

Robinhood Markets, Inc.
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Devin Ryan, Analyst, Citizens JMP:

Okay. Thank you, everyone for joining us here today. I'm Devin Ryan, Director of Financial Technology Research with Citizens JMP. And looking forward to this conversation with Jason Warnick, who is the CFO of Robinhood. And Jason, first off, welcome. Thanks for coming back and doing this again with us this year.

Jason Warnick, Robinhood Chief Financial Officer:

My pleasure. It might be three years in a row and counting.

Devin Ryan, Analyst, Citizens JMP:

I think three in a row, and this is going to be the best one yet. And just I think a ton to talk about, but I think a good place to start is just a little bit of a year in review. 2023 was quite the year for Robinhood, obviously, the macro backdrop was quite complicated. The firm, though, grew revenues by 37%, got a ton of work done on expenses, four solidly positive adjusted EBITDA quarters, and so tremendous momentum.

The stock is starting to have a nice move here. It's up over 100% since the beginning of last year. So a lot of positive momentum of the firm. So I think a good place to start, Jason, would just be a little bit of the year in review for you since the last time we did this and what some of the high points were from 2023.

Jason Warnick, Robinhood Chief Financial Officer:

Yeah. So first of all, we feel really good about the progress that we made last year throughout 2023, just focused on the inputs of the business. As you said, it was a year of strong revenue growth, but importantly, it was profitable growth. Revenues up 37%, up over \$500 million. But margins expanded while we did that.

Incremental margins were up over 100% during that time, as we lowered our costs while increasing revenues. It was really fueled by strong continued Net Deposit growth. We've been

running in the zone of 20%-plus Net Deposit growth rate. 2023, it was 27%. So really strong growth. There's also strength in our Robinhood Gold subscription product, which is really encouraging.

From a new product perspective, one that I'd highlight is we introduced retirement accounts last year and feel really good about 500,000 customers accounts at the end of 2023, \$1.7 billion in assets. And so far this year, the retirement assets have nearly doubled to over \$3 billion. So feel really good about the continued momentum into 2024.

Devin Ryan, Analyst, Citizens JMP:

Terrific. So the senior management team has really rallied around three areas of strategic focus. One, winning the active trader market, two, increasing wallet share with customers, and then three, expanding internationally. So I want to kind of drill down into each of these. I think the brand of Robinhood historically has really been known for bringing investing to first time investors.

That being said, you guys have made a lot of progress expanding the offering and active traders have been a big, I think rallying cry at the firm over the last at least year. So talk a little bit about some of the things you've been doing with active traders, why is that an area of the market that you guys strategically want to go after? And what are some of the areas of success there?

Jason Warnick, Robinhood Chief Financial Officer:

Yeah. So as you mentioned, three priorities, the first being, we want to be number one in overall active trading. Right now we're number one in mobile, but we're number two overall behind Schwab and TD. And we're making progress. We've been zeroed in, as you have said, for over the last year in this area. Last year, double-digit gains in market share across equities, which were up 14%, options up 19%. So really good momentum as we focus in on this important category for us.

And this year, we're continuing that focus. One big opportunity for us as we seek to be number one overall in active trading is delivering a pro trader experience on the desktop. So we hear from our customers and we want to deliver a great experience on the desktop, with wider screen real estate for our users to be able to trade the way they want to trade, and we think that there's a big opportunity there.

The other area that we're really focused on for active traders is selection. The team's hard at work at delivering futures as well as index options later this year. So feel really good about the progress that we're making, but also the plans to keep that progress going.

Devin Ryan, Analyst, Citizens JMP:

Great. And wallet share you touched on retirement accounts is one area, but would love to just drill into. What does it mean to expand wallet share with your existing customers and probably bring in new customers where you can be a more relevant relationship to them? And so how do you think about the wallet share that you have today? I don't know if there's any stats you can give around that. And then what are some of the types of things you're doing to expand that and the success you're having?

Jason Warnick, Robinhood Chief Financial Officer:

Yeah. On wallet share, there's two primary ways that we measure our progress there. The first is Net Deposits, and we've been zeroed in on that, again 20%-plus Net Deposit growth rate for some time, 27% last year, and we're seeking to deliver another year of 20%-plus growth on Net Deposits.

The other area of focus, which is super important, is Robinhood Gold. And the reason that's important is our Gold customers have over 8 times the assets of our average customers. They use more of our products and they deposit at 1.5 to 2 times faster than our average customers. And so we've been making a lot of progress there. Robinhood Gold has added about 100,000 customers so far this quarter and we're nearing an all time high. So really good progress there. And while we have 23 million plus Funded Customer accounts, only about 6% attach rate, 6.1%, that's up from 5% a year ago. But we think from a wallet share perspective, as we increase the attach rate, we'll see the wallet share that follows.

Devin Ryan, Analyst, Citizens JMP:

Great. And then I want to hit international. So I think we've been talking about international for years and now, we're actually international with Robinhood. So exciting developments really, over the last couple of quarters here. So talk a little bit about what going international means for Robinhood, what you think your claim to success is why people are going to want to use Robinhood internationally, and then we can talk about kind of the roadmap that you see playing out there and how that might compare to what you've been able to achieve in the U.S.

Jason Warnick, Robinhood Chief Financial Officer:

Yeah. So we're really excited to take the mission of Robinhood and go global with that. And to start, we've launched brokerage in the UK as well as crypto across the EU. And so far, nice early progress. Tens of thousands of customers, most on crypto for the EU. We have a waitlist still for the UK, and we've been rolling customers off.

So far what we're hearing, particularly on the brokerage offering in the UK, customers love the high interest yield that they're receiving on their uninvested cash. They really appreciate the over \$2 million of FDIC insurance, no FX fees on trades. What we're hearing that they want more of, though, is particularly a tax wrapper around the accounts for ISAs and SIPs, and the team's working hard on delivering that soon.

Also excited about bringing crypto across the EU. We have over 25 coins available, and obviously, I think we all know that it seems to be a good timing with the strength of the market backdrop right now in crypto.

Devin Ryan, Analyst, Citizens JMP:

Yeah. Great. And as you think about the broader international strategy, does getting into the UK, EU, crypto – is that leverageable into other jurisdictions? And how do you think about the timeframe of the ability to maybe even go broader internationally?

Jason Warnick, Robinhood Chief Financial Officer:

Yeah. At its core, Robinhood is a software platform and I think we're really positioned well to move quickly. And the more we build and the more countries that we go into, that technology accrues to the benefit of the next launch that we'll set out to do. We do have ambitions to be all over the world. In terms of speed, I think we also have to be very mindful of every jurisdiction's regulatory environment.

And so that'll probably be really what keeps us kind of on a careful and deliberate pace as we expand. But like the early progress that we have, we have long ambitions, but it's a marathon that we're embarking upon.

Devin Ryan, Analyst, Citizens JMP:

Yeah. That's great. I know we're now through February. You guys haven't given February metrics yet, but any, I guess, high level update on what you've been seeing in the environment and anything you can share with us around what you saw in February?

Jason Warnick, Robinhood Chief Financial Officer:

Sure. So on the call a couple of weeks ago, we highlighted strength and momentum in the business in January, and that's continued into February. So customer assets are up versus January. Net Deposits over \$3.5 billion that brings the total for the quarter-to-date through February to over \$7 billion. So really strong Net Deposit growth and trading has been up versus January across all asset classes – equities, options and crypto. So the numbers will come out here in the next week or so.

Devin Ryan, Analyst, Citizens JMP:

Okay. That's great. I appreciate that. Want to pivot a little bit and talk about some of the things you've done on the expense side. So big theme. You mentioned it, your profitable growth. And as a CFO, I can imagine there's kind of unlimited demand for resources – that there's so much in terms of where people want to invest and grow internally, and you're trying to balance all that. So how do you think about prioritizing projects, being able to fund all these different growth

initiatives in the numerous areas of the product roadmap, while at the same time this profitable growth mentality, which really has resonated in the market, you see it clearly in results in terms of what you guys have been able to accomplish.

Jason Warnick, Robinhood Chief Financial Officer:

Yeah. So first of all, we're really early in the journey of the company. And when you look at it from a perspective of assets under management, we have about \$100 billion of customer assets today. And that's relative to a market backdrop and competitors who measure in trillions. And so we're just getting started and we think it's really important that we continue to aggressively invest for growth.

Now, that doesn't mean that we have to do it in a way that means more costs. When we look at our core business, we think kind of over the medium to long-term, we can be running our core business expense growth in the low-single-digits. Actually in 2024, we're planning to decrease our spending in our existing businesses, high single digits, perhaps as much as 10% down year-over-year. And we're redeploying that. We're increasing our marketing spend by about \$100 million in our plan for 2024. And we're also pursuing several different areas of new growth opportunity, some of which I mentioned.

And so I think there is a lot of opportunity for us to continue to be more efficient, whether it's process optimization, whether it's geolocation of work. There's an opportunity for us to continue to get more efficient on the cost side, so that we can afford to drop some to the bottom for shareholders as well as pursue growth, also for shareholders.

Devin Ryan, Analyst, Citizens JMP:

Yeah, it's been a great combination. You just touched on the marketing. You guys have had some really good success with some of these promotions in the market for different areas of your business model. Talk a little bit about, I guess, one, the success you've been having, and then two, how you measure the ROI. Because I think some people may look at, okay, marketing is going up, is this still a good trade off? And so how do you guys think about that trade off?

Jason Warnick, Robinhood Chief Financial Officer:

Yeah. So first of all, what we're seeing so far, early results, we're looking at cohorts as they come in and evaluating the return. The marketing team is doing an excellent job zeroing in on high LTV customer accounts, and it's working and it gave us a lot of confidence to increase our spending in 2024. And we'll continue to monitor that, but the primary measure that we're looking at is LTV relative to the CAC that we're deploying. And the early signals are quite strong. So we'll continue to watch this closely and lean in on areas that are working and pull back on areas that we're not as happy with.

Devin Ryan, Analyst, Citizens JMP:

Okay. Want to talk a little bit about the interest rate environment. So one nice driver of revenue growth in 2023 was the benefit of higher interest rates. But there's a lot of nuance that goes around that. So as we think about the Fed potentially pausing and then even to the extent we start to get rate cuts from here, what does that mean for Robinhood? How do you manage through that? And then what are the other kinds of ancillary aspects of the business model? Obviously, transaction activity tends to do well when rates are moving lower. So how do you think about the balancing act of what lower rates could mean for Robinhood?

Jason Warnick, Robinhood Chief Financial Officer:

Yeah, with the diversified revenue model that we have, we did see some strength in interest income here over the last year plus as rates were going higher. But I really view a rising rate environment as a headwind, not good just because it's increasing some interest income. When I think about an environment where the rate hikes are pausing and there's expectation for it coming down, there's probably three points that I would make. The first is as we look ahead for the expected rate cuts this year, the average Fed rate in 2024 is expected to be roughly in line with the average from 2023. So from a growth perspective, rates are a fairly neutral input for us in 2024.

The second point I would make is that over half of our interest earning assets are in customers' Gold sweep deposits, where we have a fairly fixed spread, whether the rate is going up or down. And so a big piece of our overall interest sensitive assets aren't sensitive after all, because of the fixed spread as we pass the majority of the economics on to customers. And then third is to the point that you were making. Rates falling tend to be good for growth. It tends to increase balances, it tends to increase trading. And so I really view 2024 as a year where interest rates move from being a headwind for our business to being a tailwind.

Devin Ryan, Analyst, Citizens JMP:

Yeah. And you think about the cash building, your customers, and you have a very strong value proposition. Is the expectation that a portion of that will just move into risk assets or effectively trading? Is that the point?

Jason Warnick, Robinhood Chief Financial Officer:

Yeah. I think when we look at our customers, they're investing and depending on the rate environment, they might be investing in low or no risk FDIC insured cash sweeps. But we also have other ways to invest, whether it's our retirement account or the taxable account. And when we look back to 2019 it was a similar situation, cash had been building, those assets had been deployed into investing. So we feel really good about the stickiness of the relationships that we're building with our customers.

Devin Ryan, Analyst, Citizens JMP:

One positive point around the firm and talking to investors that people have really appreciated around the firm is the financial strength and how you guys have built this kind of war chest of cash and no debt, \$5.3 billion in cash and equivalents and investments. Talk about what this financial strength means for you and how you think about whether it's deploying the cash or playing offense when maybe some others are playing defense right now.

Jason Warnick, Robinhood Chief Financial Officer:

Yeah, it's a great position to be in, particularly in this moment in time. Over \$5 billion of corporate cash – really three areas that are potentials for us. One is just investing in organic growth. We talked about increasing our spending and marketing in 2024, and that's an example of the flexibility the strong balance sheet gives you.

The second is M&A, and we've done some M&A, smaller deals. One that we're excited about was the acquisition of X1, which is a small credit card business. And the team's working hard on rolling out a credit card opportunity for our customers that will be worthy of the Robinhood brand. And so really excited about that. The first will be something that we offer to our Gold members.

And then lastly, returning capital to shareholders. And you saw us repurchase about 6% of our stock last year. And over time, we'll look at more opportunities to do that as well. In terms of the M&A environment, I think the backdrop is getting to be more constructive in terms of valuation expectations. And we'll be mindful and deliberate about the way that we approach this, looking for opportunities to add great teams, great technology, and perhaps accelerate our product roadmap. And that's really how we're thinking about it.

Devin Ryan, Analyst, Citizens JMP:

Yeah. Can you talk about Robinhood as an acquirer and the strength that you kind of bring to the table? Because imagine when you're looking at a company, you've got 23 million customers already in house. And so that really differentiates in terms of your ability to partner with someone and potentially pay for an asset that another firm that doesn't have that advantage is not going to be as competitive. How does that – how has that been in conversations thus far? And then does that open the door for you guys to maybe do more if more comes in?

Jason Warnick, Robinhood Chief Financial Officer:

Yeah. I think it's certainly appealing that Robinhood has such a highly engaged – many millions of engaged customers. If you look at the X1 acquisition, that certainly played into the calculus of how attractive it was for us to pursue that. But at the same time, we're not going to overpay because we see that there's synergy value. That's really something that we should be able to capture for our shareholders. And so we'll be careful there. But when we look at combining new assets into the Robinhood platform, certainly the strength of our customer base comes into play.

For credit cards, the median credit score of our customers is about 720. Two-thirds are prime or prime plus. And so that was one of the reasons why we were really excited about the opportunity in credit.

Devin Ryan, Analyst, Citizens JMP:

Yeah. If we zoom out a little bit, Jason, just want to talk about where you see the industry going. Where is the evolution towards and what is making you most excited about where Robinhood sits within that?

Jason Warnick, Robinhood Chief Financial Officer:

Yeah, I still think, as I said earlier, we're just getting started. If you look at kind of the last 10 years, it was really about the emergence of retail traders, smaller balance retail traders. Robinhood played a key, important, accelerant role in that trend. I think as I look out over the next 10 years, not only is the continued trend in the U.S., but also international for us, but I think over the next 10 years, you see the retail trader really come into their own on the strength of increased earnings power, wealth transfer. And I think that Robinhood is incredibly well positioned to serve those customers as they continue to grow.

Devin Ryan, Analyst, Citizens JMP:

Terrific. I think that gets us pretty much to time here. But Jason, thank you so much for coming and doing this again. Always appreciate the conversation and look forward to the update a year from now.

Jason Warnick, Robinhood Chief Financial Officer:

Thank you, Devin. Appreciate it. Thank you Everyone.

Devin Ryan, Analyst, Citizens JMP:

Yeah. Thanks so much.