of folks. I'd love to maybe hear about some of the green shoots that you're seeing in your business or takeaways from the State of the Crypto Summit – may seem to indicate that institutions are either beginning to reenter the market or actually more active in the market? Or is this just really we need to see comprehensive legislation for a step function improvement?

Alesia Haas, CFO: I'll offer some comments there. We are really excited to see the engagement at the Crypto Summit that you mentioned earlier. We brought together over 400 institutions that included hedge funds, asset managers, also included some global regulators and others. And the spirit here is: everybody is building. As we also shared in my remarks, we've seen growth in our Prime platform quarter-over-quarter.

So despite the market volume being down, that was an area where we did see growth, and we're seeing more and more institutions put money into the space. I think we can also see this period of institutional adoption through these ETF applications that Emilie spoke about earlier as well. So we're seeing institutions continuing to build through the markets, whether it's ups and down in volatility or whether it's through regulatory headlines. They recognize the long-term value of this asset class, and we're seeing momentum on that front.

Devin Ryan, JMP Securities. OK, thank you so much.

Operator: Your next question is from the line of Lisa Ellis with MoffettNathanson.

Lisa Ellis, SVB MoffettNathanson: Good afternoon, thanks for taking my question. I had a follow-up question maybe, Brian, for you on the priority you raised around scalability and driving scalability in crypto over the next in order to shift beyond trading and into other utility-oriented use cases over these next several years. Just thinking the Layer 2 solutions have been around now, I think Lightning was started back in 2015. What is it that has to happen to kind of break that free? What's been holding back the usage of these Layer 2 solutions to increase scalability in crypto and utility for things like payments or things like identity, as you said, just faster transaction speeds, lower cost transaction speeds? From our perspective, kind of as observers may be more in this space, like what are the signposts that we should be watching for to sort of see that progress happening?

Brian Armstrong, Co-Founder & CEO: Yes, it's a good question because if I go back to 2015, I probably would have thought it would have happened faster. There was a couple -- we did a deep dive back then on Lightning. And it was very nascent. It was frankly a little bit complex just the way that liquidity pools have to be spun up, how transactions could be received and sent on a mobile device where the app is not always in the foreground. These were the types of challenges that we saw early on. And at that point back in 2015, we determined Lightning wasn't ready.

We've been taking a fresh look at it, and there's been a number of really great teams from different companies working on open source solutions and some proprietary ones that are trying to help advance the state of technology there. I think the Layer 2 solutions on Ethereum, like Polygon and Optimism and Arbitrum, Base is built on one of those, Optimism, have -- they've actually gotten more adoption.

I'm not trying to make a -- we're supportive of every innovation in the industry, and there's kind of -- everybody has their favorite one. And so we're -- we always have to be a little bit neutral, but the way that you can track the adoption of these things, actually, a lot of the data is public and it's online because the blockchains are public themselves. So for instance, you can go look at the daily number of transactions happening on Ethereum Layer 2s. You can look at the TVL metric, total value locked. There's various sites out there like DeFi Llama and places like that, you can go track some of this publicly available data. We actually have seen pretty nice growth in Ethereum Layer 2s, just in the last, I'd say, like 3 to 6 months.

And so a lot of it comes down to usability challenges as well. So if you're an average user, they don't really want to know or maybe they don't even care about these -- what is it doing underneath, like the average user doesn't want to have to learn how to bridge from Layer 1 to Layer 2 to send their payment. They just want to pay for something and it "just works."

So I think what needs to happen, and this is something Coinbase can really help on is we can make this seamless in the background. So if somebody goes to pay for something online or a friend or a remittance payment or something like that, it should really negotiate kind of almost do a handshake underneath that would say, okay, what types of cryptocurrencies on what chains and is this recipient accepting and which ones do I have?

And it would basically do the bridge or the conversion real time for you underneath. And so you would just see the amount of dollars or something like that, that is going over the wire, and it arrives in 1 second with 1 send. That's kind of -- and you don't have to worry about Layer 2 and all these kind of things. That's the ideal outcome we need to get to, and a lot of hard work and computer science needs to go into making all of that seamless.

So -- and it's a coordination problem amongst the industry, too, because everybody has their own favorite solution, and that's a good thing. I'm glad a lot of ideas are being tried. But we can sort of help by enabling the best ones and sort of rallying people around good solutions so that we get a little bit more consistency, interoperability across the industry as well.

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

John Todaro, Needham: First, I just wanted to drill into the take rate a little bit more because it looks like it expanded to the highest level since Coinbase became a public company. So first off, I guess if the advanced trading mix goes down, is there room for it to expand further from here? And then as a follow-up to that, if so, kind of how confident are you that you can continue to increase retail spread before maybe you do start to lose some market share, some migration away?

Alesia Haas, CFO: Thanks for the question, John. So in Q2, this was mix shift as we shared. So if you just think about simple math and you say we had zero advanced trading as a scenario, this blended average fee would then be higher for retail because it would reflect the entire simple platform. So a concentration of simple versus advanced in consumer will change the number meaningfully period-over-period.

As we said earlier in the prepared remarks, we did see a greater decline on advanced than we did on simple in the quarter, which is what's driving what you see is the performance of that blended fee. But that fee in Q2 is just math. Broadly on your question, we did raise spread as we shared in Q1, that was a Q1 event, and we haven't seen any meaningful change in our consumer behavior from that event.

We monitor that very closely. We experiment with our fees on a regular basis, and we think that's part of just building a healthy business to understand pricing with our customers. So trust is our premium brand that we're selling, product diversity is what we're selling, the experience, the app platform that Brian mentioned earlier, and we think we have a differentiated product in the market. And so we are hoping to price that appropriately.

Operator: Your next question is from the line of Bo Pei with Tiger Securities.

Bo Pei, US Tiger Securities: Question. So I just want to stay a little bit deeper to the retail trading fee rate question. So what is the average rate for advanced trading and non-advanced trading, respectively? And do you think the same dynamics will sustain in 3Q? And then my second question is, despite the recent ways of the big, big clients for ETF applications, the USDC market has been declining. But on the other hand, you mentioned the growth of Prime indicates institutions are still investing in crypto. Do you think on a net basis, the U.S. institutions are losing interest in crypto? And when can we see a turning point for USDC market cap?

Alesia Haas, CFO: Let me start with the fees and then Brian or Emilie, if you want to talk about USDC and U.S. institutions. So Bo, on the fees, we have multiple products within the retail and on the institutional side. So within retail or consumer, we have simple trading, we have advanced trading, we have Coinbase One. And then underneath that, we have fiat to crypto and crypto and crypto. So I can't give you a specific blended average for each of these products. There's also tiered fees on the advanced product.

What I can tell you is that our fees are transparent that they're posted for customers, and so customers know what the fee is before they execute a trade on our platform. So then the blended average fee rate, which we report, is just a mix shift. It is math that results from the trading behavior of our clients on our platform. So I can't give you what we expect in Q3.

There's nothing that we do rather than focus on driving engagement, driving revenue, that is our primary goal.

Shifting gears and talking about USDC -- as Brian shared earlier, we did see a decline in USDC market cap as a result of the banking crisis in Q1. So I think we all know that when Silicon Valley Bank failed, USDC had a de-peg, and that precipitated a decline in USDC market cap.

We are working collaboratively with Circle to try and stabilize USDC and to grow, and we made our own numerous product initiatives in Q2 to try and engage further. I think, Brian, maybe you want to share again what we think really the opportunity for stablecoins broadly is around these Layer 2 solutions?

Brian Armstrong, Co-Founder & CEO: Yes, sure I mean just 1 or 2 other quick comments on the USDC market cap. I think this is public as well, Binance actually moved some of their funds from USDC into another stablecoin. But I think the data we have in the last 6 or 7 weeks, I believe, that the USDC market cap is up net of that. And so that's an important data point. I think there was also a perception that emerged just about U.S. regulatory risk, and there was sort of this perception that USDC had more of a U.S. nexus than Tether or something like that.

And to be honest, I'm not sure how well informed that is because, of course, Tether is storing U.S. dollars as well. And any bank, whether it's in the U.S. or not that's storing U.S. dollars kind of needs to have a corresponding bench relationship, and it's within the nexus or purview of the U.S. government. So I think -- I'm not sure how well informed that perception was, but sometimes perception is reality. To Alesia's point, I think that we're very bullish on stablecoins. I think that it's an important use case. It's an important stepping stone to getting people access to better financial services. And then ultimately, I think -- by the way, longer term, I think we could see bitcoin and sort of these more deflationary assets start to be used more as currencies and money as well. But today, people have such a high expected upside on it that they're not willing to spend it in high enough quantities.

So anyway, I'll pause there, but those are our high-level thoughts on the market cap.

Operator: Your next question is from the line of Owen Lau, Oppenheimer.

Owen Lau, Oppenheimer: Could you please give us more color on the traction on Coinbase international exchange? I think you have 50 institutions, $5.5 billion in contract volume. So what's the next step? And when do you expect revenue to be more material?

Brian Armstrong, Co-Founder & CEO: Yes. So it's definitely early days on Coinbase's Derivative Exchange. We've really just kind of launched it in Q2 with a small handful of clients, as you said, really kind of like a beta launch API only. So some of the next steps that we'll be working on are integrating it into our retail app. This advanced trading for retail customers is important.

We'll be launching it in our Prime app for institutions. We'll be expanding it to more geographies as well. And there's various licensing requirements in the major markets around the world to get that working. Our customers have also asked for features around unified margin and additional financing and leverage type features.

So those are some of the things on the horizon. You can track the data, it’s public, just around the volume of the books that we have there live today on our site, international.coinbase.com. And we'll also be adding more books. That's the other thing I should mention. Today, we just have four books live, two of them got added just in the last week or so. We'll be adding more books as well. So those are all next things that we need to do. A lot of work to do to get that to be where we want it to be, and it's definitely very early days. So we're not really commenting on the revenue piece of it yet.

Operator: Our next question is from the line of Dan Dolev from Mizuho.

Dan Dolev, Mizuho: We were talking about the -- you mentioned the share gains. But if I look at our data, at least when you compare to some of your key competitors in the U.S. like Robinhood. I mean it seems like you are ceding some share. And my question is, do you think that's true? And if yes, like is it because the price hikes you're seeing some pushback from the users? Or is there any sense of that?

Alesia Haas, CFO: Thanks for the question, Dan. So as we said, we experiment heavily with any fee change that we roll out to our users, and we're not seeing any change in behavior based on fee changes that we made in Q1 on our platform. We're really excited to see Robinhood's growth into crypto, we think it broadens the users who are interested in crypto as an asset class. We are heartened to see more and more companies and crypto to their portfolios.

One of the ways that we differentiate ourselves is that we're a crypto native company and that we're looking to build more crypto-native experiences for our users such as staking is a big one. But then increasingly, the integration to our Dapp marketplace and the ability to use applications onchain. So we think that we offer a differentiated product suite. And that, over time, this will really attract and grow users to our platform.

Brian Armstrong, Co-Founder & CEO: Yes, I'll just add to that. I think we -- generally, it's important to just grow the size of the pie here. Crypto is still in its infancy, right? We really -- we generally mean this when we said we want crypto to be integrated into every financial service business out there. But fintech apps, neobanks, traditional banks, traditional financial service companies, these ETFs, right? We don't view it as zero sum, we view it as positive sum. And -- the goal is really to help update the financial system globally, and we need to do that. We need this to be integrated in all kinds of products and services out there. And to Alesia’s point earlier, we didn't really see any material change in fees in Q2. So I don't think that's something that would have driven that in this case.

Operator: Your final question comes from the line of Ben Budish with Barclays.

Ben Budish, Barclays: I wanted to circle back to the question kind of around simple versus advanced trader. I think since like last December, it seemed like the simple trader has been kind of remarkably consistent, whereas the advanced trader sort of goes with market volatility.

I was wondering if you could talk a little bit more about the sort of different customer profiles you see? How do they kind of compare? Is it sort of a demographic or an income or sort of interest level thing because I think we would sort of assume that maybe the advanced trader is more engaged, but it seems like the simple trader is there quite consistently. So what are your kind of reads on the sort of characteristics of these customer types other than the choice they're making with how to trade?

Brian Armstrong, Co-Founder & CEO: Yes, there's -- it's tough to answer to your question because it's a wide variety of different people who are accessing it. I do think that -- so when we say pro trader, it could mean a variety of things, right? It could mean pro-sumer, or semi pro, they may actually be trading through our interface, they're more sensitive on fees. They're more interested in short-term trading, where the simple traders may be doing more buy and hold, setting up a weekly or a monthly kind of recurring buy that dollar cost averaging type stuff, which can be more consistent, right?

Now I think pro traders could also mean hedge funds and the largest market makers in the world and pension funds and endowments and sovereign wealth funds, so it really runs a wide gamut. I think that we have more work to do to serve the pro trader segment of the market with some of those features that I mentioned around more order books, derivatives, trading, ways for them to get leverage is a big one, kind of unified margin.

And so I think in those I think as we kind of mature our product offering around the pro traders, which we still have more work to do. I think hopefully, we will see that in -- even in up and down markets, we'll see more activity be more sticky there because pro traders in theory, I think you're right, they should be able to find opportunities to trade whether the market is – no matter what the market is doing. So yes, I think we need to mature our pro trader offering a bit, and that may emerge over time.

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

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