

**Robinhood**

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Great. With that out of the way, good morning, everyone. I'm Mike Cyprys, lead analyst covering brokers, asset managers, and exchanges, from Morgan Stanley Research. And I'm thrilled to have with us today Vlad Tenev, Co-Founder, Chairman and CEO of Robinhood.

Vlad co-founded the company in 2013 and has been a pioneer across the brokerage industry, introducing innovative and disruptive brokerage products and features such as free stock trading, options and crypto trading, fractional shares trading, subscription service -- Robinhood Gold -- and most recently, introduced retirement products with a 1% match for every dollar contributed to IRAs.

Today, Robinhood is one of the largest digital disruptors in the brokerage industry with over 23 million funded accounts. Vlad, thanks for joining us here, and welcome.

Vlad Tenev: Thanks for having me. Pleasure to be here.

Mike Cyprys: Great. So why don't we start off big picture here, you have about 23 million customers. Many of them are first-time investors in the marketplace. And so now that you've engaged this demographic, what's the vision for serving this customer set, and how has that vision evolved?

Vlad Tenev: Yes. Well, they -- many of them were first-time investors. Now, since joining Robinhood, they've become more experienced.

I think the priorities are threefold. The most important thing for Robinhood this year, and this has been a little bit of a change from kind of 2020 and 2021, is serving our most engaged, loyal customers, which generally are the active traders. So, making sure that they're really happy with the service; that we meet all of their needs; and we actually believe by doing that, we'll see an effect on all other customers that are less-engaged and less actively trading. So we've made big strides there.

Then the second priority is actually deepening our relationship with our customers, so through things like retirement and through other products like the cash card, making it so that eventually Robinhood is the place where people deposit their paychecks and they sort of run the totality of their financial lives. That involves rolling out more products that have the theme of providing great value, low cost to customers, with kind of the user experience and the design that Robinhood has been known for.

And then the third thing is sort of planting new seeds and unlocking new growth drivers, of which international is a big one. And we have a license in the UK, and we've announced that we'll be rolling out to the UK in the coming year.

Mike Cyprys:

Great. Well, a number of different areas we want to dig into. We'll certainly come back to international in a moment. But when you think about executing along this vision, you've already introduced a lot of different products, from trading to cash management to retirement accounts. But as you look out, say, longer-term, 5-, 10-year sort of vision, what new capabilities or products might be necessary in order to complete that journey?

Vlad Tenev:

Yes. I think that we've already been expanding the suite of products, and while I did mention kind of the focus is kind of on active traders who are most engaged, we are looking forward over the long run. And we want Robinhood to be a company that helps you with all of your financial needs, not just actively trading.

So, a couple of things we've rolled out -- I mentioned retirement earlier, which is the first IRA with a built-in match. Historically, you've had to have full-time employment to get a retirement match in the form of an employer-sponsored 401(k) plan. We noticed the gap in the market, where a lot of gig workers or freelancers weren't well-served by that product and weren't getting an incentive to retire. So then we introduced just in the past few months, the first IRA with a match, and we've been really excited about that.

We also have a Robinhood Gold product, which right now gives customers 4.15% interest on their uninvested cash, and FDIC insurance up to \$1.5 million. So this is actually a product that is very compelling for people that might not want to invest right now, but would like to earn a competitive yield and have that FDIC insurance. And we've seen that actually attract sort of a different kind of usage, and a different kind of customer. Now, we're not just useful for the active traders, but we're useful for customers that are interested in retiring. We're also interesting to customers who have some cash that they want to earn more yield in, in the high-rate environment, while they're waiting to invest. And with the cash card, we can now help customers with kind of their day-to-day spending and paycheck.

So, Robinhood is really about building exceptional financial products that give people the tools to manage their money at low cost and with awesome user experience, and we'll tend to -- we're targeting kind of very specific use cases that customers have a need for, like earning more yield on your cash, trading, retiring. And I think we see a great deal of further opportunity in that.

And then over the long run, I think we can start to knit these things together and actually help customers answer fundamental questions, like where do I put my next hundred dollars -- what do I do with my paycheck? And I think as we build out capabilities in these specific things, we can go upstream and help people sort of manage their financial

lives more holistically.

Mike Cyprys: Sounds like -- that vision that you're outlining there sounds like an all-encompassing financial super-app. I would maybe describe it that way. I guess we've seen that take off in other parts of the world, more developing economies, maybe a little bit less so in the US. I guess a two-part question -- why is that? Why have we seen that more in some developing economies? And then in the US, we've seen other fintechs scale back their super-app ambitions, given the impact of higher rates and higher cost of capital. So I guess, how do you see the broader industry and competitive backdrop evolving in the US?

Vlad Tenev: Yes. I think the -- the question of sort of are you focused on one thing versus focusing on sort of many products over time, is more of a question of what sort of like, phase of the cycle we're in. So if you have a lot of new innovation in financial services, 10 years ago the world "fintech" was less commonly used. There just wasn't very much. So the first companies that got started had to focus on a very specific thing that they would do better than the incumbents.

If you look at the incumbents, I think they would probably meet your definition of a super-app, right, like the Fidelitys and the Schwabs and kind of these companies that have been around for a really long time, they offer a wide variety of services. Some of them offer banking services. You can do discretionary investing. You can do advisory.

So I think as time goes on, and sort of the fintechs have started focusing on serving their customers across different environments, and across different needs, I think it's natural to see how you can use the relationships that you've built and kind of the infrastructure that you've built to make it easier for customers in different ways, like we've done with gold and with retirement after trading.

Now, whether it's all in one app, or multiple apps, I think that's an interesting question and it's kind of case-specific. I wouldn't necessarily say that like, it all has to be in one app. And you can see that with Robinhood today too, because we actually launched a second app recently, our non-custodial crypto wallet, which is self-custody -- so customers have control over their keys and funds, and is available globally. And we felt like that experience was different enough that -- and the infrastructure was different, and the use case was different enough, that separate app actually makes sense. So I think you'll see us being very thoughtful about this. In a lot of cases, it makes sense to include things in the main Robinhood app, as we've done. But in some cases, there might have to be another user interface or another app that allows us to better distribute our new products.

Mike Cyprys: And how would you say customer feedback has evolved over the past year? What are the top features you hear customers asking for today?

Vlad Tenev: Yes. I mean, we've actually -- one of the muscles we've built during this new tightening environment is paying really close attention to our active traders, and our most engaged customers. So really, the core group of customers that, using Robinhood really frequently and both getting a lot of value, and running into issues much more frequently than kind of your typical customer. And this is actually new for us. It might seem kind of obvious that we should pay really close attention to our most engaged, core customers. But throughout much of COVID, our focus had been on bringing new people into the

market. So we were very focused on the first-time investor, someone who was using Robinhood for the first time, making sure things like their onboarding process and kind of the process of getting your first trade, and kind of engaging into the product and activating, was as smooth as possible.

So it has been a shift for us, and one of the things we've looked at as a way to gauge customer feedback is Net Promoter Score -- so how likely customers of Robinhood are to recommend the service to people they know, or their friends. And if you look at net promoter scores over the last year, one of the really big wins is that across the board, they've been up more than 20 points.

And now if you look at the active, most engaged customers, it's up nearly double that, which is like a huge NPS improvement, right? And basically what happened was, at the beginning of 2022 you look at our most engaged customers, they were actually less happy on average with our service than customers that were not as engaged. And obviously, if you're a business, you want your most engaged customers to be the happiest. And we were able to actually reverse that entirely in just the span of a few quarters.

So -- and what that's taken is really honing in on the features, the frictions that they come into the product, rolling out things like options and cash accounts, advanced charts, improved functionality across kind of the entire options, and advanced equities experience. And you know, I feel like we've built a really good foundation with all these features and basic functionalities. And now, we're kind of looking to do even more, so we're doubling down. And not just kind of building table-stakes features, but we want to take our active customers and really innovate even more to meet their needs.

And actually, just an hour ago, I believe, we filed an application to become a futures commission merchant, so an FCM, which would allow us to offer futures trading to our active customers. And I think there we see an opportunity to not just sort of make options trading better, but to deliver new innovations for our customers. So that's something I'm very excited about. We brought in a new general manager of futures and international, [J.B. McKenzie], who joined us from TD Ameritrade. And I mean, we see a huge opportunity to offer a really delightful, easy-to-use futures experience for our active customers.

Mike Cyprys:

I think that's a good segue to talk about the product roadmap, which I think you often get asked. I think on the last conference call, you outlined big-picture roadmap for '23 including new products and features for advanced customers that you're touching upon. So maybe you can expand upon this a little bit more -- is it the futures? Is it that part of that as well? It sounds like you're just introducing that. But what else, beyond that, could you see for the advanced customer set?

Vlad Tenev:

Yes. I mean, futures, I think it's going to be a big sort of evolution of the Robinhood product. It's a new asset class. It actually allows customers to hedge their risks in really interesting ways. You know, it's a 24/6 overnight market. There's all sorts of innovation around things like event contracts, which are interesting to customers, as a way to hedge different types of risks.

So we're excited to go into there, and we're also excited to keep improving the core active trader experience to make Robinhood the best place for customers that are more actively trading equities and options. So you'll see -- you'll continue to see innovation and new

product enhancements. Matter of fact, you know, we started unveiling Option Strategy Builder just a couple of days ago, which is a new interface on mobile for putting together strategies with options, and the feedback there has been really positive as well.

So, it's just the product engine is humming, and we see a lot of opportunity to actually be the best product for active traders and more sophisticated customers.

Mike Cyprys:

Great. Why don't we shift and talk about international? You alluded to that earlier. Significant opportunity for you guys, and you already have a license in the UK. But you know, at the same time, many US brokerages have tried and failed over the years to grow internationally. What lessons do you take away from their experience? Maybe you could talk a little bit about how your approach may differ; talk a little bit about your strategy on the international side; sort of what leads you to prefer one market versus another?

Vlad Tenev:

Yes. I mean, there -- I think there have been a lot of companies that haven't expanded successfully, and there have been certain companies that actually have been quite successful. I mean, you look at companies like PayPal, for instance, that has a large international presence. I think the difference with Robinhood compared to some of the legacy brokerages is that we're kind of a cloudburst technology first, mobile-first, platform. So we've been able to kind of hop to the technological frontier, and we don't have things like large mainframe computers or brick-and-mortar stores. So, expanding internationally for us should look much more like a technology company. And of course, there's compliance and regulatory constraints that every financial company has to work with. But not having to kind of think about expanding your service model, which is brick-and-mortar reliant, I think is a key difference. And building our infrastructure in a way that we own a lot of it, and we have control over kind of the way we onboard customers, the way we move money into and out of accounts, which has actually -- is really critical internationally when you're dealing with lots of different funding models, and different systems. We've really invested there and even domestically you see us rolling out things like not just instant deposits, but instant withdrawals and being among the first to kind of adopt that -- adopt that technology.

So, owning a lot of these core things and really investing in the technology I think should make it a little bit easier for us to expand. But we know it's going to be hard, and the most important thing is having a really clear value proposition of how our products are better than customers, because the infrastructure doesn't matter as much if customers don't value the product.

And I think the two things that Robinhood is really, really differentiated in, in the US, which are low costs and great value, and ease of use, are things that matter even more internationally where you know, you don't have in some cases as mature of a financial system and customers aren't as well-served as in the US.

Mike Cyprys:

And the UK, that's '23?

Vlad Tenev:

The UK is a little bit different, because it's -- you know, it's a more sophisticated customer set. Like, they have actually much more experience with financial services. So I think for us we see an opportunity there, because it's similar enough. And we think that -- we think that we can be very successful. And the goal is to launch this year, within a year. But we also see it as a stepping stone to Europe, and us really kind of building the muscle to expand internationally. And hopefully we'll look to accelerate and get

Robinhood in more people's hands worldwide after that.

Mike Cyprys: Great. Why don't we come back to the US. Let's talk a little bit about your customer set. I think in the past, you mentioned the average age of your customers is 31 years old. Maybe you can just give us a little bit more flavor for your customer set, and some of the cohort metrics. And if you could talk a little bit about what surprised you when you look at the customer?

Vlad Tenev: Yes. I think the thing that's been most surprising is when we launched eight years ago, our customers were people in their mid-20s. So we have generally grown with our customers over time, and you know, our typical customer might have been someone right out of college right when we got started, or even in college. And now, there are people that in some cases have kids, they have pets, they're married, right. And they're looking for slightly different things than they were, so they really care about retirement. They really care about sort of like, long-term planning.

And so that's pushed us to evolve our product roadmap accordingly. Like, we -- we're continually listening to our customers, learning from them, trying to understand what their needs are. And those needs are driven by sort of the evolving circumstances of their lives, and also by the macro environment. Like, nobody really cared very much for what interest rate they were receiving on their cash up until the interest rate started to get more meaningful. So we've had to adapt there, and we've had to adapt with things like retirement.

And you know, we also have a core group of customers that came to Robinhood because they're interested in trading, and we provide a lot of value there. We're still among the very few brokers that don't charge contract fees for options trades, for instance. So, starting with that core, and making that experience as easy as possible, we believe actually it makes it easier and more compelling for our customers to adopt our other products in the future.

Mike Cyprys: Why don't we shift and talk about profitability? You guys were a bit earlier than others to make a shift to focus -- from a focus on growth at any price to one that puts greater emphasis and focus on cash flow. So, you started taking actions back in April, a year ago. And then in August, targeting to achieve adjusted EBITDA profitability by the end of '22. And you came in ahead of expectations there.

So as a founder, these must have been some pretty hard decisions that you had to make. So maybe you could tell us what was going through your mind at the time and then how do you ensure that these changes don't hurt the firm's growth outlook. And then, now as you're looking towards GAAP profitability, you again made some tough decisions personally, walking away from hundreds of millions of dollars worth of stock grants. So how do you think about that?

Vlad Tenev: You know, it's interesting. I was watching this video interview with Kobe Bryant randomly a couple weeks ago, and it sort of resonated with me because he was talking about how he first went to this basketball camp in Philadelphia or something when he was 11 years old. And through the entire season, I think 20 or 25 games or something, he scored zero points. So, 11-year-old Kobe Bryant, zero points in an entire season, right? And he was the worst player on the team.

And then sort of he sat down and he thought about this very rationally. And he said, okay, I'm not good at shooting; I'm not good at dribbling; I'm not good at all these things. I'm going to spend the next 12 months and I'm going to get really, really good at shooting, right. And so he worked on that, worked several hours every single day. And you know, the next season came along and he scored 12 points or something.

And then he kept going and focusing on adding an additional thing, an additional capability. And then, you know, by the time he was 14 or 15 years old, he was just mopping the floor with everyone, right?

So the way I see cost management, kind of similar to what I was saying about active customers. It's really Robinhood building a new capability and us sort of becoming really, really good at how to think about costs and margins. There's a capability that we weren't sort of in the high growth kind of startup days, it was -- it was less necessary for us to build that. But I think now that we have it, it's just another tool in the arsenal of the company.

And we haven't forgotten how to like, build product, and invest in growth, and like, focus on new customers. I think that's been a capability from the start, and you can actually see that accelerate through 2022. We've never shipped products faster. The products that we've -- have gone out to customers are high quality and innovative, a great example being the IRA with the built-in match, which is really sort of incredibly innovative, in kind of the individual retirement accounts space.

And so, we've added these two things, right -- being really rigorous about how to manage costs and think about profitability, and building that muscle so that we can be sustainable in rough markets as well as good. And sort of paying really attention, and understanding who our core customers that are deriving a lot of value from the products, and driving revenue for the company, and making them really happy.

And now that we have that foundation, we can kind of layer on new things. So you know, we're a recently new public company. We're kind of like a teenager in some sense, so I think we're just at the very beginning of our journey.

Mike Cyprys:

Nice description there. Why don't we talk about engagement trends? So, January, saw a nice rebound in trading activity. Notably a rebound in monthly active users, as well. So can you talk a little bit about what you're seeing so far in February, and into March?

Vlad Tenev:

Yes. Yes. And I think we had mentioned yesterday that you know, February looks to be a strong month for engagement, as well. It's a good month, relatively good in the markets for growth in tech names, and our customers tend to have larger concentrations in those names relative to the broader market. And you know, we actually release numbers on this on a monthly basis, so the February numbers should be coming out in the coming weeks.

Yes, when you look at our customers, and we publish this data with the Robinhood Investor Index monthly as well. You see that they're invested in growth. They're invested in innovation names. And that -- that sector, those sectors, have been hit particularly hard over the past year, right? Like the market's been beaten down, but if you look even more closely at like innovation and things like electric vehicles, fintech, that's been sort of disproportionately hit.

And so there's been an impact on that. You see that in the assets under custody where despite actually really solid net depositing activity by our customers, the assets have kind of trended a little bit with the growth stocks and innovation stocks. And we think that over time you'll see us sort of diversifying away from that as we add more things like retirement. And you should also expect that these things are cyclic, right? So at some point, growth will be in favor. Other times, it's out-of-favor. So, in the near term, we're probably going to be more sort of -- more reliant, more sort of correlated, with that than other brokerages.

Mike Cyprys: Okay. Why don't we talk about investor education? You guys have the Snacks daily email with financial news. You also have other financial content available on the app, there. Can you just talk about your approach to investor ed? What are your aspirations, when you look at the offering today, how does it compare to where you'd like it to be? Could research ever be in the cards, or like, a CNBC-type news organization?

Vlad Tenev: Yes. There's a couple of things that we think about. There's sort of in-product and out-of-product. In-product, I think what we found is the most useful way to educate customers is contextually. Like, if they're interested in learning about retirement, and how to retire, we can actually, like -- we can see that moment in the customer's life cycle through Robinhood, and put like, in-product, contextual education that sort of guides them through an interactive flow that helps them. So an example is the first trade recommendations product, which we rolled out more than a year ago for non-retirement customers. And it actually walks them through building a diversified portfolio of ETFs, and it's -- it was something that we started off showing to customers who had just onboarded into Robinhood.

So if you onboarded, you know -- I've heard Robinhood is for investing, I know I want to invest; I don't know where to start. I don't have a specific stock in mind. It's kind of for that customer.

And then we use that technology for retirement as well, so we integrate it into the retirement onboarding process, the creation of a diversified investment portfolio. And we see the uptake of that being actually quite good, so a very significant portion of the first-time retirement customers are taking our portfolios and using them. And we see kind of more opportunities across the board, through all the products.

Now, you also heard us announce Sherwood Media last month, which is the new media arm of Robinhood. That'll encompass Snacks and some other activities led by Josh Topolsky, who was the co-founder of the Verge. And we're excited about that as well. I think we'd like to sort of invest in the foundation we've built with Snacks, which now has I think north of 40 million email subscribers -- one of the largest newsletters in the country -- and offer customers different types of content to engage them outside of the product, and some cases within the product, as well.

Mike Cyprys: Could you ever see any sort of CNBC-type network there, or research, stock research embedded in Sherwood? Or --

Vlad Tenev: I -- I definitely wouldn't rule it out. I think yeah, we can't be too specific on the Sherwood Media plans just yet. But yes, we've got a lot of things in the hopper there.

Mike Cyprys: Okay. Great. And we have like, less than a minute left. I wanted to ask about innovation. Something that's important for you guys, but just in less than 60 seconds, how do you foster innovation as your company continues to grow and get more complex?

Vlad Tenev: Yes. I mean, I think that innovation comes from a couple things. It comes from focus, and you know, even though sometimes it's hard, you want to build a lot of things. It's important to focus on a specific core group of people, understand their needs, and innovate on their behalf. And it goes beyond just listening to what they want that they might have seen at other brokerages, and coming up with new solutions to problems. And I think Robinhood has been really good at that, and in the past year kind of the focus on our active traders, and most engaged customers, has been really clarifying.

And the second part is just getting really, really good people, like the most talented people that have had a history of innovating and creating new things in the past. And you know, in a way, financial technology hasn't been viewed as the best place for innovation in the past, but it really is ripe because you know, you see a lot of innovation in other consumer technology. This is really like a critical part of people's lives. Like, it's very emotionally important. It's a point where dropping costs actually is even more important, because the user experience and the value is so intricately tied to costs. So there's a lot more we can do, both in the US and internationally.

And making it clear to the best talent whether or not they're straight out of school, out of places like Stanford and MIT and others; or they've had experience in technology or other industries; that this is a place where you can bring all of your creativity and all of your intellectual horsepower and we'll try to make it as easy for you to be creative. I think that's what we've continually tried to do.

Mike Cyprys: Great. I'm afraid we'll have to leave it there; we're over on time. Please join me in thanking Vlad Tenev.

Vlad Tenev: Thank you.