

Company Name: Robinhood Markets, Inc. (HOOD)  
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<<Devin Ryan, Analyst, JMP Securities LLC>>

Good afternoon, everyone. I'm Devin Ryan, Head of Financial Technology Research at JMP Securities. Thanks so much for joining us. Looking forward to this conversation this afternoon with Robinhood, we have Jason Warnick, who is Robinhood's CFO. So Jason, first of all, thanks for doing this again with us. Always enjoy our conversations.

Maybe just to level set the conversation, Jason, just give a quick intro of what Robinhood does, for people that maybe aren't as familiar, and then we can get into some of the Q&A.

<<Jason Warnick, Chief Financial Officer>>

Yes, absolutely. So Robinhood is a financial services platform. We have a little over 20 million funded accounts. Our mission is to democratize finance for all. And we started off by offering stock options and crypto trading. And we've seen millions of customers enter the financial arena through Robinhood, primarily through a mobile app that's simple and intuitive with no trade commissions. And so we really have started the trend of removing barriers for access to the financial system. And our vision is to broaden from there and really be the single place where our customers come and engage with the financial system.

<<Devin Ryan, Analyst, JMP Securities LLC>>

I want to start with kind of a reflection. So, we were here a year ago, had this conversation, the macro backdrop shifted, obviously, quite a bit over 2022. Robinhood was very early, I think, to understand kind of the moving macro and really, they got ahead of the curve on expenses. And so you accomplished a lot over the past few years. So talk a little bit about some of the things that you did and decisions that were made to get the expense base in the right spot? And then how that's positioned the firm for, I think, a path to being probably very profitable from here as you already have been in the last couple of quarters?

<<Jason Warnick, Chief Financial Officer>>

Yes. So leading up to this past year, we just saw incredible growth, growth in new customer accounts, growth in trading. And we were really in this get big fast situation to make sure that we would be there for customers and serve them in kind of the market enthusiasm of 2020 and 2021. In late 2021, we saw the market environment begin to change and growth slowed, and we were watching it carefully. And in early 2022, it was apparent that the changing macro environment was going to persist for some time. And we were faced with a decision to make about our cost structure, while on the one hand, we've got an incredibly strong balance sheet, over \$6 billion in cash. But on the other hand, we had overinvested for the reality that we were facing with the macro environment.

And so kind of early part of 2022, we began a process of really scrutinizing all of our costs. And over the course of 2022 through reducing our workforce by about a third as well as looking at every category and scrutinizing every form of cost that the company has. We took out a little over \$600 million of annual run rate cost to kind of rationalize and put Robinhood in a position where we can thrive and grow regardless of the macro environment. And so where we are today is, I think, very well positioned to serve our customers. We're continuing to roll out new products, but we're doing it with a cost structure that I think is a lot more sustainable.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yes. And I think – so on the expense side, it's been very impressive in the ability to – especially in the fourth quarter, kind of get into solid adjusted EBITDA profitability. The growth side, you still have this very ambitious road map and we're launching a number of new products in 2022. There's more coming in 2023. A lot of investors I talked to were very focused on growth, right? So it's stable, but now let's see like the acceleration in top-line again. What are some of the things that you've done on the growth side where you're maybe most excited and some of the product launches where you're starting to see some of the most traction?

<<Jason Warnick, Chief Financial Officer>>

Yes, definitely. And even while we made all that progress on costs, and it was substantial 2022 was the fastest we've ever as a business, delivered new products for customers. And so it's kind of hard to wrap your head around. And it was one of the things that we were very mindful of is that even as we reduce cost, how do we make sure we continue to be well positioned to deliver new products for customers. And there's a lot to be excited about.

Late in 2022, we introduced the Robinhood Retirement product. And this is really exciting because it's just so aligned with our mission to make it possible for millions of people with smaller balances to begin to save over the long term, simple intuitive user interface. We also innovated and offer a 1% match on cash contributions to help customers get started and be excited about making that progress. This is something that's going to take some time, but we're really excited about that product and seeing it deepen the relationship that we have with our customers.

Another area that we're really excited about is Robinhood Gold. In the middle of last year, we began offering higher interest yield on swept cash balances for Gold members. We're now up to 4.15% on that offer, which is at or top of market. And our customers have really responded. First, it reduced the trend that we've been seeing of declining subscribers in the Gold program. So now it's back to growing. And we've also been seeing about \$1 billion a month of new cash deposits coming into the program. So really excited about that.

A couple of other areas we rolled out fully paid securities lending. It's a great opportunity for our customers to earn some yield on their positions that they hold, it's great for investors as well. The ARR on that, we commented on the call in January is up to \$30 million. So nice early progress even against kind of a tougher environment for securities lending more generally.

And then the last thing I would say, really excited about some innovation that we've done in money movement, helping customers move their money faster into and out of Robinhood on withdrawals, offering instant withdrawals, we do that at a kind of an industry standard 1.5% fee to get your money instantly rather than wait for the slower ACH rails. And as of January that was \$20 million in ARR as well. So, we're planting seeds, we're innovating. We listened to customers, and we continue to iterate. And we're seeing a lot of progress as we plant these in begin to see them grow.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yes. And towards the end of the year, it felt like the momentum in new subscribers was starting to turn as well. You had this kind of huge influx in late 2020 into 2021, and I think we all from the outside knew that like the new run rate and that they'll probably have to eat through some of that kind of accelerated growth. But at the same time, it feels like we've kind of stabilized and then are maybe starting to see the early signs of some reacceleration. And I think from the outside, trying to tie it back to how much is being driven by some of these newer initiatives and you're engaging in new ways with customers we haven't before versus just kind of sticking to your knitting and just over time, of course, hopefully, the platform continues to grow.

Any evidence of kind of where you're engaging with some of the new customers and then also if you feel like that's a fair comment that maybe we're starting to reaccelerate a bit on new customers?

<<Jason Warnick, Chief Financial Officer>>

Yes. We are seeing new customers begin to show up in our metrics. We're up to \$23 million funded accounts, which is substantial and positions us, I think, really well to just kind of deepen our relationships with those customers, introducing new product services. We're working on a new metric to watch just how many products per customer our customers are using. And I think over time, as we deepen our relationship, we'll be able to see that really come through in terms of that. I think Retirement is a great example of this. And over time, I think that there's a lot of ways to expand on this. One of the areas that we're focused on this year is advisory and beginning to offer advisory services as well. So, I think there's a lot of potential to kind of build on the progress that we're seeing.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yes. And just on that last point, the advisory services. I think you've talked a little bit about it like any more sense of like what that means and like how – I don't know how much you can share, but like what that could look like?

<<Jason Warnick, Chief Financial Officer>>

Yes. I mean it's – one of the things that we noticed with our customers is oftentimes, they would open up an account at Robinhood, and then they wouldn't make first trade. And so we innovated

with first trade recommendations to help customers kind of take their first step. And we saw a great uptick by our customers on that feature. And that's a signal to us that when you welcome new investors into the market, that they need a little bit of help to get started. And so while we're offering a Retirement product, I think it's a very natural extension to help our customers think about deploying their capital in a way that makes sense for them over the long term. So that's an area that we're focused on this year.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yes. Great. In terms of the competitive landscape, it's been a, I'd say, a challenging macro environment for virtually anything that touches finance, right, a lot of asset prices that are down, engagement on the both retail and institutional side has really come off of the highs. And so clearly, Robinhood, we talked about made those decisions and rightsize the expense base is now positioned for growth. What are you seeing competitively? Are competitors still as aggressive? Does it feel like people are well funded? Is there uneconomic marketing that you guys don't want to compete with. Like what are you guys seeing from some of your peers?

<<Jason Warnick, Chief Financial Officer>>

I think everyone is recognizing the macro environment that they're in and taking measures to kind of rightsize their costs. Over the last few years, we have seen somewhat of rational behavior in things like marketing, and we're seeing a little less of that. But the thing that we're really focused on is while we stay lean and scrappy on our cost side, continue to push forward on innovation, and we're seeing it. I mean we'll put our February metrics out next week, but we're continuing to see new account growth. We're continuing to see assets under custody and net deposits kind of in line with January. Trading has picked up in options as well as equities and a little softer on crypto. But all in across the board, we're seeing some signs that our customers are being resilient through this market.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yes. That's great. And you talked a little about the Gold adoption and obviously, your interest rate in the market that you're paying stands out, especially when you compare it to some other maybe more mature or legacy financial institutions. And that dynamic hasn't existed for many years with interest rates at zero. So this is an area where you can separate yourself. How much is that dynamic driven kind of maybe the new deposits that are you seeing, new customers come in as a result of the Gold program or the interest rate you're offering? Or does it feel like it's more existing customers just moving more cash in?

<<Jason Warnick, Chief Financial Officer>>

Yes, it's both. And it's super encouraging. As I mentioned, from a gold subscriber count, we reversed a trend that had been going on for a while. It's the first time in over a year that we've seen our Gold subscribers increase about \$1 billion a month coming in to the cash sweep program for Gold. So super encouraging, but we are also seeing existing customers deepen their relationship with us. And it's – we positioned it to where we're passing a significant amount of

the economics to our customers. We do retain a small spread, which makes it to our – and we are incented to bring in more money. What will be interesting to watch over time is in changing market and rate environment conditions how those customers evolve their engagement with us. They bring in a lot of cash as rates come down over time, will that convert into more trading or other investing activities. We've seen signs from past behavior. It reflect back on late 2019, where our customers were accumulating cash and not trading as much. And what we heard from them at the time was that it felt like the valuations were a bit high, and they were waiting for an entry point.

We're obviously in a different situation now. Valuations have come way down. What happened in early 2020 was that cash converted into trading. And so we're optimistic that as we deepen this relationship with customers as the market evolves and as we roll out products to serve customers regardless of the market environment that will have kind of a deeper relationship with them and the cash will be put to work.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yes. I just want to touch on the Retirement offering for a moment. It seems like a pretty interesting value prop that you guys are coming to market with, but still very, very early days. So what's the feedback so far then? Clearly, I'm sure there was a lot of market research before you guys came out with this. At the same time, on the addressable market side, there with some customers have employee sponsored. So how do you think about the, I guess, the addressable market for that? And then what's the early feedback been with that product?

<<Jason Warnick, Chief Financial Officer>>

Yes. Millions of millions of people are out there that do not have 401(k)s or employer sponsored, plans more generally. And so this is really a no employer necessary, and Robinhood will contribute 1% on your cash contributions. And so the early feedback has actually been excellent. We'll provide some updates. It is incredibly early. But and it is a long game, but for our customers as well as for us, that we just want to be in a position to help our customers accumulate wealth over the long-term and hopefully position themselves to be better off than the generations before them as it comes to retirement savings.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Terrific. Want to touch on the crypto side a little bit. The wallets now available for everyone. Talk about the crypto strategy and some of the things that you guys are most focused on there. It's obviously a complicated environment that were now with some of the regulatory noise, but at the same time, you've kind of progressed and I think in the Robinhood fashion you want to do things the right way. And so with this crypto wallet, kind of what has the feedback been there and how do you think about the broader crypto opportunity for the firm today?

<<Jason Warnick, Chief Financial Officer>>

Yeah, I mean, it's obviously an incredibly challenging macro environment. Exogenous events and just kind of the press cycle and just what we've been seeing in the crypto market. We've seen some pick up, in crypto trading, kind of post the FTX situation. But we're also paying close attention to the market participants. You referenced just the way that Robinhood, invests in crypto. We're a safety first company, and at times over the past couple of years have been, I think, criticized about early question about the pace of our innovation in crypto, wanting to see us move even faster. But I do think the events that we've seen over the last several months kind of have proved out that a careful and deliberate approach to innovation in this space, particularly given a lot of the regulatory uncertainty and lack of guidance that it's just been important for us to do this in a careful way.

And so we've been slowly adding coin selection for our customers. We're very careful in the way that we scrutinize the coins that we offer to our customers. And Robinhood Wallet is a, it's a separate app from the Robinhood app, and enables customers to custody the coins themselves trade and swap and without gas fees on the Polygon network. So early indication has been incredibly positive. We had about a million individuals on the wait list for the product. We just went general release, and it's super exciting to see customers in over 130 countries already signed up creating wallets. So it's early as many of our investments are, but I think a lot of promise there.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yeah. Great. I want to shift a little bit to the year ahead? So yeah, there's, so I think you guys have laid out a pretty ambitious path of new products and engagement. What are some of the areas you're most excited about and some of the biggest, I guess product launches that we should expect to come here over the next year or so?

<<Jason Warnick, Chief Financial Officer>>

Yeah. Last year we gave a pretty detailed roadmap and then, delivered against it. This year we're talking about three kind of big areas that we're investing in. The first, and this continues off of a area focus from 2022, is we want Robinhood to be the absolute best place for advanced traders to trade. And so we made a lot of progress in 2022 and 2023. We're going to just continue to focus on that. And so that's if not our top priority, one of the absolute top priorities that we have at the company.

The second is just deepening the relationship with our customers and ultimately diversifying the revenues that we generate. We want more of our customers to be meaningfully contributing to the economics of the business and to their benefit as well. And so that's going to be building off of retirement, moving towards advisory and offering more products and services to our customers. And so really kind of diversifying revenue as an outcome, but deepening the relationship with customers is the primary focus. And then lastly we want to be a global company. And so this year is the year that we're going to make that a reality according to our goals.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yep. I just want to stay there on the international opportunity. So take the business international by the end of the year. What are some of the areas that we should think about? is it, will it mimic the U.S. strategy, or are there things that you feel like are maybe different in the opportunity internationally? And then also what could that cadence look like maybe beyond this year to the extent you guys get there formally.

<<Jason Warnick, Chief Financial Officer>>

Yeah. We're ambitious. And so, we definitely have a big appetite to move quickly. I think the reality is that similar to the way that we invest in crypto, we're going to have to be deliberate. Every geography that we go in will have its nuances that it'll have, it's certain set of regulators and requirements and, we've made the necessary investments around legal and regulatory and operations, so that we can assess these opportunities and move at the right pace. We're starting with international expansion for brokerage in the UK.

One of the things that we did is we hired JB Mackenzie, who's an industry veteran from the many of you probably know from Schwab and TD Ameritrade. And we've asked him to lead the international brokerage expansion. So, we already have our license in the UK. We had a couple of years ago made some strides towards that market. So it's not a cold start. But our goal is to be there live by the end of the year, and it's really to introduce access to U.S. equities, at least to start to the UK population. And I think that the teams are really excited to kind of take our first steps international, but we're not going to be done with the UK. We want to expand from there.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yep. Looking forward to that. You guys probably have a better lens into the retail investor engagement than anyone else. So curious, if you're seeing any shifts, you're still seeing a little bit of acceleration maybe in new customers, but is there anything that's feeling more constructive in the engagement side? And then what are the other indicators, that you're looking at, either externally or within your cohorts that maybe give you some insight into that?

<<Jason Warnick, Chief Financial Officer>>

Yeah. It feels more constructive and I'm cautiously optimistic about where we are. I mentioned some stats, like trading has picked up in January and even more so, in February across equities and options. We came off a low on engagement in December of 11.4 million customers for February. It's going to be around 12 million monthly active users. As we look back, and we talked about this at the call, if you go back three months, engagement jumps to like 16 million and over six months, it jumps to 20 million unique users. So our customers are continuing to engage. We're seeing signals, net deposits are strong assets under custody as well. And so we're cautiously optimistic. That said, the macro environment, there's a lot going on. And it moves on a dime field, so we're paying close attention.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yeah, absolutely. Just want to spend a minute here on the balance sheet. So you, I think of the strengths is clearly just the financial position of the firm and how much liquidity have and excess liquidity and you guys have been a lot of the detail on that. But it does sound like the firm is, is interested in doing more acquisitions or at least evaluating more acquisitions. You've done some acquisitions. So, I just want to talk about, I guess one the appetite, but then two you've done several and say technologies and some others, like what are some of the KPIs from those deals that you feel good about, and is there anything you can share on kind of payback periods, which would maybe inform our view of what future acquisitions could look like for Robinhood?

<<Jason Warnick, Chief Financial Officer>>

Yeah, definitely. So, I mentioned over \$6 billion of cash on the balance sheet. We're generating positive adjusted EBITDA as the cash flow is turning positive. So, we're in a really strong position. I'd also still stay on the macro environment. It also seems like, rational thinking is coming back in from in terms of expectations from various companies that are potential targets and would be potential good fits for the company. When we look at acquisitions, it's how can we accelerate our roadmap? We're more of a capability minded acquirer as opposed to a scale minded acquirer. I wouldn't rule anything out, but that's our thinking is how can we accelerate delivery of product and services to our customers.

We've done a couple of acquisitions, smaller ones, you mentioned Say, the primary way that we look at that is, product delivery, certainly economics - Say has been accretive, contributing to adjusted EBITDA mentioned on the call, actually earnings call a few weeks back that we've transitioned proxy services to Say from a third party. And so we should see a nice seasonal uptick in proxy related revenue in Q2. And then in terms of, looking forward, we're going to be moderate in our approach. We're going to be looking at what can we accelerate for our customers and do it in a way that we think is accretive for shareholders.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Yeah. You say like, is financial accretion an important aspect, is a timeframe around like how you think about, obviously each deal may be nuanced, idiosyncrasies to it, but like the financial aspect, it sounds like, Say has been financially accretive in terms in addition to strategically accretive. So how do you think about that? Just so that if we see something announced that, that maybe we'll have an insight into your thinking.

<<Jason Warnick, Chief Financial Officer>>

Yeah. We'll definitely have one of the top priorities of our deal. I mean, it's, we want to make sure it's great technology, it's a great team. They share our culture around compliance. So a lot of those things have to fall into place, but also the price has to make sense and the potential return also has to make sense. It's a different world that we're in and buying, loss making companies isn't exactly the strategy we want to follow.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Terrific. Jason, we're at time, but thank you so much for the update and please come back and do this again soon.

<<Jason Warnick, Chief Financial Officer>>

Thanks, Devin. Appreciate it.

<<Devin Ryan, Analyst, JMP Securities LLC>>

Thanks everyone.

<<Jason Warnick, Chief Financial Officer>>

Thank you.