

Coinbase Global, Inc.
Second Quarter 2024 Earnings Call
August 1, 2024

Anil Gupta, Vice President, Investor Relations: Good afternoon, and welcome to the Coinbase Second 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. Actual results may vary materially from today's statements.

Information concerning risks, uncertainties and other factors that could cause these results to differ is included in our SEC filings. Our discussion today will also include references to certain non-GAAP financial measures. Reconciliations to the most directly comparable GAAP financial measures are provided in our 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. And in addition, we will take some 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 an update on our 2024 priorities. Let's start with driving regulatory clarity, given the significant progress here in Q2. First, advancing crypto legislation has emerged as a mainstream issue in Washington, DC. Standwithcrypto.org has amassed over 1.3 million crypto advocates globally, many in swing states.

And these advocates are making their voices heard as an important voting bloc. Politicians on both sides of the aisle have taken notice, and there is growing momentum to pass comprehensive crypto legislation, potentially even this year. Beyond legislation, we saw major wins, both in the judicial and executive branches. The Supreme Court overturned the Chevron deference precedent in a case argued by our newest Board member, Paul Clement.

This case is significant for Coinbase, as it removes a long-standing precedent that courts should defer to an agency's interpretation of ambiguous statutes. We see this case as a sign of Supreme Court skepticism to agency overreach, which we view as a positive overall for our industry.

In the executive branch, the SEC dropped multiple investigations against the industry and also formally approved the Ethereum ETFs, which began trading last week.

We are also increasingly optimistic that the next administration, whether Democrat or Republican, will be constructive on crypto. The rhetoric has shifted.

We continue to advance progress on crypto policy and capitalize on this momentum. We contributed an additional \$25 million to Fairshake in Q2 to help elect pro-crypto candidates.

Since we went public, we have reiterated the need for regulatory clarity. Why does it matter? Well, clear rules would be a major unlock for innovation in our financial system and would ensure that this industry is built here in America. Many entrepreneurs and companies that want to build in the crypto space are sitting on the sidelines or going overseas until there is this clarity, given the regulation-by-enforcement environment.

90% of institutional investors say regulatory clarity would boost their confidence in investing more in crypto. For these reasons, Coinbase will continue to push for clear rules in the courts, in Congress, and in the November elections.

While we're heavily invested in driving clarity in the US and abroad, the vast majority of our resources, time and attention as a company is focused on building great products. So let's talk about how we're driving utility.

To bring 1 billion people onchain, crypto transactions need to be cheap and fast, and it needs to be so easy to use that people don't even know they're using crypto. We're investing on the frontier to make crypto seamless for both consumers and developers. Most of the building blocks for utility, like payments, are now here.

Layer 2s, like Base, enable one second, one cent global transactions, and it's here today. Stablecoins, like USDC, enable global transfer and settlement in dollar terms today, and smart wallets offer seamless onboarding. So users no longer need to remember 12-word passphrases.

In short, the components are coming together for us to see more and more global transaction flow on crypto rails. And I'm excited to report that we're now seeing almost \$20 billion per week in USDC transaction volume on Base.

We're also seeing start-ups build onchain versions of major Web2 apps like Spotify, Instagram, YouTube and X. Building new versions of these applications onchain gives creators new ways to monetize and remix content while fully controlling their own data. This is the vision for the future of the Internet commonly called Web3.

Coinbase Developer Platform, or CDP for short, is our developer product similar to what AWS did for the Internet, which we believe will help more onchain apps be created by offering developers best in class tools.

Last but not least, let's move to how we're driving revenue. Q2 was another strong quarter, and it was our sixth consecutive quarter of positive Adjusted EBITDA.

Subscription and services revenue reached an all-time high, with transaction revenue declining versus Q1. Coinbase is now an all-weather company with increasingly diversified revenue streams, and I'm proud of our discipline managing expenses.

In closing, Q2 was another great quarter across the board. Whether the market is up or down, we're driving the industry forward, building more predictable revenue streams and creating long-term shareholder value.

Now I'll pass it over to Alesia for a more detailed view of our Q2 financials.

Alesia Haas, CFO: Thanks, Brian. Our Q2 results reflect our continued revenue diversification and execution on our goal to generate positive Adjusted EBITDA in all market conditions. Total revenue was \$1.4 billion, our expenses were within the outlook ranges we provided last quarter, and Adjusted EBITDA was \$596 million.

Further, we strengthened our balance sheet to \$7.8 billion in USD resources. With that, let's dive into the Q2 details, starting with transaction revenue.

Total spot trading volume declined 28% quarter-over-quarter, driven primarily by lower crypto asset volatility.

Our total transaction revenue was \$781 million, down 27% quarter-over-quarter. I want to note to you that our transaction revenue benefited from growth in derivatives and Coinbase Wallet trading fees, where we do not report trading volume associated with these two revenue streams.

We were happy to turn on fees in Coinbase Wallet in Q2, following the favorable court ruling on Wallet in our

motion to dismiss.

Our other transaction revenue was down 6% quarter-over-quarter.

We were able to significantly reduce Base fees in the quarter, which, as Brian mentioned, helped drive 300% quarter-over-quarter growth in the number of transactions on Base.

Turning to subscription and services revenue. As I mentioned in my opening, we were pleased to further diversify our revenue in Q2, and subscription and services revenue grew 17% quarter-over-quarter to \$599 million.

We saw growth across the board, but it was primarily driven by stablecoin revenue and blockchain rewards revenue. We note in our letter that our blockchain rewards revenue benefited from a one-time \$8 million validator reward.

We are also pleased to see continued growth with Coinbase One.

Moving to expenses. Our total operating expenses were \$1.1 billion, which were up \$229 million quarter-over-quarter. Three drivers contributed to this growth.

First, a \$117 million quarter-over-quarter change and our gain/loss on operational crypto. We recorded a gain in Q1 and an expense in Q2, as crypto prices were lower in the second quarter as compared to the first.

Second, we saw a \$67 million quarter-over-quarter increase in our variable sales and marketing expenses, higher USDC reward payouts driven by higher on-platform balances, and higher performance marketing spend driven by attractive marketing conditions.

Beginning in late Q1, we have seen more marketing opportunities that meet our investment criteria. We take a disciplined approach to balancing marketing investments with growth. We have clear guardrails in place to ensure the vast majority of our non-brand marketing spend pays back within one year.

The third driver of the expense increase was a \$26 million quarter-over-quarter increase in policy spend in support of driving regulatory clarity. All policy spend is now recorded in general and administrative expenses, as we view them ongoing, and we have updated prior periods accordingly.

Despite our sequential decline in revenue, our profitability was solid in the second quarter. Net income was \$36 million and was impacted by \$319 million in pretax crypto asset losses associated with our investment portfolio. The vast majority of these were unrealized. These losses represented a \$248 million after-tax expense.

Our adjusted EBITDA was \$596 million, and our balance sheet remains strong, as we ended the second quarter with \$7.8 billion in USD resources, up \$733 million quarter-over-quarter.

Finally, a few call-outs on our outlook for the third quarter:

First, our subscription and services outlook reflects some modest headwinds as we go into the third quarter.

This is primarily due to the July Ethereum price declining about 3% as compared to the Q2 average, our expectations of a September interest rate cut, some increases in expenses related to USDC as we work to drive global adoption of USDC as the most compliant stablecoin, and the one-time \$8 million blockchain reward benefit I mentioned earlier.

We are going to work hard to grow native units to try and offset these headwinds. However, our range has been updated to capture this market environment.

Second, we plan to further grow our variable marketing spend in Q3. Variable marketing expenses can fluctuate widely quarter-to-quarter depending on factors like the on-platform USDC balance, the overall market conditions, and the number of available marketing opportunities that meet our customer cost of acquisition targets. Our outlook range is wider than we provided historically, and it reflects the range of possibilities we see.

Last, while we are expanding variable expenses to meet evolving market conditions, we also expect to prudently increase headcount throughout the rest of the year, primarily to support our product and international expansion efforts and to strengthen our product foundations and quality.

We remain focused on managing our fixed expenses closely and believe these investments will support continued revenue diversification and product quality. With that, let's go to questions.

Anil Gupta, Vice President, Investor Relations: Thanks, Alesia. So we'll take the first three questions that were the most voted upon from the Say platform, and then we'll take some live questions from the analysts. The first question is, how does Coinbase view the potential impact of Base's partnerships with companies such as Stripe and Shopify, as well as the impact of the newly-launched Smart Wallet on increasing crypto adoption. Brian?

Brian Armstrong, Co-Founder and CEO: Yeah, so our whole goal here is to try to shift crypto to power more and more utility and not just be an asset class that people buy and trade, hoping it will go up in value, although that's going to be a big business for us for a long time.

But if we're ultimately going to achieve potential of this, we need to get 1 billion people or more onchain who can benefit from this update to the financial system to bring more economic freedom to the world.

So to do that, there's some foundational building blocks. We need to make all crypto transactions fast and cheap, ideally under one second and one cent, to send a transaction anywhere in the world. And we've now achieved that with Base.

We also need to make crypto a lot easier to use to get 1 billion or more people. Not everyone in the world knows the technical details, nor should they have to know the technical details of crypto. And so we're making a lot of efforts in that direction to make it easier.

I mean one example of this is — was mentioned in the question, our Smart Wallet launch. So this is — it solves one of the biggest pain points in crypto previously for — to get onboarded to a self-custodial wallet required you to have a 12-word passphrase. People had to write this down or save it somewhere; sometimes they would lose it or not store it securely.

With Smart Wallets, people can now onboard just using what are called passkeys, and typically, it's a biometric like a thumbprint on a mobile device. And this doesn't — there's nothing they have to remember. It's secure. It's fast. They're onboarded in a few seconds. So it's a great example of getting onboarding solved.

Now if you take Base, Smart Wallets, USDC, which is a stablecoin that meets with the MiCA compliance in Europe and is trusted, you start to see some of the building blocks coming together, where we can really start to drive that utility. And of course, partnering with some of the biggest companies out there to integrate crypto rails is a huge piece of that as well.

So two of them were mentioned in the question. We're going to continue to try to partner with every fintech, every bank, every neobank, even more traditional companies to try to integrate crypto into every part of the global financial system. That's how we're really going to update the financial system, and we'll do more and more partnerships.

Anil Gupta, Vice President, Investor Relations: Alright, second question, which says first of all, thank you for all the community support for things like Stand With Crypto. What else is being done to support better regulation in the industry and how can we, as shareholders, help? Brian?

Brian Armstrong, Co-Founder and CEO: Yes. Well first, thanks for the shoutout on standwithcrypto.org. If anybody hasn't signed up there, I'd encourage you to do it, invite your friends. It's an organization that we were proud to donate to that's helping educate voters, and there's 52 million Americans, 400 million-ish people globally, that have used crypto now. It's important that in democracies around the world that we help folks get educated on different candidates and give them the tools to help support.

So on standwithcrypto.org and specifically, you can call and email your representatives, see how — what their position, their voting record is on different crypto bills that have come up. You can donate to pro-crypto candidates. You can also most importantly, probably just make sure you're registered to vote and get educated on those different candidates.

Now Stand With Crypto is great, but it's just one pillar, really, of the different efforts going on in the industry. Of course, we're pursuing clarity on the rules in the courts. And we have our court case going on there, which we hope will create good case law.

There's lots of other pieces to that in terms of getting FOIA requests answered and shining a light on some of the activity that may have been happening there. Even we have oral arguments going forward in the third circuit to press the SEC on its on doing rule-making following the Administrative Procedures Act.

So there's a variety of things going on in the courts, which we think will help create good case law. In Congress, also we're seeing bipartisan legislation have a path forward. There's real energy now in the Senate, taking up the strong bipartisan majority that got passed in the House with the FIT21 bill. The Senate is now working on their own version of that, so we're optimistic to see more progress there.

So these are all — and of course, Fairshake is an organization that we were proud to donate to. It's helping elect pro crypto candidates. So these are all things that can contribute to the cause here.

If any of you want to know what you can do more to help, I'd start with standwithcrypto.org and make sure you're signed up there, and contact your representatives and register to vote.

Anil Gupta, Vice President, Investor Relations: All right. And our final question from Say, what level of revenue are you projecting for custody in funds of the crypto ETFs? Can you break that down between ETH and Bitcoin? Additionally, what types of revenue are you projecting for the Base chain? Alesia?

Alesia Haas, CFO: Thanks for that. So, ETFs have been great for our industry. They have really generated a flywheel of activity across our product platform and deeper engagement across the ecosystem. It's unlocked new capital.

We're benefiting in three ways. We get trading, we get custody, and we get additional financing business in our Prime financing product from our institutional clients with the ETFs. We're not breaking out total ETF financial impact at this time. Our view is that this is just adding to existing products and revenue streams that we have,

and we don't speak about specific subproducts or client activity on our platform. But we're really pleased to see the overall interest that the ETFs have brought to the crypto industry and to our product.

Additional types of revenue for the second part of the question that we're projecting for Base. Our focus, as I mentioned in my opening remarks, is driving developer activity, we're driving those transaction volumes that we commented on.

We're doing this by driving down fees, increasing the scalability, and creating a powerful developer platform that's enabling anybody to build these onchain products.

We believe that this growth will then add users to develop products, we'll add developers and apps on Base, and that in turn will drive transaction volume and will drive down sequencer fees, and we will then see revenue as a result of those efforts.

Anil Gupta, Vice President, Investor Relations: Thank you. And so with that, Krista, let's open up the line for our first question, please.

Operator: Certainly. Your first question comes from the line of Devin Ryan with Citizens JMP. Please go ahead.

Devin Ryan, Citizens JMP: Great. I just want to ask a question about the derivatives platform and we're tracking just quarter-to-date, a continuation of building volumes there. And I know you're not breaking it out in revenues separately yet, but it sounded like it was a positive contributor in the second quarter.

So I'd love to just get some perspective around how you think you're taking share in that market. I know it's coming off of a low base. What are you seeing with customers coming on platform?

And then over time, are there opportunities to either take up the average spread per trade or drive other incremental revenues with the customers that are trading derivatives? We're trying to think about kind of the bigger picture of where this may be going since it's trending positively.

Brian Armstrong, Co-Founder and CEO: Yes, so I'll start off and then maybe I'll hand over to you, Alesia, on some of the margin questions. So just zooming out, derivatives is about 75% of all crypto trading activity by volume. And so, it is the majority of trading volume now. The take rates are lower on it, but it's really a key part of the market overall.

And so I'm really glad that we are now in market, both in the US with Coinbase Financial Markets, and then internationally with our international exchange as well. So – primary goal at this point, building liquidity, adding users, growing share.

We had some really good wins in Q2. In the US, Coinbase Advanced, we were able to expand to include more contracts there. We were the first platform to offer margin to crypto futures for a handful of different assets, for instance.

We've also been adding actually for Coinbase Financial Markets, we've been adding some real-world assets as well, like gold and oil, commodities futures, which was pretty cool. We were able to operate that all under the same license.

For Coinbase International Exchange, we also expanded our asset coverage quite a lot in Q2. We added 25 additional perpetual futures contracts. The volume has been really good today, actually, on Coinbase International Exchange. So you can check out at international.coinbase.com.

So we're just building on this momentum, building the features that our customers want and need. And then there's a MiFID license that we acquired earlier this year, and we're expecting that to close in 2024. That will allow us to unlock derivatives in 20 or more EU markets. That's a pretty big deal.

And so you can kind of just see Coinbase following this path of — we're not always first to market, but we do it the right way. We do it the compliant way, the secure, trusted way. And so we're the trusted counterparty that many of these folks have been waiting for to enter the market. And I think that's going to pay off as a really good long-term strategy. Alesia, anything you want to add?

Alesia Haas, CFO: The only thing that I would add, as Brian said, it is early. And at this point in time, derivatives, while an important future growth driver, is not a material driver of our financial results.

What I wanted to comment on in Q2, though, is because we do report revenue associated with derivatives but not volume, what you can see is a beginning disconnect between the revenue and the volume that we report, which is spot.

And so the growth rates of those two are the change, you need to understand that there is a disconnect between numerator and denominator when you may calculate blended average fees for our platform. That was the important message that I wanted to communicate in the quarter.

As we grow, as we really close these product gaps and expand to these countries where we can market, as Brian said, we're optimistic that this becomes a bigger component of our revenue in which we would break out more details and give you more transparency on the results in our future financial filings.

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

Ken Worthington, JP Morgan: So Coinbase continues to promote USDC. To what extent is MiCA really a game changer in Europe for USDC? And to what extent would you expect to see a migration now out of, say, Tether into USDC, not just inside Europe, but maybe globally, given the credibility USDC gets from this framework?

And then if we think about the use cases for USDC being sort of threefold — building digital asset trading, DeFi and dollarization — where does Coinbase see the biggest potential to drive USDC adoption, both near term and over time?

Brian Armstrong, Co-Founder and CEO: Yes, well, I'll start off and then I'll pass it to Alesia here. The MiCA legislation is a really big deal in Europe.

As far as we know USDC is the first MiCA-compliant stablecoin. And so the exact implications of that and how the regulators will view other stablecoins in Europe, we don't know, but it's the first compliant one, and that's a very important step.

So we're bullish on this. I think that — having just a trusted stablecoin is a huge deal. It's allowing people to actually use crypto rails for ordinary transactions, earning a living, paying for food, transportation, housing, and engaging in these new kinds of Web3 and DeFi applications, having something that is not just a store value, but it's actually a medium of exchange is really powerful.

So I think it's a big deal. Alesia, anything you want to add?

Alesia Haas, CFO: I would just come back to like the building blocks that we're putting in place is setting a strong foundation for future growth and adoption. So as Brian said, we're getting the regulatory licenses that will enable us to scale globally.

We now have a very transparent stablecoin. We have Base, which is offering fast, cheap transactions. We have Smart Wallet. And so all of these building blocks together really set a stage where we can grow off of a very important foundation.

And we're seeing this impact on our financials already, where USDC has become the fastest-growing stablecoin, faster than other major competitors where market cap is up 30% year-to-date.

Our average on-platform balances increased 50% quarter-over-quarter. And we're starting to see, as Brian mentioned in his opening comments, over the recent weeks, \$20 billion of transaction volume on USDC on Base.

So the foundation is set, we're excited where this can go, but MiCA has been a critical unlock, because as we think about growing USDC to be a global compliant stablecoin, we have a really strong foundation that we're now able to build from.

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

Benjamin Budish, Barclays: I was wondering if you could give us an update on your balance sheet strategy? We noticed the cash build continues to really grow. And it seems like with the business generating cash and the spending really kind of ramped down from a few years ago, there may not be as much of a need for it. So any update there?

And then kind of along the same lines, you've been generating now a lot of your gross profit from interest income. And just curious if there's any thoughts around the hedging strategy should rates start to come down. What's your kind of philosophy there?

Alesia Haas, CFO: Thanks for those questions. Yes, we're really pleased with the balance sheet strength.

We are using cash, as we've mentioned in our Prime financing business. A large amount of that cash was used to support the ETF launches in Q1 and Q2 with the Bitcoin ETF, and now hopefully the Ethereum ETF, where you can see a lot of day-to-day or week-to-week volatility of those loan balances.

We did grow Prime Financing fees within the quarter, and so you can see while the balance at the end of the quarter was down versus end of Q2, we saw growth intra-quarter for those balances. So, using our cash to support our products is a primary use case for us.

We also, as we shared when we did the convert raise in Q1, that we would be paying off the 2026 convert. So some of that cash is already pegged for a future payment of the 2026 convert on the balance sheet, which will bring down the cash balance at that time.

We also maintain a strong balance sheet, so we can be opportunistic as we look for other investment opportunities, both organic and inorganic across the world, and that is something that has been core to our strategy, to do tuck-in acquisitions or growth acquisitions when those opportunities present themselves to us. And so we think of it as just building opportunistic capital for us to enable that we can be ready for all markets and opportunities that present themselves.

And secondly, on the comment around interest income, we obviously did benefit from the interest rates with USDC over the past year. We are prepared, as I mentioned in my remarks, for rate declines. Our goal is to continue to grow native units around USDC and use cases to offset that, and we've also explored various hedging. We are not the issuer of USDC in managing the reserves on that balance, and so I can't speak to that strategy specifically.

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

Owen Lau, Oppenheimer: Could you please talk about the recent retail engagement, and how does it compare to earlier this year and the last bull run back in 2021? How much of them have come back? And also, Mt. Gox has started the repayment in July. Do you see some of these creditors coming back and reentering this space?

Alesia Haas, CFO: Owen, I'll start with that. So our retail engagement is different from the last bull run, because the last bull run, we really only had a trading product platform available to our retail customers.

Today, we offer staking for customers. We have USDC Rewards. We have more products within Wallet and our Smart Wallet that we just launched to engage users and a breadth of DeFi applications as well.

And so we are seeing our retail engagement now expand in many different ways, where we have different customers behaving in different ways on the platform than we saw in prior cycles.

What we see is consistent is that retail traders specifically, who are coming on the platform to buy or sell crypto, behave very in line with prior volatility. And so volatility patterns near this cycle compared to prior cycles. But the deeper engagement is with the breadth of the portfolio that we now have.

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

Michael Colonnese, HC Wainwright: Can you provide an update on your strategy and potential product roadmap for Coinbase Asset Management and really how you guys are thinking about that in the context of an improving political environment in the upcoming elections? And how that can really influence both the timing and types of products you decide to roll out here.

Brian Armstrong, Co-Founder and CEO: Yes, I can start on that, and if anybody wants to jump in, feel free.

So currently, Coinbase Asset Management has been a really good offering for our institutional customers who want to have different ways to — different strategies, really, to access the crypto markets and package those up into really easy-to-use products.

I think your question kind of alluded to the policy environment, and we don't know exactly what will happen over that — over the next year on that.

But I do think we'd ultimately like to see a path where we could start to get index funds, retail products, in the crypto space. That was going to require some — a different policy environment where we can get some of those things approved.

But personally, I'd love to see, like, a Coinbase 500, similar to the S&P 500, a market cap-weighted index that retail could participate in.

I think these things could be really beneficial, but it's too early at this moment. I don't see any path to do it in the near term. And so we're going to keep pushing on that one over time with our policy efforts.

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

Joseph Vafi, Canaccord Genuity: Maybe this one is for Brian. If we do get some crypto legislation, clearly a positive for the industry and might be a green light for big tradfi players to enter the space in a bigger way, how do you see that relative to Coinbase's position? Would you see big tradfi guys as competitors or partners or maybe it's competition, just — it might be a little early here, but it would be interesting to get those views.

Brian Armstrong, Co-Founder and CEO: Yes, well I think you're right that the lack of regulatory clarity is probably the biggest blocker for institutions to put more and more funds into crypto.

We have a huge number of them as clients in Coinbase Prime, our institutional product, and when I meet with them, they'll often say, "Oh, we've got 1 or 2 or 3% of their funds in some portfolio, holding in crypto." And I asked them, what would it take for it to be 10, 20, 30, and they all say regulatory clarity.

So I think getting these new pools of capital unlocked, it would be certainly a huge step in that direction. And by the way, the ETFs have been a proportion of that unlock already, right? The Bitcoin ETFs and the Ethereum ETFs did get approved. We saw new pools of capital open up from that.

But the regulatory clarity goes way beyond just new pools of capital coming in. That's great, but perhaps like the more even exciting part of it is that today, you have to be pretty resilient to be a crypto entrepreneur.

I mean most of these folks, if you're in your early 20s and got a couple of folks right out of college with a laptop and a dream and they want to build a crypto company, you have to be pretty intense to go into this market and you might get a Wells Notice in the first few weeks, and you have to call your parents and tell them that you're being sued.

So that's not most entrepreneurs' idea of the first company they want to start. Now some — many of them are still doing it anyway or they're just going overseas.

But it's really hard to put a dollar figure on this, but if we actually have a welcoming environment where the rules are clear and everybody can just follow them, we could see a huge surge of innovation with all kinds of new applications being built.

By the way, the biggest — the partners that we talk to, some of the biggest tech companies in the world, when we talk to them about integrating crypto, they often will say the same thing. They'll say, well, let's try to wait for regulatory clarity.

So for instance, with the MiCA regulation that passed, the comprehensive crypto legislation in Europe, that actually did open up a bunch of conversations in Europe, and they're all hoping that it happens in the U.S., as well.

So anyway, you can look backwards and say, "Man, where would we be if this clarity had been there five or six years ago?" But I'm an optimist, I try not to look at the past, I try to look at the future. So where will we be in five or six years if we get something passed in the U.S. as well? And clear rules are good for everyone.

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

Peter Christiansen, Citigroup: Thanks for the question here. Brian, I'm very intrigued by the comment on the increase in the onchain initiatives, Fortune 500 or so forth. Super interesting. I was just wondering if you can call out some discernible trends here. I know you mentioned Spotify, many-to-many kind of market. That's interesting. What about like B2B or B2C?

And then with some of these early adopters experimenting with Web three development, are you seeing these players experimenting at their core level? Or is it really at the application level?

And finally, what's Coinbase's role, simply, in the development process of onchain initiatives? If you could just help us crystallize that I think would be really helpful.

Brian Armstrong, Co-Founder and CEO: Yes, sure. So, a lot of the core pieces, I think, are there now, with these Layer-2 solutions and Smart Wallets, like we talked about. Coinbase Wallet as a self custodial wallet can be an easy platform for these folks to interface with USDC, et cetera.

So a lot of the core pieces, I think, are now there. ENS is another one, by the way, having the Ethereum name system. So having sort of these identities online that can accumulate reputation. These are all kind of core building blocks.

So I think a lot of the innovators are now coming in at the application layer. And we're actually hosting a hackathon called Base Camp today in California, and we have hundreds of builders there learning about how to build onchain, launching new applications. It's a really cool event that was just dialed in earlier this morning.

These kinds of things are happening more and more frequently now. And you can think about a lot of the big applications in Web2. Think about what would Airbnb or Uber or Wikipedia or some of the social apps like X or Instagram or music apps, right, like Spotify, like what would these look like in a Web3 world?

And I think the people creating the content, whether you're the biggest artist in the world or you're kind of an average person getting into it, they can actually own their own content, have a direct relationship with their fans, directly monetize their fanbase, people can remix content. There's an attribution chain as people remix this, whether it's text, audio, or video.

There's an attribution of provenance that's formed onchain to prove where these things came from and what were the derivatives of. The monetization can flow through all of that.

And then also, it kind of really rewards the early people who come in to build these networks, right, like an Airbnb or an Uber onchain. So it's great. We're seeing a lot of innovators come in.

And the way Coinbase can contribute to this, I mean one of the main ways is we're building a developer platform, right, called CDP, Coinbase Developer Platform. It's kind of like our version of AWS.

We had a bunch of these tools internally, we were using to build our own apps. And we said, hey, we might as well expose them to third parties, allow third parties to build on top of them.

Some of those are going to be Web3 start-ups building on-chain. Some of them might be fintech companies or banks or financial service companies that want to integrate crypto into their products.

Some of them might be shopping, like, kind of e-commerce checkout solutions that want to have crypto as an easy way to pay globally that has lower fees than paying 200 basis points for credit cards or having high decline rates, high charge-back rates. So we're seeing interest from merchants in those regards.

So the answer to your question is, we don't really see it as competitive with these other firms, we see it as we want crypto to be integrated into every part of the global economy. Every commerce solution, every payroll solution, every bank, every fintech, every neobank in every emerging market around the world, every cash pickup location.

We want, really, crypto to be the rails that power the future of the global economy, and because they're better rails. They're faster, they're cheaper, they're more permissionless, and that's what's going to increase global economic freedom if we can update the global financial system.

Alesia Haas, CFO: I couldn't have said any better, but I just want to say, Brian, like, this is our belief and what we are now focused on is building the user experience.

We are focused on fixing cost, fixing speed, security, and user experience, and that is what you see our building blocks coming together to enable this future that Brian has just painted for us.

Operator: Your next question comes from the line of Dan Dolev with Mizuho.

Dan Dolev, Mizuho: So, really good results. I wanted to know something about pricing.

So it looks like consumer transaction takerates picked up 13 basis points. Maybe you can talk a little bit about the pricing environment and drivers of the uptick and sustainability of that.

Alesia Haas, CFO: Thanks for the question. So as I noted in my opening comments, we have two revenue streams: derivatives and wallet fees.

Those are revenues for us that hit consumer transaction revenue, but there's no associated spot trading volume in our reported spot trading volumetric. And so, if you take the revenue divided by the trading volume, it's a little bit of apples and oranges.

Spot trading is the vast majority of our revenue, but now we have new growing revenue streams that are not yet material, but are now starting to influence that blended average fee rate if you do A divided by B. And so that's why we really wanted to call out that difference between the change in revenue versus the change in trading volume this quarter in my opening comments.

We saw the same mix between Simple and Advanced trading this quarter that we did in Q1, and we didn't have any material change into our fees this quarter as well. We continue to experiment, experimenting with our consumer fees is one of our key strategies to make sure that we continually understand the market and our customer behavior.

But this quarter, it was really due to growth in new revenue streams that aren't reflected in the trading volume.

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

John Todaro, Needham: Me and a lot of my peers were down at Bitcoin Nashville last week or so and Trump spoke very positively on crypto. Given you guys have been close to kind of the political landscape this year, is there more bipartisan support for crypto behind the scenes than what we're seeing? Or would four more years of a Democrat, would they continue to be kind of similar to the regulatory standstill and some of the difficulty in the crypto environment?

Brian Armstrong, Co-Founder and CEO: Yes, I can jump in. So the first thing I'd say is — crypto is really nonpartisan. There are really strong champions on both sides of the aisle at this point and a few skeptics by the way, on both sides of the aisle, but it's predominantly, I'd say, supporters at this point. And as you noted, there's been a big rhetoric shift really from both sides.

But you mentioned one that certainly got a lot of attention last week. I mean we just feel — we feel like there's been a monumental shift. We feel very lucky that this political constituency is now being taken seriously in D.C.

It's a massive voting block. I think it was a group of people that felt underserved in the past and they felt like their — the industry and they were being attacked. And that's — we've seen a shift from both sides.

Now, every voter has to, of course, make up their own mind. We want to make it easy for people to do that. There's various orgs we've contributed to, which try to make that easy, like standwithcrypto.org. And it's not

just about at the top of the ticket, by the way. It's every congressional seat and local election as well.

So 1.3 million people have raised their hand and said they want to elect pro-crypto candidates on Stand with Crypto.

Almost all of those are — many of those are in the U.S. But we'd like — I think it could be much bigger than that. 52 million have used crypto. And so if 1.3 million of them are active, or a little bit less than that, that's great.

So I don't know what else to say besides that, I think we're feeling like there's a lot of momentum. Let's just leave it at that.

Anil Gupta, Vice President, Investor Relations: All right, I think we have one more question in the queue.

Operator: Your final question comes from the line of Patrick Moley with Piper Sandler.

Patrick Moley, Piper Sandler: Brian, in your prepared remarks, you said that you expected a little bit of a headcount increase in the back half of this year.

I was hoping you could just elaborate on those comments and maybe help us understand how you're thinking about an appropriate headcount. And maybe just comment a little bit more on where you expect that growth to come from.

Alesia Haas, CFO: I'll take this one to start. And Brian, maybe you could add on.

So I did mention in my opening comments that we do plan to increase hiring through the back half of 2024. This growth is going to predominantly go to our consumer and our international platforms, as well as shoring up our product foundations to enable us to scale with the growth that we anticipate in the long-term business.

So we are being prudent in managing these fixed costs. We haven't given a specific number, but we are going to be very thoughtful about investing in key areas of growth that we continue to see and make sure that we can meet the moment of the market.

Anil Gupta, Vice President, Investor Relations: Alright, well, that does it for today. Thank you all for your questions, and we look forward to talking to you again next quarter.

Operator: This concludes today's conference call. Thank you for your participation, and you may now disconnect.