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Analyst Day

May 13, 2021

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PRESENTATION

Rajeev Khurana

Good morning, everyone. Thank you for joining us this morning.

My name is Rajeev Khurana. I'm the Vice President of Legal here at Apex.

We'd like to start off with a little bit of video to show you what we're all about.

(Video Presentation)

Rajeev Khurana

Thank you.

Let's get a couple of things out of the way. During today's presentation, we are going to be making forward-looking statements. These forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from any forward-looking statements. For more information, please refer to Slide 1 of today's presentation materials as well as the risks, uncertainties, and other factors discussed in Northern Star Acquisition Corp. II SEC filings, including the filing on Form S-4 made on April 8, 2021.

I'm also obliged to mention that our presentation today will include references to non-GAAP financial metrics, and reconciliations to the closest GAAP metrics can be found in the Appendix of today's presentation.

Today's presentation will be distributed following our discussion here today and may be accessed on Apex's IR website at apexfintechsolutions.com and Northern Star's website at northernstaric.com as well as eventually on the SEC's website.

Before handing the call over to Jon and Joanna, just a couple of housekeeping items. We'll be conducting several Q&A sessions throughout the presentation as well as at the end of the presentation. When you're not speaking, please be on mute, and we'll be using the Raise Hand function in Zoom to take your questions. Please unmute your line when prompted. Please also make sure your name and company name are properly reflected in the Zoom so we can know who's asking questions.

Thank you, and now I would like to turn the call over to Jon Ledecky and Joanna Coles.

Jon Ledecky

Thank you very much.

And thank you all for joining today for the Apex Call: the FinTech for FinTech.

I just want to remind you that we have done this deal in a SPAC, Northern Star. The stock symbol is NSTB. And I'm sure during the Q&A, if there are questions about the SPAC structure, we can get into them.

Just wanted to remind everybody that we did a $450 million fully subscribed PIPE. The PIPE investors that were disclosed include Fidelity Management and Research, Baron Capital Group, CO2, and Winslow Capital Management. That was upsized significantly. We had over $1.5 billion of total demand, ended up doing a $450 million PIPE. Unusual for SPACs, the agreement in that PIPE is that there can be no short sales of the PIPE against shares of the Company. That is an unusual feature which shows the strength and perception in the PIPE community of how great Apex was.

Joanna Coles, my partner, and I were very excited to meet Matt Hulsizer and his partner Jenny Just during the journey. As you know, Joanna will be joining the Board of Apex. Her background includes board memberships that SNAP, SONOS, which are both publicly traded, and the payments company, Klarna. She has a tremendous background in consumer and also has tremendous relationships at potential customers for Apex. I know the Apex folks are excited that she's joining.

I'm going to turn it over to Matt Hulsizer who runs a company called PEAK6. Matt is the majority shareholder of Apex. He will not be selling any shares into the offering and in fact has agreed to lock-up his stock for over a year. Matt and his colleagues will own over 80% of the Company.

Matt, over to you.

Matt Hulsizer

Thanks, Jon. Thanks, everybody, for joining.

I think 10 years ago when we founded Apex and purchased the assets out of Penson, we didn't know what to expect. Jenny, who tends to have really good insights on things, pointed out correctly that the infrastructure and back-end in the financial services space had just been under-invested for a long time. It was an opportunity for us to put our heads down and build the tech that we wanted as a customer. That's the genetics, the DNA of Apex.

Let's look through the lens of what the customers actually want and deliver that. I think if you look today, and certainly we didn't expect where we would be today, you would see incredible financial results. Jenny and I are investors. We look at thousands of companies. There is very few in the world today that have this type of profit margin, this type of growth, this type of opportunity. That's why we're not selling; we certainly had an opportunity to. We just can't find opportunities like this.

The financial piece is really the result of, it is not the goal, but is a result of the genetics of the firm and the results of incredible operators such as Bill and team. Through their skill and breadth, they've built an incredible enterprise here, and we couldn't be more proud to have the partners that are coming in and with the greenfield in front of him for the foreseeable future, I do not anticipate—and Jenny and I will not be selling shares. That's just not what we see, because there's just incredible opportunities with great operators.

Enough of me and Jon talking. Like, you guys want to hear from the folks who are really making it happen.

I will turn it over to Bill.

Bill Capuzzi

Thanks, Matt. I'm blushing, by the way. Thanks for that introduction.

I think echo some of what Jon talked about, some of what Matt talked about there. When you think about what's happening in the investing space and you think about the changes that are happening, there is secular tailwinds that are sweeping through the investment community. The reality is the world's changing. It started well before COVID. But I do think COVID is accelerating the change.

When you think about zero commission, you think about the bull market that we had, you think about the incredible front-end apps that have been delivered for clients. Then you think about the content that's been provided in the social media in and around that. There's just a secular change in the industry in terms of how investing is happening for retail investors. I'm excited to spend some time with you. We have a full lineup of folks from the Apex team.

Really, our goal for today is to make this enlightening, make it engaging, and frankly have fun walking through this. Then we'll have some periods through this that will give folks a chance to ask questions and then obviously have a Q&A at the end.

Let me just start with what is Apex. What is the mission, the vision, and the purpose of this Company?

As you can see on the screen, we are the FinTech for FinTechs. We're purely a B2B player. We provide a platform that makes investing secure, dynamic, accessible. The vision for the Company is to be that technology partner. This is how we differentiate ourselves is, think through a technology lines. Don't think about the way it used to be. As Matt said, think about custody clearing as it ought to be. Drive that disruption, the innovation. This next wave, this next generation of how financial services is going to work.

We're a purpose-built company, and you'll hear that from my colleagues. We wake up every day, we turn on our laptops in our homes today. Hopefully, get back to the offices soon. The whole concept is, how do you make it simple for people to invest? How do you lower the barriers to entry? How do you make it simple and easy for anyone to invest in their future? Next slide.

I talked about us being a platform. We talked about FinTech for FinTechs, and I think this slide really highlights what it is exactly that we do and the relationship with our customers. You see SoFi on the left side of the slide. One of our clients, Anthony Noto, good friend and partner to the firm, and there's just a tight symbiotic relationship between us. The reason for that, if you really think about, what are they doing and what are we doing? What are they great at, and what is our superpower?

Let's just use SoFi as a good example. We can talk about Goldman Sachs' Marcus. Their job is to figure out who they want to service. When you think about the continuum of investors from first-time investor to ultra-high-net-worth, their job is to decide who. Who are they going to service? Who are they going to target? Then the second question they needed to answer is, what do they want to offer? Is it single-stock, is it futures, is it fixed income, is it options, cryptocurrency? Is it a passive solution, or more advisory based? Then bring that experience to life. Most of our customers, and we'll get into the details, you do that via an app or website. But their job is to engage the customer and to provide an amazing experience.

Our job at Apex is to be that man or woman behind the curtain and bring that all to life, right. Do it through a totally digital, totally real time - to the extent possible, secure way.

There's some boxes on here, and I'll give you sort of broad strokes. Dustin and team will talk through some of the more nuanced details of these. But we open the accounts and we do it in a paperless, seamless way. We do all of the servicing of the account as it relates to confirms and statements. All the asset movements, whether it's ACATS, money movement, connections between banking and investing. We do all of the trading, whether it be, like I said before, equities, or options, or futures to fixed income; ETFs, mutual funds, or the wide array of cryptocurrency, today. We provide some of the chassis for fractional share trading. We do all that guts and plumbing behind direct indexing.

Then the last piece is on here that I think is lost oftentimes, I think came to light in and around January is, we actually safeguard the client assets. We'll talk about how many end customers are on our books, and I think it's a really important part of what we do, which is all this behind the scenes plumbing to make a great experience for the end customer, coupled with the fact that we actually own or custody the assets for the end customer. That's really important, because as we saw back in January, challenges in and around making sure that you can properly settle trades and custody those assets as it relates to OCC and NSCC.

Historically, if you look at this slide, historically, there's a bunch of friends from the industry, a bunch of analysts that I've known for a long time, know the Apex story. Largely, if you look backwards, our focus has always been on wealthtech and brokerage. That's in the DNA of the Company, as Matt talked about. I think that's going to continue on a go-forward basis, to continue to support the disruptors, the innovators.

I think the interesting thing in and around brokerage and wealthtech is it's evolving. Like I said in the opening statements, it's evolving, it's changing. We'll continue to support those that are trying to do something really novel. Like LEX Markets, who is digitizing, democratizing commercial real estate. We are also going to be supporting people that have had success some place already in the continuum, from a FinTech standpoint. I think I mentioned about SoFi, they started their world in lending. They connected the dots in investing.

What we see going forward and the conversations we're having today with prospects, with future clients, are folks that come with an installed client base, massive client base that want to now start offering investing. This is where the power of Apex comes in, because we've lowered the barriers to allow them to do that.

Again, we're going to continue to focus on the start-ups and, again, these more mature FinTech companies in and around brokerage and wealthtech. The opportunities for us in terms of future growth advisory. So, there's some names on here. We have a deep relationship with Franklin Templeton. Some of the more progressive folks within the advisory space, like an Altruist or Facet Wealth. We have less than 1% market share in advisory. That's a big opportunity for us.

The reason for it is, just like everything else, there is a change that's happening in the industry. Things need to be more real time, things need to be more efficient. The opportunity for us is to continue to work with the advisor community and take what we do great, and historically done great for wealthtech and brokerage, and take that to the advisory world through our partnerships with the likes of Orion, Envestnet, InvestCloud, Bambu, Marstone.

On the right side, very quickly. Just inherent to being a custodian, a FinTech platform that provides custody. There are opportunities for us to support the more professional trading firms that are out there. The need part is, look, they need the same thing at a very high level that the folks in the wealthtech space need. What they need is someone that's efficient at what they do, that provides a great service, and it is safe and secure.

The value there, when you get into some of the details, but the value in having an ecosystem of all different players from our industry is it creates this amazing netting where you have buyers and sellers. So professional traders and retail are on both sides of, let's just say, GME, and it provides the ability for us to net down some of the positions that we have as the custodian.

Then lastly, all the way to the right, loyalty investing, which we think is going to be an interesting play on a go-forward basis is partnering with firms like Bumped. The concept there is, think about Tesla, where Tesla could offer, rather than the reward points, Tesla, if someone bought a Model 3, Tesla could reward that consumer now with shares in Tesla and make it a fractional of a share.

Again, because of the platform Apex offers and the fact that we've lowered all those barriers to entry, those concepts are being able to provide loyalty investing. Think of the application, whether it will be a Walmart or a Tesla or Peloton, where they can use shares in the company to turn a consumer into an investor. Again, using the platform at Apex. Next slide.

I talked a lot about the symbiotic relationship. You guys can read this. I know you all know some of the firms that use Apex, or some of the CEOs, you should talk to them yourself. But I think we've put up some of the testimony from some of our customers. And again, the concept here is, how do we partner? How do we make it such that they focus on the end customer in creating a great experience, and we do all the behind the scenes That's the premise. How do we do it on a scalable basis? How do we do it at a cost effective way such that our customers continue to use us on a go-forward basis? Again, them focused on acquiring customers and us focus on the back-end.

Just some stats. I know we're going to get into a bunch in the back, but I thought these were worth highlighting. First is, we talk about end customers who we serve us on behalf of likes of SoFi and Stash and Webull. But part of the KPIs for us is how many clients are we acquiring? How many SoFis, how many Stashs is Apex signing as customers of our platform?

Last year we signed 33. We're off to a good start in the first quarter at 11. From a statistical basis, roughly 60% fall into that brokerage wealthtech and somewhere between 20 and 25% fall into advisor world, and that's continuing to follow consistently into 2021.

Second part is amazing growth in terms of end customers. Chris will talk about the flywheel and how we generate revenue. And it all comes back to the customers on our books, the end customers that we support. We're not talking about the guidance into the movement into the second quarter, which you can see the acceleration from 2020 just into the first quarter of this year. And the same around the assets that we attracted in that same first-quarter, so we've added 19 billion to get us to 97 billion. We processed 235 million trades in the first quarter, which is more than just about 50 something percent of what we process for all of 2020.

Why are we different? I talked about that platform. And how do we think about ourselves in terms of the competitive landscape? Here's what I'd say. You have traditional custodians who are built on old aging infrastructure. The challenge for them is, how do you open an account? How do you fund that account? How do you service a customer that's going to start their investment journey with $100 in the account? When you think about the bigger, broader, custodial landscape, it's just impossible.

It's impossible to do it from a technology standpoint, it's impossible to do in terms of the P&L. The actual cost to be able to support that customer. The challenge is that that infrastructure is built on 1970s, 1980s technology, and so the concept of real time is just a foreign thing, it’s a challenging thing for the more traditional custodians.

On the other end of the spectrum you have folks that have come into the arena in terms of the competitive that offer parts of this. So, whether it's a tooling and services, the trading, they're offering components of what we offer. We talked about the comps for Apex. The challenge was, who is a true comp for Apex? Frankly, we put it there and it's not hyperbole. We’re really the only comprehensive, agnostic full-stack platform that's driving this kind of next-generation that includes the tooling, the services, the trading, and then the actual custody and clearing from a baseline perspective.

How do you do it? You could just build great technology, and I think Matt said this upfront. We’re going to talk about the defensible moat around Apex, but the superpower is how you take great technology, great technologists, some of which are on this page, and marry that with deep domain expertise. When you think about the landscape of who can actually custody of retail assets, the number of folks out there is very small. The reason for it is, it's not just about building great technology: it’s understanding how to manage collateral and treasury functions. It's how to navigate the regulatory landscape in the United States and overseas. When you combine great technology with that deep domain expertise, that creates that competitive moat around the firm.

Lastly, I'll stop after this slide and turn it over to my partner Tricia. Just at a really high level, and we'll get into the details on each one of these, but just to give some highlights, how do we differentiate ourselves? How are we great? What are the superpowers of the firm? One is around opening accounts and funding them in less than 10 seconds. No paperwork. It's about the secular tailwinds that are happening in terms of adding the customers that we did in 2020. Chris is going to talk about scale and growth, the profitability of the model at Apex. It's about being able to process 450 million trades in the Fiscal Year 2020. It's about opening over a million accounts in a weekend right after the meme stocks went crazy in January. It's a combination of having that deep domain expertise and custody and clearing understanding the landscape from a regulatory standpoint combined with great technology.

That's the power of Apex.

With that, I'm going to turn it over to Trish to talk through the go-to-market strategy for Apex.

Tricia Rothschild

Hi everybody. Thanks for joining us today.

I'm so glad to be here. I'm Tricia Rothschild, the President here at Apex FinTech Solutions. I joined the firm last year, and this whole process, frankly, is validating my thesis around why I joined, which was after spending two and a half decades building front-end applications, serving the asset management and wealth management community globally.

I felt like it was time to think about this industry from a slightly different seat and to really understand why such precious little investments and time, frankly, has gone into thinking about solving the problem from the back-end front. The opportunity here, as you can see, I will talk through the total addressable market, I think the opportunity here is just tremendous, and I'm really pleased to be a part of the Management team.

Apex sits at the center of four powerful secular tailwinds. I'll start down at the bottom right, which is the digitalization of investment management. Clearly, as Bill explained, we are a technology forward digital-first solutions provider. There really isn't anybody else that can bring the instant account opening to the forefront in the way that we can and have, frankly. This technology and this ability is supporting the increasingly fast-moving convergence of financial services.

On the top right we give some attention to the fact that so many of the clients we serve, even if they start off thinking that they're going to solve one problem like lending clearly then want to start to solve an adjacent problem of investing. Or M1 Bank, which is in my hometown of Chicago, is a very innovative silo-busting financial institution to help people like my young-adult son who started his first job after college and didn't understand why he was supposed to open up different accounts in different firms. He can get his needs met through one shop like M1, which is powered by Apex. And our crypto solution which we'll talk about later which allows an investor to look at both their investible assets in terms of an ETF or a mutual fund next to their crypto holdings.

This is a clear convergence in breaking down the silos that technology like Apex can accelerate and facilitate, which makes investors' lives and consumers' lives easier. Which then leads to the democratization concept.

In a certain way, this is probably the most important of our pillars because it's not just good business but it's also the right thing to do. Nearly half of households in this country don't have an investment account, aren't able to save for the future in the way that they could if some of the barriers to entry were broken down. So many of our clients that we power are setting about to do exactly that.

Then I will just stop in the bottom left with a tailwind that's near and dear to my heart coming from a data and research organizations as I did, which is that the data exhausts that all of this information throws off and our ability to provide insights every quarter. For example, we launched a study called *The Next Investor Outlook*, which shows what are the trends in investors' behavior. Of the 14.4 million investors on our platform today, by age group, by cohort, what are the behaviors that we're seeing and how can we use this business intelligence to power our clients and to bring better solutions to market.

On the next slide, we'll talk a little bit about the generational wealth transfer, which is just a huge catalyst for these trends. As we'll be discussing, it's a really sticky business that we're in. Often, people need a catalyst for change. I think we all recognize entrenched behavior when we see it. But the fact that we are already the custodian of choice with 41% of non-retirement taxable brokerage accounts for people under the age of 45 in this country shows that the clients we're supporting are attracting the next generation of investors.

Regardless of their account size today, I am sure that when they turn 46 or 47 and as their wealth grows, they're not going to be looking backward. They're going to continue to work with the firms that are serving them today and have been there for them as they grew. The fact that the $68 trillion will transfer down from the older generation to the younger generation will propel that trend in a meaningful way in the next several years to come.

I'll stop with the total addressable market on the next slide, which just talks a little bit about where we see growth coming from. We have a $100 billion in assets under custody today. The traditional robo-advisors, not counting necessarily the integration through, say, Schwab or Vanguard, but the traditional—I shouldn't even call them traditional robo-advisors. That's kind of an oxymoron.

The original robo-advisors were launched on the shoulders of Apex's platform. Betterment, for example, is a client of ours. We see this as an important part of the opportunity at $1 trillion. Moving up from there, our U.S. online brokerage assets at $17 trillion, and then the $28 trillion of traditional advisory assets where, as Bill said, we have less than 1% share today. Clearly tying back to the generational wealth transfer, as these assets leave the patriarchs, move to the matriarchs, and ultimately to the children, we will stand to serve this segment in an increasingly aggressive way.

On the international front, we have about 100,000 accounts, it's about $10 billion, 10% of our assets under custody today through non-U.S. residents who are trading U.S. securities through our clients. We expect that that's also a rapid area of growth for us.

From this point forward, we're going to take a short break for questions based on the overview that we gave. The next section will cover more details on our product platform and our go-to-market strategy.

But I will pause and we're going to turn the camera over to the group so that we can take just a few questions at this point. Thank you.

Rajeev Khurana

Are there any questions?

Guest

Rajeev, Ashwin has a question, from Citi.

Ashwin Shirvaikar

Hi.

Bill Capuzzi

Hi there. How are you doing?

Ashwin Shirvaikar

I'm good. Thanks. Thank you for doing this.

My question was with regards to the slide on which you have clients acquired and customer accounts, and I'm sure we'll get into this later, but is it fair to think of your opportunity as the clients acquired goes up over time? It can probably only go up so far in terms of just the number of new companies coming up. That's where you're focused today, but eventually, you will be far more focused on the customer accounts and the AUM aspect of things. If that's a fair notion with respect to how you're built today from a technology perspective, would that imply that you need to change, or you're okay with that?

Bill Capuzzi

It's a good question. Here's what I'd say. We're a B2B company, and we're going to continue and follow down that path. Here's what I'd say in terms of, you said about going to run out of opportunities. The answer is, no. Here's the reason. Number one is, there continue to be folks are going to come out and trying to disrupt some part of the industry and make it better. That's part of our life front. That's not going to change. Those firms are going to find opportunities to disrupt and innovate some portion of our industry that's broken. I talked about commercial real estate with LEX Markets. There's a company called Carver Edison, which is disrupting and democratizing employee stock purchase plans. We'll continue to find those types of opportunities.

The second part is you have the firms like I talked about. Think about folks, I don't want to name names because we're talking to most of them, but just think about those folks, and you think of the landscape of FinTech firms that are out there that aren't in investing today. They all have to be in investing, because this world's coming together. A convergence of banking to investing, investing to lending, lending to insurance. The concept is to create that financial ecosystem. It's just playing out. We see it. The cool part, the fun part, the interesting part, the exciting part for Apex is that they show up at our doorstep with hundreds of millions of clients today. So just think the payment space. Think some of the bigger lending platforms that are out there and provide that lift in terms of end customer opportunities.

Then lastly, the two parts that we really don't play in today is, if there's literally thousands of advisory firms just in the United States. I'm not even talking overseas. There's thousands of firms out there and they all have to—Trish talked about the great wealth transfer that's going to happen. They all have to modernize their platforms and their offerings and become more real time, become more direct-to-consumer, and find ways to add value beyond what they're doing today. Because as that wealth transfer happens, if they don't, those clients are going to stay, or stick, or move, as that money transfers, it's going to move from the Baby Boomers to the Millennials. What historically happened is that the grandmother or grandfather's advisors trickled down, and the grandson took the money and connected with that advisor. We're already seeing that break, and it's going to continue.

The last piece I'd say, Trish touched upon international. I think we're going to talk about it a little bit more. This world is shrinking. It's becoming a lot easier to get access. When we think about the firms that we service and the end customers that we service, the vast majority of them are here in the United States. The TAM for us, not just the firms that we service but the end customers that are part of those B2B customers are service. But there's just a massive opportunity we think outside of U.S.

I don't know if anybody from my team has anything to add.

Does that answer your question?

Ashwin Shirvaikar

It does, very useful. Thank you.

Bill Capuzzi

Yes. Next question?

Rajeev Khurana

Next question comes from Joseph Vafi from Canaccord.

Bill Capuzzi

Hi, Joe. Thanks for joining.

Joseph Vafi

Hi, guys. Good morning. Yes, thanks for hosting us.

Just to follow up on what Ashwin was asking. You know, clearly there's a lot of FinTech on the come. There is already an established base. You clearly have some great customers. Just wondering, maybe some of those earlier platforms that put in investing and the like on their platform, how difficult do you think it is for them to switch at this point, are they sticky, are they homegrown? What other vendors out there you see, and how do you look at the opportunity to actually do takeaways instead of just organic growth with new entrants?

Bill Capuzzi

Yes. It's a great question. Here's our take on the more FinTech side. Part of our job is to continue to build value add products and services. We're going to talk about cryptocurrency as a good example. You create real stickiness, and the stickiness created, it's not about hooks. I don't like the word hooks. It's about creating value add services and really around the plumbing of our industry. If we continue to do our job as it relates to things like T+0 Settlement, things like 24/7 trading, things like NFTs, there should be no reason for FinTechs, because we're so deeply embedded in their infrastructure to leave. I would say, I think we have a track record around, continuing to be great partners.

The second part is, we're smarter on how we price things. As clients continue to grow, you just have to continue to evolve the pricing. Again, we'll get into the details of the levers from a pricing standpoint, but you set it up such that from a financial perspective, there's no reason to leave, because they're such great scale in what we do.

Then the last part as I touched up on it before but part of the power of using Apex is that your just in an ecosystem of different firms, in different walks of life, and it creates opportunities. Let's go back to

January 28. Your stocks were all over place, you get the power of netting. Which as it relates, if you understand how the bowels of our industry works, it matters. Instead of being long GME, we have folks that are both long and short, and it nets things down, which those benefits are passed along to our customer.

On the advisory side, yes. Those advisors, especially the bigger sort of enterprises, they're well entrenched inside of the Schwabs and the Fidelitys. What we're finding when we start looking at the customers that were signed last year and the customers signed this year, they are dying for an alternative. Those alternatives just haven't been there. You guys know the industry well, they're just haven't—okay, if I moved from Schwab to Fidelity, I want to move because of price, because as it relates to the actual experience, it’s six of one, half a dozen of another.

I think as we talk about this wealth transfer, this next-generation, they have to wake up and pay attention to the likes of SoFi and even Goldman Sachs’ Marcus and people like Ally Bank and people like tastytrade, because those are their competitors. They might not know it or believe it or want to believe it today, but they are their competitors as that wealth transfer happens. They have to start thinking about how they're going to evolve their practice. It's not just about, how do I squeeze another basis point out of my custodian: it’s how do I evolve my practice. Again, we talked about and Dustin’s going to walk through the actual product, it's a platform. We think of ourselves as a technology firm that provides custody and clearing. We don't think of ourselves as a custodian. The premise for us is, how do you make every single part of the experience as efficient, real time, and pleasant for the end customer.

Tricia Rothschild

I would just like to add, I think there's a business model convergence here that's happening and the Apex is one of the few firms that I've seen that can support the brokerage model as well as the advisory model. As those worlds come together, it allows for us to add value to the client.

I think part of your question, Joe, was around serving firms as they scale or at scale, the clients that we serve, and I would just say we do get firms that are coming to us because they are limited by the other options that they feel like they have. From an Apex perspective, having all of the account types that we do, all of the experiences that we do, as well as the products and investment types that we support, which Dustin is going to cover in more detail, allows us to just bring more flexibility to bear to a variety of client types.

Joseph Vafi

That's great color. Thanks so much.

Bill Capuzzi

Next question, please.

Rajeev Khurana

Next question comes from Rich Repetto from Piper Sandler.

Richard Repetto

How are you doing, Bill. And Matt, if you're still on the line. As well as Chris.

Chris Springer

Hi, Richard.

Bill Capuzzi

Hi Richard, how are you?

Richard Repetto

Good. My question, Bill, and you sort of alluded to this, what occurred at the end of January with one large private broker and the capital issues that potentially could have been avoided or your solution might have helped the situation. Could you give more detail on that? I know you've mentioned the netting, but have you actually run any simulations to say that or to show that you might have been able to net down or reduce a broker's capital call? Because, still you've got to put up the capital around or someone—

Bill Capuzzi

Yes. Sure. Look, Rich, you know the business pretty well. You've covered a whole bunch of companies in and around this. Part of this, I talked about risk management, collateral management. This is part of the superpower for the firm. As we were moving into that period, you could see this happening, and so you do certain things. You move anybody who is holding certain securities to 100% margin in those securities. You do that, you line up several committed unsecured lines that you already have in place and make sure that they're ready to roll.

Again, you look at the balance of what's happening on a real-time basis. The challenge for our industry is that, one of the challenges amongst a bunch, that is, NSCC it's not on a real-time company. They provide slices of information, but we live in a real-time world. What we've done is basically, I'm going to use the word, reverse engineered but that's in fact what we did. Reverse engineered how VAR and mark-to-market gets calculated in NSCC so that we could see things on a real-time basis and then be able to click through, Rich, and see exactly what end client is actually putting on a position. This is the power of the relationship. It's not just technology, it's not just about we settle trades: we're a partner.

As it relates to being a partner here is we're providing a risk backstop. We built the platform, we can see real time what's happening, and be able to click in and be able to see that individual client. It's SoFi and it's Connor Coughlin at SoFi that's building a position in GME and start to slow things down, because the reality is there's risk. We have to manage that risk. Again, our job is to backstop our customers.

The last thing I said about the netting—just put a giant underline under the word netting, which is, that's one of the major powers of being a custodian is that you support different investors and different clients. In this case, like I said, you have 10,000 retail customers with five shares of GME and you have one institutional customer who is short. The two of them net down in the eyes of the depositories, and again, that's the power of the platform, is being a custodian.

Does that answer your question? Look, I don't know exactly what that firm's portfolio looks like, but I can tell you that I think it would've been a different outcome (inaudible) based on what I do know.

Richard Repetto

Your capital calls were all met and so forth by (inaudible).

Bill Capuzzi

It was fine. Pretty scary for sure. But we were well within the capital we have within the firm, and we didn't go into some risk premium territory, if you understand how NSCC works. Everything was fine at Apex.

Jon Ledecky

Could I ask the moderator to please take the slide off so we can see Bill better? Right now, you can only see him in a small box. If you take it off, we can see them as the main speaker. Thank you.

Bill Capuzzi

Is that better Jon?

Richard Repetto

That answered my question too, Bill. Thank you. Thank you very much.

Bill Capuzzi

Thanks for the question, Rich. Any other questions?

Rajeev Khurana

Next question comes from Andrew Schmidt from Citi.

Bill Capuzzi

Hi, Andrew.

Andrew Schmidt

Hi, guys. Thanks for doing this and thanks for taking my question.

If I look at your client list, SoFi, Stash, etc., investing is one part of the platform, but there's also, if I think about what goes along with an investment account, sometimes there's a spending account and debit card associated with that. There's obviously a lot of opportunity in your core, which is the investment space. But is there an ambition to add things on, whether it's banking as a service, debit card issuance, and things like that, in terms of an adjacency so you can sell more things to these clients? Just any perspective there. Thanks.

Bill Capuzzi

Yes. You guys are asking great questions. Yes, look, I talked about us being a platform. I think part of the reason we're doing this is to raise capital to continue to expand the platform. I think some of the things you mentioned are some of the things on a future basis that we're looking at adding to it.

The second part of it though is within some of those, let's just say banking to investing. Part of what we're doing already today is, if you understand how the bowels of our industry works, money moves from banks to banks, or banks to brokers, through ACH, which has tremendous amount of risk, it's called rescission risk, and time delays. What we've done is, look, let's just take Goldman Sachs' Marcus. It creates a close network that allows for money to move back and forth between banking and investing in a much more seamless, I won't say it's riskless, but certainly much more seamless way. Yes, you want to continue to build a platform and provide more products and services, but you also want to make sure that the interoperability creates an amazing experience for the end customer. Whether it's with a part of Apex or outside the network.

Andrew Schmidt

That's helpful. When we think about reduced friction in terms of bank to bank transfers, can you just expand a little bit of that? Is that reducing settlement times in cash availability versus normal one or two day settlement period? Just anything on that, because that's interesting point you made. Anything on that friction reduction would be helpful.

Bill Capuzzi

Dustin, why don't you jump in?

Dustin Kirkland

Yes, I'll jump in on that one. Thank you, Andrew. We'll talk a little bit about that on the product side, but we can skip right ahead to it.

Yes, the traditional way of moving money in and out of brokerage accounts is really ACHs and wires. Of course, yes, we support that, but it takes multiple days to process an ACH. While wires are basically instant, they're extremely expensive; expensive to the end retail investor. We've got a couple of solutions here already in production and being used with some of our clients, one of which we call instant cash transfers. It's a special API that some of our clients have with particular banking institutions where their retail investors often have cash. That cash can be moved basically instantly journaled over to the brokerage accounts. Then Bill talked about net settlement, which of course we do for stock trading. We actually can net settle that on a cash basis. There's a whole bunch of money coming in and going out of the bank. At the end of the day, Apex can issue one wire to or from that bank, that takes into account all of the deposits and withdrawals.

But intraday, it's all just handled on a journal basis, a third-party journal basis. That's used really effectively. If you're a retail investor who decides they want to move some money out of their bank, which is tightly coupled to this instant cash transfers' API, to your brokerage account and make that purchase instantly, it's three clicks on a mobile app, and that happened. That allows you as the retail investors to avoid parking cash in a brokerage account that's not earning any interest. Keep it in a checking or savings account where it's accessible to your debit cards and your checks. That's one of the ways. We've got a couple of partnerships in the works right now. Looking at expanding that quite a bit.

Andrew Schmidt

Very helpful. Thank you very much.

Bill Capuzzi

Are there any other questions before we move on to the next presentation?

Dustin Kirkland

All right. Thank you very much. My name is Dustin Kirkland. I'm the Chief Product Officer here at Apex. I lead our Product Management team as well as our Strategic Alliances, Business Development, and our Solutions Delivery team, the client-facing technical people we have in the Organization that handle sales engineering, field engineering, on-boarding. It's a great privilegee to lead that team, to speak with our clients, and to speak with you today about our platform itself.

Let's talk about Apex the product itself. Fundamentally, from a product perspective, we are a software-as-a-service business. We're business-to-business, we sell Apex directly to other businesses, enterprises, broker-dealers, RIA-type firms. We do not, and I'm going to repeat this multiple times, we do not really interface with the millions of retail investors. Those are our clients' clients.

When I'm talking about clients, I'm talking about the hundreds of businesses that put their faith and trust into Apex and utilize our technology, our APIs. This is our bread and butter, that's what you see here. Our bread and butter is custody and clearing, but we present that to our clients as a software business. We are a software business that focuses on digital everything, APIs, Application Programming Interfaces, for everything. Those clients have developers and engineering teams, development teams that interface with those APIs and build unique modern client experiences and provide access to a world of investments. An ever-increasing set of investment classes.

From an account types perspective, we support all account types. Universally support account types, and that's anything from the first-ever $5 that a 22-year-old just making their first trade to the market, all the way up to professional traders, hedge funds, family offices placing tens of millions of dollars worth of very advanced trades, complicated options, strategies. All of that happens on top of Apex the platform using the same exact API. That's individual self-directed trades from $5 on up. That's professional trades in the millions of dollars per day. That's the day trading, that's active investing, that's passive investing, that's retirement accounts that may sit for 10, or 20, or 30 years. All of that on the same platform. That's the Apex custody and clearing platform.

Now, our clients have built hundreds of unique client experiences, from mobile-first experiences to desktop native applications, professional trader-type environment. Some go really heavy on the direct indexing, others are all about picking stocks.

At Apex, we've enabled notional and fractional trading. It's really the same thing just depending on how you look at it. Fractional trading can mean less than one share. Someone who has $20 and they want to buy $20 worth of Amazon, which has a blue-chip stock trading $3,000 a share, the Apex API enables that investor to buy nearly $20 of any of those blue-chip stocks. But others think about it more from a notional perspective. What if you wanted to buy $10,000 worth of Amazon and not have that have to end on the exact border of exactly three shares? You want 3.27 shares, all the way out to five decimal points, eight decimal points. We support that on the Apex platform.

Some of those are self-directed, meaning an individual investor investing their own retirement portfolio or their liquid non-exempt portfolio. But others are advisory directed, separately managed accounts, SMAs, where advisors are managing a group of individuals or families. Again, all on the same platform, the same APIs, the same experiences, the same protections that they'll discuss when we talk about Apex risk management.

Some more advanced features that, let's say more experienced investors may want to take advantage of, portfolio margin, our stock lending program. Stock lending, we've really been able to democratize that for a class of investors who've never been able to take advantage of the sometimes very lucrative interests that are paid on stock that's held in a long position. Someone who's holding in position for the long haul, that stock often needs to be borrowed by a short seller and those short-sellers pay interest on that. Traditionally, that's only available to the wealthiest of investors, and Apex has actually made that feature available on millions of retail investor accounts.

Several re-balancing robo-advisor platforms are built on the Apex re-balancing engine. This engine allows either an individual or an advisor to set up a portfolio, allocate that across a set of asset classes, individual stocks or other assets, and have that re-balanced on a regular basis, taking advantage of tax loss harvesting. Again, other features that traditionally, before a couple of years ago, were only available to the most wealthy individuals, and now that's democratized across a wide array of investors.

Loyalty investing is something super interesting that we've been in many interesting conversations, sometimes with FinTechs, and other times with retail brands who are very interested in Apex's capabilities to make tiny fractions of stock available as a reward for being loyal to a brand. That could be a retail brand that you spend a lot of money with or a travel program that you travel a bit as we see the world open up. We've all got the privilege here of being together in New York and traveling for the first time in a little over a year. Being able to take advantage of that and loyalty to those brands that help get us here is super interesting and a different way of showing stock ownership: ownership in the brands that you're loyal to.

Across the investment spectrum: stocks, bonds, mutual funds, ETFs, futures, cryptocurrencies, NFT, all of these supported, NFTs soon to be supported, on the Apex platform.

On the next slide, I'm going to spend just a minute talking about the technology. This is certainly my heart and soul here. I'm a technologist at heart, I've spent most of the last 20 years in technology and open source technology at Google and other places.

Apex itself is built on a micro-services architecture, which is really the technology implementation that was pioneered by the likes of Netflix and Uber and some of the Silicon Valley movers and shakers. We're built on the exact same methodology. Apex itself, we host 60 something APIs today. Every product that we have at Apex, everything that we call a product inside of the Product Management team, has itself an API or it's a subset of another API.

On that big bright blue box you see a couple of columns where we've organized some of our APIs are oriented around account management, which includes the know your customer and the CIP, the identification of accounts. The vast majority of which are good people. Occasionally though, there are bad actors, and so that API shakes out those bad actors at either account opening time or at some point down the line when we see malicious behavior.

Down that list, ACATS, or account transfers, the digital ability to move assets from one custodian to another, natively supported at Apex. Our communication systems, how we talk to those investors: statements, confirms, proxy voting. All of that happens through our communications APIs. Our tax management is super interesting. Cost basis calculations. Being able to efficiently manage the tax and cost basis happens within the Apex platform. We do a ton of uninteresting but extremely important work around regulations, keeping up with changes that are always coming from the SEC, FINRA, other laws specific to some locales at the national and the local level, across-the-board. That's the heart of Apex technologies.

Then the data column, positions and balances is how our clients understand what positions their retail investors hold with the balances on their accounts. Again, accessible through APIs and processed in many cases on a batch basis. Cost basis is closely tied to tax. Corporate actions include splits, reverse splits. We've got a ton of work here. There was a question about cash. These are some of the cash APIs. We do have a little bit into the instant cash transfers. I think what I'd like to do though, is really drill into one particular piece.

At the very bottom right-hand corner, you see crypto. I'd like to zoom in on crypto. We could spend this time on any one of those APIs. I'm going to call out one that's I think super topical for where we are right now in May of 2021. Apex Crypto is a sister entity of Apex clearing and custody, but it's something that Apex customers, Apex clients have access to. We provide a world-class API that offers crypto trading right alongside any other asset class and trading of those asset classes.

In fact, in Q1, we saw over 1.6 million accounts opened for crypto access, specifically for access to the crypto APIs. We saw almost $600 million of notional value that was traded in Q1. We have far surpassed that number in Q2 already for what we saw in Q1. That API offers 24/7 access, and fractional and notional trading are just part of crypto itself. What I find interesting here is that crypto trading itself is actually moving the rest of the industry forward in terms of retail clients demanding the ability to trade on nights and weekends and holidays, demanding the ability to trade on a fully notional basis across-the-board.

On the next slide, I can give a little bit of the competitive landscape here. Let's take just an Apex versus the competition look at a couple of things.

First of all, we have an unconflicted business model. I am going to underscore that. We do not compete with our clients. We find some of our competition often competing with their clients. Here it's competition, clearing and custodians that actually have a retail business model as well. That's not our business. It's never been our business. It's not what we set out to do.

We are the back end, we are the back office, the middle office, the front office, that full stack, and we provide that to other businesses. Some of our competition you will find multiple disjointed technology stacks. It's a stack of LEGOs that those clients have to put together themselves with multiple arrangements, multiple contracts with separate vendors. Apex has that full suite. The back office is our custody engine. The middle office is the pieces that those clients, administrators, and operators use to access Apex itself. Then we do offer a white-labelable front office that our clients can come up to speed and running in a matter of just a couple of weeks.

Account onboarding is really important to us. We take great pride in the fact that the vast majority of new accounts opened at Apex we measure in seconds. Typically, ten seconds to open an account, entirely digital, usually through a mobile interface, fund that account and with provisional funding instant trading. The entire process from opening an account, funding an account and trading an account often happens in under a minute. That's a really different industry than many people understood when they started their investment careers.

Our technology and infrastructure is world-class modern stock supported by a Service team that has a ton of experience here. This is in stark contrast to the antiquated technology, the limited capabilities, and the legacy services that some other competitors have. Our track record of bringing new products to market, we are going to look at in another slide here in just a second. But we have a track record that goes back a decade, bringing world-class solutions to market far ahead of the competition. We will continue to do that. I will give you a sense of some of the upcoming R&D or some of the in-progress R&D that Apex itself has.

Then most importantly, and this is absolutely core to Apex's business, every single day we wake up with our start of day call. This is all about securing and custodying the assets in the most operationally efficient, capital efficient manner. It's built on top of Apex's core engine. That is inside of Apex itself. Bill talked about netting and some of the benefits we get from that. But that's very different than some of our other competitors where that piece is built on top of third-parties involved.

With that, Tricia is going to tell us a little bit about some of our customer case studies. Let me turn it over to her.

Tricia Rothschild

We thought this would be a good time to bring some of these concepts back to life again. A couple of these case studies we've actually already highlighted. I will just move quickly through them. The types of problems that we help our customers solve. The two on the top here are actually two of our more recent launches.

The first one is a firm called Carver Edison that is really changing the way regular hourly workers, to start with a large Fortune 500 company, can participate in their employee stock purchase plans through a concept of a cashless exercise, which allows them to be more efficient and make better use of their hourly wages, and also invest in their future. It's both a really mission-driven story, as well as something that we believe the market has already embraced.

Then secondly, Bill mentioned, I believe LEX, which we recently launched with them. We brought a commercial real estate IPO to market that allows individual investors to invest as little as $250 to become an owner. The first foray was a parking garage, about $24 million, and it is available through the IPO that we set up with them. Then the other stories here are things that you probably have already seen from our logos and the types of fractional share trading and other types of innovations that we've been delivering for the past several years.

Dustin will now go over a little bit more of the product feature set.

Dustin Kirkland

Thanks, Trish.

I think it's important to understand we have a history of innovation and a real track record here, that begins in 2012 with the modern establishment of Apex itself. We immediately changed the equation in the industry and set the standard, the gold standard for digital account opening and funding experience that goes back to 2013. I will say that I actually had that experience as I moved my own personal 401(k) from another custodian over to─parts to Wealthfront and Betterment. Happened to be custody to Apex. I'd never heard of Apex at that point. That's long before my Apex journey began.

But even that experience was a completely different experience from everything I'd ever experienced up until that point around retirement investing, digital asset management. That was powered by Apex long before I understood that. To do so initiated and requires an account transfer, a digital ACAT. That was the 2013, 2014 disruption, in fact, of the industry in the establishment of robo-advisors.

Twenty-fifteen saw us move into foreign custody. Even today, it's a huge opportunity, Trish mentioned, as we look at the total addressable market of the world, opportunities outside of the U.S. to help foreign investors take advantage and invest in U.S. markets. We do have a pretty good foothold there. About 10% of Apex today is based around foreign custody, and that dates back to some technology that we built in the 2015 timeframe.

Twenty-sixteen saw us launch our first robo rebalancing solution. It's an API-based robo advisory solution, rebalancing solution, portfolio management solution.

Twenty-seventeen was where we really started investing in cash management, and we found several opportunities to change the equation when it comes to digital movement of cash, which is fundamentally the rails into and out of brokerage; certainly involves starting with cash that's probably somewhere else, and moving that into a brokerage account. The 2017 work was around real-time payments, and we've built on that, and fleshed out other technology as well for the cash management pieces.

Twenty-eighteen was actually when Apex Crypto launched. That's almost three years that we've been working on Apex Crypto. It's been in production for quite some time. That solution is easily embeddable in practically any app to provide a Coinbase-like experience within any other brokerage app or third-party application.

Twenty-nineteen was a big year for us around fractional trading. We launched the fractional trading engine that we now are seeing. It really has changed the game in terms of the way people think about investing.

Twenty-twenty, last year saw us enter the advisory space. I think Trish mentioned how much opportunity we see to serve advisors, advisors wanting that Apex modern digital experience. We also launched our first turnkey white-labelable front-office solution, which is Apex Extend: that back, middle, front, fully integrated already to the Apex backend and platforms. Apex Extend is how our clients get up and running immediately. Later this summer, we are already working on an NFT solution that will launch this summer.

On the next slide, I will give you just a taste of some places that we are actively investing from a research and development perspective. Advisory, you hear it as a theme for us, that market, we see as ripe for disruption, we see a bunch of advisors that want to take advantage of the digital account opening, the digital asset movement, want access to things like crypto margins, other asset classes. All of that is something that we're working on a packaged solution for. Loyalty investing, I mentioned earlier. Here we're talking about brands that want better access to a loyalty from customers, driving interest in having clients, and customers, retail customers being actual shareholders of those brands.

We believe in democratization and fractional anything, fractional everything, and the idea of fractional options contracts is something that it's an active area of experimentation for us. Speaking of experimentation, 24/7 trading is another thing that we see the retail investor expecting that out of crypto. Why not? Why do we have to wait until Monday morning to trade a fractional share of Tesla stock? We've actually executed our first weekend trade at this point. It's a very manual process, and we've got a bunch of work to digitize that. But that's something that's super exciting and involves us breaking down a number of barriers in order to execute a trade of a single share of Apple on a Saturday afternoon.

Settlement, and whether it's current best standard is T+2 settlement, means it takes two business days to settle the trade. That does not include weekends or holidays. A trade on a Thursday when Friday is a dead trading day due to Good Friday or something like that, that trade doesn't settle until two business days later. We are actively working with our clients, our partners, our vendors, and then upstream with the regulators as well, on trying to advance the state-of-the-art in terms of settlement, and moving to T+1 settlement as a solid first step that would make many businesses as far more efficient, especially in terms of the capital outlay.

Then international, there's a lot of problems to be solved, whether it's regulatory or technology, in order to take Apex’s technology and make that available to a wider world of international investors.

R&D is active and healthy at Apex, there's no shortage of good ideas. We're constantly experimenting and we're always working with regulators in terms of trying to be able to drive the ball forward. Next slide.

That brings us to, I think you've heard a couple of times now, convergence. We definitely see a convergence of a number of financial services that are swirling around and have Apex potential at it's center. We're already extremely active and successful in self-directed trading, in the robo-advisory space and the crypto space. We've just dipped our toe in the water around the advisory space, but there are some really exciting things coming there. With that, we've received a lot of outreach from other potential partners in the international space, in banking, in lending. These are places where we see the opportunity for Apex to enable a new age of financial services. We will stay true to our B2B SaaS routes, but this digital focus has set us up to disrupt multiple adjacent industries.

This is, I think a super-important slide. I think Andrew had an interesting question here about how we grow with our clients. We call this the flywheel, or one of the views we have of the flywheel. I think of this as a virtuous circle. We enable hundreds of clients to date. Each of those 100 clients over time attracts millions of investors, and we engage with those clients. We help grow those clients. Then those clients, the retail investors, the clients of our clients, execute trades. They perform actions on the Apex platform, billable actions: trading, cash movements, etc.

We continue to add services to the Apex platform that are then available to those retail investors that are also empowered by those clients. What we see is a multiplicative effect. When we add a new service to Apex, that's instantly multiplied across the millions of investors on the platform. Then every time we add a client and those clients either bring new assets or attract additional assets, or eyeballs, or active investors, they all have access to the same services. That's the virtuous circle that we set out to empower here at Apex.

With that, I'm going to turn it over to Connor, who's going to talk a bit more about our growth here at Apex.

Connor Coughlin

Hi, everybody, thanks for being here today.

Connor Coughlin, I'm the General Manager of our FinTech division here at Apex. This means I'm mainly focused around FinTech strategy and business development. But I also do a lot in the M&A space, which is part of what I will talk to you about today. Next slide.

What we believe and have actually seen is that we have a natural flywheel, which really accelerates our advantage through time. The thing to take away from this slide is really that success is going to beget success within our platform.

What we have accomplished to date so far is we already have a distribution network, which is the hardest piece to get. What that distribution network does is it allows us to quickly test product R&D and either fail-fast and move on or see success quickly, scale that success, and find more success for our clients. When our clients are successful and we're giving them more products, what that does is it makes them stickier to our platform, as we've discussed before, but it also attracts new clients to our platform. Those new clients will then hook into all of those products for developing and find success themselves, which again, leads to more distribution and increases the advantage that we have.

The important piece here is also to think about the data exhaust, as we call it, that comes out of this. We continue to garner insights and use that data aggregation inside of our platform to point out where we need to go from a product development standpoint and continue to make the right tools for the market that will continually accelerate our brokerage. Next slide.

When you think about our moat, there's a couple of things that we want to highlight here. The first is our cost structure advantage. When you think about our core structure, again, it goes back to that scale I mentioned earlier. We've had a maniacal focus around straight-through processing and around self-service tools. That means that we can profitably support smaller accounts than any other player in the industry, and this allows us to continue to grow with first-time investors profitably right from the get-go. As those investors get older and they start to accumulate more assets, we know that they'll become increasingly more profitable to us over the long run.

The second is high barriers to entry. The first barrier to entry that I'm going to keep hitting on is our scale. We already have that distribution which continues to shrink our unit costs and allows us to do things cheaper than our competitors. The second piece that is a high barrier to entry is really around capital.

First, if you're trying to enter the custody and clearing space, the biggest challenge with capital is, if you raise capital, what the investors want to see is you're spending it to develop products. They want to see that you are spending it to attract new customers. What they don't want to hear is, you need to park that capital for settlement and not use it to grow your platform. We have both enough capital to grow our platform as well as settle all the trades, which is definitely hard to come by.

The second piece, which Bill hit on before, is really the netting of our capital. While, you might try and go this space alone, any individual customer is going to have a very uniform customer base, which is going to mean that they have much higher requirements on a nightly basis in terms of capital settlement. But as we hit on, our clients will net themselves out and will actually be able to do this at a lower capital per client than any of our competitors.

The next piece is deep domain expertise. This isn't just about the technology, but it's also really about the people that worked at Apex and the experience and knowledge that they bring. It's one thing to have a great tech-stack, but it's another thing to know how to navigate the byzantine rules and regulations in the brokerage space and build on top of them in a clean way from a regulatory standpoint, but a way that removes a ton of the friction that people feel today. What our team is able to do is both maximize our return on capital, but also minimize our risk. Most importantly, they are super innovative at heart. Our team just because they are experienced and they've been around for a long time in this industry, doesn't mean they don't want to see change each and every day that benefits our clients.

When it comes to high switching costs, I think it's fairly obvious to say that it's really difficult to take your brokerage or your advisory and move to another custodian. But what people often fail to see is also the high risk of failure and the high cost of failure that comes with trying to do this with someone that doesn't know and isn't experienced in and have a proven track record with what we’re able to do in terms of protecting our clients, and we see protecting our clients as the most important part of the value we bring to the table.

Finally, it’s that network effect, it’s what I hit on before. Success is going to beget success on our platform, and we're going to continue to see that as we grow. Next slide.

When we think about the different avenues we have for growth, and this was actually the first question asked is, what happens to our TAM? What happens to the clients we're selling to today? We definitely think that there is no risk of that funnel drying out, because we're seeing the TAM continually evolve and grow. The first thing is advisors looking to modernize. There's tens of thousands of advisors out there and more and more every year becoming independent, and we know that that base needs a cost friendly, modern and client-forward tool. That's something that we can provide and we know there's a huge TAM and opportunity there.

The next piece is going to be non brokerage financial firms, as Bill spoke about before. You have lenders, credit card providers, community banks, insurance providers. All of these firms today need to figure out how to converge financial silos and offer an all-in-one experience, and we see them all coming to us today, looking for help creating that turnkey, seamless and modern experience.

When we look outside of the financial space, it's not just non brokerage, but it's non-financial firms that are looking to increase wallet share. Think about big box stores today who already have savings products or big economy employers that want to figure out a better retirement solution for their employees. They're all looking to expand their wallet share, increase revenue streams, and create a better experience for their clients.

The next group that we're really talking to is the loyalty investing platform. These are consumer brands. Think about every time you fly and you get miles, every time you stay and you get points. Wouldn't you rather get stocked in the airline you use every day or every week? Or the hotel that you stay in every week when you're traveling? We see this as a huge frontier that's really on top today and a place where we have a lot of prospective clients.

Finally, it's the steady march of innovative FinTechs coming to us with new ideas that they want to partner with us on to build. We've not seen that slowdown, and we are very sure that that's going to continue to go on.

When we think about growing, in this next bucket, our client share of revenue, this is really about the product development that I just spoke about and that Dustin spoke about before. It's continuing to dig deep into our core and coming up with innovative new solutions like fractional shares or instant cash transfers. In this next bucket though, when we think about expanding our platform capabilities, this is about moving outside of our core competencies and into areas where there's a lot of complementary tools and services that are going to fit well with our platform and our client needs. This could be going up into the front office for more turnkey tools and services. It could be going into the back office where there is a number of vendors that we use today or our clients use today going around us where we really think it can make sense to bundle them in tighter. We can also go out across financial silos into areas we've discussed like banking, and lending, and insurance. How do we create that experience, that really tight financial convergence hub that clients can come to in one place and get all the tools they need?

Next, when you think about the geographic expansion, again, we hit on this earlier, we see two different areas to expand. The first is going to be outbound and the second is going to be inbound. From an outbound perspective, that's going to be U.S. citizens who are our customers today looking to trade in foreign markets. The second opportunity, that inbound flow, and this is where we really want to focus to start, is going to be on foreign citizens looking to access U.S. markets.

We think there's a huge tide here as the FinTech platforms that have started in the U.S. and other developed countries are continuing to move further and further around the world and expand their footprints. What they want to do is take their platform and connect everything around the world, and part of that is going to be U.S. investing. When you look at Americans today, over 50% of us own some form of stock. But if you look at India, only 2% of their population is invested in the stock market today. And if you look at China, only 7% of their population is invested in the stock market today. There is an absolutely humongous opportunity here that we're excited to take advantage of.

Finally, on the M&A front, we'll dig into this in a few slides, but really where this comes in is using inorganic growth to accelerate any of these strategic opportunities that we have in front of us. Next slide.

Quickly, I just wanted to touch on how we go to market and how we bring clients through our front door. First, we have two people that we'll call greeters at our front door. That's our first team of direct sales representatives who are going to be selling our traditional APIs, and they're really going to be partners and relationship managers with our prospects as they evaluate coming to Apex. The second is going to be our strategic channel partners. The way we look at these strategic channel partners is that they are force multipliers to really sell our platform and help us to expand our footprint and assets across a whole wide range of different client types.

When you look at the Solutions and Sales Engineering teams, these are newer teams that are already making a huge impact on our environment. The first is sales engineers: what we've learned over the years is that as more and more FinTech clients come to us, we need to make sure that we're speaking the same language as them, because its technologists coming to our doors. It's no longer old fashion Wall Street brokerage firms coming to our door, but we need to have tech forward salespeople that know how to communicate and solution. The second is that Solutions team, and what's important to highlight here is no two clients that come to us really asked for the same thing. Our sales process is highly consultive because nobody wants to bring something to market that's already been done before.

What our Solutions team does is takes ideas and helps develop solutions with our prospective clients to help them launch these new and innovative apps that they bring to us. The Onboarding team is a baton pass between the sales process and becoming an existing client. What the Onboarding team does is takes a roadmap created by the Solutions team and puts it into motion and helps our clients, our onboarding clients reach their goals.

Finally, with marketing, we take a very holistic approach where they have a spot all along the circuit. It starts with lead generation and goes all the way through joint press releases and product marketing campaigns as we come out with new tools for clients.

I quickly just want to hit on the strategic channel partners, because it really speaks about the breadth of our platform and what we're able to support. At the top, you will see more traditional players that you probably recognize the names of. What's important about these players is that they are coming to us knowing they need to modernize and that we're going to be a really important partner as they go into the next phase of their development and create that new modern advisory experience. But also, on the bottom of the page, you're going to see more of these up-and-comers who have partnered with us because they know that they are going to be more powerful in partnership with Apex than any other provider out there.

Finally, on M&A, I think it's a lot of the same buckets that we spoke about before. We can go up to the front office, we can move into the back office, we can go across the financial spectrum, and we can also look deep into the custody and clearing space for more tools that make sense within our platform. The one advantage that I really want to highlight here is that M&A is part of our flywheel and moat that I discussed earlier because there's a distribution aspect that immediately creates synergy value for any product we acquire and bring into our platform. Oftentimes, what you have is a good product struggling to get distribution, and so by taking products and dropping them right into our platform, we're immediately able to create that success that the companies that we are looking to acquire will look for.

With that, I think we're going to flip it back to M&A. Thank you.

Chris Springer

Hi, everybody. I'm Chris Springer. I'm the Chief Financial Officer of Apex.

I wanted to talk a bit about the financial solicitor. On the first slide, let's talk and touch about the financial highlights of our business model. Our businesses have a variety of revenue sources and multiple levers that we can pull to drive revenue growth. As we will discuss on the next slide, many of those revenue sources are recurring. This means that they are not reliant on customer engagement or transactions.

Staying on revenues for just a moment. As Dustin explained, the flywheel slide, our business model has consistently driven increases in the revenue per account after the customer account is live on our platform. This is done through a variety of means, including our fully paid stock lending program and also increased trading activity. As we continue to develop and roll out new products, features, and enhancements, I expect the revenue per account to continue to rise. This will occur because we find new ways to engage with our customers on the platform.

We've talked a bit about operating leverage in the couple of slides previous. As demonstrated by our year-over-year results from 2019 to ’20 and also the first quarter of 2021, our model is scalable. With scale comes additional operating leverage and higher margins. It's important to note, looking at 2020 compared to 2019, our net revenues grew 106% and our net income grew by over 220%. As you will see later in the slides that we talk about, this trend continued in the first quarter as net revenues grew by almost 100% and net income grew by over 400%. Next slide, please.

As you can see, our revenue levers are broken down into two buckets: transactional and recurring. Transactional levers are reliant upon customer interaction. This generates fees including clearing, execution, banking, and revenue from our crypto business. In contrast, we generate recurring revenue as the custodian of our customer assets through a variety of streams. These include interest on credit and debit balances, securities lending, account maintenance, and proxy, amongst others.

The contribution from recurring and transactional buckets can and will vary over time. This will be based on a number of factors including interest rates, market volatility, the number of trades we process, and accounts opened. The real message here, as we’ve talked about over the course of the presentation is the importance of the continued growth of our accounts. As we continue to increase accounts on the platform, our revenue grows.

The number of accounts drives income through a variety of ways. Account opening fees, account maintenance fees, clearing and execution of trades. These accounts then start to accumulate assets. These securities go into our securities lending program. This further drives revenue. Next slide, please.

As I've mentioned, the number of customer accounts is a critical indicator of our ability to grow and generate revenue and net income. But there are others that we need to talk about. It all begins with the number of clients that we add in the period. We talked a lot about being the FinTech for FinTechs, which means that we acquire clients generally at a very early ages in their lifecycle. Often this is when their business model or idea is still in its infancy. We provide the guts to them to make their dream a reality.

As you heard Dustin say, when clients grow and add accounts, we grow with them. But sometimes, as we all know, things don't work out. It's important for us to keep restocking the shelves, or call it planting new crops. Which is why we have come to focus on the number of new clients added rather than the total number of customer clients that we have. As we sign up more clients, we will have additional opportunities to increase customers and assets.

Turn to customer credits and customer debits. At Apex, these are revenue drivers. Customer credits is how we talk about cash that we hold on behalf of our clients and their customers. These amounts are held in interest-bearing bank accounts on- and off-balance sheet and are also invested in financial instruments backed by the United States Government. We earn interest income on these balances. It's important to note that we actively manage our balance sheet to take advantage of changes in the interest rate curve.

Customer debits is how we talk about receivables due from customers and their customers generated by funds borrowed from us to purchase securities. Customer debits not only contribute to interest income because of the rates charged on the amount that the customers borrow, but it is also an indicator of the amount of securities available in our securities lending program. Let's turn the page now and see how these KPIs turned out in the first quarter.

Turning to Q1 results, in the lower left-hand corner, the number of accounts increased by 85% from the same period last year to 14.4 million. Sequentially, we added over 4 million accounts in Q1. Important to note, over 75% of those accounts belonged to customers aged 40 and younger. Customer credits were up almost 65%, and debits were up over 400% when compared to the same period.

Extraordinary market volatility associated with certain stocks, coupled with unusually high levels of customer engagement, drove a record number of trades: 235 million for the quarter. This is approximately 70% above the fourth quarter volumes and 183% higher than the first quarter of 2020.

Customer account growth drives increased balances and transactions. These were the catalysts of revenue growth for the first quarter at Apex.

Now let's talk about how this manifested in revenue growth. As you can see in the chart in the upper right, our adjusted net revenues were $102 million for the first quarter. This is up 122% from the $46 million in the first quarter of 2020. By adjusted net revenues, I mean total net revenues less reimbursable fees, non-operating income, and also excluding the impact of interest and expense on debt.

Now turning to EBITDA. Adjusted EBITDA totaled $46 million for the first quarter of 2021, translating to a 45% adjusted operating margin. That compares to Adjusted EBITDA of $13 million and a related margin of 28% for the first quarter of 2020. This demonstrates the scalability of our financials for additional revenue generated EBITDA at a higher incremental adjusted operating margin rate. The incremental adjusted operating margin rate was just around 60% for the quarter. Next slide, please.

Now to the projections. In Q1, we achieved almost a third of our 2021 adjusted net revenue projection and almost 45% of our Adjusted EBITDA projection for the year. The fact is, we are well on our way and we are confident that we will hit our 2021 projections. Our projections were built on existing customer relationships and the assumption of modest revenue growth from new clients.

As the projections you see indicate, as we add new customer accounts, their impact on our financial performance will continue and be felt in subsequent periods and add scale and operating leverage going forward.

With that, let's open it up for the final round of questions.

(Multiple speakers)

Rajeev Khurana

Looks like Andrew Schmidt from Citi.

Andrew Schmidt

Hi, thanks again. Thanks for taking another question. Two questions. I'll get the first one out, then I'll follow up with the second one.

In terms of clients on the platform, is there any meaningful client concentration today? Then the corollary to that is, it's great that you get in with a lot of these clients when on the ground floor and you get experienced growth. But when these clients get to a certain scale and contract terms come up for renewal, what have you observed? Maybe it's a little bit too early, but just a two-part question on customer concentration and then the renewal, what renewals have looked like.

Bill Capuzzi

Connor or Chris, take that concentration and then I can talk about the growth.

Chris Springer

Sure. As we put into the S-4, originally, there's one client that last year was about 15% of our adjusted net revenue. The top three accounted for 36% of our revenue. From a concentration standpoint, those are the numbers.

I'll let Bill, you can talk more on concentration if you want. Or I can continue if you want.

Bill Capuzzi

Look, if you go backwards, Andrew, and you look at the client counts in the concentration, it sort of ebbs and flows depending on what's happening in the markets. I think that that's going to continue. The part around renewal, the reality is, I said this before is, if we're doing our job and we're smart around continuing to re-price, when you talk about the contract, and we think it's just evolving. It does not start and end.

We look at what's happening as it relates to the customer in real time and make adjustments. Because I think as Chris walked through and you may have seen from the S-4, there's many different levers, there's many different ways that we generate revenue. Depending on the environment and dependent upon this customer, those things move up or down. Then our job is to obviously continue to add more ways for them to make money, like crypto.

Then the second part is to continue to look at the revenue splits and adjust if they gets out of whack. As an example, for that largest customer, we're continuously looking at the trade processing, the ticket charge line item, and adjusting it. Again, it's about us, A, being a good partner and frankly, B, being very prudent around how to make it such that we continue to add value at a price point that just works for the customer.

Chris Springer

I mean, Bill, it's sort of a champagne problem to have, where you've built a platform that can enable a customer to engage more with their customers and grow their business and you're sharing along with them. At the same time, as Bill mentioned, the real key to us is keeping our price point at a level that's fair to us and fair to them, based upon your relationship with them.

Andrew Schmidt

I like that: champagne problem. That’s a good term, I’ll have to take that.

Chris Springer

I can't take credit for it. It's someone else on the phone, I grabbed it from him.

Andrew Schmidt

There you go, we'll pass it forward. Yes, that makes sense, there's a lot of different ways to offset that. You can grow with your clients. Obviously there’s tiered pricing, new products, and things like that, that makes sense.

There's obviously a large secular element of the story here. It makes a lot of sense and a lot of tailwinds. If we think, whether it's demographic, there's a lot of things here. But the cyclical element, could you talk a little bit about that? To some extent, secular growth can offset cyclical factors. But how do things like rising interest rate environment, potential economic growth, moderation, as I think about what might happen, just hypothetically, in the case of a downturn or something like that, I think about redemptions and things like that. Just anything you can talk about to keep in mind from a cyclical perspective would be helpful.

Bill Capuzzi

Sure. Why don't we start by just talking about if… We talk a lot about the number of customers on our platform. I think the part that we alluded to a bit today is that the second part is, once a client's open on our books, our job alongside of our customer's job, let's just pick on Stash, is how you do you set it up so that every month there's recurring money coming into the account.

It's just proven out when we look at our customers and the end customers, there's a drip campaign of cash coming in and then being put to work. It mutes a little bit of cyclicality of what's happening. You look, okay, the COVID stocks and COVID period, lots of activity, lots of volatility. The reality is, when you look at the client accounts, they continue to grow in assets. Part of that, for sure, is based upon this great bull market we've been in; but for sure, that bull market doesn't account—and you guys can do the math, doesn't account for the growth in the accounts. That's part one, there's this drip campaign.

The second part is, if you understand our business, one of the things, which has really been an interesting phenomenon over the last six months, is that ACATS has really taken off for Apex. If people understand what an ACAT is, it's effectively, an account transfer from one brokerage firm to another.

Chris Springer

Without liquidation.

Bill Capuzzi

Right. So that you don't have to deal with the tax implications. ACATS, really, was a small part of our business, historically, and over the last six months, it's become a pretty massive part of our business. What it tells you is two things. One is our clients are winning, and those traditional brokers, or maybe some of the other brokers or advisory firms, are losing because of the experience. Two is that these are folks that actually have started their investing life some place else, because historically, it was always first-time investors at Apex, started with $1,000, and it grew from there. Now, we're seeing larger accounts that are coming in.

The part about redemptions, we saw this. We saw last March, it was this first test. Oh, my goodness. Markets go down, what we're going to see is people are going to run for the hills because they need a personal advisor, they need a human to interact with. And the reality is we can go back and get the stats from that downturn, it didn't happen. Money didn't get pulled out. If anything, people were buying into that dip. This is, again, a symbiotic relationship. We don't do B2C. We partner with the right people, and they do a good job of continuing to engage with those customers and keep them locked in.

The one specific thing is that you talked about was interest. That is, I'll just call it gasoline on a fire for us. Most of you guys know the business, understand. You look at Schwab or folks that are really heavily weighted towards interest. For us, it's a portion of our revenue, and what we do is ladder the cash out onto the curve. As the Fed continues to raise rates, the right way to look at it is roughly 50% of those Fed raises dropped straight to the bottom line for Apex.

Chris Springer

I think it's also, which is often the cyclicality, is as the assets come onto our platform, I mentioned in the remarks I made, is that that gives us more securities for our securities lending program, and there's a demand for the securities that these are being lent out. We have grown our fully paid and our margins, amount of stock that's available to us, because of margin debits as the margin debits have grown.

It's an electronic program that just makes those available to other brokers who need the stocks, and those rates are dependent more upon the need for the stock, not upon the cyclicality of the interest rate market. That also is another item that is, as you'll see, drives our recurring type business, because these assets are always around for us to lend.

Andrew Schmidt

All good points. Thanks a lot, guys. Thanks for the time today, really appreciate it.

Bill Capuzzi

Talk soon.

Rajeev Khurana

Next question comes from Bob Napoli from William Blair.

Bob Napoli

Hi. Thank you. Appreciate the presentation today.

Question on just the growth of the accounts, customer accounts, the 85% growth year-over-year, can you give some color on where those accounts came from and how you've been able to generate that type of growth? Then, what is the visibility to the growth in accounts? What kind of growth in the accounts are you expecting over the next year or two years, and how much visibility do you have into that?

Bill Capuzzi

I'll try and get through those. These are good questions.

The first part around where is the growth coming from? The good news, and I said this, this trend started well before 2020, before COVID hit. When you think about the bull market, zero commission, fractional share trading, some of the things that we've done, on top of great apps, great front office tools. I use the analogy of rising tide floats all boats.

For sure, there were some that were better than others. For sure, when you think about our 200-ish customers that use Apex today, there are some that didn't do tremendously well through the last year-and-a-half. But when we look at it across the board, there's been really good success because, as a cohort, these disruptors, the innovators, they're engaging with younger clients. They are engaging with people that don't have a good experience where they are. They're engaging with people that think that there's a better way of doing it. I think the proof point, I don't have the exact number, but just think about Gen Z.

How many Gen Z customers do we have on our books today? Do we have that stat?

Tricia Rothschild

There's 9 million that are under the age of 40, and about two million of those are under the age of 24.

Bill Capuzzi

This next generation of investors that's coming on, and we like we talked about, whether it's Carver Edison or LEX Markets or SoFi or Stash, they're all trying to solve some part of the challenge that's out there. Broadly speaking, there are for sure folks that have had great success like a Webull, really at the expense of some of the folks that faltered over the last year. We saw elevated levels in terms of clients, somewhat across the board.

On a go forward basis, it's a really good question, and some of it ties to what we said before in terms of the opportunities going forward. Give you good example. We added crypto two years ago, just sat there and did nothing for a while, and scratched our heads and said, "Was this worth the effort to build that Apex Crypto?" Then things came roaring back, as most of you know, at the end of last year.

Add that to the platform, when you look at the numbers in the first quarter into the second quarter, just created a massive uplift because crypto became really popular. What's going to be next Bob, NFTs? Our job is—I don't see picks-and-shovels, but think of it as, our job is to create a platform and continue to evolve in terms of how the industry is going to continue to participate from an investing standpoint.

I'm not going to predict what the numbers are going to look like. I think the opportunities that we laid out in terms of international, around advisory, around the folks in the FinTech space that have a captured audience that want to add investing, it just creates this, we talked of the flywheel, creates this massive uplift for us, certainly a big opportunity.

Chris Springer

Sorry, go ahead.

Tricia Rothschild

I was just going to add that in addition to the type of accounts or who owns the accounts, it's the way that they're also trading. Our ability to support fractional share trading, fractional share trading is a very large percentage of our overall trading volume. It shows that the need for some of the clients or investors, customers, to trade in smaller dollar amounts, and if you think about the future of something like customized indexing or direct indexing, having the technology capabilities to trade those types of volumes at scale will be increasingly valuable.

Bob Napoli

Thank you. Is it disclosed who your largest client is, who your 15% client is?

Bill Capuzzi

I don't think it is. No. We didn't disclose it. No.

Bob Napoli

Okay. Then who do you consider—last question for me is, who you consider your closest competition or who do you keep an eye on?

Bill Capuzzi

It's a great question. Look, I think you have the bigger incumbents, to be frank, I don't really keep an eye on them, but they're out there, and frankly, our job is to continue to take AUM, or assets under custody from them. I think more on the FinTech side, there's folks out there like DriveWealth, there's some smaller startups. Look, like we said, they're providing part of the stack.

I think it's been proven, if you just go back again to what happened in January, it's really important to manage the vertical. I think Connor talked about, why are we doing this IPO? Why are we raising money? There's a bunch of opportunities organically and inorganically that just step on the accelerator and drive forward to expand the platform.

Look, the other one I would tell you is Robinhood. I'm good friends with Vlad, I keep an eye on what's happening there because I think they're smart folks, and I think I wouldn't be shocked at some point if they decide to try and do this for others. I think they got to get their own shop in order, but I keep a pretty close eye on what's happening there.

Bob Napoli

Then the balance sheet, do you have $1 billion of cash? Is that (inaudible) that revenue?

Chris Springer

We have $1 billion of, if you want to call it, net liquidating equity after the close, yes.

Bob Napoli

Okay. Great. Thank you, I appreciate it.

Rajeev Khurana

Next question comes from Joe Vafi, from Canaccord.

Bill Capuzzi

Hi, Joe.

Joe Vafi

Hi, guys. Thank you again for taking more questions and a great presentation.

I was wondering if we could talk about this bank channel a little bit. I just found it intriguing from a FinTech perspective, a lot of us here on this call are FinTech guys, and so we understand how the banks are under pressure from a (inaudible) from a lot of FinTech. To the extent you could talk about how that channel look and the opportunities and the challenges there, that would be helpful, and then maybe I'll do a quick follow-up after that.

Bill Capuzzi

Hi, Joe, you got cut off right in the middle of that. Sorry, I heard you talk about the banking channels, just to make sure I got the question right.

Joe Vafi

Yes, just the opportunities and the challenges there. Clearly, I think it's a big opportunities to see the big banks offering brokerage but smaller banks can't. It's a tough row to hoe for some smaller banks it feels like these days with a lot of pressure from a lot of angles.

Bill Capuzzi

Yes. Let's start with the opportunity. Lot of those smaller banks that you just talked about are the credit unions. They basically offload the investing advisory brokerage solution to the likes of somebody like LPL. The reason for it is, historically it's been a daunting task to take on, offering some extending up, you're a small community bank, you're a credit union, it's like, "Oh, my goodness, how could we possibly add this to the mix?"

The reality is, I got to be careful what I say, lots of opportunity for us. Again, just lower the barriers and allow for them to take back control of their customer experience. Then the second part, and Dustin touched on this, is the banks care about the deposits. They want to make sure the cash stays in the banking world. While it's interesting to us too, we want to obviously keep credit interest at Apex, there's other opportunities, there's other levers to be pulled with folks like that.

You can see a world where you take advantage of Apex's real time API, some of the things, that instant cash that Dustin talked about, and be able to connect the dots and provide a turnkey solution that dovetails between the local banking solution and whether it's an advisory or brokerage solution. Again, most of those clients at those banks, they're middle America. It's not high net worth individuals. It's mostly middle America where a digital solution, A, is what they want, and, B, is probably much more scalable and cost-effective than trying to roll-out an LPL advisor too.

The challenge there is, I'll use the herding cats analogy, there's lots of small banks and, frankly, I think you guys know if you're in the space, technology is woeful in a lot of those banks. We've got to be really careful in discerning as to who we partner with and the level of sophistication that they have around technology, because it can become a lot of work for us to try and help somebody that isn't in a position to really be helped from a tech perspective.

I don't know if you've anything to add.

Dustin Kirkland

I think I would just add that we've seen almost a decade of little to no interest rates on cash, and so much of middle America and the Millennials that have invested with our clients have found better ways to put their money to work, be that in the stock market or through crypto assets or some combination of. That's where Apex can complement the thing that we all need. We all need a checking account or savings account or a mortgage or something like that. But keeping those assets closely tied to other assets that are doing work for you, whether it's dividend stocks or cryptocurrencies, earning something. That's where Apex APIs plus a modern banking system is: there's a convergence that's happening there, and we're right at the nexus of it.

Bill Capuzzi

I'd say back to the point about the challenge. One of the opportunities that arises from that having no technology is, you talked about channel partners, folks like Orbis, folks like Fusion IQ, Envestnet, Orion, they provide some of that ability to offload some of that technology solution to provide more of a turnkey brokerage solution for those types of customers. There's a big opportunity there. Again, we just got to be careful in terms of us getting distracted and chasing opportunities that at least we think they're opportunities that they turned out not to be.

Joe, does that answer your question?

Joe Vafi

It does. That's really helpful. Then just one quick follow-up on I think the fully paid lending program, which I find intriguing because I like using it in my own account. It's a nice little chunk of change coming in every day actually. But how do you see that product stack? It seems like for individual investors, that's a real benefit that they wouldn't otherwise have, and what that means for the P&L of your partners that would choose to implement that because it seems like a nice (inaudible) for them if you have a lot accounts even if you keep the accounts small.

Bill Capuzzi

Good question, Joe.

For those that understand stock loan, it's not like we have a desk of six stock loan traders. This is not traditional stock loan as people, I think, historically think of it. We just automated the process, so upon account opening, we said we open accounts, no paperwork. Part of it is to just provide the ability for clients opting to the fully-paid program right at account opening. Because most of our customers are younger. The Peter Lynch concept: invest in what you know, invest in what you believe in. Most of these folks are investing in interesting names, hard to borrow names, small-cap names, I think, Beyond Meats from last year. It creates opportunities because there is demand, supply and demand, and all that happens in real time, because if it didn't, it would look like just any other stock loan desk.

I think to your point, Joe, with zero commission, this provides a really good opportunity for our customers to generate revenue. It'd be a good thing for the end customer, because to the extent that there is sharing, like you said, Joe, you're on a platform, your stocks are just lent out, and you end up with a "dividend" and it's your account: it's like, well, this is great. The reality is shorting is going to happen in the market, right. There is that just kind of supply and demand that's just part of greasing the skids in our industry around buyers and sellers.

We just, again, spent a bunch of time over the years perfecting and automating the process and being able to make it something that's largely turnkey, which has been a big benefactor for us.

Back to the point of, I think Connor talked about byzantine rules, again, those that are close to the industry, the FCC came out with rule changes related to this recently, and they're tricky. I go back to that slide that I talked about, which is the team at Apex. Okay, great. You have folks like Dustin that come from Google; people like Josh that don't come from the industry, come from Canonical.

The reality is you have to marry that with people that understand how to navigate through this crazy world of brokerage and clearing, and being able to do that and efficiently and effectively be able to capitalize, keep the program going, satisfy the rule changes, continue to be places where it just makes zero sense for people to go and try and do this themselves because, I cannot speak about names, but I know that the program we provide, and one of the larger online broker firms, they can't figure this out. Again, it's the value of—for those that know me, I've been in and around FinTech, in and around custody and clearing my whole life. So, you take that knowledge and you apply it to an old way of the industry working. That creates the defense of the wall.

My team’s head is nodding, so I guess I got that one right. Yes.

Joe Vafi

That's very helpful, Bill. Yes, for what it's worth when my large online broker that I use for my own account was acquired by a large, big investment bank, I got a new fully paid agreement rammed down on me from them. So probably (inaudible) aware of that. Thanks a lot, guys. Much appreciated.

Rajeev Khurana

Next question comes from Rich Repetto from Piper Sandler.

Richard Repetto

Yes. Hi, guys, again. Thanks, Bill, on that ACATS information. So, you're the big winner these days. Interesting.

First question is, and you may have said this and I apologize, but on the crypto offering. I'm trying to understand. It started in 2018, turnkey solution, I imagine. I would envision something like crypto trading in a box where you can offer that to brokers. But my question is, how they handle the custodial side of it in trying to figure out where the lines of the broker stop and you pick up on crypto, because it is a different asset class, I think?

Bill Capuzzi

Yes, and it's a great question. Here's the secret sauce.

How do you make it such that an end customer can buy Tesla today, sell it, use the proceeds, and buy Dogecoin, and all do it within one framework? By the way, Richard, you know this, within a totally different regulatory regime, be able to do that in a totally compliant way. So, we spent from the outset of setting up Apex Crypto as a separate company from the FINRA broker-dealer, we spent a bunch of time with the regulators to get that right and make sure that we were doing things totally compliant, that we were doing things safe and secure. Once that's then set up, when a client comes on, they click a box, they agree to the terms related to crypto, and they have access to equities options, futures, fixed income, ETFs, mutual funds and cryptocurrency under one house.

Then the last part I'd say in terms of the ergonomics is that, you talked about you sell the Tesla, how do you move the cash across? When you sign up for crypto, how do you make it such that Rich Repetto isn't opening another account and going through the whole process again over an Apex Crypto Land? It's just a bunch of financial and technical engineering to move information in real time between the two sides but still stay compliant. Your question is specifically around custody. We're acting as custodian. Are we using a "sub-custodian", which we don't disclose? Yes, we do. We're acting as a custodian of those assets. It is our obligation to hold and secure the assets for the customer.

Richard Repetto

The sub-custodian holds a digital asset, the coin, and is responsible for that coin.

Bill Capuzzi

Yes, go one step further. We have a hot wallet, cold wallet. That storage of hot wallets is something that we leverage somebody else because of all the concerns, because of the challenges around it, because of the security. Folks are pretty good at that, and we found some good partners that we leveraged. If you're going to ask me who it is, I'm clearly not going to tell you.

Richard Repetto

I will have to do some research for that.

Bill Capuzzi

Okay.

Richard Repetto

The follow-up question is sort of—

Bill Capuzzi

I will tell you it's not coin-base. It's not coin-base.

Richard Repetto

Understood. This is the same sort of flavor of that question. But your flywheel effect, as you generate a new product, and you said you rolled that out to clients—like there's still a buffer in between you and the end-user, so it's going to be a customer. Is it still going to be up for the client to adopt it, whatever the new products created about a flywheel. Just trying to understand that (inaudible).

Bill Capuzzi

Yes, that's right. I think part of our job is to make it very easy for them to adopt it. I don't know, let's just take NFTs. It should just be within the platform, if you've already signed up for crypto, being able to navigate through in NFT, which should be just another asset within that same framework. Dustin talked about 24/7 trading. You've got to consume quotes, there's people that have to work different hours, but it should be something to the extent possible that's turnkey and not something that's a heavy lift to implement.

Dustin Kirkland

I will just add to that.

This is a place where, from a product perspective and providing those products and services to clients, the analogy that I often draw, having come most recently from Google Cloud, is its AWS or Google Cloud lite. We spend a lot of time acquiring those enterprise clients. Think of it: those are the clients that we sign, who then have downstream investors beyond them. But, like an AWS or Google that rolls out a new product to the Cloud which generates more usage, more CPU memory, GPU, AI services, that's the types of products that Amazon or Google rolls out to their clients.

From an Apex perspective, we add something like NFTs, and then our clients choose to enable that, turn that on, make that seamless, and that generates more transactions, more investments, more transfers into the Apex platform. When I describe Apex as SaaS-like or Cloud-like, just from my background, it rings a lot of the bells that we rang from a Cloud perspective.

Richard Repetto

Understood. Good job there, guys, thanks.

Tricia Rothschild

Thanks, Rich.

Bill Capuzzi

Thanks, Rich.

Dustin Kirkland

Thanks.

Rajeev Khurana

Next question comes from Kyle Peterson from Needham.

Kyle Peterson

Thanks for that.

I just appreciate the revenue breakout you guys gave out on Slide 33. That was super helpful. How should we think about the different pieces of that pie over time? Is that a pretty good steady-state mix for you guys? Are there are certain pieces that are growing faster? I'd appreciate probably at least some of that (audio interference) rates like you guys said, but how should we think about the mix moving forward?

Connor Coughlin

Yes. When we think about what we modeled, at that point it was more 60% recurring, 40% transactional. Obviously, we had a very busy first quarter that shifted things a bit. You saw the transactional come up a little bit. But when you look at the forecast we've put together and you think about how do we get that $200 million in extra revenue over the next three years, a large portion of that is going to be clearing an execution. A large portion of that is going to be your interest income and other revenue growing together. Mid-teens portion of that might be your securities lending. And then there's a tail of the other pieces.

What we think is really important to think about is it's a per account. It's what Bill spoke about before. We're going to have different levers for each client that is going to fit the type of revenue model that they have to make sure that we grow together. If we have a client come in the door who really needs to hold their credit interest, we might make more through the clearing piece, and it will push on the transactional revenue.

But across the board, we're confident that that per account revenue will remain consistent and ideally grow over the years as the accounts mature and get bigger and more active. We're not super stressed about what that mix looks like, but we do think it will probably go back to that 60/40 as the market becomes less volatile. That's by design. We really didn't want to factor in the cyclical nature of where we are today into how we're thinking about our revenue going forward.

Kyle Peterson

Then, I guess just a quick follow-up on (audio interference) since seems like it's a pretty small piece of business today. Have you guys identified any key markets that you guys are super interested in? And what are some of the big opportunities and challenges to growing that business?

Bill Capuzzi

You cut off, the one piece. You were talking about international. Is that what you're asking?

Kyle Peterson

Yes, just any key (audio interference) identify, some of the opportunities and challenges that you guys face growing internationally.

Bill Capuzzi

Yes. It's interesting. I have to be careful what I say these days. I was talking to a big prospect this morning. Look, the opportunity is, largely people want to access the U.S. Again, if people understand the business and understand the markets, there's opportunities to offer Australian trading, but there's very few names that trade a lot in Australia.

What people really want is access to the U.S. Part of the focus that we've historically had and I think focus on a go-forward basis is how do you make it simple for people to go from the 2% that have a brokerage account in India to accessing the U.S market? How do you make it such that like we do in the U.S, the account opening and the funding, right, to become and the movement back and forth of assets? How do you make that seamless? I think when we look at the clients that we signed, I think it was in my slide, somebody like an eToro or somebody like Tiger Brokers were starting to make longer strides into the international client base that wants access to the U.S.

Then from a prospect standpoint, there's certainly a pretty healthy pipeline of folks like that that want a modern custodian of sorts but a turnkey solution to access the U.S. markets.

The second part of it is, okay, at some point, and it's probably a '22 event to be frank, is, okay, we dominated the U.S. market, let's offer the ability for folks to trade the same way we do in the U.S. and Pan-Europe. We can do that today but, I will just tell you, it hasn't been a focus for us for obvious reasons. I think for some that know me, I know Rich knows me well, I ran an international global firm for a number of years. I know what needs to get done. It's really about staying focused on the opportunities at hand.

Kyle Peterson

It's good to know. That's good color. Thanks, guys.

Bill Capuzzi

Yes.

Rajeev Khurana

The next question comes from Betsy Graseck from Morgan Stanley.

Bill Capuzzi

Hi, Betsy.

Betsy Graseck

Hi, thanks for the time. I might have some very basic questions, but I just want to make sure I got it right.

First one is on the activity on the business that you are doing with your clients, do you have a 100% of their business in that sleeve, whatever it is that you're doing with them?

Bill Capuzzi

I don't think there is a single client that has… Yes, I think we do custody and clearing 100% for all of our customers.

Betsy Graseck

Okay.

Connor Coughlin

I think on the pro side, there's little sleeves, but FinTech, yes advisory, yes.

Bill Capuzzi

The reason for it—I don't know if you heard Connor. In the institutional world where there is this concept of multi-prime, there are some customers that have several prime brokers that are set up, including Apex. But for the core business around FinTech, wealthtech, even on the advisory side, the stuff that we focus on is single-threaded through us.

Betsy Graseck

Okay. Then when I think about the opportunity set on the revenue side, would you say, if you have to stack rank it, is it more from new clients in the sleeves that you provide today, or is it to adding sleeves to your existing clients?

Connor Coughlin

When you look at how we forecasted revenue forward, it's really about the existing clients today—and trying to do this without getting into too much detail. But what we did was we took each individual client we have today that is paying above minimums and we grew their trend out very conservatively. In many cases, if they're growing very quickly, we actually pulled back their trend and believe that they're going to, given the secular tailwinds, add accounts that are books and continue to grow their platforms. The majority of our growth is going to come from there.

Only about $30 million in 2023 is from clients who were not yet on our platform as of the beginning of 2021. The important thing to think about, Dustin hit on this in the sales and client lifecycle slide, and I hit on it a little bit: people bring unique solutions to us, in many of the cases with FinTechs connecting to our APIs. It takes some time to build their platform, raise capital, get to market, start to gain traction. What we're super excited about is, the more recent cohorts of sales from 2017, '18, '19 are now really starting to gain traction in the App Store. There's less dominance from any single wealthtech or FinTech player.

As we look forward, even though we're very conservative about many of the younger clients on our platform in the model, we do believe there's huge opportunity for any number of those to really take off, breakthrough their minimum platform fees, and start to add service revenue to our top lines.

Tricia Rothschild

And maybe, Betsy, if I could just add a little bit of color to Connor's point.

He described how we modeled it, which is fairly conservative in terms of the ramp up that we see and have seen with the existing clients. We were not aggressively modeling the new lines of business where we do see considerable potential, as you can see from the total addressable market.

For something like an advisory or international, there clearly are very large profit pools for us to take, but we were conservative in our model as it relates to that. Then how aggressively we get there could depend partially on our acquisition strategy and how we focus our sales efforts. But I don't want to discount the growth that will come from those new channels.

Chris Springer

Also, just to say that spending any of the money that we raise was also not in the model, any opportunity from the money that we do in an acquisition sense. Anything we do with putting that money to work will also be there.

Betsy Graseck

That was one of my last questions, but I'll go to that now and then circle back to my middle questions. But my question was on the money that you're raising here.

Should we anticipate that the leverage on that is going to be similar to what's in the model that you present today? In terms of not only the revenue lift, etc., over time, but also just how it impacts the balance sheet. Should the leverage stay the same in the forward look as it is now?

Chris Springer

I think if you take your last point first, on the balance sheet, it really depends on what we're doing with what the target would be. If it's more along the lines of adding a service that week to our clients to use, probably it will be less impactful to the balance sheet because it's putting a service model in.

If you're talking about ones that are going to include customers, where we're going to go out and look at people who have customer bases and bring it in, I would think that we would bring it in-house and we would enhance the leverage of what was out there to bring it back to our standards. That will be our goal.

Betsy Graseck

Okay.

Bill Capuzzi

I would just say, when you think about the platform in the core of the nucleus of what we do, you have players that are out there in the FinTech space that have had success, let's talk about corporate action or something like that, the synergy, the accretion in terms of something like that coming on to Apex and us leveraging, obviously, lowering the costs from that type of solution and then being able to hub-and-spoke it out to whatever it is. When we say 14.4 million at the end of first quarter, we talked about the flywheel, I hate to use the same word over and over again, but that’s the power of the platform, is that to the extent you can hub-and-spoke things through and take a neat feature in the industry and plug it in, it just creates natural leverage. That's part of the plan.

Connor talked about the M&A. We have a number of things teed up that we just think are smart. In terms of that leverage, they're going to add whether it's new product, existing product with better or new opportunities like we talked about International, those are all interesting paths for us to connect with some folks outside of Apex today.

Betsy Graseck

Okay, great. Then just final question from me. As we're thinking about your revenue margin typically—well, as you've indicated, people are coming to you because of your capability side, your platform is more seamless, etc. I'm guessing that you've got a little pricing advantage there relative to others because of that, maybe you could speak to that if you could. But then over time, typically as your clients grow, typically you reach breakpoints, then they come to you and say, "Hey, I get a little bit revenue." Yield goes down a little bit because the dollars are higher, but as your clients scale, maybe your breakpoints go down, and then you're layering in other services to drive up that margin overall for the client. I'm guessing that that's the longer-term runway we should be thinking about with regard to margins and new services coming in over the course of the next several years, but if you could tell me if that's wrong, let me know. Thanks.

Bill Capuzzi

That's right. I guess a few things I would just adjust in what you said.

They don't come to us. We’re really smart around on how to price, and most of the revenue drivers for us are in REV share. It's a 60-40 split. As they grow, because—we talked about stock loan as an example. We could do multiples of what we do now and not add another head at Apex because we've automated the process. It just gives us the ability as things scale up to share more and continue, frankly, to increase our margins while at the same time being good partners with our customer. We do that. Most of our contracts are somewhere in the three to five-year range. But the reality is it's a partnership, it's an engagement. And based upon that, we keep a close eye on that and are really thoughtful around how to share, and that keeps clients. There's no reason to leave if they're paying us a fair dollar for what we do at, and at the same time adding more products.

Betsy Graseck

Yes. Okay. Thank you.

Rajeev Khurana

Currently, there are no additional questions in the queue. Just a quick reminder, if you'd like to ask a question, please raise your hand in Zoom or un-mute your line and ask now please.

(Multiple speakers)

Connor Coughlin

I see Patrick O'Shaughnessy's hand up.

Rajeev Khurana

Sorry, I saw it now.

Patrick O'Shaughnessy

Thank you. Thanks for taking my questions here.

Question. How much is the tech stack or how much of the tech stack has been rebuilt since peak six took over pension?

Bill Capuzzi

I can tell you, we've deprecated the platform several times over, Patrick. That's part of our superpower for us, it's you got to continue to modernize the platform. So there's Dustin or Josh. Josh is on the call, our CTO. The client-facing side to Apex has been deprecated and re-platformed several times since 2012.

Dustin Kirkland

I'd say that we're always evolving. Things like Kubernetes did not exist in 2012, 2013. Kubernetes is our default micro services platform now. I was a product manager on Kubernetes at Google for some time, and it's the sort of thing that's always evolving.

We've got three API's right now that are in deprecation mode, meaning they've been superseded by new APIs, and we're helping clients off of the old one that's slower, more time-consuming, less efficient, and we're helping them onto the new one, which has mutual benefits for both of them and us.

Patrick O'Shaughnessy

Got it. Thank you. I hear what you're saying about as clients get bigger, you can tweak the terms of your arrangement and share more revenue with them. But as we think about the history of Apex and then Penson, I think of thinkorswim eventually took some of its clearing in-house. More recently, there has been Wealthfront and Robinhood who decided that they wanted full control over their clearing and custody. Has anything structurally changed in the last few years that you think that's not going to be an issue going forward?

Bill Capuzzi

Look, it's a good question. I think so. A couple of things. One is, I talked about being more thoughtful around pricing and I learned, we learned. We weren't as thoughtful as we were then as we are now around this. That's part of just maturing as a Leadership team.

The second part is the platform. Patrick, you're very smart, you're asking good questions, which is like the platform, back in 2017 was not what it is today. We talked about—I hate using the word using hooks because it's really not: it's about value-added products and services. The platform is a lot more mature to where we own a lot more of a stack and take much more of the work than we did back then. Between the pricing and the platform back when, we made it easy for at least in the case of Robinhood to leave.

I do think, frankly, and like I said, Vlad and I are good friends, if he was here, he would say without Apex, they wouldn't be who they are today, that there would be no Robinhood. He would also say it's a lot harder than I thought it was going to be to do that. Because it's not just technology. I think it played out, which, frankly, it was a great commercial for us. It played out in a really public way all the challenges over the last couple of years. The vast majority of them have to do with the clearing side of the guts of how to make this happen versus focusing on making a great client experience.

Vlad and Baiju are just amazing call them artists. Thank God for them: they helped democratized investment. Amazing. I mean, truly the guts of this industry is really hard to navigate.

The other one you mentioned Wealthfront. Look, here's what I'd say. They wanted to go to what's called omnibus. It's not necessarily something we want to support, because I don't get—there's risks related to this business. When you go into an omnibus relationship, the risk transfers from us to the customer. It just was, frankly, not something that we wanted to support. We mutually agreed to part ways. They don't self-clear, just to be clear, which is part of the reason they didn't have any issues back in January.

Patrick O'Shaughnessy

I think they moved to RBC, if I remember correctly.

Bill Capuzzi

On an omnibus basis, yes.

Patrick O'Shaughnessy

Then last from me, you mentioned things that enabled Robinhood to even really exist and succeed. I think order-flow revenue is probably one of those things that allowed them to succeed. How are you thinking about the potential risks from the regulatory standpoint there, both kind of the first order financial impact on you guys as well as the second order? What does the impact going to be in your clients if there are rule changes to order flow revenue?

Bill Capuzzi

I guess the first part I'd say—and again, folks that know the microstructures of the markets, I've been around a long time. Retail trading has never been better. You're getting a little bit of soapbox here for me, which is, I think the markets are incredibly efficient. I think the spreads have never been tighter. It really has been a real benefit to the end customer. The concept or notion of moving retail order flow on exchange is just not set up for that and actually be detrimental to the end customer.

With all of that said, my strong views, yes, there's, for sure, ways for us to improve the process. Again, I can't go into any details, but there's things that we're doing to set ourselves up to create alternatives, Patrick. Because, frankly, I don't think there's anything broken, but I do think it can be better.

The last thing I'd say is, look, it allowed us to go to zero commission. One of the things that allowed the industry to go zero commission, is I do worry about the dreaded unintended consequence of rule change in terms of what happens to the market.

Patrick O'Shaughnessy

Got it. Thank you very much.

Rajeev Khurana

Are there any more questions?

Bill Capuzzi

Two hours and 40 minutes. Well, thanks everybody for joining. Really appreciate it. Look, one of the things is if there's follow-ons, we're happy to spend time with folks subsequent to this call.

Rajeev Khurana

You can email us at ir@apexclearing.com. That will get you to the right folks and we're happy to set up follow-up meetings if necessary.

Jon Ledecky

A quick point, guys: will you be filing this at the SEC, the actual slide deck, today so people can access it?

Rajeev Khurana

Yeah. That's right, Jon.

Jon Ledecky

Then you can look it up under the Northern Star, NSTB. NSTB like boy, symbol on the SEC EDGAR website if you want to access a copy of what was presented today. Thanks again for showing up.

Bill Capuzzi

Thanks, everyone. Take care. Have a good afternoon.

Jon Ledecky

Thank you.