



Gray Market Advisor

April 2021



Too Late to Cash in on Coinbase IPO? Make This “Early Exodus” Instead

The old saying goes "there's safety in numbers," but from time to time, numbers also present risk.

The April 13 direct-listing IPO of cryptocurrency wallet **Coinbase Global Inc. (Nasdaq: COIN)** could very well be such an example.

The blockchain behemoth boasts 56 million verified users. It has current total assets on its platform of \$223 billion, and nearly \$335 billion in trading volume posted this past quarter.

Moreover, activity soared during the pandemic. Thousands of stimulus-fueled retail traders with cabin fever crowded into crypto markets over the past year. That nearly doubled Coinbase's top-line revenue twice in a row, from \$186 million in Q2, to \$315 million in Q3, to an impressive \$585 million in Q4 of 2020.

But they weren't done yet.

As Bitcoin (BTC) and Ethereum (ETH) shot the moon in Q1, COIN revenue more than tripled again to \$1.8 billion — a staggering nine-fold year-on-year increase. In turn, that led to a 25x bump up in net income to a range of \$730-800 million according to the company's preliminary results.

There is no denying that's an incredible growth story in terms of absolute numbers. But that growth also comes a ton of risk — especially when Wall Street analysts demand that kind of growth year after year.

You see, Coinbase earned 0.46% on every dollar of crypto traded on its platform. In turn, that means it took in nearly \$300 on every Bitcoin transaction.

As coin trading volume — not to mention the value of the underlying assets — gradually increased over the past 12 months, so did Coinbase's revenue.

But volume has fallen off since February. The retail-driven short squeeze forced several hedge funds to liquidate good-performing assets to cover crowded short positions.

That's important, because Coinbase makes 85% of its revenue off of transaction fees. And institutional investors accounted for more than half of Coinbase's business in 2020.





If institutional trading volume decelerates, so will Coinbase's growth.

In addition, that average fee of 0.46% does not compare favorably to more traditional exchanges.

Nasdaq and the Intercontinental Exchange, for instance, only clear 0.01% per transaction.

We've already seen this trend play out in stock trading platforms like Robinhood. Instead of charging transaction fees to clients, it generates revenue by selling order flow to market makers.

Coinbase's revenue is almost fully dependent on fees.

As other cryptocurrency exchanges ramp up competition, it's likely they will lower those fees to attract market share. And once that per-trade charge hits close to zero, it's possible that share prices of Coinbase could follow suit.

These risks are evident even before we consider that history shows us that all bull runs eventually come to an end. In Bitcoin's last bull run, that end was comprised of an 80% loss in value and an 83% decline in volume.

Even in the event fee structures for crypto exchanges shift from client to market maker, there's simply less money to make if prices fall.

Now, some participants on IPO day may very well be able to make out like a bandit. Company valuation estimates span an incredibly wide range, falling anywhere from \$19 billion to \$230 billion.

Based on the average estimate of \$100 billion, that means IPO participants could more than double their investment in a short while.

But they could also lose 81%.

In short, the investors who are likely to make the largest returns will almost certainly be early investors rather than later ones.

And given the lack of diversity in Coinbase's business model, it's hard to recommend as anything other than a trade at this late point in its evolution.

However, there is a Coinbase competitor that may allow late investors to the IPO and excuse to find an "Early Exodus."

And we're excited to tell you all about them.

A decorative graphic at the bottom of the page consisting of overlapping, wavy shapes in shades of yellow, orange, and red, resembling a stylized flame or a modern wave design.

Exodus Movement – A “Private” Public Offering

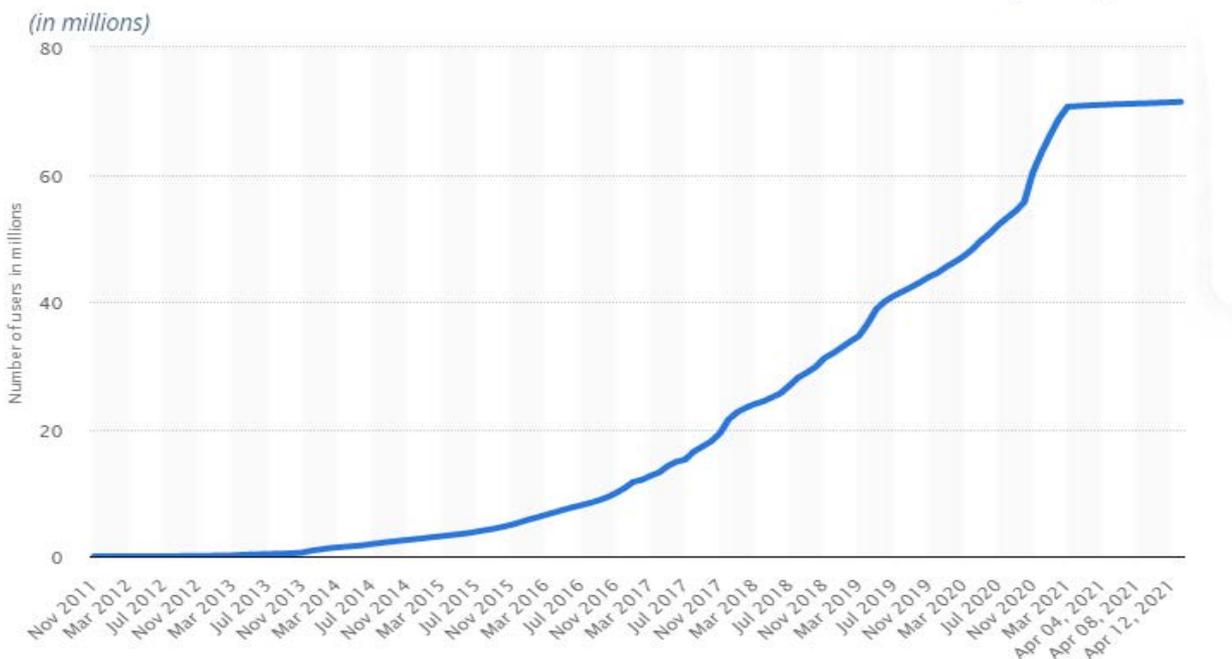
Exodus Movement, Inc. is a software service provider that allows users to store, manage and exchange cryptocurrencies — known as a "wallet." The Exodus Platform supports over 100 different coins. The wallet also has a built-in cryptocurrency exchange functionality.

The exchange aggregator allows users to swap assets without sending to and from centralized exchanges. This prevents users from needing to convert their assets to more widely accepted coins to trade. As of December 31, 2020, Exodus customers have exchanged approximately \$3.5 billion of crypto assets.

Exodus' primary focus is to make cryptocurrency easy to understand and easy to use. The Exodus software wallet consistently ranks among the best crypto wallets on the market. For 2021, Investopedia.com lists it as the best wallet for beginners, while TechRadar named it the best software wallet.

That focus on user experience helped Exodus develop its large and active user base. The company estimates they have about 1.25 million users with funded wallets across their desktop and mobile platforms.

Number of Blockchain wallet users worldwide from November 2011 to April 13, 2021



Source: Statista

© Statista 2021

At the end of 2020, their average daily active users jumped 359% from 25,440 to 116,865. Exodus saw almost identical growth in monthly active users — from 29,812 at the beginning of 2020 to 591,584 in January 2021 (356%).

That impressive user growth significantly bolstered revenues from \$7.9 million in 2019 to \$21.25 million in 2020 (168%). That growth turned Exodus a profit of \$8.1 million. That's a rare accolade among companies in the midst of a Reg A raise.

Statements of Operations Data:

	Year ended December 31,	
	2020	2019
	(amounts in thousands, except per share data)	
Revenues	\$21,251	\$ 7,922
Cost of revenues		
Software development	3,465	3,000
Customer support	1,824	1,044
Security and wallet operations	3,517	2,578
Total cost of revenues	8,806	6,622
Gross profit	12,445	1,300
Operating expenses		
General and administrative	3,802	2,235
Advertising and marketing	1,081	569
Depreciation and amortization	736	103
Impairment of digital assets	2,430	1,738
Total operating expenses	8,049	4,645
Operating income (loss)	4,396	(3,345)
Other income		
Gain on sale or transfer of digital assets	5,017	3,118
Interest expense	(6)	(3)
Interest income	80	55
Total other income	5,091	3,170
Income (loss) before income taxes	9,487	(175)
Income tax (expense) benefit	(1,310)	(55)
Net income (loss)	\$ 8,177	\$ (230)
Foreign currency translation adjustment	248	—
Comprehensive income (loss)	\$ 8,425	\$ (230)
Basic net income (loss) per share of common stock	\$ 0.41	\$ (0.01)
Diluted net income (loss) per share of common stock	\$ 0.36	\$ (0.01)
Weighted average shares and share equivalents outstanding		
Basic	20,012	20,000
Diluted	22,749	20,000

Source: Exodus Offering Circular



But customers simply storing and exchanging coins isn't enough for Exodus. The firm wants to continue to develop the platform to make digital currencies more useful. They believe that the more ways their customers can use their cryptos, the more likely they are to engage with the platform.

Exodus offers features from a variety of third-party developers that let users put their crypto to work. These apps let users participate in smart contracts and earn interest on their holdings.

For instance, the Compound Finance app lets customers earn more interest than the average bank rate. That interest comes in the form of additional tokens on certain supported crypto assets held in their Exodus wallets.

Similarly, the Rewards app allows users to stake supported assets held in their wallets. The stakes enable blockchain validation to create new coins ("mining") through a third-party. Participants are rewarded with a percentage of the mined coins.

With the Sport app, users can place wagers on sporting events through smart contract protocol on the Ethereum Blockchain. Sports betting is increasing in popularity in the U.S. The market saw significant year over year growth after professional sports returned in the late summer. In December 2020 alone, Americans wagered more than \$3.4 billion on sport bets — an 86.7% increase from 2019.

Apps provide opportunity to monetize transactions with assets held on the platform. Exodus does this through commissions, transaction fees, and subscription fees. This provides the company revenue that isn't dependent on market valuations and diversifies the business model.

The company believes apps are essential in bringing crypto into mainstream use. They help engage customers and encourage adoption for digital assets. In fact, three API providers generated about \$18.4 million — 86% of Exodus' total revenues for 2020.

This diversified business structure affords Exodus opportunities to pivot in any number of future directions should markets warrant it. More importantly, it helps differentiate Exodus from larger competitors like Coinbase.



First and foremost, it deleverages the company from the volatility inherent in crypto markets. That alone, in our opinion, sets the potential for a far more stable business environment. What's more, it opens up the potential to grow their user base across effectively limitless business verticals. While Compound Finance, Rewards, and Sport are the first of these types of ventures, they certainly won't be the last.

In our opinion, that focus makes Exodus less of a one-dimensional crypto wallet or exchange, and more like a fintech/payments company. And any company that can marry two \$2 trillion markets — cryptocurrency and payments — is one in which investors like us should take serious interest.

And unlike the Coinbase IPO, this is an opportunity to get in **early**.

Not Your Typical Reg A Offering

ICOs have been around for years, but this is the first time an ICO will give the buyer actual equity in the company. Keeping with Exodus' mission to facilitate use of digital assets, it decided to sell its shares in a digital format.

The stock will be sold with Common Stock Tokens on the Exodus Platform. Moreover, the firm is making 2,733,229 Class A shares available in a Tier 2 offering under Regulation A at \$27.42 per share. This allows non-accredited investors participate in their ground floor public offering.



JP Richardson (Exodus) @jprichardson · Apr 9

Last night, we made history.

While the stock market was closed, we were selling Exodus stock in a crypto-only public offering all within Exodus.

This is just the beginning.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Notice of Qualification

Date Qualified: April 8, 2021 5:00 P.M.
Form: 1-A

CIK: [0001821534](#)
Company Name: Exodus Movement, Inc.
File Number: [024-11468](#)

Source: Twitter



Common Stock Tokens can be purchased only through the Exodus Platform with Bitcoin, Ether, or USDC (the US Dollar Stablecoin).

Common Stock Tokens are not shares of Class A common stock. They are digital representations of the number of shares purchased and held by a given stockholder. The tokens themselves contain no voting, governance, economic or other rights. Also, they cannot be traded independently of the common stock.

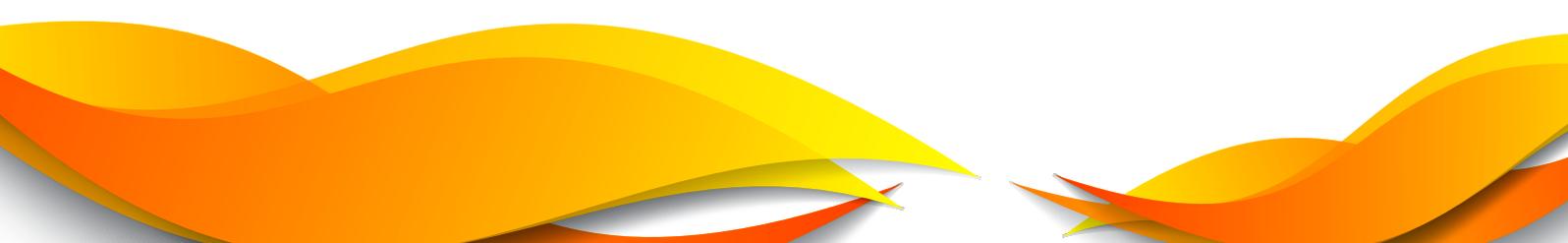
Going outside the traditional offering avenues does come with some limitations. Most notable here is that non-accredited investors can't invest more than 10% of their annual income or net worth under a Tier 2 offering. In addition, Exodus is not offering shares to residents of Arizona, Florida or Texas for the time being.

At present, the company is developing apps to make exchanging stock tokens easier. It intends to make its Class A common stock available for trading on several alternative trading systems like tZERO. What's more, Exodus looks to offer similar apps to others interested in issuing digital securities.

Should it find success in helping smaller digital outfits go public, the firm would have an early foothold in an industry that raised more than \$12 billion just three years ago.

The company began offering shares in the Exodus Wallet at 9:00 pm ET on April 8. The offering will close once the maximum offering amount of \$75 million has been reached. As of April 12, Exodus received investment commitments of approximately \$61 million from over 4,000 investors. According to the press release, 92% of investments received have come from non-accredited investors. About \$14 million of the offering still remains available for additional investors.

Net proceeds will go toward the expansion of the platform and marketing efforts to attract additional users.





How to Invest

Investors will need to open an Exodus Wallet account. The Exodus Wallet app is available for download on [exodus.com](https://www.exodus.com), and in the Apple iOS app store, and in the Google Play store. The wallet must be updated to the most recent version (the walkthrough is [available here](#)).

Investors will need to register with Securitize to purchase shares either through their app, or at [this website](#).

Investors will also need to convert any dollars to Bitcoin (BTC), Ether (ETH), or USD Coin (USDC) to purchase shares. Of the three, USDC converts at a stable 1:1 ratio to the dollar and is therefore the exchange medium we would recommend for those new to cryptocurrency.

Name: Exodus Movement, Inc

Website: <https://www.exodus.com/>

Investor Portal: <https://www.exodus.com/investors/>

Offering Circular: https://www.sec.gov/Archives/edgar/data/1821534/000114036121012135/nt10013846x20_1aa.htm#tBUS

Price per share: \$27.42

Minimum Investment: \$27.42



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