



Robinhood | Bernstein 39th Annual Strategic Decisions Conference | June 2, 2023

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Christian Bolu:

All right. I think we'll get started here on the final day of the conference. So our next session is with Robinhood. I'm very pleased to have Vlad Tenev, the CEO, and co-founder of Robinhood for the first time at the [Strategic Decisions Conference]. Vlad, welcome. Thank you for making it up here, particularly because Vlad has a bit of a cold. So we really appreciate him making all the effort and trying to get through this session. So thank you, Vlad.

Vlad Tenev:

Thanks for having me. Yeah, three small kids at home, so constantly sick. Even though my immune system tends to be strong as an ox, sometimes it happens. So apologies in advance if my voice just cracks in the middle of one of these questions.

Christian Bolu:

Good stuff. Thank you, Vlad. So as you guys know already, to ask questions you can go through the pigeonhole.at passcode SDC2023.

So we'll get started here. So, Vlad, we're sort of like two years from the meme trading craze that captured everyone's imagination, and you were the center of that sort of craze. You look forward now, how would you describe the state of the retail investor and broadly retail investing?

Vlad Tenev:

Yeah, I think any conversation about the state of the retail investor has to start with the market. And two years ago the market environment was just very, very different. You had not just zero interest rates, but stimulus being injected into the economy directly into consumers' bank accounts at a rate that we just hadn't seen before. And you could kind of connect a lot of the activity in cryptocurrencies, speculative assets, the growth stocks to those factors. You have low interest rate environment where growth stocks appear attractive, and also just stimulus that sort of filled customer savings. And then a lot of the excess beyond that went into things like discretionary investing and spending. And so since then, the rates have ramped up quite dramatically now at something like 5%. Savings has also been going down. Loans, customer borrowing, I think I was reading somewhere that outstanding credit card debt in the US hit 1 trillion for the first time in history recently.

And so the environment is very, very different. And what we're seeing from a customer standpoint is when you have the option of investing in stocks or cryptocurrencies, which have been very volatile in the past year, and getting on average something like 7 to 10% return annually. Or getting something

close to 5% or 4.65%, if you're a Robinhood Gold customer and you're using our high yield product. That risk-free 4.65% becomes very, very attractive.

So we've definitely seen a little bit of a shift away from the typical customer trading towards more sort of depositing money and earning yield on their assets. And I think we've been very, very focused on making sure we take advantage of the environment. Because the environment provides opportunities for customers to do these things, and having the right types of products available to customers at the right time. So the Gold product with 4.65% APY and 2 million in FDIC insurance... Great example of that, banks are not passing along that much yield to their customers. You see a lot of the regional banks having tons of liquidity pressures and we've had a string of failures there as well. And in that environment, offering high yield with this large amount of FDIC insurance, beyond what you can get at a bank, has been really attractive.

And we've been adding about 1 billion, north of 1 billion a month in deposits. And the total deposits into the Gold sweep program has crossed 10 billion. So it's kind of continued to increase, even since our last earnings result. And then retirement as well. So people have been continuing to think about the long term, wanting to make sure they've got a nest egg set up for retirement. As kind of confidence in the social safety net goes down, we think there's an opportunity for Robinhood to step in and offer innovative products like our IRA with a 1% match.

So we've been seeing that picking up a lot of traction. And the sum total of these things is, if you look at Robinhood's business and what drives our revenue, 2020 and 2021, it was largely transaction based. So a common criticism was, so much of your revenue is transaction based, when are you going to diversify and get more net interest income? Well, you look at what's happened in under two years, last quarter, net interest income, not transaction based revenue is actually the majority of it. So we've not only adapted the product suite to meet customers' changing needs, but the business has kind of shifted and is much more [NII] based than transaction based.

Christian Bolu:

I'd love to dig into some of the new products of retirement. But just on a diversification theme, as you look over the next three to five years, what's your vision for what the mix of the business could look like?

Vlad Tenev:

Yeah, there was one thing I didn't mention that's a little bit interesting too. So active traders, we've been paying a lot of attention to active traders in this environment, because they're also the ones that have strategies and deploy strategies that can be profitable when the market's kind of going sideways or going down. And so a lot of focus on our options business, and we've been actually pleased with the market share gains we're seeing in the options business, driven by a lot of product innovation. We'll actually go and visit our options active customers in their homes. So we'll send people, we have a great customer research team, and we'll go to people in their homes. Obviously this is planned... we don't just randomly show up there.

Christian Bolu:

Yeah. That's helpful.

Vlad Tenev:

And then we'll see their environment, we'll figure out their entire workflow. And turns out a lot of the workflow involves sophisticated work outside of Robinhood. Some of these customers have

spreadsheets that they're maintaining with all of their positions and we see the analysis they're running in Excel and Google Sheets, and gives us a type of intuition that we'd never be able to get just looking at the data or the metrics. And that informs some of the product development and new features we've been able to find success with on the options front. So I think that that's been very interesting.

To your specific question over the next three to five years, five years is a long time. Robinhood is basically just turned eight years old. So Robinhood itself is just beyond toddler, kind of elementary schooler. And we've done a lot in the past eight years. But as we look kind of forward toward the opportunity, Robinhood started off doing investing and trading, and now we're doing a broader suite of financial services. So we're helping customers with saving, we're helping customers with their spending and their direct deposits, obviously retirement as well. So helping customers really with their long-term money.

And in three to five years, we see a huge opportunity to help not just our current customers, but people outside of the US with all of their financial needs. So we want Robinhood to be the lowest cost and the best user experience financial services platform for all of your basic financial needs. Every transaction, every investment you make, anything having to do with your money, where it goes and where it sits, we'd like to help customers with that.

And the market for that is huge. We're kind of starting from investing and kind of expanding into adjacencies there. But yeah, we also see opportunities to do things a little bit outside of the core, like we've done with crypto and some of our other businesses.

Christian Bolu:

To your point, you're deepening the interaction relationship with your customers. And one thing I think we struggle with is understanding what are the right metrics to track that, 'Cause I guess net accounts doesn't fully capture that. So how should we as investors or folks looking for the external measure or look at or figure out a way to really track progress.

Vlad Tenev:

Yeah. So yeah, net accounts certainly an important long-term metric. I mean, if you look at the three to five year vision, and Robinhood being available everywhere around the world, certainly, for that to be successful, you'd expect net accounts to ramp significantly. In the past couple of years, we have been focused more on treating the customers that we have extremely well, and making them very happy with the service. The way we track that internally is a couple of ways. One is we look at Net Promoter Scores, and I mentioned a little bit the huge progress we've made there, but you look back a little bit over a year ago, we were focused almost exclusively on attracting new customers and the new customer onboarding experience, getting them to engage. What we found was the most active customers actually had lower satisfaction, lower engagement, or lower NPS with Robinhood than our typical customer.

Obviously, we looked at that, and said that should be the opposite. If your most active customers that are driving your business, most engaged with your offering, are less satisfied than average, then there's something we need to fix. We were able to reverse that in two quarters, and continuing to make progress there. For active traders, NPS has gone up tremendously, and is now over the average customer, and continuing to grow from there. We found that to be a great leading indicator of activity. The happier customers are, the more they eventually refer, the more assets they put on the platform, and more revenue they generate for the business. We look at NPS. Externally, I think net deposits and the normalized metrics, like net deposits per account and growth rate, are also important because if we deepen our relationship with our customers, what you'd expect to see is them trusting us with more of their assets and more of their overall financial activity.

The best way to track that, I think, without getting confounded by market fluctuations, is by looking at how much they're depositing, net of withdrawals. Of course, we look at things like our market share in equities, options and crypto, and make sure we're continuing to see growth there. We've been really happy with the progress there. Market share is interesting because you can make sure that you're focusing on the right things and making progress, even in an environment-

Christian Bolu:

That's going down-

Vlad Tenev:

... that's going down, because if trading across the board is decreasing, then, if you're not looking at the market share, it can actually feel like you're not making progress. Actually, down-market environments are great opportunities for us to continue to grow our share and consolidate the position of our business. I think, when it turns, as it inevitably does, you should expect out-performance there.

Christian Bolu:

Okay. You've mentioned active trader quite a lot, so I'm assuming it's a key priority for the company. If I think about that space, it's a very highly-competitive space. Everyone's focused on it in the industry. What is the differentiation that Robinhood brings to the table?

Vlad Tenev:

I think, and it's not just with active traders, but across the board, when we ask customers why they like Robinhood, and why they recommend us, it's two things. It's the ease of use and the cost structure. We focus on creating really delightful experiences that are just super easy, and clean, and very pleasurable to use, and a cost structure that leads the market in most cases. I think that combination is really, really powerful. The combination of user experience, and cost, and value is why a lot of active traders, but also, first time investors choose Robinhood. I think, if you look across the board, the Robinhood app is definitely considered the gold standard of mobile experiences for investing and trading.

Christian Bolu:

Okay. To your point, net deposits is one metric that you track, and I guess we call it organic growth. Your organic growth is pretty spectacular, something like 30% on an annualized basis, which is multiples of the industry. Can you just delve deeper into that number to just help investors gain some confidence or visibility into the long-term sustainability, maybe not at 30%, but certainly at multiples of the industry rate, which is more like 5%, 6%?

Vlad Tenev:

Yeah. Certainly, there's a couple of things driving that. One is just us offering more account types. Net deposits can go in a couple of different places. They go in the core brokerage account, where if you want to invest in trade, you deposit money. We've seen net deposits there. Retirement, which is net new, we found, actually, that... This is a little bit surprising. When we rolled out retirement, the customers that signed up for retirement accounts and started utilizing it, actually, they increased their non-retirement activity as well, which was really great to see because you're not quite sure how these things will work out. You have this model of customers having a set pool of assets that they dedicate to investing, and maybe, it wouldn't be unreasonable to assume there'd be some cannibalization, some money that

would be going into the discretionary account would instead be diverted to retirement, where we offer the 1% match, which is quite attractive, but we actually haven't been seeing that.

We've been seeing activities in non-retirement increase, which is very, very cool, then, of course, the Robinhood Gold program with the cash sweep, where we pay market-leading 4.65% on your invested cash. We've been rolling out products that give customers very, very compelling reasons to deposit their cash, and we actually see more opportunity to continue to do that. I think the net deposits number is driven less by the market and more about the product innovation, and specifically, the new products that we've rolled out.

Christian Bolu:

Okay. Why do you think over, again, the next three to five years, that's a very long time... How do you think about the biggest opportunities for meaningful growth in the company? Is it products, as you mentioned? Is it expansion internationally? Maybe, help us stack rank how you view the opportunity set.

Vlad Tenev:

Yeah. I think it's basically those two things, right? It's new products and expanding the market, and international is the big step-change there. I think a lot about, "What would Robinhood look like if it was 10X bigger, 10 times the customers, 10 times the assets? What would it look like?" It's just hard to do that if you're inside the US exclusively. You're running into population limits. I think we can expand internationally, the way a technology company does, rather than a financial services company, which means very capital-efficient, will leverage the infrastructure and the technology that we've built in the US, the tools, the funding rails, obviously, all the assets and products, and offer those services to markets where the customers are, on average, much worse off and much more poorly served than they are in the US.

Here in the US, sophisticated customers, the market is, as you mentioned, highly competitive. There's a lot of companies that are serving customers overseas. A lot of folks don't even have access to a functional banking system. I think there's a lot of opportunity there. Then, new products, I think we've seen that the environment changes which products are in demand from customers at different times. We launched Crypto in 2018, right at the start of an extended multi-year crypto Winter. We didn't really see much activity at all until end of 2020. Then, crypto became incredibly relevant, both culturally and a lot of institutions started getting into it. We saw our crypto business grow and take share remarkably fast during that time period. Options has been slow, consistent growth over a number of years. Some of the new products that we've launched, like instant withdrawals and stock lending, those have ramped up really quickly on the revenue side. So, we've launched two products in the past year that combined make up more than half of the revenue that we get from equities trading, which is the core business. So that's been pretty impressive. Some of the longer-term bets, like customers trusting us with their direct deposits, using Robinhood for all of their spending, we actually think over time those will continue to be a bigger and bigger part of the Robinhood story and drive new customers to Robinhood.

Christian Bolu:

Let's stick with that, because I think on the payment side, you have launched quite a few products, as you mentioned, instant withdrawals, Robinhood Connect, I think there's more crypto, the Cash Card. So maybe in totality, can you just talk through the traction so far and how you think about payments as a long-term opportunity for Robinhood?

Vlad Tenev:

Yeah, I think that's been really interesting. So from the very beginning, from when Robinhood first started, we focused a lot more on payments infrastructure than a typical broker would. The reason was we wanted to create at first a great user experience for our equities traders. So, before Robinhood came along, the typical experience for opening up a brokerage account was you'd file some paperwork. A lot of times you had to have a wet signature. You'd fax it. You would send a wire or connect your bank account, and maybe a week later the money would be in your account and you'd be able to trade. We wanted to cut that down to five minutes or less.

So the idea was you download the app from the app store, put in your information, you go from not having an account to buying your first stock in a single session in five minutes or less, and this was unheard of at the time. That required us getting a lot more sophisticated about how we do payments both on the rail side and the fraud at-risk side as well. So, we've continued to invest in that. In the past year we've added some more rails, like instant withdrawals on the withdrawal side, which let you take money out of Robinhood quickly. We had it on the deposit side for a while.

We've added debit card funding. We also see opportunities with things like the Cash Card and Robinhood Connect, which is a B2B2C crypto on-ramp product to leverage the great work we've done on the payments infrastructure, and productize it, and offer services to different types of customers and in different ways. In the case of Robinhood Connect, the crypto on-ramp, how that's materialized is we see an opportunity to dramatically lower the cost and improve the user experience for a developer that's building a crypto wallet or some other type of service to connect to the crypto ecosystem.

The products out there are pre-Robinhood Connect, super clunky. They take huge transaction fees, sometimes 7 or 8% per transaction, if not more. If you look at everything that we've built, Robinhood has figured out how to instantly go from not having an account to having crypto in your account at very, very low cost. So, we think that there's a potential to just completely own that space from a market share standpoint if we keep investing in it.

Christian Bolu:

What's the go-to market for that product? How do you get that in the hands of folks say developer first product?

Vlad Tenev:

Yeah, it's a little bit different for us, because we're not used to going to a lot of these conferences where developers are hanging out and doing sales. Yeah, I think over time there'll be sales and outbound. Yeah, we're building a whole new capability there. We had some of that with our shareholder Q&A and proxy services, which was through the Say acquisition, but this is the first time in the trading businesses that we've branched out into more B2B opportunities.

Christian Bolu:

Sticking with crypto, the non-custodial wallet, a lot of hype around that, a lot of folks signed up ahead of time. What's been in traction so far? What have you learned? How do you think about monetization?

Vlad Tenev:

Yeah. So we've had on the order of hundreds of thousands of wallets created and we're pleased with the traction so far. I think people have downloaded the app in something like 150 countries. So, one of the great things about the crypto technology is it's global by default. So you can download it and use it

regardless of where you are. The team is hard at work making it better and better. So, we see lots of opportunities both in terms of adding chains, adding new functionality, and integrating with other Web3 platforms, making it easier for people to use crypto. There's a lot of work to be done. So, we're excited about all that's coming there.

Christian Bolu:

Okay. On crypto around pricing, clearly Robinhood's value proposition has always been around low-cost products, but the gap appears as fairly significant. Coinbase on one side is near 160 basis points. Cash app is 200. You guys are more like in the thirties. Is there an opportunity to better optimize your pricing to be more reflective of the market backdrop?

Vlad Tenev:

Yeah. So our competitors have certainly increased spreads and generally increased pricing on crypto in the current environment. We've decided to not do that and instead keep our pricing very competitive. We've seen market share being very strong and increasing and we think that it'll continue to increase if we keep that up. I think the gap is that we haven't been very good at explaining to customers just how much the pricing advantage is, because it's a little obscure.

In the crypto world, companies charge in many different ways. There's spread fees and trading fees, and in some cases, there's different pricing for the advanced interface and the basic interface, which I found confusing. It's like customer has to go through a couple more steps and they get a cheaper experience for the same thing.

So yeah, we want to keep it simple, but I do think we can do a better job actually communicating how much better our pricing and value prop is to customers. So we're doing a couple of experiments and we're going to make some changes, and we do want to make it clear that customers get a great deal. For your dollar, Robinhood is one of the best places to get crypto in the market.

Christian Bolu:

Let's move on to advice as being, again, one of the criticisms of Robinhood not having a robust advice product. Sounds like there's something in the offering that could be pretty exciting. So I'm not sure if you want to debut it here, but would love to know or would love to get a sense of how you're thinking about, again, differentiating coming to the market with an advice product.

Vlad Tenev:

Yeah. Well, I'll tell you what the north star is, and we are interested in the space. We're starting again in there with the new retirement product and rolling out first trade recommendations both in retirement and non-retirement accounts. I think the north star is, if you're a high net worth individual, you have access to really good advice. You have a person that can help you with all of your financial needs, not just asset allocation, but spending, budgeting, cash flow, loans.

What we'd like to do is democratize that and give everyone access to the same type of advice that a high net worth individual would typically get from a sophisticated financial advisor. Just give that to everyone at pricing that's really, really competitive and closer and more in line to what a customer would get from a robo offering, and be able to do that using modern technology. So yeah, I can't really get into the details of what the product's going to look like, but that's the north star. We want to democratize high quality advice, make it available to everyone, and I don't think the current robo products really do that effectively.

Christian Bolu:

Okay. If we switch to regulation here, clearly the SEC on a guard against, has made it clear that anything other than Bitcoin is likely security. You guys do trade more than Bitcoin, so how are you thinking about regulatory risk in your crypto business?

Vlad Tenev:

Yeah. Certainly, it's been a big topic and there's a lot of industry chatter about it as well. Our approach has always been to be extremely conservative in asset listings and what assets we offer to customers. Some of our competitors offer hundreds of assets and we don't. We offer sub 20, and it's not because can't, we actually have the capabilities and the infrastructure to add assets relatively easily and simply, but we vet each asset extremely stringently. And one of the things we look at is like, "Is it a security?" So, we do a detailed security analysis of all the assets on the platform on a regular basis, and we're very confident in the asset listings that we have currently, and we want Robinhood to continue to be the safest and most trusted place for customers to invest in crypto.

Christian Bolu:

Okay. Maybe switching over to some of your financials on the balance sheet, a really strong balance sheet, \$6 billion in cash [and investments]. Is there a way to be more strategic in using that cash in this environment than if it's M&A or how you're thinking about using excess capital, particularly now that you are becoming essentially free cashflow positive?

Vlad Tenev:

Yeah, totally. Yeah. I mean, free cash flow positive has obviously been a goal for us. We were very happy to have reached that last year. But yeah, you're right. The balance sheet is incredibly strong with \$6 billion in cash [and investments], and we think that that's an asset in this environment. And for the past year, I would say we've been getting questions of like, "When are you going to spend this money? How are you going to put that cash to work M&A environment? There's opportunities there." And the M&A environment I think has continued to get more and more attractive, it keeps getting better. So yeah, I'm certainly not upset that we've been prudent with the cash and we've been very deliberate. We do see opportunities to accelerate our long-term vision with M&A, and so I think you'll see more of that from us in the next couple of years. And we're also on the lookout for opportunities to return value to shareholders.

One example is the repurchase of the Emergent Fidelity Technologies, Robinhood shares, and so we're continuing to make progress there, but that was about half a billion [dollars] worth of Robinhood shares that I think we would love to remove the overhang from and just generally use to reduce dilution and improve shareholder outcomes.

Christian Bolu:

Okay. Good stuff. Maybe let's try and wrap it up here. And I guess putting it all together, the stock matters. That's what people are here listening to you for been a rough couple years for the whole FinTech space, right?

Vlad Tenev:

Yes.

Christian Bolu:

Certainly since the peak. What's your message to investors? For folks thinking about a long-term investment in Robinhood, what is the pitch? What is the long-term vision for them to get excited about a stock?

Vlad Tenev:

Sure. When I think about that, I really think about two things. One is that a bet on Robinhood is really a bet on the next generation of customers. We've done obviously very, very well with millennials and Gen Z, and we're constantly thinking about remaining relevant in building the right tools and the right services and the right user experience for those customers. But in terms of exposure and brand love and appreciation from a generation, Robinhood stands above the rest in terms of millennial and Gen Z. And you should expect in the coming decades for there to be a dramatic wealth transfer. That started already, but you should see it continue to accelerate. And trillions of assets are going to flow into millennials and Gen Z over time. And I think we stand to be the place that benefits from that tremendously. If we continue to serve them well and build the right products and offer a great customer experience, as a business, we should benefit tremendously. So, it's really a bet on the next generation.

And I'd also say from a shareholder standpoint, we can serve these customers exceptionally well while also generating great outcomes for our shareholders. And that's certainly been top of mind for us. You've seen that in the past year, we've really transformed the company. We've become much more lean, we've become much more efficient. We've been able to ship products faster.

And people ask me a lot like, "What's it like being a public company? And you went public right at the market top." I think if we were private, it almost gives you an excuse to be sloppy or to continue to be sloppy. But the standards for operating a public company and being beholden to public shareholders and just what that does to our operations and how we think about efficiency, I think has been very, very positive. So, we'd expect to continue to see accruals there, and we have a much stronger company, much leaner cost structure, and I think that's been a great foundation for the products that we've shipped in the past year and all of the new products. But yeah, making sure that we do right by shareholders on this journey of serving the next generation, extremely important for myself and the rest of the leadership team at Robinhood.

Christian Bolu:

Fantastic. I think that's a good place to call it quit. Thank you very much Vlad, and thank you for-

Vlad Tenev:

Thank you.

Christian Bolu:

Thank you.

Vlad Tenev:

Thank you all for listening.