

Robinhood Markets, Inc.(Q4 2021)

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Corporate Speakers:

- Irvin Sha; Robinhood Markets, Inc.; Head of IR & 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; Research Division, MD of Americas Equity Research & Senior Internet Analyst
- Kenneth Worthington; JPMorgan Chase & Co; Research Division, MD
- Devin Ryan; JMP Securities LLC; Research Division, MD and Equity Research Analyst
- Craig Siegenthaler; BofA Securities; Research Division, MD & Head of the North American Asset Managers, Brokers & Exchanges Team
- William Nance; Goldman Sachs Group, Inc.; Research Division, Research Analyst
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PRESENTATION

Operator^ Thank you for standing by. Welcome to Robinhood's Fourth Quarter and Full Year 2021 Conference Call. (Operator Instructions) Please be advised that today's conference may be recorded. (Operator Instructions) I would now like to hand the conference over to your host, Irvin Sha. Please go ahead.

Irvin Sha^ Thanks, Latif. Welcome, everyone. Thank you for joining us for Robinhood's Fourth Quarter and Full Year 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 outlook for the first quarter and full year of 2022 as well as our strategic and operational plans. Actual results could differ materially from our expectations.

We continue to monitor regulatory developments relating to market structure matters such as statements from the SEC on payment for order flow and digital engagement practices. Other potential risk factors that could cause differences are described in our press release issued this afternoon, the related slide presentation on our Investor Relations website, our Form 10-Q filed October 29, 2021, and in our other SEC filings.

We remind you that from time to time, we intend to use our blog, Under the Hood, on our website at blog.robinhood.com as a means of disclosing material information to the public.

Investors should routinely monitor our blog as information posted there could be deemed to be material information.

All information on the call is as of today, January 27, 2022, and we undertake no duty to update it for subsequent events, except as required by law. As we discuss our results, all percentage growth comparisons will be to the same period in the prior year, unless otherwise noted.

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.

Vladimir Tenev^ Thanks, Irv, as always, and thanks, everyone, for joining. I'd like to start by briefly reflecting on 2021, which has been a momentous year for us.

We're really proud to have added over 10 million net funded accounts to Robinhood in 2021 with over half of them new to investing. We finished the year with \$1.8 billion in total net revenues, up from \$959 million in 2020. The story of the first half of 2021 was one of firming up our foundations and putting ourselves in a strong position to accelerate product development and future growth.

During the year, we've invested heavily in our platform, leading to high service reliability and uptime. We've made huge strides in education and customer service, including successfully adding 24/7 live phone support. We completed our acquisition of Say Technologies, which, as usual, will be on display in this earnings call.

We more than doubled our team, including in important areas like engineering, product, customer service and compliance. And we're continuing to add senior talent to help us take Robinhood to the next level. I'm especially excited to welcome Steve Quirk, who joined us this month, as Chief Brokerage Officer and a member of our senior management team.

I want to take a moment to thank our employees. The work we've done in 2021 firming up our foundations while going through hypergrowth involved long nights and weekends and lots of personal sacrifice.

We're starting to see the fruits of that work. In the third quarter, we started once again accelerating our product engine. This acceleration has continued through Q4 and into the new year. We're now in a position where much of our resources are going toward new product development and innovating for our customers.

Here are some of the meaningful things we've delivered for customers in Q4. We recently introduced first trade recommendations, which help new customers get started with a diversified ETF portfolio based on their risk profile and investment objectives. We've also introduced ACATS In, which enables our customers to transfer assets from other brokerages into Robinhood.

We launched this a few weeks ago to a small set of customers and have been gradually expanding its availability with early results looking promising. We expect to complete the customer rollout later this quarter. In addition, we've made a number of enhancements to our options product, introducing Options Alerts, Options Watchlist as well as a simple way to roll options contracts.

We have made progress on our fully paid securities lending program. And while we continue to discuss it with our regulators, we believe we will be able to launch the program during the first half of the year. We're also close to delivering a feature that our customers have been asking for, an even larger window of available trading hours.

We call this feature hyper-extended hours and anticipate rolling it out later this quarter. And we added 2 new venues for executing equity trades, not only adding competition for customer orders, but improving our ability to handle surges in volume.

We're also continuing to invest in crypto. We launched our public beta of Crypto Wallets earlier this month and plan to release the product to everyone later this quarter. Just in time for the holidays, we introduced crypto gifting, which we believe is the most seamless way for customers to send crypto to their family and friends. We've rolled out intelligent crypto price alerts, an often requested feature.

And similar to equities, we added another venue for crypto, increasing capacity and liquidity for our crypto volume, increasing price competition for orders. As Jason will touch on in a moment, along with this change, we've improved the revenue share we receive from our venues.

We continue to hear from customers that they want us to list more coins. We've been proactively engaging with regulators on this. They're expressing concerns about cryptocurrency platforms adding coins that the regulators believe are unregistered securities, and they're watching this space closely.

That said, we have robust coin-listing protocols in place. We're comfortable with how we've analyzed the coins currently on our platform. We've invested in the technology that will allow us to seamlessly add more coins, and we intend to add more coins going forward.

Now I'd like to talk about where we're going. I've talked a little bit already about how the foundation we built through most of 2021 has allowed us to invest more in product

development in Q4. While we're proud of what we delivered in Q4, it's nothing compared to what we have planned for 2022 and beyond.

Our work is focused on 3 things: one, being the best place to get started investing; two, helping first-time investors grow into long-term investors; and three, continuing to serve our advanced investors with the power and simplicity they need.

Over the next several years, we plan to create an ecosystem of financial products and services that will enable people across the world to become investors. We believe the products on our road map will go a long way toward making that a reality.

Here are a few things you can expect in 2022. First, long-term investing. We're working to roll out more offerings that make investing routine, give people more ways to build wealth for the future, bring them closer to the companies they invest in.

And as we mentioned last quarter, tax-advantaged retirement accounts are on the road map, and the teams are already hard at work to develop this functionality. And we'll begin rolling it out to customers midyear.

Second, spending and saving. In the coming months, we'll be introducing a new experience for day-to-day spending. With this new experience, we believe we can serve customers who aspire to be investors but aren't quite ready to set aside money to get started. We can help them build their portfolios while serving their daily spending needs, all with the delightful and innovative user experience they have come to expect from Robinhood.

Next, payments. You've already begun to see some initial progress here with crypto gifting. It's really our first peer-to-peer product. We want to build upon this and make it easy for customers to send value to others. We also want to make it easier for customers to deposit and withdraw funds. Today, ACH is the primary way our customers move money.

But it's slow. In 2021, customer deposits and withdrawals totaled \$136 billion. We want to give customers faster ways to move their money. And in the next few months, we'll be introducing instant debit card deposit and withdrawals, and we'll look for additional rails from there.

Finally, international. We believe serving customers across the globe is a big opportunity for us. And the investments we've made in crypto over the past year have put us in a great position to expand. In 2022, we've set aggressive goals to start opening our crypto platform up to customers internationally.

This next phase of growth will not only be about adding new customers, but also deepening our relationship with the over 22 million customers we already have. We expect that our growth will continue to come in waves with periods of both outsized and

slower growth, much of it linked to product launches, geographic expansion and, of course, market factors.

We will remain focused on our customers and delivering innovative products that make it easier for everyone to become an investor. And with that, let me turn it over to Jason to discuss our financial results.

Jason Warnick^ Thanks, Vlad. 2021 was a strong year for our key metrics in revenues. Net funded accounts increased to 22.7 million, up 81% year-over-year. Monthly active users increased to 17.3 million, up 48% from December 2020 to December 2021. Assets under custody increased to \$98 billion, up 56%.

Total net revenues grew to \$1.8 billion, up 89%. And adjusted EBITDA was \$34 million. Additionally, we ended the year with over \$6 billion of unrestricted cash and cash equivalents. We've never been in a stronger capital position as a company.

Turning to Q4. We added 300,000 net funded accounts during the quarter. New funded accounts totaled 800,000. Churned accounts totaled 700,000, and resurrected accounts totaled 200,000.

For churn, we saw a 19% reduction compared to Q3. And on a percentage basis, churn hit its lowest mark in the last 1.5 years. Lastly, we had \$4.4 billion in net deposits from customers for the quarter, up 93% sequentially but down 32% on a year-over-year basis.

Now let's turn to revenue. Total net revenues were \$363 million in Q4, up 14% year-over-year and in line sequentially. Our results for Q4 exceeded our previously communicated expectations as we saw stronger-than-anticipated trading activity. Transaction-based revenues were \$264 million for the quarter, up 12% year-over-year and down 1% sequentially.

Equities revenue was \$52 million, down 35% year-over-year and up 3% sequentially. Options revenue was \$163 million, up 14% year-over-year and roughly flat to Q3. And crypto revenue was \$48 million, up 304% year-over-year but down 5% sequentially.

As Vlad mentioned, in late December, we updated our pricing agreements with crypto market makers and added another venue to increase capacity and further improve competition for our customers.

Our rebate, which is subject to change from time to time, more than doubled with these changes. As a reminder, this is the first time since launching our crypto business that we've updated the economic split between us and our venues.

Looking at trading activities, there are a few callouts. For equities trading, customers placing trades were up 21% year-over-year, which was offset by lower DARTs, down 12%, and lower notional volumes per trader, down 43%.

For options trading, customers placing trades were up 6% year-over-year. And options contracts per trader was up 20%, offset by lower DARTs, which were down 1%. And for crypto, customers placing trades were up 218% year-over-year. Crypto DARTs were up 176%, and notional volumes per trader increased 19%.

Moving to assets under custody. Equities was \$72.1 billion, up 36% year-over-year. Options was \$1.5 billion, which was down 28% as customers shifted their purchasing activity more towards short-dated positions. And crypto increased to \$22.1 billion, up 528%.

And for net revenues, they were \$63 million for the quarter, up 1% year-over-year and in line sequentially. Primary components include securities lending totaled \$29 million, was down 19% year-over-year and down 15% sequentially. We've been increasing the amount of securities loan to counterparties. However, market rate declines have more than offset these gains.

As we look toward adding fully paid securities, we anticipate a significant opportunity to increase the monetization of this program. We believe fully paid securities lending at scale should be 1 to 2x the size of margin securities lending, depending on opt-in rates by customers.

Margin interest totaled \$39 million in the quarter, up 45% year-over-year. Our margin book closed out the year at \$6.5 billion, a 93% increase versus the prior year. At the end of the quarter, about 1% of our funded accounts maintained a margin balance. And interest expense was a \$6 million offset to net interest revenues in Q4.

As we anticipate Fed rate increases during 2022, we expect that for every 25 basis points of rate increase, we'll generate approximately \$40 million of additional annualized net interest revenue based on balances at year-end 2021 while continuing to pass on value to customers.

Moving to other revenues. They were \$35 million in Q4, an 84% increase versus the prior year and in line with Q3. The year-over-year increase was primarily driven by growth in our gold subscriptions and increased proxy delivery fees resulting from growth in assets under custody.

As Vlad mentioned, we're working toward enabling faster money movement for our customers. This represents a meaningful opportunity for us to earn service fees to the extent customers select this higher level of service. For context, in 2021, customer withdrawals totaled \$54 billion.

Now for operating expenses. We finished the quarter with nearly 3,800 employees, up 134% year-over-year and up 12% sequentially. During the quarter, we made sequential progress reducing fraud losses, down 28% versus Q3. We've got more work to do here, and this is constantly evolving. But I'm proud of the progress our teams are making.

Lastly, our teams are working diligently to improve our operating leverage and efficiency. One area I'm particularly pleased with is web hosting, where the team is focused on efficiency and delivered a sequential improvement of 19% in Q4 versus Q3 for a savings of \$15 million.

Now let's turn to measures of profitability. Net loss for Q4 was \$423 million, which includes \$318 million in share-based compensation. This compares to net income of \$13 million in the prior year quarter. Adjusted EBITDA was negative \$87 million compared with positive \$79 million in the prior year quarter. As a reminder, adjusted EBITDA primarily excludes the impact of share-based compensation.

Before I get to our outlook, I'd like to mention that we've been carefully monitoring the behavior of our customers in this market environment. Since the start of the year, our customers have been continuing to deposit funds into their accounts on a net basis, but they've been making fewer trades and in smaller amounts.

In these first few weeks of the new year, we're seeing trading activity below what we saw in Q4 of 2021. However, in the few days leading up to our call, we've seen some higher levels of engagement, net deposits and trading, versus the start of the year. It's too soon to say whether what we've seen these last few days will be a sustained trend or not.

And so for Q1, we're anticipating that total net revenues will be less than \$340 million, which assumes some incremental improvement in trading volumes versus what we've seen so far. At the top end, this implies a year-over-year revenue decline of 35%. As a reminder, in Q1 last year, we had outsized revenue due to heightened trading activity, particularly relating to certain meme stocks.

Now for full year 2022 operating expenses. We expect total operating expenses, excluding share-based compensation, to increase between 15% and 20% year-over-year. Additionally, we expect share-based compensation to decline between 35% and 40% year-over-year. During 2022, we expect to meaningfully slow our hiring pace as we grow into the larger workforce we've built over the past 2 years.

While we exited 2021 with a higher run rate for employee compensation costs, we expect these costs to be partially offset as we begin realizing efficiencies across several areas of our business. We expect to realize improvements in such areas as customer service, cloud web hosting and fraud losses as we focus on productivity and benefit from our increasing scale and investments we're making in technology.

Actual results for total operating expenses, excluding share-based compensation, may differ materially from our outlook due to several factors, including the rate of growth in net new funded accounts, which affects several costs, including variable marketing costs, the degree to which we are successful in preventing fraud, our ability to manage web hosting expenses efficiently and our ability to achieve productivity improvements in customer service, among other factors. With that, Irv, let's move to Q&A.

QUESTIONS AND ANSWERS

Irvin Sha^ Leading into this quarter's Q&A session, we'll start by answering the top questions from Say ranked by number of votes. We will pass over any questions that were already addressed, and we'll group together questions that share a common theme. After that, we'll turn to live questions from the analyst community.

And with that, I'll kick it off with our top questions from Say. First question comes from Ronak P. and Keith W., who asked, when can we expect Robinhood to be profitable? What steps are being taken to make this happen?

Jason Warnick^ Thanks for the question. Our primary measure internally for profitability is adjusted EBITDA. We actually, for the full year 2021, had a small positive adjusted EBITDA.

When we look forward, it's possible that we'll have a positive adjusted EBITDA in 2022, but we've got a much better line of sight for that in 2023. It's obviously going to depend on a few things, including overall market conditions and how well we execute against the new product road map. It's also going to be impacted by how effective we are at managing our costs, which we're definitely committed to do.

Irvin Sha^ Okay. Next, we have a few questions on our recent share price activity from Olan B., Saajan P. and [Hamid N.] Paraphrasing a bit, the question is, Robinhood's share price has dropped significantly since the IPO. What steps are being taken to increase shareholder value? Why should investors continue to believe in the company?

Vladimir Tenev^ Yes. Let's not sugarcoat it. We've been disappointed with the stock price over the past few months. The way that we're thinking about it is, as I wrote in my letter in the S-1, we're never going to be sacrificing long-term performance or what's right for the company to make a quarter.

We're focused on the long term. We have an exciting road map. We have a big opportunity, and we've grown a great team. We also have over 22 million customers. So we'll benefit from our scale as we roll out new products and new functionality for them.

In addition, as Jason mentioned, we expect to grow our costs much more slowly from here on out. And you've seen, starting in Q3 and accelerating through Q4, we've been able to allocate much more of our resources towards new product development on top of the foundation that we built throughout most of 2021 and 2020.

So over 2022, you should see that to continue. We've got a lot more products, a lot more improvements coming to customers. And I've never been more optimistic about the future of Robinhood and how we can serve and innovate for our customers.

Irvin Sha^ Great. Next, we have some questions on adding new crypto coins to the platform from Zach W. and Israh B. The general question is, does Robinhood plan to open trading to other cryptocurrencies? And are we going to list Shiba Inu? Vlad?

Vladimir Tenev^ So we've been hearing from customers loudly. We know they want more cryptocurrencies on the platform, and we've actually been proactively engaging with regulators. So the main concern with adding a large number of coins is that platforms that are adding lots of them could be adding unregistered securities. So they're watching the space closely.

We're being deliberate. We want to avoid triggering SEC registration requirements for cryptocurrencies. That said, we have robust protocols in place. We feel very confident about the coins that we have on the platform, and we intend to add more coins going forward. But we want to do it prudently.

Irvin Sha^ Great. Next, we have another question from Saajan P. who asked, "Can Robinhood lay out a road map of features to come in 2022 on the Robinhood website?"

Vladimir Tenev^ Thank you, Saajan. We've been seeing your name a little bit. We appreciate the engagement with the company and the community.

So I've talked a little bit about a few of our key focus areas, including retirement, spending and saving, payments and, of course, crypto and international expansion. So as you may have seen over the past few months, we have been building our Crypto Wallets in public.

So we announced our intent to roll out wallets. We had an alpha. We've collected great feedback from our community and customers to make the product better, and that's continued through beta.

So while we won't be putting our full road map out in public and we won't be building everything in public, we do see an opportunity to engage with our community even earlier than we normally would in the future and announce some of the really ambitious things that we're working on early in the cycle.

We think it's a great way to get direct feedback from our customers and a great way to make sure the products really, really resonate with them. So we're happy with what we've seen, and you should expect a little bit more of that as we get further along into 2022.

Irvin Sha^ From Santosh I., "Is Robinhood planning to extend after-hours trading from 4 a.m. to 8 p.m.? Thanks."

Vladimir Tenev^ Thanks, Santosh. Yes, I mentioned this a little bit earlier that we are close to actually rolling out what we're calling hyper-extended hours for equities trading on the platform. Customers have been asking for it. We hear you, and we plan to roll it out later this quarter. So thank you for the feedback there.

Irvin Sha^ Our next question comes from Ben N. Is there anything Robinhood can do to repair the relationship with the retail traders upset about the handling of the meme stock situation that occurred last year? Can we bring these traders back to the platform?

Vladimir Tenev^ Yes. Thank you, Ben. This is something that I've spent a lot of time thinking about, and the Robinhood team has been thinking about a lot. So first, let me say that the events of the meme stock frenzy January of last year were hard. They were hard on Robinhood. They were hard on our customers.

We stand for giving people access to markets and letting them trade what they want to trade. And it was disappointing to customers, we realized that. And we've done a lot of investments to make sure that what happened then doesn't happen again.

So we've raised a lot of capital. We've upgraded our infrastructure to handle surges in volume. We've added things like 24/7 support. So the best way is to just make sure that we communicate these things and take all the steps necessary to avoid similar restrictions surprising customers.

Now looking forward to customers that have been disappointed, we've actually seen over the past year a greater number of customers that had left the platform that are interested in coming back and reengaging. And one of the things that we noticed was that it wasn't as easy as it should have been for customers to come back to the platform.

And that's something that we've been investing in. You see that with ACATS In. So prior to us rolling that out, there was no way for customers to bring outside assets into Robinhood.

And we've also looked at the user experience of a returning customer and are making lots of improvements in how easy it is to reopen your account and start using Robinhood again. And we're starting to see results. So the results are looking promising, and that's an area that we'll continue to make progress in.

Irvin Sha^ Okay. Donte F. is asking, when are wallets and staking coming to Robinhood?

Vladimir Tenev^ Yes. I can field this one again. So we launched the public beta of our Crypto Wallets earlier this month, and we've been continuing to make refinements to those. And we're looking to release those later this quarter to everyone.

As for staking, so we know staking is an area of customer interest. And we've actually been investing a lot in the crypto team and the technology to enable things like this. I should say there's lots of regulatory attention here.

We need to make sure that staking products are safe and clear to customers and, of course, are compliant. And I would say we're looking at the area. And we're going to be investing heavily in crypto, in general, as we've discussed.

Irvin Sha^ Great. So the next question is coming from Peter D., who asks, what was the cause of the price drop? And what are you doing to rectify it? Maybe Jason?

Jason Warnick^ Yes. Thanks for the question, Peter. It's a number of factors, and some of it is certainly on us at Robinhood, and some of it is the general market. Clearly, the Fed signaling increasing rates, along with inflation. We've seen a rotation away from growth stocks like Robinhood. It's affected the industry, but it's absolutely affected our shares as well.

But there's also things that we need to be doing. And it's questions around our strategy, our speed of execution and also, I think, providing just additional clarity about what we're working on and when you should expect progress from us.

And we've been trying very hard in this call and in the materials that we're sharing today to give you a really good insight into the road map and also the expected timing and impact of our road map.

So we're working on it. We're going to stay, as Vlad mentioned, focused on the long term. But we're definitely very optimistic about where we can go from here.

Irvin Sha^ Thanks for that. G C and Donald D. are both asking about NFTs. And the questions were, does Robinhood have any plans to extend its crypto offerings to include a non-fungible token marketplace?

Vladimir Tenev^ Yes. We've been watching this space carefully as well. We know there's a lot of customer interest in this area, and we've grown our crypto team and are investing heavily in crypto. I mentioned some of the really ambitious things that we've got planned for 2022, including using crypto to expand internationally, obviously making more progress on wallets, rolling them out and continuing to improve them.

And I think you should see -- you should expect to see that and more. So I don't want to get too specific on any of the other new products you have in crypto, but we're very excited to keep investing in this space. And we think it's still early innings.

Irvin Sha^ Next question is going to be from Gennadii K., hope I'm pronouncing that right. When will Robinhood be available in Europe?

Vladimir Tenev^ So as we mentioned earlier on the call, we've set aggressive targets to start opening our crypto platform internationally this year. So I'm -- we aren't able to say exactly when or which countries. But I would tell you, international is especially interesting for crypto, which is built to be global by default.

And being a global company is core to our vision. We look forward to updating you as soon as possible in making Robinhood available all over the world. We think there's a huge opportunity there.

Irvin Sha^ Great. I think this will be the last question that we have time for. This one comes from Alexander X. who is asking, "Will Robinhood add more advanced features into the app, such as allowing people to specify mailing address or a tax center to preview realized gains and losses? The app is sometimes too bare."

Vladimir Tenev^ Yes. In terms of advanced features, look, one of the best ways to prioritize features is by hearing directly from our customers. And as I mentioned, 1 of our 3 areas is making sure that our advanced investors have all the tools and support they need. And I think there's a lot of opportunity here.

Steve Quirk, who joined recently as our Chief Brokerage Officer, is looking very closely at this area and brings a wealth of experience serving advanced investors at places like thinkorswim and TD Ameritrade.

Irvin Sha^ Great. I think that's all the time we have for Say questions right now. Thanks, everyone, for those questions. With that, I'm going to ask the operator to please open up the line.

Operator^ (Operator Instructions) Our first question comes from Ross Sandler of Barclays.

Ross Sandler^ So a question on the gross adds. So your new funded accounts were running around 600,000 per quarter pre-pandemic. We're now at around 800,000. Is this the right level to think about? And Vlad, of all those initiatives you mentioned in '22, which new products could potentially unlock a faster cadence in gross adds?

And then second question is just on international, a housekeeping. Can you remind us, outside of the U.K., which markets are you fully licensed to operate the full stack brokerage business today versus just dealing with the crypto?

Jason Warnick^ I'll start, and then I think Vlad will probably jump in. Thanks, Ross, for the questions. In terms of the expectation for future adds, what I would say is we think that there's a significant opportunity ahead of us, starting first with the U.S. and investing to have more customers join the platform.

We've done some internal research. It suggests that of the demographic of 18- to 49-year-olds, a little over half have a brokerage account. And in our research, it suggests that currently, there's about 10 million or more that are -- currently don't have an account and are interested in participating in the stock market. There's a long-term trend of increasing retail participation, and we think that's a great place to be able to leverage and participate.

We also have opportunity, I think, as Vlad mentioned with the road map, to generate interest in new customers with the other products. And also, international is an even bigger opportunity, we believe, over the long term. Vlad, I'll turn it to you for kind of areas we're most excited about.

Vladimir Tenev^ Yes. Absolutely. I think of the areas that we talked a little bit about, if you're looking at net new funded accounts, international certainly is a big opportunity with more addressable new accounts over the long run than even in the U.S.

With our work on spending and saving and payments, we also believe that we can access a broader type of investor, people that are not quite ready to invest, but could use Robinhood to help manage their day-to-day spending needs. And then we could help them become investors over time.

And we think that, that's an exciting market. And then there's always just the work in making our core experience better, making our core investing products better, making the flows and the user experience even stronger and getting customers to consequently refer their friends to Robinhood in greater numbers. So that's net new funded accounts.

And as we've also mentioned, there's opportunities to increase ARPU and to monetize our accounts by giving them more functionality over time. And those include things like retirement and some of the other areas of focus through the year as well.

Jason Warnick^ The last question was brokerage licenses.

Vladimir Tenev^ Brokerage licenses overseas, yes. So we have a license by the FCA to operate a brokerage business in the U.K. And that's right now the only international jurisdiction that we have a brokerage license for.

Operator^ Our next question comes from Ken Worthington of JPMorgan.

Kenneth Worthington^ I've got 2, I think, for Jason. One, the press release and you highlighted \$6.3 billion of cash and cash equivalents. How much do you want to hold to run the business as it exists today? And how much of that cash is truly excess, above regulatory, operational needs, including what you might need to post at a clearinghouse during peak trading periods?

Jason Warnick^ Yes. Thanks, Ken. Great question. On a typical day, the vast majority of that is not needed to support our business. Since last year around the surges that we saw, obviously, we raised cash, but we also opened up increasing lines of credit as well.

And so to support the trading, it's not just the corporate cash that we have but also lines of credit. Additionally, we substantially increased the capital at the clearing broker. And the level of capitalization actually affects the calculation of how much deposits you have to put on -- put for the clearinghouse. In fact, right now, we're over 20x above the required capital for our clearing brokers.

So we're looking very solid. As I said, the vast majority of our corporate cash is not needed on a daily basis. And there's things that we can do from a process perspective, particularly around funding, buying activity and selling activity over weekends for crypto, that will further alleviate the need for the cash.

So we're sitting in a really good spot. We've got more that we can do, and we feel great that we're in a position to make sure we can handle customer trades no matter the environment.

Kenneth Worthington^ Okay. Great. And then I just was hoping you could flesh out your comments on the \$40 million, I believe, of net interest revenue that comes with higher rates per 25 bps. What part of that incremental revenue is anticipated from stock loan versus the impact of higher rates and margin borrowing versus, say, the float on customer cash balances?

Does that \$40 million come from the majority of one or the other? Or is it sort of equal across all 3? How are you sort of allocating or how should we allocate that \$40 million across the different interest rate-generating buckets?

Jason Warnick^ Yes. Thanks for the question, Ken. The biggest components are around - - obviously, corporate cash, we just talked about having over \$6 billion there. That will certainly be affected by a rising interest rate environment. Free credit balances from customers, those balances fluctuate.

But it's many billion -- over \$6 billion of customer margin balances as well. There's also anticipated that will be some earnings from rising interest rate on the collateral that we receive on the securities lending program, which is also a few billions. So those are the biggest components.

Operator^ Our next question comes from Devin Ryan of JMP Securities.

Devin Ryan^ Great. I guess first question here on the product road map. So the stock is down a little bit over 10% in the after hours here. Some of the feedback I've gotten initially is just you had a first quarter outlook and a little disappointment.

But you guys gave a pretty ambitious road map here, and a lot of the products that you talked about aren't actually going to be in the first quarter but are coming later this year. So there should be a pretty good acceleration. So I don't know if we can maybe parse through maybe some of the ARPU implications.

And maybe just to not get too acute here, but Jason, I heard the comment about adjusted EBITDA this year, not ruling out that it could be positive. And so that would imply that you'd actually see potentially some decent revenue growth over the year. So first quarter notwithstanding, which, I think, maybe a little disappointing to people, it seems like

there's a lot of things here that should drive revenues higher. So I just want to maybe walk through some of those if possible.

Jason Warnick^ Yes. Devin, thanks for the question. What I would say is we provided some indication on when to expect some of these products to roll out, and then there's going to be ramp-up time for customer adoption as well. And so it's going to be back half of the year loaded and into 2023. And also, certainly, our revenue for the year is going to depend on the overall market environment for trading.

But we're particularly excited about the fully paid stock lending program, which we're expecting to be able to roll out kind of midyear. That can have a meaningful impact, 1 to 2x the size of our margin securities business. We're kind of thinking internally that it's going to take several months for that to ramp, so just to give you a sense on that.

Excited also about offering customers the ability to move their money faster. And we haven't talked about the monetization yet for -- particularly for withdrawals. But we do anticipate to see some uplift in revenue to the extent customers choose to move their money faster. But definitely, for new products, I would say it's back of the year weighted and getting more momentum in 2023.

Devin Ryan^ Okay. Great. Just a quick follow-up here on some of the international conversations. So if we think about the crypto market outside the U.S., is there an opportunity to maybe roll out more features and functionality? My sense is from Vlad's comments that the regulatory regime in the U.S. is just a little bit more cautious.

And so you want to make sure that you're abiding by that. But outside the U.S., there may be some looser standards in different areas, different jurisdictions. So I'm curious if the international offering will look different outside the U.S. where maybe you can add additional features and then you flip those into the U.S. to the extent we have more visibility on U.S. policy.

Vladimir Tenev^ Yes. I'd be happy to field that one. Certainly, the environment and regulatory regimes are different, depending on where you're offering your products. We have a particular environment in the U.S., and we have a large U.S. business with crypto and the core brokerage. So regulatory compliance, it's the center of everything that we do. We have to make sure that we operate prudently and work with our regulators.

And overseas in some jurisdictions, the environment might be different. So yes, there will be opportunities to add products internationally that won't necessarily be available in the U.S. And I think vice versa is also the case.

Operator^ Our next question comes from Craig Siegenthaler of Bank of America.

Craig Siegenthaler^ I wanted to see if you could provide an update on your fully paid securities lending launch for the first half. And I wanted to see what do you think the

economic impact will be to your clients and your business. And I also see that you're in regulatory discussions. So what does the regulatory process look like for this initiative?

Jason Warnick^ Yes. So it's -- we have to work closely with FINRA to make sure that they understand the program and the terms and all the operational details of the program. We're meeting with them proactively and making sure that we're -- have a common understanding of how the product will be introduced. We aren't at the point to share the economic split with customers, but we do see this as an opportunity for customers to get enhanced yield on their portfolios.

In terms of like the impact to the company, it's going to depend on the adoption rate. It is an attractive opportunity for customers. So there's a good opportunity, I think, for us to see a nice customer uptake on the program. And we think it could be 1 to 2x the size of our margin securities lending business at scale.

Craig Siegenthaler^ Great. And then just as my follow-up, and I'm sorry if I missed it, but what are your plans to roll out IRAs and other retirement products at this point?

Vladimir Tenev^ Yes. So this is a key area of focus for 2022. As I mentioned on the call earlier, taking our first-time investors and helping them become long-term investors is a big thread that we've been pulling on. You've seen that with recurring investments. ACATS In also helps with that, and retirement and long-term automated investing is another area we're very closely looking at. So we expect to roll out in 2022.

And we've heard lots of customer demand for this. They want multiple account types, including IRAs and Roths. And I think that coupled with ACATS In and the work that we've done in recurring, this creates a meaningful opportunity to increase account balances.

Jason Warnick^ Yes. And Craig, we're signaling for the retirement accounts that we'll start rolling that out in midyear.

Operator^ Our next question comes from Will Nance of Goldman Sachs.

William Nance^ I wanted to follow up on some of the commentary you made in the prepared remarks around the changes to the market maker list on crypto. I mean, you mentioned a pretty big increase in the rebate levels.

I think you said it more than doubled, and it sounded like that happened kind of towards the end of the quarter. I'm just -- am I missing something there that if the rebate levels are doubled, is that a sustainable increase in rebate levels? And I guess an important caveat of all else equal, should we not see the same increase in revenues as we go into the first quarter?

Jason Warnick^ Yes. Thanks Will, for the question. So the rebate did more than double. It was effective really at the beginning of this year. And all else being equal, you'd expect

the revenue to fall in line. We have seen, as I mentioned at the beginning of the year, slower trading levels but for the last several days leading into the call. And that's what we used to inform the guidance that we gave.

And in terms of whether it's -- yes. Sorry. You'd asked, Will, about the sustainability of it. We do expect from time to time that these will be negotiated, but I think that we feel really good about the level that we're at now.

William Nance^ Got it. That's helpful. I appreciate it. And then just like a general -- more of a high-level question on crypto maybe for Vlad. It strikes me that there's a bit of an unlevel playing field in the crypto markets right now. It sounds like some of your Fed-regulated brokers are basically insinuating that regulators don't want them rolling out anything in the crypto space.

You guys seem to be completely restricted on adding new coins. And then the crypto exchanges, some of even the more tightly regulated ones like Coinbase, kind of continue to add new coins to their platform.

The SEC seems to have a lot on their plate right now in terms of new regulatory guidance. So I guess the question is, is there any line of sight to these issues actually resolving? And what is your confidence level that you'll actually be able to roll out new cryptocurrencies on the platform in 2022?

Vladimir Tenev^ Yes. I wouldn't say that we've been prevented from adding any coins. I think what I'd say is that we've been proactively engaging with the regulators. They're concerned that a lot of these platforms that are adding a lot of coins may be adding unregistered securities, and there's been a lot of scrutiny in this space, as you've seen.

So we're definitely being deliberate. We want to avoid triggering SEC registration requirements. Getting it wrong could harm users. So we are happy with the protocols we have in place, and we do intend to add more coins going forward. But we want to make sure we do it prudently.

Operator^ Our next question comes from Rich Repetto of Piper Sandler.

Richard Repetto^ Yes. So first, I want to congratulate you on the hiring of Steve Quirk. He's definitely an experienced and a talented brokerage executive. Next, I guess the question is, Jason, I can see you have gone out of your way to try to give us insight into sort of the contribution of some of these new initiatives.

And I guess another cut at it would be, if we were looking a year from now and doing this call next year, which do you think -- which products -- so we can get a feel for your belief in the products, like which products do you think will have the biggest revenue contribution? And you did talk about margin lending being 1 to 2x -- the fully paid lending being 1 to 2x. Like what type of a ramp-up period do you need for that to get to that 1 to 2x?

Jason Warnick^ Yes. We're kind of assuming it's going to take up to about 5 months to get the program ramped. It's hard to know exactly how long it will take. That may prove to be conservative. We may prove to not be conservative enough by a few months, but that's kind of the general way we're thinking about the timing for that.

Look. I think there's a lot of interesting opportunities that can contribute to revenue in the areas that we're talking about. Certainly, international crypto could be one of those areas. We talked about fully paid securities lending.

Our spending product, obviously, depending on adoption, it could be also a meaningful way to not just earn revenue but attracting customers. So I really think that this is an opportunity that has many components, and we're really excited about that.

One other thing that we actually didn't talk about in the call, you've probably heard me in the past talk about Robinhood Gold and the subscription opportunity. We've assembled a team, and we're building a plan and are excited relatively soon to start adding value into our Robinhood Gold subscription. And I think that, that, in particular, if we do that right, can add a lot of positive synergy to the platform and the customer experience.

Richard Repetto^ Got it. I have one follow-up on the cash question. A lot has been written about the meme stock volatility. Glad you talked about how unique of an event it was last year. So -- and then, Jason, you went through all the efficiencies you're doing with the capital as well.

So I guess the question is, do you really need this same level of capital? And what would you do -- are you going to just maintain it and have it sit in the balance sheet? Or what will you do if you -- we don't see that same level of pretty unique activity from the first quarter of last year?

Jason Warnick^ Yes. Rich, we're in, as I said, a much better position, including capitalizing the broker-dealer 20x or more off the regulatory required amounts. We also run, as you would expect, stress scenarios, and those include events that look like what we saw a year ago. And so we need to make sure that we're comfortable that no matter what the trading environment is that we can support our customers.

Now there's more efficient ways to accomplish that than just parking a bunch of cash on your balance sheet. And like I said, we've made some progress with our lines of credit. And there's some operational things that we can do to help fund the crypto business more efficiently, particularly over weekends.

Over time, I'd like to see us having a working capital structure, a capital structure that is more balanced between debt and equity. So that's something that we'll think about over time. But we're also a growth company, and we've got big ambitions. And so I think it makes sense that we have enough dry powder to be able to pursue those growth opportunities.

And so that's kind of how we're thinking about it. It's evolving. And as we get better with our procedures and get access to more lines of credit, it will give us even more flexibility.

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

Steven Chubak^ So I wanted to start off with a question on the expense management strategy or philosophy. You guided to a meaningful step-up in expense as part of an ambitious investment agenda in the coming year.

I was hoping you could walk through how we should be thinking about the payback period for those investments you're making and how you're building some expense flexibility into the model if the revenue environment remains more challenging.

Jason Warnick^ Yes. Thanks, Steve. So the guidance is a meaningful slowdown versus how we've been growing these last couple of years, our cost basis. It is assuming a deceleration of hiring, which is owing to the fact that we've more than doubled each of the last couple of years and really find ourselves in a great position across the board, whether it's engineering and product, which are important for doing new things, and compliance and customer service with 24/7.

And so really across the board, we feel really good about the team that we've assembled so much so that we can grow at a much, much slower rate.

And then looking across the business, there's just opportunity for us to be more efficient and use technology to deliver greater productivity. And so I mentioned briefly just the progress we're making on web hosting. It's a meaningful expense line item for us, down sequentially about \$15 million.

And there's more opportunity there. And we have line of sight on that even in Q1 and through the rest of the year, greater opportunity to be even more efficient serving our customers through customer support.

A big piece of that is just kind of relentlessly identifying reasons why customers have to contact us in the first place and solve those issues at the root, give customers an ability to self-serve, making it to where that we can take the team that we have and focus on the really higher-level challenges and questions that our customers have so that the paper cuts, if you will, that are on the platform today just get resolved or handled directly by customers, which is a much better path for them to get a quick resolution. So it's really those kinds of efforts that we're making that's going to drive kind of leverage in the business.

In terms of kind of the payback time and how we're thinking about investments, we're able to, for the most part in our engineering team, focus incremental investments on kind of the new things. We've -- as I said -- made just a lot of progress on staffing the teams. So we feel really, really good about incremental investments contributing to the business.

Steven Chubak^ Just for a quick follow-up, just on the operating backdrop. Given the recent sell-off in growth equities in crypto, where retail, in general, but certainly your clients are more heavily invested, you spoke of declining activity levels to start the year.

I was hoping you could provide some perspective on what you're seeing in terms of margin utilization and whether you've experienced any losses on margin accounts.

Jason Warnick^ Yes. So definitely, when stock prices decline, there will be some level of margin calls and margin maintenance from customers. Given the collateral that we have in our program and the timeliness of those kinds of margin calls, we're not experiencing any meaningful losses on that at all.

Operator^ At this time, I'd like to turn the call back over to Irvin Sha for closing remarks. Sir?

Irvin Sha^ Great. We appreciate the time, everyone. Thank you. We'll be talking to you again next quarter.

Jason Warnick^ Thank you. Appreciate the questions.

Vladimir Tenev^ Thanks, everyone.

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