# Circle ($164,CRCL)

- U.S. Regulation of Crypto is a game changer. The U.S. is now the most attractive country in the world for stablecoins.
- Banks and corporates will become serious participants in the technology.
- Blockchains will replace legacy systems. SWIFT will be the first casualty.
- We see stablecoins having the potential to reach >$2Tn market cap in next few years from current $260bn.
- CRCL is likely to remain a key U.S. player.

August 5, 2025

Potential Upside: $398 (+150%)
Sensible Downside: $71(-56%)

# Crypto is no longer fringe:

- **The Genius Act is a BIG deal: The US suddenly became the best place in the world for stablecoins.**
  - Stablecoins are an on-chain representation of currency, they:
    - behave like a bank deposit
    - behave like a payment rail
    - behave like a money market fund and a store of value
- **They can behave like all of those things, which is why they are potentially so disruptive long-term.**
  - Stablecoins are digital assets backed 1:1 by U.S. dollars or high-quality liquid assets to maintain a stable USD value.
  - Stablecoins are not challenging how money is created. They are just giving users access to USD on a blockchain.
- **The US was forced into Crypto regulation** as the USD reserve currency status was at risk. The regulation that has been enacted makes USD based stablecoins a highly probable global winner.

- There has been a surge in stablecoin adoption across EM in particular, and global markets to some extent.
  - **International markets, especially EM, faced with currency volatility and inflation, are turning to dollar-denominated stablecoins to preserve value and at the fringes to facilitate transactions.**
    - **USDT is 2.5x the size of USDC, which together make up 86% of all stablecoins**. (As at 01/08/25)

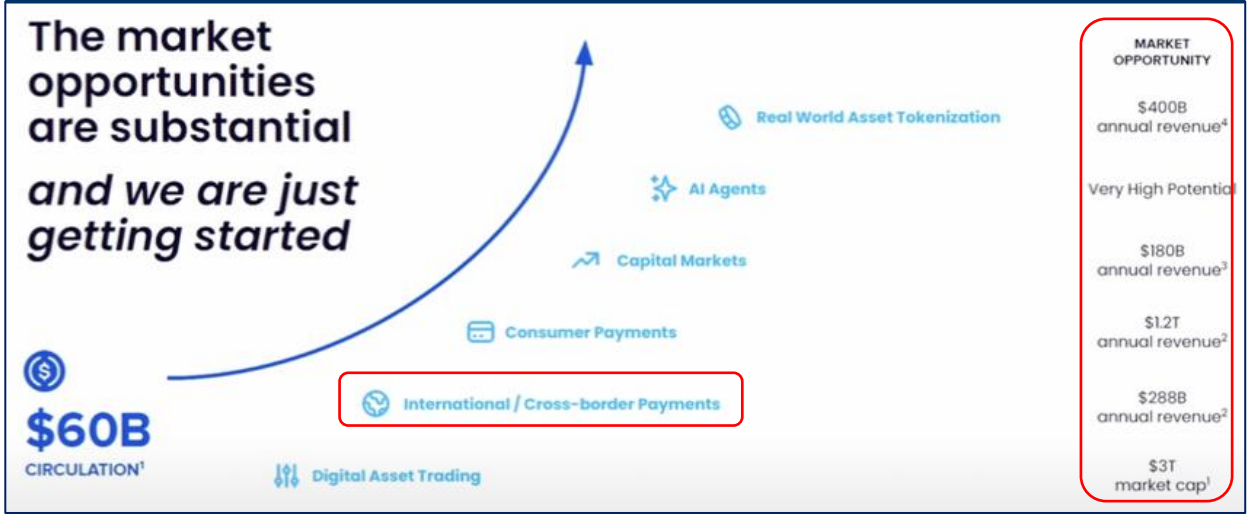
- **Today, USDC's main role is within crypto trading and DeFi interactions:**
  - Stablecoin use is concentrated in the cryptocurrency trading field as a USD pair with BTC, ETH, SOL etc.
  - The question is when will it expand beyond the crypto trading market and start to impact companies like V, MA, the banks, etc.

- **Characteristics of stable coins that make them interesting:**
  - Near instant settlement, low cost, they are on the blockchain, thus the benefits of transparency, security, decentralised etc.

# This is the pitch for what stablecoins could disrupt

- **Theory: More and more applications will leverage stablecoins and change the plumbing of the financial system.**

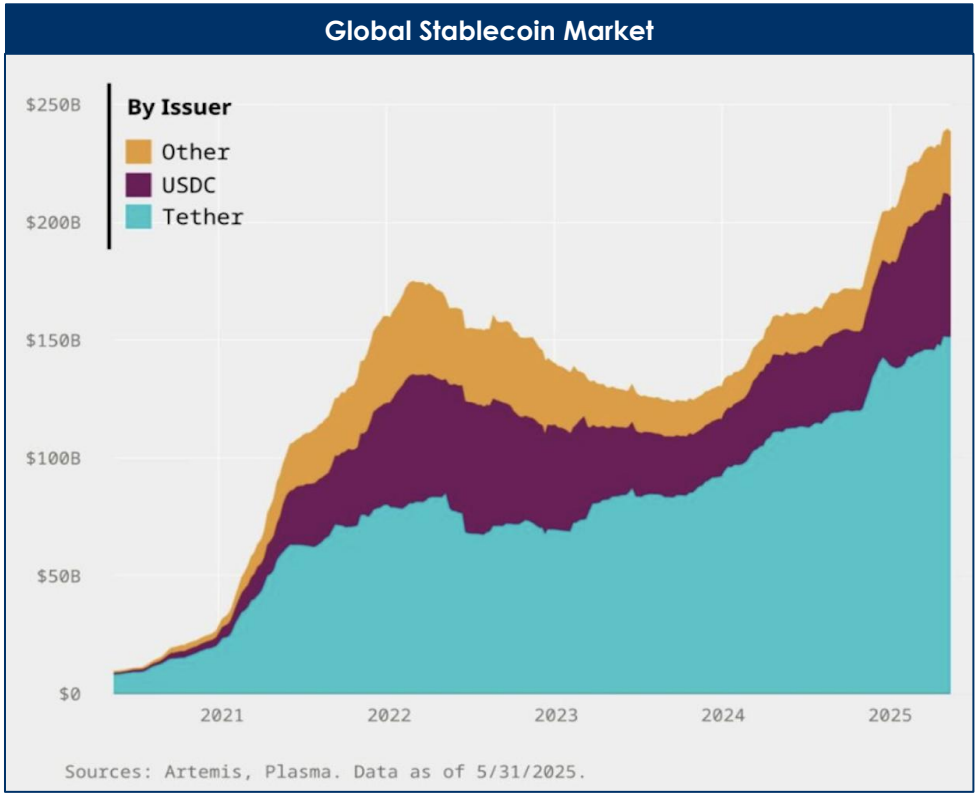
**Circle's opinion on the markets they can go after:**




- **Today the most obvious friction is cross-border payments, which are slow, inefficient and costly.**
  - We assume stablecoins start here and go to everywhere eventually. Eventually may be in a very long time.
- **It is challenging to be precise about stablecoins' TAM, however the data above is from the existing payments systems that gives an indication of the possible scale.**
  - The global payments industry processes 2-3 trillion transactions per year with a value of $1,000-$2,000 trillion.
  - The payments industry earns about $2.5 trillion in revenue, which is split roughly equally between net interest margin and transaction fees.
- **Total stablecoin industry revenue today equates to about 0.5% of the revenue of the traditional payments industry. We believe this could become 5% in the next 5 years.**
  - **I.e. stablecoins would have a $2.5tn market cap.**

# Understanding the stablecoin market

- **Today, there are two main USD stable coins: USDT (Tether) and USDC (Circle)**
- NO other stable coins have reached scale **as yet** and may remain niche. Including Euro based coins.



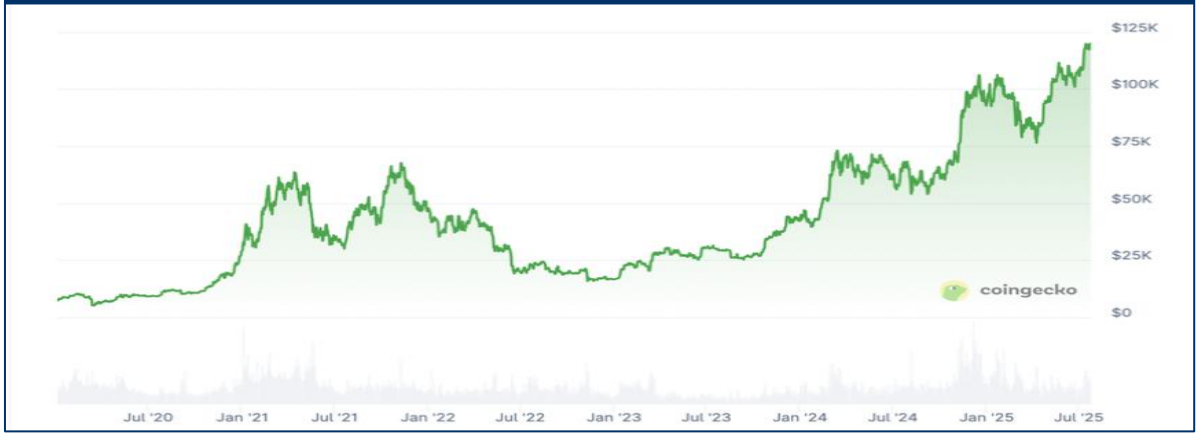

| Issuer: | Coin | Market Cap ($bn) |
|---|---|---|
| **Tether** | **USDT** | **163.6** |
| **Circle** | **USDC** | **64.2** |
| | USDS | 7.6 |
| | USDE | 7.6 |
| | BSC-USD | 6.8 |
| | DAI | 3.8 |
| | USD1 | 2.2 |
| | USDTB | 1.4 |
| | FDUSD | 1.4 |
| | USDF | 0.9 |
| Paypal | PYUSD | 0.9 |
| | XAUT | 0.8 |
| | USDX | 0.7 |
| Ripple | RLUSD | 0.6 |
| | USD0 | 0.6 |
| | USDD | 0.5 |
| | TUSD | 0.5 |
| | USDB | 0.4 |
| | USDG | 0.3 |
| Binance | BUSD | 0.3 |
| | GHO | 0.3 |
| | FRAX | 0.3 |
| | USDO | 0.3 |
| | USR | 0.3 |
| | USDA | 0.2 |
| Circle (EURO) | EURC | 0.2 |
| Agora (AUD) | AUSD | 0.2 |
| | DEUSD | 0.2 |

# Stablecoin growth

- **Stablecoins took off in 2020, have grown 70% over the last 12months**, 13.6% over the last three months (~50% CAGR).
- **Standard Chartered, Citigroup, among others expect the market to be worth ~$2trn in three years' time to $3.7 trillion by 2030 up from today's market cap of $267bn.**

**Chart of Stablecoin Market Caps**


**Chart Bitcoin Price**




NB: **Correlation between Stablecoin market cap growth and Bitcoin is high.** The point we are making is that USDC and USDT market caps **have been and continue to be** contingent on Bitcoin price growth. This may disconnect in the future.

# Why now? Genius Act (17th July 2025)

- **US Regulation and US government support for Crypto is the game changer (report on COIN, for more context)**

- **The GENIUS Act regulates stablecoins.** Provides the stablecoin industry with legitimacy
  - **It protects consumers, enhances trust in stablecoin value, and maintains U.S. dollar dominance in the digital economy.**
  - Stablecoins are already in the "Too big to fail" bucket, hence transparency on USD backing is robust.
    - **The bill mitigates risks of unstable reserves** and ensures compliance with national security and financial regulations.
    - Regulation classifying stablecoins as a currency and not a security (thus, not in a SEC purview) is a major change, treating it as a cash equivalent on balance sheets.
- **Important points in the bill:**
  - Only permitted issuers can issue payment stablecoins in the United States. These issuers are defined as:
    1. Subsidiaries of Insured Depository Institutions
    2. Entities that are subsidiaries of banks or credit unions insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).
    3. Federal-Qualified Nonbank Issuers:
       - Nonbank entities that meet federal regulatory standards and are approved by federal authorities such as the Federal Reserve, Office of the Comptroller of the Currency (OCC), FDIC, or NCUA.
  - **Reserve Requirements:**
    - Issuers must maintain reserves backing stablecoins on a one-to-one basis with U.S. dollars, short-term Treasuries, or other liquid, low-risk assets.
    - **Monthly public disclosures of reserves for stablecoins with >$50 billion in market capitalization.**
      - Stablecoins with <$10bn have lower regulatory hurdles.
  - **Consumer is protected as stable coins have super seniority, thus are as safe as a bank deposit, and safer than bank deposits if you have >$250k.**
    - The GENIUS Act amends Section 507 of the U.S. Bankruptcy Code to grant first priority to claims of individuals holding payment stablecoins issued by a debtor over all other claims against the debtor. This means that **in the event of a stablecoin issuer's bankruptcy, stablecoin holders are prioritized for repayment before all other creditors.**
    - The 'superpriority' status ensures expedited court review and distribution of reserves to stablecoin holders.

# Genius act implications

- **Ensures dominance of USD stablecoins?** USD stablecoins make up >96% of the market today, so no real change.
  - Looking at the rules made across developed markets, the Genius Act ensures that the USA remains the leader in regulated crypto.
  - For example, **in Europe the MiCA rules say that stablecoins need to have 60% of deposits held in a bank account in the EU.**
    - **This is impossible for crypto people – why would they prop up the banking system that they want to do without?**
      - Electronic Money Tokens (EMTs) or Asset-Referenced Tokens (ARTs): For EMTs, issuers must hold at least 60% of the reserves backing the stablecoin in bank deposits within the EU. For ARTs, the requirement is at least 30% of reserves held in EU bank accounts.
- **The Genius Act is therefore a huge step forward for the U.S., as it alows stablecoins to behave in a way that is consistent with their business model and aims, whilst having a legal framwork to enable widespread adoption.**
- **All financial institutions are considering what changes need to be made on the back of the Genius Act.** Larger financial institutions across the world have been working on how to integrate blockchains into their processes for many years. However the changes at the SEC and the Genius Act removes most of the barriers.
- Examples:
  - Potential for multiple new stablecoins coming to the market: Walmart/Amazon, Stripe, V/MA/Amex, Bank consortiums etc.
  - **On earnings calls, JPM, BofA, GS and Citigroup's all described stablecoins as a potential threat and opportunity.**
    - "we're going to be in both J.P. Morgan Deposit coin and stablecoins to understand it, to be good at it."
    - "We are looking at the issuance of a Citi stablecoin. But probably most importantly is the tokenized deposit space, where we're very active... This is a good opportunity for us."
    - GS: "We've got a very significant group of people at the firm that are really deeply focused on watching the evolution of this... It's early to say specifically where we're going to invest"
- Or: **June 2025: Shopify announced a partnership with Coinbase and Stripe to integrate USDC payments into Shopify Payments**.
  - Note that Tobi Lütke also sits on Coinbase's board
- Or **PNC's announcement that they will become a crypto wallet provider, partnered with COIN.**
  - PNC will use Coinbase's "crypto-as-a-service" platform to enable clients to buy, hold, and sell cryptocurrencies directly via PNC.
  - The partnership aims to integrate crypto into mainstream banking
- **A conclusion we reached: the potentially rapid expansion of crypto wallets (a critical enabling step) may happen due to the Genius act as banks are no longer frozen out.**

# Near term opportunities for stablecoins

- Two major applications of stablecoin that we see in the near term:
  1. Tokenisation of everything:
     - **If / when financial assets move onto a blockchain, stablecoins becomes the natural trading pair.**
  2. Cross-border payments
     - **The only market disruption that we believe is likely to be achieved in the next 5 years by stablecoins.**
  3. What about V/MA?
     - It will take time, nothing is imminent. **Stablecoins lack a clear consumer value proposition for consumer adoption except x-border.**
     - **Visa and Mastercard networks are currently protected.** There is a chicken and egg problem. The current system is cheap and efficient.

- **What does success look like?**
  - Stablecoins go from a $250bn market cap to a 1-5tn market cap business.
    - The only realistic market that stablecoins can disrupt in the next 5 years is SWIFT international payments.
      - Regulation is key to legitimacy and adoption.
      - The plumbing of the financial markets starts to change resulting in financial globalisation, with the USD at the centre of it.
    - Perhaps the tokenization of financial assets will provide another $1-2T of stablecoin market cap, based on 2-5% conversion of financial assets.

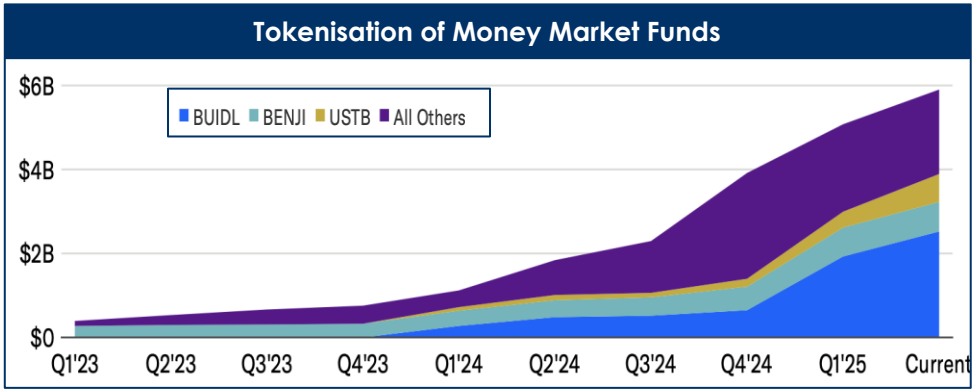
- **Thus, a few trillion dollars of stablecoin assets is a potential outcome over the next ~5years.**

# Tokenisation of everything coming?

# Tokenisation of financial assets

- Tokenization of financial assets involves converting traditional assets into digital tokens on a blockchain. **It is possible to do this with all traditional assets, such as equities, bonds, as well at non liquid assets such as private companies.**
  - Right now this is still in the early stages, however 'plumbing' changes are happening at many levels.
  - **If / when financial assets move onto a blockchain, stablecoins becomes the natural trading pair.**
    - E.g. most of crypto is now traded BTC / USD, whereas originally it was BTC convert to ETH etc because there was no 'fiat' on chain.

- **For example:**
  - Goldman Sachs and BNY are preparing to offer institutional investors access to **tokenized money market funds.**
  - BlackRock's USD Institutional Digital Liquidity Fund **(BUIDL) is the leader, with $2.5bn AUM**, followed by Franklin Templeton's OnChain US Government Money Fund with $700m AUM.




  - **>$10 billion in tokenized bonds have been issued globally**, including by Siemens and the World Bank, with applications in lending (e.g., Figure Technologies facilitating $10 billion+ in blockchain loans) and funds (e.g., Bitcoin/Ether ETFs). Real estate tokenization, such as Dubai developer Damac's $1 billion deal with Mantra, and gold tokenization by Euroclear.
  - **Robinhood: It may just be a marketing stunt in Europe, however HOOD's CEO said that they will be handing out OpenAI and SpaceX tokens to new customers.**
    - It is a tiny amount - $1.5m ish, however in our eyes it is a proof of concept to show that tokenizing assets is feasible.
      - The backing of the OpenAI and SpaceX tokens will be from the investment that HOOD has made in venture funds which includes OpenAI and SpaceX investments.
      - Note that HOOD does not have the backing from SpaceX or OpenAI for this, so it will be interesting.
    - **Robinhood has also launched a broad initiative to tokenize stocks and ETFs for European users.**
      - The rollout aims to enable low-cost, 24/5 trading of U.S. securities.
  - In its S1 filing, Figma disclosed the potential to issue "blockchain common stock". (this may just be a placeholder)

# 24/7 IS WHERE EVERYTHING IS GOING, ALL ASSET CLASSES

- **Tokenisation is the equivalent of an infrastructure change. The driving forces of this change are:**
  - **24/7 trading** and settlement compared to traditional multi-day processes, greatly reducing operational friction and liquidity risks.
    - By reducing intermediaries and automating processes via smart contracts, tokenization lowers transaction costs and speeds up settlements to near-instantaneous levels.
  - **Transparency and security:**
    - Enhanced tracking of ownership, improving trust and auditability essential for financial market infrastructure.
  - **Fractional ownership and higher liquidity:**
    - Illiquid assets like real estate or private equity could be divided into smaller tokens. Enabling broader investor
  - **Programmability and Automation:**
    - Tokens can be embedded with rules (e.g., automatic dividend payouts or compliance checks), making assets "living" financial vehicles that integrate seamlessly across ecosystems.
    - This creates a common technology stack for composability, where assets interact like building blocks in DeFi (decentralized finance).
    - Smart contracts allow automation of compliance, payments, and corporate actions embedded in the tokens, reducing manual intervention and operational risk.
- **Institutional adoption is happening (slowly) as the regulations mature:**
    - Stablecoins, yielding assets, money market funds are all tiptoeing into the crypto world.

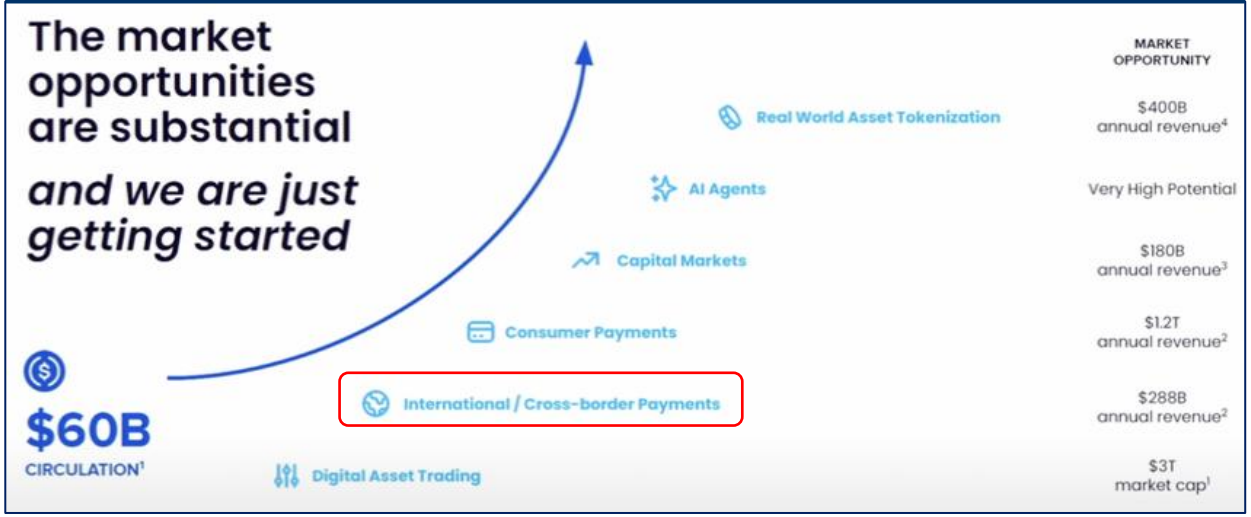
- **We think that tokenisation of financial assets is on the way to becoming a critical financial infrastructure change,** transforming some key infrastructure-level processes.
  - Tokenisation of assets is no longer an ideology.
  - **Stablecoin provides the cash leg for tokenized assets on blockchain.**

# Cross-border opportunity

# This is the crux

- Of all these 'potential' opportunities, **the only one that we believe is likely to be achieved in the next 5 years is cross-border payments.**

**Circle's opinion of the markets they can go after:**




- **Cross-border payments using SWIFT correspondent banking system is ripe for disruption**
  - There is a lot of friction in cross border transactions and the costs are high.
  - No one seems to be happy with the existing system of SWIFT, the number of correspondent banks is declining.
  - SWIFT is currently the most widely used system in cross-border remittances.
    - Formed in 1973 by six major banks, replacing a prior system called TELEX

- **Stablecoins are an obvious solution.**

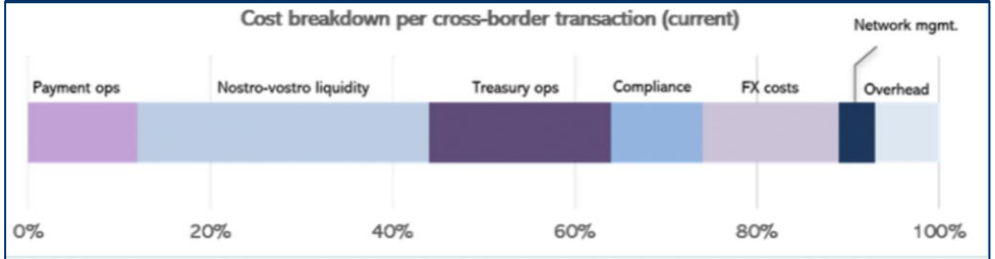
# Some SWIFT basics

- The equivalent of the world's GDP (>$110Tn) passes over the Swift network around every three day, across 150 currencies

**Example Transaction via Swift**


SWIFT relies on correspondent banking relationships and intermediaries to facilitate cross-border transactions. This can introduce additional costs, such as correspondent banking fees, foreign exchange fees, and potential delays in payment processing

**Cost Breakdown for a Cross-Border Transaction**




Source: Project Inthanon-LionRock (Bank of Thailand, Hong Kong Monetary Authority)

# SWIFT GETS DISRUPTED FIRST

- **We think that stablecoins disrupting swift is definite. It is just a question of time**
  - U.S. government retains control of regulated USD stablecoins, hence has some ability to sanction other countries and wield a stick, at least for a while.
  - It is the lowest hanging fruit for stablecoin becoming key financial infrastructure.
- **We view the Genius act as a confirmation that the US wants to upgrade the SWIFT rails.**
  - Stablecoins make much more sense as they cut out the middle men/ correspondent banks.
  - Banks will still make money on the Fx between USD to fiat, as long as customers prioritise local fiat over on-chain stablecoins.
  - USD retains its position as reserve currency for the world.
- **In 2023, the total cross-border market settled somewhere between $170tn-$190tn:**
  - B2B use cases ~$39tn to ~$150tn depending on the categorization.
  - These trillions **took an average of 2–5 days to settle at an average cost of ~4–6% (according to analysis from SWIFT and UBS).** I.e. immense economic value paired with a painful experience.

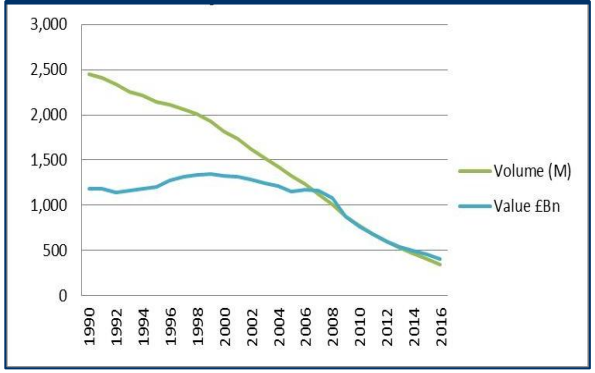
- Excluding remittances, the **average cost of a person-to-business cross-border payment in 2024 was 2% and the average cost of a person-to-person cross-border payment was about 2.5%.**
  - **For remittances, the average cost was around 5%**
  - For most cross-border payments, speed is not a problem: around **70% of retail payments are available within one business day** of payment initiation, according to the FSB.
  - However, there's a tail of payment corridors with median processing times of more than two days and potentially lasting as many as 10 days.
    - Source: The Financial Stability Board (FSB) annual reports

- We would also note that digital banking is changing faster in EM than in advanced economies.
  - Developed markets have the least to gain, **a transfer or payment within a domestic market in the West is cheap, frictionless and consumer demand for an alternative is minimal.**

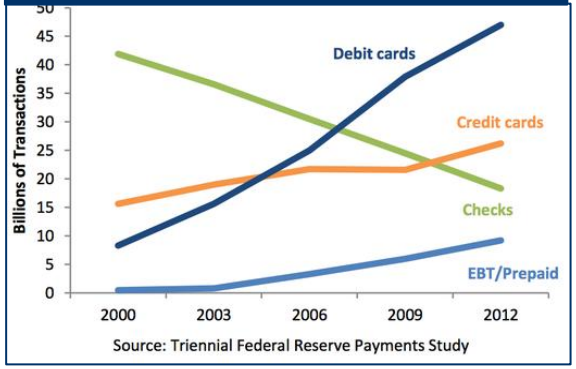
# How long does it take for consumers to change?

- The technology is here, but **how long will it take to be adopted?** Lots of examples, this just happens to be an obvious one. Cheques are not yet dead!
  - **Cheques once accounted for 86% of all non-cash payments. Even in the 1990s it was >>50%**
  - Cheques have taken about 40 years to get close to extinction in most markets**. ~15 years for most of the s-curve change to happen.**
  - The point being it takes people a long time to change payment habits.

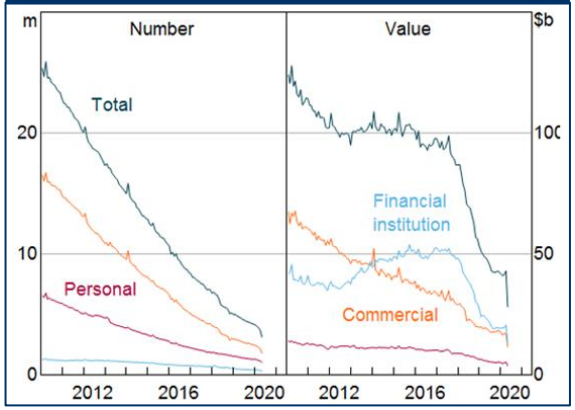
## UK Cheques




## U.S. Payments: Key decade

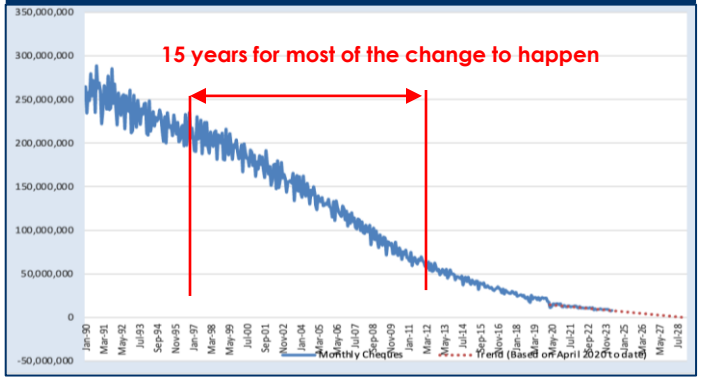



## Australian Cheque Payments

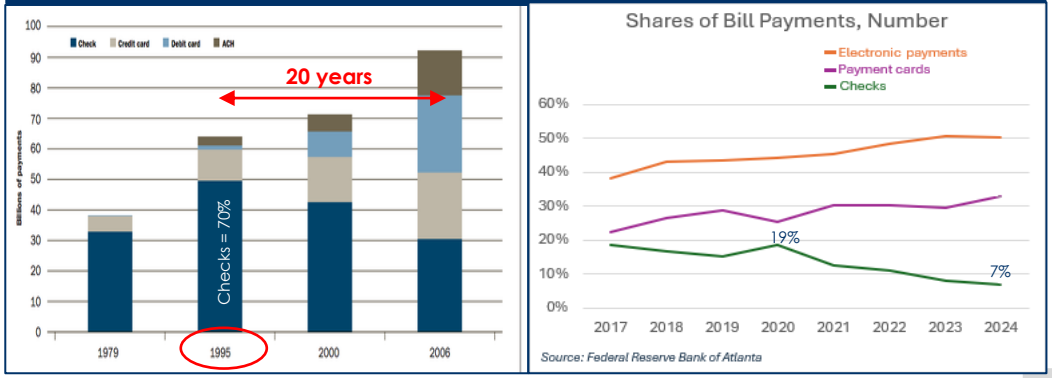



Source: RBA

## UK Cheque Volume




## U.S. Payments



# Examples of payment infrastructure change

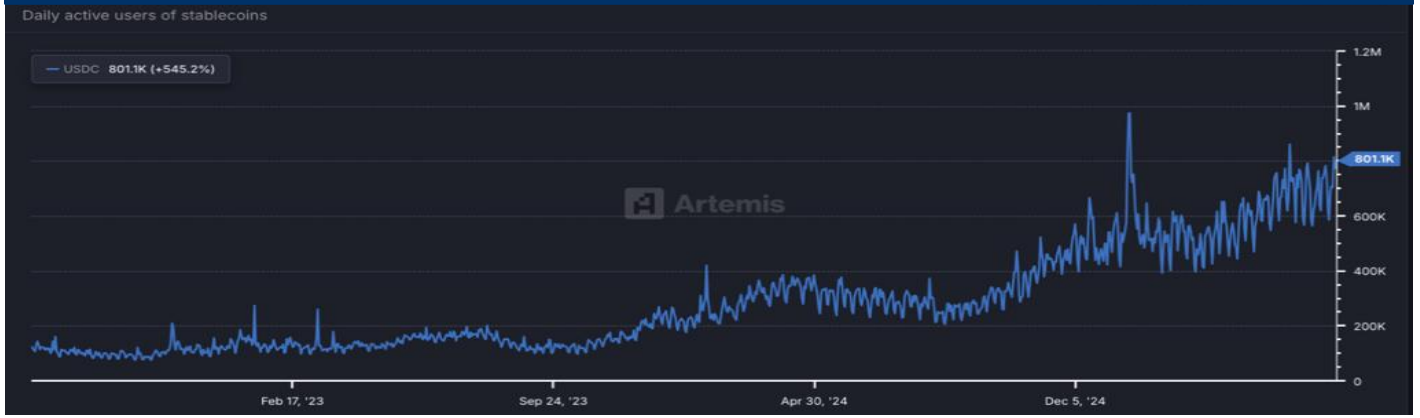
- **Local payments infrastructure changes have shown how long it takes to upgrade payment systems.**
  - E.g. UPI is a real-time payment system in India that enables instant money transfers between bank accounts via mobile devices.
    - **Launched in 2016, UPI has become >75% of retail digital payment volumes in India.**
    - Allows users to link multiple bank accounts to a single mobile application, using a Virtual Payment Address (VPA)
    - **This rapid (10yr) adoption was enabled by the government**'s decision to demonetize high-value notes in November 2016 creating a cash crunch and pushing people toward digital payments.
  - NPCI, backed by the Reserve Bank of India ensured UPI's interoperability across banks, making it a standardized platform.
    - **QR code-based payments made it easy for small vendors**, shopkeepers, and even street sellers to accept UPI payments without expensive POS machines, getting around the 'merchant acquiror' problem.
  - **Other similar systems, that have had rapid adoption:**
    - Sweden: Swish, a mobile payment system launched in 2012.
    - Brazil: Pix, launched in October 2020 by the Central Bank of Brazil
    - M-Pesa, WeChat Pay, Alipay

- **We would draw parallels to crypto. Nobody can make new global payment rails, except crypto, as making states agree is tough, let alone countries.**
  - **Stablecoins are the global equivalent of UPI, increasing distribution will be the key. Users need a wallet and then it 'just works'**
  - The main problem with crypto wallets and thus stablecoins today is the user interface, which is generally terrible.
    - USDC on Ethereum ≠ USDC on Solana. The complexities are not ready for mass adoption yet, **it is still much too convoluted to do something which seems simple.**
  - **Our thesis would be that user complexity is removed as U.S. banks get involved** with providing customers a crypto wallet inside their account. (E.g. PNC announcement)
  - Thus, Circle and USDC would become the infrastructure behind many customer facing apps across the globe.
    - **USDC = plumbing. Nobody cares about plumbing until it doesn't work, hence banks likely to go with the U.S. leader?**

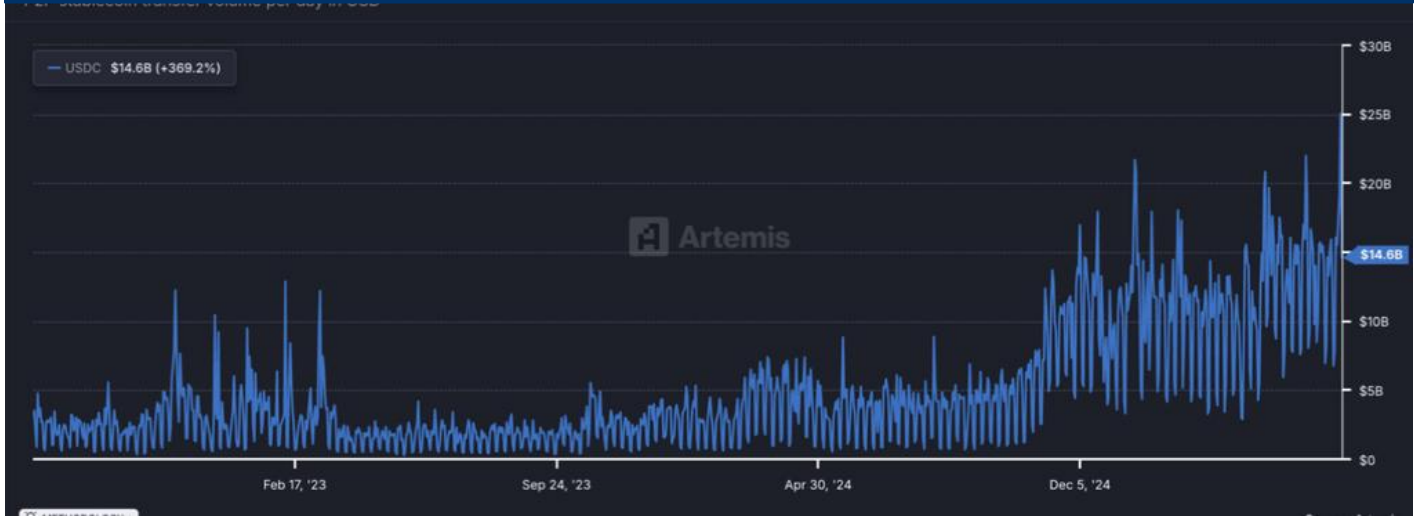
# Stablecoin adoption proof

- Data shows increasing adopition in DAUs and P2P transfers, but it has not hit the mainstream part of the s-curve, we are still very early in the adoption phase.

**Stablecoin DAUs**




**P2P stablecoin transfer volume**




Source: Artemis

# If we assume that stablecoins are successful?

- **There is still the 'problem' of crypto USD to Fiat local currency**
  - Note that this problem only remains as long as consumers want local fiat.
  - Local fx transactions is where a lot of the cost is. Banks take a big spread on Fx, hence will probably do all they can to enable customers to have multi-currency accounts and make Fx transactions. Like Revolut.
    - Local regulations / compliance might remain a problem.

- **USDC and USDT win because of deep liquidity + on-chain Fx integration**
  - If you receive USDC but need local currency (e.g., INR, PHP), it's useless without liquidity.
  - Stablecoin/FX pairs often have poor rates or slippage. This is where USDC or USDT are powerful as they will have the liquidity and acceptance. Others will be niche applications.
  - **Integration with Fx providers (banks) or on-chain forex protocols (deFi) will happen**

- **If cross-border transfers from SWIFT to stablecoins:**
  - Assume that stablecoins have an average life of 3 days (this is consistent with current transaction data) or a multiplier of ~100x.
  - **Thus, $170Tn in cross-border transactions would require $1.4tn in stablecoins. i.e 5.6x todays stablecoins market cap.**
    - **Assuming that the velocity stays the same! Which is obviously a point of debate.**

# Circle

- **The bet is very simple: how big will USDC become?**

- The Circle Business model:
  - **Almost all fixed costs should remain fixed, there is noting to scale except distribution.**

| | 2024 | |
|---|---|---|
| **USDC Market Cap (Avg)** | **33Bn** | |
| Yield on Short term T-bill | 4.96% | |
| **Total Revenue** | **1,677m** | |
| **Net revenue after distribution costs** | **659m** | **i.e. ~61% to COIN and others** |
| | | NB One off Distribution costs were $180m to Binance |
| | | |
| **Operating costs:** | | |
| Compensation | 263 | We assume that these are all approx. fixed costs and do not scale with the market cap of USDC |
| G&A | 137 | |
| DD&A | 51 | |
| IT Infra | 27 | |
| Marketing& Others | 14 | |
| **Total operating cost** | **492** | |
| SBC | 50 | |
| **Operating cost less-SBC** | **442** | |
| **Operating Income (non-GAAP)** | **217** | |
| Other income | 54 | |
| **Pre-tax (non-GAAP)** | **271** | |
| | | |
| Tax | 65 | |
| **Tax rate** | 24% | |
| **Net Income (non-GAAP)** | **206** | |

# VARIABLES:

- **The core Circle's business model is interest income from USDC reserves and how much of this it is necessary to pay away for distribution.**
- **Total revenue is interest rate dependent.**
  - Whatever interet rates CRCL can achieve on held reserves is ~100% of revenues today.
  - Currently, CRCL does not pay interest or rewards to holders, although it does distribute a portion of gross reserve income to partners to incentivise usage.
  - These partners can then make reward payments that resemble interest, as COIN does.
  - All payments are to incentivise increased distribution and usage.

- **I.e. Circle is like a deposit taking institution, that does not make loans, but collects a NIM on the difference between what it can make on reserves and what it has to pay away for distribution costs.**

**Circle Reserve: Rates of Return relative to 3m T-Bills**

| | Reserve Return Rate (%) | Quarterly Avg. SOFR (%) | Quarterly Avg. 3Mo T-Bill (%) |
|---|---|---|---|
| 1Q22 | 0.14 | 0.09 | 0.29 |
| 2Q22 | 0.61 | 0.71 | 1.04 |
| 3Q22 | 2.06 | 2.15 | 2.61 |
| 4Q22 | 3.35 | 3.62 | 3.99 |
| 1Q23 | 4.24 | 4.50 | 4.59 |
| 2Q23 | 4.66 | 4.97 | 5.04 |
| 3Q23 | 5.16 | 5.24 | 5.27 |
| 4Q23 | 5.19 | 5.32 | 5.28 |
| 1Q24 | 5.13 | 5.31 | 5.23 |
| 2Q24 | 5.17 | 5.32 | 5.25 |
| 3Q24 | 5.11 | 5.28 | 5.00 |
| 4Q24 | 4.49 | 4.68 | 4.40 |

- **Distribution: What % gets paid away?**
  - USDC (Held on Coinbase):
    - Coinbase retains 100% of the interest income.
    - This is significant, as Coinbase held about 20-22% of total USDC supply in 2024 (~$12 billion by Q1 2025).
  - Off-Platform USDC (Held Elsewhere): Income is split 50/50 between Coinbase and Circle
    - Total impact: Coinbase receives ~50% of total USDC reserve revenue
  - Binance:
    - Recent deal, hence the $180m one-off payment in 2024.
    - Binance economically incentivized to promote USDC. It receives an undisclosed portion of the reserve income on USDC on its platform (est. at 75%), but does not receive anything on USDT.
  - Binance USDC reserves have grown from $1.4bn to $8.5bn over the last year. (as at 1/7/25) Link
    - Note that USDT on Binance is $29.6bn (as at 1/7/25)

# Market share?

- **Even if we assume stablecoins will be successful, will Circle and USDC be successful? Theoretically, anyone can launch a stablecoin…**
- **Will stablecoin brand matter?** This is only a question if you want to invest in Circle (CRCL), otherwise it is essentially irrelevant.

- Two schools of thought:
  1. **Yes,** like ETFs and money market funds, trust and liquidity are key, hence the big get bigger.
     - **Our opinion is that this scenario is much more likely.**
  2. **No,** all stablecoins are equal, - just call it USD, and the end customer will not know which flavour it is and will not care.
- **So far, brands such as Binance and Paypal, have not suceeded in being relevant.** (see p4)
  - E.g.: Binance phased out automatic conversions of USDC to its own stablecoin (BUSD) in 2022.
  - **Why have others failed so far? Because there is no differentiation, hence liquidity and distribution are the most important factors.**
    - USDT and USDC are by far the most liquid stablecoins, with billions traded daily. This liquidity attracts traders, exchanges, DeFi protocols, payment platforms etc. Very difficult for new coins to reach liquidity scale.

**We think that the stablecoin market will probably resemble the ETF market, where there are a few big players**, commanfding most of the AUM and most of the liquidity, with a long tail of small issuers.

**Largest US ETFs**

| Symbol | Name | AUM |
|---|---|---|
| VOO | Vanguard S&P 500 ETF | $694,494,000.00 |
| SPY | SPDR S&P 500 ETF Trust | $638,125,000.00 |
| IVV | iShares Core S&P 500 ETF | $630,031,000.00 |
| VTI | Vanguard Total Stock Market ETF | $505,164,000.00 |
| QQQ | Invesco QQQ Trust Series I | $353,353,000.00 |
| VUG | Vanguard Growth ETF | $178,490,000.00 |
| VEA | Vanguard FTSE Developed Markets ETF | $162,545,000.00 |
| IEFA | iShares Core MSCI EAFE ETF | $141,012,000.00 |
| VTV | Vanguard Value ETF | $138,380,000.00 |
| BND | Vanguard Total Bond Market ETF | $130,450,000.00 |
| AGG | iShares Core U.S. Aggregate Bond ETF | $127,528,000.00 |
| IWF | iShares Russell 1000 Growth ETF | $112,632,000.00 |
| GLD | SPDR Gold Shares | $102,239,000.00 |

**Largest European ETFs**

| Fund name | Fund size (in m €) |
|---|---|
| iShares Core S&P 500 UCITS ETF USD (Acc) | 103,608 |
| iShares Core MSCI World UCITS ETF USD (Acc) | 94,580 |
| Vanguard S&P 500 UCITS ETF (USD) Distributing Shares | 40,598 |
| Invesco S&P 500 UCITS ETF | 27,740 |
| iShares Core MSCI Emerging Markets IMI UCITS ETF (Acc) | 22,828 |
| Vanguard S&P 500 UCITS ETF (USD) Accumulating Shares | 21,525 |
| Vanguard FTSE All-World UCITS ETF (USD) Accumulating Shares | 20,191 |
| iShares Physical Gold ETC | 20,187 |
| Invesco Physical Gold A | 18,937 |

# Upside / Downside

- The Circle Business model: under a USDC is successful scenario and a USDC is a niche market scenario.
  - **The big inputs are:**
    1. Market Cap: how big will USDC get?
    2. Interest rates
    3. How much does USDC have to pay away from its revenue stream to get distribution?

  - Operating cost growth should be limited, although companies never mange this, hence we guessed 10%. It could be anything.

| | 2024 | 2025E | Upside 3-5 Years | Downside 3-5 Years |
|---|---|---|---|---|
| USDC Market Cap (Avg) | 33.5 | 62.0 | **500** | **230** |
| Yield on Short term | 4.96% | 4.3% | **4.0%** | **3.5%** |
| Total Revenue | 1,662 | 2,649 | 20,000 | 8,050 |
| Other Revenue | 15 | 50 | 100 | 100 |
| **Total revenue** | **1,677** | **2,699** | **20,100** | **8,150** |
| Consensus | | 2,560 | | |
| | | | | |
| Distribution/Transaction costs + Others | 1,018 | 1,727 | 15,075 | 6,520 |
| | 61% | 64% | 75% | 80% |
| **Net Revenue** | **659** | **972** | **5,025** | **1,630** |
| *% of total revenue* | *39.3%* | *36.0%* | *25.0%* | *20.0%* |
| **Operating costs** | | | | |
| Compensation | 263 | | | |
| G&A | 137 | | | |
| DD&A | 51 | | | |
| IT Infra | 27 | | | |
| Marketing& Others | 14 | | | |
| **Total operating cost** | **492** | | | |
| SBC | 50 | | | |
| **Operating cost less-SBC** | **442** | **530** | **706** | **706** |
| *CAGR cost increase* | | *20%* | *10%* | *10%* |
| **Operating Income (non-GAAP)** | **217** | **441** | **4,319** | **924** |
| Other income | 54 | 20 | 0 | 0 |
| **Pre-tax (non-GAAP)** | **271** | **461** | **4,319** | **924** |
| Tax | 65 | 101 | 950 | 203 |
| **Tax rate** | 24% | 22% | 22% | 22% |
| **Net Income (non-GAAP)** | **206** | **360** | **3,369** | **721** |
| **Sh O/s** | 208 | 254 | 254 | 254 |
| **EPS** | **0.99** | **1.42** | **13.26** | **2.84** |
| **EPS Consensus** | | 0.41 | | |

Assume that distribution costs stay high during the growth phase.

# Upside / Downside

- What multiple should we pay for the business?

- It is capital light, so we assume that it would have a high P/E.
- However it is also very interest rate sensitive, hence should have a low P/E.
- Hence P/E will probably be aligned with organic EPS growth expectation in 3-5 years time.

- **Under the 3-5year  scenarios on the prior page, we think that the P/E should be in the 25x – 30x range.**
    - Using 30x in an upside, 25x in the downside on Adj. EPS
        - This gives :
            - **Upside: $398**
            - **Downside: $71**

# What about V and MA?

# Visa and Mastercard cross-border payments?

- **Regarding potential and probability for Visa and Mastercard disruption**

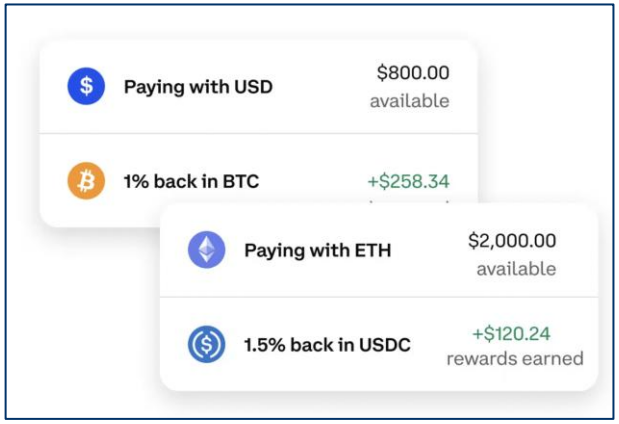
- Our answer:
- It will take time, nothing is imminent. **Stablecoins lack a clear consumer value proposition for consumer adoption except x-border.**
  - **Visa and Mastercard networks are currently protected. There is a chicken and egg problem.**
  - Merchants accept V/MA, no need to offer stablecoin today as barely any consumers are requesting it. **The current system is cheap and efficient.**
  - Crypto is the only threat to this network.
- Visa and Mastercard are actively exploring ways to integrate stablecoin functionality into their infrastructure, but retain ownership of the card/ last mile connection.
  - **Hence, right now stablecoin is a tool that benefits V/MA**.

- **The problem for V/MA is that SWIFT disruption is stablecoin's way to develop a network.**
  - The challenge being that most people in developed markets, don't make international transfers very often, but merchants do.
  - **CRCL is building CPN, a tech platform and network, to bring cross-border payments disruption to V/MA**.
    - CPN is designed to overcome many of the infrastructure barriers that have so far limited the adoption of stablecoins in mainstream payments.

  - **Example of how networks get disrupted: Texting.**
    - Before apps like WhatsApp, sending a text across borders was expensive. Plus, the probability that the text would be successfully delivered was <100%.
    - Then internet-based instant messaging services such as WhatApp arrived, these were instant, global and free.
      - Note that WhatsApp still doesn't really have a business model. Instant, global, free is good, but hard to make money from.
      - **USDC / USDT is better as NIM will pay for the 'instant, global, free' network.**
      - **Crypto just needs to find a way to get mainstream distribution. This is not obvious as of now.**

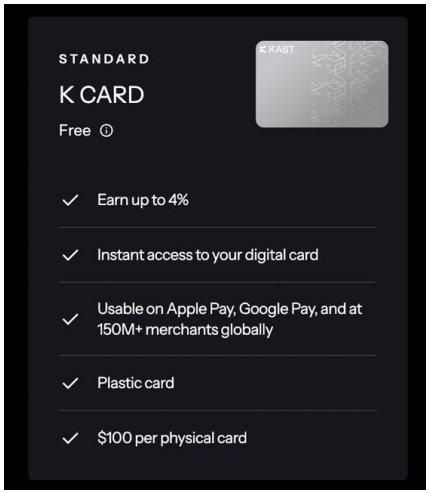
# Crypto cards

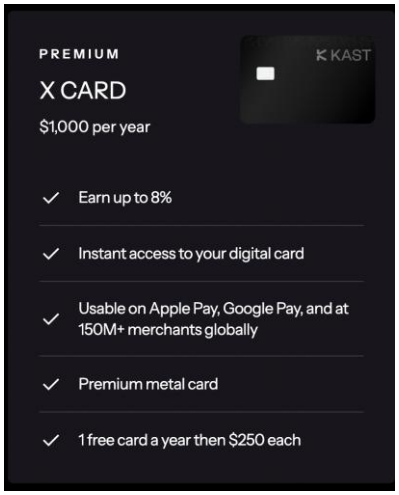
- There are many trends pushing the system towards stablecoins:
- **E.g. Banks and investment accounts are colliding:**
  - **Coinbase announced that it will launch its first card, the Coinbase One Card.**
  - Will offer up to 4% Bitcoin back on every purchase.
  - Users can spend cash or crypto as the card is also on the visa debit network.





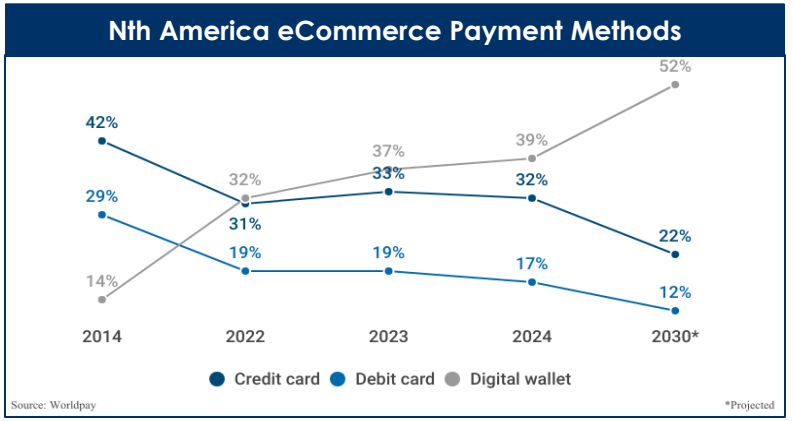
- **Other startups are following** / offering the same services
  - E.g. KAST is a stablecoin-powered fintech (https://www.kast.xyz/about)
    - you can hold stablecoin balances, make global payments, and spend anywhere Visa is accepted
    - "industry-leading cashback"



# Digital wallets = step 1, Merchants = step 2

- **Adoption of digital wallets is a critical enabler**. Ubiquitous crypto wallet distribution is necessary for V/MA to even think about being disrupted.
  - **Crypto wallets probably end up as part of digital wallets**. Like having multiple cards in your wallet.
    - Something like this will need to happen for the user interface to become simple enough for mass adoption.
- Digital Wallet Statistics as of July 2025
  - There are over 4.3 billion digital wallet users in the world.
  - 57% of U.S. adults use digital wallets as of 2024.
  - **In 2024, 32% of point-of-sale transactions globally were made using digital wallets**, more than any other payment type.
  - in online purchases globally, digital wallets captured 53% of transactions in 2024.
- **ApplePay installed base**: Apple's page shows over 85% of US retailers accept it, but no global number is given.
  - Apple Pay is accepted in tens of millions of stores worldwide, in 78 markets, 11,000 bank and network partners (Oct 2024 data from Apple).




Source: CapitalOne

- **Adyen, Stripe etc are probably the way that stablecoins get merchant distribution.**
  - Stripe is already heavily into crypto, having made numerous acquisitions.
- Clearly, most merchants don't yet accept stablecoins for payment, thus users need to off-ramp funds to make stablecoins 'spendable.'
  - Today, stablecoin users would need to consider the full end-to-end cost, inclusive of on-ramping and/or off-ramping.
  - In the future this is likely to be free, and unnecessary. E.g. Coinbase and Mercado Bitcoin (the largest exchange in Latin America) offer zero-fee on-ramping and off-ramping services in stablecoins.

# Digital wallets = step 1, Merchants = step 2

- PNC showing the future with banks?
  - PNC's partnership with Coinbase announced on 22nd July 2025 **"enables us to meet growing demand for secure and streamlined access to digital assets"**.
  - **If Banks don't offer all the functions that consumers are demanding, consumers will go elsewhere. Given that consumer and merchant crypto-wallet distribution is a critical blocking factor in the crypto vs V/MA debate, banks integrating crypto wallets is a big deal.**
- JPMorgan looks to be integrating coinbase wallets into JPM.
  - Plus JPM is exploring lending against clients' crypto holdings.
- Standard Chartered recently began allowing institutional clients to directly trade spot bitcoin and ETH.

- **Crypto startups are making efforts to bypass card organizations and banks and create a new network.**
  - Some examples include:
    - Félix, enabling remittances in Latin America via WhatsApp with USDC
    - Remote, allowing U.S. employers to pay contractors with stablecoins in more than 60 countries
      - NB in international markets, many consumers don't have access to bank accounts.

- **Circle Payments Network [CPN] (part of circle) is developing modules to facilitate ease of adoption from consumer facing entities, such as the banks. (thus it is a potential platform)**
  - E.g. Modules for refund transactions. Module for private transactions, Modules for KYC on-chain.
  - CPN = standardised + can be integrated by developers.
  - CPN may or may not be adopted, however it does show where the market is moving to. V and MA are both modularising their networks to adapt to the new reality.
  - Banks highly unlikely to build their own, they don't have the tech ability in our opinion, although some will probably try.

# Emerging market Adoption

# EM and USD as reserve currency

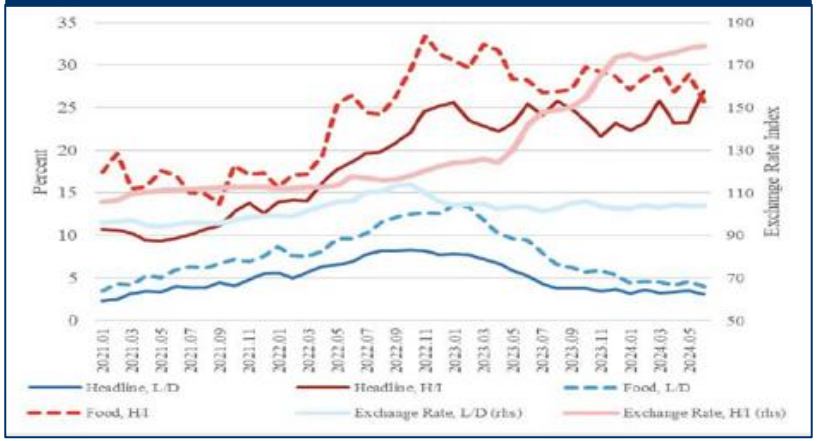
- **If stablecoins take off and become important, our opinion is that it will likely cement the USD's place as the worlds reserve currency.**
  - Bitcoin wants this place, but is too volatile relative to USD.
- The global trend towards dollarisation, will continue, particularly in the unstable economies:

- EM opportunity: **Note that Tether (USDT) is winning in EM**
  - Fiat demand for USD in EM:
    - The Federal Reserve estimates that nearly $1 trillion in U.S. banknotes (45% of all banknotes outstanding) are held outside the U.S.
      - Two-thirds of all $100 bills in circulation are abroad.
      - This demand exists despite the difficulty people outside the U.S. encounter when trying to source U.S. dollars via local banking systems, which often make it impossible to protect demand for the local currency.
- All EMs have crypto exchanges, that take local currency and convert it into crypto. I.e. the tools are available if you have a smartphone.
  - Yes, the Fx spreads can be wide, but that is not a problem for adoption.
  - The desire to hold a stable store of value is very high.

# EM

- **USDC use case is most obvious in EM.**
  - Circle is 'manufacturing' digital dollars, that it sells direct to retail / customers.
    - This makes it borderless.
  - There are distributers = Coinbase, Binance etc, and soon marketing dollars that are encouraging users to use it.
- The use case in EM is obvious. **Weak governments, with loose fiscal rules.**

**Inflation and exchange rates: divergent experiences across Sub-Saharan Africa**




- Even though many/ most of the countres in the chart opposite have pegged their currency to a DM currency (the dollar, the euro or to a basket of currencies) It has not had an impact on devaluation / inflation.
- **Real inflation and reported inflation have been wildly different.**

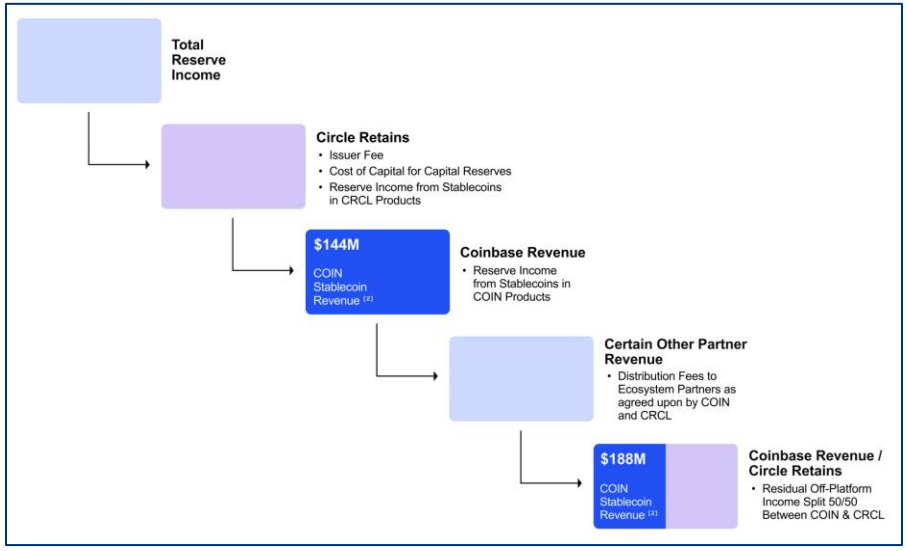
- **People want another option. Crypto USD is this option.**
- e.g. Bolivia:
  - Bolivians are increasingly turning to cryptocurrencies as a means to navigate severe economic instability and dollar shortages.
  - The country has witnessed a significant surge in crypto transactions, with the total value exceeding $430 million since the ban on digital asset transactions was lifted in June 2024.
  - This shift is driven by rampant inflation and the devaluation of the Bolivian boliviano.
  - The Central Bank of Bolivia reported a 630% increase in crypto transactions, climbing from $46.5 million in the first half of 2024 to $294 million in the same period of 2025.
    - Bitcoin ATMs are becoming more common, and businesses are embracing crypto payments.
- Bolivia's crypto policy evolved from an outright ban in 2014 to adoption by March 2025 due to the economic crisis and the inability to access dollars for imports.
  - **The main conclusion we reached is that weak governments can't stop crypto adoption. Crypto is borderless**. Crypto especially USD stablecoins are a play on the continued golbalisation of finance. (in a world that is more protectionist)

# Other

# Coinbase data on USDC payments

**USDC Balances & Revenue** — Q2'25

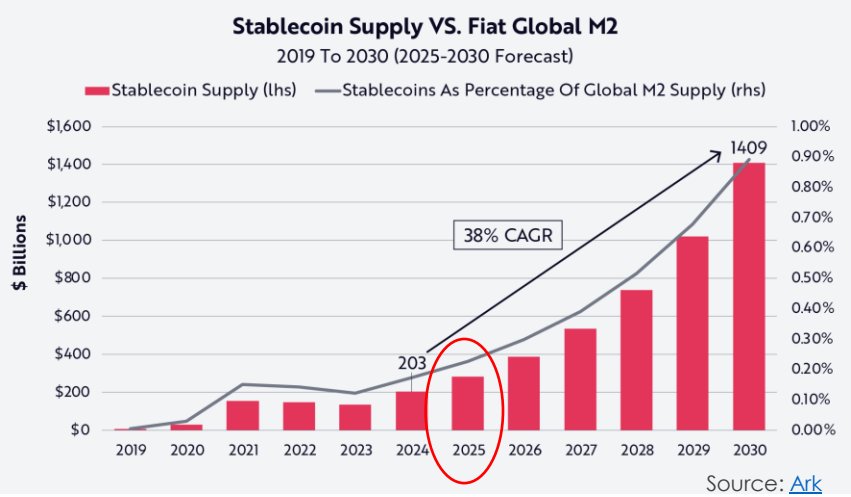
| | Average Market Cap ($B) | Coinbase Stablecoin Revenue ($M) |
|---|---|---|
| USDC in Coinbase Products | 14 | 144 |
| Off-platform USDC | 47 | 188 |
| **Total** | **61** | **332** |



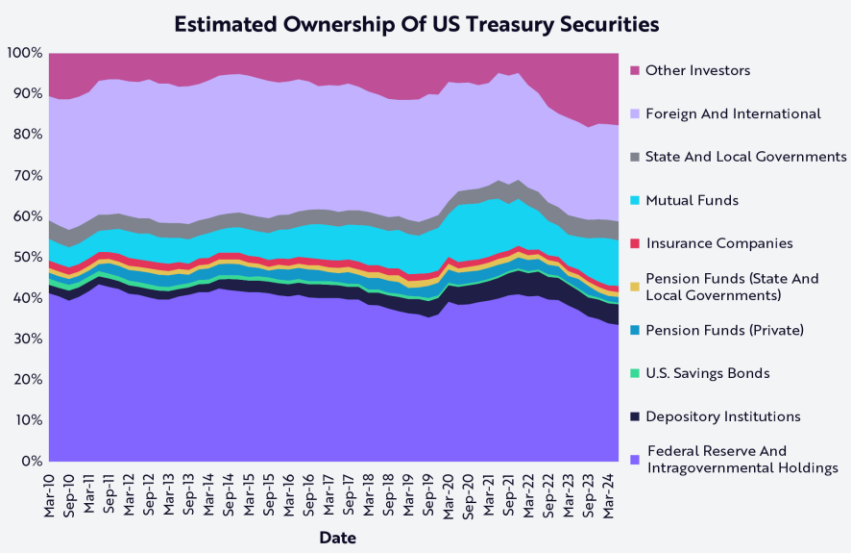

- Base Chain remains a key driver of USDC distribution,
  - Over 90% of peer-to-peer transaction volume on Base was with USDC in Q2 2025.
  - Base App is Coinbase's newest crypto-powered mobile app that combines social, gaming, and DeFi into one experience

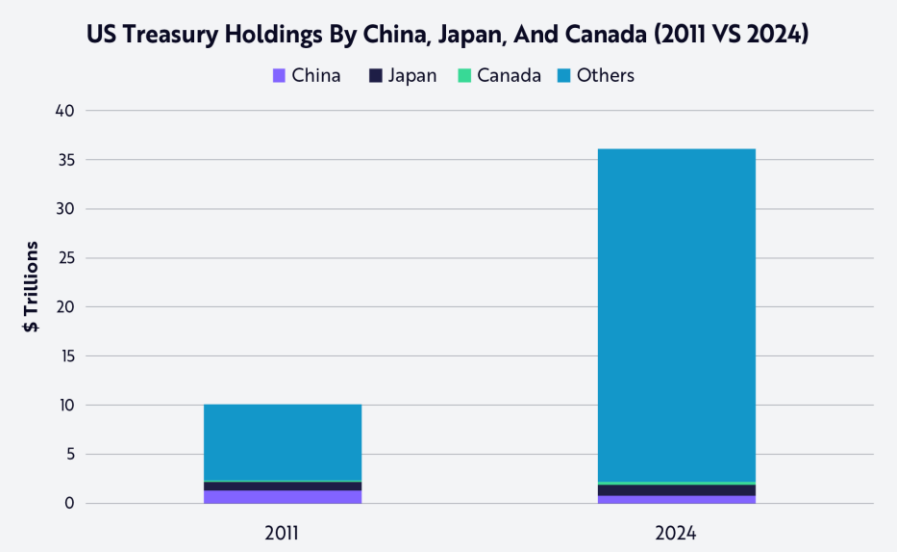
# Where does stablecoin get to relative to M1/M2?

- M1 is the total amount of cash and current account balances. M2 includes savings accounts, money market funds and other deposits.

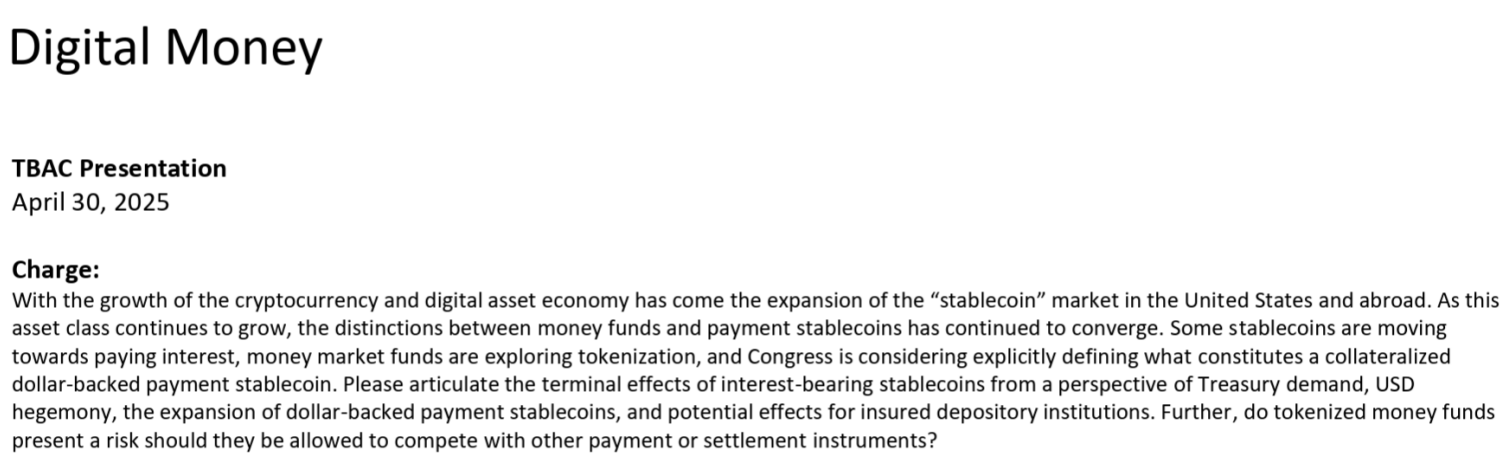



Source: Ark



# Useful presentations



Digital Money

**TBAC Presentation**
April 30, 2025

**Charge:**
With the growth of the cryptocurrency and digital asset economy has come the expansion of the "stablecoin" market in the United States and abroad. As this asset class continues to grow, the distinctions between money funds and payment stablecoins has continued to converge. Some stablecoins are moving towards paying interest, money market funds are exploring tokenization, and Congress is considering explicitly defining what constitutes a collateralized dollar-backed payment stablecoin. Please articulate the terminal effects of interest-bearing stablecoins from a perspective of Treasury demand, USD hegemony, the expansion of dollar-backed payment stablecoins, and potential effects for insured depository institutions. Further, do tokenized money funds present a risk should they be allowed to compete with other payment or settlement instruments?

- Treasury Presentation (30 April 2025)
- BIS on stablecoins (Page 77)
  - "Stablecoins have significant shortcomings when it comes to promoting the integrity of the monetary system,"
  - Less than 100% positive…
- STRENGTHENING AMERICAN LEADERSHIP IN DIGITAL FINANCIAL TECHNOLOGY document

# WHAT IS A STABLECOIN?

- Take 1USD fiat, give back an on-chain representation of 1USD.

**Stablecoins are digital assets designed to maintain a stable value by pegging their worth to a reserve asset, such as fiat currency (USD). The intended stability of stablecoins has made them a key enabler for payments and as a store of value in on-chain ecosystems.**

## Types of Stablecoins

**Backed by Traditional Assets**

1. **Cash and US Treasury Backed Coins**
   - Reserves include USTs, UST Reverse Repo and MMFs
   - *Select Examples Include:* USDC, RLUSD, PYUSD
2. **Diversified Asset Backed Coins**
   - Reserves primarily include a combination of deposits, USTs, private credit, gold and/or Bitcoin
   - *Select Examples Include:* USDT, XAUt, KAU

**Backed by Crypto**

3. **Crypto Collateralized Stablecoins**
   - Reserves involve other cryptocurrencies that are deposited by stablecoin users to collateralize the stablecoin. Reliant on smart contracts for value stabilization
   - *Select Examples Include:* DAI, sUSD, LUSD
4. **Algorithmic Stablecoins**
   - Reserves usually do not exist as stablecoins are not collateralized. Reliant on smart contracts for value stabilization
   - *Select Examples Include:* USDD, AMPL, CUSD

## Stablecoin Use Cases

1. **Payment Tool**
   Used for payments as a medium of exchange, disintermediating the need for traditional payment processors
2. **Store of Value**
   Used for value purposes, given a peg to the value of an asset ensures price stability (as many stablecoins are backed *fully* by HQLAs)

***Illustrative Real-World Applications***

- **Cross-Border Transfers**
  *Serves as a more cost effective and accessible alternative to traditional remittance processes*
- **On-Chain Settlement**
  *Facilitates trading, lending, and other settlement-based activities across CeFi and DeFi*
- **Merchant Payments**
  *Allows businesses to transact directly with consumers, bypassing traditional payment networks*
- **Collateral**
  *Given the intended price and/or underlying reserve stability, stablecoins can be posted as collateral and utilized for on-chain borrowing*
- **Dollar Access**
  *Stablecoins can allow individuals in emerging markets to get access to both USD and the yield on USD (if yield bearing), acting like a savings account*

Source: US Treasury Presentation

# TAM: From the treasury presentation

**Evolving market dynamics, structures, and incentives have the potential to accelerate stablecoins' trajectory to reach ~$2tn in market cap by 2028[1].**

## Potential Growth Enablers That Could Prompt Rapid Stablecoin Adoption

**Adoption Enablers**

**Financial Market Service Providers and Institutions**
*(Recent all-time highs of activity and open interest in crypto products on the CME[2], launch of spot BTC, ETH ETFs[3] and options[4])*

**Migration of Wholesale Market Transactional Activities On-Chain**
*(Strong business fundamentals and structural changes suggest a clear path for tokenization with the tokenization market (excluding stablecoins and tokenized deposits) forecasted to reach $6.4tn by 2033[5])*

**Merchant Integrations**
*(Stablecoins continue to grow as a mechanism for payment, with some merchants and platforms (e.g., PayPal) offering stablecoins as an option[6])*

**Economic Enabler**

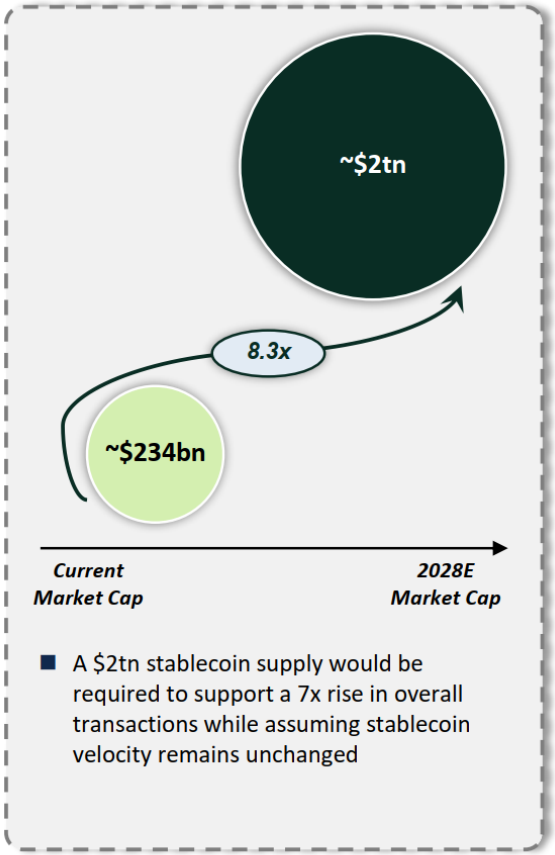
**Interest-Bearing Stablecoins[7]**
*(Expectation that the store of value narrative of stablecoins becomes more appealing and unlocks a yield generating opportunity for holders)*

**Regulatory Enablers**

**Designated Capital and Liquidity Treatment of Stablecoins**
*(Would establish potential inclusion of stablecoins in liquidity management strategies)*

**Bank Holding Company (BHC) Permissibility of Public Blockchains**
*(Would provide a clearer path for banks being able to access and services customers' activity on public blockchains, on which most stablecoin activity occurs)*

## Stablecoin Supply Projections[1]

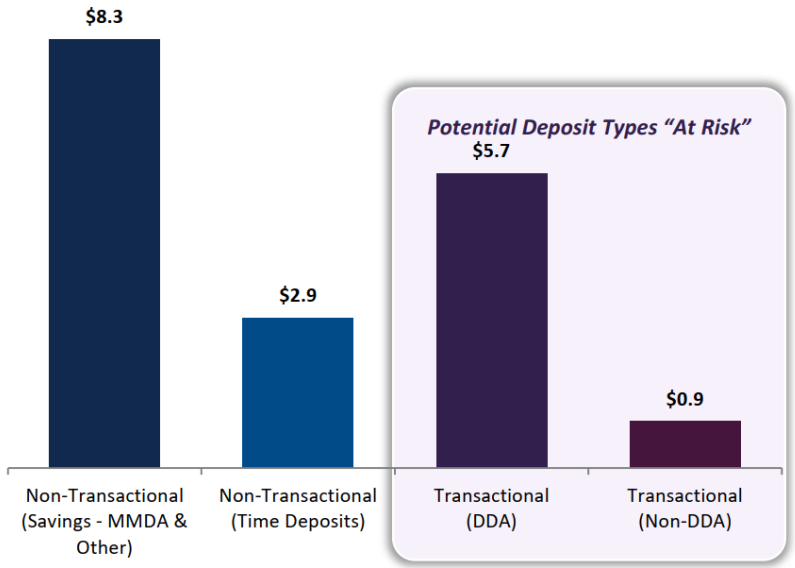



- A $2tn stablecoin supply would be required to support a 7x rise in overall transactions while assuming stablecoin velocity remains unchanged

# Implications for bank deposits

**While current regulatory proposals do not consider stablecoins being interest-bearing, the ultimate design of stablecoins will likely dictate the potential magnitude of impact to bank deposit flows.**

## Total US Deposits as of 4Q'24[1] ($tn)




### Characterizing "At-Risk" Deposit Types

- Current transactional deposit types are already non-interest bearing
- Unlike savings or time deposits, transactional deposits are primarily utilized for daily activities and can be easily transferred to other accounts
- More broadly uninsured deposits can leave holders to rationalize where to park deposits opportunistically or during periods of uncertainty (as evidenced in past migrations to MMFs during periods of stress)[2]

## Hypothetical Design Components That Could Influence Market Behaviour

**Potential Impact**

**1 Non-Interest Bearing Stablecoins**

- Potential rotation from stablecoins into tokenized MMF overnight in order to capture yield
- As stablecoins are already non-interest bearing today, growth will likely be a continued function of payment utility and overall Digital Assets market activity

**2 Interest Bearing Stablecoins[4]**

- Potential rotation from traditional deposits into stablecoins, which may offer more usability or competitive rates[3]
- Reinforces global attractiveness of USD-pegged stablecoins, particularly for existing on-chain holders and for those utilizing USD-pegged stablecoins as a store of value

Potential Magnitude of Impact: Lowest → Highest

# Impact on the Treasury Market

**With an expectation that stablecoins will continue being backed by fiat assets and that tokenized MMFs will continuing serving as an attractive investment product for investors, the portion of USTs held by such issuers is likely to be correlated with overall instrument growth.**

## Key Takeaways

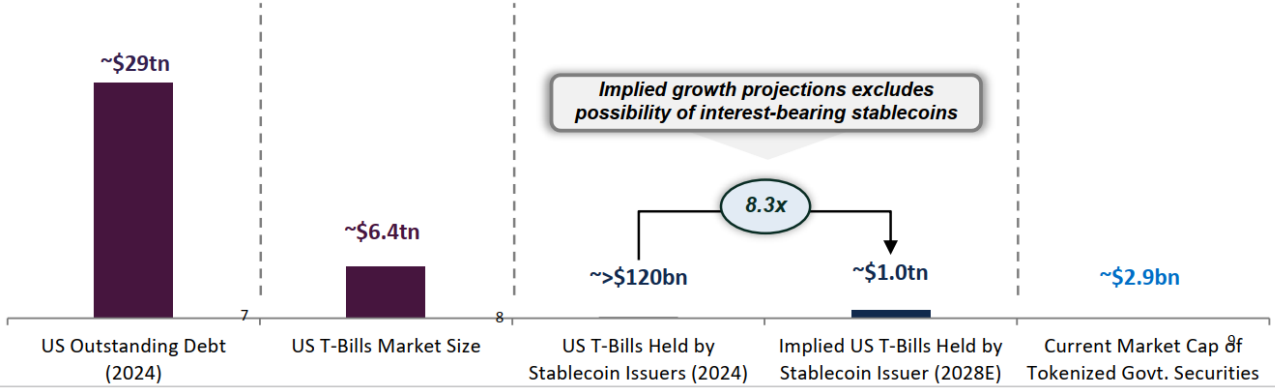
- Based on the publicly available reserve filings of the dominant stablecoins in the market, **stablecoin issuers are estimated to currently hold >$120bn in T-bills**
- Rapid growth in stablecoins, as well as market volatility, could lead to a materially heightened demand for or supply in USTs, with an implied incremental demand of ~$900bn for T-Bills
- If stablecoins experienced exponential growth, the demand for USTs should be correlated, likely at the expense of bank deposits
- These shifts in market dynamics could be potentially exacerbated in moments where there is a loss in confidence in stablecoins or if a stablecoin de-pegs

### Comparison of Self-Reported Stablecoin Issuers' Reserves (As of Dec-2024)

| | Tether[1] | Circle[2] | Ripple[3] | PayPal[4] |
|---|---|---|---|---|
| **Stablecoin Issued** | **USDT** | **USDC** | **RLUSD** | **PYUSD** |
| **Reserve Composition:** | *(as of Dec-2024)* | *(as of 17-Apr-2025)* | *(as of Dec-2024)* | *(as of Dec-2024)* |
| **Reverse Repo** | $17.2bn / (12.0%) | - | - | $488.0mm / (95.8%) |
| **Money Market Funds** | $6.5bn / (4.5%) | $53.3bn[5] / (88.8%) | $30.1mm / (36.3%) | - |
| **Cash** | $0.1bn / (0.1%) | $6.7bn / (11.2%) | $23.0mm / (27.5%) | $21.4mm / (4.2%) |
| **US T-Bills** | $94.5bn / (65.7%) | - | $30.1mm / (36.2%) | - |
| **Other** | $25.4bn / (17.7%) | - | - | - |
| **Avg. T-Bill Residual Duration** | Less than 90 days[6] | Less than 12 days[6] | | |

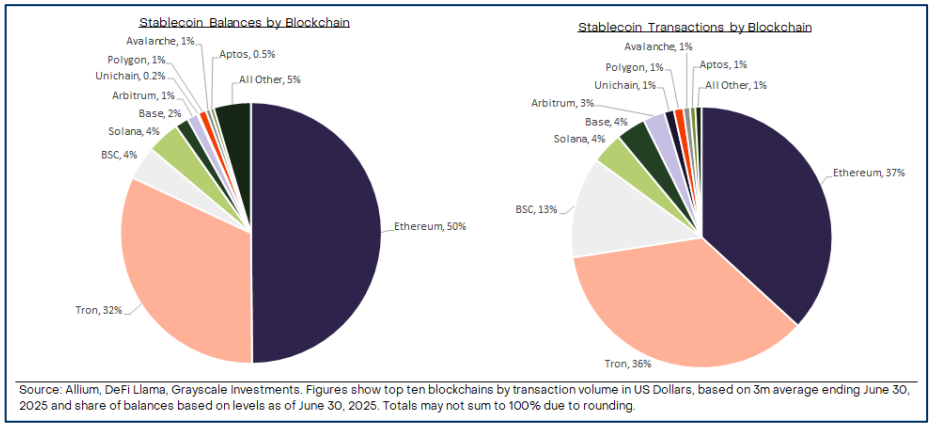
### Market Sizing

**Stablecoin issuers' demand for T-Bills is expected, to in some part, be impacted by the requirements of the GENIUS Act on treasuries with short-dated maturities.**

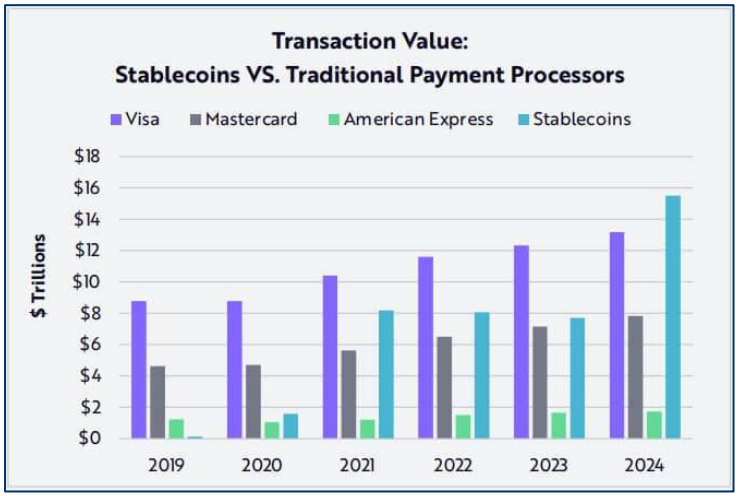


# Other interesting charts

- In decentralized trading, USDT and USDC are key stablecoins for liquidity provision.
  - As of mid 2025 USDT accounts for ~43% of stablecoin liquidity pools in DeFi,
  - Tether is now issued on 13 different blockchains, making it the most widely adopted stablecoin across networks.



Source: Allium, DeFi Llama, Grayscale Investments. Figures show top ten blockchains by transaction volume in US Dollars, based on 3m average ending June 30, 2025 and share of balances based on levels as of June 30, 2025. Totals may not sum to 100% due to rounding.



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