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# EDITED TRANSCRIPT

Q4 2022 Robinhood Markets Inc Earnings Call

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## PRESENTATION

### Operator

Good day, and thank you for standing by. Welcome to the Robinhood Fourth Quarter 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 Chris Koegel, Vice President and Head of Investor Relations. Please go ahead.

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### Chris Koegel *Robinhood Markets, Inc. - VP of IR*

Thank you, [Latif]. Welcome, everyone, and thank you for joining us for Robinhood's Fourth Quarter 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 conference call will contain certain forward-looking statements about our financial outlook and 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 today, the related slide presentation on our Investor Relations website, our Form 10-Q filed November 2, 2022, 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.

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### Vladimir Tenev *Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board*

Thanks for the intro, Chris, and thanks to everyone for joining. This earnings call marks the end of our first full calendar year as a public company and I think it's a great opportunity to really evaluate ourselves

and reflect on how the year went, what we promised, what we delivered and how we responded to the twists along the way.

Looking back 1 year at the Q4 2021 earnings call, we committed to the following things: expanding equities trading hours, which we delivered with hyperextended hours in March; introducing a new day-to-day spending experience, and we delivered Robinhood Cash Card in March also; rolling out our fully paid securities lending product, which we provided with the launch of Stock Lending in May; adding IRAs, which we launched in December with Robinhood Retirement, the first and only IRA with a built-in match, no employer necessary; we committed to providing faster and more money movement options, which we delivered with the launch of debit card funding, Instant Withdrawals and support for USDC and Robinhood Crypto; and we committed to open up our crypto platform internationally, which we did with the launch of our non-custodial Robinhood Wallet.

When we laid this out a year ago, we didn't anticipate a land war in Europe or inflation at a 40-year high prompting one of the most aggressive tightening policies we've ever seen from the Fed. This led to a sharp drawdown in growth stocks and a frigid crypto winter. All these factors presented extraordinary challenges for our customers and our company to navigate.

So 9 months ago, we committed to returning to adjusted EBITDA profitability in Q4. This was an aggressive goal and we delivered it a quarter ahead of schedule by both lowering costs and increasing revenues. We also diversified our business as our net interest revenues more than doubled over the course of the year. And to help customers generate more income in the new environment, we launched a revamped Robinhood Gold that offers customers an incredible 4.15% interest rate on their cash, among the highest rates out there.

We also strengthened our core business with a number of improvements to our trading products like options and cash accounts, advanced charts and 24/7 live chat customer support. We did all this and more while having to make some difficult decisions. We ended 2022 with about 1/3 less headcount than a year before. I want to congratulate the team for their tremendous execution.

Our product velocity has never been higher and the quality of talent at Robinhood has never been greater. I also want to mention, and Jason will discuss further in his section, that we had a processing error on a corporate action that led to a \$57 million expense. This was really disappointing. We've done a full postmortem and remediated the issue. It's important for us to build a culture of accountability. So following this event, I made the decision to eliminate the executive team's 2022 cash bonuses. It's my responsibility to make sure that we learn from this, adjust our systems and processes accordingly and ensure that we do everything we can to prevent errors like this from happening again.

Before I review our Q4 product road map, I want to provide a couple of shareholder updates. As founders, Baiju and I have always been motivated by our mission and our goal has been to build a financial services company that does right by our employees, delivers extraordinary value to our customers, and in doing so, generates healthy returns for our shareholders. It took tremendous sacrifice

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on behalf of many people throughout 2022 to get Robinhood to the healthy position we're in today.

And so at the end of the year, Baiju and I were reflecting on this and we were thinking about whether there was more that we could do personally. So we decided we would cancel nearly \$500 million of our combined share-based compensation. This lowers our GAAP operating costs by up to \$50 million per quarter starting in Q2 and it has already reduced our fully diluted share count by 3.5%. Second, we also announced today that our Board of Directors has authorized us to pursue purchasing most or all of the Robinhood shares that Emergent Fidelity Technologies bought last May.

The Board and management team are incredibly confident about the future of our business. We also have a fortress balance sheet with over \$6 billion of cash and feel very well-positioned to execute on our growth plans. So we think this repurchase will be accretive over time and remove the distraction for shareholders. Since there isn't much precedent for situations like these, we can't predict how long this will take, but we'll keep you posted as is appropriate.

Now I'll cover Q4 business results. While assets under custody was down 4% in Q4 from Q3 due to lower valuations for growth stocks and crypto, customer portfolios had a great start to 2023. In January, as valuations rebounded, customer assets grew by 20% to \$75 billion, the highest level in the past 9 months. This January outperformance is a good reminder of the importance of investing through the cycle. So we're encouraged that customers continue to entrust us with billions of dollars each quarter, including nearly \$5 billion of net deposits in Q4.

Now we've talked a lot about our product velocity and all of the new products we launched last year. And as we've continued to work on them, we're now starting to see meaningful traction on several of our new products, which gives us confidence that they can grow into significant business lines over time. First is Stock Lending, which we launched last May, to help customers generate passive income by lending the stocks they're holding. It had some good early results by reaching about \$15 million of annualized revenue in Q3.

Since then, the team has kept iterating on the product relentlessly, speaking with customers, improving onboarding, making more equities available to lend and migrating to a new collateral agent. By the end of January, we had over 1 million customers enrolled and we generated over \$30 million in annualized revenue. As we look ahead, we see lots of opportunities to improve the product even more and make it even more accessible and useful to customers.

Next, Robinhood Gold. In September, we launched an industry-leading 3% yield on cash and then raised the yield 3 more times to reach our current 4.15% rate. The customer response has been terrific, as more and more customers feel we're giving them access to one of the best and easiest opportunities to earn yield in the U.S. Gold subscribers increased in Q4 for the first time in over a year and Gold Net Promoter Scores have moved way up. We've also seen Gold cash sweep balances grow to \$6 billion at the start -- at the end of January. That's up by about \$1 billion per month since the launch.

We're excited to keep investing in our Gold offering and deepening these relationships this year. In Q4, we also launched Instant Withdrawals, a new money movement option to help customers who want faster access to their money for everyday needs at a competitive 1.5% fee. We're seeing strong early adoption here, growing from 1% of total withdrawals when we launched in October to 7% in January, translating to about \$20 million of annualized revenue. These are just a few examples of how the products we've launched over the past year are now gaining traction and we see a path for many of them to drive meaningful revenue growth from here.

Finally, I want to give you a preview of our 2023 product road map. While the macro uncertainty is leading some companies to pull back, we plan to stay aggressive as we believe investing through the cycle is the right long-term strategy. So let me highlight a few of the opportunities we're working on. First, deepening relationships with our existing customers. As we grow into a larger, more diversified company, we're shifting our focus from just adding users to driving net deposits as well. Retirement is off to a good start and we're working to take our first steps on the path to advisory, which can bring even more customers into the market in the future.

Second is becoming the best destination for advanced customers. Last year, we made a ton of progress by launching several new products and features that drove advanced customer NPS significantly higher, a great sign for growth and retention. This year, we'll go beyond tools and improved experience and really innovate for our advanced customers. We're excited to show you what we have in store.

Third, international. We recently launched Robinhood Wallet, which empowers customers around the world to custody their own crypto. We're getting more aggressive this year and have set a goal to offer brokerage services in the U.K. by the end of 2023. I'm also excited that we hired JB Mackenzie, an industry veteran from Schwab and TD Ameritrade, to lead our international brokerage efforts. We're really excited about the year ahead. The road map is full and there's so much to do. With that, I'll turn it over to Jason.

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

Thanks, Vlad. It's good to speak with everyone today. In the fourth quarter, we stayed focused on serving customers, growing our business and driving long-term shareholder value. Our team continued to deliver on our product road map and we generated positive adjusted EBITDA for the second quarter in a row. I'm proud of what we accomplished last year and look forward to 2023.

Before I discuss our Q4 results, I want to provide context around the error that Vlad mentioned. Each quarter, we process hundreds of corporate actions as part of our day-to-day operations. In December, we received notification of a corporate action that was irregular, both in its timing and format that unfortunately got through our controls. Cosmos Health Inc., a NASDAQ-listed company, affected a 1-for-25 reverse stock split on December 16.

A processing error caused us to sell shares short into the market. And although it was detected quickly, it resulted in a loss of \$57 million as we bought back these shares against a rising stock price. While this

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event was an outlier, as Vlad said, we're taking it very seriously and have made the necessary changes to do everything we can to ensure this won't happen again.

With that, let's look at the fourth quarter, starting with business results. We continue to add new customers, growing net funded accounts to 23 million, up about 50,000 from Q3. We're off to a good start in Q1 as well by adding about 60,000 accounts in January. I'd also note that we only include unique users in our net funded account definition, so this metric doesn't benefit from existing customers opening Retirement accounts. So we're working on additional disclosure to show how many of our products customers are using.

For monthly active users, they were 11.4 million, down 800,000 from Q3, though MAUs increased back to roughly 12 million in January. I'd also note that the vast majority of our customers continue to engage over time even if they aren't active every month. For example, if we look at the last 3 months of 2022, over 16 million unique customers were active. And if we look over the last 6 months, that figure grows to over 20 million customers.

Turning to assets under custody. While they were \$62 billion in Q4, down about 4% from last quarter, they rebounded to \$75 billion in January as growth stocks and crypto recovered. Looking at net deposits, they were \$4.8 billion in Q4, which translates to a 30% annualized growth for the quarter and brings the full year rate to 19%. We're encouraged by the resiliency of customer net deposits, which positions us really well for growth as markets rise over time.

Now let's look at Q4 financial results. We grew adjusted EBITDA to \$82 million, which was up \$35 million from last quarter. This brought our adjusted EBITDA margin to 22% in Q4, which is up 9 points from Q3. Going forward, we remain focused on delivering positive adjusted EBITDA and driving attractive margins over time.

Looking at our GAAP results. Q4 EPS was negative \$0.19, an improvement of \$0.01 from Q3. This included a combined negative \$0.08 impact from the processing error and an impairment charge on Ziglu. Q4 EPS prior to these impacts was negative \$0.11.

Now let's review our Q4 revenues. Total net revenues were \$380 million, a 5% increase from Q3. This was primarily driven by higher net interest revenues, partially offset by lower transaction revenues. Q4 ARPU was \$66, up from \$63 last quarter.

Next, transaction-based revenues were \$186 million in Q4, down 11% sequentially, primarily due to lower equity and crypto notional volumes. In January, we saw equity, option and crypto volumes all roughly in line with Q4 averages.

Moving to net interest revenues. They reached a new high of \$167 million in Q4, up 30% from Q3. The increase was primarily driven by higher short-term interest rates and 12% growth in interest-earning assets. These factors were partially offset by lower margin balances and securities lending activity given

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the macro environment. Looking ahead to Q1, we are encouraged by what looks like likely to be another quarter of net interest revenue growth. As we consider what we see today for the forward Fed curve, customer balances and deposit rates as well as some pickup in securities lending activity, we anticipate Q1 net interest revenues will be up by roughly \$20 million from Q4.

Additionally, as we now appear to be in the later stages of the Fed rate hiking cycle, I wanted to note that we're exploring strategies to reduce our interest rate sensitivity, and we'll keep you updated when we have more to share on this.

Moving on to other revenues. They were \$27 million in Q4, up 8% from Q3. Gold subscribers increased by about 50,000 sequentially and we plan to keep investing so that more of our customers find value in becoming a Gold member. Looking ahead to Q1, we expect other revenues to be similar to Q4 levels. Looking a little farther ahead, Q2 is proxy season, which drives a seasonal increase in revenue. And late last year, we transferred our proxy services from a third party to our Say Technologies team. So in Q2, we expect to see a sequential increase of about \$30 million from Q1 levels.

Now let's look at Q4 expenses. Prior to SBC, the processing error and some minor carryover from our Q3 restructuring, OpEx was \$319 million, which brought our full year total to \$1.55 billion. These 22 -- 2022 results were an 18% improvement versus the prior year as we moved to a leaner cost structure. Looking forward to 2023, we're planning to improve our costs by another 7% on average as we plan to keep our costs lean while investing for future growth.

Our outlook for 2023 OpEx prior to SBC is a range of \$1.42 billion to \$1.48 billion. I'd note that on a quarterly basis, this outlook is about the same as the Q4 2022 range we provided last quarter, as I think this is a good zone to operate our business this year.

Turning to SBC. It was \$160 million in Q4, which brings our full year total to \$654 million. Looking ahead, Vlad and Baiju's decision to cancel their 2021 pre-IPO market-based awards significantly lowers our outlook for the back half of this year. Under accounting rules, we will record a Q1 noncash charge of about \$485 million for the full acceleration of the canceled awards. We also expect SBC this year, excluding the charge, will be in a range of \$470 million to \$550 million, which is a 22% improvement on average from last year.

Including the charge, our full year 2023 SBC outlook is a range of \$955 million to \$1.035 billion. For Q1, we expect SBC of \$615 million to \$645 million, mostly from the accounting charge. Given our progress on costs over the past year and improved SBC outlook, we now expect to get much closer to positive GAAP net income in the back half of this year. Beyond that, we think it's a little early to predict a specific time line for reaching GAAP profitability, as our revenues vary with the market backdrop. That said, we're focused on getting there by keeping our costs lean and scrappy to drive operating leverage as our business grows while staying flexible to invest for the long term.

Now to capital management. I want to touch on a couple of areas. First, on the Ziglu deal. After careful

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consideration, Robinhood terminated the deal and we booked a \$12 million charge in Q4. Second, as Vlad mentioned, our Board authorized us, subject to final approval, to purchase our shares that Emergent Fidelity Technologies bought in May of last year. We're confident in the future of our business, so we think it would be a smart use of our excess corporate cash to buy most or all of the roughly 55 million shares while continuing to have a strong balance sheet to invest for growth.

In closing, I'm really pleased with all that we accomplished in 2022: Delivering on our product road map, moving to a lean and scrappy cost structure and ending the year with 2 straight quarters of adjusted EBITDA profitability. As we look ahead, we see a large opportunity to grow shareholder value from here. And with that, Chris, let's move to Q&A.

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## QUESTIONS AND ANSWERS

### **Chris Koegel Robinhood Markets, Inc. - VP of IR**

Thank you, Jason. Leading into this quarter's Q&A session, we'll start by answering some of the top questions from Say Technologies ranked by number of votes. We'll pass over any questions that were answered on the call already or in prior quarters and group together questions that share a common theme. After that, we'll turn to live questions from our analysts. So I'll kick it off with some of our top questions from Say.

So first, [Sajin P.] asks: What does the product road map look like for 2023? Vlad, do you want to take that one?

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### **Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

Yes. Thank you, as always, [Sajin] for the good questions. So I mentioned a little bit in the call, while the macro environment might be leading some companies to be less aggressive, we plan to stay aggressive. And there's 3 things that we're focused on in terms of product road map. The first thing, deepening relationships with our existing customers. And you've seen that we've been very successful in providing value in terms of higher interest on cash with our Gold product. We also rolled out Retirement and are very excited to offer the first IRA with a built-in match, no employer needed. We think it's particularly useful for gig economy workers and other freelancers. So we're going to continue to invest in that and grow that. We think that gives us sort of a great entry point towards offering advisory services to customers.

Second, becoming the best place for advanced customers. So this is our customers that trade a little bit more actively, use options, engage in equities trading. We've made a lot of progress this year and we're working even harder to deliver innovative new functionality for our more advanced customers.

And then the third is international. So we recently launched Robinhood Wallet. We're also working aggressively this year to bring brokerage services internationally. And we're excited to welcome JB, who will be leading the efforts to take our brokerage internationally.

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**Chris Koegel Robinhood Markets, Inc. - VP of IR**

Great. All right. Thank you, Vlad. The next question is from Jason R., who asks: When will Robinhood go global and allow users to buy individual shares from all over the world listed exchanges?

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**Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

Sure. Happy to field that one. So there's really 2 questions there. First of all, for our U.S. customers, we're very focused on expanding selection and being the best place for you to invest and trade. In terms of access to foreign securities, customers can trade ADRs today via our platform, commission free, and that gives investors exposure to foreign-traded stocks.

The second thing, expanding our operations internationally so that customers based in other countries can access Robinhood services. A huge part of our mission, we think that we've done a lot of great work to open up access and to make investing more accessible to people in the U.S. U.S. is comparatively a mature market where access is pretty good relative to some parts of the world. So we think it's a natural extension of our mission and a great business opportunity to take our technology and make it available overseas.

I talked about Robinhood Wallet, which is available globally and will allow customers all over the world to self-custody, have control over their crypto and trade and swap with no network fees. On the brokerage side, we're being more aggressive and set a goal to start brokerage operations in the U.K. this year. So look out for that. We're very, very excited to make Robinhood available all over the world.

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**Chris Koegel Robinhood Markets, Inc. - VP of IR**

Awesome. Thanks, Vlad. All right. The next question comes from G.C., who asks: There's a new feature that was implemented by Twitter that directly links users to the Robinhood app. What's the relationship between Robinhood and Twitter? Is there an official partnership forthcoming?

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**Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

Yes, sure. Thank you, G. Part of the mission of democratizing finance for all is giving access to the best information whenever and wherever customers need it. So we've been speaking to the folks over at Twitter for a while and heard about what they were doing with the stock pages and crypto pages on their platform and we got excited to create an investing experience that gives value to their customers and makes it easier to deep link to the Robinhood app. So you'll see us experimenting with more things like this over time. As of now, we don't have any plans to expand or form an official partnership with Twitter.

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**Chris Koegel Robinhood Markets, Inc. - VP of IR**

All right. Thank you. Okay, so next question is from William C.: What happens if the SEC bans payment for order flow?

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**Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

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Sure. I'll field this one. The first thing to note here is as you've seen through the quarterly results and the progress we've made in diversifying our business, we've got a diversified business and are continuing to grow and we feel like we're incredibly well-positioned. In terms of payment for order flow and the SEC market structure proposals, we think investors have it great right now. The all-in cost of investing, the accessibility, the tools and functionality have never been better. And we're worried that these proposals have the potential to give investors worse execution quality and higher prices in many instances. And these are really complex proposals. It will take a long time to work through them.

Ultimately, we think they are unlikely to pass in their current form. So we're going to keep working with the SEC, including our comment letter coming soon, and make sure customers continue to receive the best deal and have access to equities trading and make sure we're continuing to advocate for what we think is right for our customers.

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**Chris Koegel *Robinhood Markets, Inc. - VP of IR***

All right. Thank you, Vlad. The next question is related. So it asks, from Mark D.: Will Robinhood become a member of the New York Stock Exchange and NASDAQ and reduce its reliance on payment for order flow?

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**Vladimir Tenev *Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board***

We actually are already a member of NASDAQ. We have a connection there and a portion of customer orders are routed there. The way that we think about execution quality and routing orders is the routing is based on execution quality. That's really the deciding factor. So we aim to send customer orders where they're getting the best execution quality. And we actually publish execution quality statistics on our website and are very proud of it.

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**Chris Koegel *Robinhood Markets, Inc. - VP of IR***

All right. The next question is for Jason: Will Robinhood ever work with tax companies like TurboTax to get tax information to clients at a faster pace?

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

Thanks. We already work with TurboTax. And in fact, customers get a \$15 discount if they upload to TurboTax. We've been making a number of changes to the tax experience for customers. This year, we consolidated the tax form for customers who are trading both equities and crypto. So they receive a single tax form from Robinhood this year, which makes it a lot more convenient. And also, we're sending in a form that makes it really easy for customers to upload their data to the tax software of their choice.

And then also, we've already sent well ahead of the deadline millions of these forms out to customers and should have the remaining ones out really soon. So we're making a lot of progress for customers on the tax front and proud of the team for doing that.

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**Chris Koegel *Robinhood Markets, Inc. - VP of IR***

Great. Thanks, Jason. All right. Let's do 1 more before we open the call to analysts. So Vlad, G.C. asks:

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Any thoughts on creating a Robinhood pro app with more advanced charts, tools, data and live streaming news feeds and chat rooms to keep the more advanced users staying strictly on Robinhood?

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**Vladimir Tenev *Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board***

Thanks, G. So we think serving our advanced customers is incredibly important. As I outlined a bit earlier, it's 1 of the top 3 things we're working on this year. We made a lot of progress last year really improving the experience for them. And we spend a lot of time talking to our advanced customers. And what we're hearing is they stay with Robinhood and they love Robinhood because we make things simple and are easy to use. And they actually love the flexibility to be able to see a very simple overview of their portfolio and their holdings and be able to trade simply, along with the flexibility to dive into things like advanced charts and tools and features when they need to.

So right now, we think we can deliver on an awesome experience for advanced customers within the existing Robinhood app. And so we're not necessarily going to be creating a separate app. But we -- we're focused on making Robinhood the best tool for our advanced customers.

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**Chris Koegel *Robinhood Markets, Inc. - VP of IR***

All right. Thanks, Vlad. And thank you for everyone for your questions. We really appreciate all the thoughtful engagement from our shareholders and customers. And now it's time to open up the line for analyst questions. So with that, I'll turn it to [Latif].

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**Operator**

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

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**Devin Patrick Ryan *JMP Securities LLC, Research Division - MD, Director of Financial Technology Research & Equity Research Analyst***

First question, obviously, nice to see the acceleration into solidly positive adjusted EBITDA, which has been driven more by getting leaner on expenses. And so if you do start to see an acceleration in engagement from some of your newer initiatives or just a broader improvement in the operating environment, should we expect that you would potentially reramp on certain growth investments? Or are you comfortable you can execute at the speed that you want to kind of at the new leaner model? And obviously, that would imply more would fall to the bottom line.

And really, the question is how you want to manage the business over time as you kind of get to eventually this GAAP profitability? Is it further expanding profitability from there? Or you then happy to kind of then re-lean in on your growth investment?

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

Thanks, Devin. This is Jason. I'll take it, and then Vlad can add in if he has additional color. We think there's a lot of leverage that we can achieve as we grow our business over time. We're going to continue to manage our costs to stay lean. That said, we'll have some flexibility to lean in a little bit more on investments that we think are the right ones to make.

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But the guidance that we've given incorporates the investments that we're planning for the things that we've talked about and have in our plan for this year. So we feel really good about the range that we've given on OpEx, given our growth plans.

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**Vladimir Tenev *Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board***

Yes. The only thing I would add is last year was, in terms of products, one of the best years we've had. We've rolled out lots of new products to customers. And as I mentioned earlier in the call, to have 2 of our recent products in a relatively short amount of time get to double-digit millions in ARR in a year like 2022, we're incredibly proud of.

So Stock Lending, as we mentioned, getting to a \$30 million run rate; Instant Withdrawals, within a couple of months of launch, getting to \$20 million. So we have new businesses that we were able to roll out. And I think this year, we're in a great position to keep investing and be aggressive.

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**Devin Patrick Ryan *JMP Securities LLC, Research Division - MD, Director of Financial Technology Research & Equity Research Analyst***

Okay. Terrific. Follow-up just on crypto. So customer engagement in crypto really saw some pressure after the FTX-related contagion and obviously, falling valuation as well. At the start of the year, we are seeing some improvement in valuations. And so just curious from what you guys can track internally, does it feel like customers primarily just moved to the sidelines versus exiting the space altogether?

And related, how did those events from the fourth quarter affect how you're thinking about just the crypto offering more broadly, how you're budgeting for and developing the road map, if at all?

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

So Devin, we have seen a pickup in the first part of the year to levels that are kind of on par with the average for Q4. So I'd say it was a bit of a step on the sideline, watch a little bit, particularly in the month of December. But we're definitely encouraged with what we're seeing in the first part of the year and really into February. We continue to think that crypto is here to stay and we're continuing to invest in this space and are really optimistic.

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**Vladimir Tenev *Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board***

Yes, you probably saw we recently launched our Robinhood Wallet, which really gives the power and utility of self-custody to customers. And we're continuing throughout the year to make improvements to our core Robinhood Crypto offering as well.

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**Operator**

Our next question comes from the line of Will Nance of Goldman Sachs.

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**William Alfred Nance *Goldman Sachs Group, Inc., Research Division - Research Analyst***

I think you made some comments in the prepared remarks around thinking about the level of asset

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sensitivity and interest rate sensitivity, the kind of tools that you can use to induce -- to bring that down. I'm wondering if you could expand a little bit on what types of things that you are contemplating? And just maybe talk through a framework for how you might approach it? For instance, is there a situation where you think you could remain EBITDA breakeven or positive even if we see significant fall in interest rates over the next couple of years?

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

Yes. Will, it's a great question. Look, it's not lost on us that net interest revenue is a rising and important part of our mix and it's something that we're paying really close attention to. It's a little early to talk about the specific strategies that we're looking at. But really just wanted to signal to shareholders that it's something that we're paying attention to and we look forward to implementing some strategies that will decrease the sensitivity that we have there. So we'll update you over time. But unfortunately, I probably shouldn't get too far into the details, I'd be getting ahead of myself.

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**William Alfred Nance *Goldman Sachs Group, Inc., Research Division - Research Analyst***

Understood. Appreciate that. And then maybe a question for Vlad on M&A strategy. You laid out a handful of things in today's release, international expansion, more Retirement, I think you mentioned advisory. I guess just how are you thinking about the role of M&A in your product road map? It seems like you guys have gone the internal route for the majority of your new products, if I think about securities lending, Retirement thus far. But any kind of change in that approach? Or any thoughts around where you get more aggressive on the M&A front?

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**Vladimir Tenev *Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board***

Yes, you're right, Will, that we feel very confident in our ability to roll out products and sort of independently build new features that serve our customers. That said, it's not lost upon us that we have a large balance sheet. And the environment now is going to create some opportunities. So we have done M&A in the past. We're very deliberate about the opportunities that we're considering. We consider things like acceleration of our road map, team quality and fit.

And we're proud of the M&A that we've done thus far. Jason mentioned Say Technologies. I think that team has integrated very well and is driving considerable business impact in terms of revenue to Robinhood. So I think we've had a good deliberate approach and we do see opportunities with our balance sheet going forward.

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**Operator**

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

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**Steven Joseph Chubak *Wolfe Research, LLC - Director of Equity Research***

So it was certainly encouraging to hear some of the positive commentary around retail engagement starting to improve, certainly seeing some inflection in some of those brokerage metrics. If I think about the narrative with regard to the fundamentals in 2022, it was subdued retail engagement, NII tailwinds, better cost control. And given that the rate sensitive revenues are arguably close to peaking, the expense

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guidance for full year '23 implies modest growth, well-controlled, but still growth versus that 4Q '22 exit rate, it really does feel like the path to profitability is almost exclusively contingent on better retail engagement metrics. I wanted to understand, first, if the engagement moderates, how much flex you have in the model to bend the cost curve? And then second, and this is more nuanced, but on GAAP profitability, the expense guidance for full year is \$1.95 billion. The 1Q revenue guide implies closer to low 1.6s. And just wanted to understand what the revenue or growth levers you can pull to help you close that gap? Certainly, the KPIs are improving, but just want to get a better sense as to how we can reconcile that path to GAAP profitability as well.

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**Jason Warnick *Robinhood Markets, Inc.* - CFO**

Yes. So the first part of your question is just what kind of levers we have on cost. 2022 marked a big shift towards getting lean and being productive. I think there's more opportunity there. I wouldn't say that there's the kind of opportunity that we were able to realize in 2022. But you should expect us to continue to find ways to be more efficient across the company and serve our customers great even while being super-efficient. We're feeling really good at the level that we're at. We think it's a good level to operate in 2023.

But that said, there's always ways to be more efficient. And I know the finance team, the engineering team and others across the company are constantly looking for ways to optimize our costs. And so I wouldn't say we're as low as we could possibly be right now. And certainly, about 1/3 of the increase in our kind of run rate costs into '23 are about pursuing new growth initiatives and growing the business, which I think kind of takes us into the second part of your question is what are we doing to drive growth? And you heard Vlad talk about all the initiatives that we rolled out last year and highlight a few of them that are starting to get some traction on a revenue basis.

We want to build a portfolio of businesses and services over time that can each in its own right become like 9-figure and growing revenue contributions. Some of them will get going faster than others, but it's a long-term effort for us. And we're going to keep investing and keep planting seeds, including just by improving the experience that we're offering on our existing businesses. If you take fully paid securities lending, for example, when we initially rolled that out, we had -- in the first few months, we had an ARR run rate of about \$15 million. And that's great. That's a great way to kind of get started on a new business.

But the team didn't stop. They kept iterating. They kept finding ways to get more people to adopt, to get more efficient and better tools in the hands of our trading desk. And now we're running at a \$30 million ARR. And there's a direct line between all the work and all the iteration that's been going on since launch. And so you're going to see us launch products, you're going to see us iterate on those products and just keep driving for improvement. And I think when you add all that together, it leads to revenue growth over time.

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**Steven Joseph Chubak *Wolfe Research, LLC* - Director of Equity Research**

Lots of singles and doubles. Got it. If I could just squeeze in one more, just ticky-tack modeling question.

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You mentioned the -- or reaffirmed the dilution of 4% or less in 2023 in terms of share count. Does that contemplate any of the buybacks or planned buybacks of the FTX founder shares?

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

No.

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**Steven Joseph Chubak *Wolfe Research, LLC - Director of Equity Research***

And is there any appetite to initiate buybacks, just given the improved EBITDA profitability that you're seeing?

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

Yes. Thanks for your question. No, it doesn't incorporate any anticipated repurchase of those Emergent Fidelity Technology shares. So a good clarification there. And in terms of kind of ongoing repurchases, at this point, we're just focused on buying the shares that we had talked about and we'll save for later. As we think about capital management, we really want to be investing in the business for growth, having flexibility to complement that organic growth through M&A and then kind of as a third option in priority order would be thinking about returning value to shareholders through things like repurchases. So nothing to announce there and nothing to signal either.

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**Operator**

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

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**Richard Henry Repetto *Piper Sandler & Co., Research Division - MD & Senior Research Analyst***

And first, congrats on the right -- quickly rightsizing the company last year. So I also want to thank you for giving all the color on the, I guess, sort of the rebound in engagement in January. And I guess 2 sort of questions. Does that include -- we saw a deleveraging in the brokerage. We saw your margin balances, not just yours, but across the industry, drop. So how are margin balances? And you gave us half the picture of the engagement. I think a lot of people are wondering how profitable these flows are from retail investors? Can you -- I don't -- could you just sort of give a qualitatively, are the capture rates of what you're making, the spreads, et cetera, that determine the payment for order flow, have they improved as well in January?

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

Yes. So in terms of the margin book, we have seen it move up. I wouldn't say it was a big move up in January, but it has moved up slightly from the levels that we saw right at the end of the year. In terms of the take rate on equity PFOF, nothing has changed structurally there. It moves with kind of the mix of what our customers are buying and selling as well as the level of spreads on the things that they're buying and selling. So that's probably all the color really I have on the take rate.

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**Richard Henry Repetto *Piper Sandler & Co., Research Division - MD & Senior Research Analyst***

Okay. And my 1 follow up. You've done a great job at diversifying the revenues and the new product rollout. So can you give -- just give -- I still think there's probably a few more hikes coming. So what's the

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sensitivity, Jason, to the next Fed rate hike?

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

Yes. So what we said for next quarter is that we think interest revenues will move up about \$20 million versus what we saw in Q4. We're providing a schedule in our investor presentation that kind of lays out the \$18 billion of interest-earning assets. What you expect is when those rates come, that a good majority of that should flow through against those interest-earning assets, offset by anything that we pass along to our customers.

And in that regard, we look primarily at the Gold cash sweep. And our rate right now is 4.15. So the take rate there relative to the Fed funds effective is roughly 50 basis points. We're giving over 400 basis points by comparison to our customers. So the vast majority of that is going to customers. And really, when we think about pricing on that, we just want to be at or near or kind of with the top of the market in comparable offerings, which we think we're doing a really good job and customers are seeing and reacting to.

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**Operator**

Our next question comes from the line of Kenneth Worthington of JPMorgan.

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**Kenneth Brooks Worthington *JPMorgan Chase & Co, Research Division - MD***

So maybe first on the Cash Card, you guys relaunched it. I wanted to follow up there. How many of your cash management customers have transitioned to the new card? And what is the number of sort of Cash Cards outstanding at this point? I think at the last quarter, it was 500,000. And then if it's possible, can you give us any insight into the Cash Card customer in terms of like average number of transactions and average size of transactions?

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

Ken, so this is Jason. I'll take that, and Vlad can jump in with any additional color. So it's an opt-in rather than opt-out for the cash management customers that are moving over. And so far, we've seen kind of a slow uptake in the opt-in to the Cash Card. That's something that we're looking at. We're -- I talked earlier in 1 of my responses to just iterating and improving our offering. And so we're talking to customers. We're working on optimizing the onboarding flow.

And we hope to see even more customers choose to adopt the Cash Card. We're also looking at just the value proposition of the Cash Card. And over time, we'll continue to iterate on that until we get to a point that we think we've got really great product market fit. In terms of the update on the number of kind of card users, it's around 800,000. So it's up a couple hundred thousand since the last time that we shared that with you.

And then there's -- of that 800,000, there's a minority of that, that are engaging more frequently as kind of top of wallet. And that also is something that we're looking at to make sure that we just get the value proposition right for customers and get it to where the green Robinhood card just moves up to the top of

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the stack in our customers' wallets. So it's early and we'll continue to update you as we make progress there.

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**Vladimir Tenev *Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board***

Yes. The only thing that I would add is, like we said with Stock Lending, post launch, we made a ton of improvements to the product and the funnel and we're really proud of the work that we continue to do there. With the Cash Card, it's the same story. We've got a great team on it. The road map is full. There's a lot of exciting things coming. So we're very excited about how much that product will improve in the near future.

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**Kenneth Brooks *Worthington JPMorgan Chase & Co, Research Division - MD***

Okay. Great. And then trading volumes have been resilient in options relative to the other asset classes. What is the experience your clients are having in options? Like can you tell, are they making money in options? Is your experience getting better over time? And if they are making money in options, why do you think the experience is better there than in equities and crypto ?

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**Vladimir Tenev *Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board***

Well, 1 of the things we've been really looking at is the Net Promoter Score, the retention characteristics of our options product. And we've made a lot of improvements in the past year. At the beginning of 2022, the more advanced customers, the ones that were engaging in options a little bit more, were, on average, less happy with our service than the typical customer and then we were able to reverse that quite aggressively in a relatively short amount of time.

And that's through things like options and cash accounts; better customer support, including 24/7 live chat, which launched a couple of months ago; advanced charts and more tools there. And we continue to roll out awesome, innovative options features with a lot more coming this year. So really, the options team has been firing on all cylinders. We're really happy with kind of our relative market share, especially in the light of overall sort of decline in volumes industry-wide.

And I think there's a lot more to do. But a lot of it comes down to just us relentlessly improving the product. And I'm very proud of the work the team has done there.

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

And it's been, as you know, Ken, just a really challenging macro environment, not just for our customers, but for all market participants, frankly, over the last year or so. And that's one of the reasons why we're really excited about being able to offer over 4% yield on the Gold cash sweep program, introducing Retirement, which is going to help customers just kind of systematically, dollar cost average over a long period of time to reach their goals. And so really, you're going to see Robinhood evolve its platform so that no matter how customers want to trade, Robinhood will be the place to do it. And so it's a long-term strategy for us, but we're making progress there.

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**Operator**

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Our next question comes from the line of Michael Cyprys of Morgan Stanley.

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**Michael J. Cyprys Morgan Stanley, Research Division - Executive Director and Senior Research Analyst**

Maybe just coming back to your earlier point around innovating for advanced customers. I was hoping you could maybe elaborate a bit on what additional functionality could be helpful that's not offered today? And to that point, we've seen tremendous growth in index options, including some of the smaller-sized index options contracts yet. I do not believe they're available on the Robinhood -- for Robinhood customers.

So just curious how you think about the opportunity there? What hurdles could there be for adding index options? I understand they're a bit different in that they're cash settled as opposed to net share settled. So how much of a platform build would that required? And how does that stack up on the priorities for Robinhood here in '23?

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**Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

Thanks for the question. I'll field that one. I don't want to let the cat out of the bag too early. I think we've got some really exciting things in store. Certainly, we're looking at new assets and new features. And JB and Steve Quirk, awesome team. They're putting a great team together. They care a lot about advanced customers. They've really done wonderful things in the past with thinkorswim at TD, which really innovated for advanced customers. And I think we've got another year we can go here at Robinhood, so stay tuned.

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**Michael J. Cyprys Morgan Stanley, Research Division - Executive Director and Senior Research Analyst**

Any comment on the index option side? Is that something you guys are interested in or not of interest to your customer set?

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**Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

I think index options are interesting. Again, I shouldn't comment on any specific assets, but we're certainly looking at everything.

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**Michael J. Cyprys Morgan Stanley, Research Division - Executive Director and Senior Research Analyst**

Great. If I could just ask a follow-up question on the expense side. You guys have made tremendous progress bringing down the pace of expenses. If I just look at '23, it looks like the guidance is a little bit of a growth relative to the fourth quarter run rate. So I was just hoping maybe you could unpack some of the moving pieces that are driving expense growth from fourth quarter levels. And maybe you can comment on the headcount growth, inflationary pressures, how that's all impacting it versus investment spend?

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**Jason Warnick Robinhood Markets, Inc. - CFO**

Yes. So very, very modest headcount growth. We had a number of open positions at the end of the year. We're planning to fill those and then very, very modest incremental growth on top of that, primarily for funding investments in growth. If you think about the run rate for Q4, excluding share-based

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compensation, that gets you to roughly \$1.3 billion. And then our guidance was \$1.42 billion to \$1.48 billion for the year.

So to unpack that a bit, there's really 3 categories of incremental growth versus the run rate from the fourth quarter. Each of them represent roughly 1/3, so 1/3, 1/3 and 1/3 for the following categories. The first is just kind of, first, you got to normalize Q4 spend for things like seasonality as well as we're assuming that we fully fund our company's bonus program in 2023, whereas we're paying much less than fully funded in 2022, given the macro environment and how the year went for us.

And so you kind of -- if you take seasonality and that bonus effect, that's roughly 1/3 of the incremental off of Q4's run rate. The second is just existing business growth, continuing to deliver and improve on the existing products that we have. It includes things like merit increases for employee compensation that happens regularly on an annual basis. Pull-through of expenses that started kind of late in the year and you get the full year effect.

And then the third category also, as I mentioned, roughly 1/3 of the incremental is just investing for new business growth. And so that really bridges the baseline to the guidance.

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**Operator**

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

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**Benjamin Elliot Budish *Barclays Bank PLC, Research Division - Research Analyst***

I wanted to ask about the U.K. launch. I understand that it's -- the target is for the end of the year, but we sort of understood that Ziglu was expected to be a little bit of a launching off point and with that deal no longer happening, if you could share any thoughts on kind of your go-to-market strategy? Are you thinking about leading more with the Robinhood Wallet? And kind of how do you think about the competitive environment over there?

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**Vladimir Tenev *Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board***

Yes. Happy to field that. So the Robinhood Wallet is global by default. It's a self-custodial, Web3 wallet that offers trading and swapping with no network fees. So that, we're very excited about. A separate app from the main Robinhood app, which offers brokerage services. And the goal for this year will be getting brokerage services live in the U.K. by the end of the year.

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**Benjamin Elliot Budish *Barclays Bank PLC, Research Division - Research Analyst***

Okay. Great. If I could sneak one in as well. Just on your net interest revenue, you beat your own kind of guidance pretty nicely in the quarter. I guess where were you sort of the most surprised? And if we're thinking about the first quarter, where would you expect the -- if there were a similar outperformance, where would you think that would be most likely to come from?

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

Thanks. I don't want to predict where the outperformance might come in the following quarter.

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Certainly, it's sensitive to the interest-earning assets that we carry. Movements in things like the margin book could definitely be a lever, outperformance in the securities lending would be another area that, that might surprise. In Q4, we did outperform our expectations. That owed mostly to just nice asset growth and a little bit better on deposit betas than we had forecast into the model.

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**Operator**

Our next question comes from the line of Alex Markgraff of KeyBanc Capital Markets.

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**Alexander Wexler Markgraff KeyBanc Capital Markets Inc., Research Division - Associate**

A couple of questions. I just wanted to jump back to, I guess first, Robinhood Wallet. Just wanted to understand how you feel about the completeness of the offering at this point and kind of parity versus global peers on the Wallet side? And then just any sort of planned marketing initiatives in international markets for '23 to keep in mind?

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**Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

Yes. On the Wallet side, I think the core functionality is in place and we're getting great feedback from customers. There are a bunch of things that we're looking to add to make it even better. And the road map for that team is pretty full and they've been executing pretty relentlessly. So kudos to the Wallet team for that. And then -- I'm sorry, you had a question about international beyond that?

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**Alexander Wexler Markgraff KeyBanc Capital Markets Inc., Research Division - Associate**

International marketing.

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**Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

Marketing, yes. It's really early for us. Of course, we're open to doing marketing in the future. But right now, we're focused on rolling out the product and getting as much feedback from the users on the wait list as possible.

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**Alexander Wexler Markgraff KeyBanc Capital Markets Inc., Research Division - Associate**

Awesome. And then just on U.K. brokerage, I guess maybe just to expand on the earlier question. I mean what are some kind of key operational mileposts that we should be thinking of as you look to launch that by year-end?

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**Vladimir Tenev Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board**

Yes. It's mainly just making sure the technology is in really good shape and we adhere to all the different requirements for the U.K. market, making the experience seamless with the ForEx money conversions and things like that, and talking to customers and making sure that we do any U.K.-specific adaptations that we think will make the product as useful as possible for them.

But we think we have a great foundation. We've made really big improvements in our infrastructure and technology over the past couple of years. So scaling, we don't anticipate will be a problem. It's more about just getting the user experience and getting everything set up there.

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

So this is Jason. We're hearing from our PR team that 1 of the news outlets is incorrectly reporting that Robinhood is effecting a split on our stock. I just want to be super clear that, that is not any plan that we have. It's not factually accurate. And so for all those listening, if you can spread the correct news, that would be fantastic. Thank you.

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**Operator**

We don't have any more questions. I would now like to turn the conference back to Vlad Tenev for closing remarks.

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**Vladimir Tenev *Robinhood Markets, Inc. - Co-Founder, President, CEO & Chairman of the Board***

Thank you, everyone. Really appreciate the questions and we will see you all next quarter. Some of you sooner.

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**Jason Warnick *Robinhood Markets, Inc. - CFO***

Thanks, everyone.

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**Operator**

Thank you. This concludes today's conference call. Please disconnect your lines at this time.

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