

Robinhood Markets, Inc. (Q3 Earnings)

October 26, 2021

Corporate Speakers:

- Irvin Sha; Robinhood Markets, Inc.; Head of IR & Capital Markets
- Vlad Tenev; Robinhood Markets, Inc.; Co-Founder, President, CEO & Chairman of the Board
- Jason Warnick; Robinhood Markets, Inc.; CFO

Participants:

- Devin Ryan; JMP Securities LLC; MD and Equity Research Analyst
- Will Nance; Goldman Sachs Group, Inc.; Research Analyst
- Ken Worthington; JPMorgan Chase & Co; MD
- Rich Repetto; Piper Sandler & Co.; MD & Senior Research Analyst
- Josh Beck; KeyBanc Capital Markets Inc.; Senior Research Analyst
- Steven Chubak; Wolfe Research, LLC; Director of Equity Research
- Unidentified Participant; Autonomous; Analyst
- Brian Bedell; Deutsche Bank AG; Director in Equity Research

PRESENTATION

Operator: Thank you for standing by, and welcome to the Robinhood Third Quarter Earnings Conference Call. (Operator Instructions) Please be advised that today's conference may be recorded. (Operator Instructions)

I would now like to hand the conference over to your host, Head of Capital Markets and Investor Relations, Irvin Sha. Please go ahead.

Irvin Sha: Welcome, everyone, and thank you for joining us for Robinhood's Third Quarter 2021 Earnings Conference Call. With us today are CEO and Co-Founder, Vlad Tenev; and CFO, Jason Warnick.

Before getting started, I want to remind you that today's presentation will contain forward-looking statements about Robinhood's outlook for the fourth quarter as well as our strategic and operational plans. Actual results could differ materially from our expectations.

Potential risk factors that could cause differences are described in our press release issued this afternoon; the related slide presentation on our Investor Relations website; our Form 10-Q filed August 18, 2021; and in our other SEC filings. All information on the call is as of today, October 26, 2021, and we undertake no duty to update it for subsequent events, except as required by law.

As we discuss our results, all percentage growth comparisons will be to the same period in the prior year, unless otherwise noted. 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.

Vlad Tenev: Thanks, Irv. And thank you all for joining. Let me first start by discussing growth.

In Q3, net cumulative funded accounts were 22.4 million, up 97% year-over-year and slightly off versus Q2. As we previewed last quarter, in Q3, we saw considerably fewer new funded accounts and lower revenue as compared to Q2. In Q3, we added 660,000 new funded accounts, bringing our total additions for the year to 11.4 million, nearly doubling our customer base since the end of last year. It's been an incredible year, and we are still very early in our journey of democratizing finance for all.

Looking back at Q2, we saw a huge interest in crypto, especially doge, leading to large numbers of new customers joining the platform and record revenues. In Q3, crypto activity came off record highs, leading to fewer new funded accounts and lower revenue as expected. Historically, our growth has come in waves. The surges have come during periods of increased volatility or market events. We've also seen that new customers join when we add new products and features, giving us some degree of control over our growth.

Going forward, we expect to see these patterns persist. Jason will talk more about growth, our financials and our fourth quarter outlook in just a moment.

For more than a year, we've devoted a significant majority of our resources to safety first initiatives, most notably platform stability and service reliability. We've seen massive increases in new customers and trading activity over the past year, and I believe we have never been in a better position to serve these new customers.

We've also made huge strides in expanding our pool of top engineering talent. With the progress we've made on those 2 fronts, we think we now have much greater flexibility to allocate resources to new product development, and we're starting to see the results from that.

As I did last time, I'd like to cover our progress organized by our values. As a reminder, our top values are safety first, participation is power, radical customer focus, and first principles thinking.

Beginning with safety first. We've continued to make substantial progress on customer support and educational content. We want Robinhood to be the most trusted financial institution. This will take time, but we believe we are making good progress.

For example, I'm incredibly proud that we successfully rolled out 24/7 live phone support in our app. Customers can request a call back at any time of the day for help on any topic. And I'm really excited to say that our support team also serves crypto, making us the first major crypto platform to provide 24/7 live phone support.

We're also heavily leveraging proprietary technology to increase the efficiency of this service. Our interactive triage flow can pinpoint where support is needed, connecting customers with a representative who can provide a fast and personalized resolution.

Our next step is to expand phone support to customers who aren't in the app. We're working on this and plan to roll it out in the coming months.

We're also continuing to build educational content that helps new investors become long-term investors. Following last quarter's rollout of in-app educational modules, we've added more tools and features that help our customers better understand the market, investing and our app, all in ways that are contextually relevant for them. For example, to help customers learn more about options, we will soon enable them to set up hypothetical trades and see how their trades perform over time. This gives customers a way to gain practical knowledge and confidence before investing their money.

We're also beginning to integrate Robinhood Snacks, our digestible financial news content directly into our app. Snacks is one of the most widely consumed financial newsletters, with over 23 million unique readers in Q3. We're excited to deliver this content to more and more of our customers to help them stay informed of the top financial news. Over time, we'll be finding more ways to integrate Snacks with Robinhood. We think there are a lot of exciting synergies here.

And we've entered into our first big content distribution partnership, making Robinhood Snacks available on Snapchat to their millions of users. Together, we have created one of the first finance education channels delivered on Snap's Discover tab. We're really excited to extend the reach of Robinhood Snacks and are pleased to be working with the team at Snap.

Now turning to participation is power. We have continued expanding access to financial markets for all our customers. Customers are really loving the ability to participate in IPOs through Robinhood. As of today, we've partnered with 12 companies across a wide range of industries that have made their IPOs available to Robinhood customers. 6 of these companies have crossed 30 days since their listing on the platform, and we continue to see our customers holding over 80% of their allotted shares 30 days post-IPO. This gives us confidence that more and more issuers will view our platform as a great way to reach retail shareholders.

In this quarter, we began integrating Say events into our app, giving customers improved access to annual shareholder meetings, product launch events and company Q&A forums. Just this month, for the first time, Robinhood customers used Say to ask questions that were then answered live during an annual shareholder meeting. Going forward, we see an

opportunity to continue building on this momentum to revolutionize the way retail shareholders connect with the companies they own. This is truly an exciting moment for retail investors.

On to radical customer focus, we've been ramping up the pace of product development this quarter. We've opened the wait list for crypto wallets. This has been one of the most requested features from our customers, and we're excited that over 1 million customers have signed up to date. We're making our wallet features simple and intuitive and expect to begin introducing this to customers in the coming weeks.

We also introduced recurring investments for crypto, which is a great way for customers to automatically build their positions over time without having to stress about timing the market. And of course, we are very excited to offer our crypto customers 24/7 live phone support directly from the app.

I should mention we are keeping a close eye on crypto as the regulatory landscape is increasingly uncertain. We're aiming to deliver great new crypto features for customers while being mindful of keeping our platform safe and introducing products that comply with legal and regulatory requirements. Crypto is still very early, and we're excited to be investing in our platform here.

Looking ahead, I'd like to share a few upcoming products and features that we're excited about. Just last week, we started rolling out our new Recommendations engine, which will help new customers select their first investment. This feature not only helps our customers get started, but also helps educate them on things like ETFs and the importance of diversification.

We're also getting very close to making it possible for customers to transfer existing investments from other brokerages into Robinhood. This is called ACATS-In. And until now, our ACATS functionality has only been available for outbound transfers. This will change that, and I'm eager to see this launch.

And finally, before I turn this over to Jason, I'd like to highlight that as part of our new product road map, we're committed to delivering tax-advantaged accounts for retirement. We know this is important for our customers, and our teams are hard at work to make this a reality. We aren't ready yet to provide a time line, but we look forward to updating you on our progress.

We're still very early in our journey. We're continuing to invest for the long term and remain focused on our vision of building a single money app for our customers. With that, let me turn it over to Jason to discuss our financial results.

Jason Warnick: Thanks, Vlad.

In Q3, net cumulative funded accounts were 22.4 million, up 97% year-over-year and slightly down versus Q2. Monthly active users were 18.9 million, up 76% year-over-year.

And assets under custody were \$95.4 billion, up 115% year-over-year. MAU and AUC each declined sequentially off a record Q2.

During the quarter, we added 660,000 new funded accounts, bringing our total additions for the year to 11.4 million. Churn was 870,000 accounts, improving on a percentage basis versus the first 2 quarters of 2021. I'm happy to see churn come back more in line with what we were seeing in 2020. And offsetting churn, 110,000 customers returned to Robinhood during the quarter. Also in Q3, customers contributed \$2.3 billion in net deposits.

Now let's turn to revenue. Total net revenues were \$365 million in Q3, up 35% year-over-year but down sequentially as expected. Looking at the components of revenue, transaction-based revenues were \$267 million in Q3, which is down sequentially but up 32% year-over-year. Equities revenue was \$50 million, down 27% year-over-year. Options revenue was \$164 million, up 29%. And crypto revenue was \$51 million, up 860% year-over-year. While crypto came off record highs from Q2, it significantly exceeded last year's Q3 level.

Looking at trading activities, there are a few call-outs. Customers placing trades were up year-over-year, 24% for equities, 11% for options and 287% for crypto. During the quarter, equities DARTs were down 4% year-over-year, option starts were flat, and crypto DARTs were up 340%. Notional volumes traded per trader were down 39% for equities and up 124% for crypto, while average options contracts per trader were up 18%.

Moving to assets under custody. Equities AUC was \$69 billion, up 83%. Options AUC was \$1.4 billion, up 4%. And crypto AUC increased to \$22 billion versus \$1.1 billion in the prior year. As a reminder, the cryptocurrency market is extremely volatile, and we anticipate these conditions are likely to persist.

As for Cash Management, the product continues to get traction, reaching 5.5 million customers, up 293% year-over-year. 25% of our funded customer accounts now use our Cash Management product, and this is an area we are excited to keep investing in.

Moving to net interest revenues. They were \$63 million for the quarter, up 26%. Primary components include securities lending, which totaled \$33 million, up 20% year-over-year but down sequentially; margin interest, which totaled \$34 million in the quarter, up 61% year-over-year; and interest expense, which was a \$6 million offset to net interest revenues in Q3.

Our margin book reached \$6.1 billion at the end of the quarter, an increase of 168%. At the end of the quarter, 256,000 customers held a margin balance, representing about 1% of our net cumulative funded accounts. And for other revenues, they increased 101% to \$34 million, driven largely by year-over-year growth in our gold subscriptions.

Now for operating expenses, I'd like to remind you that beginning with our IPO, we are now recording share-based compensation from RSUs within each of our operating

expense line items. In total, our share-based compensation for Q3 totaled \$1.2 billion, which includes a cumulative charge totaling \$1 billion recorded at the time of the IPO. It will make our year-over-year comparisons for OpEx a bit challenging, so I encourage you to check out the investor presentation for details on SBC included in each operating line.

We continue to make progress building our teams, with increases primarily in engineering, customer service and our regulatory and compliance teams. In the quarter, we added 580 new full-time employees across the company, growing 21% sequentially versus Q2. We made sequential progress reducing fraud losses, down 23% versus Q2. We have more work to do here and this is constantly evolving, but I'm proud of the progress our teams have made.

Lastly, the team is working diligently to improve our operating leverage and efficiency. This is a long-term cultural commitment for us, and I'm confident we will deliver on this.

Now let's turn to measures of profitability. Net loss for Q3 was \$1.32 billion, which includes the \$1.2 billion in share-based compensation. This compares to a net loss of \$11 million in the prior year quarter.

And adjusted EBITDA was negative \$84 million, compared with positive \$59 million in the prior year quarter. As a reminder, adjusted EBITDA primarily excludes the impact of share-based comp.

Now for Q4. We anticipate that total revenue will be less than \$325 million, and full year revenue will be less than \$1.8 billion. At the top end, this implies full year revenue growth of 85%. Additionally, we expect new funded accounts in Q4 will be roughly in line with Q3.

As you know, the market is uncertain and could be highly volatile. So these comments are assuming a steady state for what we've seen so far in these first few weeks of the quarter and do not assume any changes to market volatility or incorporate any anticipation of exogenous events.

As a reminder, our industry sees a typical seasonality curve that shows higher growth in the first quarter of the year versus the last 3 quarters. Additionally, we continue to monitor regulatory developments relating to market structure matters, such as statements from the SEC on payment for order flow, cryptocurrency regulation, option trading due diligence, and digital engagement practices.

We remain focused on the long term, and we're very excited about our product road map. We are introducing the next generation to investing and all things money. And we believe there's a big opportunity ahead of us. With that, Irv, let's turn to Q&A.

QUESTIONS AND ANSWERS

Irvin Sha: Thanks, Jason. Leading into this quarter's Q&A session, we'll start again by answering the top questions from Say ranked by the number of votes. We'll pass over any questions that were already addressed, and we'll group together questions that share a common theme. After that, we'll turn to live questions from the analyst community.

Starting off, we have a number of questions from Sean P, Christian B, Cezar S and others around our plans and time line for future crypto offerings, including new coins and earning interest on crypto. Vlad, do you have any color you'd like to share there?

Vlad Tenev: Of course, yes. Thank you for your questions. And we know that the community is really excited to see more features in our crypto offering. We hear this loud and clear. Our customers want new coins, the ability to deposit and withdraw as well as ways to earn interest under crypto.

And as we mentioned in the release, we're excited about crypto wallets. Over 1 million customers are on the wait list for crypto wallets thus far, and this is coming soon.

So on new coins specifically, one thing to mention is that crypto wallets will allow customers to participate and take coins such as Bitcoin and Ethereum that they purchased on Robinhood, to participate in some of the other decentralized applications off-platform, which allow access to coins that we don't offer. So we actually believe that by rolling out wallets, we will go a long way towards addressing the primary pain point that customers feel right now.

One other thing that we're mindful of, and I noticed this -- I mentioned this earlier in the release. The regulatory environment, in terms of new coins and lending products in crypto, is uncertain and evolving. And we're having to carefully evaluate whether we can add new coins in a way that's safe for customers and in line with regulatory requirements.

So as you probably are aware, the Securities and Exchange Commission, other regulators have raised questions about whether lending and staking features are actually unregistered securities offerings, whether a lot of the coins at -- and tokens at other platforms are unregistered securities. And we feel very, very good about the coins that we're currently listing on our platform. And for any new coins that we add, we want to feel equally, if not more good.

So we're going to be very careful. We're a regulated entity, and we're hopeful to get some clarity soon on coins. So until then, we'll continue to work with our regulators to hopefully land in a place where regulations allow for innovation and are applied evenly across the industry.

The only other thing I'd mention is that we've been investing a lot in the crypto team. The team started out a year ago as a fairly small team. They've done a lot of great work scaling the platform. And they've rolled out a lot of really exciting features, so not just the wallet wait list, but also recurring and 24/7 phone support. And we're excited to keep innovating in this space, and there's much more to come here.

Irvin Sha: Great. Thanks. From Tushar T, when will Robinhood support retirement accounts, like 401(k)s and IRAs?

Vlad Tenev: Yes, I'll field this one, too. Thank you, Tushar. So as we mentioned, we are committed to support retirement accounts, IRAs specifically, in the product road map. We don't have specific details on time line yet, but I will tell you it's very much in line with our mission. We want to see everybody being an investor, and tax-advantaged accounts do a lot and are important for customers as a way to encourage long-term investing behavior.

So it's something we're excited about. We know it's mission aligned, and we can't wait to deliver a great product for our customers there.

Irvin Sha: Great. Next up, we have questions from Maxfield S and Edward A on whether we have any plans for extending trading hours, both before the market open and after hours.

Vlad Tenev: Yes. Thank you for this question. This is something we've heard a little bit. So we do offer some extended trading hours right now, but are hearing from customers that they want those hours extended.

So just some of the challenges in doing this: limited liquidity and wide spreads. So we want to make sure that we communicate to customers that conditions outside of normal trading hours may differ. And I think this is incredibly important, especially given that many of our customers are investing for the first time.

That said, we do hear customers on this, and I'm happy to say that teams are actively working on this. So you should be hearing more from us on this in the coming months.

Irvin Sha: Sounds good. From Jason L, how is Robinhood planning on becoming profitable long term in competing with Square, et cetera? Maybe Jason, do you want to take this one?

Jason Warnick: Yes, happy to take this. What I'd tell you right now is that we're really focused on investing for the future. And so you see us investing heavily in our teams, adding to the teams like engineering and customer support. And you're going to continue to see us investing for the future and not really focus on profitability, at least in the near term.

What I will say, though, is when I look at our operating structure, I feel really good about our unit economics. I think we're set up to be a profitable company over the long term, but right now that's just not our focus.

In terms of competition, what I'd tell you is that I think we're really well positioned to keep building for customers. And that's going to be adding products and features that our

customers love, add values that are great for customers. And over time we think that that, combined with our brand and our focus on safety first, will help us be very competitive in the market.

Irvin Sha: Great. From Ramone D, when will the Robinhood wallet be available to all?

Vlad Tenev: Well, thank you for the question. So this is one that we're excited to talk about. We've been making good progress on the wallets, and we're going to be rolling out to the first set of external customers -- customers in the next few weeks.

So one of the interesting things about this rollout, getting to this point has taken a lot of great work from the teams. So we're using this as an opportunity to make an experience that's traditionally been very cumbersome and complicated and scary to some customers. Easy and intuitive, while also introducing security hygiene in a way that's understandable.

So we anticipate the first launch, the first set of external customers to get a high-quality product. But moreover, we're excited to continue building this in public with the community. So even though we want to give people a high-quality product, as the first set of customers, we'll take their feedback and report back to the community about what that feedback is and incorporate that into the product while it's rolling out.

So we do think the product will continue to improve, and we're excited to share the progress with the community. So we -- the aim is nothing short of rolling out the easiest to use, safest and most delightful wallet experience for our customers. So next few weeks, first set of external customers; and we expect to have wallets available to all customers in Q1 of next year.

Irvin Sha: Excellent. From Brian H, how will Robinhood continue to generate income without PFOF? Jason?

Jason Warnick: Yes. So PFOF has been getting quite a bit of regulatory attention, including specific comments from Chair Gensler talking about banning PFOF being on the table. I do think it's important to step back when thinking about PFOF to consider kind of where we've come from. Robinhood had led the way in commission-free trading, and that's led across the industry to save billions of dollars for investors.

And millions of people are participating who previously weren't including just a much more inclusive and diverse population of investors. And so we really think that as this question of PFOF has looked at, we hope that as the SEC looks at the data, that they'll see kind of the benefits that PFOF has brought to the industry and to the millions of people who are now participating.

Now in terms of the question, I do think that over time, we're going to be rolling out more products and services. We talked a little bit about retirement accounts. We're investing in our Cash Management product and certainly crypto. And so we'll be diversifying our

product selection over time. And I would say that there's also an opportunity for us to participate more in the market making of the order flow as I mentioned last quarter. So lots of opportunities for us over time; and on PFOF, we're certainly paying close attention.

Irvin Sha: Great. Maybe time for one more question. So this one comes from Brandon C. Can you make an option to gift stocks to family and friends? Vlad?

Vlad Tenev: Yes. Thank you, Brandon. This is something that we hear from customers from time to time. We don't have anything to share about gifting stocks on the road map right now. But stay tuned, and this is definitely something that we'll consider for the future.

Irvin Sha: Great. And with that, I will ask the operator to open up the line.

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

Devin Ryan: I guess first question here, I'd love to just maybe unpack the outlook a bit for the fourth quarter in a couple of points.

I guess the first one on the comment on revenues. I appreciate there's a lot of uncertainty as we think about the next couple of months here, but it does seem like crypto volume's up meaningfully, at least in the industry. So I'm assuming maybe there's some offsets or maybe you guys are seeing that. I'm just kind of curious if you can give a little more color around kind of what you're seeing in the revenue environment.

And then in terms of new funded accounts, I appreciate how strong the first half was. But is the kind of the back half of the year and maybe even what you see in the fourth quarter, is that a function of just pulling back a bit on marketing because it's just not as attractive or no kind of big product launches? Or how should we think about just the outlook for new funded accounts relative to the marketing spend?

Jason Warnick: Yes. Thanks, Devin, and appreciate the question. This is Jason. I'll go ahead and take that.

The first comment that I'd make on the revenue guidance is that it's based on what we've seen for just a few short weeks at the beginning of the quarter. It's assuming that we don't see any changes in market volatility and no kind of exogenous events, if you will, in the market. And we wanted to be what we felt was appropriately conservative for our revenue guidance, particularly in the fact that we are facing seasonal headwinds and lower year-over-year volatility.

In terms of crypto, it's very difficult to predict what we'll see. But what we did is incorporate what we've seen for the first couple of weeks of the quarter and incorporated that into the guidance.

In terms of your question on marketing, I think that's a good one. When we look at marketing, particularly in environments where there is just generally lower volatility and less interest in investing, we've decided as a company to be cautious about chasing growth with marketing dollars. You can always spend more to get more customers, but what we've seen is you tend to get lower-intent customers at worse economics in these periods where there's just lower volatility and less interest.

And that said, I think the opposite is also true, that in periods of higher volatility and higher interest in trading, we tend to lean a little bit more into it. And of course, as you know, we've got a tremendous referral network, and we love the effectiveness of that. But you should just expect as a management team, we're going to be cautious with the way that we approach our marketing dollars, so that the economics make sense as well as the customers who join us have high intent.

Devin Ryan: Okay. And just a follow-up here on the IPO Access business. Some really nice I think momentum there with 12 deals already, so clearly some pretty good proof of concept. How do you guys see that progressing from here? What type of momentum do you have in the pipeline or conversations with companies? And then is the next step to be able to actually increase allocation? So you're getting on many more deals, but do you see a scenario where you can actually get a larger piece where you're a more meaningful piece of every deal?

Jason Warnick: Yes. Thanks, Devin. What I would say is it's still very early in the IPO Access product. What we've seen so far is incredibly encouraging. You heard the stats that Vlad had mentioned.

As we've talked to potential issuers particularly early on, there was just a question of, well, how will Robinhood customers respond to receiving an allocation? Will they just quickly trade for a quick profit? Or are they really in it for the longer term? And what we're seeing is that our customers are holding on to the shares. And that's a really strong signal to issuers.

And stepping back, just looking at the relationship between retail investors and the companies that they own, IPO Access is an important piece of that. I think the work that we're doing with Say is also important. And what we're trying to do is really revolutionize the way that investors are able to communicate with the companies that they own and ultimately be able to influence their policies and road maps and so on.

So really excited about the momentum there. Our vision is that the vast majority of IPOs should be made available to retail investors. And I think we're building a strong case that Robinhood should be the conduit for that.

Vlad Tenev: Yes. I would just add, I think Jason really put it well. We think that Robinhood is very well positioned to create an ecosystem between shareholders and the companies that they're investing in. You see through participating in the IPOs, to

investing post-IPO, to engaging with the management teams like on the Say platform, people are really becoming and behaving like owners in enterprises. And we think that's a very positive thing for our economy, for these companies and the broader landscape. So we're excited to invest more here.

Operator: Your next question comes from Will Nance of Goldman Sachs.

Will Nance: I guess maybe I can start off with just a follow-up on some of the account trends that you saw this quarter. I mean the attrition that we saw in net funded accounts, I mean is the attrition concentrated in some of the more recent vintages? I.e., maybe some of the accounts that kind of opened around meme stocks and dogecoin earlier in the year? I mean any color on attrition rates on kind of pre-2021 cohorts?

Jason Warnick: Yes. Well, when we kind of looked across the attrition that we've seen, not just in this period but in prior periods, there really aren't any concentrations to call out. We feel great about the attrition rate, particularly as it's coming back down to more normalized levels. We did see higher attrition at the beginning of the year around some of the market events. But again, as we look at the cohorts and the demographics of the churning customers, we're not seeing any concentrations.

And one thing that I'd really like to see is returning customers, and having 110,000 customers come back to us this period was also really encouraging. We've seen that time and again that when customers have churned, then we get a fairly good percentage of them coming back to us over time.

And I think that the work that we're doing around safety first, certainly all the improvements that we've made to our platform and site resiliency, but also the 24/7 phone support goes straight to customer trust. And we think that, that over time is going to make a meaningful impact to churn.

Will Nance: Got it. Helpful. Appreciate that. And then maybe as a follow-up, just on the product pipeline for crypto. I guess given some of the regulatory scrutiny, it sounds like maybe some of the newer products in crypto could be on hold.

I'm just -- you guys have talked about prioritization in the past, and I know you have a lot on your plate in terms of new products that you could go after. I'm just kind of wondering how this is impacting the pipeline and whether there's kind of a reprioritization. Any new products outside of crypto that maybe come to mind as maybe taking more of a center stage, given some of the overhangs around crypto?

Vlad Tenev: Yes. I would just start, this is Vlad, by saying that I think we're still quite early in the crypto space, and Robinhood sees a lot of opportunity ahead of us. So the wallets wait list where we're rolling that out, looking forward to getting that out to customers in the coming weeks. And I think that unlocks an entirely new segment of the crypto space for Robinhood. And for our customers, they'll be able to send crypto off-platform and really get access to the broader ecosystem that way.

Recurring crypto, we're very excited to see that come out. And that's been a requested feature and something that allows customers to dollar cost average into crypto and not be as concerned about price volatility.

And 24/7 phone support for crypto, which is very unique in the space. So we're certainly a long way from being finished with the crypto road map where we're closer to the beginning. And we see a ton of opportunity ahead of us to continue to deliver value to customers.

Operator: Our next question comes from Ken Worthington of JPMorgan.

Ken Worthington: You attributed softer account openings to crypto. As we look at the account attrition this quarter, it was still at least reasonably elevated. Are you seeing the attrition in crypto accounts too? And if we look at 3Q, any sense of what portion of the attrition was coming from customers who are a -- cutting their accounts versus customers whose assets were going to 0?

And then to follow up on -- oh gosh, I think it might have been Will's question before or - in terms of account growth. In 2019 and 2020, account growth was still reasonably good in the second half of those years. And I hear what you're saying about seasonality, but it also seems like Robinhood sort of grew through that seasonality in prior years.

And particularly, I think it was in 2019 that realized volatility was substantially lower than what we're seeing in October today. So is there something else going on beyond seasonality or volatility that might be weighing on growth?

Jason Warnick: Yes. Thanks, Ken. Appreciate the questions. Similar to the -- my earlier comments on attrition, we're not seeing any concentrations, including at a product level, that would suggest that there's any specific source of concentration in the attrition that we're seeing.

In terms of ACATS, we saw that come down over 30% versus the ACATS that we saw in Q2. So really good progress there. I think that's really owing to -- we had a volatile first half of the year, elevated attrition, elevated ACATS-Out. I think what we're seeing now is it's beginning to normalize. And I think that the efforts that we're putting into safety first is certainly contributing to that normalization of departures.

In terms of account growth, at a macro level, what I would tell you is that we don't expect our growth to be linear. And we certainly have seasonal headwinds right now. There's lower volatility by nearly 30% year-over-year. Both of those headwinds are absolutely contributing to what we're seeing. There's nothing else that I would point to. We look at our share of our new app downloads. That continues to be strong, and we're taking an outsized share.

So what I'd tell you is that we expect kind of our growth not to be linear. It should ebb and flow with market conditions. The things that we can control are really new product launches and making sure customers have just a great experience when they're here.

So really continuing to be very optimistic. There's a long-term trend of increasing retail participation. And I think we're positioned really well to benefit from that.

Vlad Tenev: Yes. And I would just add to that, that over the past 1.5 years through the pandemic and the first part of 2020, we've been a little bit on our back foot, coping with the huge growth in new customers and trading revenue. And we've had to allocate significant resources towards scaling and improving operations and customer support.

So the benefit of slightly reduced volatility is that we have a lot more breathing room to work on new products and features for customers. And so we're excited to deliver those, and we think that customers will really enjoy what we're coming out with.

Operator: Our next question comes from Rich Repetto of Piper Sandler.

Rich Repetto: I was just going to ask, and you did include a lot in the earnings release. But is there any way you could walk us through, Jason, the lockup release? And I know it has a lot of what we call legalese and -- but a little bit more simplified of what comes unlocked over the next couple of days as well as the next 5 weeks.

Jason Warnick: Happy to, Rich. And as is pretty customary with IPOs, as we all know, we all have to deal with lockup releases and the implications to float.

So just kind of at the highest level, we have about 68 million tradable shares that are out on the market today. Tomorrow on October 27, we have half of what we call Tranche 1 of the converts becoming unlocked as well as some shares from employees that unlock according to the lockup schedule.

So that's 49 million shares relating to the shares received on Tranche 1 of the converts and another 13 million shares. That will be subject to trading windows, of course, relating to employees. So roughly 62 million on tomorrow that will come out. So 68 million right now, about 62 million coming out tomorrow.

And then fast forward to November 10, and then the other so the other half of Tranche 1 shares will begin be tradable. So that will be another 49 million. And then you move forward to December 1, and that's where all shares will be now fully tradable.

Rich Repetto: Got it. That's very helpful. Thanks, Jason.

Jason Warnick: Absolutely. Yes, you bet.

Rich Repetto: And Vlad, just one follow-up question on the new funded accounts stuff. You're very helpful and given us sort of the dogecoin breakout in the second quarter. And

you got a great contribution from the trading activity there. And I was just wondering whether do you follow like how many new funded accounts or do you think from that came from this the big uptick in dogecoin? In 2Q?

Vlad Tenev: In Q2 -- Sure, yes. Yes, there were millions of funded accounts that came for cryptocurrencies, particularly dogecoin in Q2. So certainly, it was a meaningful portion of the new accounts in that period.

Operator: Our next question comes from Josh Beck of KeyBanc.

Josh Beck: I wanted to go back to the crypto wallet launch. Obviously, it's really encouraging to see that type of wait list at this stage of the product. But as it's launched, what do you really think will be the distinctive elements of the offering versus maybe some of the other wallets that are out there?

Vlad Tenev: Yes, for sure. I think that we're going to start with simplicity and security. We really want customers to know not just wallets but Robinhood in general as the safest, most trusted and easiest to use place to work with your investments in crypto. And I think wallets is really no different. I think that a lot of products in the market are complex they're tricky to use. They make customers nervous when they're transacting crypto and sending it back and forth. So I think we can really bring our design and engineering to bear on some of these problems.

And it's not going to be just a single launch. As I mentioned earlier in one of the answers to the retail questions, we're excited to build this in public and to solicit feedback. We think that the product will keep getting better and better. And based on that feedback, we'll continue to solve customers' pain points and improve the experience.

Josh Beck: Great. Well, look forward to watching that evolution.

My follow-up is about this ACATS-In launch. I'm just curious. As that comes to market, would you expect that to be a friction point that you're removing, more so with new customers? Is it going to be an AUC driver for existing customers? Just curious how that could potentially impact the model as it's launched.

Vlad Tenev: Yes, for sure. I'll field that question. So we actually had ACATS-In on the platform several years ago prior to bringing our own clearing system in-house. And what we saw during that period was net incoming ACATS, so more people were transferring ACATS in than transferring out to other brokerages. And a large portion of that was customers enjoy the Robinhood product and find value in consolidating their stocks and various assets in one place.

So the -- we do think that that's something we hear from customers. All things being equal, they'd like the opportunity to consolidate. And we do think that's going to be largely customers that already have accounts. So we think existing customers

consolidating more and more of their activity on Robinhood is a behavior that we believe is out there and we can help satisfy

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

Steven Chubak: So I wanted to just touch on some of the new product launches. And one that didn't get much airplay on the call is fully paid tech lending. I was hoping you can give us an update on how that launch is progressing and whether you could frame or provide some context on how we should be thinking about that incremental revenue opportunity?

Jason Warnick: Yes. Thanks for the question. It's Jason. I'll go ahead and take that.

So as you know, we have margin-based sec lending today. Really proud of the trading desk and the skill set that we have there around securities lending.

On fully paid securities lending, a couple of things that I'd say. One reason we're really excited about that is it's an opportunity to enable customers to achieve more yield on their portfolios by participating in the program. And this is another kind of example in the financial system where it's typically limited for folks with larger account balances. So we're excited to bring this to more and more people.

Over the last year, there's been some structural changes on the regulatory front in terms of the requirements for the program. And so we've been working close with the teams and with the regulators to make sure that we build against those requirements and roll out a product that meets all of those. And this is a program that actually requires FINRA approval. And so we're working with them. We've got a good productive and open dialogue with them. But we're excited to roll this out when we get the approval and we finish building.

So hard to predict the timing, particularly because of the approval, but I would say that the teams are getting really close to being ready to roll this out. We think it's a meaningful opportunity, not just for customers but also for us. And it has the potential to be kind of hundreds of millions in annual revenue for us.

So we'll have to stay tuned. And again, we think it's just great for customers, so eager to get this launched.

Steven Chubak: Helpful color, Jason.

Operator: Our next question comes from [Christian Bolu] of Autonomous.

Unidentified Participant: Just back to crypto and to Vlad's point earlier around being early in the product life cycle, can you help us understand your monetization road map on crypto over the next 2 to 3 years? What is your ballpark take rate on crypto today relative to folks like Coinbase that are about 140 basis points? And then as you add more

products like the wallet, more coin, staking, et cetera, how do you see that take rate trending over time?

Jason Warnick: Yes. Thanks, Christian, for the question. So it's Jason. I'll take it, and Vlad might have some additional color.

So we're incredibly optimistic about crypto. We're hearing from customers that they want more coins. They want the ability to earn interest through either lending or staking.

As we commented earlier, we're being very mindful and diligent in this space. It's evolving from a regulatory perspective. There's been a number of questions raised about coins on other platforms being potentially unregistered securities.

And so we think it's the right thing, not just for shareholders and for the company, but also for customers to make sure that we apply the same kind of diligence to any new coins and new features, including lending which has been suggested as an unregistered security, that we make sure that we do the right thing for everyone involved, all stakeholders involved, before we roll something like that out.

And so you're generally not going to see us to be the first mover, particularly in this regulatory environment until we get a bit more clarity. But we do hear our customers, and they want more features. And so we're going to be working as fast as we can with the right balance of safety and compliance to make sure that we don't make missteps here.

This is something that we've learned over time. And we've built the competency in-house to be diligent, and we're going to take advantage of that. And I do think that the safety first focus that the company has is really a differentiator for us and a competitive advantage. So super happy about that.

In terms of the take rate, we earn revenue on crypto through rebates on the market making, similar to how it works in the brokerage space, and the amounts of fraction of what customers are paying at other cryptocurrency marketplaces.

Unidentified Participant: Okay. And maybe for my follow-up, can you talk about how you think about acquisitions going forward? I mean it's very clear that you potentially have a significant ARPU opportunity if you indeed become the premier money app. You do have a rich currency, despite what's happening in the aftermarket today. So can you talk about how you're thinking about maybe using M&A and acquisitions to reaccelerate your strategic objectives?

Jason Warnick: Yes, you bet. We've built a solid team in corp dev. Historically, we've done the majority of our growth, vast majority of our growth through organic. We continue to be kind of a build-first mindset.

That said, I do think that it makes sense for us in the area of fintech to be paying close attention to how we might be able to accelerate our road map beyond organic growth.

And so I don't have anything to announce today, but we do have the competency in-house. And I think that we've built up the leadership team to be able to handle acquisitions going forward.

Operator: Our next question comes from Brian Bedell of Deutsche Bank.

Brian Bedell: Maybe just to try to get a little bit more color on the plan to launch retirement accounts. I know the timing is uncertain right now, but just trying to get a sense if that's something that might be coming within the next year or it's a little bit longer than that. And then linking that with the ACATS-In, is that something that you would plan on having that ability for customers to then ACATS-In, say [get] your retirement account from another institution in that and looking at that as a lever of organic growth?

Vlad Tenev: Yes. I'll be happy to field that. So certainly, it is on next year's product road map, and we would be looking to leverage our ACATS-In functionality across all accounts. We're building things in a way that they can leverage common infrastructure and they're interoperable. So certainly, we'd be looking to allow ACATS-In for all account types that we support, including IRAs.

Brian Bedell: And ACATS-In would be before the -- before retirement accounts, I would assume?

Vlad Tenev: Yes. Very likely so, yes. Well, ACATS-In is sort of a nearer-term one; whereas retirement accounts, medium to long term.

Brian Bedell: Yes. Okay. That's helpful. And then just a follow-up, just on the customer, the 24/7 customer support, any early statistics on usage of that customer support? Maybe on wait times or how people are using -- which areas they're using it for in terms of crypto versus stocks and options?

Jason Warnick: So we haven't provided any metrics here. What I'd tell you is that when we survey our customers after using the phone support, the satisfaction rates are significantly higher than other methods of contacting us. And we have been very pleased to set aggressive internal SLAs, and we're doing very well against those SLAs.

As you know with over 22 million funded accounts, it's not just manpower or a people power kind of challenge. It's also a technology challenge. And so together with phone support, it's providing workflows within the product itself to help customers answer their own questions. It's proactively finding reasons why customers need to contact us in the first place and rolling out improvements to the product. And so I think the combination of all of these things are adding to just improve sentiment about the product experience.

Irvin Sha: And with that, I think that we are roughly at time. I just want to quickly thank everyone for joining the call and your continued interest. And we look forward to talking to you guys again next quarter.

Vlad Tenev: Yes. Thank you for all the questions. And thank you for to the Robinhood team for all the hard work they're putting into build products and keep our service reliable for customers.

Jason Warnick: Yes. Thank you

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.