

Robinhood Markets (Q2 2021 Earnings Call)

August 18, 2021

Corporate Speakers:

- Irvin Sha; Robinhood Markets, Inc.; Head of Investor Relations and Capital Markets
- Vladimir Tenev; Robinhood Markets, Inc.; Co-Founder, President, CEO & Chairman of the Board
- Jason Warnick; Robinhood Markets, Inc.; CFO

Participants:

- Ross Sandler; Barclays Bank PLC; MD of Americas Equity Research & Senior Internet Analyst
- Steven Chubak; Wolfe Research, LLC; Director of Equity Research
- Josh Beck; KeyBanc Capital Markets Inc.; Senior Research Analyst
- Sean Horgan; Rosenblatt Securities Inc.; Analyst
- Jason Bazinet; Citigroup Inc.; MD, Global Head of EMT & Analyst

PRESENTATION

Operator: Thank you for standing by, and welcome to Robinhood's Second Quarter Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your host, Head of Investor Relations and Capital Markets, Irvin Sha. Go ahead.

Irvin Sha: Thanks, Lateef, and welcome, everyone, and thank you for joining us for Robinhood's Second Quarter 2021 Earnings Conference Call. With us today are CEO and Co-Founder, Vlad Tenev; and CFO, Jason Warnick.

Before getting started, I want to remind you that today's presentation will contain forward-looking statements about Robinhood's expectations for the third quarter as well as our strategic and operational plans. Actual results might differ materially from our expectations. Potential risk factors that could cause differences are described in the Form 10-Q we just filed with the SEC. All information on the call is as of today, August 18, 2021, and we undertake no duty to update it for subsequent events.

Today's discussion will also include non-GAAP financial measures. Reconciliations to the GAAP results we consider most comparable can be found in the earnings presentation on our Investor Relations website at investors.robinhood.com.

With that, let me turn it over to Vlad.

Vlad Tenev: Thank you, Irv, and thank you to all of our listeners for joining Robinhood's first earnings call.

Before sharing some of the highlights from Q2, I want to briefly introduce the company for those of you who are new to our story. We founded Robinhood on the belief that everyone should be welcome to participate in our financial system. The U.S. financial markets are one of the greatest sources of wealth creation in the world. However, access has been unevenly distributed, with institutions and high net worth individuals enjoying better access in tools than others. We built Robinhood to fix that through a mobile-first product that removes the economic, educational and emotional barriers that have kept so many millions from participating.

But our mission is bigger than investing. We want to become the most trusted and most culturally relevant money app worldwide. We believe we're already on the path and have many of the foundational elements in place, including a track record of attracting new customers to our platform, clear leadership in mobile, strong customer engagement and a vertically integrated platform.

For our quarterly updates, we're going to frame our progress through the lens of our four values. These values aren't just posters that we hang up on the wall in the office. We actually use them to allocate resources and to run our business. So in priority order, our first value is safety first. We've been allocating the majority of our resources here. So let me go through some of the progress we've made on safety first.

Number one, stability and scale have been the highest priority for our engineering team for well over a year. We've continued to double-down here. We've added engineering talent and filled important senior leadership roles, and we're methodically working to eliminate single points of failure, upgrade our systems and enhance the redundancy and resiliency of our services. I'm especially pleased by the progress we've made with our crypto services in Q2, making them more resilient to surges in trading volume.

Number two - we're also investing heavily in customer support. In the second quarter of this year, we expanded live phone support to additional high-priority topics, and we're now serving customers on issues related to options trading, equities trading and account security. We're working towards being able to provide 24/7 phone support for substantially all of our customer contacts by the end of the year. We're also eliminating reasons customers contact us and are applying technology to increase the quality and speed of our customer service responses. And we've hired and trained hundreds of licensed representatives, doubling the size of our customer support team since the beginning of the year. We aren't done though. We want the quality of customer service at Robinhood to be a reason customers stay with us over the long run.

And number three, we remain focused on building educational content that helps first-time investors become long-term investors. This quarter, we started to roll out our first set of educational modules in the app, which allow customers to take quick interactive courses on the basics of investing. We're continuing to build this out and look forward to

introducing more advanced interactive learning tools in the coming months. So that's safety first, our top value.

Let me talk a little bit about our second value, participation is power. So this is our oldest value as a company, and it's focused on expanding access for customers worldwide. At Robinhood, everyone is treated equally regardless of their income or wealth. And as we continue to build new products, you'll consistently see that at Robinhood, wealthier customers don't get a better deal.

A great example of this is our new IPO Access product, which lets our customers invest in companies at their IPO price before trading on public exchanges just as institutional and high net worth investors have been able to do for decades. We view this as another meaningful step towards increasing access to financial markets for everyday investors. Six companies, excluding our own, have offered IPO shares to customers through IPO Access so far.

We've seen meaningful customer engagement on these deals with our share of the allocations oversubscribed by greater than 5x on all 6 deals. We're pleased to see that about 80% to 85% of the allotted shares for our customers were still held 30 days following the IPO for the 2 deals that priced in Q2. We're optimistic that more and more new issuers will view Robinhood as a way to better align themselves with their retail shareholders. We're also encouraged to see the response from customers to our Cash Management product, which grew to over 5 million customers at the end of Q2. So that's participation is power.

Now for our third value, radical customer focus. So we exist to make our customers happy. We listen to customers. We innovate on their behalf to deliver more products and features that deepen our relationship with them. Our customers are showing a lot of interest in crypto. In fact, this is the first quarter where we saw a larger share of new customers placed their first trade in crypto rather than in equities. And our customers are asking for more from us. We're investing heavily in our team. We're working on rolling out new crypto features, such as more points, recurring investments, the ability to deposit and withdraw your crypto. We're excited about the future of our crypto product.

And now a bit on our final value, first principles thinking. So our foundation is in art, math and physics. We have a deep appreciation for breaking down complex problems and finding new ways to solve them. While we do pay close attention to what others have been doing, we strive to make bold bets that challenge the status quo regardless of how difficult the challenge is. We believe that over time, our first principles thinking will be a bigger and bigger differentiator for us.

Now before I hand it off to Jason, I'd like to take this moment to welcome the team at Say Technologies. We are thrilled to have Say join our team and excited by the possibilities of connecting Robinhood customers more deeply with the companies they invest in. With Say's Q&A technology, retail customers can engage with company management, ask questions and have their voices heard. And with Say's focus on proxy services, we think

there's a really interesting opportunity for us to make it simple for retail investors to exercise their right to vote, truly empowering them like never before.

With that, let me turn it over to Jason to discuss our second quarter financial results.

Jason Warnick: Thanks, Vlad. I'll first talk about our Q2 performance and then provide some commentary on Q3.

We had a strong growth in Q2 across our primary KPIs driven by customer interest in crypto. In Q2, net cumulative funded accounts reached 22.5 million, up 130% year-over-year. Monthly active users reached 21.3 million, growing 109% year-over-year. And assets under custody reached \$102 billion, up 205% year-over-year. Increases in AUC since Q1 were seen across all 3 primary asset classes, with crypto leading the way, up \$11 billion; followed by equities, up \$7.5 billion; and options, up \$300 million. The growth was driven by \$10 billion of customer net deposits during the quarter as well as increases in the market value of underlying customer assets.

Now let's turn to revenue. We achieved record total net revenues of \$565 million in Q2, up 131% year-over-year. Transaction-based revenues were \$451 million in Q2, up 141% year-over-year, driven by the growth in our user base and strong interest in crypto during the quarter.

In Q2, we saw the number of active crypto traders increase significantly versus the previous quarter. At the same time, we saw a decline in equity activity as our customers' interest rotated from equities to crypto. Crypto revenues increased to \$233 million in Q2, up from just \$5 million last year. Robinhood is now clearly on the map for crypto trading. Options increased to \$165 million, up 48% year-over-year; and equities were \$52 million, down 26% year-over-year.

For an overview of trading activity in Q2, equities DARTs were relatively flat year-over-year. 59% of funded accounts traded equities, which was down from 66% in the same quarter last year. DARTs for options were up 28% year-over-year. 5.6% of funded accounts traded options, which was down from 8.2% in the same quarter last year. And DARTs for crypto set a record as 63% of funded accounts traded crypto, up from 11% in the same quarter last year. Notably, 62% of crypto trading volume was in Dogecoin in Q2, which compares to 34% in Q1.

Now, over time, as our various products achieve maturity, you should see continued diversification and less reliance on any one revenue stream, such as payment for order flow. We are already seeing promising signs of this in Q2, with payment for order flow for equities and options as a percentage of our revenue declining to 38% from 64% in the prior quarter as customer interest in crypto increased. We expect the makeup of revenue to continue to fluctuate and payment for order flow in the near term may again increase. But over the long run, the trend should be continued diversification as we add additional products.

Now turning to net interest revenues. They grew 69% year-over-year to \$68 million. Securities lending totaled \$39 million, up 38% year-over-year as we increased our securities lending balance but experienced some softness in the average market rates we earn.

Margin interest totaled \$31 million in the quarter, up 185% year-over-year as customers took advantage of our 2.5% APY on amounts borrowed over \$1,000. Our margin book reached \$5.4 billion at the end of the quarter, an increase of 303% year-over-year.

Interest expense, which is related to our credit facilities and as an offset to net interest revenues, was \$5.3 million in Q2. We've significantly increased our ability to borrow for working capital and today have \$2.8 billion in available funds through committed lines of credit. And other revenues increased 177% year-over-year to \$46 million driven by an increase in subscription revenue from Robinhood Gold and proxy-related revenues.

Moving now to operating expenses, I have a few call-outs. Brokerage and transaction expenses were \$38 million, up 32% year-over-year, representing 7% of total net revenues. We saw some leverage in this line year-over-year, particularly from a reduction in the rate we're charged for certain clearing and regulatory-related fees.

Technology and development expenses were up 248% year-over-year to \$156 million or 28% of total net revenues. Following high trading activity on our platform earlier this year and ahead of our IPO, we decided to procure additional cloud resources to help ensure site stability, particularly through June and July. Additionally, as we continue to invest in our development capabilities, we've been aggressively hiring technology-related headcount. But over time, we expect to see this line item decrease as a percentage of revenue.

And for operations expenses, they were up 232% year-over-year to \$101 million or 18% of total net revenues. We're increasing significantly -- investing significantly in our customer support function, including rolling out live phone support and by increasing the number of dedicated customer support professionals.

We're also incurring losses from debit card charge-backs and reverse deposit transactions. These costs totaled \$40 million during Q2. We're focused on this, and as you know, it's an industry-wide issue. We're using both technology and customer service to address this, and we're looking forward to making some progress here.

Stock-based compensation is included in each of our operating expense line items. As a reminder, prior to our IPO, we did not record any stock-based compensation on restricted stock units. In Q3, we'll record a one-time cumulative charge of \$1 billion in stock-based compensation for RSUs and begin recognizing RSU stock comp going forward.

Now for measures of profitability. Net loss for Q2 was \$502 million compared to net income of \$58 million in the prior year. Included in Q2 was a \$528 million charge related to the change in fair value of our convertible notes and related warrant liability. We will

record a final charge of approximately \$25 million for these notes and warrants in Q3. Adjusted EBITDA was \$90 million in the quarter, up from \$63 million in the prior year.

Now let's turn to Q3. As a reminder, our business is subject to seasonality, which generally shows strong growth numbers in Q1 and into Q2 and less so in the back half of the year. We've experienced volatility from period to period that makes it difficult to accurately predict results in the short term, and so we'll not be providing forward-looking guidance for key operating or financial measures. That said, we'll provide some commentary on what we're seeing in the first several weeks of the quarter that's underway.

And for Q3, we expect seasonal headwinds and lower trading activity across the industry to result in lower revenues and considerably fewer new funded accounts than we saw in Q2. We're focused on the long term, and we're very excited about our product road map. We are introducing the next generation to investing and all things money, and we believe there's a big opportunity ahead of us.

With that, let's turn it over to questions.

QUESTIONS AND ANSWERS

Irvin Sha: So last week, we announced that we'll be using Say Technologies to enable all Robinhood shareholders to submit questions for our management team. As of yesterday, we had received over 1,300 questions from our shareholders. We'll start today's Q&A by answering the top questions by a number of votes, although we'll pass over any questions that are already being addressed. After that, we'll turn to live questions from the analyst community.

First, will Hood pay out a dividend in the future?

Jason Warnick: I'll take that, Irv. Thanks for the question. At this point, we think the best use of our capital is deploying it in the business. We're very much in the growth stage. And so for now, we have no plans to issue any dividends.

Irvin Sha: Great. Number two, is Robinhood getting a crypto wallet?

Vlad Tenev: I'll be happy to field that question. And I know that there's been a ton of enthusiasm from the crypto community and the Dogecoin community, in particular, on getting access to wallets. And it's something that our teams are working on. So let me tell you a little bit about sort of why this is difficult and challenging. So this year, clearly, Robinhood has had explosive growth in crypto during Q1 and Q2, and we've had to grow out the team. We made a lot of progress growing out the team and really hiring great talent on to crypto and scaling our systems to make sure that we can handle the increased load. And we're very proud of the work that the team has done.

Of course, offering crypto wallets and the ability to deposit and withdraw cryptocurrencies is tricky to do at scale. We want to make sure it's done correctly and properly, and we want to make sure that everything from a security and operations standpoint is as bulletproof as possible because our top value is safety first, and we hold ourselves to a very high standard for that. So I think as with all these things, we'll want to make sure it's right. But we have made a lot of progress in the crypto team and the platform, and we're excited to roll this out for our customers. And we definitely hear you, and it's a key priority for our teams at Robinhood as well.

Irvin Sha: Thanks, Vlad. Number three, what are Robinhood's plans for IRA, 401(k) and HSA accounts? Are any or all of them a possibility for the future? And if yes, how soon?

Vlad Tenev: I'd say, at the top level, we want Robinhood to be the most trusted, most culturally relevant money app worldwide. For the investing business, the goal is really to take our first-time investors and turn them into long-term investors onto the platform. You've seen that with some of our recent product launches like recurring investments in DRIP, which are built on top of our fractional shares infrastructure.

So we're continuing to invest in the technology, the tools and the educational content to empower our first-time investors and make them long-term investors. We're also looking at multiple account types. So giving people access to tax-advantaged accounts like IRAs and Roth IRAs as well as things like joint accounts and beneficiaries. And we see all of that in the future.

And I think what you'll find from us is we're not going to use earnings as a mechanism to announce new products. We don't intend to do that at least for the foreseeable future. But you're going to see continued product development in this area. We've been really proud of the work that we've done, scaling our product and engineering and operations teams. So multiple account types are certainly on our radar.

Irvin Sha: Great. Number four, are there any plans to launch Robinhood in other countries? If yes, what is the time line?

Vlad Tenev: So we've said from the very beginning that we want Robinhood to be a global company, and we actually think that we have a lot of advantages in going global. I think of the value proposition of offering the best customer experience and low cost to our customers resonate perhaps even more strongly overseas than in the U.S. where people, by and large, have access to reasonable quality financial tools. So we think there's a great global opportunity for us, and it's very mission-aligned for us as well.

So in the past 18 months or so, as we've dealt with a global pandemic and the strains on our business from having to scale our business dramatically, we have been focused more on the domestic business, the U.S. opportunity, over the global opportunity. That said, due to improvements in our infrastructure, our staffing and our ability to handle the scale that we've seen, we feel well positioned to turn some of our attention to international. So

we do anticipate that we'll be able to focus a little bit more. No specific dates and time line at this point, but we do find a lot of excitement in the opportunity.

Irvin Sha: Next question, as initial investors, can we get a Robinhood hat and hoodie jacket?

Jason Warnick: I'll take this one, Vlad. So I love the enthusiasm for the brand. I know Robinhood employees get really excited about swag. We'd love to find a way to get that in the hands of our customers. So I can't make a commitment right now, but I will say that we'll go look at this. I think it's a great idea to get our branded merchandise in the hands of our community.

Vlad Tenev: I agree, yes.

Irvin Sha: Thanks. How do you assure HOOD's price is not manipulated on Robinhood?

Jason Warnick: I'll take this one as well. Like all brokerages, we monitor the trading activity on our platform. And when we see any potentially manipulative activity on any stock, we take action. Primarily, that includes sharing that information with regulators so that they can take it from there. So that's our commitment, and we've got a strong team looking at this.

Irvin Sha: What's next for Robinhood, if PFOF, or payment for order flow, is regulated, what can you do?

Jason Warnick: So what I'd tell you is that payment for order flow is regulated already. It's been primarily focused on disclosures, and we do provide all the required disclosures, and we do our best to explain how we make money and what payment for order flow is. It's an often misunderstood component of our business. And so I appreciate the question. What I'd tell you is that, over the long term, our intention is to be the single money app. That implies more products, more features and innovation, as Vlad was talking about, not just on the existing products that we have but certainly on new products. We want to be the single place that our customers go to for all things money. And that will lead naturally to diversification in our revenue streams over time.

Irvin Sha: Next, what are your plans to maximize shareholder value over the next year?

Jason Warnick: So I would tell you that we tend as a management team to really focus on the long term. And as I just mentioned, we want to be the single money app. And so that really is about rolling out new products and new features. That said, in the short term, we have a number of things that are on our road maps that we're going to deliver. We take a lot of cues from our customers.

And as Vlad mentioned earlier, they're asking for more functionality, more coins in the crypto space. I think there's opportunities to roll out products that will increase returns for customers as well as us through fully paid securities lending. And we're pretty excited

about our Cash Management product. We announced that our Cash Management now has over 5 million customers. And we think that's a really interesting place for us to offer more value, get higher adoption and also generate more returns for shareholders. So a lot of opportunity in front of us.

Irvin Sha: Great. Are we getting a feature where we can post comments and discuss more about the stock in the near future?

Vlad Tenev: Well, I'll take this one. I would say that through our acquisition of Say, we're excited to give retail customers the chance to interact closer with companies through this format as a great example. And we're interested in further exploring that. I think that there's a lot of possibilities to connect Robinhood customers more deeply with companies that their shareholders are in and with each other. And of course, we want to be careful and make sure that we do that safely for everyone. But we do see opportunity there. And that's why we're very excited about joining forces with Say.

Irvin Sha: Skipping over this one, it's been answered. Is there a plan to allow users to give stocks to one another?

Vlad Tenev: Yes, I'll take that one as well. So we really appreciate the enthusiasm for this. I think that in general, we'll be looking at how to make our referrals program and system even better. A lot of our customers do find out about our product through other customers that are already using us. And so you should expect continued product innovation there. And this is -- gifting stocks is certainly something that we've thought about and would continue to explore.

Irvin Sha: I think we have time for just a few more questions, and then we'll get to the analysts. So IPO Access has been an exciting new feature and further differentiates Robinhood from other investing platforms. Does the company see IPO Access as a substantial driver of revenue growth in the next few years? How many IPOs can users expect on Robinhood for the rest of calendar year 2021?

Vlad Tenev: Yes, I think the way we thought about it is very much in line with our mission. Access to IPOs at the IPO price has been something that, when offered to retail investors, typically has been reserved for high net worth individuals in the past. So we're really excited to see that product go live and get such a good reception from customers. And I think one of the other things that we're happy about, as Jason mentioned, is that customers that have been participating in these IPOs have been relatively diamond handed, so to speak. So they've been holding on to these stocks for over 30 days and haven't been flipping them. So I think that addresses a misconception that a lot of folks have had about retail in IPOs.

In general, the way we think about it with any feature, we're optimizing for happy customers. We want to deliver value to them. We didn't really roll out IPO Access with an eye to generate revenue growth in the immediate term, but we do expect it to be a growing business, and we do expect to deliver more IPOs that customers can have access

to as it becomes clearer to companies and issuers that this is a valuable constituency and valuable to them as well.

Irvin Sha: Okay. Maybe one last one. What are the future steps taken to make Robinhood a better app and compete in the market with other apps like Webull, Fidelity, et cetera?

Vlad Tenev: Yes, absolutely. Product development has been something that Robinhood has been prioritizing. So over time, you've seen, over the past few years, we've continued to listen to customers. We've continued to take advantage of our unique user research and design teams to understand what customers want and what they could use, and you should see that continue and hopefully accelerate over time. So we'll look to continue delivering great value, improving our existing products and services and expanding our existing businesses to really become the most trusted and most culturally relevant money app worldwide. And that's the goal.

Irvin Sha: Great. Thanks for that, guys. And with that, I will ask the operator to open up the line and remind the analysts on how to enter into the queue.

Operator: (Operator Instructions) Our first question comes from the line of Ross Sandler of Barclays.

Ross Sandler: Going back to the single money app comment, as we look outside of investment and brokerage, what do you see in terms of product road map and logical areas for Robinhood to explore? And if we look to the east to something like Ant Financial, which is kind of the gold standard for the single money app concept, it took them about 4 years to get the majority of their users to adopt new services outside of the core Alipay payment product. So how do you feel about attach rate as you go outside of brokerage?

Vlad Tenev: Yes. Thanks for the question. I think that's an important one. I'll share my thoughts. So as we think about offering new services to customers, generally, the way we prioritize is we want to optimize for product market fit. So we don't rely too much on sort of the innate ability to cross-sell within our platform. We task our product teams with making sure that products independently achieve product market fit.

And then aside from that, we look for daily habits, so things that customers use and engage with on a daily basis, because we think that if customers trust us with their daily habits then, over time, they'll trust us with their sort of lower-frequency, higher-value transactions as well. So that's why we've started with investing and expanded beyond equities into options and then with our cryptocurrency business. And that's also why we're interested in spending and paycheck direct deposit.

So one of the things that we've talked a little bit about is that our Cash Management product, which is our debit card and high-yield savings, grew to over 5 million customers at the end of Q2. So we're really encouraged by that adoption, and we're very, very

excited to double-down on that, keep investing more, keep delivering more value to customers using those products. And we see an opportunity to be a substantial player in that space.

I mean 5 million Cash Management subscribers in just a couple of years since launch, I think, is something to be proud of. And with cryptocurrency, it took a couple of years before that really started showing massive sort of impact on our business. And we have that long-term perspective with future product lines. I think we're encouraged by what we see. But we also recognize it's a long-term business, and we want to keep adding functionality and keep making our customers happy by improving the products and services over time.

Operator: Our next question comes from Steven Chubak of Wolfe Research.

Steven Chubak: So I appreciate some of the earlier comments on payment for order flow, Jason. Thinking through a number of different scenarios for PFOF, if the regulators do ultimately institute an outright ban, is internalization of order flow a viable alternative? And under such a scenario, how much of the revenue hit could you offset from internalization? And if the path to buy versus building a market maker, which one makes the most sense in your mind?

Jason Warnick: Yes. Thanks for the question. What I'd tell you in terms of like our capability, Robinhood has a history of doing challenging projects. Going self-clearing, for an example, was certainly a heavy lift and something that the team successfully did. It helped us verticalize our platform. I think it positions us well to grow incredibly fast over time and really control our own destiny more than if we had just partnered with a third-party. So I think we have the capability to do it. And certainly, others in the industry do internalize or even market-make as a way to monetize the flow. So I think it's a viable option for us.

In terms of the economics, before I even go there, I'd tell you that our view internally is that we don't expect payment for order flow to be banned. That's just not what we think. We expect it to be an active dialogue. I think that the regulators are asking for a study to be done, and we'll definitely engage.

What I'd tell you is that, with a little bit of context, before Robinhood, small investors were paying commissions on top of payment for order flow, and it kept a lot of people out. And so never before has investing in this country been cheaper. And I think you can see by the 22.5 million customers that we have that breaking down that barrier of commissions has been just good. And so we'll be definitely defending our customers and making sure that we don't put up barriers that have been taken down and kept people out.

In terms of internalization, I probably don't want to go too far in terms of the economics. We have looked at it. We do think because payment for order flow is such a small revenue stream. It's about 2 – 2.5 cents per \$100 traded, that it's not a terribly difficult revenue stream for us to replace. Buy versus build, I think I don't want to go too far down

on that, but I'd tell you that we've got confidence enough to build it, but buying certainly is an option for us, and we would look at both of that scenario.

Steven Chubak: Great. For my follow-up, I was hoping to just ask on the topic of graduation risk. You're certainly well positioned to capture the growing wealth of the millennial cohort. So the ACATS data that you guys have provided does suggest that the average account that's leaving is about 4x larger than the typical Robinhood account. I was hoping you could maybe unpack the strategy to address graduation risk. As your clients accumulate more wealth, what are the biggest pain points that you feel you really need to address to try to mitigate some of those pressures?

Vlad Tenev: Yes, I can share some thoughts there. Thank you. I'd say at a high level, we're actually really happy with the retention and engagement on our platform. We think we compare very favorably there. I think looking at the ACATS channel, in particular, one thing that a lot of people don't realize is that we only have ACATS out live to customers right now.

So a lot of customers actually are expressing an interest in consolidating their accounts into Robinhood through ACATS in, and that is something we're listening to, and we're very, very keen to provide. Through our self-clearing conversion, which we did back in 2018, we had to temporarily turn off ACATS in functionality. So a lot of brokers will say, "Oh, we never lose an ACATS to Robinhood." Well, part of the reason is because we don't actually support ACATS in right now.

So ACATS is typically a channel where you will see higher assets than ACH. So I think the sort of observation is more channel-specific than customer-specific. You do typically see larger account sizes with ACATS, and we do anticipate that this will change when we allow ACATS in to the platform.

Jason Warnick: In terms of the part of your question about graduation risk, what I would tell you is that we fully intend to grow with our customers. You see that in our product road map, as we talked about wanting new investors become long-term investors, that's really going to inspire the products that we've allowed and the account features that we roll out so that we don't see that. And then what I would tell you is when we look at churn, we're not seeing any kind of customer demographic concentrations as a big concern.

Operator: Our next question comes from Josh Beck of KeyBanc.

Josh Beck: I wanted to ask a little bit about the new cohort that you brought in, in 2Q. Jason, I think you had commented a bit, and Vlad as well, about the propensity to invest in crypto. So certainly, that was notable. Are there any other maybe compare/contrast that you would do with prior new cohorts that you felt was notable?

Jason Warnick: Yes. What I would say is, in Q2, certainly, a large cohort came in, about 4.5 million net funded accounts in the quarter, which was near our record. Q1 was

slightly higher. So this was the first time that we've seen more first trades in crypto versus equities. And we love the momentum of our cryptocurrency business, with over 60% of our customers overall trading in crypto during the period.

What I'd tell you on cohorts, it's a bit early to look at the newer cohorts and project out. But when we look at cohorts over time, I think you've heard us say that they tend to start small. They're highly engaged. They grow with us both in terms of the revenue that they generate for us as well as the net deposits that they put on the platform. And so far, there's nothing to suggest that, that won't continue.

Josh Beck: Very helpful. And then maybe just a follow-up. What has the channel composition of referral and marketing spend looked like in Q2? And how are you thinking about that for the rest of the year?

Jason Warnick: Yes. So as you know, kind of historically, we've seen the majority of our customers coming to us either organically or through our customer referral channel. We saw similar rates by channel in Q2. Looking forward, we expect to continue to have a robust customer referral platform.

We are investing in more broad scale brand advertising to get our message out to customers. And so you should expect to see us to continue to invest in those kinds of messaging. But structurally, we've been very efficient in the way that we acquire our customers, and we expect to be diligent going forward as well.

Operator: Our next question comes from Sean Horgan of Rosenblatt.

Sean Horgan: First one is on Cash Management. I wanted to get a sense for your monetization strategy longer term. And more specifically, do you have any aspirations to offer things like interest-earning crypto accounts or crypto rewards to retain users and drive inflows on your platform?

Vlad Tenev: Yes, I can field the second one. So certainly, we see a lot of enthusiasm from our crypto community. I think the nearer term kind of foundational feature that we'll be looking to roll out will be wallets or deposit and withdrawal functionality. We've also heard a lot of excitement and enthusiasm for increasing the listings that we have on our platform.

So adding more coins, that's something we're looking to. And crypto interest and rewards are something that we're hearing as well. So crypto started off 2021 as a very small team. The team has been growing. It's really become a great center of excellence for engineering and product within the company. We're proud of the work there. And I think we're excited to build for customers.

I think there was a question as well that you asked about Cash Management monetization, maybe Jason...

Jason Warnick: Yes. What I would tell you, Sean, is that our intention is to pass a ton of value back to customers who are participating with our debit card and Cash Management product. We're excited about rewards and incentives. And today, we pass along the majority of the interest that we earn to customers.

Certainly, it's a low interest rate environment. It becomes interesting, I think over time, as the interest rate environment will fluctuate. But we want our customers to look to Robinhood's debit card as their primary form of payment. And we think that that's a really interesting monetization opportunity for us over time.

Sean Horgan: Great. That's really helpful, guys. And then just another follow-up, I guess, on crypto. It's obviously grown very rapidly. And so I want to get a sense for market share trends and the competitive landscape. Vlad, I think you mentioned listings as being an area of interest for customers. So whether it's speed to listing, new in-demand assets or pricing, just want to get a sense for what makes the user choose Robinhood over a different platform.

Vlad Tenev: Yes. I think that this year, in particular, I think customers have really started to appreciate the 2 key value propositions behind crypto, which are the fact that it's a low-cost offering. We're very proud of the pricing and the cost that we offer to customers and especially relative to our competitors. Some companies are charging multiple percents transaction fees and commissions. And Robinhood has been commission-free, and we're proud of the deal that we offer, and I think customers choose us for that.

And also the fact that it's accessible, that everything is in one place with securities, with cash management and with crypto and that it's easy to understand and it meets customers where they are, I think, has continued to be an attractive aspect of our offering. And I think that's something we'll be looking to continue as we build out more functionality, add new coins and give people the ability to move their coins onto and off the platform.

Operator: Our next question comes from Jason Bazinet of Citi.

Jason Bazinet: I just had a question about your accounts. If you took your current account base at 22 million and said that certain percentage have never had a brokerage account anywhere else, based on whatever that number is, how deeply penetrated do you think you are in that segment of the market before you sort of run out of growth and have to start stealing accounts from someone that has an account at a competitor?

Jason Warnick: Yes. Thanks, Jason. I think what you're referring to is that our customers tell us when they join. About 50% of the time, they tell us that they're new to investing, that this is their first brokerage account. I think that's really speaking kind of directly to our mission, to provide access to the financial system. And we're really, really proud of that. By definition, the other half have brokerage accounts elsewhere. And so I really think this speaks to an opportunity for us to continue to reach out to people who

don't have investing accounts. We think there's no reason why anyone shouldn't be an investor. Investing is literally for everybody.

And so that, in terms of the way we think about it, globally, anyone with a checking account, possibly with crypto where you don't even need a checking account, we think, is part of the addressable market for us. And then as we continue to roll out products and features to grow with our customers, I think more and more, you're going to see Robinhood, particularly with our mobile-first platform and ease of use, become incredibly attractive to folks that haven't previously considered Robinhood as the go-to place. So we're pretty optimistic about the opportunity ahead of us. And that's limiting the response to investing. I think there's a lot more that we can do when we talk about being the single money app for our customers globally.

Vlad Tenev: Yes. I would also say that according to some recent research, about 60% of Americans don't have investments outside of retirement. And a greater percentage of 18 to 29-year-olds, 68% have no money invested altogether. So even though we've made progress, I think there's a lot to do to encourage greater participation in the markets.

Operator: Our next question comes from Steven Chubak of Wolfe Research.

Steven Chubak: I just had one question on some of the 3Q outlook commentary. You mentioned in the prepared remarks, activity levels and net account growth are moderating. I know you attributed that to seasonality. Some of your peers and the volume data that we're tracking suggest that particularly among some of the crypto coins like Dogecoin we're seeing a more pronounced decline. And I was hoping you could just contextualize just in terms of orders of magnitude how pronounced of a slowdown you're seeing in 3Q just to help frame just overall activity levels you're seeing within the Robinhood ecosystem.

Jason Warnick: Yes. Thanks for your question. What I'd tell you -- you highlighted seasonality for brokerages. Traditionally, the first quarter and into the second quarter tend to be the highest activity quarters in terms of trading as well as new accounts, with the back half of the year being less so. Robinhood is becoming a bigger portion of the overall market. And so seasonality is something that we pay attention to.

The other thing that we benefit from over time is volatility. And there's been several moments of pretty notable volatility in the markets not just in equities, which was mostly in Q1, but also with crypto, which is in Q2. Makes it incredibly difficult to predict when those moments will continue or happen again, but when they do happen, Robinhood tends to have an outsized benefit from that, a really strong tailwind. And because of that, we're not really predicting short-term results. We're more focused on kind of the long-term opportunity. And there, we have some pretty dramatic and helpful tailwinds for us.

I think crypto, as you saw in Q2, is becoming incredibly more mainstream and accepted in a way that didn't previously exist even a year ago. If you go back 1 year, we had \$5 million in revenue from crypto, very, very small. This year, it's 45 times higher than that.

It really put Robinhood on the map for crypto. And in terms of trading levels overall, I would just point you to kind of the external market factors. That will give you a pretty strong indication of how we're doing so far. But we think it's appropriate to provide the commentary about Q3, and we'll continue to deliver on products for customers.

Steven Chubak: And just one final one for me, just on a longer-term opportunity. You alluded to your interest in expanding internationally. I was hoping you could unpack what the potential strategy could be to expand abroad, maybe what gives you confidence you can scale given a number of U.S. brokerages over the years have certainly tried and failed to expand abroad. And PFOF, your primary source of revenue, is also banned in a number of international jurisdictions.

Jason Warnick: Yes. What I would tell you, and I'm sure Vlad has some comments here, is we've done a lot of work over the last year to 1.5 years expanding the platform here domestically. We're in a position to look at each international market, kind of uniquely based on the assets that we have. Today, we've got a very strong crypto business. We certainly have an investing business. And we also have a growing cash management business. And so there's a variety of ways that we can approach each international market depending on the circumstances there.

In terms of whether or not payment for order flow is accepted, it's not something that we look at as a terribly high barrier for us, for our investing product internationally. We think, generally speaking, and certainly there's a distinction from geography to geography, there's a lot of interest in investing, particularly in U.S. companies. And there's opportunities, whether it's internalization, as was mentioned earlier, ForEx fees. There's just a number of ways that we could look at monetizing those businesses in the absence of payment for order flow.

Irvin Sha: All right. Thank you, everyone, for taking the time for the call today, and we look forward to catching on the next one.

Jason Warnick: Appreciate the questions. Thank you.

Vlad Tenev: Yes. Very much. Thank you.

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