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Robinhood's troubles continue as disappointing Q2 prompts layoff of nearly a quarter of staff

Article

The news: A $30 million fine and plans to lay off almost one-quarter of its workforce are the latest signs that digital broker **Robinhood** is struggling.

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Bad news comes in threes

1. More job cuts:

- As part of a restructuring, the trading app will close two offices and **slash its headcount by around 23%**, or about 780 people. The move follows redundancies made in April when Robinhood let go 9% of its staff.
- CEO Vlad Tenev blamed the **"deterioration of the macro environment,"** inflation, and a broader cryptocurrency crash for declining trading volumes.
- The firm will incur **$30 million to $40 million for the restructuring and layoffs** and $15 million to $20 million related to office closures, per the same filing.

2. Disappointing earnings:

- The firm's Q2 earnings highlighted its changing fortunes over the past year. **Revenues declined 44% year-over-year (YoY)** to $318 million.
- Robinhood blamed the "volatile market environment" for **falling monthly active users which dropped by roughly one-third** to 14 million for June 2022 compared with 21.3 million in the second quarter of 2021.

3. Slapped with a fine:

- Robinhood was also fined **$30 million** by New York's financial regulator for "significant failures" in keeping anti-money laundering and cybersecurity rules.
- The firm must also retain an independent consultant to evaluate compliance.

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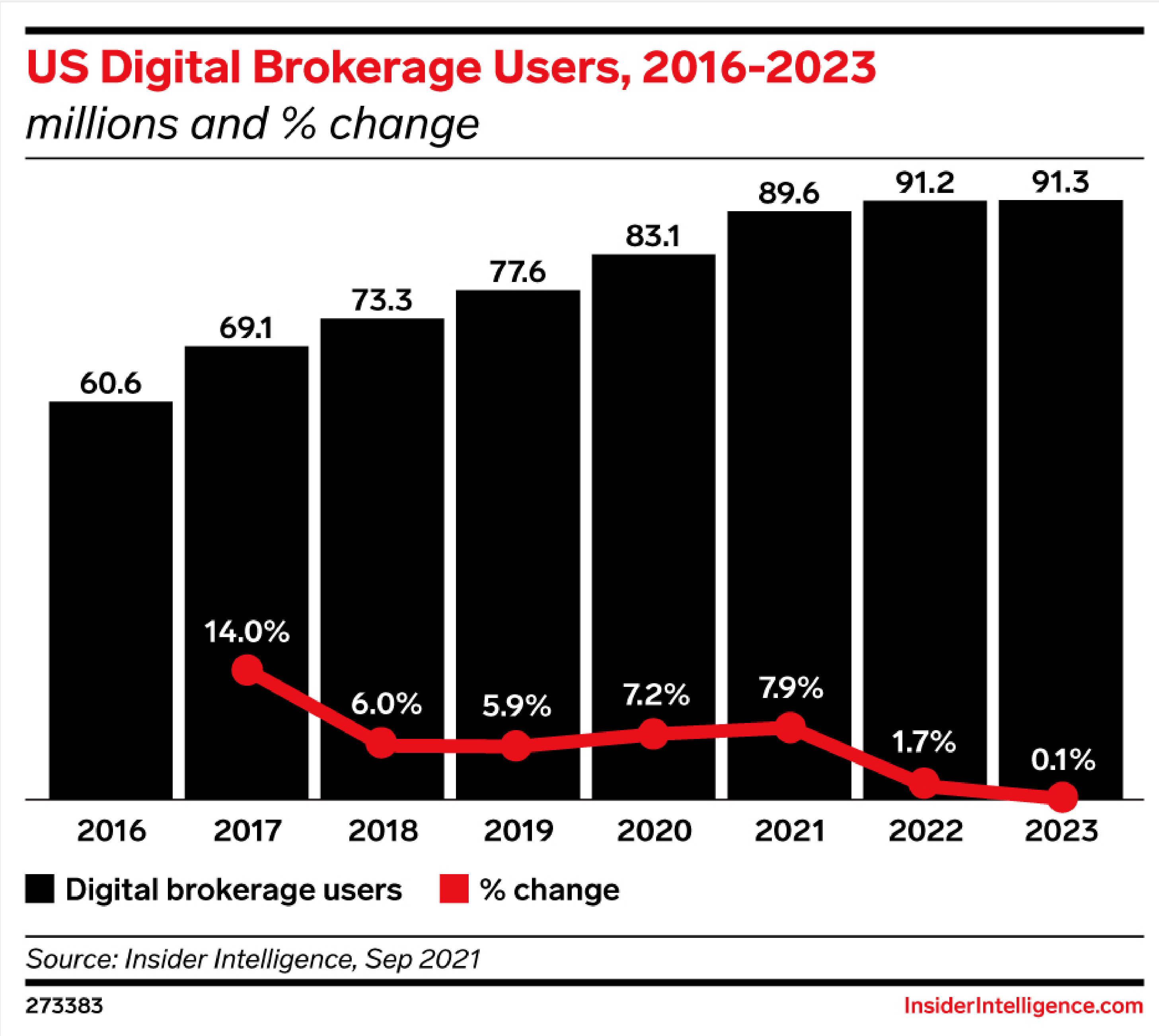

What's behind the decline? Robinhood was hugely successful during Covid lockdowns due to a trading frenzy among amateur investors. But trading cooled as the cost of living increased and interest rates rose, and its share price has plummeted more than 70% since last July.

This year, Robinhood has tried to diversify its offering to counter tumbling volumes, with limited success. Various efforts include:

- A new debit product to replace an earlier debit card.

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- Offering Individual Retirement Accounts (IRAs) and support for pension plans.
- Extending trading hours.
- Expansion into crypto including meme tokens, growth in Europe, and a new crypto wallet.

Robinhood's extensive efforts to expand its offerings have appeared increasingly desperate as it continues to pursue younger users. It's not been helped by a wider crypto market slump. But it has also suffered from its narrow focus on a single age demographic and on notoriously volatile products, like crypto and app-based trading.

The big takeaway: Persistent missteps and a wider decline in trading activity have combined to hurt Robinhood. Going forward, digital brokers need to explore revenue-generating avenues more resistant to downturns. If Robinhood is unable to pull out of the ongoing nosedive, it may be better served by seeking a buyout before the year is over. **FTX** has already been linked to a takeover. If not, Robinhood needs to hunker down, cut costs, and wait for the slumping retail trading market to pick up.

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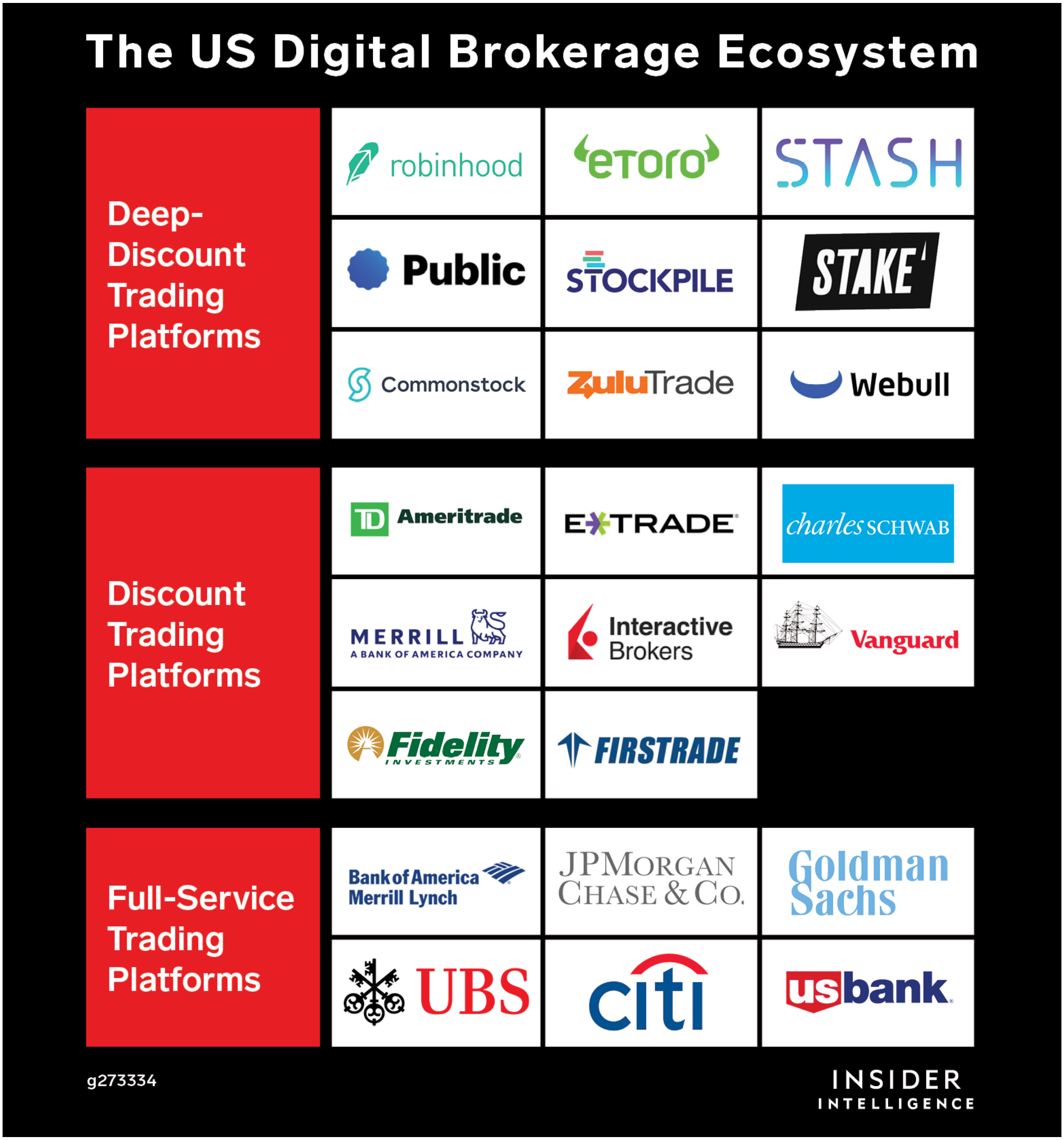

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