Robinhood Markets, Inc.

Robinhood Markets, Inc. presentation delivered at the 52nd Annual J.P. Morgan Global Technology, Media and Communications Conference on Tuesday, May 21, 2024 at 3:05 PM

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Ken Worthington: Hi, good afternoon, everyone. My name is Ken Worthington. I'm the financial analyst that covers Robinhood at J.P. Morgan. Thank you very much for joining us this afternoon. I'd like to introduce Steve Quirk, who's the Chief Brokerage Officer at Robinhood.

Robinhood is an $18 billion brokerage firm that offers retail investors access to stocks, stock options, crypto trading, as well as other services in retirement, securities lending, and now credit cards. Steve has served as Chief Brokerage Officer at Robinhood since early 2022 and previously oversaw strategy and development of initiatives for trading at TD Ameritrade and Thinkorswim.

Steve has a plethora of industry experience. Appreciate you joining us today. We'll learn a lot. I wanted to start a little bit with Steve's background. I wanted to dig into Robinhood-specific topics, and then we'll conclude.

As I mentioned, Steve, you were previously at Thinkorswim and Ameritrade. What attracted you to Robinhood? What do you think you bring to the table? What are you learning from a much younger colleague base that you work with day in and day out?

Steve Quirk: First of all, thanks for having me, and thanks for attending. Moving to Robinhood was like my Benjamin Button moment. I had been working with brokerage firms that were servicing people that look a lot like me in terms of age. There's a funny story to it. I was working at Schwab at the time, and I have three daughters that are in their 20s just starting to work.

I explained the importance of being that annoying father in financial services. I said, "You need your money to work as hard as you work for your money." Finally, one day, they took me up on it and they said, "Here, we did it. We opened an account." I'm like, "That's not a Schwab account. That's a Robinhood account."

They basically said, "We're doing this the way all our friends and other peers are doing it." I said, "Great, I'll help you." I thought it would be a very good and interesting challenge to be able to really help the next generation of investors. Robinhood cracked the code. As a competitor, we all saw it. It took six decades for us to get to 15 million customers. They did it in a couple of years.

They cracked the code on bringing new market participants in, which is great, it's awesome, and it's something we all wanted to see. We're sitting today at 58 percent of US households participating in the market. We're the envy of the world.

When we talk to people from other countries, whether it's regulators or elected officials, they say, "Please have the Robinhood effect come here," because they would love to see that happen elsewhere. Along the way, the journey, it's been fascinating and interesting to be able to help this next generation of investors.

Half the people at Robinhood, 24 million customers, this is their first time, brokerage. We get to walk along their investing path and deliver all the things that they need as they continue on their investing.

Ken: In my opinion, Robinhood has been revolutionary rather than evolutionary. How has Robinhood changed the brokerage business that you entered into those many years ago? Do you agree with that?

Steve: I do agree, but, as a competitor, I was guilty of thinking about it through one lens, "Hey, they got rid of commissions. How are they going to make this model work?" That's actually just one facet of it. It's a very important facet, but it gets to the mindset of what we try to do at Robinhood.

Vlad and Baiju started this thing. Essentially, what they do is try and compress the margins and put more of those dollars in the pockets of the customers so that they can help them enhance their returns.

It starts with getting rid of commissions, but it's also having no account minimums, you have fractional shares you can buy with as little as five dollars, and then we move into other areas like retirement accounts where we match contributions or give five percent yield. It's just a continuation.

Today, we launched margin rates that are some of the cheapest in the business. We're compressing margins everywhere we can because we have a highly operationally efficient model with 2,400 [2,200] people that permits us to be able to deliver in a way that a lot of our peers can't.

Ken: Taking a step back, thinking about it from a high-level perspective, we hear this concept about the retailization of trading. It seems like as I look at your product roadmap, you're playing into that.

What is retailization of trading? How do we think about what was once institutionally traded products migrating into either bite-sized portions or less expensive portions? How do we think about retail getting into things like futures and index options and even commodities? What is this concept, and how does it impact Robinhood?

Steve: If you think about it a little more holistically, and by the way, we think about it through the lens of our customers, but we think about it through the lens of their inclusion in being able to look where our customers are average age, early 30s, very diverse, third of them are women. That is not the case in the places that I came from.

Their accounts are smaller. They don't have as much experience. However, they don't want anybody telling them that they shouldn't be doing X, Y, Z. They need to be 20 years older with a larger account. When we say retailization, it means opening the doors and making sure that they have the same capabilities to do all the things that others want.

If they want to write a covered call on a smaller portfolio than one that's much larger, we're going to help facilitate their ability to do so. The exchanges and other market participants see this.

We talked about this earlier. I said if you would have asked me 10 years ago, if a brokerage firm that did 95 percent of their trades on a mobile device could be the number two option retail broker in the US, I would have said no. I don't think that's possible. It's just too hard for that interface to be able to make it digestible for customers, but that's where Robinhood is today.

That's been something that Robinhood excels in, is being able to take something that's very complex or maybe not well understood or has friction to it and remove that and make it very understandable. Some of the products that Ken just mentioned, like futures, which has traditionally been an institutional product.

The exchanges are saying, "Well, we'd like you to do what you did for options on the futures market, and make it a more retail-friendly product." We will collaborate. We always do this with exchanges to make sure that it's something that's suitable.

It's of a notional size that's going to work for our customer base. We have a lot of opportunity here to open the doors in a lot of asset classes and capabilities for this next generation of investors.

Ken: You mentioned that 95 percent of the activity that you're doing is on the mobile device, but you're also building out the Web presence.

Steve: We are, yes.

Ken: What is the opportunity for you to take a business that has evolved to mobile and almost bring it back to the Web?

Steve: The evolution of Robinhood, when you think about it, and this is the way I, as a competitor, perceived Robinhood, it was a bunch of younger people that were trading with smaller accounts, and that has evolved in a dramatic fashion.

Prior to my time at Robinhood, I've been here two-and-a-half years, but, in a very big way, in the two-and-a-half years I've been in Robinhood, we now have retirement accounts. We have securities lending. We have high yield. We're rounding out the offer. You have to grow with your customers.

If you don't grow, they're going to graduate and go to some other brokerage firm where they have all these capabilities. We've been building on all these capabilities so that we can be their full-service brokerage shop.

Along the way, we've come to realize that Robinhood has a strong brand and a strong presence, and people like it. In order to get people to actually come to Robinhood from another brokerage firm, we had to make sure that we've completed that offering or are in the process of completing it.

We've seen in the last year, we went from being negative ACAT, in other words, more customers are leaving us than are coming to us from other brokerage, to positive net ACAT in every single brokerage firm, every brokerage firm, and by a pretty significant margin. We have a unique opportunity now to transform the way Robinhood's business is all put together.

Ken: You mentioned ACATS, you mentioned winning business. You're offering a number of promotions that is contributing to your success. Talk about what promotions you're doing, and ultimately, are these promotions sustainable?

Is this something that's now part of the DNA and you'll continue them for a while, or the promotion's temporary? We're going to see them for three or four months, they're going to go away, and probably only return in a limited fashion. Is this a strategy that can persist?

Steve: We have a couple of different promotions that we're working on right now, but they're part of a larger picture of, again, delivering value. When you think about Robinhood and its history and the way that it was perceived in the early days and what it is today, it's a very different company.

If people haven't looked at us in a while, and I'm a valuable customer that's sitting at brokerage firm XYZ, I need a reason to take a look and see what your capabilities are. We come up with some promotions like a match, a one percent match, and we roll that out.

Then we watched the number of much larger customers, more established and engaged customers, that have come over and started to take us up on that ACAT match. As a result of that, we started to understand it's been wildly successful, and you'll hear it from some of our peers. The questions they're asking is, "Is it sustainable?".

I know our CFO shared this on our earnings call. The payback period is less than a year for us. That's just an affordable CAC that is powerful. If you think about our peers, we sit with $130 billion in assets. Our peers sit with trillions. It's really hard to defend yourself in a one percent match environment when you are sitting on that cash pile or AUM pile.

The other things that we think about in how we manage the offers is we don't want to do something to incentivize people to come here once. This is the reason why we did our retirement match. We understood that over 40 percent of the people in our customer base either work partially or completely in the gig economy. As a result, there's nobody invetivizing them to save for retirement. There is no 401(k).

We created our own match on an IRA, a one percent match, or if you're behind gold, a three percent match, and that's in perpetuity. Every time you contribute, we match your contribution, which is a great incentive for people. The long roundabout answer to the question is it's not just the match. It's also everything that you do once you come here.

This morning, we rolled out margin rates that are some of the lowest in the industry because we have a lot of very engaged, larger users that are now ACATing over and they're saying, "Hey, great that you've matched this, but I would like to be competitive in the margin rates that are being charged," and we're delivering that.

Ken: One of the concerns that we had for a period of time was this concept of graduation risk. You're ACAT positive, more money is coming in to you from peers than going out the door. Did this graduation risk exist previously?

What ultimately has changed it? Is it the promotions that have changed it? Is it the product offering that changed it? Customers that have grown up at Robinhood, how can you service them today as bigger accounts versus a year or two ago when they were smaller accounts?

Steve: The graduation risk is essentially, this is the analysis, I, as a competitor, used to do. We did this very actively of all of our competitors.

When we looked at Robinhood, we said, "OK, they're amazing to crack the code. They're bringing all these young users in. As soon as these people need a retirement account, as soon as these people want yield, as soon as they want to generate additional income, they don't have that in their portfolio. We're going to get them. They're going to graduate to us."

They're actually acting as a feeder and bearing the brunt of the cost of acquisition. You heard CEOs of publicly traded companies saying that on earnings calls. They don't say it anymore because it stopped. We still have a powerful funnel, but now we have enhanced the offering to a point where there's no reason to leave.

Those capabilities exist at Robinhood, so that graduation risk is gone. It's actually become more of a funnel from both sides, an organic funnel, and then a funnel from our competitors.

Ken: As we think about growth, one of your initiatives is active trading. First, can you define what is an active trader at Robinhood? What are you doing to both grow them and attract them to your platform?

Steve: Active trader is a term that gets thrown around. Even within certain brokerage firms, there isn't a clean definition. A lot of brokerage firms use 30 times in a quarter if you trade 30 times in a quarter. Let's just use that.

The engaged investor, like every brokerage firm, you have an 80-20, 90-10 rule where you have people that are very engaged and then you have people that are less engaged and then you have people that are buy-and-hold, and they probably set it and forget it and don't look at it other than potentially once or twice a year.

When you build for these customers, you actually build for the most engaged because it's not that you're building a different toolset. You're building the same toolset. It's just that they're using that more frequently. In other words, I love to use this analogy because when I first got to Robinhood, it's a very ethos-driven company.

We love the idea that we're democratizing finance for all. There was a little bit of organ rejection to me because they didn't want to think that we were providing more value to one customer over another customer. In other words, if I have $10 in my account as opposed to a million, we should all be getting the same thing.

It's wonderful, but you can do both because what you're delivering for the $10 customer is the same thing you're delivering for the million-dollar customer. They're just using it far more frequently and engaging with your offering far more frequently.

When I got to Robinhood, the worst NPS score, I'm going to say net promoter score, in the company was the most active users. That's a very bad model. Now the best NPS score is the most engaged user. That's the way it should be. If I'm using you and rewarding you with my business, you should be rewarding me with the best of what you have. That's where we stand today.

Ken: Are you creating these active traders or are you recruiting them in? These are some of the most profitable customers at Robinhood. How are they coming in the door?

Steve: In the early days and even today, they're being created organically because these customers are newer market participants that are learning and we have a great learning program. It's both in the pathway of their investing and research, but we also have separate areas where they can do a whole learning center. It's flipped now.

Now we have a growing number of people that are coming in from other brokerage firms, people who are already very active and have much larger accounts are now coming in on the other end of that funnel that I mentioned earlier. We're seeing it from both sides, which has been exciting.

Ken: Robinhood does a lot of things that we don't see elsewhere. One of the things that Robinhood is doing, that we don't see at peers, is growing outside the US. What are you doing? How is that going?

In the same vein, your e-brokerage peers, if you can call them that, why haven't they spent the last 15 or 20 years trying to build outside the US, whereas you, Robinhood, very early in your maturization, have targeted Europe and the UK for investment?

Steve: Some of our peers have, but they haven't done it very aggressively, I would say. When you build the capabilities, there are a lot of people, not just in US, but across the globe that want to interact in US marketplace. You already have these capabilities, so it makes a lot of sense to venture out.

Robinhood has been licensed since 2019 in the UK. This was prior to my time, but there was a foray and an approach to go there, but then we hit the COVID period where we had this explosion in interest on the retail side. We had to make a choice whether we're going to address that and make sure that we're handling those volumes or continue to move to the UK.

We took a pause and then re-engaged and launched there. It's been going well. The interest in Robinhood, I mentioned this earlier, it's fascinating when you go and talk to the elected officials because they want to see market participation amongst their citizens at the rate that we're seeing in the US. They use this term, they want to see the Robinhood effect.

I've had the privilege of running brokerages outside of the US, in Asia and other places. In every single country you will find the Robinhood of Australia, the Robinhood of Singapore. Any country you go to, there's something that they call the Robinhood of. We have a brand. We have a global brand already, and now we can walk in and say, instead of the imposter, we can be the original, the OG.

Ken: Another thing that we see at Robinhood that we don't see at peers is you have a Gold subscription, a Gold membership. Can you talk about what that Gold membership really entails? I would say probably the best analogy is Amazon Prime.

Steve: Yes.

Ken: How does it work? How is it driving engagement? What are you investing behind it that's leading to the growth that you're seeing?

Steve: Robinhood Gold is a subscription service. It's five dollars a month, and there's a host of things behind it. One of the things that has driven a lot of the growth in the last year, year and a half, has been a yield product, so a five percent yield, which you can boost up to five and a quarter.

I've seen a lot of traction with that because if you think about the average age of a Robinhood customer, they actually haven't seen a high-interest environment.

The interest rates for a lot of these new investors were very low when they started investing, and when we got to a point where you could actually have a consideration whether to invest or achieve yield, they hadn't experienced that before. We wanted to deliver something for them in that capacity.

Other things that have always been part of Gold have been lower margin rates, premium research, level two quotes, and now a Robinhood Gold Card, which gives three percent back, which was just rolled out.

To give you an idea of the mindset, we always want to put something in Gold that is we think is going to be a value add for our most engaged and loyal customers. They've been rewarding us with a very large jump in number of subscriptions as a result.

Ken: How engaged are they compared to your typical customer? How much better a customer base are they?

Steve: From a deposit, and Chris will check me on this, we're 2X. They do 2X the number of deposits, but they adopt our products. It's a great way for people to come in.

I'm a new investor. I'm not really that clear about everything that Robinhood can provide. Once they get into Gold, it becomes very evident all the areas where they can invest, and they adopt products at a five to eight times higher rate than what, I'll call, our non-Gold customer.

Ken: I'm going to ask a question on regulation, and then I'm going to turn it over to the audience to see if you have any questions. If you're thinking about asking, you'll have your opportunity. In terms of the regulatory environment and the SEC, there's a couple of items on the SEC agenda.

What is top of mind for you in terms of what the SEC is looking at? Then one thing that you mentioned earlier in the day is that within the crypto ecosystem, you're pursuing your innovation outside the US. What's driving that?

Steve: I'll start with the last one first, the crypto. There is a lack of clarity from our regulatory bodies on where we're going with crypto. That, for us, is a highly regulated entity with 90 percent of our revenues being driven by the brokerage side. This is our primary regulator. We would love to understand how we should be operating in a digital asset environment.

There isn't a heck of a lot of clarity. We have not been as aggressive as peers. We're smaller, 15 coins, no staking, no lending. We've gone in and tried to register without much success. Absent that clarity, we've said, "You know what? We can't ask our team not to continue to innovate. We have a great team, but they can't sit on the sidelines and wait for some hopeful regulation to come."

We've moved to Europe, and now we're moving at a very good pace over there because there is more clarity in Europe as a result of what they've laid out. We're not alone. We see our peers doing the same thing. I'm hopeful that we get regulatory clarity, but absent that, we're just going to keep moving. We had a very good clip over there.

As far as the SEC and the other proposals that have been put forth, it's hard to tell where they are and how quickly they're coming. We have been very active in talking to them about our concerns. We always look at it through the eyes of our customers and say, "This is what the experience is going to look like. Should you enact this, this, this, or this?".

There are some of them that we've been mildly supportive of, like some of the disclosures, 605 reporting, which is fine. Let's be honest, nobody looks at those other than maybe two or three people in this room. The other ones, I don't know where they are. The clock is running out on this regulatory regime, so we'll see how much gets done.

Ken: Any questions from the audience? Nothing burning. We can talk about the business environment. You've been in the business for quite some time.

Steve: You just called me old. [laughs]

Ken: Us, old. Us. When you think about the business environment, where we are today, how do things compare today versus five years ago and ten years ago? What's the biggest changes that are driving retail trading behavior, and the success that you're seeing at Robinhood today?

Steve: When you have more market participants, and especially different market participants, they're going to drive the business to the areas that they think are interesting. Obviously, crypto is one of those areas. If you think about crypto, I'll use crypto as an example, what makes crypto interesting? Obviously, a belief in the ecosystem. Also, it trades around the clock, seven days a week.

This is very perplexing, by the way. When you talk to a first-time investor who's in their late 20s or early 30s, when we try to explain that they have to wait for this old man to ding a bell two times a day to trade, they're like, "What do you mean? This is an electronic marketplace. Why do we have to wait for that?"

"I'm doing my research when I get home from work. I did my education, and now I know I want to buy stock ABC at $10. I got to wait for this person to go ding, ding, ding in the morning? Makes no sense."

If you try and tell them, "Well, no. We need those people on a trading floor," they're like, "I think we just went through COVID, and I didn't see anybody on trading floor, and we were actually still trading." They're right. That's an example of some of the things that are going to change.

By the way, we have the ability for our customers to trade around the clock. We provide them that. There's about 930 securities that they can trade around the clock, and we've seen nice adoption of it. There are a lot of things that happen in the late night or overseas hours that move securities either up or down.

NVIDIA does their earnings, and then they have an earnings call afterwards, and most of the movement happens after the market's closed. If I was a person that said, "If NVIDIA ever got to this price, I really want to take advantage of it," and it hits that price in the after hours, and the next morning it's back up, I miss that opportunity.

When we ask a customer, "Hey, do you care if you buy stock ABC at 3:00 AM or at 2:00 PM," they really don't care. Things like that, when you think about the new generation of investors, they challenge what are a lot of the long-held norms of investing are, and it's also access to certain asset classes.

There was a proposal that another one of our regulators, self-regulatory agencies, came out with that said, "Hey, listen, if you're..." They were basically going down a path of saying if you're not this age with this many assets, you shouldn't be able to trade an exchange-listed option.

Our customers are like, "What? What is that? I don't know how to write a covered call. I'm sorry. I got my driver's license at 16. I can handle it."

Ken: Steve, thank you so much. This has been an enlightening and pleasant conversation, and thank you to the audience for attending.

Steve: Thank you.