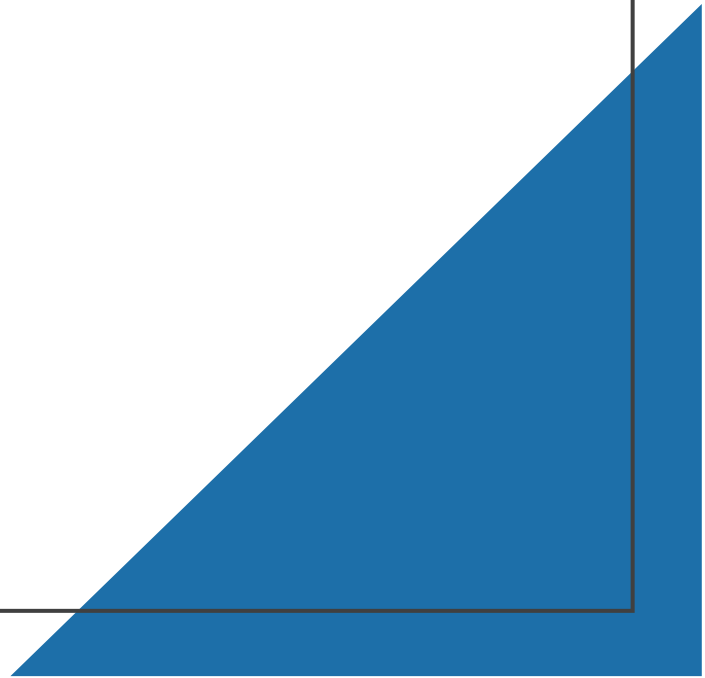


coinbase

UNIVERSITY OF
EXETER | BUSINESS
SCHOOL

Company Report
Saiful Hoda
December. 2021



About coinbase



Coinbase Global, Inc. is a publicly listed company (NASDAQ : COIN) focussed on building crypto economy and provides end-to-end financial infrastructure and technology services,



Founded in July 2011 by former Airbnb engineer Brian Armstrong and in 2012 joined by co-founder Fred Ehrsam, a former Goldman Sachs trader



#1 on October 28th, 2021, making Coinbase app the most downloaded iOS app in the U.S.



Regulated in the US by SEC



Its platform enables approximately 43 million retail users, 7,000 institutions, and 115,000 ecosystem partners in over 100 countries to participate in the crypto economy

Vision

Create an Open financial system for the world leveraging the power of internet, smart phones, and cryptocurrencies

Mission

Economic freedom for every individual and business through crypto economy over the next 10 years.

Customers of Coinbase

- ❖ Crypto investors – who buy and store crypto assets with the intention of selling it in the distant future.
- ❖ Traders who buy and sell crypto assets with the intention of making a profit.
- ❖ Institutions that avail various services such as crypto custody services.

Economic Model

- ❖ Trade transaction fees from retail and institutional investors is the primary source of income
- ❖ Subscription and services revenue is the next source of revenue.
- ❖ Other Sources of Revenue include sales of crypto assets owned by the company and interests from other investments.

Products & Services

Individuals

Coinbase

- ❖ Buy, sell, send, receive, and exchange crypto currencies.

Coinbase Pro

- ❖ Global Digital Asset Exchange (GDAX) was rebranded to Coinbase | Pro. It is an advanced version of vanilla Coinbase.

Wallet

- ❖ Provides broader access to decentralized applications built on top of various ecosystems.

Institutions

Custody

- ❖ Financial controls and storage solutions for institutional investors.
- ❖ Caters to players on Wall Street and costs up to \$10,000 in implementation fees, a management fee of 50 basis points on an annual basis, and a minimum balance of \$500,000.

Coinbase Prime

- ❖ enables institutional investors to buy, store, and trade crypto assets on a massive scale.

Private Client

- ❖ Enable crypto trading for family offices, trusts and HNWIs

Businesses

Coinbase commerce

- ❖ Businesses can use Coinbase Commerce platform to accept crypto payments.

Developers

Developer Tools

- ❖ A string of APIs, products, infrastructure systems, and secure services geared towards developers. These tools makes it easier for developers to connect to Coinbase customers, integrate cryptocurrencies, build crypto businesses, and more.

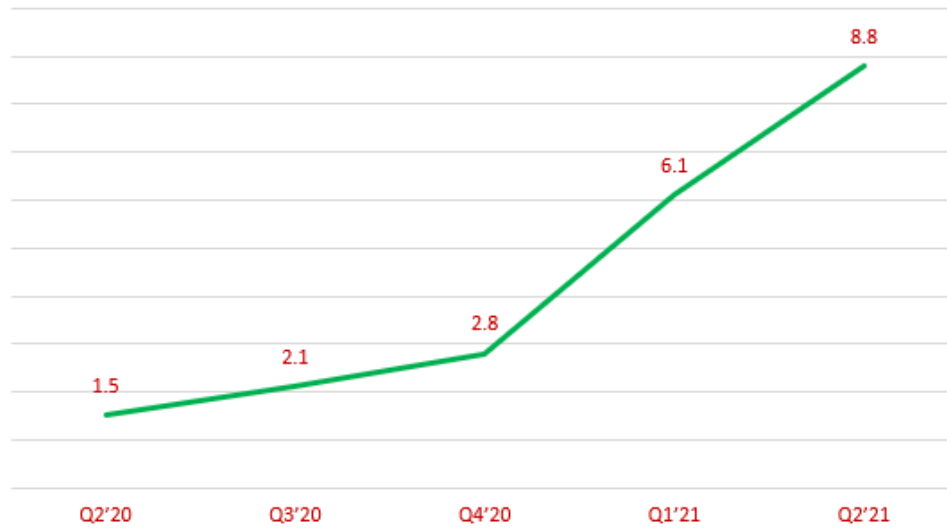
Other Products

Coinbase Wallet

- ❖ Give users broader access to decentralized applications built on top of various ecosystems
- ❖ Coinbase Card, a Visa debit card that lets users spend their crypto assets held in a Coinbase account and make ATM withdrawals. Shoppers can earn up to 4% back in crypto rewards for purchases.

Growth Metrics

Monthly Transacting Users (M)

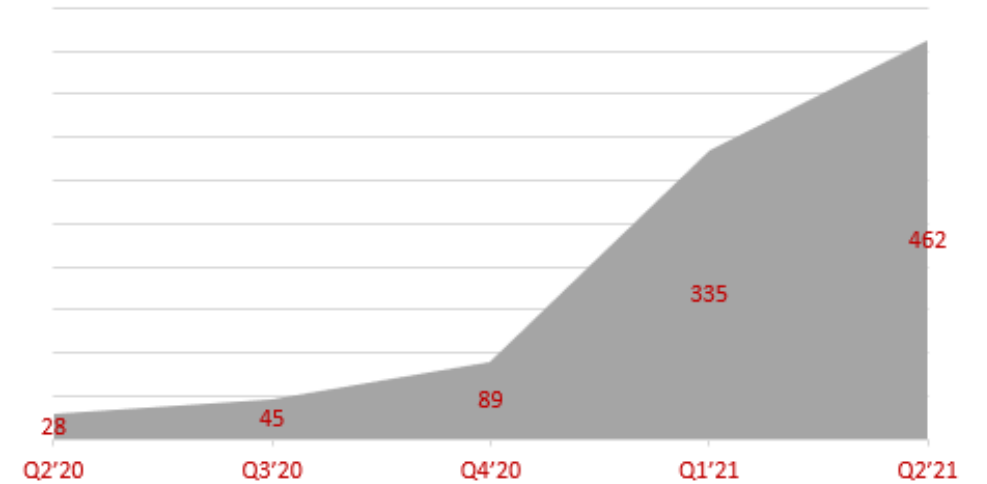


Monthly transacting users (MAU) refers to the number of unique customers who interacted with Coinbase within a month.

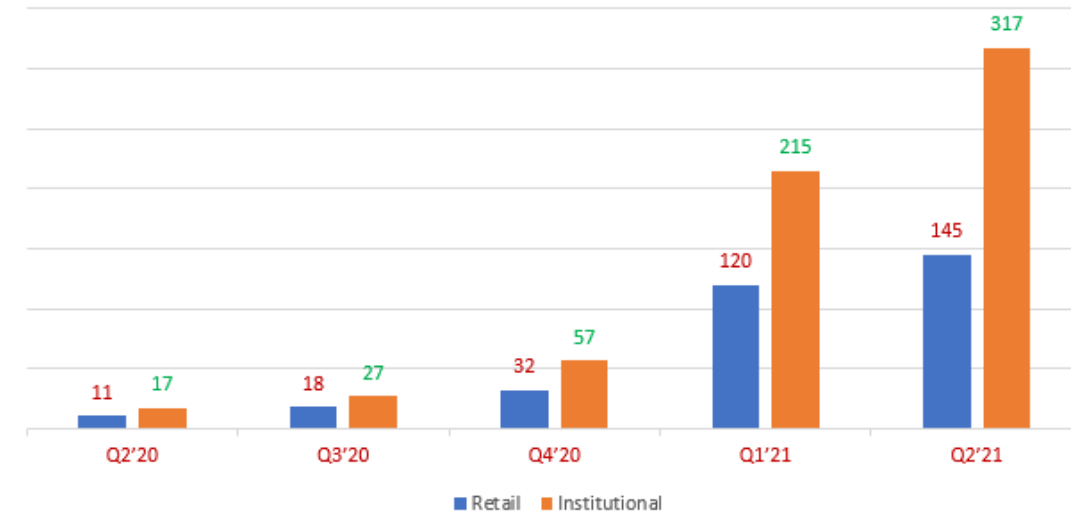
Influencers in the crypto industry trade on Coinbase

- ❖ PNC Bank
- ❖ SpaceX
- ❖ Tesla
- ❖ Third Point LLC
- ❖ WisdomTree Investments

Total Trading Volume (\$B)

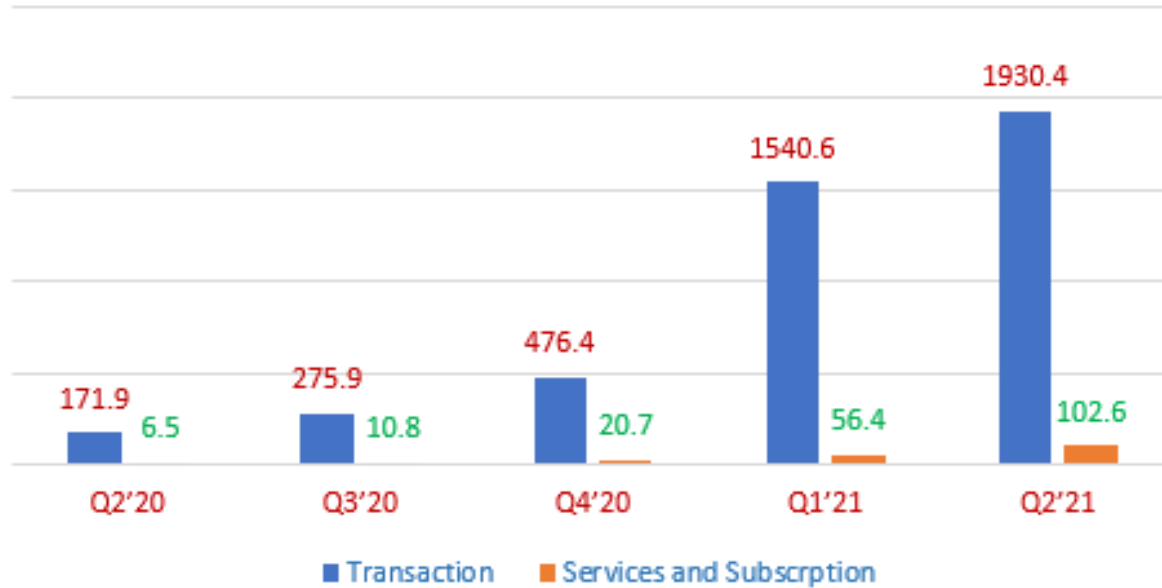


Institutional versus Retail Trading volume (in \$B)



Revenue Sources

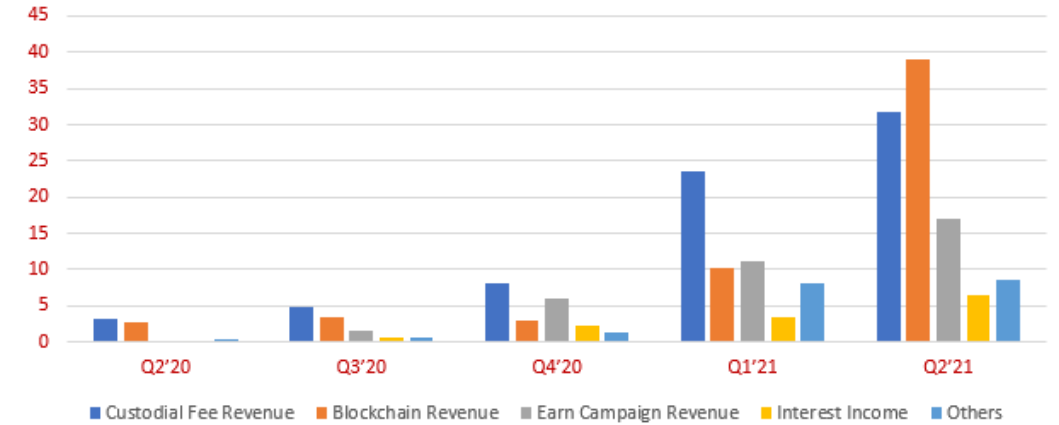
Source of revenue, total in \$M



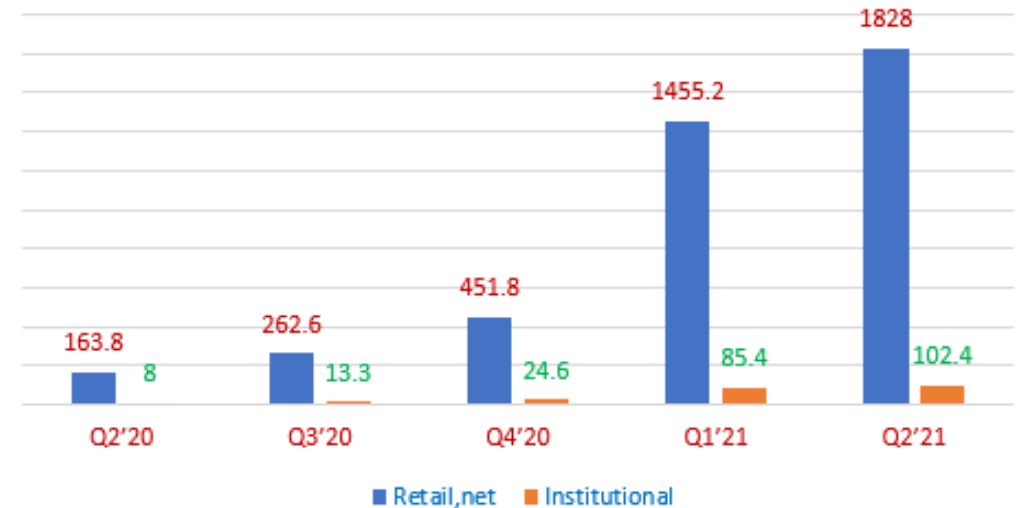
Operating revenue sources at Coinbase are

- ❖ Transaction Fees
- ❖ Services & Subscription

Revenue from various Services & Subscriptions

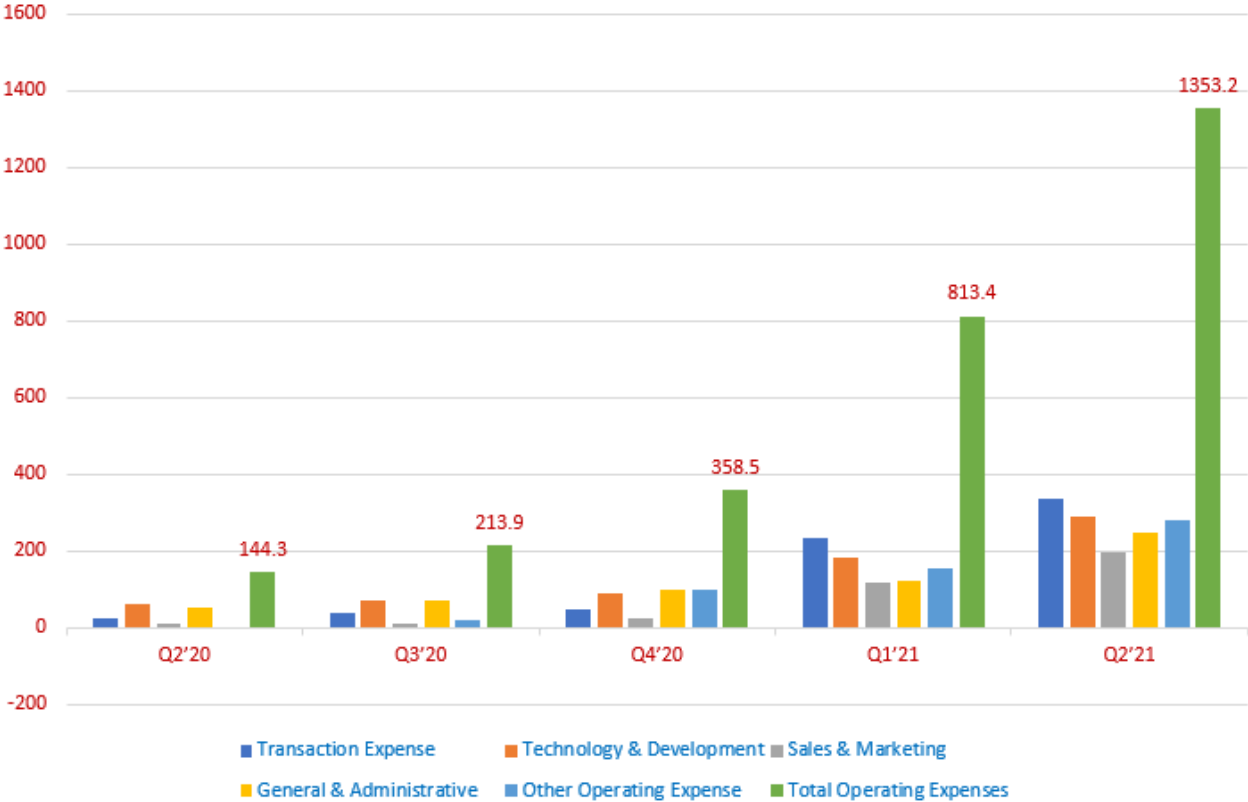


Crypto transaction fee by Institutional and Retail investors

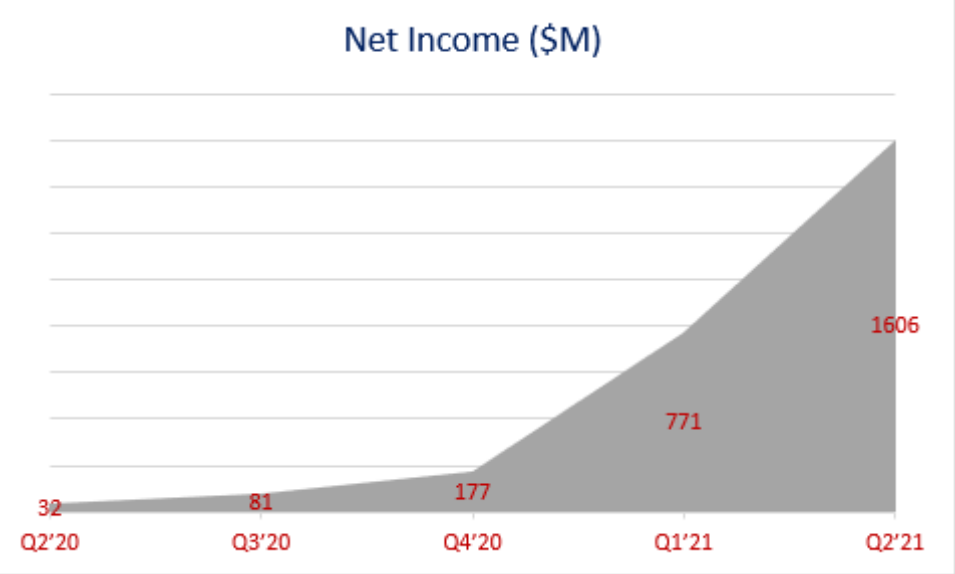


Key Internal Financials

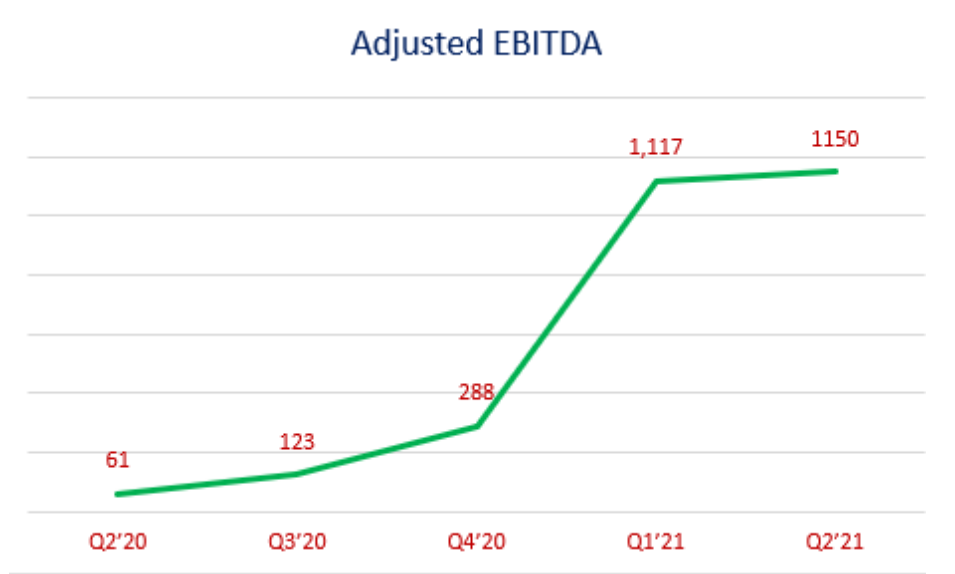
Operating expenses in \$M



Net Income (\$M)



Adjusted EBITDA



External Financials

- ❖ Listed on NASDAQ in April 2021 .
- ❖ Opened at \$350 per share, \$100 above its set reference price.
- ❖ Its valuation reached over \$112B at one point during its debut but closed at about \$86B.

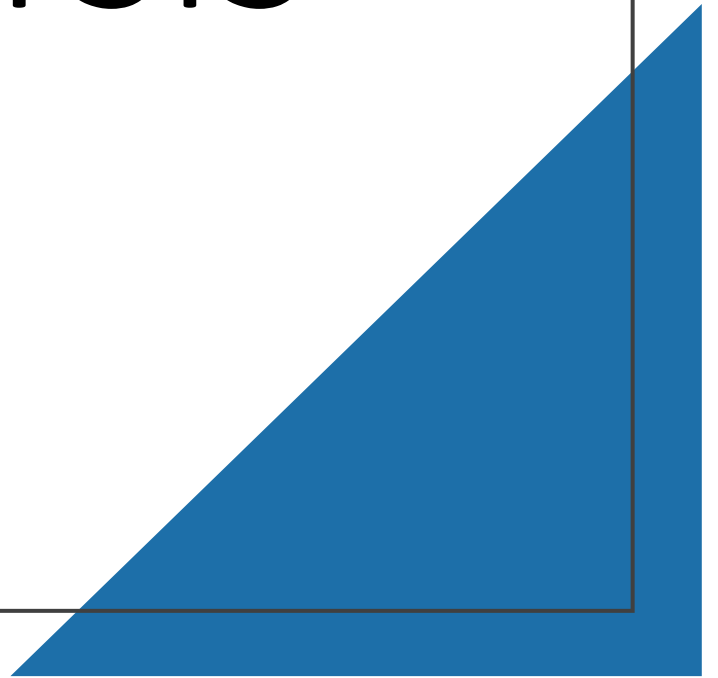
62%

Cumulative return on Coinbase shares, (14th April'21 - 1st Dec'21)

Top Institutional Investor	Number of Shares	%age holdings
ARK Investment Management, LLC	6,993,163	4.50%
Vanguard Group, Inc. (The)	5,476,368	3.53%
Sumitomo Mitsui Trust Holdings, Inc.	4,767,013	3.07%
Nikko Asset Management Americas, Inc.	4,758,975	3.07%
JP Morgan Chase & Company	2,875,133	1.85%
Tiger Global Management, LLC	2,676,644	1.72%
FMR, LLC	2,104,458	1.36%
Morgan Stanley	1,868,164	1.20%
Wellington Management Group, LLP	1,336,596	0.86%
Capital Research Global Investors	1,118,896	0.72%

Breakdown of share holdings	
1.81%	% of shares held by insiders
34.78%	% of shares held by institutions
784	Number of institutions holding shares

STRATEGIC ANALYSIS



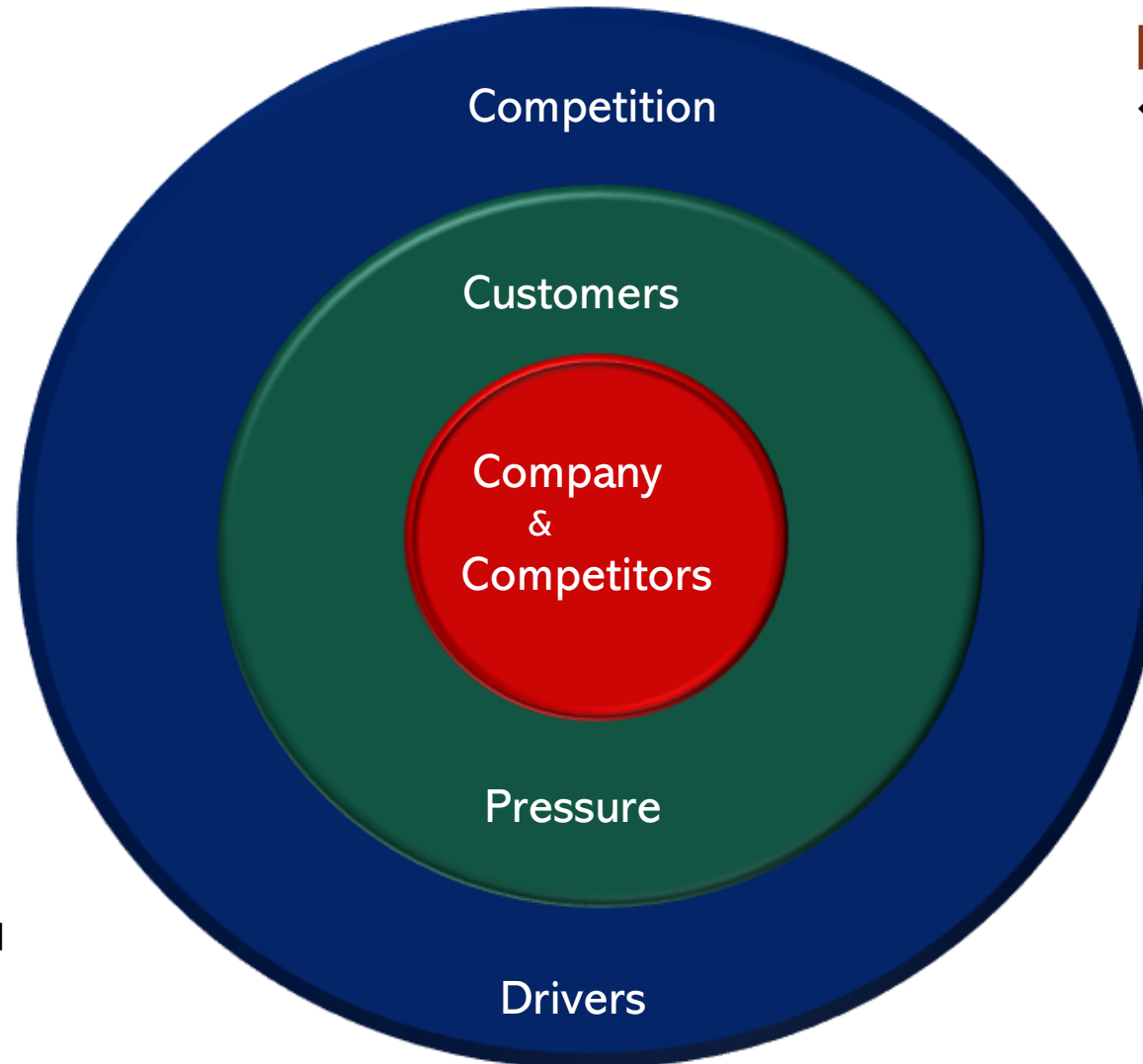
Grundy's Onion

Political Factors

- ❖ SEC Regulation
- ❖ Regulation in individual countries.

Economic Factors

- ❖ Cash rich . Ended Q2'21 with 4.4 B\$ in cash and cash equivalents
Coinbase shareholder letter 2nd Quarter'2021



Industry

Lifecycle

Social Factors

- ❖ Trust with institutional investors.
- ❖ Frustration within Retail trader community.

Technology Factors

- ❖ Characterised by a rapidly evolving technology landscape

SWOT Analysis

Internal Analysis

STRENGTHS

- ❖ Seasoned regulatory team.
- ❖ Strong Industry Backing.
- ❖ Tech. driven with emphasis on remote work, enables tap top talent globally.

WEAKNESS

- ❖ Lack of clarity in the regulations.
- ❖ Unavailability of talent
- ❖ Attrition at the top level

External Analysis

OPPORTUNITIES

- ❖ Industry is the nascent phase.
- ❖ Ever increasing products in the Blockchain space; implying huge opportunity for growth and diversification.

THREATS

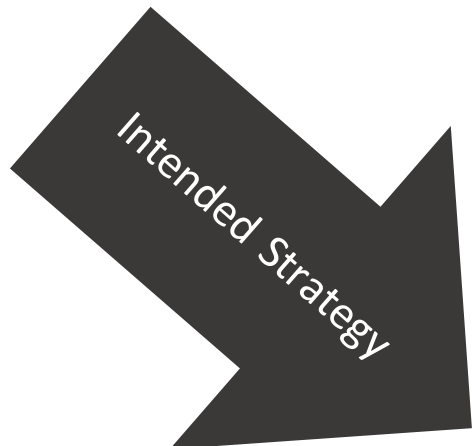
- ❖ Uncertainty of execution volumes

Theory of emergent strategy

Coinbase | Lend

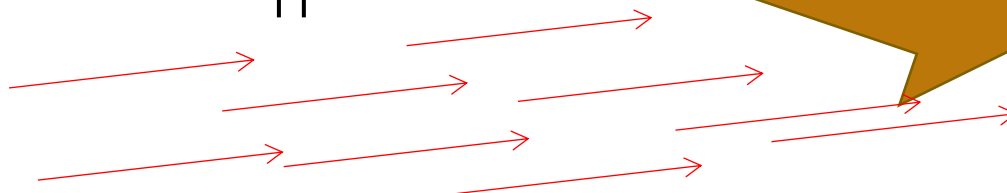
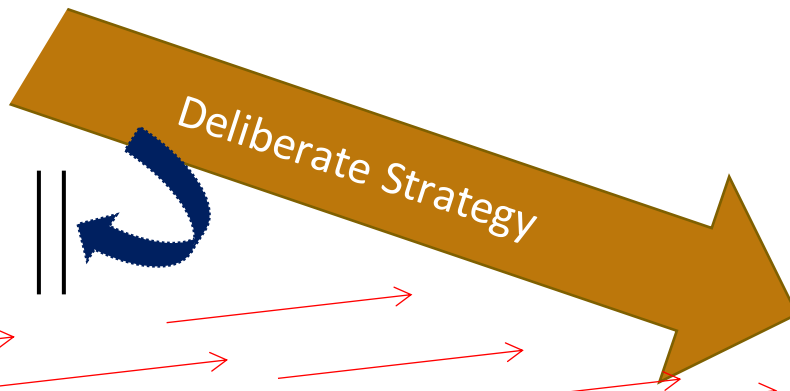
Coinbase | Lend

A product where users could potentially lend their cryptos and earn APY



Unrealized Strategy

SEC issues a wells notice to sue Coinbase over Lend



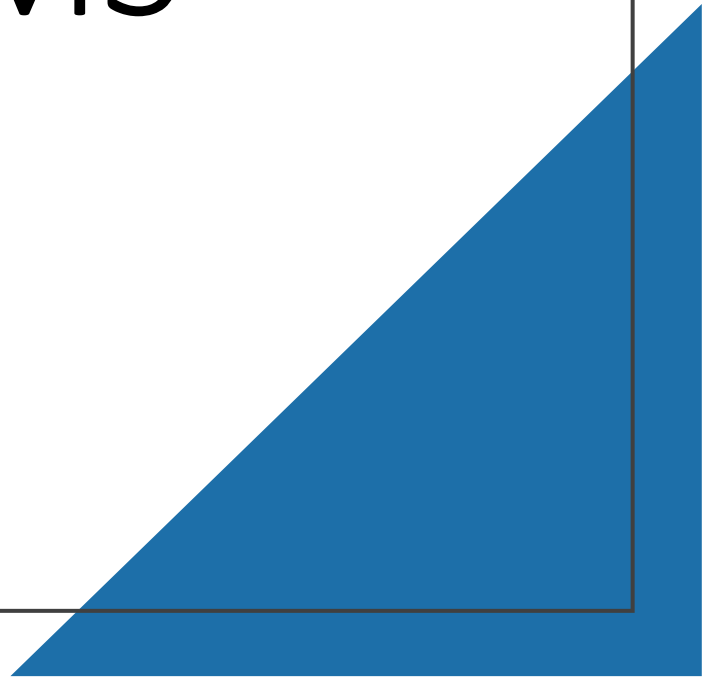
Emergent Strategy



Coinbase Compound

Rename, rebrand and relaunch the product outside of the US, so there is no requirement to deal with the SEC

WICKED PROBLEMS



Attrition at the Top of Pyramid



Brett Redfearn

Head of Capital Markets
4 months (2021)

Seward, Z. (Aug, 2019)



Brian Brooks

Chief Legal Officer
< 2 years (2018-20)

Kutler, J. (2020)



Balaji Srinivasan

Chief Technology Officer
1 year (2018-19)

Russel, J. (2019)



Hunter Merghart

Head of Trading
6 months (2018-19)

Allison, I. (2018)

Recommendations

- ❖ An informal uninformed neuroscience based test during the hiring process that helps understand their motivation and stability of employees
- ❖ Blockchain industry is attractive for traditional finance professional, some might take this as an entry ticket.

Struggle with employee activism

Oct' 2020

During the heat of Black Lives Matter movement; employees press CEO to issue a statement condemning Police Brutality against shooting of George Floyd.

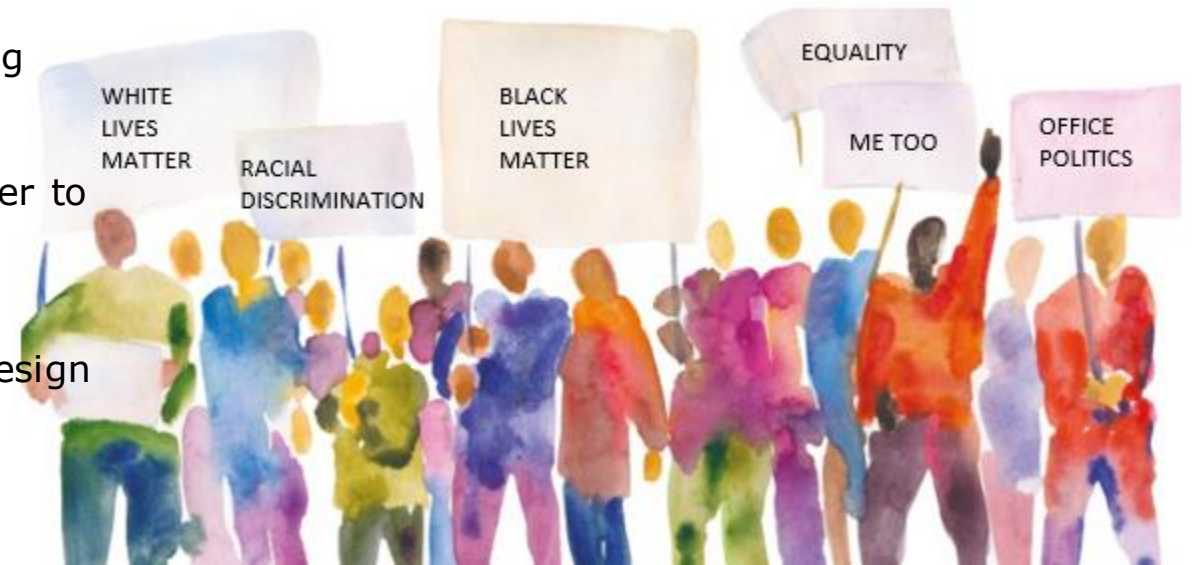
CEO takes an apolitical stand; and later takes to Twitter to express his views

Consequence

A series of resignation follows; 5% or 60 employees resign
(Sandler, 2020)

Impact

- ❖ Psychological safety at work place under threat.
- ❖ Employee and overall Firm productivity negatively impacted



Recommendations

- ❖ A diversity and inclusion Team preferably lead by a person from the lesser represented community.
- ❖ Instead of CEO taking matters head on; these issues must be dealt with by the Diversity & Inclusion representatives

Dissatisfaction with Customer Support Services

09-07-21

Furious Coinbase users report access problems as bitcoin and other crypto prices plummet



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Business **News Report**

Coinbase Customer Service Criticisms Grow After Reports of Theft

Coinbase commits to a 'better customer experience' following complaints

Connie Loizos @cookie / 9:06 PM GMT • January 15, 2021



Coinbase ✓

469 reviews

www.coinbase.com

Write a Review

Ask a Question

Overview

Coinbase has a consumer rating of **1.5 stars** from 469 reviews indicating that most customers are generally dissatisfied with their purchases. Consumers complaining about Coinbase most frequently mention customer service, bank account and phone number problems. Coinbase ranks **626th** among Cryptocurrency sites.

Service	1.5	130
Value	1.5	117
Shipping	1.5	55
Returns	1.5	59
Quality	1.5	114

Coinbase plans to provide the below features with an ETA of Dec' 2021

- ❖ 24/7 live support in the US, UK, Germany and Japan for retail customers
 - ❖ Live messaging available 24/7
 - ❖ In product support within iOS and android

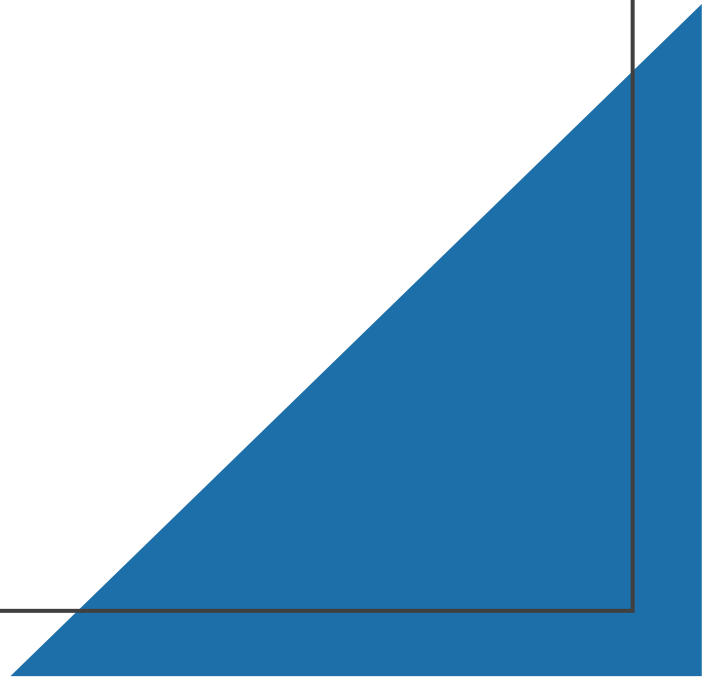
(coinbase.com, Dec'2021)

COMPETITOR ANALYSIS

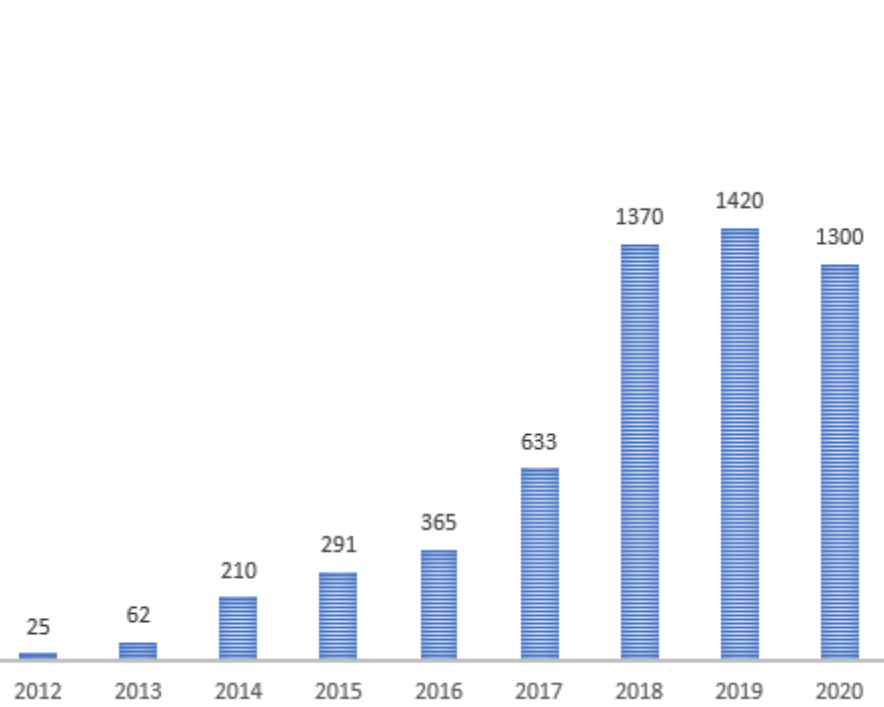
 **BINANCE**

VS

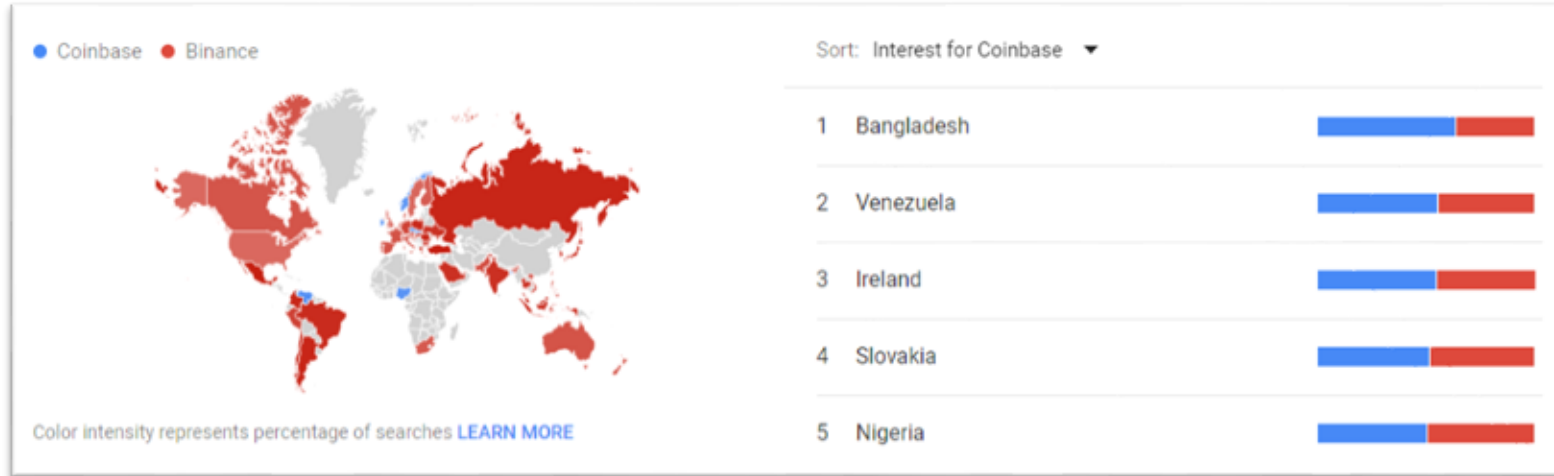
coinbase



Trend Analysis





Increase in the mention of the term "Coinbase" on Google scholar over the years 2012 through 2020.



Google Trends data, with search term as "Coinbase" and "Binance" from January 2017 to February 2021.

Exchange Features

 Pro	Category	
0.5%	Trading Fee for Trades up to 10K within 30 days period	0.1%
03	FIAT Supported	46
416	Number of Markets	1602

As the trading volume increases; Coinbase transaction fee matches that of Binance; however low volume traders have to pay a comparatively higher fee.

As per the Coinbase COO, Emily Choi;

- ❖ The overall average of trading Fee is at par with other exchanges for retail flow;
- ❖ Institutional flow rates are lower than the industry average rates

What is driving customer choice here?

- ❖ An easy to understand intuitive User experience.
- ❖ Has maniacally pursued compliance with existing regulations and law enforcement, putting it on the right side of the law
- ❖ The best in industry security features for crypto assets
- ❖ A wide range of platforms to suit various trading requirements.



Crypto Exchanges
Quantity versus Quality Plot.

Recommendation : Auto Trader - Monetize market volatility

Whilst critics of the crypto industry argue that Blockchain has passed the investment phase and has now entered into the utility phase, crypto markets are still driven by sentiment which implies higher volatility than a regulated stock market.

Markets

Ark's Cathie Wood Blames Crypto Crash on 'ESG Movement'

Markets

Bitcoin Drops \$9K in an Hour on Spot Market
El Salvador Again Buys the Dip

The leading cryptocurrency is currently trading around \$47,960.

By Nikhlesh D., Omkar Godbole · Dec 4, 2021 at 9:00 a.m. GMT · Updated Dec 12, 2021 at 9:29 p.m. GMT

Elon Musk 'Moon' Tweet Sends Dogecoin Flying High Again

The Tesla CEO just can't quit tweeting about his favorite cryptocurrency, which is now worth \$0.18.

By Jeff Benson

2 min read · Apr 15, 2021

Requirements

Sentiment Score as a radio button on the blotter and watchlist

Sentiment Score button captures the ongoing sentiment of a coin, it is a score on a scale of 1 through 5, with each score mapped to a color, for example 1 indicates extreme negative sentiment and the corresponding color is Red. Sentiment analysis involves the process of scraping through news articles online and running complex machine learning algorithms to understand the sentiment of a coin, whether it is positive, negative, or neutral. It also considers the trading activity of an asset, and upcoming milestones (for example an upgrade or enhancement).

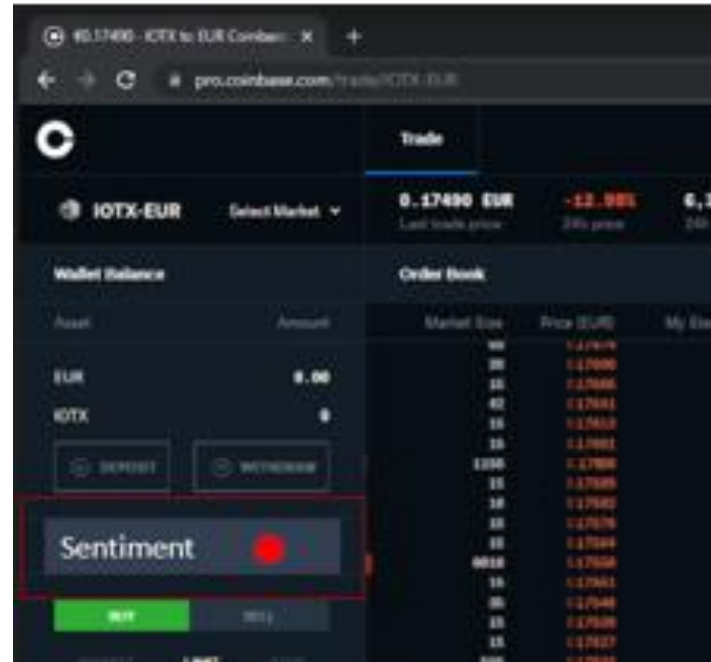
A curious trader could further drill down on underlying news to understand the reason (news items) driving a particular sentiment rating.

Ability to create **alerts** against sentiment score value for coins in watchlist.

Auto trigger trading decisions. Sentiment feature could be clubbed with trading instructions, for example buy £1000 of coin X following tweet about coin X from Y personality and sell after it moves up by 10% (based on historical price movement). Coin is purchased from FIAT stored on exchange wallet and the transaction is reversed if the underlying condition is met.

Recommendation

A new **Sentiment Score** Button on the Blotter



Questions to the CEO

- ❖ The mission of Coinbase is to empower every individual through crypto economy, but the hardest hit in terms of commission are small volume traders who trade below \$10 K USD in a 30 days timespan and end up paying 0.5% (5 times higher than Binance). What are your plans to empower small volume traders ?
- ❖ The institutional volumes are way too high; however the revenue is more from retail flow, how is this possible ? What is the strategy behind the pricing (brokerage for institutional investors)?

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THANK YOU VERY MUCH

