

Coinbase
Fourth Quarter & Full Year Earnings Call
February 15, 2024

Anil Gupta, Vice President, Investor Relations: Good afternoon. Welcome to the Coinbase Fourth Quarter and Full Year 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 metrics. 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 addition to, not as a substitute for, GAAP measures. We are once again using Say Technologies to enable our shareholders to ask questions. In addition, we will take some live questions from our research analysts. With that, I'll turn it over to Brian for opening comments.

Brian Armstrong, Co-Founder and CEO: Thanks, Anil. I'm proud to say that in 2023, we cut costs by 45% year-over-year and managed to ship product faster with a lean team. This led to \$95 million of positive net income for 2023, \$964 million in positive adjusted EBITDA and total revenue of \$3.1 billion. Coinbase has always taken a long-term approach focusing on building in a compliant manner even when it wasn't the popular choice. Many of our competitors cut corners and broke laws to get big fast, and we've seen how that strategy played out.

By contrast, Coinbase has now established itself as the trusted leader in crypto. I've always said that crypto adoption will happen in three phases, and I want to touch on what we did in 2023 to help drive each of those. In phase one, crypto is a new asset class that people want to trade. Crypto trading has been a major revenue driver for the industry, and Coinbase is the leader in spot trading in the U.S.

But in 2018, derivatives trading became the majority of crypto trading volume. It took us longer to do it in a compliant way, but I'm happy to report that in 2023, we have now launched derivatives trading globally.

In Q2, we launched Coinbase International Exchange, which offers derivatives trading to non-U.S. customers. In Q4, we launched Coinbase Financial Markets, which offers regulated futures trading in the U.S.

We also expanded our trading products around the world by getting new licenses. In 2023, we launched operations or received licenses or registrations in Bermuda, Brazil, Canada, France, Singapore and Spain.

Most of the world's capital is held in institutions. In 2023, we also meaningfully improved our institutional trading products with Coinbase Prime. We grew our institutional financing products. We launched Coinbase Asset Management.

We even played a key role in the approval of the Bitcoin ETF as Coinbase was selected as the custodian in eight of 11. This will unlock new pools of capital to flow into the crypto space with Coinbase playing a key role here. We're earning revenue, not just on custody, but also on trading and financing. We've already seen great demand as Bitcoin is now the second largest ETF commodity in the U.S., surpassing silver. All of these improvements will continue to grow Phase 1, crypto as a new asset class.

The second, Coinbase is not just a new asset class, it's also powering new financial services. In 2023, stablecoins began to be used in global payments.

We launched the ability to send free instant global payments on USDCoin using Base. We're now in the process of integrating this into our products to make payments of first-class experience.

In August, we entered into an arrangement with Circle to help expand the utility of USD Coin, which is now launched on over a dozen blockchains and is the second largest stablecoin with the market cap of \$28 billion.

In the third phase and final phase, we believe Crypto will also be a new application platform for the Internet. Over time, the Internet has become more and more centralized with big companies. The Internet also didn't start with a native form of

money or payments or value built in.

So we got credit cards bolted on as an afterthought. The number of associated issues like fees, fraud, chargebacks, limited ability to send microtransactions or do cross-border commerce and that led to the rise of ad-based business models.

Crypto is re-decentralizing the Internet with a new set of protocols for money, identity, messaging, social media, content, governance and even voting. And Coinbase is trying to help accelerate this trend in a number of ways. In 2023, we launched our own layer two solution called Base. This will help blockchain scale to \$1 billion or more users, bringing down transaction costs and confirmation times similar to the Internet going from dial-up to broadband.

We also launched improvements in Coinbase Wallet. For instance, we made it easier to find and use decentralized applications, or dapps.

For instance, with one tap, you can now open a dapp and you're already signed in and you have your wallet connected. There's no sign-up process for each app or having to type your credit card details into each app.

It's still early days for crypto as an application platform, and many of the early applications look like toys, but it has captured the imagination in hearts of developers, and Coinbase is one of the few companies who can bring together all the decentralized protocols into a compelling customer experience, which is what we're attempting to do with Coinbase Wallet.

So that's how we see crypto evolving. First, as a new asset class, second as a new set of financial services, and third as a new application platform.

In 2023, I also said regulatory clarity was a top priority, and I want to give you a quick update on this. The majority of G20 countries now have crypto legislation either already passed or being drafted.

This is really great progress. In the U.S. there are even 2 bills going through Congress now with strong bipartisan support. Coinbase, along with other players in the crypto space, contributed to an \$85 million super PAC designed to elect pro-crypto candidates in this upcoming U.S. election.

We helped create standwithcrypto.org, a grassroots movement for crypto advocates in the U.S. Their goal is to get to one million voters who want to stand for crypto in the 2024 elections.

They're at 30% of that goal today with about 300,000 members, and it's growing every week.

In the U.S., we're still working our way through the court system to get clarity there. But in the meantime, we're continuing to grow our business. Anecdotally, it's something our customers come up and thank me for the most, leading the charge to get regulatory clarity in the U.S.

We remain confident the U.S. will get this right, whether it comes from the courts, creating new case law, Congress passing new legislation or ultimately the 52 million Americans who've used crypto voting in this upcoming election.

Looking ahead to 2024 for a moment, I'd like to share a few of our top priorities for the year in closing.

Our first priority will be to drive revenue, especially growing our two largest revenue streams, trading fees and stablecoins. We'll do this with international expansion, growing derivatives and spot trading and more deeply integrating USDCoin into the cryptoeconomy.

By continuing to drive revenue growth, it allows us to fund some of our other priorities and the utility aspects of crypto. Our second priority is going to be to keep driving utility in crypto. This year, we'll be experimenting with payments as a use case.

We're starting to see adoption of USD stablecoins in emerging markets, especially those with high inflation, and customers can now send USDCoin for free instantly anywhere in the world on Base. This has the potential to make global payments much lower friction, reducing fees.

We'll also keep supporting developers building on Base. For instance, just recently, we've seen a surge of activity on the decentralized social media protocol, Farcaster, and the majority of developers are now building what are called Frames on Farcaster using Base.

We'll also be investing in Coinbase Wallet, our self-custodial app, where many of the early utility applications like decentralized social, identity or messaging are starting to take shape. Crypto still needs to have its iPhone moment where these decentralized protocols become easy to use for the average person, and we're hoping we can help make that happen.

Lastly, we'll continue to drive regulatory clarity for the industry. We're supporting standwithcrypto.org and its goal to activate one million advocates for crypto in this upcoming election and we'll continue to engage with Congress to work towards new crypto legislation in the U.S. Finally, we'll continue the fight in the courtroom to get sensible case law passed.

I'm very pleased with our financial position, operating efficiency and the competitive landscape, and I think we're incredibly well positioned for long-term growth. With that, I'll hand it over to Alesia.

Alesia Haas, CFO: Thanks, Brian. And good afternoon, everyone. In 2023, we focused on financial discipline and operational excellence. As a result, we're in a much stronger position today than we were one year ago. I want to share some highlights.

Some highlights from 2023 include significant growth in our subscription and services revenue through a down market, materially lower expenses, a return to profitability and a stronger balance sheet. We have more U.S. dollar resources and less debt as we enter 2024, and we did this all while accelerating our product velocity.

Let's dive deeper and start in the details of Full Year 2023. We generated \$95 million of net income and nearly \$1 billion in adjusted EBITDA. Our total revenue was \$3.1 billion, down \$86 million year-over-year.

We saw a decline in transaction revenue, but this was largely offset by a 78% increase in subscription and services revenue. Our full year total operating expense declined \$2.6 billion. Within this, sales and marketing, technology and development and general and administrative expenses declined \$1.7 billion on a year-over-year basis.

Turning to our Q4 results. All the comparisons I'm going to share on a quarter-over-quarter basis, unless I otherwise noted. Q4 began with lower levels of crypto prices and volatility, but we saw those increase by roughly 40% and 60%, respectively, by the end of the quarter.

These increases were largely driven by excitement around Bitcoin ETF approvals and broader market expectations for an improved macroeconomic condition in 2024. The increase in volatility had a meaningful impact on our transaction revenue. We saw strong growth and reengagement from both Simple and Advanced traders.

Notably, average trading volumes materially increased amongst our Advanced traders. This resulted in Q4 transaction revenue of \$529 million, up 83%. Both volatility and the mix of Advanced and Simple trading volume was similar to Q1 of 2023. And as a result, our Q4 blended average fee rate was similar to the Q1 levels.

As a reminder, we continue to experiment with our pricing models for both consumer and institutional, and price changes may impact future quarters. However, to be clear, we did not make any material change to our fee structure in Q4. The blended average fee rate that you see reported is simply due to mix shift on our platform.

Now turning to subscription and services revenue. Q4 was \$375 million, up 12%. The primary driver of the growth was Blockchain Rewards, which was influenced by higher crypto asset prices.

In the fourth quarter, we experienced another quarter of native unit growth. We saw inflows in custody and increase in stakes balances. We saw growth in USDC on our platform. We closed the year with just under \$200 billion of assets on platform.

On to expenses. Q4 total operating expenses were \$838 million, up 11%. Expenses were primarily driven by seasonal and performance marketing spend, increased legal spend and our decision to increase bonuses in 2023 as a result of our strong full year financial performance. Q4 net income was \$273 million, and adjusted EBITDA was \$305 million. Q4 net income benefited from strong revenue growth and two items.

First, we released a non-cash tax valuation allowance of \$121 million. Second, we repurchased \$100 million of our 2026 convertible debt, which had a favorable P&L impact of \$18 million.

Now turning to our outlook for the first quarter of 2024. Overall, Q1 is off to a strong start. Through February 13, transaction revenue was approximately \$320 million. This is about six weeks of the 12-week quarter. We are seeing strong trends across simple, advanced and institutional trading. Thematically, it looks similar to Q4.

We expect Q1 subscription and services revenue to range between \$410 million and \$480 million, with crypto prices being the largest driver of where we perform within that range.

In terms of expenses, we expect technology and development and general and administrative expense to grow modestly to \$600 million to \$650 million, driven primarily by higher stock-based compensation.

We provide additional context in the letter. We expect sales and marketing expense to decline modestly to \$85 million to \$100 million, driven by seasonally lower NBA spend. In closing, Q4 capped a strong year to our business, and we are excited for what 2024 brings. Before we turn to questions, I'd like to hand it over to our Chief Legal Officer, Paul Grewal, to share an update on the status of our SEC case.

Paul Grewal, Chief Legal Officer: Thank you, Alesia. As Brian mentioned at the outset, regulatory clarity is one of our top priorities, and one venue through which we are seeking that clarity is through the courts.

We continue to see progress in the early stages of our enforcement litigation with the SEC. Just last month, on January 17, the judge in our case held oral arguments on our motion for judgment against the SEC.

This is still a very early stage of the case. It's always very hard for defendants to entirely dismiss any case at this stage, something that court statistics make clear. But we strongly believe that we are right as a matter of law, and we were grateful to see the court's careful attention to this matter and deep understanding of the issues at the oral argument.

So what is next? The motion is under submission and the court did not specify any timeline for decision. There are multiple potential outcomes, but we are ready for any of them. The court could dismiss the complaint in its entirety, dismiss some of the claims but not others or dismiss none of the claims at this early stage. Any claim that is not dismissed will then be the subject of discovery, which is a process that can take time.

We are ready for discovery, if that is the next step, which would include discovery for both sides. After discovery and before trial, we'll have the opportunity to file a motion for summary judgment, which is similar to our pending motion in that it can end the case before trial. That is the type of motion that disposed of much of the Ripple case.

Whether the case goes to trial or is dismissed, we will get the clarity we have long sought. We are confident in the outcome, whether it comes later or it comes sooner, because we're right on the facts and right on the law.

Anil Gupta, Vice President, Investor Relations: Thank you, all. With that, let's turn to shareholder questions. We are taking the most uploaded questions as determined by the number of shares. The first question: why do insiders continue to sell their shares daily. Alesia?

Alesia Haas, CFO: Thank you for the opportunity to share some context around this topic. First, all of our insiders—myself, Brian, Emilie, Paul, those on the phone and all of our insiders—we all have shared long-term conviction in Coinbase.

Second point I want to make: equity is a significant component of the compensation that we offered insiders and employees alike. We believe this most closely aligns our incentives to business performance and the interest of our stockholders.

Third, it's important to note that these sales account for a small portion of insiders' total holdings in Coinbase.

Last, executives and the Board can only trade via trading plans that are governed by SEC rules. We maintain corporate policies governing these plans that are commonplace amongst public companies. Nobody is trading based on real-time stock price movements, company news. All of our trading plans are required to be set up well in advance.

Further, they're disclosed in our public financial filings, and they allow insiders the ability to sell at a predetermined number of shares at a predetermined time or price.

Our stock was up nearly 400% in 2023. And as a result, some of those thresholds were met and sales were executed. But I just want to close, we are all holding long-term conviction in the opportunities at Coinbase.

Anil Gupta, Vice President, Investor Relations: Let's go to our next question. What is the plan to expand revenue drivers outside of the ETF custodian plans? The market shifts quickly and Coinbase needs to be nimble, both within the U.S. and abroad. We've seen your shift into the European markets. How will this evolve going forward? Brian?

Brian Armstrong, Co-Founder and CEO: Yes. So I'll focus on the ETF question, since there's been a lot of buzz around it. We've always said that ETFs would be a win-win for Coinbase, and we're starting to see that play out on our platform.

So in preparation for this launch, we won 8 of 11 spot Bitcoin custody mandates from issuers, and today Coinbase Custody is about 90% of the \$36 billion in Bitcoin ETF assets as a result.

So across the entire industry, we've seen over \$4 billion of net inflows into spot Bitcoin ETFs. The Bitcoin ETFs are breaking records. When gold launched in November 2004, it took one year to get to \$3 billion. These ETFs did that in a few weeks. So this is really an incredible start.

This is really just the beginning. We're now starting to see some of these issuers file for Ethereum ETFs, for example. We've been named as the custodian in five of the eight ETF—sorry, ETH ETF applications. And Custody isn't really the only way that we're monetizing this. We're also helping with trading via Prime. We're helping with financing for trade settlement. So there's other opportunities to generate revenue here.

For anybody worried about cannibalization, ETFs have been positive for the industry, which has been additive for Coinbase. We're seeing elevated engagement and net inflows across both retail and institutional Q1 to date. What's even more important is that every institution is now starting to hold crypto, the asset class will be a standard part of every diversified portfolio. The financial system is officially adopting crypto. This is really good, and Coinbase is the most trusted partner here.

Anil Gupta, Vice President, Investor Relations: Our next question: Coinbase Venture's portfolio is a hidden gem that Wall Street doesn't seem to be taking into consideration in their valuation of Coinbase as a company. During the Earnings call and potentially in your materials, can you highlight this portfolio and its long-term opportunity. Emilie?

Emilie Choi, President and COO: Yes. Well I definitely agree, it's an undervalued long-term opportunity, and I think we have a strong disproportionate advantage in the market.

By the way I should mention that the value of our portfolio is held on our balance sheet at cost and not reported at fair value.

So we bootstrapped Ventures six years ago when I first joined, and one of the things that Brian and I talked about was what if in the early days of companies such as Google and Facebook and others. Those companies have been able to make investments in the most exciting emerging Internet companies at the time like a Stripe or a Shopify.

So that is what we view as our opportunity in the crypto ecosystem. We started it very scrappy with no dedicated team or resources.

We just started investing in great startups, and we are now one of the most active investors in the space with more than 400 investments in our portfolio.

I view our competitive advantages as having great relationships with Coinbase alums and the ecosystem. One example is Farcaster that Brian mentioned before. That's one of the Coinbase alums who founded that. We also take a very long-term view. We don't panic when the market sells off. It's kind of the opposite of a herd mentality; we doubled down when others are fearful. We love it because it helps us stay connected to the crypto frontier and to invest in the ecosystem.

One area we're seeing tremendous energy around right now is the creator economy. So companies such as Paragraph, XMTP, Farcaster, all of these are looking to decentralize existing social platforms. Then looking ahead, we're really excited about onchain consumer applications such as gaming, social, messaging and media, and then there's a lot of new protocol developments like restaking that we're excited about.

We're also seeing a huge growing opportunity outside the U.S., and our portfolio has a strong footprint in the global crypto ecosystem.

One other thing I should mention is that because of the U.S.'s lack of clear regulation on crypto, we are pushing a lot of innovation outside of the U.S. The U.S. has been losing 2% of blockchain developer share annually since 2017. This is following the same pattern as semiconductors and 5G moving offshore.

It really just reinforces the need for us to have clear legislation, and we think it's a huge opportunity that the U.S. is currently squandering. It's also why on the Ventures side, we are investing globally. There's a lot of interesting regional exchange platforms across Latin America, India, Africa and other regions.

Anil Gupta, Vice President, Investor Relations: Great. So with that, Sarah, let's switch and take questions from the analysts.

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

Ken Worthington, J.P. Morgan: I wanted to dig a little more into payments. We noticed the recent partnership with Ledger, and you announced the updates to Commerce earlier in 4Q. And clearly, there is the enhanced relationship with Circle.

So maybe first, how do the different pieces kind of fit together to drive what you're trying to build. Second, in terms of the use cases, is this basically cheaper remittances for retail and 365-day a year transfer for institutional clients? Or is there a longer-term vision?

Then lastly, what does the revenue model look like for Coinbase in payments? Is it more asset-based? Or is it transaction-based?

Brian Armstrong, Co-Founder and CEO: Yes. I can take that one. Thanks, Ken. So as you mentioned, payments is one of the areas that we're exploring in 2024 around utility, and I'm pretty excited about that as an opportunity. I mentioned in the opening comments that last year, we did announce that you can send USDCoin on Base and instantly anywhere in the world for free.

So the cost and the transaction fees and the confirmation times are really starting to come down. The more you reduce friction, the more payments you'll start to see. And so there's a variety of different use cases for payments. Payments is a huge industry.

Some of this you can look at in emerging markets where people have local currencies where there's high inflation and so the dollar has a great brand there. People want access to the dollar.

So they're able to do that now with stablecoins and USDCoin kind of gives them a trusted option that's regulated and the partner we have with Circle. They've been a great partner. They're a great issuer of that.

So emerging markets, demand for the dollars as an inflation hedge. I think is a starting point. Then once people have those dollars, they're going to want to start to pay for things in their ordinary course of the day with those instead of the local currency where they're experiencing that inflation.

So some of that is cross-border. Like you said, there's people in some of these markets, they're ordering goods and services for their shops, from Asia or Europe: some of it's cross-border, some of it's for B2B, some of it's remittances.

Some of it is also—they just want to earn yield on their assets. Like as an inflation hedge is a great start, but if you can earn yield like in some of these like with USDCoin, that's even better. So there's sort of that emerging market use case.

Then we've also dabbled in payments kind of in other areas like you mentioned Coinbase Commerce launched this onchain payment protocol, which is really innovative. We're trying to make crypto the simplest, easiest way to pay on the Internet. Even Coinbase Card has allowed people to spend their crypto and USDCoin anywhere that Visa is accepted.

So there's a lot of different use cases. I mean if you kind of want to zoom out, you asked about what's the longer-term vision here. I mean we really want to update the financial system, right?

We want to have crypto play a larger and larger role in the global financial system, have it be a greater and greater percentage of GDP over time. So crypto really started off being this asset class people trade, but we now need to look at how it can improve these other areas. And payments is a huge one. And as we've seen layer two solutions come online like Base, I think the time is now to start to invest in that.

You asked about monetization also. I mean, look, this is all really early stage. So we don't have any kind of forecast on it or anything like that. But there's opportunities for us here to monetize via Base, also via USDCoin, which you can see pieces of in our financials today. So that's all long term.

I think if we can drive a deal use case with crypto, even if people don't even think of it as crypto. They're just—the fees are lower. My money arrives instantly instead of waiting three business days.

You may not even know it's crypto underneath, but that's how we get one billion people eventually benefiting from this. I think there'll be a lot of opportunities to monetize that over time.

Operator: Your next question comes from the line of Chase White with Compass Point Research & Trading.

Chase White, Compass Point: So OpEx came in a bit higher than guidance across each line item, which appears to, at least in part, be driven by the stronger market conditions. It seems pretty clear to us at least that we're heading into a bull cycle and we're just now getting into it. I mean, obviously that should drive trading volumes and revenues higher, and really, most revenue line items potentially a lot higher.

So how should we think about the various OpEx line items if the business were to return to prior cycle highs or even higher?

Like is there a need for tech and dev, marketing, G&A to grow significantly from the current run rates in lockstep with revenue? Or should they kind of stay flat where they are? Just a little color on that would be great.

Alesia Haas, CFO: Thanks, Chase. Happy to answer that one. So broadly, we have some variable costs that will track with revenue growth, and those are largely our transaction expenses.

As we've shared with you, that includes miner fees, that includes verification and just in various costs of transaction and it also includes the payout of staking rewards. Those ones will drive 100% correlation with our revenue.

We have a few other variable costs we will need to add, for example, more CX customer support costs. We will need to add some more network support if we see significant volume, but it will be very modest.

We can absorb a lot of volume growth without adding expenses. That said, we continue to look at our expense base and invest proactively in diversifying our revenue streams.

So if we see ourselves in a prolonged upmarket, we may choose to increase expenses, but we will be very transparent with the Street if we make that decision later on this year. We've given an expense outlook for Q1, where we expect some very modest changes to our Q4 results.

So at this point in time, you will communicate in that way with you and expect expenses to be pretty modest and changing year for the next few months.

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

Owen Lau, Oppenheimer: At the House hearing yesterday, Under Secretary confirmed with Congressman Tom Emmer a report about Hamas using digital assets to raise funds was inaccurate, and crypto was not even a popular tool for terrorists. Even though Chainalysis put out a report to correct that record, it doesn't appear that it gets enough attention.

So I have two questions here. Could you please talk about Coinbase investments in anti-money laundering program to protect your customers and also your reaction to that conversation?

Alesia Haas, CFO: Thanks, Owen, and thanks for noticing that. We were really pleased to see that house hearing yesterday and really pleased with the correction of the record here.

One, we have significant investments in AML. We have a large compliance team that has best-in-class compliance approaches, the same as any other fintech or bank. We follow very standard rules in this place and are governed by our MTL licenses and our Bitcoin license with NYDFS.

We're really proud to be one of the most compliant crypto companies, frankly, in the world in this regard. Maybe I'll pass it over to you, Paul.

Paul Grewal, Chief Legal Officer: Thanks, Alesia. We were very pleased to see the Congress pay careful attention to this issue. French Hill, Chair of the subcommittee could not have been clear when he observed that the Treasury Under Secretary made explicit what we have been saying all along, which is that bad actors still prefer to use traditional finance

rather than digital assets to fund their activities. That I think was an important validation of something that we've been saying for a very, very long time.

And Mr. Nelson, the Under Secretary, also confirmed that prior reports that have been published that successful international collaboration with Israeli law enforcement had limited Hamas and its use of its digital assets ahead of the attack against Israel.

So we think that the facts are clear. We are pleased that when confronted with those facts, the Congress is underscoring that crypto is an answer to the problem of illicit finance. It is not solely the problem.

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

John Todaro, Needham: First off, congrats on the quarter, pretty great results here. I have two questions on the institutional business.

So it looks like take rate there went up. Trying to understand what drove that or if there was some other revenue that went into that Institutional revenue, whether that was Base chain or derivatives?

Then second, as we think about Q1 '24, had the bitcoin ETFs, has that driven more institutional activity on the platform where moving forward, we should think of institution as a greater makeup share of the total volume?

Alesia Haas, CFO: Thanks for the question, John. So embedded in our Institutional product revenues are really two products. One is the markets business, which is our exchange, where we have market makers and liquidity providers transacting directly on the exchange and the other is Coinbase Prime. Coinbase Prime has a higher fee rate than the exchange.

So similar to the consumer side, we see mix shift driving the blended average fee rate on Institutional. And we're seeing strong growth of Coinbase Prime, and it had a larger share of volume in Q4, which drove the increase in that fee rate in the fourth quarter.

Going to your second question on have Bitcoin ETFs driven more Insto activity. As we shared earlier and Brian shared in his response, ETFs have just been net positive for the industry and additive to Coinbase. We're seeing elevated engagement and net inflows on Institutional as well as retail Q1 to date.

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

Devin Ryan, JMP: Great. From what I can track, you guys have seen a very sizable acceleration in derivatives volumes even in recent weeks, it seems like it's been accelerating quite a bit on the international exchange.

So nice to see the momentum there. Obviously we know the derivatives market is larger than the spot market. So I guess first off, how would you frame the scaling that you're experiencing already relative to how you're thinking about the broader potential longer-term?

Then second, what does the user profile on take rate look like there now? Then where do you see that user mix and take rate moving over time as it matures?

Brian Armstrong, Co-Founder and CEO: I can start off on derivatives and then Alesia, maybe I'll turn it to you on some of the take rate questions.

So thanks for tracking. We have been hitting daily all-time highs on our international exchange which has been really great. It's still early days, just to be clear, but the market I think has really demonstrated they want to see a trusted counterparty here built in a compliant way. And Coinbase is really the first company they've seen come along that fits that definition.

So we've been making a lot of progress on our international derivatives exchange. We added 11 new markets in Q4. We're now up to about 70% of global TAM.

We announced that we're acquiring a MiFID license that will help us unlock derivatives in about 20 additional EU member states. We've been adding new product features like 10x leverage.

We did that in Q4. I think we've had about—it's about \$16 billion in notional volume traded on international exchange in Q4. So it's been really good progress on that. Same thing, by the way for Coinbase financial markets in the U.S., we got license to trade U.S. futures, which has been really great.

So yes, I think our daily milestone that we just surpassed actually today—it was \$700 million in a 24-hour period that was on the international exchange. So really great early start. I think that clients are going to continue to want to prefer a trusted counterparty that's following the rules.

Coinbase is the brand that can help them do that. And derivatives trading is actually about 75% of all crypto trading by volume at least. The take rate is lower on it, but it is the majority of volume. So I'm really glad that we're now starting to build our business in that area. Alesia, anything you want to add on take rates?

Alesia Haas, CFO: Sure. As Brian said, we are early days in derivatives. We're excited about the progress that we are just getting started. As such, our current goal is to really gain market share.

We are offering tiered pricing over time. But right now, it's going to be competitive to build liquidity and attract users and we'll experiment and adjust as we scale.

Operator: Your next question comes from the line of Benjamin Budish with Barclays.

Benjamin Budish, Barclays: I wanted to follow up on one of the earlier questions on the Prime business. Can you maybe do a little bit of a dive into what specifically you're doing there? Obviously I would assume there's some kind of execution.

But what are the sort of services you provide? How are you monetizing them? And can you just confirm that revenues through Prime are also reported or confirm or not confirm that they are reported within the institutional volume metric that you give?

Alesia Haas, CFO: Why don't I start with this? So Coinbase Prime is our one-stop shop for institutions. It comprises a suite of products, including Custody, Trading, Financing, those are the large three that are in that umbrella. When you look at our institutional transaction revenue, that is largely the trading business.

We separately disclosed custodial fee revenue, and the financing business is largely in other subscription and services right now because it is still nascent and growing. We haven't broken it out as a separately disclosed line item.

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

Pete Christiansen, Citi: Alesia, I'm a little surprised the sales and marketing is expected to be flattish, I guess into Q1. I would think the status of the asset class, international business picking up, Coinbase would want to lean in a little bit more there.

I was just wondering if you could talk to those dynamics. Maybe you're seeing different mix shift that's impacting it between institutional or retail or maybe you're seeing better marketing efficiencies. Just wondering if you can walk us through that progression and how you're seeing the setup for this year.

Alesia Haas, CFO: Thanks, Pete. So a large part of our sales and marketing spend is actually in brand spend and we have seasonality with an NBA contract.

So what you see is a shift in spend between Q4 and Q1, where we will spend materially less on that NBA contract when we direct that spend to other areas, which is leading to a slightly down guide for Q1 versus Q4, but we are reinvesting.

We are really proud of our marketing efforts, and I might call Emilie to answer some of those questions, but we really feel like we hit our stride with marketing over the last year and are continuing to lean in and invest where we see strong ROI and strong return on those investments.

Emilie Choi, President and COO: Agree fully, the marketing investments have been very high ROI and that's one of the things that we've demanded since we've implemented the program. I think that we're going to continue to test the boundaries of it, especially as we expand more and more into policy marketing to get our messages across to policymakers.

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

Bo Pei, U.S. Tiger: Hi management. So some questions on the retail take rate. So with the recent approval of spot bitcoin ETFs, most people believe crypto is now becoming a more mature asset class.

Typically, as a new asset class becomes more mature, one should expect trading this asset to become cheaper. So do you think crypto investors have become more sophisticated now? And do you see more traders migrating to the Coinbase Advanced platform?

And do you expect the trading take rate to gradually decline to below 1% in this crypto cycle like in the last 1.5 years or two years? If this happens, do you believe the volume increase can more than offset the take rate decline?

Alesia Haas, CFO: Thanks, Bo. I'll share. Since we went public, we've received a question on fee rate and fee rate compression or cannibalization every quarter. We have yet to see that phenomenon on our platform, and we have yet to see that as a result of the ETFs as well.

As we shared, even in quarter-to-date Q1, we've seen net inflows across both retail and institutional, and we have not seen any shift in our customer behavior as a result of the ETFs, all we've seen is ETFs being a net add to the industry net positive for Coinbase, net positive for the industry overall with more engagement across the board with both our retail and institutional clients.

We've shared over time, we agree with you with the thesis that as you see commoditization, you should see fees come down. But we do not see that today and we continue to see customers choose Coinbase for the breadth of our product offering, the security of our platform, and we think that that will continue to persist for some time.

Brian Armstrong, Co-Founder and CEO: Yes. Sorry, I just want to add. I mean just a reminder, the entire industry, we've seen about \$4 billion of net inflows since the bitcoin ETFs launched. I think that's really additive. The thing to remember here is we want crypto to really update the global financial system.

So that means we need to get it integrated into more and more parts of the financial system. Every time that that happens, we're sitting here cheering for it.

We want fees to come down and make it lower friction for people to get into crypto through all kinds of different vehicles. ETFs are a massive way to get more capital to come in.

So far, we have not seen any cannibalization. As Alesia said, it's been additive for Coinbase, and we're seeing elevated engagement and net inflows on both retail and institutional Q1 to date. So in my view, the ETFs are just a totally positive thing.

And the more institutions that kind of get their feet wet with crypto, whether it's through an ETF or any other way, the better because they're eventually going to be using it in other ways: holding it on their balance sheet, paying their vendors, doing payroll.

We want crypto to power more and more of global GDP. We've got to get this happening through every opportunity we can. So ETFs are incredibly positive, I think, for our business.

Operator: Your next question comes from the line of Joseph Vafi with Canaccord Genuity.

Joseph Vafi, Canaccord Genuity: Nice results. I've got a few, but maybe I'll just focus my question on a follow-up to the previous one. I mean owning the underlying spot versus owning an ETF may seem the same for some investors, but I'm sure you thought a lot about owning the underlying spot versus an ETF and your differentiation in that.

So it would be great to hear what you see perhaps is the benefits of owning a bitcoin outright versus owning an ETF.

Emilie Choi, President and COO: I guess I'll start, and Alesia, maybe you can just pop in. One of the things we wanted to do in this ecosystem was to play the role where we have the kind of strongest competitive advantages. And because we've invested so much in the Custody solution and the Prime services, it felt like a really good area for us to play and that's why we garnered the majority share when we were working with these ETFs.

Separately, we also want to make sure that we are able to invest in solutions where clients can invest in different crypto assets, and we have CBAM, Coinbase Asset Management, as something separate from that.

But I think we're trying to play the role that it's best for us in each different part of the value chain. Alesia, anything to add on that?

Alesia Haas, CFO: One thing I'll share is that the majority of customers on our platform do more than just own bitcoin. Most customers own more than two crypto assets. If you look at our trading volume for Q4, 42% of our trading volume was in other crypto assets, not bitcoin, not ethereum, not USDT.

So I think that what we believe is that the bitcoin ETF is introducing new capital folks that were not coming to the spot market, folks that may want to invest to their 401(k), invest in a fund, and that's where we're seeing more adoption, more growth, more awareness of this asset class.

But what we see is that when people start to learn about bitcoin, they often then become excited about another asset, and they want to use that asset. They want to stake. They want to explore the crypto ecosystem and the decentralized applications.

So we're delighted to see the expansion of users and investors in this asset class. We believe this is going to be just net additive to the space.

Anil Gupta, Vice President, Investor Relations: Sarah, we have time for one more question, please.

Operator: Our final question will come from the line of Alex Markgraff with KBCM.

Alesia Haas, CFO: Maybe two, first one for Paul, if I could. Just on the challenge against the SEC's decision not to engage in rulemaking. Just could you give us an overview of the process here and sort of the range of outcomes that you're looking to?

Paul Grewal, Chief Legal Officer: I'm happy to do that. You're referring, of course, to our petition that we filed in the Third Circuit Court of Appeals, challenging the decision of the SEC to reject or deny our request for formal rulemaking. That challenge is moving ahead.

We were gratified to see the Court set a briefing schedule. A briefing will begin next month and continue on into the spring on this question of whether the SEC acted within its discretion in denying that request for rulemaking or acted arbitrarily and capriciously in denying our request.

We're confident that the Third Circuit will see it our way, and we look forward to the opportunity presenting our arguments at the appropriate time.

Anil Gupta, Vice President, Investor Relations: Great. Well, that's it for today. Thank you all for joining us. We look forward to speaking with you again next quarter.

Operator: This concludes today's call. You may now disconnect.