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Target: **FairX** Buyer: **coinbase**

Coinbase Announces the Acquisition of Futures Exchange FairX

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Transaction Overview

On January 12th, 2022, Coinbase announced the acquisition of FairX, a Commodities Futures Trading Commission (CFTC) registered Designated Contract Market (DCM) offering futures. Architect Partners served as the financial advisor for FairX.

Target: FairX

FairX operates a regulated futures exchange for retail investors. The company offers 1) straightforward and retail user-friendly products 2) discounted fees compared to a traditional futures exchange, 3) retail-focused products requiring less capital, and 4) committed market makers enabling strong liquidity. FairX launched in June 2021 and currently offers futures on two index products in two sizes: the Bloomberg US Large Cap Index Futures and SuperTech Index Futures, as well as Micro Crude Oil Futures.

Since launch, FairX had an average daily volume across its products of about 9,000 contracts. Based in Chicago, FairX was founded in 2019 by Neal Brady, CEO and co-founder of ErisX, acquired by CBOE ([M&A Alert](#)) last year, Harsha Bhat, CTO and previous SVP/CTO of State Street's GlobalLink trading platforms, and Chairman Clifford Lewis. FairX raised over \$27 million in three funding rounds. Notable investors include Hyde Park Venture Partners, TD Ameritrade, XTX Ventures, Battery Ventures, Limerick Hill, and Virtu Financial.

Buyer: Coinbase

Coinbase is a leading crypto-asset investment platform catering to both retail and institutional investors. Historically, Coinbase has built its reputation as an easy-to-use, trusted platform allowing individuals to invest in Bitcoin and Ethereum. Over the past several years, Coinbase has significantly broadened the number of crypto assets it supports and has

been aggressively building a sophisticated, institutional-ready set of services such as Coinbase Pro, and Coinbase Prime via both internal development and acquisitions. Coinbase can be considered a centralized brokerage firm where the assets of their users are largely held or custodied by Coinbase.

Headquartered in San Francisco, Coinbase was founded in June 2012 by Brian Armstrong and Fred Ehrsam. The company has seventy-five million users worldwide, trading a total of \$320 billion in digital assets in Q3 2021. Coinbase has raised \$547 million in capital from a wide variety of venture capital and growth capital investors, including Andreessen Horowitz (Marc Andreessen), Union Square Ventures (Fred Wilson), Ribbit Capital (Meyer Malka), DFJ Growth (Barry Schuler), IVP (Todd Chaffee), and Tiger Global Management.

Coinbase had their direct listing IPO on April 14th, 2021, and closed their first day of trading at an \$86 billion valuation. Coinbase has a current enterprise valuation of \$49 billion and trailing twelve months revenues through September 30, 2021 of \$5.4 billion giving them an EV/ TTM revenue multiple of 9.1x. Coinbase has acquired 27 companies since 2018 to expand their technology and market presence in the blockchain space. Key competitors include large exchanges such as Binance, Huobi, Bitfinex, Gemini, and Kraken among others.

Transaction Parameters

Coinbase is acquiring FairX for an undisclosed amount. The transaction is expected to close in Coinbase's fiscal first quarter.

Comparable acquisitions of futures exchanges include ErisX | CBOE Global Markets (ND, [M&A Alert](#)), FTX | LedgerX (ND, [M&A Alert](#)), Crypto.com | Nadex (DCM + DCO) & 39% of The Small Exchange (DCM) (\$216mm), and Deutsche Börse Group | Crypto Finance (~\$100mm, [M&A Alert](#)).

Strategic Rationale

There are several drivers for this acquisition. First, FairX provides Coinbase with a crypto derivatives regulatory framework for both retail and institutional investors in the US. FairX is a CFTC registered DCM, and will be Coinbase's first entity fully regulated by CFTC (Coinbase applied for an Futures Commission Merchant license in September of 2021, but has not yet been approved). Second, it allows simplified access to futures to their sizable retail client base. Lastly, it furthers Coinbase's institutional product line. Institutions need to hedge positions and hedging Bitcoin or Ethereum is done under the commodity framework in the US.

Architect Partners' Observations

We are seeing a trend of crypto-native firms acquiring regulated entities to expand their offerings of sophisticated financial products. Both retail and institutional clients demand regulatorily compliant solutions, but current regulation is often disjointed as crypto can be an awkward fit for existing regulatory structures. There has been much discussion regarding a

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straightforward set of rules for crypto, most likely tweaks to existing frameworks. Buying regulated entities therefore provides regulatory “insurance” for crypto firms while future regulations are being implemented. Coinbase has done this in the past, via purchases of three SEC-licensed firms. FTX's October 2021 acquisition of LedgerX is another example, absorbing LedgerX's 3 CFTC licenses of DCM, Swap Execution Facility, and Derivatives Clearing Organization. We expect this approach to accelerate in the next twelve months as crypto-native firms continue to integrate with traditional financial services.

Sources

[Coinbase Website](#)

[FairX Website](#)

[PitchBook](#)

[AP Insights](#)

[Coinbase Blog](#)