



Coinbase's Valuation Leaves Little Upside for Investors After 2Q21 Earnings

Coinbase (COIN) reported 2Q21 earnings on August 10, 2021 and beat on both the top and bottom lines. While these results are certainly impressive, they aren't good enough to justify the stock's valuation of roughly \$56 billion. We expect Coinbase will likely not be able to sustain blowout earnings going forward thanks to rising competition in the cryptocurrency trading space.

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Stock Remains Terribly Overvalued

Even with excellent 2Q21 results, Coinbase's ideal future is already priced into the stock, which leaves little upside for investors. To justify its current valuation, Coinbase would need to attain higher revenue than established rivals like Nasdaq (NDAQ) and NYSE-parent company Intercontinental Exchange (ICE), which is a highly unlikely scenario, given the reasons we highlight below.

Instead, we expect Coinbase's margins and revenue growth rates to decline going forward as competition increasingly eats into its business.

Regulatory Risk Looms Large

As cryptocurrency rises in popularity among investors, we expect regulations to increase, which bring a whole new set of risks for Coinbase investors. The [recently passed infrastructure bill](#) contains provisions increasing the requirements for cryptocurrency tax reporting, and such regulation could be just the beginning. We expect more regulation, not less, to ensure regulators can enact more control over cryptocurrency. Accordingly, such new regulations could diminish the popularity of cryptocurrency as an asset class, and therefore negatively impact Coinbase's growth trajectory.

Record Earnings Only Make Industry More Attractive to Competitors

The crypto markets are very young, and we expect many more companies to compete for the profits Coinbase enjoys today. The [race to zero](#) phenomenon that took place in late 2019 with stock trading fees will likely make its way to crypto markets, and Coinbase's record earnings will only accelerate that process. The stronger Coinbase's earnings are now, the more attractive this fast-growing market looks to larger competitors with greater resources.

Coinbase's business also has few barriers to entry, as other companies can easily replicate its offerings. Competition is not limited to startups such as Robinhood (HOOD), eToro, Gemini, Binance and Kraken, but also incumbents Intercontinental Exchange, Nasdaq, or even Charles Schwab (SCHW). Should some of the larger stock brokerages enter the space, expect the race to zero to accelerate even faster.

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Disclosure: David Trainer, Kyle Guske II, and Matt Shuler receive no compensation to write about any specific stock, sector, style, or theme.

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Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms’ data collection processes to provide superior [fundamental data](#), [earnings](#) models, and [research](#). More [details](#).

Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global’s (SPGI) Adjustments* individually.” – pp. 14, 1st para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC.” – pp. 8, 5th para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Indiana’s Kelley School of Business. Bloomberg features the paper [here](#).

Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3rd para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3rd para.

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