

Coinbase Leads Cryptocurrencies into Mainstream

Price \$243.92

Recent Purchase

May 27, 2021

- Leading custodian in cryptocurrency.
- Number one cryptocurrency retail trading platform.
- Strong security and customer trust.
- Only listed cryptocurrency exchange.
- \$335B quarterly volume traded, \$223B in assets on the platform.
- Global operations with customers in over 100 countries.

Investment Thesis

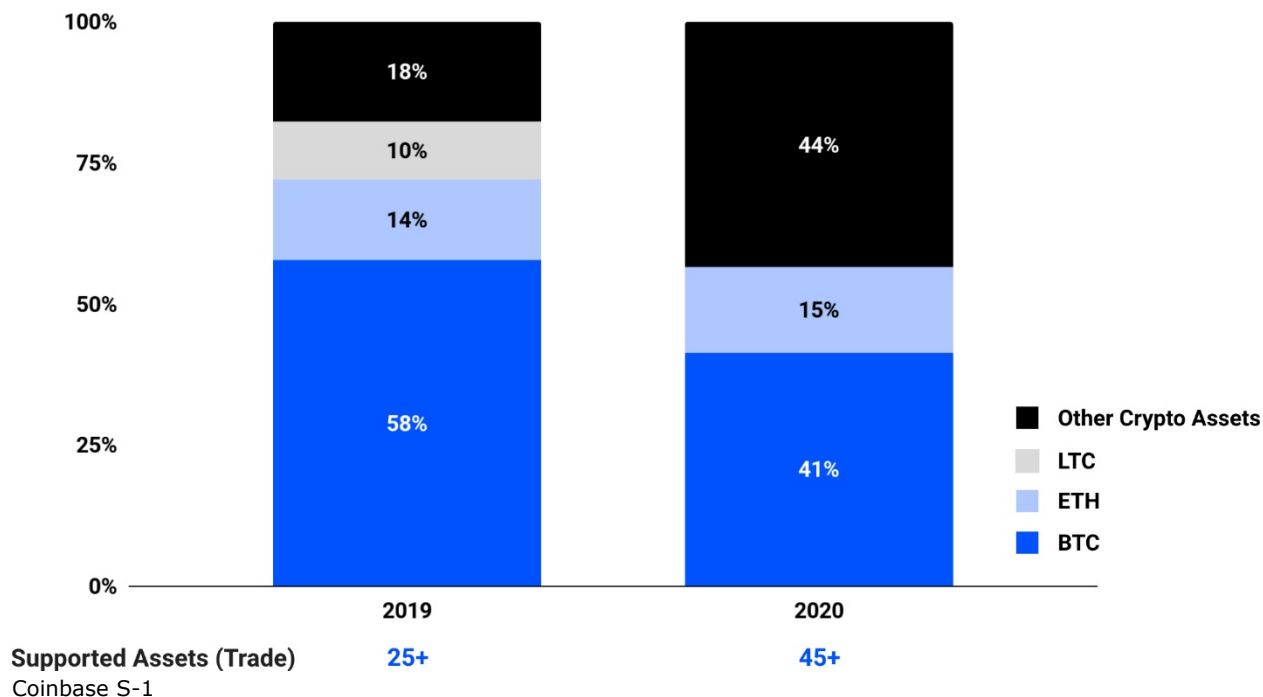
Coinbase (COIN) is a cryptocurrency exchange and provider of related infrastructure. At the time of its founding in 2012, Bitcoin was still very renegade and unsafe. Coinbase sought to create a safe, accessible, and low-cost way to buy, sell, and exchange Bitcoin.

Currently, Coinbase has over 55 million verified users in 100 countries and over 8,000 institutional partners. In addition, Coinbase has consistently grown its retail and institutional userbase through innovative products and services. Because of this growth and the increasing popularity of crypto, we believe that Coinbase is an excellent growth investment for more aggressive investors.

What is Coinbase?

Coinbase (COIN) is a cryptocurrency exchange based entirely online. Coinbase operates as an exchange, a broker-dealer, and storage for many cryptocurrencies. Coinbase additionally offers various analytics packages for active traders and analysts through a licensing fee. Coinbase has managed to transform a niche internet-tech into a mainstream and accessible platform for all.

The top cryptocurrencies traded on the platform are Bitcoin (BTC), Ethereum (ETH), Litecoin (LTC).



Coinbase makes money in 5 primary ways.

As a part of their store of value, they take a small custodial fee based on a percentage of customer assets that are not actively traded but stored on Coinbase.

Whenever a transaction settles through their network, they take a small portion of the transaction as a brokerage commission.

Coinbase takes a portion of revenues from initial coin offerings (ICO) on their platform whenever a user engages with the new currency through advertisement videos or articles.

Coinbase sometimes acts like a dealer of cryptocurrencies, where users can directly purchase from or sell assets to Coinbase. While this is a relatively small component of their revenue, it is an innovative feature as it allows relatively small transactions to be quickly and cheaply settled for the customer.

Finally, Coinbase offers a full analytics service for the cost of a license.

New Developments

Coinbase continually updates and scales its architecture to serve customers better. In Q1 2021, they tripled their transaction capacity and grew the customer support team by 250%. While the details of institutional

partnerships are not public, in Q1, they saw \$215 billion in trading volume and \$122 billion in assets across their 8,000 institutional customers.

For retail investors, they have begun to allow a process called “staking” in which customers can earn interest on coins they store within Coinbase’s service. They also have started to offer portfolio-backed lines of credit of up to \$100,000.

Coinbase has become the go-to entry point for many amateur and retail crypto traders and the most popular custodian for institutional investors. We expect Coinbase to leverage its leadership position in services and customers into even more services and customers building upon its strengths.

Risk

The primary risks facing cryptocurrency are regulatory and environmental. While cryptocurrency is an innovative technology for decentralized payment processing, it is a hotbed for illicit activity. The SEC – and its equivalents elsewhere – are certainly beginning to crackdown.

Over 90% of Coinbase’s revenue comes from transaction-related fees, and should the price or liquidity of cryptocurrencies fall, it could result in significant financial hardship for Coinbase.

The environmental impacts cannot be understated. Yearly, Bitcoin alone is estimated to consume 0.55% of global energy consumption. This is roughly equal to the power consumption of Sweden and Malaysia. While some of this is assuredly powered by green energy, the University of Cambridge estimates only 40% of Bitcoin mined is using renewable sources. While not even a majority of Bitcoins are traded on Coinbase, it is important to note the impact the Cryptocurrency economy has on the environment.

Metrics

Q1 2021 saw \$1.6 billion in net revenue, of which \$1.5 billion was transaction-based, and \$56.4 million to subscriptions and services revenue. Cryptocurrencies have significant momentum right now, and Coinbase is the primary driver of institutional growth in cryptocurrencies. Coinbase has seen an average revenue of \$34-45 per active user.

Coinbase is the cornerstone of the mainstream Cryptocurrency market and powers major institutions and small-scale retail investors alike. For this reason, we think Coinbase is a good long-term investment.



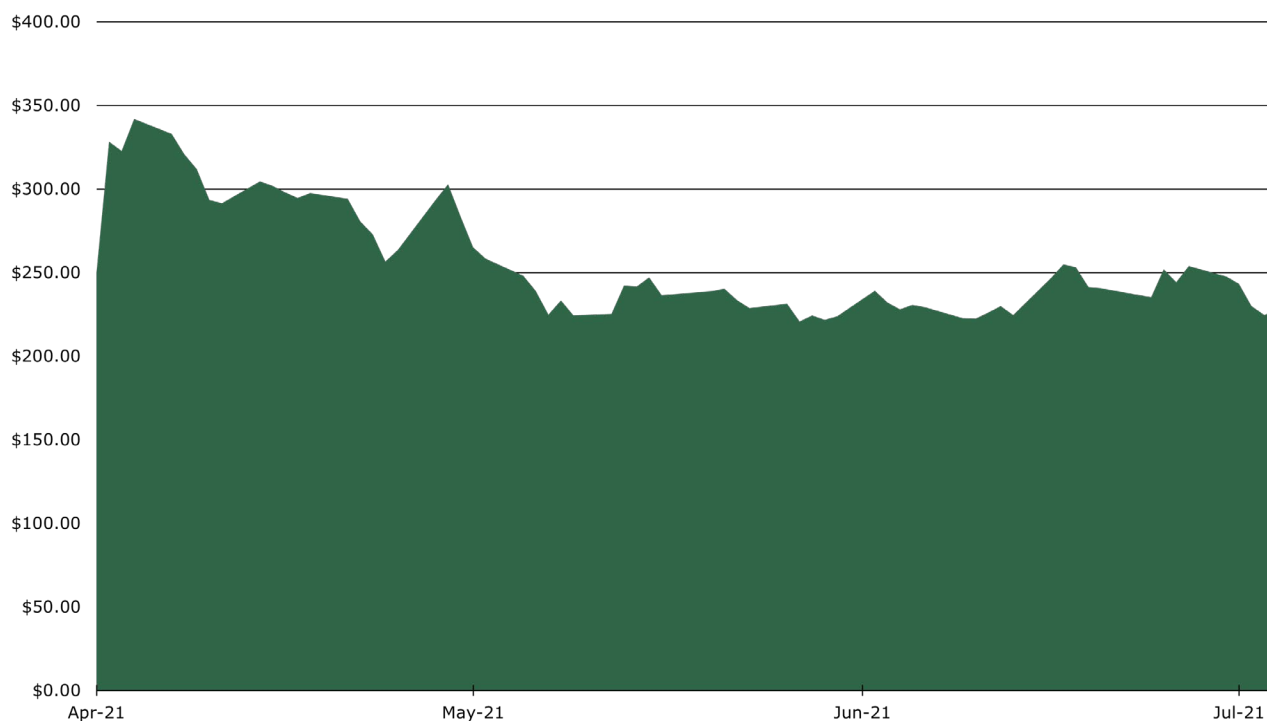
| Key Metrics | Q1'20 | Q2'20 | Q3'20 | Q4'20 | Q1'21 |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Verified Users (M) | 34 | 37 | 39 | 43 | 56 |
| Monthly Transacting Users "MTU" (M) | 1.3 | 1.5 | 2.1 | 2.8 | 6.1 |
| Trading Volume (\$B) | 30 | 28 | 45 | 89 | 335 |
| Assets on Platform (\$B) | 17 | 26 | 36 | 90 | 223 |

Coinbase Q1 2021 investor letter

| | EV/EBITDA | Forecasted Price-to-Earnings | | |
|------------------------|------------------|-------------------------------------|--------------|--------------|
| | | E2021 | E2022 | E2023 |
| Coinbase (COIN) | 15.1 | 30.49 | 27.1 | 22.6 |

Source: Bloomberg

Coinbase (COIN)



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