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Q3 2024 ROBINHOOD MARKETS, INC. EARNINGS CALL

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An LSEG Business



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- **Vladimir Tenev** *Robinhood Markets, Inc. – Chairman and Chief Executive Officer*
- **Jason Warnick** *Robinhood Markets, Inc. - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Craig Siegenthaler** *BofA Global Research - Analyst*
- **Dan Dolev** *Mizuho Securities USA - Analyst*
- **Patrick Moley** *Piper Sandler Companies - Analyst*
- **Brian Bedel** *Deutsche Bank - Analyst*
- **Devin Ryan** *Citizens JMP - Analyst*
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- **John Todaro** *Needham & Company LLC - Senior Analyst*
- **Steven Chubak** *Wolfe Research LLC - Analyst*
- **Andrew Stein** *FT Partners - Analyst*
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PRESENTATION

Operator

Thank you for standing by. My name is Catherine, and I will be your conference operator today.

At this time, I would like to welcome everyone to the Robinhood Third Quarter 2024 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session.

I would now like to turn the call over to Chris Koegel, Vice President of Corporate FP&A and Investor Relations.

Please, go ahead.

Chris Koegel *Robinhood Markets, Inc. - Vice President of Corporate FP&A and Investor Relations*

Thank you, Catherine, and thank you to everyone for joining Robinhood's Q3 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 call will contain forward-looking statements.

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 the press release we issued today, the earnings presentation and our SEC filings, all of which can be found at investors.robinhood.com.

Today's discussion will also include non-GAAP financial measures. Reconciliations to GAAP measures we consider most comparable can be found in the earnings presentation. With that, let me turn it over to Vlad.

Vladimir Tenev *Robinhood Markets, Inc. - Chairman and Chief Executive Officer*

Thanks, Chris. Hi, everyone. Let me start by reiterating Robinhood's three areas of focus. Number one, winning the active trader market. Number two, increasing wallet share with our customers. And number three, expanding internationally. In Q3, we continued to make progress on all these fronts.

In fact, our results after the first three quarters of the year have already broken through a number of full-year records, and we have another quarter in front of us to take these results even higher.

Just to share a few examples. First, Q3 net deposits were \$10 billion or more for the third straight quarter as we continue to increase wallet share. This brings us to \$34 billion year-to-date, above our 2020 record of \$31 billion, and also takes our customer assets under custody to a record high of \$152 billion.

Second, Q3 options contracts were up 47% year-over-year to a new record as we keep winning with active traders. This brings our year-to-date total to 1.2 billion contracts, edging out our full year high from 2021.

And third, Q3 was another strong financial quarter, with our second highest revenues ever. Revenues grew 36% year-over-year. Adjusted EBITDA increased 96% from a year ago. Looking year to date, revenues of nearly \$2 billion have already broken last year's record \$1.9 billion and GAAP diluted EPS of \$0.55 is multiples of any prior year.

It's energizing to see our business performing well like this, but we're even more excited about our product roadmap. A key part of increasing wallet share with customers is growing Robinhood Gold subscriptions, which hit an all-time high of 2.2 million in Q3.

And one of the most exciting new parts of the Gold program is our Robinhood Gold Card. When I've talked to Robinhood customers in recent months, the Gold Card almost always comes up. If someone has it, they love it. If they don't have it, they want to know when they're going to get it. And I hear you. We are working hard to increase the rollout. But we're also being patient and carefully studying customer behavior as we grow so that we manage credit risk to profitably scale over time.

While it's still early, I wanted to share some emerging data from our 100,000 Gold Card customers. First, customers love the Gold Card. App Store ratings continue to be five out of five with over 10,000 5-star reviews. Customers tell us they love the metal card, the digital app and of course, the 3% rewards.

Second, the early customer behavior is in line with our expectations. It looks like the Gold Card is top of wallet for most customers, and early data shows that we're retaining approximately 95% of Gold Card customers following their first transaction. We're also starting to see customer spending grow and loan balances revolve as expected.

Third, Gold Card customers are also contributing meaningfully higher Net Deposits versus similar customers. It's great to see the early additional benefits to the platform. All in all, while it's still quite early, we're further increasing confidence that we can scale the Gold Card significantly over time. Now let me turn it over to Jason to review our financial results, and then I'll offer some additional thoughts.

Jason Warnick *Robinhood Markets, Inc. - Chief Financial Officer*

Thanks, Vlad, and thanks, everyone, for joining us today. In Q3, we had another strong quarter, growing revenues 36% and driving 77% incremental adjusted EBITDA margins versus a year ago. Q3 business results also set a number of new highs, including assets under custody, options contracts, cash sweep balances, and retirement AUC, as well as multi-year highs for equity volumes and margin balances.

And, as we entered 2024 focused on driving another year of profitable growth, we are excited that we have already broken records for full year revenue, adjusted EBITDA and earnings per share. Looking at the progress we made in Q3 versus a year ago. Assets under custody grew 76% to a record \$152 billion.

Net deposits were \$10 billion plus for the third straight quarter and \$39 billion over the past year. This translates to annualized net deposit growth rates of 29% in Q3 and 45% over the past year. Total net revenues grew 36% to \$637 million.

Adjusted EBITDA nearly doubled to \$268 million. Adjusted EBITDA margins expanded by 13 points to 42%. And net income grew to \$150 million or \$0.17 per share. This was reduced by \$0.01 for a regulatory accrual in the quarter.

We're pleased with these results, which marked our fourth straight quarter of GAAP profitability and ninth straight quarter of positive adjusted EBITDA. Now let's look more closely at Q3 revenues, which increased year over year across all three categories.

Transaction based revenues grew 72% as we drove higher volumes and market share gains across all trading products. It was great to see option, equity and crypto volumes up 47%, 65% and over 100% from a year ago, respectively. Net interest revenues increased 9% as we grew interest-earning assets and securities lending activity improved.

This included customers growing their cash sweep balances 80% year-over-year and margin balances building to a two year high. Lastly, other revenues grew by 42% as we added over 850,000 Gold subscribers in the past year to reach a record 2.2 million subscribers and record annualized recurring Gold subscription revenue of over \$110 million.

I would also note that our Q3 revenues include the impact of contra revenues from amortizing matches on customer deposits and transfers. Q3 contra revenues were \$27 million, up \$14 million sequentially, mostly driven by the 1% Gold deposit boost.

We expect contra revenues to grow sequentially by a similar amount in Q4 and then grow much slower in 2025. To provide some more context. Customers love the matches we provide on asset transfers and IRA contributions, and we are seeing great payback periods on these matches.

At the same time, the 1% Gold deposit boost has not driven as much incremental customer activity as our other promotions. So, we've decided to wind down in November to focus on offers that resonate more with customers.

As an example, we doubled down recently our HOOD Week promotion by offering a range of matches on asset transfers. And in just two weeks, this led \$2 billion of transfers in from brokerage incumbents that averaged over \$130,000 per customer.

Stepping back, when we reflect on our revenues so far this year, it feels good that our last three quarters are the three highest in Company history.

Turning to Q3 expenses, we had another good quarter of expense discipline. Combined adjusted operating expenses and SBC was \$476 million in Q3 in the middle of our 2024 outlook range on a quarterly basis.

Looking ahead to Q4, we are pleased that we are still on track for full year outlook range of \$1.85 to \$1.95 billion of adjusted operating expenses and SBC, even while driving nearly 40% year over year revenue growth for the first three quarters of the year. We anticipate will likely finish near the top end of that range given our continued growth investments to finish the year strong.

Turning to capital management, we started at our \$1 billion share repurchase program in July. We allocated \$97 million to repurchase 5 million shares in Q3 and made good initial progress on our expected two-to-three-year total timeline. We love deploying capital like this. It lowers our share count and positions us to increase EPS and free cash flow per share over time.

And when we look at last year's share repurchase, plus, the start of our new program, we have deployed over \$700 million to repurchase approximately 60 million of our shares, equivalent to about 7% of our current diluted count. And we are continuing to repurchase shares daily in Q4.

Before passing it back to Vlad, I'd like to comment on the strong momentum we are seeing so far in October. Net deposits are north of \$4 billion, and cash sweep balances are more than \$25 billion. As for trading, equity notional volumes are the highest month in over three years. Option contracts look to be one of the highest months ever. And crypto notional volumes are over \$5 billion, on track to exceed the Q3 monthly average.

I would also highlight that our crypto rebates have increased to 48 basis points in October, relative to our 44 basis points average in Q3 and 35 basis points at the start of the year.

So, we're really excited about finishing the year strong. Longer term, we are energized by the progress we are making, and believe we are well positioned to drive higher earnings and free cash flow per share over time, driven by our 20% plus net deposit growth, diversified business model and 90% fixed cost base.

With that, I will turn the call back to Vlad.

Vladimir Tenev *Robinhood Markets, Inc. - Chairman and Chief Executive Officer*

Thanks, Jason.

Now I want to highlight our progress on the first part of our strategy, winning with active traders. Two weeks ago, we held our inaugural HOOD Summit in Miami. It was really awesome to have over 400 active trader customers together for a few days, and we introduced three exciting new products.

First, we announced index options, which are one of the fastest growing retail products and make up nearly 10% of US retail options contracts. Our customers have been trading them on other platforms to date, so, they're excited to bring their trades to Robinhood and leverage our industry-leading pricing, and we are excited to expand our addressable market.

Second, we announced futures. Here we're not only offering industry leading pricing, but also a great customer experience with our awesome futures ladder.

We continue to believe that futures can be a nine-figure revenue business for us over time. Also, building out the infrastructure behind futures has also enabled us to offer event contracts, including our new Presidential Election Market that we launched this Monday.

It was great to see customers quickly engage with this new product, trading over 10 million contracts in the first full day and on track to more than double that today.

Third, we launched Robinhood Legend, our new state-of-the-art desktop platform, which we built from the bottom up for active traders. It's clear from customer feedback that Legend is really resonating. So, we're doubling down in this new domain.

The team is hard at work to rapidly shift more functionality for customers. As additional context, while we are number one in mobile trading, that's only half of the retail trading market today. The other half is on web where we haven't meaningfully competed in the past. So, launching Legend is doubling our addressable market.

We have a lot of momentum in our active trader offering as we close out the year. As I said earlier, Q3 option volumes were up 47% year over year to a new record. In Q3, equity volumes also increased, up 65% year over year to a three year high. And this is even before the full rollout of index options, futures, and Robinhood Legend.

In closing, we had another strong quarter in Q3, and you should know our team continues to work incredibly hard to deliver even more value to our customers. The roadmap is full, there is so much to do, and we are excited to share a lot more with you at our Investor Day in December. Now let's move to questions.

QUESTIONS AND ANSWERS

Chris Koegel *Robinhood Markets, Inc. - Vice President of Corporate FP&A and Investor Relations.*

Thank you, Vlad. For the Q&A session we will start by answering the top few shareholder questions from Say Technologies, ranked by number of votes. We passed over questions that we already addressed on this call or in prior quarters and grouped together questions that shared a common theme. After the Say questions, we'll turn to live questions from our analysts. So, I'll kick it off with our first question from Say, which is for Vlad.

Vlad, when will the Robinhood Gold Card be available to all users?

Vladimir Tenev *Robinhood Markets, Inc. - Chairman and Chief Executive Officer*

Yeah, Thank you for the question.

I think that the first thing I want to say is we've really been humbled by the demand we've seen so far for the Gold credit card. The waitlist is close to 2 million, and so far, we've rolled it out to about 100,000 customers. And I think if you compare this to how other successful credit card programs that are new have scaled, that is a pretty quick ramp.

But of course, we also recognize it's small compared to the waitlist. The waitlist, frankly, exceeded our expectations, and we are working as hard as we can to get it out as quickly as we can. But it's also important for us to make sure we don't incur significant near-term losses. So, we have to understand the customer behavior and the economics because the credit card business can get quite big, and also, if we're not careful that could mean losses.

So, as I mentioned earlier, we like the behavior we're seeing. And if the behavior we are seeing continues in this way, over the next year we expect to roll the card out to multiples of where we are today.

Chris Koegel Robinhood Markets, Inc. - Vice President of Corporate FP&A and Investor Relations.

Right. Thank you, Vlad.

The next question is also for you, and it asks, are there any plans to introduce a way to send or receive money to other Robinhood users via the Robinhood ecosystem?

Vladimir Tenev Robinhood Markets, Inc. - Chairman and Chief Executive Officer

Yeah, we've actually experimented with this in the past when we rolled out Robinhood Spending and the Robinhood Cash Card, a couple of years ago. Right now, the focus is really on the credit card offering. We're seeing amazing feedback and strong demand for that. So, we're focusing on making sure we scale that, but we do anticipate growing our offerings, so that anything that you can do on another consumer finance app or product can be done on Robinhood as well. So, this is certainly something that we're thinking about.

Chris Koegel Robinhood Markets, Inc. - Vice President of Corporate FP&A and Investor Relations.

The third question's also on Robinhood Gold. So rate cuts make Robinhood Gold worse each time. How will Gold continue to add value to users, and what new benefits is Robinhood planning to add for Gold users? Also for Vlad.

Vladimir Tenev Robinhood Markets, Inc. - Chairman and Chief Executive Officer

Yeah, so the strategy with Gold is to deliver an offering that provides customers with exceptional value in every market environment. Regardless of whether the rates are increasing or decreasing, you should be able to get tremendous value from Robinhood Gold.

Now some of the value props naturally do well in an increasing rate environment. Cash sweep with high APY, is one of them. Other products tend to be more attractive in declining rate environments. And as a matter of fact, at HOOD Summit, we recently announced that Gold customers will receive differentiated, better pricing on a few of the products we announced.

So, the pricing, while industry leading across the board is even better on index options and futures for our Gold subscribers. So, while rates on sweeps may be coming down because of Fed cuts, we're going to keep investing in Gold, and for every new product we launch, we ask ourselves how can we make it even better for our Gold subscribers.

And as you see, as we continue to roll out new products, Gold should get even better and better.

Chris Koegel Robinhood Markets, Inc. - Vice President of Corporate FP&A and Investor Relations.

Great! Thank you. Vlad. And last question is for you Jason.

Jason, can you describe the plans for the live tax gain and loss monitoring that you are rolling out?

Jason Warnick Robinhood Markets, Inc. - Chief Financial Officer

Sure.

There's a couple of things I'd highlight on tax management. First of all, we recognize it's really important for customers. Just yesterday, we announced a realized P&L tool, shipped, so that one's live for customers now. And we also know that tax lot selection in the app is important for customers. And I'm excited to tell you that we have employee beta testing going on right now for tax lots, and the team is pushing hard to get it in the hands of customers really soon.

Vladimir Tenev *Robinhood Markets, Inc. - Chairman and Chief Executive Officer*

We think it's really good. Yeah. I think you're going to like it.

Chris Koegel *Robinhood Markets, Inc. - Vice President of Corporate FP&A and Investor Relations.*

That concludes our shareholder questions from Say Technologies.

We appreciate our shareholders taking time to ask these questions of Vlad, Jason, and look forward to more next quarter. So now I'll turn the call over to Catherine to lead a Q&A for analysts.

Operator

Your first question comes from the line of Craig Siegenthaler with Bank of America.

Please go ahead.

Craig Siegenthaler *BofA Global Research - Analyst*

Good afternoon, everyone. Hope everyone's doing well. First, we want to congratulate you on the Legend launch. And I saw there were, I think a thousand sign-ups in the first 40 seconds post the launch. But what is the level of sign-ups to date and how many of them are incremental sign-ups to the 24.4 million accounts there are at Robinhood as of September 30?

Vladimir Tenev *Robinhood Markets, Inc. - Chairman and Chief Executive Officer*

Yeah, I mean, the product is not quite ungated in the sense that anyone can just access it. So, we've been rolling out multiples of that number but haven't yet opened it up to everyone. Early feedback is extremely positive. I mean, I know you guys probably see the level of live streamers and folks on social media has been tremendous.

And the team is, I'd say, even more motivated to keep the momentum and make sure the product is better and better because we really feel like we've got something great here.

Operator

Our next question comes from the line of Dan Dolev with Mizuho. Please go ahead.

Dan Dolev *Mizuho Securities USA - Analyst*

Hey Vlad, hey guys, great results again. Very proud of you.

Vladimir Tenev *Robinhood Markets, Inc. - Chairman and Chief Executive Officer*

Thanks, Dan.

Dan Dolev Mizuho Securities USA - Analyst

You got it. Yes, of course. Well deserved. I was very intrigued with the Presidential Election Market. It's gotten a lot of press and we've been getting a lot of questions on it. So, can you give us some color on how it's doing, how accretive it is to overall retention? Anything you can tell us about it would be great. Thank you.

Vladimir Tenev Robinhood Markets, Inc. - Chairman and Chief Executive Officer

Yeah. So first off, we just rolled out to 100% of customers after starting the rollout just this Monday. So, huge kudos to the team for that. The path to offer this product was paved really less than 30 days ago, and we really moved quickly to make it available to customers ahead of the election.

So, to give a little bit of context around this, one of our focus areas is to win the active trader market. And I think really to do that, our approach is that if you're an active trader, using Robinhood should put you in a position, you should really associate Robinhood with being at the forefront of technology and innovation in trading.

I think offering products like these, which you can't really find at many of our competitors, is the best way to do that. So, feedback is really good. You can see on social that it's resonating with customers very clearly. But we rolled out to 100% right before the call started. So, I think it's a little bit early to tell, to give you too much. Other than that yesterday, we did about 10 million contracts, that was pre-full rollout, and we've done even more than that already today.

Operator

Okay. Your next question comes from the line of Patrick Moley, from Piper Sandler. Please go ahead.

Patrick Moley Piper Sandler Companies - Analyst

Yes, Good afternoon. Thanks for taking the question. I just had one on index options and futures trading. Now that you've announced the pricing on those products, I was hoping you could help us better understand the economics there. I know index options carry relatively high exchange fees. So, what do your margins look like in offering those contracts, how much do you expect to make per contract? And then maybe as part of that, your expectation for how much volume is going to come from Gold versus non-Gold members?

And then if I could add a follow-on modeling question. It looks like your equity fee capture declined by about 20% sequentially. So, any color there on what drove that would be helpful.

Jason Warnick Robinhood Markets, Inc. - Chief Financial Officer

Sure, Patrick, I'll go ahead and take both of those. This is Jason. So, going index options first.

First, the non-Gold price will be kind of industry leading at \$0.50 per contract and the Gold price will be even better, at \$0.35 per contract. Cash-settled index options, as you know, is a really fast-growing segment within options. And so, we see this as a big opportunity for us to take market share even faster. As context, we have been taking double-digit market share for some time now, and that's without having the hotter segment offering. Also, on fees like exchange fees, we'll be passing those through to the customers.

On futures, non-Gold \$0.75 per contract and Gold gets an even better deal at \$0.50 per contract.

We said that futures over time, based on volumes seen at our competitors, we think it could be a nine-figure business for us. So, it's a big opportunity for us.

The second part of your question was equity take rates. There are really two things that affects our take rate on equity. The first is volatility and the second is mix. And what we saw in the quarter was just customers buying more kind of larger, more liquid names.

Operator

Your next question comes from the line of Brian Bedell with Deutsche Bank. Please go ahead.

Brian Bedel Deutsche Bank - Analyst

Great. Good evening, folks. Thanks for taking my question. Maybe just on the cadence of customer pickup as we move into 4Q. Just on, futures and index contracts in terms of what portion of the user base have you rolled features out to so far?

And what are the rough plans in doing that for the rest of the quarter? And then same on the index options timing of when you expect to roll that out.

And if I could just sneak one more in on desktop users, good to hear the great feedback. Any observation yet on increased velocity from the folks that are using it so far?

Vladimir Tenev Robinhood Markets, Inc. - Chairman and Chief Executive Officer

Yeah, I would say that the folks that use the Robinhood Legend product tend to be among our most active. So, the velocity is quite high. We rolled it out to 1,000 people during the Robinhood Legend keynote, and it was the first 1,000 people that signed into their Robinhood accounts on desktop.

And I think we filled the 1,000 slots in 45 seconds. So those customers were very keen and engaged to try the product. Early feedback is very positive. And I think it's really important to establish a great reputation among active traders because they're networked in a way. They talk to each other, they listen to other active traders and what we've been seeing is really positive signs from the community about Robinhood Legend.

But that said, it's not rolled out fully yet. So, we don't have like the perfect picture of what it's going to look like at 100%. But so far, we really like what we're seeing.

Yes, timing on index options and futures.

So, the first Robinhood derivatives product that rolled out is our Presidential Election Market. Futures out-rights will probably be rolled out in the coming months. But right now, the focus of the futures business is really just making sure everything goes as smoothly as possible for the Election next week. And then, of course, rolling out out-rights is a top priority, index options as well, in the coming months.

Operator

Your next question comes from the line of Devin Ryan with Citizens JMP. Please go ahead.

Devin Ryan Citizens JMP - Analyst

Great. Hi, Vlad. Hi, Jason. How are you?

I wanted to ask a question just on interest rate sensitivity. So obviously, we saw the first 50 basis points of Fed cuts. Last quarter, I think you talked about 25 basis points is a \$40 million impact. And that was just essentially the simple math off of balances at the time, and didn't take into consideration potential for accelerating margin utilization or higher securities lending activity or higher transaction activity, which often happens as rates come down.

So, I just wanted to get a sense of whether you're seeing or expecting kind of an acceleration in margin, how you would frame the upside in securities lending? It seems like we're operating at a depressed level. Do you see a lot of upside in a more normal environment?

Then, are there any other kind of offsetting forces we should be thinking about beyond just the simple math of a rate times a balance? Thanks.

Jason Warnick *Robinhood Markets, Inc. - Chief Financial Officer*

Yeah, you bet. And the rate times the balance again, this quarter, would be roughly \$40 million for each [25 basis point] rate cut. On margin, we've been seeing a really nice growth in margin balances following the reduction of rates for customers. That's continued into October, so that's been moving up. We'll share that number with you here in a couple of weeks.

In terms of securities lending, a couple of dynamics going on there. First, on the just the business inputs themselves, we had about 400,000 additional customers join the program this year and several billion in equities added to the program, which is great for the long-term viability of that program.

At the same time, we saw rates on specials that we get, hard-to-borrows, come down a bit versus Q2. And I think that's really what you're seeing. But in terms of the underlying business drivers, we feel really good about that.

And then lastly, we've talked about for some time how we think we have a naturally hedged business model that as rates come down, we see interest rates turn into a tailwind for the business around growth. I think you've already started to see some of that with the trading activity, options that are at an all-time high in Q3, equities hitting a multiyear high. So I'm feeling even more confident about the tailwinds that come from falling rates, and we'll just have to see how it plays out from here.

Operator

Your next question comes from the line of Benjamin Budish with Barclays. Please go ahead.

Benjamin Budish *Barclays - Analyst*

Sorry about that. I had the phone stuck on mute. Thank you for taking the question.

I was wondering if you could talk kind of generally about your path to product kind of innovation and launch. It looks like with the active trader offering, the credit card, you're being very kind of cautious and measured in terms of the rollout. How should we read that into future product development? I think we're all expecting a lot to be announced at the December Investor Day.

You've talked about broader ambitions and crypto, global kind of brokerage offerings. So yes, could you talk about sort of your approach to like product velocity and how we should think about the pace of rollout for current and future product launches?

Thank you.

Vladimir Tenev *Robinhood Markets, Inc. - Chairman and Chief Executive Officer*

Yes, I think that it really depends on the product we're talking about. I mean, for example, just this week with Presidential Election market, we started the rollout on Monday and completed it on Wednesday, which is very quick, particularly for a new product. Credit card is a little bit of a different animal.

I mean nothing technological is preventing us from rolling that out. It's just really looking at other successful credit card programs in the past and making sure that, you know, with a waitlist of 2 million customers, that business could get quite big. But if we don't manage it carefully, losses could get big as well.

So, to avoid that we want to make sure we prudently scale it. And so far, we've onboarded about 100,000 customers who love it and early signs are good. And that's roughly in line with how fast other successful card programs have scaled in the 1st year of operations.

So that one, it's just us making sure that we're understanding customer behavior, understanding credit since that's a new business for us. And we're feeling good. But yes, we recognize the demand is extreme. So we're working to onboard people as quickly as possible, and we expect to get to multiples of our current level over the next year.

Operator

Your next question comes from the line of John Todaro with Needham and Company. Please go ahead.

John Todaro *Needham & Company LLC - Senior Analyst*

Hey, Vlad, Jason. Thanks for taking the question.

I guess just going back to the futures, index options offerings, any expenses down the road that we should be thinking about increasing on the back of that. I don't recall if we got to kind of that margin of where it should shake out. And then also just what drove the crypto rebate higher to 48 basis points?

Jason Warnick *Robinhood Markets, Inc. - Chief Financial Officer*

I'll go ahead and take both of those. So first on the crypto rebates, we've been experimenting for some time on crypto rebates, and we've been seeing the rebate rate come up. We always want to have a great prices for customers, but also balance the return that we generate for shareholders on that activity.

And so, we started the year at about 35 basis points, and you've seen it move up, including in October where we're running at 48 basis points.

In terms of futures and index options, those products really benefit from the broader kind of technology structure that we have at the Company. We have roughly 90% fixed cost base and relatively low variable costs and futures and index options benefit from that as well, which leads to a really high incremental margins as we grow those businesses.

Operator

Your next question comes from the line of Steven Chubak with Wolfe. Please go ahead.

Steven Chubak *Wolfe Research LLC - Analyst*

Hi. Good evening. I wanted to start off with a question on actually a chart that you had included in a recent presentation deck, just showing the strong relationship between revenues and AUC. It's been a persistent trend over the last few quarters.

I mean, in this particular quarter, we did see some decoupling amid some of the rate cuts and subdued trading activity. And we're just hoping you could speak to your confidence level that, that relationship should ultimately still hold even amid the impact of further rate cuts from the Fed.

Jason Warnick *Robinhood Markets, Inc. - Chief Financial Officer*

Yeah, I feel really good about that relationship, Steven. One way to think about is just bridging revenue from Q2 to Q3, there's really two things that distinguish our second quarter and our third quarter.

The first is in the second quarter, we have seasonally high proxy revenue. That was about \$30 million and you saw that reduction in Q3 as we move past that seasonal quarter.

The second bridge item from Q2 to Q3 is the contra revenues on the match promotions. In the quarter, we saw a step up to \$27 million, that was an increase of about \$14 million in contra revenues versus Q2. And I think that's showing up in the relationship that your drawing to AUC. Importantly, most of the incremental \$14 million related to the 1% boost on Gold deposits, and that's something that we're winding down in November.

So as we look forward to Q4, we expect Q4 to step up contra revenues in a similar amount to what we saw from Q2 to Q3, but then subside and grow at a slower rate. Zooming out feel really good longer term about the core business.

Operator

Your next question comes from the line of Andrew Stein with FT Partners. Please go ahead.

Andrew Stein *FT Partners - Analyst*

Hi. Thanks for taking the question. Just wondering, could you discuss the deposit trends for some of the recent promotional offers? And then what's your strategy for deposit bonuses going forward? Thank you.

Jason Warnick *Robinhood Markets, Inc. - Chief Financial Officer*

Yeah, we love the matches on deposits. We've seen customers really respond to it. From a finance perspective, we track the behavior of the cohorts and dollars that come in. And we've seen, for example, the 2023 match promotions have already paid off. The payback periods are around one year for 1% and kind of in the two-to-three-year zone, trending more towards three years on the retirement matches that are 3%. So, we feel really, really good about that.

It's our third straight quarter of \$10 billion plus in net deposits from our customers and continuing with the longer-term trend of 20% plus growth. The HOOD Week promotions that we did brought in \$2 billion, so that was a two-week promotion and really, really strong response from customers.

And in addition to the relatively quick payback periods, we just love the potential for compounding effects for the business over time.

Operator

Your next question comes from the line of Ken Worthington with J.P. Morgan. Please go ahead.

Madeline Daleiden *J.P. Morgan - Analyst*

Hi. This is Madeline Daleiden on for Ken. Thanks for taking our question. You discussed it a bit already, but we wanted to dig a little more into the strategy around the election-related event contracts.

So, can you walk us through your ultimate decision to list these event contracts, how they fit into the product roadmap? And ultimately, is Robinhood considered getting bigger into these more betting type products? Thank you.

Vladimir Tenev *Robinhood Markets, Inc. - Chairman and Chief Executive Officer*

Yes, I'd say overall, as a philosophy, we want to make all product categories available for customers over time, particularly for active traders. We want Robinhood to be associated with being at the frontier of innovation and technology in financial services.

So, if you look specifically at these event contracts, their regulated swaps markets that really serve as a legitimate hedging instrument for large institutions. And we believe that if any tool or any instrument is available for institutions, then we have to make it available for retail as well.

I think a nice other secondary impact is it provides people with a reliable data source about where people predict the market will land.

Operator

This concludes our Q&A session. I will now turn the call back over to Vladimir Tenev, Chairman and CEO for closing remarks.

Vladimir Tenev *Robinhood Markets, Inc. - Chairman and Chief Executive Officer*

Thank you to everyone, for listening and to our institutional and retail analysts for continuing to engage. And really a special thank you all the folks on social media who've been posting content and streaming using Robinhood Legend and sharing feedback. We really appreciate it.

Operator

Ladies and gentlemen, that concludes today's call, thank you all for joining. You may now disconnect.

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