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# EDITED TRANSCRIPT

Q2 2023 Robinhood Markets Inc Earnings Call

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## PRESENTATION

### Operator

Good day, and thank you for standing by. Welcome to Robinhood's Second Quarter 2023 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Chris Koegel, Head of Investor Relations. Please go ahead.

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### Chris Koegel *Robinhood Markets, Inc. - VP of IR*

Thank you, Gigi, and thank you to everyone for joining Robinhood's Q2 earnings 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 call will contain forward-looking statements. Actual results could differ materially from our expectations and we have no duty to provide updates unless legally required. Potential risk factors that could cause differences, including regulatory developments that we continue to monitor are described in the press release we issued today, the earnings presentation on our Investor Relations website at [investors.robinhood.com](https://investors.robinhood.com), our Form 10-Q filed May 10, 2023, and in our other SEC filings. 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.

With that, let me turn it over to Vlad.

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### Vladimir Tenev *Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board*

Thanks for the intro, Chris, and thanks to everyone for joining us today. Last week was the 2-year anniversary of our IPO, and I'm excited to announce an important milestone today.

In Q2, we reached GAAP profitability for the first time as a public company. I'm incredibly proud of our team for the resourcefulness and tenacity it took to ship innovative products, serve customers and manage expenses to reach this level. Let me tell you more about our progress in Q2, starting with our business results.

Customer assets under custody grew to \$89 billion in Q2 and up 13% from Q1, driven by higher equity valuations and continued net deposits. In July, customer assets continued to grow by several billion to over \$90 billion.

Looking at net deposits, we had over \$4 billion in Q2, translating to a 21% annualized growth rate. This brings the total over the past year to over \$16 billion as customers continue to trust Robinhood with billions of their investment dollars.

Looking at our financial results. In Q2, we grew total net revenues to \$486 million, up 10% from Q1. And by keeping our costs lean, we drove nice operating leverage in our business with adjusted EBITDA margin increasing to a new high of 31%. These results contributed to GAAP net income of \$25 million and EPS of positive \$0.03.

I'd also highlight that 2 new products I mentioned last quarter, Fully Paid Stock Lending and Instant Withdrawals, continue to accelerate. Each had Q2 revenues that grew another 20% above their Q1 levels. The combined annualized Q2 revenue of these 2 products is over \$90 million, which is roughly the size of our equity trading business. This is exciting progress, and I'm incredibly proud of how well our team is executing.

Now let's turn to our 2023 road map, which, as you know, we've organized into 3 areas: deepening relationships with our customers, innovating for our active traders and launching new growth opportunities.

Let's first talk about how we're deepening relationships with our more than 23 million existing customers. Our goal is to serve the entirety of our customers' financial needs. We started with trading and investing. And more recently, we launched spending, saving and retirement products. We track our progress here by looking at net deposits and ARPU. In Q2, net deposits grew at a 21% annualized growth rate, and ARPU increased to \$84, the highest level in the past 2 years.

We're also making great progress growing assets per customer. Over the past year, AUC per customer increased 37% on average and 88% for Gold customers. One focus has been helping customers save and invest their long-term money. As a reminder, in January, we launched Robinhood Retirement, the first IRA with a 1% match, no employer necessary. And it's great to see that IRA assets are now close to \$1 billion. We believe Retirement can grow into a much larger part of our business, especially as we add

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additional products like advisory.

Last quarter, I mentioned that we're really happy with the progress we've made with Robinhood Gold and that we're going to be adding even more features and value to the offering. To that end, we are introducing a 3% IRA match for Gold customers, 3x our standard 1% match. We believe this offer makes Gold incredibly compelling for retirement customers that aren't already Gold subscribers and will also help us grow Retirement business. Gold cash sweep, which offers customers up to \$2 million in FDIC insurance and among the most competitive yields on cash, is also continuing to grow. Gold cash sweep balances grew nearly 40% in Q2 and 130% year-to-date to reach \$11 billion.

Last week, we increased the interest rate to 4.9%. As we've attracted and engaged more Gold customers, we've seen them deposit more into their Robinhood accounts, and this continues to drive strong ARPU and revenue growth from our Gold customers. With our competitive 4.9% rate on cash and the new 3% IRA match, we're starting to spin this flywheel even faster.

Now let me talk a bit about the X1 acquisition. We view credit as a strategic opportunity to both help customers and diversify our business. Many of our 23 million customers are credit card primary, and we also see an opportunity to go down market and help younger people build credit. Right now, for example, if you're an immigrant or a student, it's hard to get credit, even if you have the salary and earnings potential to support it. This is one of the problems we're excited to solve. And by doing so, we believe we will grow our customer base, diversify our revenues, and further deepen our relationship with our customers.

After exploring the credit space for several years, with X1, we finally found a team that has the right values and DNA to build and scale a category-defining consumer credit business. X1 provides their 80,000 cardholders with an awesome stainless steel card, attractive customer rewards, and a sleek and user-friendly mobile platform. The team is working hard to ship a great new Robinhood card that we're excited to offer to our 23 million customers, and we'll expand from there.

Now let's discuss active traders. As you know, over the past year, we continued to aggressively ship products and features to make Robinhood the best destination for active traders. These include advanced charts, cash accounts, strategy builder, stock screeners and most recently, Robinhood 24 Hour Market. With 24 Hour Market, we are the first U.S. retail brokerage to offer 24/5 trading of single-name stocks. We finished the rollout to 100% of our customers in July, and we love the early uptake we see. We've seen strong volumes in our extended hours offering, particularly during earnings season. And Robinhood 24 Hour Market makes it even easier for customers to trade whenever they want.

We're excited to continue to expand the selection of names we offer, and we will be adding 9 more tickers quite soon, bringing our total to 52. As we continue to enhance the experience for active traders, we're seeing our market share of retail trading grow. Last quarter, I mentioned that we were happy with the trajectory that our options trading product was on. We were starting to turn more of our attention to our core equities business.

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In addition to 24 Hour Market, we shipped several tools and enhancements for our active equities traders, including longer chart history, returns comparison tools and our awesome new screeners and scanners. And just a few hours ago, we rolled out instant deposits and cash accounts to all users. Customers love these improvements, and we're seeing that in our market share.

In Q2, equity market share was up 15% from a year ago, and our options market share was up over 20% from a year ago. So far in Q3, our market share continues to move higher in both equities and options, and we're working on many more improvements that we can't wait to share with customers.

Turning to crypto. We continue to innovate and grow market share while staying mindful of applicable regulations. Our goal is to be the safest, most trusted place for customers to hold, trade and transact with their crypto. We see our recent launches of Robinhood Wallet and Robinhood Connect resonating with customers, and we look forward to continuing to invest in crypto.

The third part of our 2023 road map is exploring new growth opportunities to broaden the scope and geographical reach of our products so we can add more customers and increase our revenues over time. We remain focused on our ambitious goal of launching brokerage operations in the U.K. around the end of the year. As you know, we have an existing license in place, a brand that resonates, and experienced leaders like JB Mackenzie running the effort. We've been spending a lot of time with customers and are starting to hire key positions on the ground, including bringing on Jordan Sinclair to lead Robinhood U.K. We're getting even more excited to drive innovation in the U.K. market like we've done in the U.S.

Another business we recently launched is Sherwood Media, a new media company that is focused on providing the best financial content covering the markets, economics, business, technology, and the culture of money. Our goal is to build on the success of Robinhood Snacks, which is one of the largest financial newsletters in the U.S. with over 10 million weekly readers. We've already started signing multiyear advertising partnerships with NASDAQ, CBOE, and other partners.

We're excited about our progress across multiple geographies and business lines. We believe these investments will enable us to serve more customers while also growing and diversifying our revenues.

As I reflect on all that Robinhood has accomplished so far in our history, I'm energized by our even larger potential over the next decade. We're really excited about the road map ahead of us, and there's so much to do. We see a huge opportunity to innovate for our customers, grow assets, gain market share, and change the industry for the better as we democratize finance for all of our 23 million customers and many more to come.

With that, I'll turn the call over to Jason.

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**Jason Warnick Robinhood Markets, Inc. - CFO**

Thanks, Vlad. It's good to speak with everyone today. After growing revenue for 5 straight quarters and

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getting lean on costs, in Q2, we reached GAAP profitability for the first time as a public company. I'm incredibly proud of our team for all of their progress over the past year transforming the financial profile of our business and positioning us to drive long-term shareholder value.

While we're excited about reaching this milestone, we're just getting started on the journey to drive higher levels of GAAP EPS over time. We remain focused on investing for growth to add new revenue streams like securities lending and Instant Withdrawals as well as gain market share in our existing businesses. At the same time, we're working to get leaner in ways that don't detract from our growth.

For example, in Q2, we made some targeted reductions across a few teams where we saw increased productivity and opportunities for greater efficiency. We're confident that our growth and efficiency efforts can drive great outcomes for customers and shareholders over time.

Let's now look at how our business grew in the second quarter as we make progress on our mission. We measure our progress in terms of assets under custody and net funded accounts. Our customers' assets under custody increased 13% sequentially in Q2 to \$89 billion, primarily due to higher equity valuations and customers continuing to deposit money into Robinhood.

Looking at net deposits. They were \$4.1 billion in Q2, which translates to a 21% annualized growth rate relative to Q1 AUC. We believe these resilient customer net deposits position us really well for continued asset growth as markets rise over time.

Turning to net funded accounts, which represent unique customers on our platform. They increased to \$23.2 million in Q2, up \$70,000 from last quarter and \$310,000 from a year ago. Additionally, we are excited about the growth we are seeing in our retirement product, which we launched in January. We now have over 325,000 funded retirement accounts, up 75,000 from last quarter. And Gold subscribers increased for the third quarter in a row to over \$1.2 million, up about 60,000 sequentially and 150,000 since we launched the high-yield offering.

Looking at our financial results. We generated positive GAAP net income of \$25 million in Q2, and EPS was \$0.03. When we look at our \$0.37 increase from a year ago, it's great to see the broad improvement across revenue, OpEx and SBC that led to the Q2 result. In addition, we have continued to drive profitability higher on an adjusted EBITDA basis. It grew to a new high of \$151 million in the quarter, and our adjusted EBITDA margin also reached a new high of 31%. We are excited about the progress we've made on margins, with adjusted EBITDA margin up over 55 points from a year ago.

Now let's review Q2 revenues. Total net revenues were \$486 million, a 10% increase from Q1, as net interest and other revenues increased during the quarter. Q2 ARPU was \$84, up from \$77 last quarter and the highest level since 2021. Transaction-based revenues were \$193 million in Q2, down 7% sequentially, primarily due to lower crypto volumes and lower options revenue per contract.

Moving to net interest revenues. They were \$234 million in Q2, up 13% sequentially. The increase was

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driven by higher interest-earning assets, short-term interest rates and securities lending activity. Q2 interest-earning assets were \$26 billion, up 16% or \$4 billion sequentially, primarily driven by Gold customers continuing to bring more deposits to Robinhood.

Looking ahead, we anticipate Q3 net interest revenues will increase in the zone of \$15 million versus Q2. This outlook assumes securities lending revenue in line with Q2, the addition of X1 and today's level of balances, deposit rates and Fed fund rates. Of course, our Q3 result could be higher or lower, depending on how the quarter plays out.

Moving on to other revenues. They were \$59 million in Q2, up \$33 million from Q1, primarily due to seasonally higher proxy revenues. Looking ahead, we anticipate Q3 other revenues will return to the mid-\$20 million zone given typical proxy seasonality.

I also want to share some color on what we saw in July. Accounts and assets continued to grow as customers deposited into their accounts and equity valuations increased during the month. July net deposits were roughly in line with the Q2 monthly average. In addition, as Vlad alluded to, we saw trading volumes pick up in equities, options and crypto compared to our Q2 monthly averages.

Finally, margin and cash sweep balances continued to grow from their Q2 levels. We're glad to see our customers continue to engage on the platform and look forward to sharing our full monthly metrics in a couple of weeks.

Now let's review Q2 expenses, starting with OpEx prior to SBC. It was \$357 million in Q2, at the lower end of our prior outlook range. Looking forward to the second half of the year, we're getting more efficient. So even while onboarding X1, we are keeping the midpoint of our full year outlook range unchanged. We're also tightening our range as we're now halfway through the year. Taken together, our updated outlook for 2023 OpEx prior to SBC is a range of \$1.43 billion to \$1.47 billion.

Turning to SBC. It was \$109 million in Q2, right around the lower end of our prior full year outlook range. Looking ahead, given the progress we've made through the first half of the year, we're lowering our SBC outlook again this quarter. Our updated outlook for 2023 SBC is a range of \$900 million to \$940 million, which implies SBC will continue to improve in the second half of the year. Our progress here means that our outlook for 2023 dilution has also improved. We now expect our diluted share count, which was 961 million at the end of 2022, to increase by 3% or less this year.

Turning to capital management. Our balance sheet is strong with over \$6 billion of cash and investments. We use a small portion of that to run our business day to day, so we have billions of excess cash to deploy. In addition, we are now profitable on a GAAP basis, and we generated nearly \$400 million of adjusted EBITDA over the past 12 months. So we believe we are well positioned to deploy capital over time to drive growth and shareholder value.

One way we deploy capital is M&A that accelerates our long-term product road map. In Q2, we acquired

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X1, which we see as a capital-efficient way to bring a great new capability to our customers. The X1 platform provides their roughly 80,000 cardholders a no-fee stainless steel credit card with attractive rewards on each purchase, and we're incredibly excited to begin offering credit to Robinhood's 23 million customers.

Looking ahead, we continue to look for M&A opportunities like this that can complement our organic product development efforts and are a good strategic, financial and cultural fit with Robinhood. Another way we plan to deploy capital over time is through share repurchases. As you know, we've been working for the past 6 months to purchase the 55 million Robinhood shares that Emergent Fidelity bought last summer. We continue to have discussions, and we'll update you when we have more to share.

In closing, I'm really pleased with the financial progress we've made over the past year while continuing to deliver new capabilities and enhancing customer experience. Q2 was our first quarter of GAAP profitability as a public company and fifth consecutive quarter of revenue and adjusted EBITDA growth. And we're not done. We continue to focus on driving profitable growth over time.

With that, Chris, let's go ahead and move to Q&A.

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## QUESTIONS AND ANSWERS

### **Chris Koegel Robinhood Markets, Inc. - VP of IR**

Thank you, Jason. For the Q&A session, we'll start by answering shareholder questions from Say Technologies. These are ranked by the number of votes. We'll pass over any questions that we already addressed on this call or in prior quarters. We'll also group together questions that share a common theme. After that, we'll turn to live questions from our analysts.

So I'll kick it off with our first question from Say. This one is for Jason. Suroj P. asks, "What is the reason top management keeps selling stock?"

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### **Jason Warnick Robinhood Markets, Inc. - CFO**

Yes. Thanks for the question. We want to have management align their interest with our shareholders, and we think our compensation structure does that. So most of our management team's compensation is in the form of stock. And because of this, it's normal for our management team to sell a small portion of their holdings as income. So management sets up automatic selling plans, they are called 10b5-1s, well in advance of the trades that you might see come through. These are automatic and they sell small portions of their stock over time.

As you look across our management team, you'll also see that we continue to be large holders in Robinhood stock. And certainly, we're highly motivated to create shareholder value.

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### **Chris Koegel Robinhood Markets, Inc. - VP of IR**

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Thanks, Jason. The next question comes from Lance G. who asks, "Can you provide an update on the 24 Hour trading and how it's going?" Vlad, do you want to take that one?

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**Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

Sure. We were super excited to launch 24 Hour Market. We were the first U.S. broker to offer 24-hour trading of single-name stocks. And we rolled it out to 100% of our customers in July just a few weeks ago. And we'll be adding 9 new tickers soon to trade 24/5 plus, especially for those of you that are in the New York City area, you may have seen us doing some marketing around it. We're hearing great feedback from our customers, particularly those that trade more actively, and we're continuing to invest to make the offering even better.

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**Chris Koegel Robinhood Markets, Inc. - VP of IR**

Great. Thank you, Vlad. The next question is from Atanu M. who asks, "Do you have a plan for share buybacks to regain investor confidence? Robinhood has been way under IPO valuation for more than a year now. What is your plan to rebuild investor confidence?" Jason, do you want to take that one?

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**Jason Warnick Robinhood Markets, Inc. - CFO**

Sure. Thanks for the question, also the feedback. There's a number of ways that we're working on delivering value for shareholders over time. First, we're investing organically in our business, and you hear us talk about the new products that we've recently delivered as well as ones that are on the road map, and we're super excited about that.

Second, we've got a super strong balance sheet, and we're using it for M&A as a way for us to move faster. You saw that this quarter with our acquisition of X1. I also think there's more opportunities like this, and we're looking out for them. And as you mentioned, share repurchases is another lever. And as you know, we continue to work on purchasing the 55 million shares that were acquired by Emergent Fidelity. And over time, we'll consider other ways to return capital to our shareholders.

In terms of our more recent financial progress, we've hit some pretty big milestones for the business. Our revenues in Q2 were up over 50% from last year. Our costs are down hundreds of millions, and this led to us generating nearly \$400 million of adjusted EBITDA in the last 12 months. We've also reached a new high at 31% adjusted EBITDA margin this quarter. So really happy about that. And of course, really proud that we reached GAAP profitability for the first time as a public company with \$0.03 per share.

So all in, I think we're in a great position. And we've got really good momentum to deliver even better results for customers over time and shareholders.

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**Chris Koegel Robinhood Markets, Inc. - VP of IR**

Thanks, Jason. The next couple of questions, I think, maybe Vlad and Jason can share. So Anuj B. asks, "Can you talk about the acquisition of credit card provider X1? How does this strategically help Robinhood with future plans? Was X1 a profitable company at the time of the purchase agreement? And will this bring more users and Gold users to Robinhood?" And then Omer D. asks, "How will X1 be

integrated into Robinhood exactly?" Vlad, do you want to start?

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**Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

Yes, I'd be happy to start. We're really excited to work with X1 and the team over there to build a category defining consumer credit business. We think the opportunity is incredibly strategic for Robinhood and incredibly useful for our customers.

One of the goals for Robinhood, as I mentioned in -- earlier in the call is we want to help customers not just trade and invest but perform a wide variety of their financial needs. And we want to be their financial home and provide easy-to-use accessible interfaces and high-value products. Credit is a space that's incredibly important to many of our customers. It's something that we've been exploring for many years. And it directly addresses a lot of feedback that we've been getting from customers.

A lot of our customers want a Robinhood credit card from us. And it aligns well in our mission. We believe that we can actually do something really good here and provide credit to people who haven't always had easy access, young people, students and immigrants. And one of the things we really, really liked about joining with X1 is like Robinhood, they think of this as a technology problem, and they leverage technology to build a simple and seamless user experience. So I think it's going to be great for customers, great for shareholders as we scale the product.

And I'll defer to Jason for some of the financial details.

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**Jason Warnick Robinhood Markets, Inc. - CFO**

Yes. Thanks, Vlad. At the time of the purchase, X1 had about 80,000 cardholders. We haven't provided other details on their finances prior to the acquisition because really, we think the big picture here is that this deal is really about the opportunity to scale credit with our 23 million customers and less so about X1's finances prior to the deal.

Qualitatively, I'd say that their business was growing leading into the acquisition. We really like the quality of their credit and underwriting. So we're in a good spot. And the overall economics were also improving as well.

In terms of integration. Right now, we are integrating the team and we're working closely together on strategy. And Deepak is reporting directly into Vlad. So super excited about the potential here, and we'll share more updates as we make progress.

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**Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

I'll also just say that I was at dinner with Deepak last night, and he pulled out a prototype for the new Robinhood credit card, and it's beautiful. And I'm very excited to share it with our customers.

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**Chris Koegel Robinhood Markets, Inc. - VP of IR**

Awesome. I look forward to getting one, too. All right. So the next question is from Gustavo G. who asks,

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"When will bonds, CDs, et cetera, be introduced to Robinhood?" Vlad, do you want to take that one?

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**Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

Yes. Thanks for the feedback. We're always listening to customers, and we want to make sure that we offer an expanding selection of products and services over time. I would like for you and for all Robinhood customers to be able to use us for all of your needs and not have to turn to other providers for investments.

Today, we have some similar products. For example, bond ETFs and Robinhood Gold that offers 4.9% on uninvested cash with up to \$2 million in FDIC insurance. But we know that there's more things that we have to add, and we're not going to stop. So over time, you'll see us continuing to listen to customers and adding even more investment options.

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**Chris Koegel Robinhood Markets, Inc. - VP of IR**

Great. Thanks, Vlad. And then the next one is also for you. Victor S. asks, "When will AI capabilities begin appearing in the application?"

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**Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

Thanks for your question. AI is really important. It's a strategic shift in how Robinhood and many companies will have to think about operating their business and something I think about a lot. Over time to be competitive, we think every company will need to become an AI company. And I think given our track record of innovation and the technologies that make up the Robinhood offering, we think we're naturally positioned to become the leader in financial services for AI.

We're excited to explore further how the technology can improve all aspects of the Robinhood experience for our customers and create efficiencies in how we offer our products and run our business. We're actively engaged also in recruiting high-quality talent to lead these efforts at Robinhood.

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**Chris Koegel Robinhood Markets, Inc. - VP of IR**

All right. Thank you, Vlad. The next question is from Richard B. who asks, "Is it too early to think that Robinhood is strong enough to do dividends?" Jason, do you want to take that one?

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**Jason Warnick Robinhood Markets, Inc. - CFO**

Sure. I think we're in a really strong place as a company. We've got over \$6 billion in cash and investments on our balance sheet. This is the fifth consecutive quarter of revenue and adjusted EBITDA growth. We've got record margins this quarter, and we just reached GAAP profitability. So I'm really liking the strength of the business and the position that we're in right now.

In terms of returning value to shareholders. The traditional debate is share repurchases versus dividends. Personally, I'm more inclined to use share repurchases. And on that front, as we mentioned, we're working on purchasing the 55 million Emergent Fidelity shares, and we'll share more on that as we make some progress.

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**Chris Koegel *Robinhood Markets, Inc. - VP of IR***

All right. Thanks, Jason. I think we have time for one more, Say question so I'm going to put together 2. So Thomas P. asks, "How is the growth in retirement accounts been? Have you been seeing many people transferring accounts over to Robinhood for the 1% match?" And Michael A. asks, "Does Robinhood ever plan to offer employer-sponsored retirement accounts such as 401(k)s." Vlad, do you want to take that one?

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**Vladimir Tenev *Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board***

Yes, I'd be happy to field that. I'm glad to hear of the continuing interest in our retirement offerings. We're very proud of our retirement offering. It gives our customers another tool that they can use to control their finances and build wealth over time. Customers love the 1% match. And today, we announced the 3% match for our Gold customers. The progress so far has been great. We're approaching \$1 billion in AUM, and we have seen a big pickup in transfers from other institutions for the 1% match.

Regarding the second question about employer-sponsored accounts. We think it's a space that is begging to be disrupted, frankly. We don't have this on the near-term road map, but definitely wouldn't rule it out. That said, there are also tons of individuals who don't receive a match from their employer today. So if you're an employee without a match, come to Robinhood, and we will match for you.

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**Chris Koegel *Robinhood Markets, Inc. - VP of IR***

All right. Thank you, Vlad. And that concludes our shareholder questions from Say Technologies. We appreciate our shareholders taking time to ask these questions of Vlad and Jason, and we look forward to more next quarter.

Now I'll turn the call over to Gigi to lead Q&A from our analysts.

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**Operator**

(Operator Instructions) Our first question comes from the line of Devin Ryan from JMP Securities.

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**Devin Patrick Ryan *JMP Securities LLC, Research Division - MD, Director of Financial Technology Research & Equity Research Analyst***

I guess, first question on expenses. The headcount reduction that you noted, I think the press reported 7% in June. I'm assuming the onetime costs associated with that are in the guide. And then I guess I'm curious if there's any future cost savings that could come with that. It's not as material as some of the others, but I would assume there's still probably something related to that.

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

Yes. Devin, we did have some onetime costs on that reduction. It's included in the OpEx that we reported for Q2. And we viewed these changes as more of kind of ongoing management of costs, and so we did not exclude them from the calculation of adjusted EBITDA this quarter.

And then in terms of kind of go forward, the effects of the forward cost savings on the reductions as well as the additional cost of integrating X1 are all factored into the OpEx guide that we gave. And we tightened the range there and left the midpoint unchanged for the rest of the year.

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**Devin Patrick Ryan *JMP Securities LLC, Research Division - MD, Director of Financial Technology Research & Equity Research Analyst***

Got it. Okay, that's fine. And then in terms of just some of the improvements you're seeing in investor engagement. Obviously, you mentioned some of the transaction activity recently, you're seeing margin balances stabilize and improve and still good deposit trends. It sounds like all that's continuing into July. Just love to get a little sense of whether this is really kind of in the active trader cohort or if you're seeing some of these improvements across the customer base more broadly.

And then just at a higher level, kind of what you're hearing from different customer cohorts around their interest in trading. We've obviously been in a pretty tough and exhausting, I think, market for the past 18 months. Just where sentiment is today, and it sounds like some early signs of maybe recoveries. So love to talk about that.

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

Yes. So I'll maybe lead and then, Vlad, you can weigh in a little bit as well. So overall, the sentiment from our customers about Robinhood is improving. We talked about improvements in NPS year-over-year last quarter, overall, up 20 points year-over-year on average and up over 30 points for our more active traders, which is really encouraging. And we're continuing just to focus in on user experience and doing things like adding stock screeners and scanners as well as Robinhood's 24 Hour Market.

So I think our investors are noticing. Vlad mentioned an increase in market share year-over-year, both in equities up 15% and options up over 20%. And as I look at kind of deposits, customers continue to deposit their funds with Robinhood, over \$4 billion in the quarter, and we continue to see strong deposits in July. And trading kind of picked up throughout the quarter. April, I think, was seasonally low and then we just accelerated as the quarter progressed. And July was also good as we commented in our more formal comments.

So overall, I would say that the work that we've been doing, improving user experience and product selection, is really showing through for our customers.

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**Vladimir Tenev *Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board***

Yes, I don't really have much to add. We've been really pleased by our progress. Jason mentioned and reiterated the market share gains. And I think the NPS improvements, particularly for active traders, have been really good. It's been really good to see that translating to market share gains across all of the assets that our customers trade.

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**Operator**

Our next question comes from the line of Dan Dolev from Mizuho.

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**Dan Dolev Mizuho Securities USA LLC, Research Division - MD & Senior Equity Research Analyst**

Great results, by the way. And I don't know if this was addressed, but we did some work that showed that you were gaining share from your competitor in crypto, so apologies if this was addressed. But is there anything you can call out on why you're gaining share? What is driving the share gains at Robinhood and crypto from your biggest competitor? And then I have a quick follow-up.

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**Jason Warnick Robinhood Markets, Inc. - CFO**

Yes. I'll go ahead and take that. It's a little harder in crypto to measure market share. It's not as easy as it is with equities and options. But by our analysis, it does look like we're gaining share in the coins that we offer. In terms of why, I'd probably point to the value proposition. We think we're the best place for retail traders to buy crypto for the coins that we offer. And also, we think we've got just a great user experience. And so those are the 2 things.

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**Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

Yes. And I'd also add that we've offered customers great value in addition to a great customer experience. Like at Robinhood, you get more crypto for your dollar than most of our competitors. And I think we've started to do a better job communicating that in the user interface. So we're trying to make it more and more clear to customers just how good of a value they're getting.

And of course, I'd add that it's very important for us to be the most trusted and safest company in crypto. And I think with all of the turmoil in the space over the past year or so, I think there has been a little bit of a flight to safety, and we're seeing that reflected in some of the market share gains you're seeing. And that's something that we'd like to continue to invest in.

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**Dan Dolev Mizuho Securities USA LLC, Research Division - MD & Senior Equity Research Analyst**

And then a quick follow-up. I mean, great progress on the retirement stuff. I mean we're very excited about this here at Mizuho. Do you think that -- is it a fair statement to say that over time, as this grows, this is going to show up in, obviously, like bigger impact on MAUs, and the MAUs, it will kind of cause a positive inflection in the MAUs because of the retirement account -- the retirement offering?

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**Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

Yes. I'd be happy to field that. So MAUs did increase from May to June. Of course, when you think about all the things we've been focused on as a company and on the product side over the past year, they haven't naturally flown into MAUs because even retirement itself, it's sort of a passive long-term investing product and not typically a product that you associate with sort of like active trading or engagement, although there's advantages for all types of investors with retirement products.

Active trader investments, active traders are kind of relatively small subset of the overall user base. So they drive a disproportionate amount of revenue in making them really, really happy. You're probably not going to see that as reflected in the MAU metric. So we've made a lot of progress over the past year. And I think that's been progress that's sort of like on another axis than MAUs and trader engagement.

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That said, we are working on a bunch of things that we think will bring more customers and more transactors into Robinhood. And we do expect, over the long run, the MAU metric to follow and there's a lot of investments in place that we think will pay off for us there.

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

One of the things, Dan, that I'm really excited about is our continuing investment in Gold. That really deepens the relationships with our customers. We offer them 4.9% on their cash sweep balances and as we announced today, a 3% retirement match. And so I think as we deepen our relationships with our customers as we expand our product selection, you're going to naturally see engagement tick up over time.

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**Operator**

Our next question comes from the line of Steven Chubak from Wolfe Research.

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**Steven Joseph Chubak *Wolfe Research, LLC - Director of Equity Research***

Wanted to start with a question on expense. You guys have done a nice job delivering efficiency gains while executing on the product road map. That said, your expense per employee is still relatively elevated when we benchmark versus fintech as well as retail brokerage peers. And wanted to get a sense as to where you see this metric projecting as the business scales and as you expand your geographic footprint.

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

Thanks for the question. I'll take that one. I would generally agree with you. We've been focused on reducing our costs and rationalizing the headcount. And our intention is to be lean and scrappy in the way that we grow our business and drive leverage to our business over time. And so we've been focused on our cost per employee, as you pointed out. One of the changes that we made earlier this year as we moved from a stock-based award program that granted -- that grants 4-year awards to a program that grants awards that vest over 1 year. And we think that that's a prudent way to do it.

Another thing, as we look at our employee footprint, we're very heavily concentrated in higher-cost areas in the U.S., and that represents an opportunity for us to balance out the mix of geographies that we work in as Robinhood employees. So it's something that we're working on, and I see that as an opportunity.

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**Steven Joseph Chubak *Wolfe Research, LLC - Director of Equity Research***

And speaking of operating leverage, I did want to ask on the profitability outlook. Looking ahead, just now you've reached GAAP profitability, remind us how you're thinking about normalized GAAP margins for the business at scale. And now that you've hit this milestone, I was hoping you can give us an update on what the next milestone is that you're aspiring to.

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

Thanks for the question. Look, long term, what I'd tell you is that our objective is to maximize GAAP EPS

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and free cash flow per share. We're not giving any specific near-term milestone targets there. But when I look at the cost structure of our business, it heavily skews towards fixed costs and less so towards variable costs, which, if you can manage those fixed costs really effectively as you grow your top line, you can deliver a lot of leverage to the bottom line. And so as I think about like what kind of margins are possible for this business, I don't see any reason why we can't deliver the kinds of margins that you see at other financial services companies.

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**Operator**

Our next question comes from the line of Michael Cyprys from Morgan Stanley.

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**Michael J. Cyprys Morgan Stanley, Research Division - Executive Director and Senior Research Analyst**

Maybe just starting with the active trader opportunity set. I was hoping you might be able to update us on the opportunity set with futures. I know you guys have some plans to launch that this year, I believe. Maybe you can update us on the progress there and the build-out. And then similarly, on the cash-settled index options, where is that on the priority list? And what sort of investment is required on your platform to enable that? Or could you just flip a switch and enable that today?

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**Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

Yes. Futures is something that we're very excited about. We have been spending a lot of time thinking through how to make a really, really great customer experience, particularly on mobile because as we look at the other offerings in the market, we think that there's a gap that we can fill with user experience, particularly on mobile. So we're spending a lot of time thinking through that, talking to customers. And we're putting together a really, really nice offering. Right now, we're estimating that it will land in the first half of 2024. And the team is hard at work just making the product as great as possible for our customers.

I think on the cash-settled options front. We're also hearing that from customers that, that's an attractive product and will enable them to manage their risk. That's also slated to land in the first half of 2024.

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**Michael J. Cyprys Morgan Stanley, Research Division - Executive Director and Senior Research Analyst**

And just a follow-up question on the X1 acquisition. I was hoping you could talk about your go-to-market strategy for how you're thinking about bringing the card offering to your existing customer set and broadening it out over time. Where do you think there's room in the marketplace for differentiation? And then can you talk about the underwriting process and the criteria there just given some of the potential customers may not have much income or credit history, how do you get comfortable and manage the credit risk that this introduces?

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**Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

Yes. I think that's a great question. In terms of go-to-market, we kind of see 2 near-term opportunities that are interesting. One is just making a great card available to sort of the typical Robinhood customer. Robinhood customers, a lot of them are credit card primary, and we've been hearing lots of feedback

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from them on what types of offerings they would like. And we think that we can make something that's really, really compelling for them.

We also see an opportunity, I mentioned this a little bit earlier, for people who are younger, maybe college students, people with limited credit history but reasonable earning potential like immigrants who have a hard time getting credit right now. And we think with technology and the underwriting capabilities that X1 has offered and has kind of been improving over time, we can build something really, really good for them as well.

Of course, credit is an incredibly important market, a large space. As a business, there's a lot of margin to be had there so we're not just going to stop there. We want to build a suite of comprehensive credit solutions across multiple products for our customers. So this is just the beginning. But when we think even within credit cards, there's a massive opportunity for us.

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

Yes. One of the things that we were really excited about for the X1 team is just the quality of their team around underwriting. And we're really impressed with the high-quality nature of their loan book. It's prime, prime plus. So really, really happy with that. And in terms of their underwriting, they look at things like income and credit bureau and the normal things that you'd expect the teams to be looking at.

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**Michael J. Cyprys *Morgan Stanley, Research Division - Executive Director and Senior Research Analyst***  
Congrats on the profitability milestone this quarter.

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**Operator**

Our next question comes from the line of Ken Worthington from JPMorgan.

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**Kenneth Brooks Worthington *JPMorgan Chase & Co, Research Division - MD***

I wanted to follow up on the monthly users question earlier, so a couple of points here. Maybe first, you have 23 million accounts and MAUs, about 11 million. So first, funded accounts were at their highs in 2Q and market conditions have been improving in what I guess I'd call the more innovative part of the stock market this year, but MAUs were at their lows in 2Q.

So I guess maybe first, does this relationship between MAUs and funded accounts seems sort of reasonable to you over time? And then maybe second, as we look at this, call it, 10 million account gap between the two, what portion of these inactive accounts are ones that you think you can get to reengage in normal market conditions or if market conditions stay normal sort of over time?

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

Ken, thanks for the questions. One of the things that is a weakness of MAUs is it's measuring engagement just for those that engaged in the month. And for more active traders, I think that there's a fairly high correlation there. But for the broader set of customers, less so. And we provided a couple of quarters ago some context that MAUs for all of Q4 was 16 million and for the past 6 months was over 20

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million.

And so it's not that they're dormant customer accounts, it's that they're just not necessarily engaging every single month. And that's actually, for a lot of people, is actually a very normal and healthy amount of engagement. I do think over time as we broaden our product selection and deepen relationships with customers that you're going to see a more consistent relationship between MAUs and total funded accounts. But in the shorter term, right now, we have seen those kind of move in opposite directions.

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**Vladimir Tenev *Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board***

And I'd also add that there's sort of an asset dependency here, like the brokerage side with equities and particularly growth stocks, like that market has been doing rather well in Q2, but crypto has kind of continued to soften. So you sort of see multiple conflicting things, and that can be reflected in the MAU numbers because certain -- a significant percentage of our customer base is customers that trade crypto as well.

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

And MAUs, Ken, moved up a little bit in June versus May and it moved up a little bit more in July. So it appears to be stabilizing and kind of moving back up a little bit.

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**Kenneth Brooks Worthington *JPMorgan Chase & Co, Research Division - MD***

And just 2 simple numbers questions. So thanks for the retirement and the Gold account numbers. Any chance that you would give us a fully paid [securities] lending accounts and clients that have opted to use the Cash Card?

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

So fully paid is 1.5 million. Cash Card off hand, it's a couple of hundred thousand, I think, that are funded and about 1 million that have just signed up. And I think the X1 acquisition really doubles down on the spending strategy. We want Robinhood to be a place to handle all of our customers' critical financial needs. And we want them to be able to spend with debit cards or credit cards really at their choice. And so X1 and the Cash Card, I think, are a nice complement to each other.

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**Operator**

Our next question comes from the line of Ben Budish from Barclays.

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**Benjamin Elliot Budish *Barclays Bank PLC, Research Division - Research Analyst***

I wanted to follow up on actually Mike's question from earlier on X1. Jason, you mentioned in the prepared remarks that I think there's some credit -- or sorry, some interest income expected to come, and that's related to X1. Can you maybe talk about the revenue profile you're expecting for Robinhood between interest income and interchange revenues? And how much credit exposure does Robinhood sort of take on with the acquisition?

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

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Yes. So thanks for the question. So the comments I made in the prepared remarks is that we expect interest income kind of all-in, including X1, to increase sequentially in the zone of about \$15 million. So X1 was a part of that. When I think about the geography for revenues for X1, you've got the interest income that you earn on revolving credit. That's offset by the cost of funding and presented net for interest income. You'll have some interchange revenue, but our accounting conclusion on that looks to be that it will be netted with the rewards cost. So that will be in transaction-based revenue but presented net. So that's kind of the accounting overlay for X1.

In terms of the possibility. I mean, X1 has 80,000 cardholders at the time of the acquisition. We have 23 million customers that have a very nice credit profile. And I think over time, we can make some strategy decisions that will make credit really broadly available to our customer set regardless of their background. So I think there's a big opportunity, and I'm excited to see the team work against that.

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**Vladimir Tenev *Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board***

I would just add that one of the reasons we got excited about acquiring this company and this team versus pursuing kind of the traditional partnership credit card model is that if you think about X1, we do have access to both transaction-based interchange revenue and also the kind of more recurrent, sticky lending revenue. And this gives us an opportunity to build a diversified business and offer differentiated value to customers because we have access to a much greater percentage of the overall profit pool than we would under kind of your typical co-brand partnership model, which tends to be more onetime bounty based coupled with the interchange revenue share.

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**Operator**

Our next question comes from the line of Craig Siegenthaler from Bank of America.

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**Craig William Siegenthaler *BofA Securities, Research Division - MD and Head of the North American Asset Managers, Brokers & Exchanges Team***

My question is on the U.K. brokerage launch. So I'm curious, how are you going to monetize this effort as the PFOF rules are different in the U.K. than in the U.S. with payment for order flow ban?

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

Yes, thanks for the question. We're mindful of the regulatory environment in all the geographies that we operate in. What I'd say is there's a number of revenue streams that are available for us. The team is still working out the details there, but certainly [securities] lending and interest income. So there's a number of ways, and we do in the U.S. have a Gold offering. So there's -- I think there's a good potential for this to be an attractive business on a unit economic perspective with or without payment for order flow.

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**Vladimir Tenev *Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board***

And a big focus for us has been since we are a technology company expanding internationally in a capital-efficient manner without sort of excessive investments in head count.

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**Craig William Siegenthaler *BofA Securities, Research Division - MD and Head of the North American***

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**Asset Managers, Brokers & Exchanges Team**

Great. And just my follow-up. I know you don't report it exactly. I was curious also on the high-level trends in both cash equities and equity options on the revenue per trade trend in the second quarter of '23 versus the same period last year.

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**Jason Warnick Robinhood Markets, Inc. - CFO**

So on options, we are seeing kind of across the industry that the take rate on options trading has been coming down. This is really reflective of the overall lower volatility in the market. And also a shift that's been seen kind of industry-wide on a greater share towards ETF options. And so for the quarter in Q2, the take rate was \$0.45. That was the average for the quarter. It did come down as we progressed through the quarter and has bounced back up in July slightly versus June to about \$0.42 per contract. So that's what we've been seeing there, and we've been keeping an eye on it.

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**Operator**

At this time, I would now like to turn the conference back over to Vlad Tenev for closing remarks.

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**Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

Thank you, everyone, for joining us today. And we're very excited to continue innovating, delivering for customers. Thank you again for all the questions.

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**Jason Warnick Robinhood Markets, Inc. - CFO**

Thanks, everyone.

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**Operator**

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

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