Coinbase Global, Inc.
Third Quarter 2024 Earnings Call
October 30, 2024

Anil Gupta, Vice President, Investor Relations: Good afternoon and welcome to the Coinbase third quarter 2024 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 which may vary materially from actual results. 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 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.

We are once again using the Say Technologies platform to enable our shareholders to ask questions. In addition, we'll take live questions from our research analysts. And with that, I'll turn it over to Brian for opening comments.

Brian Armstrong, Co-Founder and CEO: Thanks, Anil.

I'm excited to share our progress on our 2024 priorities. Just a reminder, our priorities for 2024 were, number one, driving revenue; number two, driving utility, which is really going beyond just trading as a use case for crypto and how do we make it a part of people's ordinary lives; and then number three, driving regulatory clarity. So we'll touch on each of these in turn.

So starting with driving revenue. We had some softer market conditions in Q3, but overall, it was a really solid quarter for Coinbase. It was our seventh consecutive quarter of positive adjusted EBITDA. It was our fourth consecutive quarter of positive net income. And as you've heard from us many times, we've made a big effort to diversify our revenue over the years away from transaction fee revenue, which is more volatile, it's not as predictable, it's more market dependent. We've shifted more of that to subscription and services revenue over time. And we've made incredible progress on that this year. So we're now on pace to surpass $2 billion in subscription and services revenue in 2024. That's up from just $1.4 billion in 2023. And this has really given us the resources to invest in some of those next steps around utility and regulatory clarity.

Just a quick update on some of our international expansion efforts because this also helps drive our revenue. We did invest in four new markets – over the last few years – the last two years that have now – the revenues exceeded their direct operating costs. And so that's kind of showing that we have a playbook there that's repeatable, and we can continue to do that in more countries.

So this has resulted in a stronger balance sheet, which is now at $8.2 billion, and that's given us a lot of financial flexibility. We can do lots of different things with that, but our Board has also authorized a $1 billion stock buyback, which is something we can use at our discretion as well.

Okay, so moving on to the second priority was around driving utility. This is really important because crypto started off as an asset class that people wanted to trade, but we actually want to increase economic freedom in the world. We want to update the financial system. We want to make it a part of people's daily lives. And to benefit from it, not everybody in the world is someone with disposable income to actually do trading every day, they need to be doing things that are more frequent for regular people.

And so some of these building blocks are now really just starting to come together this quarter and the last few quarters, that are going to allow us to bring on, hopefully, 1 billion or more people into the crypto space. And I'll just touch on a few of those quickly.

One of them is stablecoins. These are useful for people in high inflation markets. They're useful for people who want to make money move faster around the world and do fast, cheap payments, remittances.

Smart wallets is the second one. This is a technology that we really pioneered and it's made onboarding to crypto-based apps much lower friction and reduce the fees, and it has a bunch of benefits, which I'll talk about. And then the last one is a Layer 2 solution called Base. This is allowing blockchains to really scale, and it's enabling every transaction to happen under one second, $0.01 anywhere in the world. I think crypto is probably the only rail -- payment rail in the world that can claim that. It's both fast, cheap and global.

So let's touch on each of these and just think about how they're coming together to enable new use cases. One of those use cases is payments. And payments is having a bit of a moment right now in crypto. I'd say it's a really important trend that's underappreciated. So last year, stablecoin payments or transactions, we saw about $10 trillion of volume. And we're actually -- we've already 2x'd that in 2024. So it surpassed $20 trillion already. It will be larger, of course, by the end of this year. And so one of the things that's really making that possible is now having a trusted stablecoin with USDC. It's one of those important building blocks. We've made a really big effort at Coinbase to integrate stablecoins into all of our different products. And that's actually driven USDC growth in a major way. The market cap of USDC is up 45% year-to-date to $36 billion in Q3. That's up from $25 billion at the start of this year. And I believe it's actually now the fastest growing U.S. dollar backed stablecoin, at least major one, out there.

We also launched support for EURC, which is a Euro backed stablecoin on Base. We were able to help double its market cap in Q3, and that's now become the largest euro-backed stablecoin.

So this is no longer just a dollar phenomenon. We're going to see stablecoins in many different fiat currencies. So that's an important building block with stablecoins.

The second one, I mentioned was Smart Wallets. And last quarter, we actually launched support for Smart Wallets. This really revolutionizes the user interface that people go through, especially with self-custodial wallets to onboard to crypto.

So they no longer have to remember this recovery phrase or write it down. People were always worried about losing these recovery phrases, and they no longer need to do that. They can use biometrics or something called passkeys to create the wallet in just a second or two. There's nothing to remember or write down or to lose or forget. And it also helps eliminate some of the network fees. We came up with a clever solution around that because there was often a sort of chicken-egg situation where people didn't have the crypto to pay the network fee and now they don't have to have that.

So it's still early days, but we're seeing really positive signals there. Not all of our products have integrated this. But in some of the ones where we have, we've seen the time-to-first transaction, which is a metric we track, go down to about eight minutes instead of it being 2.5 hours using some of the more traditional wallets.

So smart wallets have made the onboarding simpler. And then lastly, these Layer 2 solutions have been a huge contributor and Base, which is our Layer 2 solution that we helped pioneer and is now decentralizing is -- it's become the #1 Layer 2 solution out there. It's been incredibly successful whether you measure that by the transaction count process or the total value that's on the platform. It's now the #1 Layer 2 solution out there. And so I think this is going to become the default way that people pay with Layer 2, on Base, USDC, it's less than $0.01, one second, anywhere in the world.

It went from $10 trillion of volume last year to $20 trillion of volume this year. It's really starting to happen in front of our eyes. And Base has continued to really innovate quickly. So for instance, they added something called Base names, which is an onchain identity product. This just makes it -- it makes crypto easier to use if you can send to a human readable name instead of these wallet addresses, which look a little more complex.

They also launched something called cbBTC or Coinbase Bitcoin -- BTC. We launched that on Ethereum in Base. And this is essentially a Coinbase wrapped version of Bitcoin that allows people to use all of the value that they've accumulated in Bitcoin, but use it for -- in DeFi applications, such as for borrowing and lending.

So the Base team has just been innovating at a really important pace here. So all of these building blocks are coming together where you can really start to see consumer utility happening in crypto.

And just to give you an analogy of how I think about it, sort of really how the Internet started, right? If you go back to the year 2000, only about half of 1% of global GDP was happening through e-commerce. And today, it's about 20% of global GDP running through e-commerce. And so I think crypto is going to follow a similar trend. We've done our own internal estimates of this, and we've -- it's a tough thing to estimate, but by -- our best guess is about half of 1% of global GDP is occurring on crypto rails. We really want to get that to be 20% of global GDP running on crypto rails. We think that they're faster, they're cheaper. They're more global, they're more fair. They're more free. It's just payments are going to flow to the path of least resistance, kind of like water.

And these are the best payment rails in the world. Many other benefits people want this globally as a refuge from inflation, economic freedom, good financial infrastructure. It just -- it creates prosperity around the world. And so we're going to -- I think we now have that foundation in place to see global GDP run more and more on crypto rails over the coming years.

Okay, so that's driving utility.

Let's talk about driving regulatory clarity as our final pillar here. I'm really proud of where we've gotten to as an industry, as a community over the last few years. I mean just a few years ago, we were -- we felt like crypto was under siege. There was a small handful of people that were very anti-crypto, really attacking the industry. And today, it really couldn't be a different story.

Both presidential candidates are now courting the crypto voter in their statements. Over 350 politicians running for federal office have now adopted pro-crypto stances. If you look at Standwithcrypto.org's rating system, they have either an A or a B grade. And so really no matter what happens in the election, it's going to be the most pro-crypto congress ever. We know that already.

And then we had a big success this year with the House in the United States passing pro-crypto legislation with strong bipartisan support, that was the FIT 21 bill. And so that's, of course, now being discussed in the Senate. And so I just feel like crypto has shown up in a really massive way on the policy side, and it's a very powerful voice and constituency.

So we tried to really do our part here and supporting our customers, and we've been a major supporter, for instance, to FairShake. They were one of the largest nonpartisan PACs in this election, maybe the largest one, I'm not sure.

And we also supported Standwithcrypto.org. This grassroots advocacy group that I mentioned. They're now up to 1.8 million crypto advocates who have raised their hand. It's an incredible number. These are folks who have raised their hand and said they want to elect procrypto candidates in this election. So this is a huge number of voters.

By the way, all of you, I think, can help if you want to see this industry get built in America, I encourage you to go check out Standwithcrypto.org and look up your state, see the scores of the different candidates running where you live. And so we'll see how this election turns out in five days or so.

But I think regardless of what's happening -- what happens at this election, it's actually already been a huge positive success. And one thing I want to make a really big point of talking about today is that we're not going to slow down post election, right? In five, six days, we're going to get our results, but we know that this is going to be an ongoing focus. And we need to make sure we get pro-crypto legislation passed in this country to really unleash the floodgates of new sources of capital and innovation. And we can't have this environment of regulation by enforcement that's kind of killing all these start-ups that are trying to innovate in the space. And so I think it's going to be a huge tailwind for this industry if we can get regulatory clarity.

So we're announcing today that we're going to be committing another $25 million to FairShake ahead of the election regardless of the results, and that's going to be used not in this current election but actually just to continue momentum going into the 2026 midterms.

In addition to that, we're going to continue to support Standwithcrypto.org after this election. They have a stretch goal of getting to 4 million advocates by 2026 midterms. And so we're going to support them in that result. These have been two of our highest ROI investments to date on the policy side. I do think it's one of the biggest levers that we can pull to try to help this industry thrive, support our customers. When I go meet with big financial institutions or just regular people who are using crypto, the #1 thing I hear and I ask them, why aren't you using it more and they tell me it's regulatory clarity, especially on the institutional side. I think that's going to be a massive source of inflow of capital if we can get that checkbox for many of them.

So, that's our summary on driving revenue, utility and regulatory clarity.

Just to close here, I think we're really well positioned. We've got positive adjusted EBITDA in all macro environments for seven consecutive quarters now. I think the business is in a really healthy place from a cost point of view, managing expenses, and that's given us the resources to go fund driving utility and this regulatory clarity, which can really be the next chapter of crypto to grow this, hopefully, to 1 billion users or more over time.

So I'll end there and pass it over to Alesia.

Alesia Haas, CFO: Thanks, Brian.

So just as Brian shared that we have three goals for the company this year, we also have three financial goals. And we made progress on each of these in the third quarter. The first is to continue to diversify our revenue; second, maintaining expense discipline; and third, generating positive Adjusted EBITDA in all market conditions.

So I wanted to introduce those, but then dive deep into our results.

Our Q3 total revenue was $1.2 billion, our expenses are within the outlook ranges we provided last quarter, and Adjusted EBITDA was $449 million. Our balance sheet strengthened and our total USD resources grew 5% quarter-over-quarter to end the quarter at $8.2 billion.

Now starting with transaction revenue. Our total trading volume was $185 billion, down 18% quarter-over-quarter. This was driven by lower crypto asset volatility and average asset prices that we saw during the quarter. In turn, our total transaction revenue was $573 million, down 27% quarter-over-quarter. You can see the observable difference in our trading volume and our transaction revenue growth rates in Q3. So I wanted to highlight a few trends to partly explain these results:

First, importantly, our share of Fiat to crypto trading volume in the U.S., where the majority of our consumer revenue was derived, was steady quarter-over-quarter.

Second, what we did see though, was consumer stablecoin pair trading volume grew significantly quarter-on-quarter. In part, we believe this growth was driven by a product update, which enabled an easier way for advanced traders to trade stablecoins on our platform. And while we generate little-to-no fees on stablecoin pair trades, growing adoption of stablecoins and USDC specifically, is core to our strategy, and we monetize USDC via our commercial relationship with the issuer of USDC.

Third, we saw a decrease in non-trading consumer transaction revenue. So non-trading consumer transaction revenue includes revenue from DEXs and minor fees.

Switching over to the institutional side. We did see a decline in institutional spot revenue quarter-over-quarter, but we saw relative outperformance of our Prime Broker and our derivatives business. And while not yet material, we're really pleased to see the beginnings of the derivatives revenue growth as our efforts to diversify the sources of our revenue continue to be a priority for us.

Turning to subscription and services revenue, which was $556 million, down 7% quarter-over-quarter. We were really pleased to grow native units in staking and custody. However, this native unit growth was offset by lower average crypto asset prices, which impacted these revenues during the quarter.

Our Q3 stablecoin revenue grew 3%, as USDC market cap growth and our on-platform USDC balance growth exceeded the impact of lower interest rates.

To finish out revenue, I wanted to share that the number of Coinbase One paid subscribers continued to grow, and we saw all new all-time highs in the third quarter.

Turning now to expenses. Total Q3 operating expenses were $1 billion, down 6% quarter-over-quarter.

Our Adjusted EBITDA was $449 million and net income was $75 million. Net income was impacted by $121 million in pretax losses on our crypto asset investment portfolio, the vast majority of which was unrealized. These losses were about $92 million after reflecting the tax impact.

We ended the third quarter with $8.2 billion in $USD resources, up 5% quarter-over-quarter. As Brian shared earlier, we announced today that our Board of Directors has authorized our first stock repurchase program of up to $1 billion with no expiration. As we've now seen seven quarters of consecutive positive adjusted EBITDA and meeting our financial objectives and all market conditions, we are looking to be increasingly strategic with our capital allocation, and this program gives us another tool that we will look to use opportunistically.

Finally, to close, I wanted to highlight a few things on our Q4 outlook.

Zooming out, we're really pleased to see our long-term revenue diversification efforts paying off as subscription and services revenue is on pace to exceed $2 billion this year. Nevertheless, our Q4 subscription and services outlook reflects certain headwinds including a 10% price decline in Ethereum in October compared to the Q3 average, as well as lower interest rates. Meanwhile, we will continue to work on growing product adoption and growing native units on platform to help offset these headwinds.

Second, on technology and development and general and administrative expenses. We continue to be disciplined in adding fixed expenses to our cost structure. We are expecting Q4 tech and dev and G&A expenses to be in the range of $690 million to $730 million.

Third and finally, on sales and marketing, we have increased variable expenses over the last year, notably USDC reward rates and performance marketing. In Q4, we expect sales and marketing to be between $170 million and $220 million, driven by higher on-platform USDC balances and higher brand spend.

With that, Anil, let's go to questions.

Anil Gupta, Vice President, Investor Relations: Okay. Great. Thanks. So we'll take the top three questions voted on from Say, and then we'll turn it over to some live questions from the analysts.

So the first one, we had two questions -- two shareholders who asked a similar question with the same theme: would Coinbase consider a Bitcoin, Ethereum or other reserve strategy like MicroStrategy? Alesia?

Alesia Haas, CFO: Good news. We do invest in crypto, and we have an investment portfolio on the balance sheet. The fair market value of our crypto investments was about $1.3 billion at the end of the third quarter. You can see more detail in our filings, but we hold Bitcoin in addition to Ethereum and a mix of other crypto assets. These are intended to be long-term investments. One way to contextualize this is that our crypto investment portfolio of $1.3 billion is about 25% of our net cash balance. That is total cash minus our debt.

We do need to keep cash on hand for a variety of purposes. First, capital requirements for our regulated legal entities. We keep cash on hand for M&A opportunities and Ventures and to hedge our operational activities. To be clear, we are an operating company and not an investment company. But over time, we absolutely want to grow our operations such that we hold and transact with an increasing amount of crypto transactions, and we are going to look for opportunities to do so.

Anil Gupta, Vice President, Investor Relations: All right. Second question: How are Base, Smart Wallet and cbBTC driving revenue for Coinbase? How is Base performance relative to other L2s or L1s? What are Coinbase's plans to onboard more users and drive adoption? Also, how do you see CDP evolving? Could it become the AWS of crypto? Brian?

Brian Armstrong, Co-Founder and CEO: Yes, so I'll try to take each of these one by one. To start with Base earnings revenue via sequencer fees, or think of it as transaction fees, we're keeping those very low right now to help it scale, but those could be meaningful over time. And then Smart Wallet is really just about simplifying the onboarding process for especially self-custodial wallets, but maybe other products over time. That’s just going to accelerate growth, open up new user groups that could onboard less-technical folks. CbBTC, that really, in part, it just drives usage of Base, but it also brings more assets on platform. People have bitcoin that they want to use in different DeFi applications like borrowing and lending. There are potential opportunities to monetize that. So these are all somewhat early in their growth stage, but these are the building blocks, I would say, that are going to enable us to really drive the utility phase of crypto.

You’d asked about how Base is doing, and I mentioned in the opening statement, it's #1—the #1 Layer 2 solution now by transactions processed and total value on the platform. Just to give a little more detail on that. The transactions increased 55% on Base quarter-over-quarter. It's a pretty incredible pace of growth right now. And actually, the number of—well, that was all actually while the median transaction fee, we kept it below $0.01. So we're really trying to keep that low to help with growth.

You asked about CDP. That's Coinbase Developer Platform for anybody who's not familiar. I do think this could become the AWS of crypto. We're really trying to take a lot of the hard, technical challenges that we've built internally to create our own products and make them available to third parties. It's kind of like selling picks and shovels in the gold rush or whatever analogy you want to use. And I think that this could help hopefully thousands of crypto companies or even just non-crypto companies really start to integrate crypto in different ways over time.

Recently, we've seen a big surge of developers building AI agents that actually have an embedded crypto wallet, which I think is a very interesting trend. And we're seeing a lot of start-ups use CDP for that. So that's pretty cool.

I think just in conclusion, I'd say that all of these pieces are coming together to help us drive utility, and we'll monetize them in different ways over time. But if we can help 1 billion people get more economic freedom with good financial infrastructure, sound money, global rails, decentralized identity systems, there's all kinds of things that will be possible to monetize there. And so yes, hopefully that answers your question.

Anil Gupta, Vice President, Investor Relations: And then our final question from Say, any plans to provide dividends to shareholders in the future? Alesia?

Alesia Haas, CFO: Thanks for the question. So while not a dividend, we did announce today that we have an authorization to repurchase up to $1 billion in shares. And this is a way of returning capital to shareholders. I wanted to talk a little bit about our rationale and how we think about capital allocation. As we continue to strengthen our balance sheet over the past few years, we now have about $8.2 billion in $USD resources in addition to the $1.3 billion in fair market value of crypto investment assets that I mentioned earlier.

Our primary goal is to invest in our business. We want to fund new products. We want to expand internationally. We want to do product development. We also use our balance sheet to help scale our lending business, our prime financing business, within the institutional product suite.

But beyond that, we see a number of other opportunities to utilize our available cash resources. M&A and Ventures have always been a focus area for us. We made some opportunistic debt repurchases over the past few years, notably our 2026 converts. And today, we're now announcing that we opportunistically would like to start exploring returning capital to shareholders with the buyback authorization. So no dividends, but we are being more strategic with our capital and look to create an opportunity to return this capital through repurchases.

Anil Gupta, Vice President, Investor Relations: Thank you. And so Sarah, with that, let's take our first question, please.

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

Peter Christiansen, Citigroup: Brian, Alesia, I'm curious on your views on Coinbase's share of other crypto assets, I guess, alt coins. And I guess if we look at Q4, Q1 earlier this year, it was a much higher percentage of your overall volume. It's come down quite a bit since then, maybe 10 points. Just curious if you see any meaningful shifts there in Coinbase's ability to drive share in some of the lesser-traded tokens.

Alesia Haas, CFO: Let me start with that one, Pete, and then Brian can or Emilie can add on thoughts. What we see with especially the long tail is oftentimes trading is correlated very much with volatility. And so when there's more volatility in that long tail, we tend to get more market makers, hedge funds, as well as advanced traders trading that long tail. Crypto asset volatility came down in Q3 as compared to Q2.

And so we did see a little bit of that volume shift. The other thing that we've seen is post the ETFs getting approved, there's just been more focus on Bitcoin and Ethereum. The ETFs have been the tide that lifts all ships, and that has driven volume on our own platform as more volume has come to Bitcoin and Ethereum as well.

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

Owen Lau, Oppenheimer: Could you please add more color on the driver of the retail fee rate? And I know Alesia, you mentioned the three key points. So is the sequential decline mainly driven by the mix shift towards stablecoin pair trade, which generates little-to-no fees? And how about the core fee trending for other peers?

Alesia Haas, CFO: Thank you for the opportunity to clarify because I appreciate that this is an area focus. We made no material changes to our fee rate structure in the consumer app. The blended average change that you see quarter over quarter is due to two key drivers - first is mix shift, where we saw more stable pair trading. Second is we did not see as much revenue in Q3 from the non-trading transaction types. It was these two drivers that led to the change in the blended average fee quarter over quarter, but no underlying changes to the fees per product. It was mix and the non-trading revenue changes.

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

Ken Worthington, JP Morgan: I want to focus on regulation in the election. So first, congratulations on the leadership position and the success you've had in making crypto an issue for elections this year. In terms of the election, there's the expectation that a White House that is more friendly to crypto can have a more accommodative regulatory backdrop. From a top-down perspective, this makes sense that things will be better for Coinbase. I'd like to dig in a bit deeper on the bottoms-up perspective. Apart from the benefit of a less litigious SEC, what can Coinbase do in a more friendly regulatory environment in the U.S. that it's not doing now, and what's high on your priority list to jump start or expand with a friendlier U.S. regulatory environment? And then for Paul, the states have stepped up their oversight of Coinbase with staking being an example, does a more friendly federal regulatory environment diminish the roles that states currently have restricting Coinbase activity?

Paul Grewal, Chief Legal Officer: Thanks for the question. Ken, this is Paul Grewal. To start, let me just clarify what we're not -- what we're looking for is not an accommodation. We're really focused on clarity and ultimately, fair treatment rather than the regulation by enforcement that we've faced alongside so many of our industry that's really stifling U.S. innovation. The good news is we think that either presidential candidate is absolutely going to be an improvement, an upgrade to the approach of the current administration and that with a new administration, you'll see a step towards an improved environment towards regulation.

The clarity that we're looking for at the federal level would absolutely unlock innovation across the financial system and critically, from our perspective, make sure that the industry is built in America, at least in large part. And beyond the federal impact, states as well are absolutely looking to federal regulators to determine the rules of the road, so there would be positive follow-on effects at the state level as well if we were to achieve that clarity with our federal regulators. The goal of all of this is, from our perspective, to make sure that we have consistency in the protections that are afforded to consumers across all states. It's one of the reasons why we have supported the FIT 21 bill, which would allow us to not only come in and register as we've been encouraged to do, but also to establish certainty of critical elements of our business and everything from side-by-side trading protection under the auspices of spot market authority with the CFTC, a whole range of positive benefits would follow. Among other things, it would also give us clarity and provide authority for listing of assets as commodities as they decentralize, and again, because the states tend to take their cue from the federal regulators when it comes to Howey Test and how that applies to different assets, we do think that would improve the climate at the state level as well.

Now, just to turn a bit to what that clarity could mean for our products, and just to give a few examples. One, with respect to trading, we do think there's a significant growth opportunity to serve a larger portion of the market if we were to achieve the clarity that we're seeking through this legislation and rulemaking. That would happen because traders of all types are just going to be much more confident and comfortable trading, and we do think that would ultimately drive increased revenue. You'd see listing of assets accelerate. We also think that over time, we would be able to activate our license to list tokens, which implicate the federal securities laws as well, so crypto securities could also come online. Stablecoins would also benefit. There's no question that we would see benefits for payments at scale because, of course, significant players are looking for clarity before really plunging into that in the way that we think is entirely likely. Staking would benefit, right now as I'm sure you know, incremental staking is temporarily paused in a number of states, and we think we could bring that back.

So there's just a large opportunity, we think, to be a trusted partner and to provide support to an ecosystem that would grow. And that, of course, would attract and continue to attract strong support from banking and payment partners who are going to be much more likely and much better positioned to offer on-ramps and off-ramps to crypto. And that, of course, would lead to growth in e-commerce, apps that use crypto and all of that. One other category, we think it's also quite significant here. We do think that the creator platforms, advertising, social networks, all would be interested in integrating crypto, but right now they're waiting on the clarity. And so with clarity, we think there would be a major unlock.

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

John Todaro, Needham: I wanted to drill down into the stablecoin stuff a little bit more - so Tether volume on the platform increased to 15%, I believe USDC hasn't broken out that same way. But just wondering, are we seeing a shift towards Tether away from USDC, or is that a wrong way to be looking at that?

Alesia Haas, CFO: What's reported in our disclosures around Tether is just trading volume. And I would comment that we've had a couple of quarters where we've broken out, Tether, in terms of trading volume. I shared earlier that we made it easier to trade stable pairs on our platform, and so in part, you're seeing that increase in stablecoin trading pairs reflected in overall Tether volumes - but no, we don't believe that there is a shift.

What we would share with you is USDC was the fastest-growing major stablecoin in Q3 and year-to-date. It's reached new all-time highs post the financial crisis of Q1 2023. It hit $36 billion. We're integrating it more deeply across our product family, and we think that we have a significant upside to continue to put forth a more trusted stablecoin into the market and gain consumer adoption here in the U.S. and around the world.

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

Devin Ryan, Citizens JMP: Just a question on expenses here as we approach 2025. Just great to get a little bit of a sense of spending plans, areas you expect to lean into? And just if there's any way to think about the relationship between expense growth relative to revenue growth. I appreciate there will be some fixed expenses and longer-term investment, but then you also have some variable items that you can kind of lean in or pull back on based on the environment.

Alesia Haas, CFO: We're not giving any outlook on 2025 today, but we are continuing to focus on our overall financial goal of exercising expense discipline. We'll be prudent. Just like we did this year, we are selectively increasing headcount and putting resources towards areas where we see growth opportunities. We are flexing our muscles around variable spend to match marketing, consumer support against volumes that we see and to support our customers and areas. We'll take the same approach in 2025, we'll be disciplined, we'll invest after growth opportunities, but in a very prudent way.

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

Benjamin Budish, Barclays: I wanted to ask another capital allocation question. We've seen another crypto company benefit from a market cap perspective from having Bitcoin on their balance sheet. Just curious, I understand there are different considerations considering you run an exchange, but what are your thoughts to sort of follow that playbook as well? How do you think about potentially doing that for Coinbase?

Alesia Haas, CFO: We do hold crypto on our balance sheet. I have mentioned in my comments on the SAY question earlier that crypto represents about 25% of our net cash after we back out the debt. We do think about allocating excess capital or liquidity that we have to build our crypto portfolio, but we still need a lot of cash to support our business and the opportunities that we see ahead. We are not a company that looks to be an investment company and hold just investment assets on our balance sheet. We are an operating company, but we do look to build more and more of our transaction activity in crypto as we grow over time.

Operator: Your next question comes from the line of Mike Colonnese with HC Wainwright.

Michael Colonnese, HC Wainwright: For me, you guys, when we look at your portfolio of products and services today, where do you believe there's a gap based on current and future market opportunities? And would you say you're more likely to build this set of products in-house to fill that void or really go out and acquire, especially given your strong balance sheet and liquidity position here? As a quick follow-up to that, do you think we could see an acceleration in crypto M&A activity once we get regulatory clarity here in the U.S.?

Emilie Choi, President and Chief Operating Officer: We've actually been quite active on the M&A front, and I think we've had a pretty good track record here. In August, we closed the acquisition of a MiFID license, which will unlock derivatives in 20-plus EU markets. We're working to operationalize this now.

In June, we brought on Station Labs' team to accelerate Smart Wallet development. Historically, we've had great success with deals like Xapo for custody, Tagomi for prime brokerage, FairX for derivatives, ORDAM, they've given us all a nice position in the institutional market. You can expect we're basically looking at everything. We are selective. We're disciplined. We tend to succeed when we have a vision for something on our product roadmap and there's a great asset out there that can help us extend that lead. Currently, looking at everything, I think international is going to be a great opportunity for us to think about consolidating and enhancing our position outside of the U.S. Base, we are looking at great tech and talent that can help bring new capabilities and add to our momentum there. On the utility front, we're always looking at driving new use cases on the payments in stablecoin's front. So lots of opportunity on the M&A side.

Brian Armstrong, Co-Founder and CEO: Yes, I would just say we do—internally, we often say we build, buy and invest. So, meaning we're going to grow and have innovation from wherever we can get it. We oftentimes try to build it in-house. There's lots more that we're doing on that front. If we see something take off that we think we can acquire that we haven't built successfully internally, we're open to that. And then, sometimes they aren't willing to let us buy it, and we'll invest as well. We have an amazing portfolio from the Coinbase Ventures side.

So we're going to keep doing all 3. There's some stat out there, right, about like 80% of M&A is not accretive. The easy thing is buying it. The hard part is successfully integrating it into the company. So it's a little easier to do with smaller teams, tech and talent. But if you're talking about big M&A, as Emilie said, we look at almost all of them, but it's kind of like Warren Buffett, we're only going to swing at a few pitches where we think we can really have accretive value. And that's the hard part of M&A. It's not just buying it. It's the actual integration and making it work.

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

Joseph Vafi, Canaccord Genuity: Just want to circle back on Base. Basically, you are clearly the most capitalized player in the Layer 2 space out there. Just wondering how you are looking at that kind of strategic positioning you have there where you can flex or invest more than others to continue to kind of drive that and kind of maybe become dominant here as we look forward into the crypto space here in the next couple of years.

Brian Armstrong, Co-Founder and CEO: Yes. Well it's an interesting question. So far, Base has been really successful just on its merits as a really great tool that builders find easy to get work done. There have been other Layer 2s in the past that I would say, tried to more aggressively share economics and even creating their own token and things like that. I don't think it really—you want people to be integrating it for the right reasons.

And so I will say, Base was and is built on top of the Optimism stack. That's a really great team that we've enjoyed working with. And I think they've actually done a really good job of bringing in new partners to build on top of Optimism, which are interoperable with Base and I think Base can end up being really like a hub for many of these different partners out there. So we're not opposed to sharing economics or getting grants in certain situations to bring folks onto Base and there's certainly lots of builders that have gotten small grants. But sometimes I feel like the large amounts of money that go out for these deals, if someone's really getting paid that much to integrate it, I question a little bit if it's the right motive -- we want them to build on top of Base for the right reason. So hopefully, that gives you a sense.

Alesia Haas, CFO: Maybe I'll just add on, if I could. I think one of the unique benefits of Coinbase is we're bringing together our entire product suite. So we're building a great product for developers, but then we're making those developers have access to our retail platform and integrating it deeply into our products. And so, we are trying to connect the whole ecosystem with Base, and we bring a lot of unique assets to that table when we're connecting the ecosystem that we think creates a flywheel for developers to build on our platform and then participate in our entire product suite, which is unique compared to many others who are building Layer 2 solutions.

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

Bo Pei, US Tiger Securities: I also have a follow-up on the retail take rate. Can you share the volume contribution from stablecoin specifically for retail trading volume? And is this mix shift to stablecoin structural, and is it still ongoing or basically from -- meaning the mix will be stable going forward?

Alesia Haas, CFO: Thanks, Bo. So what I want to share is like we see different mix every quarter. When people are trading stablecoins, they're looking for arb opportunities throughout the ecosystem, so there's no guarantee that the arb opportunities will exist every quarter. So I don't think that this is a structural change to trading volume or the market, but it's what we saw this quarter.

We are not backing out or quantifying specific volume. But what I'll say is that if you exclude stablecoin impact, the mix of advanced volume was slightly higher in Q3 versus Q2. And so, we did not have any change in market share, as I mentioned earlier, it was relatively steady in our fiat to crypto trading volume, which is like the core of our revenue engine here in the U.S. And so backing out stables, a little bit more on the advanced side, but the stablecoin impact was the most material contributor to that change in rate this quarter.

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 Mark McLaughlin with Bank of America.

Mark McLaughlin, Bank of America: So you guys have made meaningful progress expanding your derivatives offering, both abroad and more recently, domestically. I was hoping to get a little bit more color around what additional steps you plan to take to help increase adoption and scale given the large TAM, but it's also a highly competitive market.

Brian Armstrong, Co-Founder and CEO: Yes, sure, I can take that one. So in 2024, we did launch our derivatives platform, both internationally and here in the U.S., and it's been a great start, but there's definitely still a lot of work to do.

So one of the next steps here is we obtained a MiFID license in Europe. This is going to allow us to unlock derivatives in 20 additional EU countries. That's an important step, because, of course, we're doing this in a trusted compliant way, which is what we're known for. It takes longer to do it that way, but it's the right way to do it. It's the way that's sustainable -- and it's -- by the way, it's what a lot of customers out there want. They want a trusted counterparty that's going to be around and it's compliant and meeting the standards and controls that they expect. So anyway, that's one of the steps around our MiFID license, just operationalizing that.

We've also this year added quite a few more order books and even different asset types, other types of assets people want to trade in commodities like oil and gold. We added perpetual futures on our international exchange. That's something there's high demand for in the U.S., but there's -- we don't have a path from the regulator yet to launch that in the U.S. We've been continuing to improve unified margin access. This has been another big customer request where they're holding assets across spot and derivatives. They want to have a more unified look at how they can get leverage and margin.

Just to give you one stat, so Coinbase Financial Markets, which is our entity—regulated entity—in the United States to trade futures, we've actually onboarded over 100,000 retail advanced traders now to that product. So that's been a really great crossover from our existing spot trading business, where these advanced users have onboarded to our futures trading entity there.

Well there's a whole go-to-market strategy I should talk about, too, I think, which is very interesting. So our referral program launched, which has been driving a lot of volume, where people who refer customers can actually get about 30% of their trading fee revenue. That's been pretty successful.

We've been going to just meet a lot of the—advanced trading derivatives, it's really a whale driven market. It's a power-law distribution of volume, and we've been going out to meet with the large traders out there at different events around the world and really just getting their feedback and understanding what they want to see in our product before they can move over.

So I think this is going to be—there's a lot of work to do still, but I think in 2025, it will be a really pivotal year where we'll really hit our stride. So yes, those are some of the things we've been working on recently. Really, our long-term competitive advantage here is that we are doing this in a trusted, compliant, regulated way. And we're a U.S. entity, a public company, we're the trusted counterparty from a custody point of view, that they really want to trade with. They all tell us they really want us to succeed. And as we get a couple of more of these features on line, I think we'll see more and more derivatives volume going through our platform.

Anil Gupta, Vice President, Investor Relations: All right, well, that does it for today. Thanks, everyone, for joining us, and we look forward to speaking to you again next quarter.

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