

Robinhood Markets, Inc.(Q2 2022 Earnings)
August 03, 2022

Corporate Speakers:

- Chris Koegel; Robinhood Markets, Inc.; VP of IR
- Vladimir Tenev; Robinhood Markets, Inc.; Co-Founder, President, CEO & Chairman of the Board
- Jason Warnick; Robinhood Markets, Inc.; CFO

Participants:

- Devin Ryan; JMP Securities LLC; Research Division, MD and Equity Research Analyst
- Richard Repetto; Piper Sandler & Co.; Research Division, MD & Senior Research Analyst
- Michael Cyprys; Morgan Stanley; Research Division, Executive Director and Senior Research Analyst
- Steven Chubak; Wolfe Research, LLC; Director of Equity Research
- William Nance; Goldman Sachs Group, Inc.; Research Division, Research Analyst
- Josh Beck; KeyBanc Capital Markets Inc.; Research Division, Senior Research Analyst
- Benjamin Budish; Barclays; Analyst
- Kenneth Worthington; JPMorgan Chase & Co; Research Division, MD

PRESENTATION

Operator: Good day, and thank you for standing by. Welcome to the Robinhood's Second Quarter 202 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Chris Koegel, Head of Investor Relations. Please go ahead.

Chris Koegel: Thank you, Victor. Welcome, everyone, and thank you for joining us for Robinhood's Second Quarter 2022 Earnings Call. With us today are CEO and Co-Founder, Vlad Tenev; and CFO, Jason Warnick. Before getting started, I want to remind you that today's presentation will contain forward-looking statements about our financial outlook and our strategic and operational plans. Actual results could differ materially from our expectations, and we have no duty to provide updates unless legally required.

Potential risk factors that could cause differences, including regulatory developments that we continue to monitor are described in our press release issued yesterday, the related slide presentation on our Investor Relations website, our Form 10-Q filed this afternoon and in our other SEC filings.

Today's discussion will also include non-GAAP financial measures. Reconciliations to the GAAP results we consider most comparable can be found in the earnings presentation

on our Investor Relations website at investors.robinhood.com. With that, let me turn it over to Vlad.

Vladimir Tenev: Thank you, Chris, for that great introduction, and thanks to everyone for joining. Last week was the 1-year anniversary of our IPO. And in the 12 months since we've had to navigate two challenges, one of adapting to the public markets, and two of also dealing with an abrupt reversal of the macro environment.

For our customers, many of whom are younger, it looks like they may be facing a recession for the first time in their adult lives of the last two quarters of negative GDP growth or any indication. Customers are seeing this high inflation along with high interest rates, bear markets and stocks and a crypto winter. And this all adds up to less money to spend and therefore, less to save and invest.

You can also see this reflected in the drop in assets under custody that we reported. Despite strong net deposits of over \$5 billion in Q2, you can see that our assets under custody dropped. And this shows that customers have been hurt by devaluation across cryptocurrencies and growth stocks in particular. And while we can't control the macro environment, we've been hard at work building products to help our customers navigate it.

Products like the Cash Card, Stock Lending and high yield on their uninvested cash. I'd have to say 2022 is by far our most prolific year yet of delivering products to customers, and we've got much more in the works. For Robinhood in the seven or so years since we first launched in the U.S., we've consistently adapted to changes improved and become more robust and resilient as a company.

If we're headed into our first recession in the company's history, we recognize it would be a challenging time, but strong companies use these times as opportunities, and we look forward to navigating through this environment and coming out even stronger. To that end, we made a tough call to further reduce our staff, which we announced the details of yesterday. These are hard decisions, but we believe they better position our business for the long term.

So alongside the reduction in force, we organized the company into a general manager structure for each of our core business units. We've been thinking about this change for some time, and I'm confident that it will speed up decision-making, increase accountability. And ultimately, it will help us deliver even faster for our customers. This is just one part of our leaner operating model, and Jason will share more color on this in his remarks.

Now onto the quarter. Despite the environment weakening, we were able to both increase our revenues and lower our expenses in Q2 compared to Q1. Now this was a company-wide effort, and I am proud of the team for the hard work and dedication it took to get here. It certainly wasn't easy. We believe we're making swift progress toward our goal of being adjusted EBITDA positive by the end of the year.

So let's move on and talk a little bit about our product road map. Remember, our goal is to deliver low-cost, simple products and a safe customer experience that give everyday people control over their finances and access to the same tools that wealthy people have enjoyed for generations. We've organized our efforts into three product areas, brokerage, crypto and money. So I'd like to review each of those with you.

Let's start with brokerage. To put things in perspective, Robinhood is the most downloaded brokerage you have in the U.S. We achieved this leadership position by aggressively innovating, which in turn fueled our account and asset growth. To continue driving growth, we have focused our brokerage product development this year on 2 key areas: one, introducing retirement accounts; and the second, improving our customer experience, particularly for advanced customers.

So starting with retirement accounts, I can't tell you how excited we are about this product. We feel like we've come up with a way to offer retirement that is uniquely Robinhood, and we know our customers will love it as much as we do. We're piloting them now with plans to launch later this year.

Additionally, retirement accounts will be the first time our customers will be able to have multiple brokerage accounts with us. We think this creates a big opportunity for us to broaden our support for and deepen our relationships with our customers over time. It's also a new avenue for us to drive account and asset growth and increase our total share of wallet.

Next, let's turn to our advanced customers. In Q1, we extended market hours. So customers now have more flexibility to trade when they want and customers have now traded over \$9 billion in volume during these additional hours. Extending trading hours we view as the first step towards 24/7 stock trading, and we are making progress towards making this a reality.

In Q2, we also rolled out fully paid securities lending to give customers another source of passive income on their stocks, which is especially important in the current environment. We're encouraged to see the early progress with over \$3 billion of equity value already enrolled and available to lend. We've also been making a ton of improvements to our options product.

We believe our options offering is the lowest cost and best user experience offering out there. Most of our competitors say they're 0 commissions, but they, in fact, charge a \$0.65 commission for every contract traded, which is \$65 for a \$100 contract trade, which are \$0 per contract. Recently, we've added options in cash accounts, which has been a top requested feature by our actions customers.

We've also been doing a ton of in-person research with this group, and we recognize they care a lot about advanced charting on the platform. So we're making our charting and technical indicators much better, and there is plenty more to come. Keep the feedback

coming. Our team has been working tirelessly to make Robinhood by far, the best place to trade.

Now, let's turn to our crypto efforts. Our vision with crypto is to be the most trusted platform for customers to invest in crypto as well as the most trusted on-ramp to the decentralized web. That is why after first introducing crypto investing in 2018, we've been relentlessly focused on three things, providing the best value, the best user experience and being the safest.

So let me tell you what we are delivering for customers in crypto by highlighting 2 areas that we've been working on this year, adding more coins and giving customers more control over their crypto. Starting with coins. Customers tell us that they want us to introduce more coins onto the platform.

Some other crypto providers have come under scrutiny for listing unregistered securities on their platforms. This can be dangerous and misleading for customers because they may expect these cryptos to be more decentralized than they really are. We employ a rigorous listing framework, which in the short term may feel like we aren't moving fast enough.

But we think this approach will pay off in the long term. Frankly, one of the benefits of being heavily regulated in a U.S.-based company is that it has helped us learn how to build with customer safety in mind. So far in a deliberate and considered manner, we have introduced a number of new coins this year, and customers have been pleased with the offerings to date.

Turning to our efforts to give customers more control over their crypto. In April, we launched our crypto wallet. So customers can move their crypto in and out of Robinhood in a simple, safe and seamless way. We've heard feedback that customers want faster withdrawals and larger daily limits. So we raised our withdrawal limits from \$3,000 to \$5,000 per day and are working on improving this even more.

Later this year, we will be rolling out our noncustodial wallets. This will be a separate stand-alone app, where customers can trade and swap crypto with no network fees and maintain full custody of their crypto throughout, all with the simplicity and great user experience they have come to expect from Robinhood.

We're seeing good interest as our noncustodial wait list continues to grow, and our early internal version of the product looks awesome. We think customers are going to love it.

Okay. Let's now move to our product development efforts related to Robinhood Money, which includes our new cash card. We hear from customers that they want to start saving and investing but the current environment is hard with inflation and high gas prices. We want to help them by giving them a good way to build saving and investing habits even in the current environment. And to that end, in March, we launched the new Robinhood Cash Card.

Customers are using the card to make day-to-day purchases and round up their spare change into stocks, ETFs and crypto. And of course, not only are we not charging any monthly fees for this but we're actually matching a portion of their roundups to help them build their portfolios.

So it's a fantastic value for customers. And we've been pleased with the week-over-week growth and the cohort retention we've been seeing. Since launch, we've been making steady improvements to the user experience as well.

And last week, we started rolling out Cash back offers that select merchants, including on gas, doing our part to help customers with these high gas prices. We believe we have a huge opportunity to become the primary place where customers deposit their paychecks, which drive their spending and investing. And while it's still early, we're excited about our potential to grow this offering with both existing and new customers and drive additional customer loyalty as well as revenue diversification over time.

Now before passing it over to Jason, I wanted to reiterate how extremely proud I am of all the progress we've made over the past quarter with the new products we've shipped and the work we've done to improve the experience for our customers. And when I look ahead, I feel even better positioned to execute on our road map and serve our customers. And with that, let me turn it over to Jason.

Jason Warnick: Thanks, Vlad. It's good to speak with everyone today. In the second quarter, we remain focused on serving our customers, growing our business and driving long-term shareholder value. While the environment was volatile, net funded accounts were steady and net deposits were strong. And the combined strength of our team, platform and balance sheet positioned us to continue delivering on our 2022 product road map.

I'm also pleased that we've increased our productivity and efficiency, driving improvements to adjusted EBITDA from Q1. We've made great progress so far this year, and I'm energized by the opportunities to drive value for our customers and shareholders going forward. Before we review our Q2 results, I'd like to share some context for the August workforce reduction that we announced yesterday.

Since we spoke last quarter, we've continued to aggressively execute on our product road map and serve our customers while working hard to get to a leaner operating model, including by slowing our hiring and significantly lowering third-party spend, but the macro environment has continued to soften, inflation is at a 4-year high, and our customers are experiencing bare markets and equities and crypto.

It's clear we needed to do more to manage our costs. And so yesterday, we announced a 23% reduction from current levels to a head count of approximately 2,600. At this new level, we believe we are appropriately staffed to be cost efficient, while continuing to

deliver great service and innovation for our customers. To be clear, even with this reduction, we believe we are well positioned to continue delivering on our road map.

With that context in mind, let's review the second quarter, starting with our business results. Net funded accounts were \$22.9 million in Q2, up \$100,000 from the prior quarter and notably steady given the current environment. Looking at monthly active users, they were \$14 million in Q2. While this is down \$1.9 million from Q1, we are encouraged by our continued industry-leading engagement through a volatile quarter.

Turning to assets under custody. They were \$64 billion in Q2, down 31% from last quarter. While funded accounts continue to grow and customers continue to make net deposits through the volatile environment, assets under custody declined along with decreases in market valuations, especially for high-growth stocks and cryptocurrencies.

Looking at July, it's encouraging to see that customer assets increased back over \$70 billion as markets rebounded. Looking more closely at net deposits. They were \$5.2 billion in Q2, which translates to a 22% annualized growth rate relative to Q1 assets under custody. So while assets were lower in Q2, if we think about our long-term potential for asset growth, we believe the combination of strong net deposits and long-term rising markets can drive meaningful asset growth over time.

Now let's turn to our Q2 financial results, which reflect good progress on increasing profitability. Adjusted EBITDA improved \$63 million sequentially to negative \$80 million in Q2. This improvement was driven by revenue growth and expense discipline that drove operating leverage.

Looking ahead, we continue to push towards a positive adjusted EBITDA run rate by the end of the year. This goal is an important step along the way to delivering higher levels of profitability over time. We feel that our progress over the past quarter has better positioned us to reach our goal by year-end, which will take continued improvements in both revenue and costs.

So let's start with revenues. Total net revenues were \$318 million in Q2. This was a 6% increase from Q1, primarily driven by higher net interest and other revenues, partially offset by lower transaction revenues. Q2 total revenue translates to ARPU of \$56, up from \$53 last quarter. Now moving to transaction-based revenues. They were \$202 million in Q2, down 7% sequentially. The decrease was primarily driven by lower trading volumes consistent with the macro environment.

And turning to net interest revenues. As we've discussed in the past, we believe that over the long term, interest income will drive a larger portion of our revenue. That is why we're encouraged that Q2 net interest revenues reached a new high of \$74 million and drove nearly 1/4 of total Q2 revenues.

The 35% increase from Q1 was primarily due to the March and June Fed rate hikes, partially offset by lower margin balances. I'd also note that interest-earning assets, which

are comprised of customer cash, corporate cash and margin balances, were \$16 billion at the end of Q2. This includes customer cash sweep balances, earning 1%, which totaled over \$2 billion in Q2.

As we look ahead, interest rates are widely expected to continue rising, which would drive meaningful additional revenue from our interest-earning assets. One way to see that benefit is to look at our recent experience from the June and July Fed rate hikes that totaled 150 basis points.

On average, we estimate that we are realizing about \$40 million of annualized run rate revenue per 25 basis points of rate hike given our current balances and customer rates. Of course, the precise benefit of rate hikes will depend on how -- the benefit of rate hikes will depend on how balances and customer rates vary over time.

Moving on to other revenues. They were \$42 million in Q2, up 62% from Q1 primarily due to the seasonal increase in proxy-related revenues. Together, net interest and other revenue made up 36% of total revenue in Q2, up from 27% in Q1. Continuing to broaden our product offering can help us further diversify our revenues going forward.

Let's now look at our Q2 expenses, starting with operating expenses prior to share-based compensation. They were \$446 million in Q2, which includes \$17 million of severance related to our April workforce reduction. This was an improvement of \$24 million or 5% from Q1, reflecting our work to be more cost efficient including with third parties.

Given this progress on our ongoing expenses and our August workforce reduction, we're lowering our full year expense outlook. Our updated outlook for 2022 operating expenses prior to share-based compensation is a range of \$1.7 billion to \$1.76 billion, which would be a year-over-year decline of 7% to 10% in operating costs. This updated outlook includes the cost of an estimated \$45 million to \$60 million of severance and restructuring expenses related to our August workforce reduction.

Turning to share-based compensation expense, which, as a reminder, reflects the number of shares and our share price at the time the awards were granted. It was \$164 million in Q2 down by \$56 million or 25% from Q1. The decrease was primarily driven by a \$24 million reversal of previously recognized share-based compensation related to our April workforce reduction and a reduced pace of hiring this year.

I'd also highlight that 50% of our Q2 expense was driven by pre-IPO market-based awards for our 2 founders that will vest only as our share price reaches levels from \$50 to \$300, but are recognized on a GAAP basis as expenses over time. These awards won't increase our share count until our share price appreciates considerably, which would be a great outcome for shareholders.

As for our 2022 outlook for share-based compensation, we are lowering our expense outlook for the year. We now anticipate 2022 share-based compensation expense to be in the range of \$760 million to \$840 million, down between 47% to 52% from prior year

levels. This updated outlook includes the benefit of an estimated \$40 million to \$50 million reversal of previously recognized share-based compensation related to our August workforce reduction.

I also want to highlight that given our reduced pace of hiring and workforce reductions, we are now on a significantly lower trajectory of diluted share count growth than we have seen over the past year. While we believe that it's important to align the interest of employees with shareholders, this will be an area we will be managing closely.

Now let's turn to capital management. In the current environment, it's even more important to have a strong balance sheet and cash position. That is why we like our position with no debt and \$6 billion of corporate cash on hand that provides strength, flexibility and financial runway to continue serving our customers, executing on our product road map and evaluating potential acquisitions. As I mentioned last quarter, we have roughly \$2.5 billion of excess cash above our risk scenarios.

In closing, we continue to make good progress in Q2, and we're very optimistic about the opportunities ahead of us to deliver value for customers and shareholders. With that, Chris, let's move to Q&A.

QUESTIONS AND ANSWERS

Chris Koegel: (Operator Instructions) Thank you, Jason. Leading into this quarter's Q&A session, we'll start by answering the top questions from Say technologies ranked by number of votes. We will pass over any questions that are already covered on the call, and group together questions that share a common theme.

After that, we'll turn to live questions from our analysts. As a reminder, we skipped over some of the top questions because Vlad and Jason already covered them in their remarks.

So with that, I'll kick it off with a couple of our top questions that are on a similar theme from Say Technologies. These are both, I think, for Jason. So Mass R asks, having billions of dollars of cash, are you planning on buying back shares since the stock is at a low price? And then Seth G asks, any future plans for Robinhood to offer a dividend on their stock?

Jason Warnick: Thanks for each of those questions. We think the best use of our cash right now is to fund the business, both our organic initiatives to drive growth as well as potentially to use for acquisitions. I think a better time to be thinking for us to be thinking about returns of cash to shareholders is when we reach some goals further down the line around generating positive adjusted EBITDA and kicking off positive cash flow. But I appreciate the question.

Chris Koegel: All right. Thanks, Jason. Next question is from Sean, who asks, following up if Robinhood can give out its gold services, if a retail owner owns enough stock in

Robinhood, and also, any update on adding more advanced car trading features onto the app and website. Vlad, do you want to take that one?

Vladimir Tenev: Yes, I'll take it. Thanks, hey, John, for the question. And it's good seeing you up here with top-loaded questions quarter after quarter. So on gold for shareholders, we don't have plans to offer that right now and to bundle gold with shareholder status, but I do want to touch on rewards to shareholders and Robinhood gold briefly.

So on the first, you might have seen that, say, which we're all using for this Q&A, launched a product called Otway recently. So this will actually allow us to work with our corporate partners to identify shareholders and offer them perks and rewards. This is a first-of-its-kind offering, really allowing public companies to identify their shareholders. And we're excited to have Tesla being the first partner with us.

But we think this is something that more companies should be doing and we'd like to -- we're happy to offer the technology to make that easier for them. Now on the gold side, we think there's tremendous value in gold. And we've got a team of people hard at work to provide even more value. And we want goal to be so valuable that it's a no-brainer for all of our customers to be gold customers.

Chris Koegel: All right. Thank you, Vlad. So the next question is on the M&A front. So any word on being acquired by FTX or Charles Schwab?

Vladimir Tenev: Sure. I'll take this one. So in one word, no. I think we're in a great position as a stand-alone company. I love us as a stand-alone company. We've got a strong balance sheet. We've got an awesome team and we're delivering on our product road map, as I mentioned, at a pace that we haven't seen before.

So actually, I'd flip it on the other side. We actually see opportunities particularly in this market environment to leverage the balance sheet that we have, that's about \$6 billion to acquire companies that can help us accelerate our road map. So we continue to be on the lookout there. And we remain really excited by the opportunity we see ahead of us.

Chris Koegel: All right. Thanks, Bod. And thanks, Paul for asking that question. The next question is also from (inaudible) who asks -- also on the M&A front. Can you provide us with an update on the Ziglu acquisition and strategic plan for international expansion for this year?

Vladimir Tenev: Sure. And say, John, I think I also missed the second part of your question before about advanced trading. So advanced charts is something that we've heard from customers about, and we've got some good tools for you in the works. So just stay tuned. We hope to -- we think you'll really love them.

On the Ziglu acquisition and strategic plan for international expansion, so as we mentioned in the last call, we had entered into an agreement to acquire Ziglu. Now these agreements take normally a little while to close.

So we're going through that process right now. And we're still on track to close by the end of the year. And I'm very excited to bring Mark and the team on board and accelerate our entry into the U.K. and the rest of Europe. So very, very excited about that. And hopefully, it goes smoothly, we believe it will.

Chris Koegel: All right. Next question is from (inaudible) S., who asks -- or states that the 5-year historical charts don't seem good enough. And can we do more MAX like others?

Vladimir Tenev: Yes. Thank you for that feedback. I always love hearing feedback about the tools. We hear customers loud and clear that they want better charting, more flexibility, more advanced charting, and more data. So we've been making lots of improvements to our offerings and charting will continue to get better and better. So just stay tuned. We've got some good stuff in the works for you.

Chris Koegel: Okay. The next question is from Andrew , who asks, why not allow us to start trading when the premarket session opens at 4:00 a.m. Eastern.

Vladimir Tenev: Yes, I'll field that as well. Thanks, Andrew, for the question. So earlier this year, we announced our goal of making equity markets accessible 24/7. We think that it's actually silly that with all the technology we have nowadays, U.S. equity markets are still tied to East Coast, United States working hours.

So as the first step of that process, we extended our already extended trading hours to 4 a.m. Pacific to 5:00 p.m. Pacific. So that's 7 to 8 Eastern. The goal is to make that 24/7 along the way we might see opportunities depending on customer interest to make incremental progress and add more hours which we'll certainly pursue and consider. So adding 4 am to 7:00 a.m. Eastern, I believe, is certainly something we're thinking about.

Chris Koegel: Great. And let's take one more top question. So the last 1 is from Anthony B., who asks, would Robinhood be able to provide a service that lets people get loans against their assets.

Vladimir Tenev: Yes, I'll field this one as well. Thank you, Anthony. So we already do provide a form of this. So in our margin offering, we allow customers to get a loan against their assets already within Robinhood. And we're actually -- previously, this offering was only available to Robinhood Gold customers, but we're actually making it available to all customers under different rates.

So this will allow you, if you have over \$2,000 in securities to borrow against them, you can either use that to buy more securities or even withdraw it to your bank account or spend it through the Robinhood spending account and Cash Card. So yes, it's a very

useful service. A lot of customers don't know that you can actually withdraw against your margin loan and get some liquidity without selling securities.

So we'll definitely look to communicate that a little bit better and also looking at different ways to help customers generate some more liquidity, especially in this environment going forward.

Chris Koegel: All right. And that's for top question for today from today. So thank you, everyone, for your questions. We really appreciate all the thoughtful engagement from our shareholders and customers. So it's time to open up the line. (Operator Instructions) So with that, I'll ask Victor, please to open up the line for questions.

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

Devin Ryan: First question, I just want to talk about marketing spend a bit here. It was only \$24 million in the quarter. It's down 75% year-over-year. A little bit surprising just given all the new products that you're rolling out, including cash management.

So just trying to think about whether it makes sense to maybe lean in more on marketing, particularly with all the new products launching? Or do you guys see other ways to maybe get the word out and engage with new and existing investors just with all these new products and just particularly in a competitive market to get the name out.

Vladimir Tenev: Yes, I'll field that. I think historically, Robinhood has been very much driven by word-of-mouth growth and even the marketing expense that we accrued through 2021 in large part was as a result of our referral program. We did do a little bit of brand marketing as well, but I think performance and referral program were largely driving 2021.

And as the environment has kind of changed through 2022, we've been heads down focusing on products and improving the service quality. But we actually do see an opportunity to get the word out and do more brand marketing and make it clear to customers what Robinhood stands for and our mission and our position in the segment, as you point out.

So Yes, I would expect to see a little bit more on the brand side. And on the performance, as I'm sure Jason can add, we're very much focused on efficiency. And we think that organic and referral-based marketing is kind of the best way, and we'll see that pick up as the macro environment changes and as we continue to improve our products.

Jason Warnick: As you think about modeling this, we'd expect marketing expense to increase in the back half of the year. It's incorporated in the guidance that we provided.

Devin Ryan: Yes. Okay. All right. And then just a follow-up here. So funded accounts were up slightly, MAUs down, I think, 12%. Most other -- the incumbent brokers don't

give MAUs, but I'm assuming engagement been down at a number of firms just in the uncertain macro backdrop. Does it feel like we're approaching a bottom for engagement in MAUs?

I'm not sure if you have any data or kind of historical benchmarks to look at. And then of that \$14 million, is 20% driving 80% of the trading activity in revenue? Or what does that split look like? I'm assuming of the \$14 million, there's still kind of a small amount that's driving the majority, but want some more color there, too.

Jason Warnick: Yes. Devin, we do follow a Power law here. So the more active customers do drive more of the revenue versus the less active customers, and that's been true for some time. In terms of predicting the bottom, it is hard to predict.

The market, the first half of the year has been about the worst that we've seen in about 50 years, hard to know exactly when it's going to bottom out and turn around. I think we saw some life in July more broadly in the market, so that's an encouraging sign. And I commented in my prepared remarks about the effect it had on our customers rebound in assets under custody.

What we are focusing on right now is just continuing to improve the user experience. I do think personally, this is a cycle, and we're in a cycle, other cycles will come long term. I'm very optimistic that it's going to be great for retail investors to continue to invest in the stock market and participate in wealth building over the long term.

Operator: Our next question comes from the line of Richard Repetto from Piper Sandler.

Richard Repetto: I guess the first question is on regulation Glad. SEC Chair Gensler came out again in June and talked about -- well we talked about the retail equity market structure. I think you stopped short of any -- saying any specific bands, but it certainly sounded like he was proposing or wanted to propose things that would hinder the wholesalers and maybe payment for too. So any incremental comments from you on what you thought his talk and any other insights in regards to regulation?

Vladimir Tenev: Yes. Yes, sure, Rich. I mean I think the first thing to say is we're obviously paying close attention to what's coming out of the commission and what Chair Gensler is saying. I don't know if you heard former SEC Chair, Jay Layton yesterday, who was asked about this as well. And we agree with the sentiment there that payment for order flow and the current structure that's allowed has provided a great all-in cost of execution for retail investors, one that's, in fact, unmatched in history.

And we've got -- retail customers are getting a great deal. So I mean, we're a little bit concerned. Obviously, we're flying with things improving. But yes, we think that the barrier to -- or the sort of threshold to clear for making changes in this extremely complicated setup has to be quite high given that retail customers are getting great execution quality right now.

On -- in terms of what it would do to our business, again, we're paying attention to it, equities payment for order flow right now comprises about 9% of our total revenues.

So we've seen better diversification Q2 versus Q1. More of our revenue is driven by net interest income and equities payment for order flow even within the transaction segment has been on a downward trend. So certainly, 9% is significant. But I think all in all, we feel pretty comfortable that we're giving customers a great deal. And over time, you should see our revenues continue to diversify as we roll out more products.

Richard Repetto: Got it. That's very helpful, Brad. And my follow-up would be -- this is following up from a previous question earlier, but it's on the M&A front. And I know that question asked about specific companies. But I'm just trying to get your broader thoughts given the share -- the control of the shares, the voting power.

Would there be any scenario where you could see a partner that, again, may not be an acquisition, but could get you to the immediacy of product development and enrich the progress that you're trying to make, I guess, do you envision any scenario? Or is that just not really in the cards at this point?

Vladimir Tenev: Rich, I mean, as I mentioned before, if I look at Robinhood right now, I think we're incredibly well positioned to continue to execute on our plans as a standalone independent company. We've got \$6 billion in cash. We've made great progress towards both increasing revenues and decreasing costs.

And I think, in particular, in these environments, great companies that are in our position, have been able to set themselves up for the future, just taking advantage of opportunities that are out there for acquisitions and M&A. So I think we see an opportunity actually to use our balance sheet and our financial strength to accelerate our own road map. And that's how we've been thinking about it and approaching our strategy.

Richard Repetto: Understood, just the companies that made it through the Internet. When the Internet bubble broke, we're the one that has stayed focused flat.

Operator: Our next question will come from the line of Michael Sypris from Morgan Stanley.

Michael Cyprys: I wanted to touch upon the net new deposits, which continue to hold up quite strong despite the challenging environment. So I was hoping you could provide some color around that, including maybe touching upon the profile of the customers that are driving the M&A versus the installed base. How much of the M&A relates to recurring preset contributions? And how much of that is going into the cash management program.

Jason Warnick: Yes. So I'll go ahead and start, and Vlad, you can feel free to add some color. So we feel really good. We increased the interest rate that we're offering to our

customers in the cash sweep program. That's now at 1%, and we've got about \$2 billion of customer cash there.

So offering a really nice value proposition. In terms of the net deposits, \$5.2 billion during the quarter, a 22% annualized growth rate in terms of net deposits relative to the beginning of period AUC. So really strong indication that our customers, even in this tough environment are continuing to engage and putting their money to work for the long term.

In terms of customer cohorts, we haven't provided the breakout detail between the various cohorts in terms of net deposits. What I'd tell you is that there's a broad participation of where the net deposits are coming from, including from the installed base. The net increase in our funded accounts has been modest these last couple of quarters. So I'd point more to our installed base. But we do like what we're seeing from the new investors that are joining the platform. And I think we're really well positioned for them to grow with us.

Vladimir Tenev: Yes. And the only thing I would add to that is some of the things on the near-term road map that we've mentioned before, in particular, retirement accounts and making improvements for our more advanced customers, we think those will drive meaningful net deposit increases over time as well.

Michael Cyprys: Great. And just a follow-up question regarding the \$6 billion cash position that you flagged that you have on the balance sheet. I guess the question here is just how much do you need to run the business in terms of cash versus how much is excess that might be available for M&A that you were mentioning before that you may have some interest in?

And I also saw you mentioned about \$2.5 billion of excess above risk scenario, but I think that includes your \$3 billion lines of credit, so that would suggest no excess in a risk scenario. So I was just hoping you can elaborate around what that risk scenario is and how to think about that?

Jason Warnick: So in our risk scenarios, we have \$2.5 billion of excess cash. So that is just excess. And on a typical day, we're using very little of our corporate cash to run the business. We've just had periods of time in the past where -- for example, the main stock rally, we saw moments where there was extreme volatility and that caused the risk scenarios that we are modeling today. And that's what I'm referring to, moments like that, where we continue to have in excess, \$2.5 billion above scenarios that resemble what we saw back then.

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

Steven Chubak: I wanted to start off with a question on stock-based comp. Jason, you made some earlier comments just highlighting your internal focus to rein in future

dilution. And I was hoping you could help us size the incremental dilution associated with the share-based comp that's not yet been recognized.

And given your strong excess liquidity position, I heard the earlier comment on capital management, but any potential plans to offset that future dilution with incremental buybacks?

Jason Warnick: Yes. We don't have plans right now to implement a share buyback plan. As I mentioned in my earlier comment to the say question, we think that will be a more appropriate as we turn the corner on profitability. In terms of unrecognized share-based compensation, we just filed our 10-Q this afternoon.

I think that number is in the queue. I don't have it top of mind but the unrecognized is in there. And then just to reiterate that about half of our share-based compensation is from the pre-IPO market-based awards that were given to the founders. And those vest a significantly higher dollar share prices than where we're at today.

Steven Chubak: And for my follow-up, just on the NII sensitivity. You spoke of the \$40 million benefit per rate hike just given the sheer number of hikes we've seen so far, the NII expansion in Q2, certainly healthy, you cited a record, but it was a bit lighter than we had anticipated.

I recognize there are a lot of moving pieces impacting the sensitivity thought it might be helpful, Jason, if you could just speak to the sensitivity across the different buckets, margin balances, web cash, corporate cash, that's underpinning some of that \$40 million per hike guidance that you offered up.

Jason Warnick: Yes. We're actually really pleased with the pass-through that we've seen from our banking partners on these rates so far and pretty optimistic that we'll continue to see good results from there. margin balances. We have increased. As Vlad mentioned, we've also separated it from gold, offering customers who are not part of gold to participate in the margin program, but at higher rates.

And in terms of kind of go-forward guidance, what I would just say is that we'll continue to see a meaningful portion of these rates accrued to shareholders but balanced by our intention to also offer just great value for customers.

Operator: Next question will come from the line of Will Nance from Goldman Sachs.

William Nance: I wanted to ask another question on the expense base and follow up on the earlier question on stock-based comp as well. The given the moving pieces in the expense base, a handful of restructuring charges in the back half, Jason, I'm wondering if you could talk for both kind of like OpEx and the SBC lines.

As you look out into 2023, what's the exit run rate some of these line items? And I guess, particularly on SBC, if you do -- if you have an exit run rate for us, is that 50% level that impacts ongoing dilution still going to be the right number for the foreseeable future?

Jason Warnick: Yes. I think there's a couple of things that I can say that will be helpful, but we haven't provided guidance on exit run rates. The stock-based comp for the market-based awards that were given pre-IPO to the founders, that is recognized on an accelerated basis. And so that will decline over time recognizing more in earlier periods and less in later periods.

Also, as we hit those share prices, it will it will cause an acceleration of the related tranches that are affected by that. So it will be accelerated and also potentially lumpy as we hit those triggers. Really proud of the team, both on OpEx, primarily on OpEx, both for third-party spend in particular making great progress, a lot of collaboration across the teams.

One area to highlight is the focus that our engineering team has had on improving our efficient use of our web hosting. But we've got lots of examples kind of across the company of just driving improvements, all reflected in the pretty favorable incremental guidance that we gave in our release.

William Nance: Got it. I appreciate that. And then just kind of a nuanced question on the transaction revenues. I think the implied take rate on the cryptocurrency trading this quarter, I think it was up sequentially versus the first quarter of this year. I know you guys obviously renegotiated at the beginning of the year. But anything to call out on what drove the higher spread this quarter?

Jason Warnick: Yes. We were able to achieve a higher negotiated rate than what we had previously. It is disclosed on our app and website. We took it from kind of low 20s to now, it's 35 basis points.

Operator: Our next question will come from the line of Josh Beck from KeyBanc Capital.

Josh Beck: Yes. Thank you for the question. I was just kind of curious when we think about ARPU and where it can go in the midterm. Obviously, with the current macro kind of stable, what would be the key drivers that we should be focused on in terms of trying to build out scenarios on kind of where that metric could go over time?

Jason Warnick: Yes, I'll go ahead and take it, and then Vlad can jump in. What we're really focused on is improving the user experience. Vlad mentioned a couple of things around the brokerage user experience. We're continuing to add new coins for crypto in a very diligent way and also looking to new products that we roll out fully paid securities lending, which we recently rolled out.

We're seeing really nice early traction with \$3 billion of equities under management that are already enrolled. The Cash Card is another area. It's a new product and one that we're really excited about improving the user experience.

And then, of course, we're going to see some benefit from the rising interest rate. A couple of the rate hikes that happened in Q2 happened late in the quarter, and you'll begin to see that flow through at a higher rate in Q3. So I think we like our focus on user experience and new products and expect that that's going to begin to show through in our financials over time.

Josh Beck: And I had a follow-up. Certainly, the market conditions have been challenging for everyone. Obviously, you did raise a substantial amount of capital and do have certainly leading scale. So I'm just curious when you think about the competitive environment and particularly maybe some of the lower scaled companies, perhaps with less funding, if you have seen any changes maybe on the customer acquisition or front or anything else notable there?

Jason Warnick: I'd say that overall customer acquisition is lower right now in periods of more market enthusiasm. We found that customer acquisition comes a little easier. And right now, it's a little lower. We've pulled back on marketing.

We found that chasing growth in this environment doesn't have the same ROI as in periods where you have higher intent customers. So it's -- it continues to be competitive. We continue to work on kind of the inputs of customer experience, and we expect that at some point, hopefully soon, we'll work our way through this cycle.

Vladimir Tenev: Yes. I'd just add that I think historically, Robinhood has been a company that has focused a lot on new customer acquisition. And we probably focused historically, again, a little bit less on the customers that we've already had. This year, I think, has been a really healthy focus on valuable customers that have grown with us and have been using the platform quite a bit.

And improving the customer experience for our most advanced customers and the people that we already had, we think has been very, very valuable. And you'll see that pay dividends for the business. But it is cyclical. And as time goes on, I would expect that shift -- that mix to shift. And we would definitely see opportunities over the long run to reaccelerate new customer acquisition.

Operator: Our next question comes from the line of Benjamin Budish from Barclays.

Benjamin Budish: Maybe first on the fully paid securities lending. You mentioned, I think, \$3 billion in eligible balances. I'm just wondering, given the revenue share you got with customers that opt in and the target of 1 to 2x the size of your margin-based securities lending revenues. How big do you think that needs to be to kind of hit that goal?

Jason Warnick: It's early. I don't know offhand if we have shared the revenue split, I don't believe so. So I'm not going to lean into that particular aspect of your question. It's early. We've got about \$50 billion of equities under management today, \$3 billion of that is enrolled.

The teams are hard at work at making sure our customers are aware of the program, aware of the way that they can increase their passive income by participating in the program. And we like the growth that we're seeing kind of on a weekly basis and look forward to updating you. But it's early, and we've got a ways to go before it reaches that potential.

Benjamin Budish: Okay. That's fair enough. And then maybe one for Vlad. You mentioned that kind of another M&A question. You mentioned that you see yourselves as more of an acquirer than an acquire. Could you maybe talk about what your priorities may be? Would it be more things like Ziglu where you're looking at international expansion or product expansion? Or I don't know, kind of -- that's the general question though.

Vladimir Tenev: Yes. I'd say international, as you mentioned, with Ziglu definitely something we've looked at in the past and we'll continue to explore. The other area is just opportunities for us to take advantage of our large scale in terms of customers and plug in new products and new services and assets that our customers would find valuable -- particularly those trading at attractive good businesses trading at attractive valuations, which you can find in environments like this.

Operator: And our last question for today will be from Ken Worthington from JPMorgan.

Kenneth Worthington: Maybe for Vlad, in the S-1, the mission statement was the democratization of finance for all. As we've been running the numbers, we see that your clients have pretty significantly underperformed since the mean bubble burst in both up and down markets even when accounting for crypto and growth.

So two questions around this. Can Robinhood do better for its customers and drive better performance results for them? And if so, how do you get there? What tools do they need? And how long it will it take? And I would say things like Cash Card and the wallet and retirement accounts to stock lending are all interesting and probably you'll see big demand but it doesn't seem like they address the key issue of underperformance.

And then as we think about driving better performance for the end customers, can you do it in a way, given your customer asset levels in a way that's profitable for Robinhood and your shareholders?

Vladimir Tenev: Yes, I think -- thanks for the question. It's always hard to have a very short-term view on this. I mean when you look at performance kind of right in the depths

of crypto winter and after a bear market that's hit technology and innovation, particularly hard, I think you'll get a skewed results.

But over the long run, we believe in innovation. We believe in technology. We believe that these customers who -- many of whom are at the beginning of their financial journeys and are starting relatively younger than previous generations have with investing, we'll end up doing quite well because the American economy, the engines of innovation.

In the short term, you might have you might have bear markets, but over the long run, we think that they'll do quite well. So we're very, very committed to providing the best tools for our customers to benefit from these markets and make it easier to invest. I don't think that a bear market should call our mission into question.

I think the mission is incredibly important. And bear markets are opportunities that investors, particularly wealthy ones, have used to set themselves up for long-term success. And I think it's very, very important for us to offer these services to not just the wealthy.

Kenneth Worthington: Okay. Great. And then just maybe a data question. How much -- or how many gold accounts, cash cards noncustodial wallets on the wait list. Where do those numbers sort of stand as of the end of the second quarter?

Jason Warnick: So sorry, go ahead and repeat that list again for me, Ken.

Kenneth Worthington: Yes. I'm sorry. And I apologize. I tried to go through the -- or the queue, I didn't see anything. Gold accounts, cash cards and the noncustodial wallet waitlist.

Jason Warnick: Yes. We have about a 6% attach rate on gold. Cash Card, it's early. We haven't said the number of users at this point. What we're focused on really right now is just improving the user experience. Last week, for example, we've rolled out merchant incentives, which gives customers cash back on spending their card at places like gas stations, pizza parlors and so on, which we think is great for customers.

So what we're really focused on is improving user experience, improving the value proposition. And then just getting the word out, finding ways within the app and otherwise, there are questions about marketing earlier to get the word out to customers about the products that we have and the great value proposition that we have for them.

Vladimir Tenev: And I think on the noncustodial wallet, that wait list number is actually public on the website. And I believe it recently crossed 1 million.

Jason Warnick: Thanks for your questions, Ken, and thanks to everyone for questions today.

Vladimir Tenev: Yes. Thank you, guys.

Operator: And this concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.