

Coinbase's quarterly volatility highlights rationale for diversification

Article

The news: Crypto exchange giant **Coinbase** finished 2021 with a strong Q4 performance across its user-related metrics.

- **Trading volume was \$547 billion**, up about 67% quarter over quarter (QoQ), when it was \$327 billion, and soaring by around 515% year over year (YoY), when it was \$89 billion.
- **Monthly transacting users (MTUs) hit 11.4 million**, up around 54% QoQ from 7.4 million, and surging YoY by about 307% from 2.8 million.
- **Assets on platform reached \$278 billion**, an approximately 9% QoQ increase from \$255 billion. However, they rose by about 209% YoY, from \$90 billion previously.

Surging profit and revenue: The user-side growth was coupled with skyrocketing net revenue and profit.

- **Net revenue hit \$2.49 billion in Q4**, a QoQ spike of about 102% from around \$1.24 billion, while YoY growth was approximately 401%, up from \$497 million.
- **Profit more than doubled QoQ**, with net income going from \$406 million to \$840 million. It also rose by about 375% YoY, from \$177 million at the end of 2020.

Problems ahead: So far, Coinbase's year-end momentum isn't carrying over into 2022, per the company's Q1 outlook.

- **Declining crypto market capitalization (20%) and lower volatility (10%)** is pinching the exchange.
- It projects **falling QoQ MTUs**, at about 10 million on average.
- It anticipates a **QoQ trading-volume slump**, giving a figure of about \$200 billion.

The company's full-year outlook is mixed:

- Its average transaction revenue per user (ATRP) is expected to be less than its 2021 levels.
- It anticipates improved subscription and service revenue versus 2021.
- But it gave a wide range for annual average retail MTUs, of 5 million to 15 million, calling it "premature" to give one that's more detailed.

The big takeaway: Coinbase's choppy QoQ performance underscores the need to further diversify and expand its offerings beyond routine crypto trading while it waits for regulators to clear the way for mainstream crypto adoption.

- It's already showing some positive momentum in this respect: **32% of its MTUs in Q4 used non-investing products** in addition to investing products, which increased from 22% a year

earlier.

- The company cited **usage of Earn and Staking** as helping to drive this trend, pointing out that **the offerings have higher retention rates than investing.**

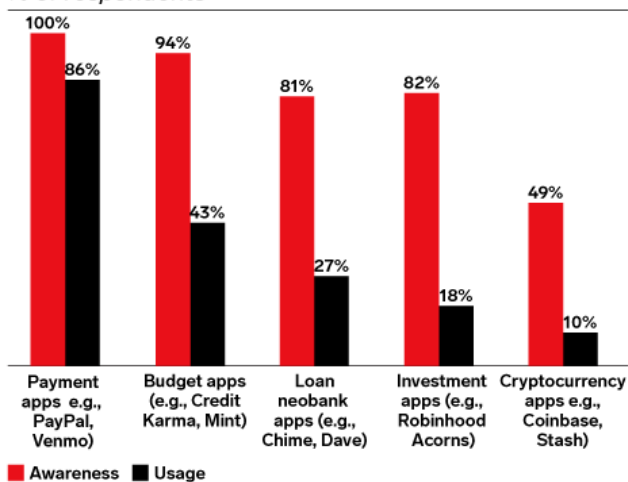
Coinbase said it has two non-investing strategic pillars, in addition to bolstering its investing operations. That should help buffer its user metrics against market volatility.

- It will push **“crypto as a financial system”** through initiatives like broader access to its Coinbase Card, a rollout of crypto-backed loans, and its recently launched fund-transfers product from the US to Mexico.
- It also plans to push **“crypto as an app platform,”** which entails investments in Web3 applications—Web3, it said, “represents a decentralized, community-governed internet with modern functionality.” This means simplifying its Coinbase Wallet and adding features to it, and launching a **non-fungible token (NFT)** marketplace called Coinbase NFT.

Coinbase’s diversification could lead it into neobanking for consumers—perhaps by teaming up with a banking-as-a-service (BaaS) to power the products—which could enhance its user engagement. Its strong brand recognition as a market leader (that memorable **dancing QR code** Super Bowl ad didn’t hurt) could also help further Coinbase’s future evolution into a digital financial institution with a large breadth of offerings.

Awareness vs. Usage of Fintech Apps According to US Adults, by Type, Aug 2021

% of respondents



Source: The Harris Poll on behalf of Fiserv, “Expectations and Experiences: Fintech Adoption November 2021,” Dec 16, 2021

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