

Coinbase's Public Listing Plans Shine Spotlight On Crypto

By Tom Zanki

Law360 (January 29, 2021, 10:07 PM EST) -- Coinbase's plans to go public through a direct listing could increase acceptance of cryptocurrencies and position the startup for growth, potentially encouraging competitors to follow suit, assuming the company can withstand scrutiny from regulators and investors, experts said.

Cryptocurrency venue Coinbase Inc. said Thursday that it plans to list Class A common shares, shedding light on plans for its public markets debut that has been anticipated for months.

The company said it expects its registration statement to become effective after review by the U.S. Securities and Exchange Commission, pending market and other conditions. If Coinbase gets the regulatory nod, the company would become the first U.S.-listed cryptocurrency exchange. It's a potentially huge breakthrough for a crypto industry often regarded as averse to regulation.

"Here you've got Coinbase choosing to lay itself at the mercy of the SEC," said Crowell & Moring LLP counsel Jorge Pesok, who works in the firm's blockchain and digital assets practices. "It's going to be a big deal ... I'm interested to see what Coinbase looks like on the other side if it gets approved because I think that's going to dictate what other companies do."

San Francisco-based Coinbase is also bucking tradition by choosing to go public through a direct listing rather than a traditional initial public offering.

A direct listing differs from an IPO in that a company lists its existing stock without hiring underwriters to sell new shares and raise fresh money. This alternate path can appeal to well-funded businesses that want to go public for other reasons, including providing liquidity to early investors or positioning themselves for expansion by using public shares to fund acquisitions.

Direct listings can also save companies on underwriting fees. Rather than hire investment banks to market and price new shares, companies conducting direct listings hire financial advisers, who play a more limited role of linking buyers and sellers of existing stock at agreed prices. Crypto enthusiasts view traditional banking skeptically and prefer to rely on fewer intermediaries.

"That's part of the reason that they are a perfect candidate for a direct listing," said Baker Botts LLP partner Sam Dibble. "They are doing things in a different way. While they are a financial services company, they're a very different breed of financial services company. It's completely consistent with

that ethos to go public in a different way as well."

The New York Stock Exchange now allows companies to sell new shares concurrently with a direct listing. Coinbase has not said on which exchange its plans to list and whether it will sell new shares. Nasdaq also has a pending proposal to allow the sale of new shares in a direct listing.

In any event, Coinbase appears well capitalized. Venture database CB Insights reports Coinbase's value at \$8 billion, although other reports indicate much higher valuations, with big backers like Union Square Ventures. Dibble noted Coinbase could raise additional capital after it goes public, which will also bolster its ability to pursue acquisitions.

"In addition to getting liquidity for early-stage investors and employees, the other major advantage to being a public company is that they can be active in M&A and use publicly traded stock as currency to consolidate and pick up some of the other players," Dibble said.

Several large private companies have bypassed traditional IPOs in recent years and opted for direct listings, including Spotify, Slack, Palantir and Asana. Dibble said the relative success of those direct listings enables Coinbase to appear "edgy without being ridiculously edgy."

Direct listings come with risks too. Underwriters can deploy tools to stabilize post-IPO trading in the event of a choppy debut. Plus, investment banks can use their networks to help companies land initial investors. That may not benefit Coinbase, which already has wide name recognition.

Coinbase is going public as capital markets are sizzling with new listings, even though trading has been volatile lately as shares of GameStop and other stocks have gyrated in an apparent battle between retail investors and short-selling hedge funds.

Otherwise, January has produced a torrent of IPOs from operating companies and blank-check companies, extending momentum after a robust 2020. In addition, new filings are filling the pipeline. Coinbase is also going public while flagship digital currency bitcoin trades near record highs.

"All of that is good tailwinds for them," Dibble said.

A public listing could also strengthen Coinbase's hand relative to peers.

Coinbase — which provides 43 million users a platform to buy, sell and store cryptocurrencies such as bitcoin and ether — is facing competitive pressures. Its foreign rival Binance is headquartered in Malta, a jurisdiction that touts its crypto-friendly regulatory regime. In the U.S., competing cryptocurrency exchange Gemini is also reportedly considering an IPO.

"If Coinbase is successful and it doesn't face too much regulatory backstop, we'll see others follow suit," Pesok said.

Going public means Coinbase will have to lay bare its financial statements, describe its business risks and comply with rigorous reporting obligations required of public companies. CEO Brian Armstrong has said in media interviews that the company is profitable. Coinbase's fortunes are influenced by the popularity of bitcoin, which has swung wildly in the past.

While prior companies that sought direct listings met regulatory muster, the process comes with

scrutiny. Video game platform Roblox, which is eyeing a direct listing, has run into delays given SEC questions over how the company recognizes revenue, according to a Reuters report Friday.

Dibble is also interested in seeing how Coinbase may respond to trading volatility, as frenetic activity involving GameStop shows that shares can jump for reasons having nothing to do with business fundamentals. Cryptocurrencies can also be a haven for speculators, potentially making Coinbase a target for unusual trading.

"People will be paying attention to what happens with Coinbase, and that includes people who may be up to nefarious things," Dibble said. "We will have to see."

Coinbase declined to comment.

--Editing by Jill Coffey and Emily Kokoll.