

### Introduction:

Kraken is one of the oldest and most established global cryptocurrency exchanges, offering a robust platform for both retail and professional investors. Beyond trading, Kraken provides additional services such as staking, infrastructure projects, and banking, allowing customers to create additional value with their assets.

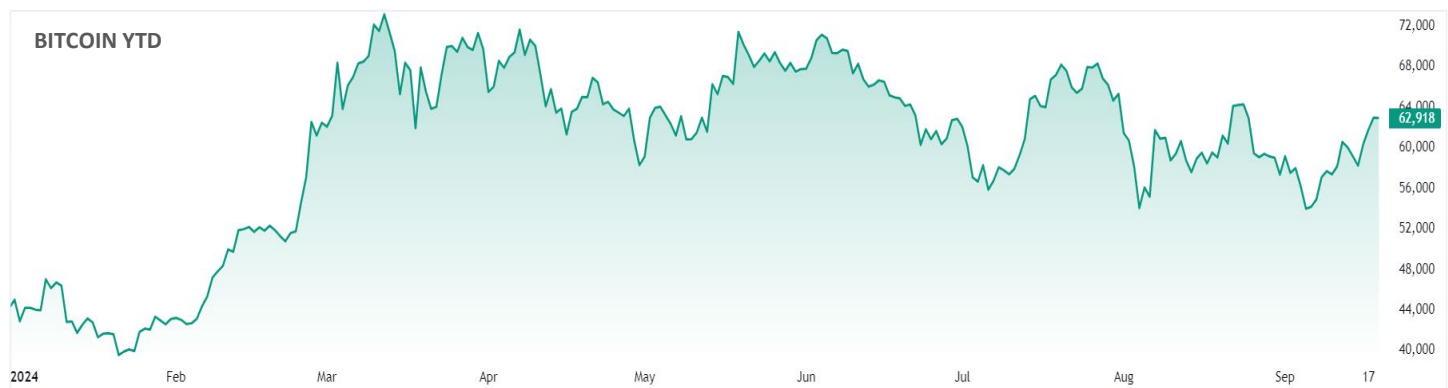
Founded in 2011 by Jesse Powell (Chairman of the Board and former CEO), Thanh Luu, and Michael Gronager, Kraken is headquartered in San Francisco. Before Kraken, Powell had experience building digital currency marketplaces and services for gamers. He was affiliated with Mt. Gox (a defunct Bitcoin exchange) and following its collapse in 2010 (due to security breaches and poor operations), Powell sought to launch a more secure and well-managed exchange.



Kraken's mission is to provide secure, advanced trading with low costs, particularly for high-volume trades. The platform has over 200 cryptocurrencies, five stablecoins, and supports seven fiat currencies, offering a broad range of assets for its users. Most of Kraken's revenue is generated through transaction and subscription fees.

### The Year in Crypto:

As this chart shows, Bitcoin started the year at \$42,200 and hit a peak and all-time high of \$73,700 in mid-March but was recently at \$60,000 (up 44% this year).



Bitcoin's trading volume tends to be correlated with the price. Therefore, as Bitcoin's price dropped from its all-time high in March, its trading volume concurrently saw a significant decline in the 2<sup>nd</sup> quarter of 2024, with the daily average sequentially dropping by (22%) to \$26 billion.

In the 1<sup>st</sup> quarter of 2024, the continued adoption of cryptocurrency brought the global crypto market cap close to its all-time high (slightly under \$3 trillion.) During the quarter, the approval of US spot Bitcoin ETFs was approved by the SEC, which led to strong digital currency gains. However, that momentum was not sustained in the 2<sup>nd</sup> quarter of 2024. Despite Bitcoin's fourth halving in April (when the reward for mining a cryptocurrency block is cut in half) the market was largely unresponsive. In prior periods, halvings positively affected Bitcoin prices, with constrained supply and heightened demand.

By the end of the quarter, the crypto market reflected the broader bearish sentiment, closing at \$2.26 trillion in June, down (14%).

Some potential items that have weighed on the digital currency market are the unease with Mt. Gox's movement of its 140,000 Bitcoin stash to creditors, and the German government's sale of its seized Bitcoin holdings.

This year, the crypto market has struggled to surpass its 2021 all-time market cap peak, fluctuating between \$1.9 trillion and \$2.7 trillion. Crypto's annualized volatility remains high at 44%, with Bitcoin's volatility at 43%.



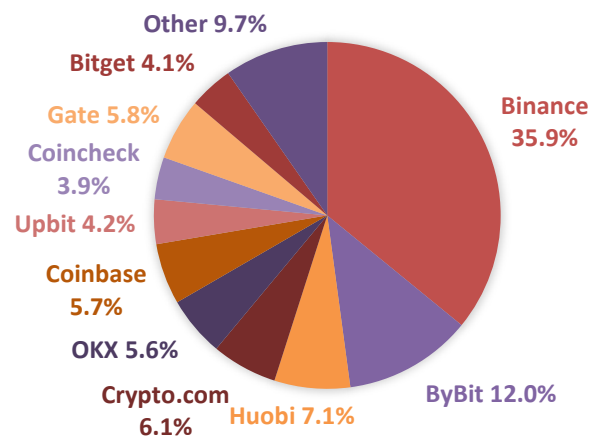
#### Market Share:

A crypto exchange's market share is determined by its spot trading volume, calculated as the number of trades multiplied by the asset price. For instance, if Bitcoin is worth \$100, then 50 million trades of Bitcoin would generate \$5 billion in Bitcoin transaction volume. If an exchange charges a 1% fee on this volume, it will theoretically earn \$50 million in revenue. To underscore crypto's growth, global spot trading volume increased from \$1.8 trillion to \$14 trillion (+600%) during the COVID-19 pandemic.

Focusing on centralized exchanges (CEX), as of July 2024, Binance remains the largest global CEX by spot trading volume. Binance had \$403.7 billion in trading volume for the month, capturing 36% of the market. Bybit follows with \$134.7 billion and 12% market share, while Huobi ranks third with \$79.4 billion and 7% market share.

Kraken's global market position has declined from a 3.4% market share in July 2018, to 1.8% in July 2024, with \$20.7 billion in trading volume for the month.

#### GLOBAL SHARE OF SPOT TRADING VOLUME JULY 2024



Despite this, Kraken remains the largest exchange for euro spot trading, dominating the European market, and ranks among the top ten exchanges in the United States. Though, it significantly trails behind Coinbase which is the dominant US cryptocurrency exchange.

However, Kraken has minimal presence in the Asia-Pacific (APAC) region, which is significant since APAC accounts for the majority of global crypto spot trading volume at \$817.4 billion in July 2024. A much higher spot trading volume compared to the \$137.2 billion in North America, \$33.7 billion in Europe, and \$4.8 billion in South America. As a result, exchanges leading in APAC, like Binance, Bybit, and Huobi, dominate globally.

Kraken's European focus stems from its early partnership with Germany-based Fidor Bank in 2013 (its first operational year), establishing it as a Eurocentric exchange. Furthermore, its historically strained relationship with US regulators pushed it to focus on other markets. Europe has historically lagged behind APAC and the US in crypto adoption. As such, Kraken's focus on this smaller, slower-growing market, coupled with APAC's rapid adoption, has contributed to the decline in its global market share. However, Europe's crypto market is poised for significant growth driven by favorable regulations like Markets in Crypto-Assets Regulation (MiCA), increasing institutional interest, and the introduction of euro-backed stablecoins. Kraken is well positioned to benefit from these developments as a dominant European player, especially with its leading London-based derivatives subsidiary, Crypto Facilities.

### Competition:

With around 500 centralized and decentralized cryptocurrency exchanges, Kraken faces intense competition in its rapidly evolving market. Low barriers to entry and low switching costs mean that Kraken competes with major players like Binance and Coinbase, as well as mainstream financial firms like Robinhood.

Looking at some of its main competitors, Binance stands out as a behemoth. As the largest global CEX, Binance offers 415 tokens and supports 11 fiat currencies. Founded in 2017 in China, Binance has aggressively expanded its market presence, sometimes before obtaining official regulatory approvals, leading to various challenges. Its US arm, Binance.US, operates in several states with questionable legality. In November 2023, Binance's founder and former CEO, Changpeng Zhao, pleaded guilty to anti-money laundering charges brought by multiple regulators and law enforcement agencies. He agreed to pay a \$50 million fine, while Binance settled the charges for over \$4.3 billion. Due to other regulatory pressure, Binance may also soon follow Kraken in shutting down its staking services, especially if the SEC pursues similar charges (more on this later).

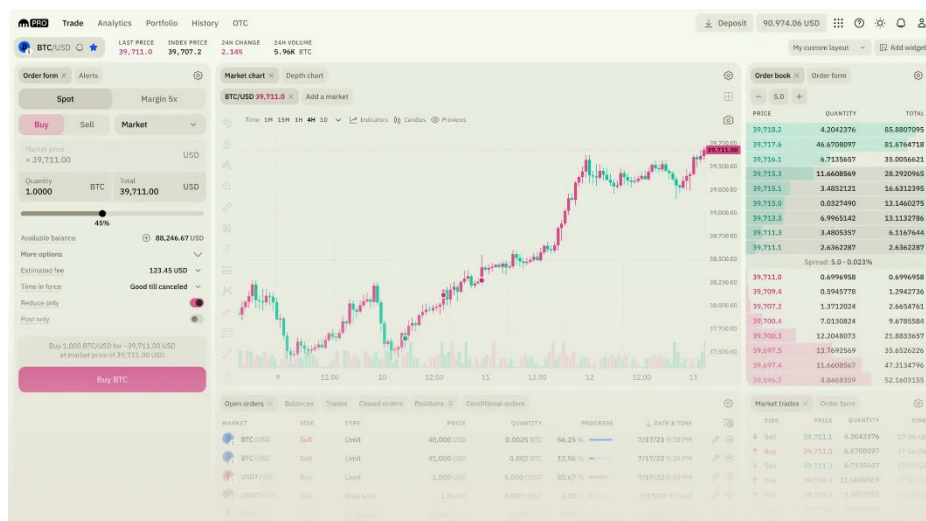
Coinbase, another key competitor, is Kraken's closest publicly-traded peer. With a price per share of \$163 and a market capitalization of over \$44 billion, Coinbase presents an excellent comp for Kraken. Coinbase offers 249 tokens compared to Kraken's 276 and only supports three fiat currencies (Euro, British Pound, and US Dollar) versus Kraken's seven. Expanding support for more fiat currencies could be a strategic growth area for Coinbase, potentially making it more attractive to users.

Kraken is also feeling pressure from mainstream retail brokerage firms like Robinhood, and payment firms like Square and PayPal. As these financial entities enter the crypto market, they become another potential competitor for Kraken. In March 2023, Robinhood further enhanced its crypto offerings by rolling out a crypto wallet and supporting crypto transfers, allowing users to move purchased assets off-platform. Robinhood's competitive edge was further strengthened by its recent acquisition of crypto exchange Bitstamp. Currently, Robinhood provides US retail investors access to 15 tokens and more than 30 in Europe. By incorporating Bitstamp's broader selection of 85 tokens, Robinhood can offer markets in substantially more tokens and deepen its involvement in the growing crypto value chain. This competitive landscape underscores the challenges Kraken faces in maintaining and growing its market share, particularly as its competitors continue expanding their services and footprint.

### Platform:

Kraken's primary services are cryptocurrency trading and subscription trading. The platform distinguishes itself by striking an ideal balance between simplicity (for beginners) and robust features (for professional traders and investors). This makes Kraken a great choice for new crypto users, or anyone seeking a straightforward, easy-to-use platform.

Kraken's standard platform is exceptionally user-friendly, featuring an inviting, simple, and intuitive interface. It's great for first-time crypto users, as it's easy to understand and lacks the overwhelming complexity that characterizes some other exchanges. Kraken also offers easy options to buy, sell, and convert cryptocurrencies through *Kraken Instant Buy*.



The main screen provides a clear overview of available balances, open positions, and a ledger history of all transactions, making account management easy and accessible. Kraken charges a 0.9% flat fee for stablecoins, and a 1.5% fee for all other cryptocurrencies on Instant Buy, which are relatively high compared to its competitors. Despite this, the higher fees may be less of an issue for beginners and retail traders who don't trade as frequently as professionals.

For more sophisticated traders and investors, Kraken offers its *Kraken Pro* platform. Launched in December 2022, *Kraken Pro* offers a comprehensive suite of advanced trading tools, and unified access to spot trading, margin trading, staking, and portfolio management. *Kraken Pro* is specifically designed for advanced traders, enabling high-volume trades with reduced latency and an average support resolution time of less than five minutes. The platform has significantly lower fees, with a 0.16% maker fee and a 0.26% taker fee for trades of \$50,000 or less. *Kraken Pro* also provides access to more than 200 digital assets and facilitates trading in over 90 perpetual futures. It recorded over \$207 billion in trading volume last year and currently has more than 9 million unique verified clients.

Kraken's dual approach, offering simplicity for beginners and sophisticated tools for advanced traders, positions it as a versatile and user-friendly platform in the cryptocurrency market. As such, it's a good balance between simpler exchanges like Coinbase and feature-packed ones like Binance.

### Kraken's Key Differentiator = Security

One of Kraken's biggest selling points is its robust security features. The exchange has never been hacked, a claim that no other major exchanges can make. This is particularly impressive given Kraken's longevity in the market. It consistently ranks highly in security reviews, coming in second on the Crypto Exchange Ranks (CER). Kraken also sits first in security assessments by independent research firms such as Certified and Coin Bureau.

Kraken has also invested heavily in safeguarding funds, NFTs, and user privacy. It offers secure coin and NFT storage, with 95% of deposits held offline in air-gapped cold storage units distributed worldwide. The platform's servers are housed in secure cages monitored 24/7 by armed guards and video surveillance, with strict controls on physical access and rigorous code deployment reviews.

Kraken's security features are comprehensive, including app-based two-factor authentication (2FA), email confirmations for withdrawals, customizable API permissions, encrypted email communications, suspicious

activity monitoring, and encrypted data. This emphasis on security makes Kraken particularly attractive to users who prioritize the safety of their assets in the cryptocurrency space.

### Additional Strengths:









In addition to the security measures, Kraken was one of the first exchanges to implement proof of reserves. This allows investors and clients to verify that their funds are securely held on the platform. Kraken also maintains full reserves, ensuring users can always withdraw their funds. According to Kraken's blog, their auditor, Armanino, takes an "anonymized snapshot of all balances held and aggregates them into a Merkle tree—a privacy-friendly data structure that encapsulates all client balances." The auditor then compares this data with Kraken's records to ensure accuracy. Unlike some other exchanges, Kraken includes client liabilities in this process, providing greater transparency and assurance for users.

Another notable aspect of Kraken is its exceptional customer support, often highlighted as superior to that of its peers. Kraken offers 24/7 customer support through various channels including email, in-app chat, and live phone support. The customer service team is known for being quick and responsive, with Kraken claiming that issues typically resolved in weeks on other platforms are usually addressed within 24 hours on Kraken. This has led to a reported 90% client satisfaction rate on the platform. In 2021, Laptopmag awarded Kraken a perfect score for customer support, naming it the best in crypto that year.

### Opportunities:

There are several interesting opportunities that Kraken is seeking to capitalize on, from staking, parachain auctions, NFTs, its own digital currency wallet, and an SPDI charter for traditional banking services.

Staking is somewhat controversial and certain participants have run into trouble with the SEC on this issue. Essentially, staking services allow a user to deposit proof-of-stake (PoS) cryptocurrencies to earn interest by validating on-chain transactions. While staking is typically done through decentralized finance platforms via self-custody wallets, Kraken integrated staking into its trading platform, offering a more user-friendly experience. Currently, Kraken offers two staking options: flexible staking, which allows for instant withdrawal of principal and interest, and bonded staking, which requires a waiting period of 3 to 28 days before withdrawal.

 Algorand (ALGO) On-chain Yearly rewards 1-4% Flexible Allocate* <small>*Distributed weekly</small>	 Cardano (ADA) On-chain Yearly rewards 3-6% Flexible Allocate	 Celestia (TIA) On-chain Yearly rewards 3-6% Flexible 9-12% Bonded 21D Allocate	 Cosmos (ATOM) On-chain Yearly rewards 6-10% Flexible 14-18% Bonded 21D Allocate
 Dymension (DYM) On-chain Yearly rewards 2-5% Flexible 5-8% Bonded 21D Allocate	 Ethereum (ETH) On-chain Yearly rewards 1-4% Flexible 3-6% Bonded Allocate* <small>*Subject to additional terms and conditions. <a href="#">Learn more</a></small>	 Flare (FLR) On-chain Yearly rewards 0.1-2% Flexible Allocate	 Flow (FLOW) On-chain Yearly rewards 2-5% Flexible 6-10% Bonded 14D Allocate

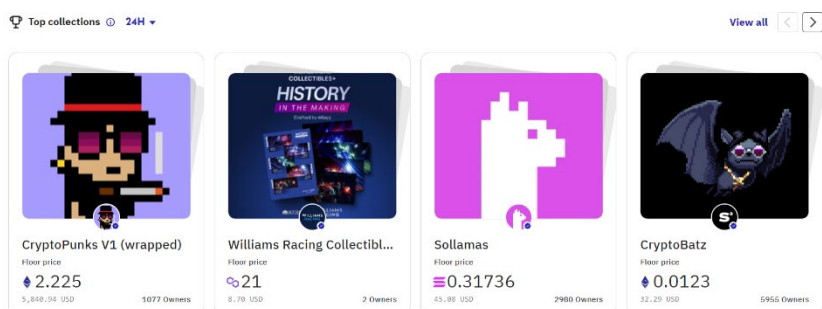
As a private company, we don't have up-to-date information on all of Kraken's metrics. As of June 2022, 135,000 users were staking on Kraken, with US users holding over \$2.7 billion in assets on its staking platform. Currently, Kraken's staking services have some limitations such as the absence of auto-compounding rewards for ETH staking, making it less competitive.

Kraken also charges a 15% commission on the rewards generated from on-chain staking activities. For flexible staking, Kraken will stake up to 50% of the assets selected for staking.



While staking is a nice income-generating opportunity for users, it's also been subject to increased regulatory scrutiny. In February 2023, the SEC charged Kraken with not properly registering its staking-as-a-service platform as a security. As a result, Kraken had to shut down its staking services in the US and pay a \$30 million fine.

Kraken is also at the forefront of new developments in the cryptocurrency space. This includes supporting parachain auctions and emerging proof-of-stake options. Parachain auctions are protocols that connect different blockchains and offer rewards to users who stake their cryptocurrency in the protocol. Kraken is one of the few exchanges that support DOT and KSM parachain auctions, making it a significant draw for fans of the Polkadot ecosystem. Polkadot, a key Layer 1 protocol built on Ethereum, powers these auctions which have gained popularity.



In June 2023, Kraken expanded into NFT trading, allowing users to buy and sell NFT collections. This includes popular ones like Bored Apes and CryptoPunks on its NFT auction marketplace. Kraken also offers zero gas fee trading for NFTs, further enhancing its appeal in the rapidly growing digital assets market.

In April 2024, Kraken launched its self-custodial wallet (called the Kraken Wallet). It is available to all cryptocurrency holders regardless of whether they purchased their assets on Kraken. This wallet supports the self-custody of digital assets, including tokens and NFTs, significantly broadening Kraken's reach within the crypto community.

Kraken was also the first cryptocurrency exchange to obtain a Special Purpose Depository Institution (SPDI) charter, allowing it to act as an on-ramp to the banking ecosystem. This distinction reduces its reliance on other banks for payment processing, opening up potential growth opportunities and strategic innovations in banking products. By evolving into a financial platform for investors with both cash and crypto, Kraken could diversify its revenue streams, which is especially crucial during periods of high volatility. It is important to note that Kraken is currently not an FDIC-insured bank, but it does have the opportunity to introduce various "banking like" products down the road.

### Crypto Facilities & CF Benchmarks:

In 2019, Kraken significantly expanded its services by acquiring Crypto Facilities (a London-based exchange and index provider). This acquisition enabled Kraken to offer futures trading for various cryptocurrencies, particularly Bitcoin, Ethereum, and Litecoin with up to 50x leverage. Crypto Facilities also became Europe's first regulated crypto futures venue after securing a Multilateral Trading Facility license from the FCA (Financial Conduct Authority), positioning it well to capitalize on the growing institutional interest in cryptocurrency.

Kraken also owns CF Benchmarks, a leading digital asset index provider born from Crypto Facilities. CF Benchmarks addresses the need for reliable pricing benchmarks and data in the global crypto market and has become instrumental in the Bitcoin ETF market. Similar to S&P 500 indexes, it generates revenue from licensing fees paid by financial institutions that use its indices for products like ETFs and derivatives, as well as from settlements based on its indices.

SAMPLE OF CF BENCHMARKS ETF & ETP TRACKER				
Product	Ticker	Firm	Country	Index
iShares Bitcoin Trust ETF	IBIT	BlackRock	US	BRRNY
iShares Ethereum Trust ETF	ETHA	BlackRock	US	ETHUSD_NY
Franklin Bitcoin ETF	EZBC	Franklin Templeton	US	BRRNY
Franklin Ethereum ETF	EZET	Franklin Templeton	US	ETHUSD_NY
Bitwise Bitcoin ETF	BITB	Bitwise	US	BRRNY
Bitwise Ethereum ETF	ETHW	Bitwise	US	ETHUSD_NY
Valkyrie Bitcoin Fund	BRRR	Valkyrie	US	BRRNY
21Shares Core Ethereum ETF	CETH	21Shares	US	ETHUSD_NY
Evolve Bitcoin ETF	EBIT	Evolve	Canada	BRR
Evolve Ether ETF	ETHR	Evolve	Canada	ETHUSD_RR

The approval of 11 spot Bitcoin ETFs in January 2024 further solidified CF Benchmark's influence, particularly as the index provider for the CME's crypto futures products. This influence is further exemplified through the utilization of its BRR index by major fund managers like BlackRock, Ark Invest, and Franklin Templeton.

As the authorized benchmarks administrator for several major Bitcoin ETFs, CF Benchmarks has generated substantial revenue for Kraken. By February 2024, inflows into these ETFs exceeded \$1.4 billion, helping CF Benchmarks surpass its annual revenue target in a single month. CF Benchmarks is strongly poised for continued growth, especially with the anticipated launch of Ethereum ETFs.

As of May 2024, CF Benchmarks was responsible for around \$24 billion worth of crypto ETFs, representing about 50% of the overall crypto benchmarking market. This dominance reflects the increasing acceptance and integration of cryptocurrency into traditional finance. CF Benchmarks is also actively expanding into other markets, particularly APAC. In Hong Kong, CF Benchmarks anticipates managing around \$1 billion in assets due to recently approved spot Bitcoin and Ethereum ETFs by the end of 2024. Initially targeting \$5 billion in US spot Bitcoin ETFs for 2024, CF Benchmarks now projects managing four times that amount due to higher-than-expected demand.

#### Fundraising:

Since its inception, Kraken has raised over \$129 million through multiple funding rounds. Its funding journey began with a seed round in 2011 raising \$118,000, followed by a Series-A in 2014 securing \$5 million from Hummingbird Ventures. In 2016, Kraken raised \$10.5 million in a Series-B led by SBI Investment. Following in 2019, Kraken raised another \$13.5 million from a Series-C, also led by SBI Investment. The same year, Kraken raised \$100 million from a group of its largest customers at a \$4 billion valuation. In 2021, Kraken conducted a Series-D round led by Paradigm with participation from Fidelity, T. Capital, and General Atlantic and had a valuation of \$10 billion.

Given that a substantial portion of Kraken's funding came from the 2019 raise, questions arise about the level of investor interest in Kraken, especially when competitors like Coinbase have raised \$547 million (as of 2021). Currently, Kraken is seeking over \$100 million in additional funding, potentially to be completed by the end of the year. This would be a precursor to its long-anticipated IPO expected next year. This push for an IPO is driven by a surge of investor interest in and the mainstream adoption of cryptocurrencies. Kraken's management plans to use the additional funding and IPO proceeds to expand its US presence and market share, enhance regulatory licensing, and explore new product opportunities.

### Looking Forward & Catalysts:

Kraken has room for improvement, particularly in expanding its support for more fiat currencies. Offering a broader range of fiat options could enhance Kraken's global appeal and reduce the additional costs that are likely deterring some users from the platform. For example, users in India currently need to convert their Rupees to a supported currency or cryptocurrency to trade. This ends up adding complexities and extra costs. Additionally, Kraken could consider lowering its Instant Buy fees which currently stand at a 0.9% flat fee for stablecoins, and a 1.5% fee for all other cryptocurrencies. These fees are not the most competitive and can quickly add up, which likely explains why most of Kraken's users gravitate towards Kraken Pro. The Pro platform offers a more cost-effective fee structure and is better suited for users who execute large volumes of trades. With increasing competition, Kraken may not have a choice in decreasing their Instant Buy fees.

One area where Kraken excels is in staying up to date on the latest cryptocurrency developments. To remain competitive in this rapidly evolving market, Kraken must continue to lead in innovation, particularly in areas like asset tokenization (NFTs). The tokenization of assets could represent a significant shift in asset ownership and create a new market for asset trades on Kraken. However, it's important to note that NFTs are highly volatile. This is evidenced by their even steeper decline in value compared to cryptocurrencies during the 2022-2023 crypto bear market.

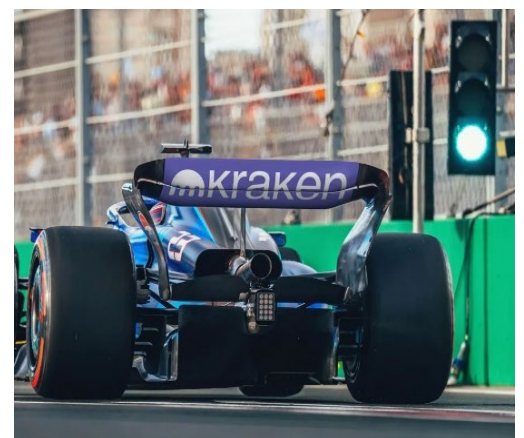
The global cryptocurrency market has exhibited impressive growth despite short-term price and trade volatility. To give some context, in March 2013, fewer than 1 million people worldwide had a cryptocurrency wallet. A decade later, this number has surged to 580 million, with 46 million cryptocurrency owners in the United States alone.

According to our annual fintech Gen-Z survey, 9 out of our 10 Gen-Z respondents owned crypto (sample size of 250+), indicating strong potential for long-term user growth on crypto exchanges. Although this number might be skewed toward the higher end, it aligns with the general consensus on Gen Z crypto adoption.

Looking at another generation, 70% of millennials see crypto as part of their lives. To further illustrate the broader trend, Ethereum added approximately 25 million unique addresses every six months from 2017 to 2022. By May 2024, Ethereum had 271 million cumulative addresses, up from 66 million in May 2019. Crypto adoption has consistently grown through different market cycles, and this trend is expected to continue as the general population becomes more comfortable with digital assets.

To take advantage of this broader market growth, Kraken could benefit from a more aggressive marketing strategy. Currently, Kraken is not a household name, and its brand awareness is limited to those deeply involved in the crypto space. With better brand recognition, Kraken could gain market share and open hundreds of thousands of new accounts.

This is quite the contrast to Coinbase (founded in 2017) and Crypto.com (founded in 2020) which continue to excel at brand recognition and marketing on TV and social media. Given its robust platform and extensive experience, Kraken has the potential to grow significantly if it adopts a more assertive approach to marketing and brand-building.





### Key Risks:

Kraken faces significant regulatory risks that could threaten the viability of its operations. In May 2022, the SEC doubled its crypto regulation staff to increase oversight of centralized exchanges and enforce compliance with the financial institution AML (Anti-Money Laundering) and KYC (Know Your Customer) requirements. This heightened scrutiny is particularly concerning for Kraken, which between November 2022 and December 2023 was hit with two major regulatory non-compliance charges.

The SEC charged Kraken for failing to register its staking-as-a-service platform as a security, and the Treasury Department penalized the company for facilitating crypto trading in Iran, allowing citizens to bypass US sanctions. Legal issues of this nature are not only time-consuming and distracting but are also red flags harmful to Kraken's reputation. Users may be deterred from using an exchange perceived as non-compliant, particularly in a market already viewed as inherently risky. These incidents highlight the urgent need for Kraken to tighten its compliance measures, especially as it prepares to go public.

The recent example of FTX, which was ordered to pay \$12.7 billion to customers by the US Commodity Futures Trading Commission (CFTC), underscores the severe consequences of operational risks due to regulatory issues. For Kraken, any semblance of similar risks could be detrimental, especially given its recent history of non-compliance with US regulations. Failure to adhere to regulatory requirements not only exposes Kraken to steep fines but also risks tarnishing its brand, especially in a market whose regulatory reputation is already "on thin ice."

Another significant risk for Kraken is the potential for margin compression as transaction fees become more competitive. No exchange really has a "moat", which means that increased competition could drive down transaction fees, squeezing margins. This commission scenario is reminiscent of Robinhood's impact on retail trading firms in 2013. Robinhood's zero commission model attracted many young users, forcing more established firms like E\*Trade, TD Ameritrade, Fidelity, and Schwab to respond. Brokerages have responded by replacing trading commission revenue with other advisory fees, and rebates/order flow payments.

In the crypto exchange market, new and existing players may increasingly commoditize trading, leading to downward pressure on fees. For example, in the summer of 2022, Binance cut its trading fees on Bitcoin to zero, rapidly increasing its market share. However, Binance ended this practice in March 2023, recognizing that it was not a long-term, viable strategy. This is particularly concerning because CEXs heavily rely on transaction fees as their primary revenue source. If competition forces fees downward, Kraken may struggle to compete economically against larger CEXs.

### Volatility:

Taking a broader view, Kraken is exposed to the inherent volatility of the cryptocurrency market. Transaction volumes on any exchange are closely tied to the trading volumes of specific assets, which are ultimately tied to the overall value of crypto assets. As such, the inherent volatility of the global cryptocurrency market can be largely attributed to its significant concentration risk as it's dominated by a few major, highly volatile assets.

The top 10 cryptocurrencies command 80-85% of the market, with Bitcoin acting as the main barometer for market sentiment. When Bitcoin moves, other cryptocurrencies tend to follow, making the entire market highly susceptible to swings in Bitcoin's value. This concentration is stark compared to traditional markets like the S&P 500. Even during the very bullish rally of 2024, the top three companies—Microsoft, Nvidia, and Apple—accounted for only 20% of the index, marking it the first time the top three companies had ever done that.

To reiterate, the cryptocurrency market is notoriously volatile, as evidenced by its dramatic swings in recent years. After rallying during the COVID-19 pandemic and peaking at \$3 trillion in November 2021, the global crypto market plummeted to \$728 billion in November 2022 (-75%) before rebounding to \$2.7 trillion in March 2024. This kind of volatility directly impacts the performance of CEXs like Kraken. For instance, Coinbase saw its spot trading volume drop from \$1.7 trillion in 2021 to \$830 billion in 2022, leading to a decline in total revenue from \$7.8 billion to \$3.2 billion.

Investors should be cautious, as Kraken's performance is inevitably tied to the unpredictable nature of the crypto market. Kraken, like most exchanges, currently lacks sufficient revenue diversification to temper these fluctuations. As a result, the highs can be really high, and the lows really low.

### Valuation:

Due to the lack of public visibility into Kraken's financials, we analyzed its main US competitor, Coinbase (COIN). The information below highlights COIN's performance over the last 3 years, as well as the 1<sup>st</sup> half of 2024. In addition, we have included run rate estimates for 2024, and Wall Street estimates for 2024 and 2025 (based on over 15 sell-side analysts).

<u>Revenue</u>	<u>'21</u>	<u>'22</u>	<u>YoY</u>	<u>'23</u>	<u>YoY</u>	<u>'24 YTD</u>	<u>'24 RR</u>	<u>'24 Est</u>	<u>YoY</u>	<u>vs '21</u>	<u>'25 Est</u>	<u>YoY</u>	<u>vs '21</u>
Coinbase	\$7,839	\$3,194	-59%	\$3,108	-3%	\$3,087	\$6,174	\$5,750	85%	73%	\$5,960	4%	76%
<u>EBITDA</u>	<u>'21</u>	<u>'22</u>	<u>YoY</u>	<u>'23</u>	<u>YoY</u>	<u>'24 YTD</u>	<u>'24 RR</u>	<u>'24 Est</u>	<u>YoY</u>	<u>vs '21</u>	<u>'25 Est</u>	<u>YoY</u>	<u>vs '21</u>
Coinbase	\$6,491	-\$371	-106%	\$964	-359%	\$1,610	\$3,220	\$2,590	169%	40%	\$2,390	-8%	37%
<u>Margin</u>	83%	-12%		31%		52%	52%	45%			40%		

Analysts forecast Coinbase's 2024 revenue at \$5.75 billion, an 87% increase from 2023. Looking forward a year, analysts are forecasting only modest revenue growth of 4%, to roughly \$6 billion. Comparing 2025 to COIN's best-ever year (2021), it should roughly be within 20% to 25% of that year's sales. In terms of EBITDA, analysts predict margins of 45% this year and 40% next year. For comparison, this is ½ of the EBITDA margin that COIN generated in its best-ever year. Without making a call on the price of Bitcoin or other digital currencies, we think these estimates appear reasonable and not overly aggressive.

Comparing COIN to Kraken is a challenge, but we will make a number of assumptions. We will assume that Kraken also experienced an excellent year in 2021 and had its business decline the following year in 2022. We would expect Kraken to have a similar rebound as COIN had, in 2023 and year-to-date in 2024. If we assume that Kraken is roughly 15% to 20% of Coinbase's size, we can take the above chart and forecast results for Kraken.

The information below estimates Kraken's results, if we assume it is 20% the size of Coinbase. We show estimated results over the last 3 years, as well as the 1<sup>st</sup> half of 2024. Just like we did with Coinbase, we show run rate estimates for 2024, and Kraken's percentage of Coinbase's Wall Street estimates for 2024 and 2025.

<u>Revenue:</u>	<u>'21</u>	<u>'22</u>	<u>YoY</u>	<u>'23</u>	<u>YoY</u>	<u>'24 YTD</u>	<u>'24 RR</u>	<u>'24 Est</u>	<u>YoY</u>	<u>vs '21</u>	<u>'25 Est</u>	<u>YoY</u>	<u>vs '21</u>
<b>Kraken</b>	\$1,568	\$639	-59%	\$622	-3%	\$617	\$1,235	\$1,150	85%	73%	\$1,192	4%	76%
<u>% of COIN</u>													
20%													
<u>EBITDA:</u>	<u>'21</u>	<u>'22</u>	<u>YoY</u>	<u>'23</u>	<u>YoY</u>	<u>'24 YTD</u>	<u>'24 RR</u>	<u>'24 Est</u>	<u>YoY</u>	<u>vs '21</u>	<u>'25 Est</u>	<u>YoY</u>	<u>vs '21</u>
<b>Kraken</b>	\$1,298	(\$74)	n/a	\$193	n/a	\$322	\$644	\$518	169%	40%	\$478	-8%	37%
<b>Margin</b>	83%	-12%		31%		52%	52%	45%			40%		
<u>% of COIN</u>													
20%													

Coinbase is currently trading at \$163/share, and it has 267 million shares outstanding. This equates to a market capitalization of \$44 billion. So far this year, Coinbase is down (6%), and it has experienced elevated volatility and various sizeable swings, both up and down. This type of volatility is due to Bitcoin and what we mentioned in our volatility risk section.

In terms of valuation, we refuse to utilize revenue multiples. In our opinion, this is used by companies that cannot use any other valuation profitability metrics. We emphasize FCF and prefer valuation metrics like P/E, FCF yield, DCFs, and EV/EBITDA. While Coinbase does deliver earnings, its current P/E is quite high. In addition, Coinbase's earnings were significantly bolstered by a new accounting rule that allowed it to record crypto price increases on its balance sheet, resulting in a \$737 million paper gain in Q1 2024 and an EPS impact of \$4.40. With Coinbase trading at 45x 2025 sell-side estimates for EPS, we aren't sure too many investors are necessarily basing their valuation on P/E and earnings.

Assuming our 20% of Coinbase is appropriate and accurate (and that's a BIG IF), we could assign a valuation for Kraken at \$8.7 billion. Excluding any cash or debt that Kraken might have on its balance sheet, that would imply 17x our guestimated 2024 and 2025 EBITDA (see above). Is that cheap? No, but it is a discount to what the company raised money in 2021 and under 7x what it potentially generated in that year's EBITDA.

One could argue that Coinbase has a superior brand and a much larger market share, so it deserves a premium valuation to Kraken. One could also argue that Kraken is faster growing, and it gets the benefit of having Coinbase take "all the shots" since it's the market leader. If you believe that Kraken should trade at a discount to Coinbase, maybe that implies a valuation of \$6.5 billion (15% of Coinbase's). That would be 13x next year's EBITDA and just 5x its estimated peak performance in 2021.

Can Kraken return to those 2021 levels? In our opinion, it truly depends on how Bitcoin performs and whether or not digital currencies continue to gain market acceptance and attention.

As a final "valuation barometer", we liken Kraken to Coinbase similar to Robinhood to Schwab. In terms of their respective market capitalizations, Robinhood is currently trading at 17% of Schwab's. In August of 2024, Schwab had \$9.74 trillion in assets, which is 70x larger than Robinhood. Just in the month of August, Schwab generated

NNA (net new assets) of \$328 billion. For comparison purposes, Robinhood has \$140 billion in total assets under custody as of the 2<sup>nd</sup> quarter of 2024. Schwab brought in 2.3x more money - in the month of August - than Robinhood has in total assets. Clearly, the market is paying for faster growth, younger customers, and a great user interface. We could make that same case for Kraken and simply assume that it is fair for it to trade at 20% of Coinbase's market capitalization (i.e., \$8.7 billion).

#### Conclusion:

In this ever-changing digital currency market, Kraken has maintained its focus on providing a variety of secure and cost-effective trading solutions. It has positioned itself well in the market by implementing stringent security measures, offering a user-friendly experience (tailored to both beginners and professionals), and supporting an extensive number of tokens.

Kraken's commitment to staying at the forefront of cryptocurrency development has allowed it to remain competitive alongside major exchanges like Binance and Coinbase.

To thrive in this volatile environment, Kraken will need to:

- 1) carefully navigate an increasingly complex regulatory landscape
- 2) seek to diversify its revenue streams through subscription services and advanced trading products,
- 3) boost its brand recognition,
- 4) grow its market share and increase its customer base



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