

Coinbase Global, Inc.
First Quarter 2024 Analyst Q&A Call
May 2, 2024

Anil Gupta, Vice President, Investor Relations: Thanks and welcome to the Coinbase first quarter 2024 Analyst Q&A call. Joining me on today's call is Alesia Haas, CFO. Before we get started. I'd like to remind you that during today's call, we may make forward-looking statements. Actual results may vary materially from today's statements. Information concerning risks, uncertainties, and other factors that could cause these results to differ materially is included in our SEC filings. Our discussion today will also include references to certain non-GAAP financial measures. Reconciliations to the most directly comparable GAAP financial measures are provided in the shareholder letter on our investor relations website. Non-GAAP financial measures should be considered in addition to, not as a substitute for, GAAP measures. With that Sarah. I'll turn it back over to you for the first question, please.

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

Ken Worthington, JP Morgan: Hi, thank you very much for taking the follow up question here. Can you talk a little bit about USDC and the average yield that you're paying out? We can see sort of the bookends at the high end I think it's 5.1%, at the low end I think it's 1.5% percent. Is there sort of a blended average that you're paying out, approximately, that will help us better model that line item?

Alesia Haas, CFO: Hi Ken, thanks for the question. So the reward rate varies depending on retail or institutional. Institutional rewards are lower than retail rewards and there's different rewards depending on then, Coinbase One subscribers versus other subscribers. So it's less about an average because it depends on the mix shift between retail and institutional customers and their participation in USDC on platform balances.

Ken Worthington, JP Morgan: Is it possible to get just maybe 1Q? What the average rate was then?

Alesia Haas, CFO: In our 10-Q, we broke our USDC rewards paid in the quarter. And so you saw that our on-platform balances ended the quarter at \$5.5 billion. At the start of the quarter at two. So you can see the actual payments in USDC rewards and get to the best approximation of an average reward rate based on that data.

Ken Worthington, JP Morgan: Yep, outstanding. Thank you so much.

Operator: Your next question comes from the line of Joe Vafi with Canaccord. Your line is open.

Joe Vafi, Canaccord: Good afternoon and thanks for taking the follow ups here. I wanted to Circle back to Brian's prepared statements on having 12% of crypto market cap basically, more or less custodied or deposited at Coinbase. How does that fit into the strategic planning of the business moving forward in terms of flywheel effects, or other things, given how much crypto is actually on your platform at this point? And then I have a quick follow up.

Alesia Haas, CFO: Thanks Joe. So we think that safely storing assets on behalf of the customers is sort of a bedrock product offering that we have, as customers are more likely than to transact in the breadth of products and services we offer if their crypto is on our platform. So one, this has enabled us to create products like staking, it has enabled us to build out the Prime Financing business where we can then borrow crypto from certain institutional customers and use that as collateral that can then be lent to others to facilitate a Prime Financing model.

And over time, we may find ways to monetize the on platform balances in other ways, but importantly if the assets are here, it makes it easy for them to trade and participate in the breadth of our product offering so it really is the foundational product that we offer.

Joe Vafi, Canaccord: Sure, fair enough. And I know it's kinda early days on futures and some of the derivatives, but I'd be interested to hear your views and visions on the roadmap in some of these newer product offerings and what you're seeing in uptake here, obviously more institutionally focused to begin with. And how that could play out? Thanks a lot.

Alesia Haas, CFO: Thanks. So we're really pleased to be able to launch derivatives in 2023 and we have really two different efforts that we're pushing on. One is we offer derivatives through Coinbase Financial Markets which is a US product offered to retail customers. And then we offer derivatives through the International Exchange largely to institutional customers at this time. Over time, that could expand to other customer types. The International Exchange crossed \$76 billion dollars in total derivatives traded year to date in 2024.

Our focus here is on gaining liquidity, building market share, and really establishing ourselves because derivatives make up about 75% of total crypto trading when I include derivative plus spot trading in the global market. So it's a large part of the total crypto ecosystem and much of that volume is in non-US trading pairs.

The roadmap is that we continue to add new trading pairs. So we added 15 perpetual futures in the quarter. We will look to add more to build up the coverage of the total trading volume. We cover about 80% of the global trading volume today, but we hope to continue to close that gap and provide products that enable us to trade the vast share of trading volume in the market. We have added more limits and leverage over time and that is something we continue to do to really ensure that our product is meeting the breadth of the client needs internationally.

We're doing that in a slow, methodical way. We seek to continue to be the most trusted, transparent platform, so we need to build out operational and risk controls commensurate with the growth of business on our platform. But we're pleased with the growth. We gained market share in the quarter. We've been growing trading volume. And it's an area for continued investment for us.

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

Kyle Voigt, KBW: Thanks. First of all thanks for the disclosure of USDC rewards disclosure in the 10-Q. That was very helpful. But separately, just on the Prime business, Alesia, on the prior call you mentioned that the loans to customers grew in the quarter to around \$800 million from \$400 million last quarter. Just wondering if you go over your appetite to grow those balances from here, and where you ultimately feel comfortable ramping those to? I'm not sure if that's a percentage of total liquidity or some other metric? And then secondly, wondering if you can walk through some of the economics of the Prime Financing in terms of yields. I think we can back into the Prime lending fees in 4Q were less than \$10 million, but any color on how those trends into the first quarter and general fee rates there.

Alesia Haas, CFO: Alright, let me take this in two parts. So with regards to ramping we're really pleased to see the growth. I want to share with you that a lot of this loan portfolio is really short-term in nature. So for example Trade Finance is one to three days, and depending on the day of quarter end - if it's on a weekend, if it's on a weekday - you can get to different amounts on the platform. Through the ETF large issuance period, we saw those big spikes and we're willing to put a fair amount of our balance sheet to work to support this business because these are collateralized loans. They're all underwritten. We hold the collateral on our platform. And we've never taken a credit loss. We feel like we have very good risk management. And that we are bootstrapping the growth of this Prime Financing platform and institutional financing. The roadmap over time is to work with our institutions to enable institutional customers to then allow us to then rehypothecate their collateral, use their collateral to lend out to other customers. We're starting to build that. You see the collateral disclosures in our footnotes today. It's a fairly small part of the business but this will hopefully grow over time where these will be more self funded through customer activity than the corporate balance sheet. So the corporate balance sheet, as I like to say, it's bootstrapping the liquidity as we build out this business.

With regard to the fees, we don't break the fees. The way that we think about institutional products and services, is the Prime platform - we have negotiated fees with each of our institutional clients. And it depends

on... are they going to be more of a custody customer? Are they going to be a trading customer? Are they going to use financing? And so you can see varying rates. So we look at the overall economics of how those products together are performing to assess that business. And then what is the growth of overall institutional engagement and revenue on the platform.

But what I would say, in general, is that these are attractive economics for us, but the duration of the loans outstanding is relatively low, which is why you don't see huge amounts of revenue as while they are attractive economics they are short duration. And so the end of quarter balance may not look at the average quarter balance, as an example.

Kyle Voigt, KBW: Got it, okay. Thank you very much.

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

Pete Christiansen, Citi: I'm just curious, on the ETFs, and granted, bitcoin price went really high this quarter and that's what you are attributing a lot of the custody gains there to. But, is there a way, at least on a blended basis, or a more qualitative basis, you can share transaction activity that was a direct result of the ETFs? Or if there is any golden rule that we can use as we think about modeling custody going forward? I'd appreciate anything you can help there. Thank you.

Alesia Haas, CFO: There's two different questions I heard there. So I'm going to ask the latter one first. That is, custody modeling going forward. We disclose the assets on platform that pertain to the custody business. We closed the quarter with about \$171 billion dollars in custody. Those prices will go up and down depending on the overall crypto asset prices. We don't disclose any specific client and so we haven't ever attributed revenue to certain clients or certain products underpinning that.

For us, it just looks like custodying a crypto coming in. Same thing, ETFs look like trading crypto on our platform. And so what we're pleased to see, and we talked about on the call, is the overall growth that we saw. We shared that we had all-time highs on Prime trading but we also saw the highest number of active clients at one time this quarter. And so the ETFs really brought in, as Brian said, the tide that raises all ships. Brought activity of institutional clients engaging in the asset class. But we're not breaking out client activity or sub-product as we think the important thing for us is just the broad growth of the products that we offer.

Pete Christiansen, Citi: Okay, fair enough, fair enough, and then just a quick follow-up – last year you had your engagement with BlackRock on the Aladdin platform. Just trying to see where we are with that today, any progress in terms of usage and whether or not that channel has been helpful for growth? Thank you.

Alesia Haas, CFO: So broadly, I would say that we're pleased with our BlackRock partnership as we've seen really nice traction across all the mandates: the work on the ETFs, Aladdin. And we're really pleased to see BlackRock's continued push into crypto writ large. They are a big advocate of this industry and asset class. So we're continuing to invest in the Aladdin integration specifically which supports trading across their asset management business. It's an immaterial financial contribution at this time, so we haven't disclosed a lot of details in our financials. If it grows over time, it will warrant a breakout and we will speak about it in future quarters.

Operator: Your next question comes from the line of Joe Flynn with Compass Point Research and Trading. Your line is open.

Joe Flynn, Compass Point Research and Trading: Hi guys, thanks for the question. I have a question on the Base revenues. When you recognize revenue is it recognized as total sequencer fees or is it a net number after L1 costs? And is there any insight on maybe like the Tech and Dev, G&A that would be required to support the Base Network and L2 systems at large? Thanks.

Alesia Haas, CFO: Great questions. So Base revenue is reported gross in other transaction revenue and associated transaction fees are in transaction expenses. Those transaction expenses are not material. So they

are in other in the transaction expense breakout within the MD&A. We haven't allocated specific Tech & Dev or G&A costs to Base. We don't do product P&Ls, or we don't attribute in that way. We look at total revenue and total expense. What I would share with you, and we've said on prior calls, is when we launched Base, this was a venture product, and it was a really scrappy team. We wanted to start small. So it's a fairly small team that has brought Base into existence.

Joe Flynn, Compass Point Research and Trading: Great thanks. That is all from me.

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

Bo Pei, US Tiger Securities: Hi, thanks for hosting this call. It seems restaking is really gaining momentum in the Ethereum ecosystem recently. What opportunities do you see there for Coinbase? I know Coinbase is an early investor of Eigenlayer, but other than that do you think that you can provide restaking service to Coinbase customers and charge a reward fee like what we do with staking? Thank you.

Alesia Haas, CFO: Bo, I'm so sorry. The volume was a bit low, and we missed the first part of the question. Would you mind restating the first part of your question for me?

Bo Pei, US Tiger Securities: Yeah sure, I was asking about restaking is growing really fast in the Ethereum ecosystem. What opportunities do you see for Coinbase? I know Coinbase is an early investor of Eigenlayer, but other than that do you think you can provide restaking service directly to Coinbase customers like what we do for staking?

Alesia Haas, CFO: Thank you for clarifying. So at this point in time our focus is in the venture area where we're investing in protocols and applications. So we are making deep protocol layer investments, like restaking, that will contribute to more scalable infrastructure. It is too early to say whether we'll integrate that into our product suite at this time, but we are constantly looking through our venture portfolio to understand how our customers are engaging, what the ecosystem is, and when those things make traction, we look to bring this to customers if we have the proper licenses and technology in order to do so.

Bo Pei, US Tiger Securities: Got it, that is helpful, thank you.

Operator: Once again ladies and gentlemen, if you have a question it is star one, and our next question comes from the line of Devin Ryan with citizens, JMP your line is open.

Devin Ryan, Citizens JMP: Okay, thanks so much for the follow up here. I think Brian said you guys have 400,000 subscribers now on Coinbase One. So if you can, I think you've given the numbers before but remind us what the revenue uplift is for customers using Coinbase One relative to not, and then obviously Coinbase One is not going to be appropriate for all of your customers. How are you thinking about room for growth there? Maybe within the existing customer base kind of where it's appropriate and kind of just the plan to kind of get greater adoption there.

Alesia Haas, CFO: Thanks for that. So we haven't disclosed the exact revenue off of a CB1 customer versus a non customer. CB1 members pay a monthly fee of \$30 a month, or \$29.99 a month, to gain access to the free trades on our platform with a lot of other ancillary benefits, so differentiated USDC rewards etc., customer support costs, but what we see broadly though is that our CB1 members are our most deeply engaged customers on our platform. They're more likely to engage with more products and services. They're more likely to trade more frequently. And so these customers tend to add a lot of benefits to the entire platform, in addition to the revenue that we see in Coinbase One. Your first question was on just the growth in revenue. Now that we've broken - that revenue stream is still in other subscriptions and services, and it is the largest contributor to growth quarter over quarter, and we're really pleased to see the number of members continue to tick up.

Devin Ryan, Citizens JMP: Okay terrific and just to follow up on the USDC rewards going through marketing. I have not dug into the filing yet, but if we assume that USDC continues to grow, will that expense grow proportionately or is it more a function of, you know, how you are thinking about kind of the rewards ensuring

the economics? We're just trying to think about if we have a view that USDC is going to be dramatically larger over the next year or two years, how to maybe model out that related expense through the marketing line.

Alesia Haas, CFO: Sure. So yes, if we grow USDC on platform, you should look at a commensurate growth in USDC rewards in the marketing line. If we see broader USDC adoption across the ecosystem, you are going to see potentially a differing level of reward rate as just like what I mentioned earlier, that we pay a different reward for retail versus institutions, the off-platform ecosystem rewards could be zero and so the mix shift of where the USDC sits will impact the overall marketing expense, but on platform rewards will follow the on platform USDC growth.

Operator: Your final question comes from the line of Owen Lau with Oppenheimer. Your line is open.

Owen Lau, Oppenheimer: Thank you for taking my follow up questions. Just a housekeeping question. You called the strength in US derivatives and also International volume in the first quarter. Is there any way we can quantify the revenue contribution from these products? Thanks.

Alesia Haas, CFO: Thanks Owen. At this point, it's immaterial. So we haven't separately disclosed it.

Owen Lau, Oppenheimer: Sounds great, thanks a lot.

Alesia Haas, CFO: Thank you.

Anil Gupta, Vice President, Investor Relations: That's it for today. Thank you all for joining and we'll talk to you again next quarter.

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