



## **Q3 2021 Live Webcast Transcript – November 17, 2021 at 4pm EST**

### **PARTICIPANTS**

Kris Merkel – Host

JP Richardson – CEO and Co-Founder

James Gernetzke – CFO

**KRIS MERKEL** [01:00:11] Welcome to the third quarter 2021 earnings conference call, I'm your host, Kris Merkel, and today we have our CEO and co-founder, JP Richardson and CFO James Gernetzke. James and J.P. will review the financial and operating results, after which I will host a Q&A session with our management team. I hope you've had an opportunity to review our shareholder letter, which you should have received via email and is currently available on the Exodus website.

But before we get started, I'd like to remind you that during today's call, we may make forward looking statements. Actual results may vary materially from today's statements. Information concerning risks, uncertainties and other factors that would cause results to differ from these forward-looking statements is included in our SEC filings available on the Investor Relations portion of our website. And with that, JP, I'm turning it over to you.

**JP RICHARDSON** [01:01:10] Thank you, Kris. And welcome everyone. We're glad to have you here with us. And we are pumped to share our numbers and progress with you. And while this third quarter was historic, as you know, we were the first and are the only company in the United States to offer our common stock and have it be digitally represented on the blockchain. And this fourth quarter has been quite historic as well on the macro level.

In fact, we saw a Bitcoin ETF approved. I never thought I would see a Bitcoin ETF approved, but I think it's going to pave the way for additional crypto ETFs. We're going to see an interim ETF. We're going to see a spot ETF. In addition to that, we saw recently a couple of weeks ago, bitcoin hit an all-time high. I think again, this is due to the macro conditions. Central bankers are doing what they do best, which is continue to print money and inflation in the

United States is at a 30 year high. Labor shortages and supply chain shortages continue to plague industries. All of this? Is continuing to fuel growth into crypto, and Exodus is poised to take advantage of this growth.

Our mission is by 2030; we're going to help half of the world exit the traditional financial system, and we envision a future where you control your wealth. And this includes stocks. And in this third quarter, we brought this vision to life by launching on tZERO. So a big thank you to those of you who participated in our offering back in April. We know that many of you in the states of Florida, Texas and Arizona were not able to participate, but we're pleased to tell you that on tZERO you now have the opportunity to become a shareholder and join us in our mission.

Now, those of you that participated in September when we launched in tZERO thank you, we know and understand it was not without difficulty, but we appreciate your patience in this partnership.

Let's take a moment to talk about our stock price, we believe over the last few weeks that our stock has been trading at a discount relative to our company's value. This price does not represent the fundamentals. Our Treasury has over 160 million dollars that will fuel our growth in the future. In addition. We're on track to bring over \$90 million in revenue this year alone, not to mention we're profitable. So we have patience. We understand that this is going to take a while. We are pioneering a future where stocks will be on the blockchain. Again, we are the only U.S. company where we can say you can have an Algorand address and you can see your stocks on the blockchain. Think about the possibilities. You could issue dividends really easily. You could do nifty airdrops, all kinds of unique things that are just available on the blockchain.

But not to mention this market, this cryptocurrency market is almost three trillion dollars in size. And so just think when DeFi meets the world of stocks, all of the possibilities, it's going to be amazing. But at the end of the day, our mission and key growth drivers remain unchanged fundamentally and financially, we are stronger than ever. And I'm pleased to turn over to James to share all of our financials with you. Over to you, James.

**JAMES GERNETZKE** [01:05:02] And you're right, we are absolutely stronger than ever. You know, this quarter Q3, we continued the trend of beating and surpassing all of our

previous years. And that includes 2020, by the way, which was a banner year for Exodus. And so year over year, we saw tremendous growth in total exchange volume, monthly active users as well as total revenue.

So let's take a look at some numbers here. If we look at the graph on the left, and you can see that our Q3 revenue was \$18.1 million dollars. And that is a significant increase, obviously, over Q3 2020. But if you look at the year-to-date total revenue of \$69.4 million, that's over four times larger than the same period last year. And if we look over to that side of that graph on the right, the annual revenue growth chart is really a beautiful sight to see, frankly. And J.P. mentioned that we're going to be over \$90 million of revenue. That means that this chart at year end is going to look even better.

So as we move on to total exchange volume graph first here on the left, you see that we did in Q3 over \$1.04 billion of exchange volume, which is nearly triple the amount from the previous year. Now that is a decrease versus Q2, which is actually in line with the industry. So it is to be expected. And for a little bit more detail, what we saw in Q3 was, you know, July and August started slow and beginning in September, the exchange volume really came back along with that crypto sector recovery. And that trend is continuing into Q4. So October improved on September, and November is off to a much better start than even October was. So needless to say, we're very pleased with how Q4 revenue is looking. And, you know, that demonstrates that the Q3 revenue and the Q3 volume drop was transitory to use a word of the day.

But I would go to the right, and if we look at that monthly active user chart. That's what's really important. So despite the headwinds that we saw in Q3, we grew our monthly active users, and this is exactly where we want to be. So you can see continued growth in our user base. So to restate a theme from prior calls over the long term, monthly active users will drive significant revenue regardless of any crypto market trends or any market cycles that the crypto market happens to be. And this success also continues into Q4. As we recently surpassed; I'm very happy to say we recently surpassed one million monthly active users.

Let's take a look at some balance sheet numbers. In particular, you know, we're going to look at the digital assets and cash that we have on hand, but it's just a sign that our balance sheet remains exceptionally strong. So our digital assets include Bitcoin, Etherium and we recently added 3.8 million Algorand. And that just highlights that we've always been a crypto

first company. We're very proud of the fact that we were one of the few companies reporting over a thousand bitcoin in their Treasury. At the end of Q3, and based on September 30th prices, we had just over \$120 million in liquid assets. As of November 14th prices, those would be one \$160 million.

And we are putting this capital to work. The three main areas of focus are product development, marketing and people. JP will review product development in a few minutes, and I'll just quickly touch on marketing. We're planning a refreshed, aggressive marketing campaign that is expected to kick off early next year. And on the people. We continue to significantly invest in our people. At the end of Q3, we had about 200 full time equivalent employees in the company. And that's an increase of approximately twenty five percent from Q2, more than double what we started the year with. Additionally, we have over 60 open positions right now, 60 open positions, and those are primarily obviously in product development and customer service. And we expect to keep hiring at an aggressive pace throughout 2020.

Finally. Let's look at our share repurchase program. We announced this two weeks ago, and the board authorized \$2 million worth of shares to be bought back at a price of up to \$55 per share. Note that this begins tomorrow on zero. We're able to return this capital to you because of our strong revenue growth and that exceptional balance sheet that we discussed. Now to be clear. We are focused on continuing to grow the company and returning the vast majority of our capital towards that growth. So JP, back to you.

**JP RICHARDSON** [01:11:05] Thanks, James. And wow, one million monthly active users, and we didn't even share with you that we have over 100,000 subscribers on our YouTube channel. So this goes to show that not only do people love our software, they also love our media content as well. And so that is going to make for an exciting future.

Let me talk about the rest of 2021; our top priorities and goals. So our first top priority is, as you know, in the third quarter, we shipped FTX on the desktop. And so what that means is that if you have an account, you can link your account directly to Exodus desktop and view your portfolio in Exodus desktop. In addition to that, you can exchange through and inside of Exodus. So this means instant exchanges with virtually no limits. This is amazing for our customers. Now, in Q4 this quarter, we're going to ship on the mobile. In addition to that, we're going to create an experience for you to log in and sign up to FTX without ever having

to leave Exodus. And this is in accordance with our vision of making Exodus the hub, the center of your crypto experience that you should never have to leave access to experience all of what crypto has to offer.

So you might be wondering, well, why FTX? Full disclosure, FTX is one of our investors. But they have created one of the best exchanges in the world with deep liquidity. In addition to that, many people don't realize this, but FTX treats a dollar balance the same as stablecoins. In other words, if you have a thousand dollars in your account, you can easily withdraw it via stablecoins [...]. Whereas many popular exchanges will make you go to a marketplace, fumble around with selling and then withdrawing stablecoins. We're thinking about the mainstream here, and this is how the mainstream thinks about dollar balances and stablecoins. They want it to be easy. In addition to that, a lot of people don't know this, but FTX natively supports Solana assets for all of the assets. So what that means is that you can deposit Bitcoin Ethereum directly into FTX and you can withdraw Bitcoin, Ethereum and other assets on Solana. And this opens up the whole world of Solana DeFi for our customers. We'll talk a little bit more about that in just a minute.

Now the second priority is creating an NFT experience. And it's our exciting new technology that have graced the world of crypto, and there are multiple types of NFTs. You've probably seen many and if many people on Twitter changing the profile photo to their favorite NFT. In addition to that, there was recently a conference where it required owning an NFT to actually join a party. So we like to think of these NFTs to represent status and access. There are also NFTs that are digital collectibles like NBA Top Shot. And finally, there are gaming, gaming, NFTs like Axe Infinit. There's a big movement in the Philippines happening right now called Play to Earn, where people are actually selling NFTs, that they're earning through Axe Infinity to put food on the table.

So NFTs represent a huge opportunity. And in fact, you can quantify this today. Open sea over the last three months has a staggering \$9 billion of trading volume with NFTs. Most of this trading volume is happening on Ethereum. As many of you know, Ethereum is slow and expensive. To exchange an NFT, it cost a person anywhere from \$50 to \$75 dollars. That's crazy. Again, we're thinking about the mainstream here. And so that's why we're pleased to build our first NFT experience on Solana, and we're going to in the future, be looking at Algorand and other blockchains that target performance.

And so that's going to happen is later this year. You're going to be able to experience an NFT gallery directly inside access mobile. This is going to allow you to view your NFT and be able to transfer your pieces. But that's not all. In addition to that, we have teamed up and invested in Magic Eden, the Solana's most popular NFT marketplace, to create an experience where you can buy and sell NFTs natively and directly inside of this mobile. This is going to be amazing for our customers.

Now, let's talk about 2022 briefly. By the end of 2022, Exodus should be the go-to app to experience DApps, DeFi and NFT. We believe that DeFi represents a strong opportunity, and it's because it's not just about buying and holding crypto. Crypto should have real world utility and DeFi presents its utility. In fact, earlier this year, the start of 2021, DeFI had about \$25 billion in it. Now today it has \$257 billion, representing a 10x growth in less than one year. So imagine what it will be like a year from now.

These DeFi experiences are not accessed from Coinbase, dot com, Kraken or Gemini or other centralized custodial exchanges. These DeFi experiences are uniquely self-custodial. And exodus as the center of your crypto experience, we are poised to bring DeFi and CeFI in one unified interface. So in closing, we appreciate you joining here today, and we're excited to answer your questions. Over to you, Kris.

**KRIS MERKEL** [01:17:58] Thanks, James. Thanks JP. 2022 is looking really exciting. So we've entered the Q&A portion of our webinar. We've got a whole host of questions lined up here. I'll read them. You guys go ahead and take them at will. So the first question is, how did you not anticipate the liquidity challenges on t-Zero prior to live trading?

**JAMES GERNETZKE** [01:18:26] I'll take this one, Kris. So I see that no one knew what the market was going to do and how the market was going to react to our offering. You know, we did know that it would be bumpy. You know, we're doing very new things here, and we just didn't know exactly where those bumps would be. One thing we do know is that tZERO. Their business model requires a robust marketplace, and liquidity is extremely important to having a robust marketplace. So they are constantly working on this.

I would say, though, if there was a surprise at all, it was just how much our shareholders, how much you guys are hodling are your exit shares on any given day. There's less than one percent of the shares that are on tZERO that actually change, hands less than one

percent. Now why do we love the fact that you guys believe in our mission and our ability to execute on that mission that less than one percent does tend to lead to lower volume? So.

**JP RICHARDSON** [01:19:38] To add to that: we are pioneering a new market here, and we are the first in this market, and so again, we knew this would not be easy. It's going to take time a lot of time. But the reality is to build this new market, it requires thinking differently and doing different partnerships. And so. I know that at times it can be frustrating with some of the liquidity challenges, but it'll take time, but we will build out this new market.

**KRIS MERKEL** [01:20:21] And the next question I have for you guys, have you considered listing on the Nasdaq, so why opt out of a traditional system that all successful companies have opted into?

**JP RICHARDSON** [01:20:35] Yeah. As mentioned, we are pioneering a new market and this is not going to be easy, but. The reality is, is that the Nasdaq, I mean, think about this for a minute, OK? The Nasdaq is open at six and a half hours a day. OK, imagine that the internet was only open Monday through Friday and was closed on the weekends. And closed in the evenings. That would be limited to one jurisdiction. How crazy would that be today?

Money moves at the speed of the internet with cryptocurrency. And that's the future that we want. We want a future where we can build stocks into DeFi, and this is going to require a lot of work. Now we understand that Regulation eight companies they can list on the Nasdaq, it's been done before, but we're not giving up here. We're going to continue to work with Tzero and we're going to build out partnerships here.

In fact, you can see today if you were to go to WeBull and you were to type in our stock ticker. You can see that our stock is listed there now. You cannot trade it, and we do not have any active partnerships with people. But you can at least see the potential of making partnerships where it is possible that this could happen. In addition to this, other markets are opening up that represent these new digital stock markets. Securitize has recently launched their securitized markets, and we're considering that as an option as well.

But at the end of the day, we are seeing a fusion between traditional markets and crypto markets. In fact, Robinhood is demonstrating that very well by offering the buying and selling of cryptocurrency and the withdrawing of cryptocurrency. And so we believe this trend will

only continue. We believe there's going to be many cryptocurrency exchanges that will be listing stocks, and there will be many traditional stock markets that will be listing crypto. And this will provide more opportunities for Exodus to list our shares in these markets.

**JAMES GERNETZKE** [01:22:38] Let me just add to that, I mean, right now, the. These companies, these fintech companies like Robinhood and Webull, you know, there's nothing from a regulatory perspective stopping them from working with Tzero with their traditional brokerage that they already have and allowing their account holders to buy and sell Exodus shares. And as you mentioned, this forward-looking aspect that they bring and the ability to embrace technology and cryptocurrency [...] this is the future. You know, the traditional stock market is broken and trading stocks on the blockchain, that absolutely is the future, and we know that the future is on our side.

**KRIS MERKEL** [01:23:34] So you talked about Exodus moving into NFTs. What is the difference between Exodus NFT and a platform such as like Coinbase NFT is?

**JP RICHARDSON** [01:23:48] So the Coinbase NFT marketplace, it's our understanding that they're not going to launch for at least another six to nine months. In addition to that, they are focused on Ethereum. And again, Ethereum, as I mentioned earlier, it's slow and expensive. And so the Exodus NFT gallery is actually going to be launched next week. And our marketplace, the Exodus Marketplace of Magic Eden, will be launched in December. So we're going to have our product launch quicker. But the reality is, is that we are thinking towards the mainstream experience, and we think that needs to be built on Solana and other blockchains where performance and cost is a consideration. Unlike Ethereum.

**KRIS MERKEL** [01:24:37] Can't wait to see that. This is a question from one of our investors that sends to us via email. Help me understand why you discontinued fiat onboarding. Wasn't that a key growth driver for your business?

**JP RICHARDSON** [01:24:56] The Fiat onboarding experience that we had with Apple Pay only produced not even one percent of our revenue. But the reality is, is that we love the experience. It was a great experience that you can download Exodus. You could buy bitcoin and you could have it in your ex's wallet in less than two minutes. It was an amazing experience, but unfortunately it wasn't sustainable due to all the chargebacks that we had. And so we had to shut the experience off. Now, as we've mentioned before, that we are

targeting the mainstream and so we have to make it easy for a mainstream consumer that's just starting out on the crypto journey to take money from the traditional financial system in accordance with our mission and move it into Exodus.

So this will be coming back in 2022, and we'll be looking at ways to build this experience in and we'll be looking at our partners like FTX to help us with this. And we may even bring back the experience that we had before assuming that we can make it sustainable and that we don't have these chargeback issues.

**KRIS MERKEL** [01:26:09] All right, thank you. And the next question that we have is, why did you do a share repurchase? Didn't you just raise money from investors?

**JAMES GERNETZKE** [01:26:21] Yeah, that's a good question. Yes, we did. The, you know, as I just mentioned, you know, as I mentioned earlier, our financials are strong. You know, our revenue growth has been tremendous even since the Reg A closed. And our balance sheet is to the Moon, right? It's very strong. And what this allows us to do is walk and chew gum. You know, we can return a little bit of capital and not lose sight or have any type of adverse impact on our growth plans. Like I said earlier, our focus still remains on growth and reinvesting in the company and growing our business.

**KRIS MERKEL** [01:27:03] All right, thanks, James. Talking about the investments, what are what are you doing to address the share price and limited liquidity?

**JAMES GERNETZKE** [01:27:19] So I think we discuss the liquidity portion earlier. The main thing that any company can do, so let's focus on the share price. [...] for their share price to perform well you have to execute on the mission and grow your business. And we've definitely demonstrated that we've, you know, have done that recently and well throughout our history, frankly. [...]

You know, we will continue to invest in our people and our products and those product improvements and that product development, so increased experiences. J.P. mentioned FTX, He mentioned NFTs and DeFi all of these new things that we put in the wallet that will one improve our engagement with our current users and make them happier and make them want to keep you in exodus more. But two, it will attract new users. If Exodus has demonstrated anything over its lifecycle and lifetime, it's that amazing product attracts

people, so that's one to our marketing campaigns. [...] on these new marketing campaigns that we're going to do and the new users that are attracted through that and that come in through that. All of these new users and more engaged existing users will drive revenue, which will drive value for our shareholders and should be reflected in the stock price over time.

But there's a really unique thing, frankly, about Exodus, and that's how we did our Reg A and how we're doing tZERO [...] all of that experience is directly to the people. And it's in the wallet. So think about all those new users coming in from the product and the marketing, et cetera. All of those new users have the potential to be new shareholders because they all have access to the shares, app, et cetera. So that's something that's just really unique to Exodus and just can't talk about that enough.

And finally, just from a pure economic theory perspective, it was my favorite class in college, the share repurchase, you know, we are burning those shares once the, you know, when the company purchases those shares back. We're going to burn them or the accounting term would be retire them. And so that will reduce the supply. And then from an economic theory perspective, you know, you can understand with the reduction in supply will have on that share price. So thanks, Chris.

**KRIS MERKEL** [01:29:45] No, thank you, James. So we touched on the marketing. Coinbase is the official partner of the NBA. Voyager has the Dallas Mavericks and Mark Cuban FTX has Major League Baseball and stadium naming. Crypto.com just announced naming of a stadium this morning. Are you worried that Exodus will get left behind on brand recognition?

**JP RICHARDSON** [01:30:16] I guess all the cool kids are naming and buying stadiums. We will probably not name a stadium, actually. We want to think even bigger than that. In fact, I just tweeted at Elon Musk about a week and a half ago to sponsor the Dogecoin logo on the side of a SpaceX rocket. So we want to think real, big and kind of a little, maybe a little bit on the edge here.

I have a question that came through here and someone says, Did you consider partnering with GameStop? Maybe that's an idea. Maybe we do something like that. Something again,

big and on the edge. And so we'll see. But that's how we're thinking about things. Is this big and bold advertising and marketing?

**JAMES GERNETZKE** [01:31:01] So from a macro perspective, JP, let me just say that all of this advertising is amazing for our industry. The more acceptance that we get, the better it is for our industry. So I love seeing all of this spending and all of this advertisement and all of this awareness that all of these campaigns are generating. You know, just but the thing about it is to look at it from the way our model works. I mean, J.P. talked about FTX doesn't have to be just FTX. We could have an FTX app, we can have a Coinbase app, Crypto.com app. All of those companies could be in Exodus. And if you think about, say, naming the Miami Stadium and sponsoring Major League Baseball. Well, that's all. Those are all people that could use Exodus. So we love to see all this advertising.

**KRIS MERKEL** [01:31:53] OK, the three letter word, I think the FTX has come up about 10 times in the last 30 seconds here, so why partner with FTX and what does that integration? You kind of touched on this, but what does it really mean for Exodus users and investors?

**JP RICHARDSON** [01:32:13] Yeah. So as mentioned earlier in full disclosure, is an investor in Exodus. But again, the reality is that FTX has such a great product that we want to bring to our customers, and we want to build a world where we can combine CeFi, centralized finance and DeFi in one unified interface. And FTX does that with the way that they handle stablecoins and how they treat assets natively on Solana. So you can easily just withdraw assets out on Solana so we can open up the world of DeFi real easily and on ramp into DeFi. So that's why we're so excited about it and why we think this can be a strong value add for our customers.

**KRIS MERKEL** [01:33:04] All right. J.P. James, that's all we have for the questions. You want to go ahead and close us out.

**JP RICHARDSON** [01:33:14] Thank you, Kris. Our mission is to help half of the world exit the traditional financial system, and I'm pumped that one million of you join us monthly on this journey. We want Exodus to be your hub, the center of your crypto experience, so be sure to check out Exodus next week when we launch the NFT gallery. And when we kick off this holiday season with the release of the mobile and then Magic Eden marketplace directly inside of FDA or Exodus mobile.

Finally, we are hiring and we want the best. So if you want to help us pioneer this new future, head on over to Exodus.Com forward slash careers and check out all the job postings that we have. Thanks again for joining us and we'll see you in the New Year.