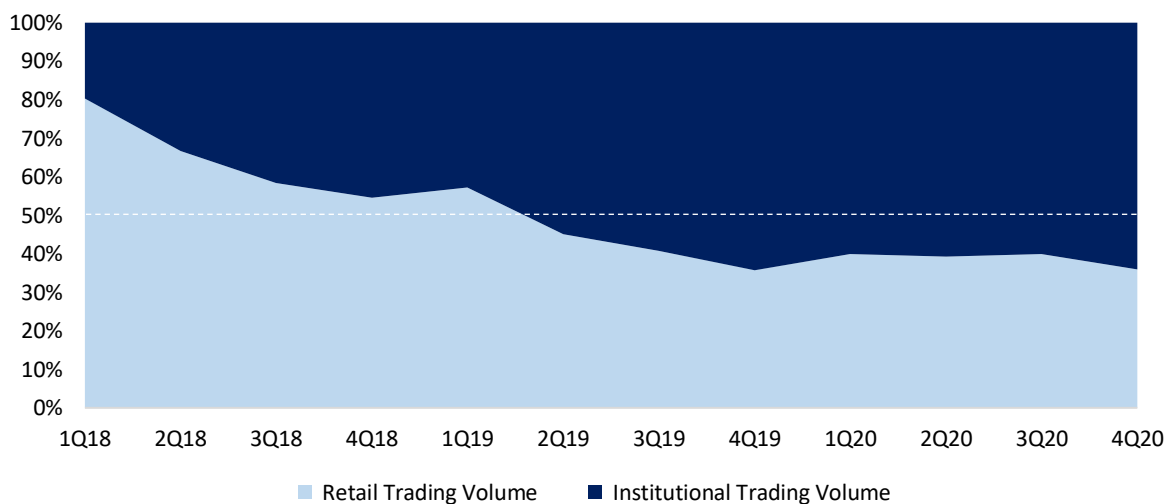




Highlight of this issue – Decoding Coinbase IPO: Compliance, a double-edged sword?

Figure 1: Coinbase's institutional trading volume surpassed retail trading volume in 2Q19



Source: Companies disclosure, AMTD Research

Coinbase filed for IPO, revealing a robust 2020

Coinbase, the largest crypto exchange in the US, has filed for IPO via direct listing with a market consensus of valuation at US\$50-100bn. Starting from a centralized crypto exchange in 2012, Coinbase has expanded itself to the broader cryptoeconomy including the recently booming decentralized finance (DeFi) and now supports 50 cryptocurrencies. In 2020, Coinbase reported a total revenue of US\$1.28bn, up 139% YoY, and turned into profit with a headline net income of US\$322mn; excluding stock-based compensation, adjusted net income reached US\$392mn. The US remains Coinbase's largest market, contributing 76% of revenue. The company's trading volume grew by 142% to US\$192bn, and assets on platform quadrupled to US\$90.3bn, representing 11.1% of total crypto market capitalization as of Dec 31, 2020. Its verified users reached 43 million, and monthly transacting users surged from 1 million in 2019 to 2.8 million. Institutional users increased from 4,200 in 2019 to 7,000 in 2020. Coinbase only holds a small amount of crypto assets in its treasury and measures the assets at cost, rather than at fair value. Adjusted net operating cash flow (excluding changes in custodial funds due to customers) increased by 493% to US\$294mn.

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We estimated a much lower fair valuation compared to market consensus. We expect that increasing number of active users and higher average trading volume per institutional client will boost its revenue growth; however, compliance cost and the resulted slower new business development will limit Coinbase's growth potential compared to some of its peers. Given the high volatility of crypto market and the fierce competition from centralized crypto exchanges as well as decentralized exchanges globally, we assign a lower P/E to Coinbase compared to Nasdaq, CME and ICE.

The leading crypto exchange in US: overseas business relatively small

Coinbase still occupies the leading position in the US crypto market, ranking 1st among all crypto exchanges by cryptocurrency received on-chain from 2H19 to 1H20, according to Chainalysis. Coinbase generated 76% of revenue from US market and 24% from Europe in 2020. However, the overall North American market only accounted for 15% of crypto values sent and received in the world, and the proportion was 17% for North and Western Europe.

Strict compliance helps Coinbase attract institutional clients, but limits its innovation and profitability

With strict regulatory compliance, especially to the US federal rules, Coinbase became the one pick for institutions interested in crypto investments. Coinbase's institutional clients include financial institutions such as One River and Grayscale, as well as tech companies such as Tesla and MicroStrategy. Institutional trading volume constituted 62% of total trading volume in 2020, up from 57% in 2019, and nearly half of Coinbase's assets on platform were from institutions. However, institutional transaction revenue only took up 5% of transaction revenue due to a lower fee rate.

Coinbase benefited from 4Q20 bitcoin enthusiasm from institutional money. The entry of institutional investors pushed the skyrocketing of bitcoin prices, and led to the surge in Coinbase's trading volume: Coinbase's growth rate exceeded all other centralized exchanges (CEX) with an average quarterly growth of 52%, and its market share expanded from 0.4% in 1Q20 to 1.6% in 4Q20.

However, regulations limit Coinbase's participation in crypto derivatives and overseas expansion. Subject to the CFTC enforcement actions, Coinbase could not offer derivative products, which limited its innovation and product diversification. In 2020, 85.8% of Coinbase revenue was transaction fee. The crypto derivatives market surpassed the spot market in both trading volume and growth rate in 2020, and derivatives trading volumes in some top exchanges such as Binance and Huobi became absolute dominance.

Coinbase Ventures: One of the most active crypto investors worldwide to build a crypto ecosystem

Coinbase Ventures has made over 100 investments since its launch in 2018, and accelerated its crypto investments in 2020, with 44 minority equity or token investments completed. Web3, centralized finance (CeFi) and custody are the top 3 categories in terms of capital allocation, totaling 60% in all investments, while DeFi accounted for 11% of the capital allocation.

Revenue model: Revenue growth mainly powered by retail customers

Coinbase operates like a traditional stock exchange and acts as an agent in facilitating crypto transactions between customers, and charge a transaction fee for each transaction. Retail customers' transaction fee was around 1.42% in 2020, higher than institutional customers' fee of around 0.05%. Retail transaction revenue accounted for 95% of total transaction revenue and 81% of total revenue. Subscription and services fees are 0.023% of trading volume in 2020. When unanticipated system disruptions occur, Coinbase would fulfill transactions with own crypto assets, and crypto asset sales

revenue represented 10% of total revenue in 2020. The transaction expense was around 0.01% of trading volume from 2019 to 2020. Excluding stock-based compensation expense, in 2020, Coinbase had an adjusted net margin of 30.7% and its adjusted ROA and ROE were 9.5% and 53.7%, respectively, surpassing major global exchanges.

The rise of DeFi means both challenges and opportunities to Coinbase

DeFi, or decentralized finance, has become the hottest vertical in the crypto world. Online searches for “DeFi” have increased exponentially over the last year across the world, as shown by Google Trends. As of Dec 31, 2020, there was over US\$15bn equivalent value worldwide allocated towards DeFi applications and protocols.

Centralized exchanges including Coinbase is facing growing competition from DeFi exchanges (DEX). Decentralized spot trading volume increased from about 0.01% of trading volume on centralized exchanges at the beginning of 2020 to 3% in September and remained above 1% in December 2020, according to Tokeninsight. The currently largest DEX Uniswap V2’s trading volume has exceeded US\$1.7tn in less than 1 year since its launch in May 2020.

Coinbase is actively embracing DeFi. Coinbase invested in Uniswap in 2020. Besides, Coinbase also invested in DeFi protocols and exchanges including Compound, Paradex, Synthetix, dYdX, etc. Coinbase Wallet allows users to connect to DeFi applications and self-custody crypto assets, and its WalletLink API helps DeFi developers to accept crypto payments.

The fierce competition in crypto space and volatile crypto prices bring high uncertainty

The spot trading market is under fierce competition, with the top 10 exchanges accounting for only 16% of total trading volume. Binance, Huobi and OKEx maintained their leading position in 2020, with a market share of 4.6%, 2.4% and 2.1%, respectively. Coinbase’s trading volume accounted for 0.9% of overall market in 2020, ranking 8th in all CEX.

The high volatility of crypto prices may bring downside risk to Coinbase’s profitability. As of 15 Mar 2021, the 60-Day BTC/USD volatility was 4.99%. Bitcoin is the largest asset class in Coinbase clients’ portfolio. 70% of assets on platform are bitcoin, and 44% of revenue came from bitcoin. To reduce fair value-related risk, Coinbase does not maintain large crypto holdings. The company conducts periodic checks every day and convert crypto assets received for transaction fees into fiat currency upon reaching US\$100, and the conversion amount will be no more than US\$5,000.

Different from most of companies, Coinbase’s IPO will not involve proceeds raising, but aim at offering liquidity for the existing investors. It has no contractual lock-up agreements or restrictions on its stockholders.

News of the week

23 Mar 2021

Payment

Airwallex

Airwallex raised US\$100mn in Series D extension valued at US\$2.6bn

Cross-border FinTech payment platform Airwallex has increased its valuation to US\$2.6bn with a US\$100mn Series D extension funding round. This latest tranche followed its initial Series D round in April 2020 during the pandemic, and a US\$40mn top-up in September 2020. In 2020, Airwallex introduced multi-currency debit cards with Visa, a bank feed integration with Xero, an SME rewards program, and online payment acceptance capabilities. The new capital will be used to fuel the company's global expansion, explore new partnerships and continue with product and engineering innovation. (Source: [TechCrunch](#))

23 Mar 2021

Payment

AvidXchange

Business payments firm AvidXchange preps for 2Q21 IPO at over US\$7bn

SME business payments automation firm AvidXchange is preparing for a 2Q21 IPO with a potential valuation of more than \$7 billion. AvidXchange offers a single SaaS-based platform that automates payments, invoicing and accounting through the AvidPay Network of more than 600,000 suppliers. AvidXchange facilitates around 12 million payments annually with a total value of US\$140bn. Its existing investors include Mastercard and Peter Thiel. (Source: [Reuters](#))

23 Mar 2021

Trading

Freetrade

Stock trading app Freetrade raised US\$69mn

Commission-free stockbroking app Freetrade has raised a Series B round of US\$69mn. The company has benefited from the economic turmoil caused by pandemic and experienced a robust growth, with its customers hitting 600,000, quarterly trade volumes exceeding £1bn, and Sweden offices opening. Freetrade completed a £7.1mn crowdfunding round last year and attracting over 13,000 individual investors. (Source: [TechCrunch](#))

22 Mar 2021

Lending

KreditBee

Indian lending platform KreditBee raised US\$70mn

Indian digital lending platform KreditBee's holding entity, Finnov raised an additional US\$70mn in the second tranche of Series C round. This round is co-led by TPG-backed NewQuest Capital Partners and Motilal Oswal Private Equity. Finnov raised US\$75mn in the primary tranche in February 2021. KreditBee was launched in 2018 and focuses on full-stack digital lending for young professionals. It now owns over 5 million customers. The new capital will be used to scale up its lending portfolio beyond unsecured personal loans into other products including secured lending, insurance and cards. (Source: [The Economic Times](#))

22 Mar 2021

Digital bank

Revolut

Revolut applied for US banking license

Revolut has filed a draft application for a banking license with the FDIC and the California Department of Financial Protection and Innovation. Revolut currently offers financial services in the US through a relationship with Metropolitan Commercial Bank. Its own bank charter would enable it to offer a broader range of products, including overdraft protection, loans and deposit accounts. The move followed Revolut's recent decision to exit the Canadian banking industry, after a two-year beta trial without a banking license. It currently holds an EU banking license and started to apply for a UK banking license in Jan 2021. (Source: [TechCrunch](#))

20 Mar 2021

Insurance

Chubb/Hartford

Insurer Chubb to acquire rival Hartford at US\$23.2bn

Global insurer Chubb proposed an acquisition of Hartford Financial Services Group for about US\$23.2bn in cash and stock, giving Hartford a 13% premium. This could be one of the industry's biggest deals in years. Hartford ranks as the second-biggest provider of workers' compensation insurance in the US, offering a range of property and casualty insurance, including automobile policies, homeowners' coverage and small-business insurance. The combination would help Chubb expand further in small commercial businesses. (Source: [Reuters](#))

18 Mar 2021

Cryptocurrency

Fireblocks

Crypto infrastructure provider Fireblocks raised US\$133mn

Crypto infrastructure provider Fireblocks has raised US\$133mn in a Series C funding round. The round was led by Coatue, Ribbit, and Stripes with strategic investment from The Bank of New York Mellon and SVB. Fireblocks provides infrastructure for moving, storing, and issuing digital assets to crypto-native institutions and exchanges, and is planning to work more with traditional banks and FinTechs. (Source: [TechCrunch](#))

18 Mar 2021

Payment

Airtel Africa/TPG

TPG's Rise Fund to invest US\$200mn in Airtel Money

TPG's impact investing arm, Rise Fund, is to invest US\$200mn in Airtel Africa's mobile money business, at a valuation of US\$2.65bn. Operating under the Airtel Money brand, the business is targeted at the large unbanked market across 14 African countries, providing mobile wallet deposit and withdrawals, merchant and commercial payments, benefits transfers, loans and savings, virtual credit card and international money transfers. Airtel currently counts 21 million users for mobile payment services, generating revenue of US\$110mn in the most recent quarter, and underlying EBITDA of US\$54mn. (Source: [TechCrunch](#))

17 Mar 2021

Digital bank

Chime

Chime preparing a US\$30bn listing

US digital bank Chime has been talking to investment banks about a US\$30bn IPO which could be by the end of 2021. Chime raised US\$485mn in its Series F funding round in Sep 2020 with a valuation of US\$14.5bn. It is one of the fastest growing FinTechs in the US with over US\$1bn of cash at its disposal. Chime will evaluate all of potential paths including direct listings, traditional IPOs and SPACs. (Source: [Reuters](#))

15 Mar 2021

Cryptocurrency

BitPanda

Crypto-broker BitPanda became Austria's first FinTech unicorn

Crypto-broker BitPanda has become Austria's first FinTech unicorn after a US\$170mn Series B round with a valuation of US\$1.2bn. The round was led by Valar Ventures and joined by DST Global. It came just 6 months after a US\$52mn Series A. Bitpanda's revenue in the first two months of 2021 has exceeded the total revenue in 2020, and its registered users grew from 1.3 million to over 2 million. BitPanda's desktop site and mobile app provides access to more than 50 investment assets, including crypto and precious metals, and the company plans to open its platform to a wider stream of assets. (Source: [TechCrunch](#))

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