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Chris Donat, Analyst, Piper Sandler Companies

Hi, good afternoon. It's Chris Donat, Piper Sandler. We're moving on to our next presentation, our next fireside chat. And I'm pleased that we will have Apex Fintech Solutions with us. We have CEO, Bill Capuzzi; and Connor Coughlin, who's the General Manager of Fintech, representing Apex. So if you're not familiar with Apex, first you should be, because they're a company that provides solutions to a lot of fast growing Fintech companies and brokers, some of which spoke earlier today, like SoFi and Envestnet. And you should also be aware of the recent history on February 22 North (sic) [Northern] Star Investment Corp. II, that's ticker NSTB, they said they would acquire Apex. So we'll jump right in and I'll flip it to Bill and say, I know we've got some investors who are familiar with Apex, some maybe not so much. Can you give us the brief overview?

Bill Capuzzi, Chief Executive Officer

Yeah. Chris, pleasure to be here. Thanks for having Connor and I as part of this. Yeah. Look, let's just start with who is Apex and what do we do. Effectively we're the fintech for fintechs. And what that means is we're a B2B company. And the sort of focus, the vision from an Apex standpoint is to be that sort of trust the technology partner to drive the sort of the next generation of investing, right? And so when you think about that, it's again, like I said, totally a B2B company and the focus for us is from the start all the way through to settlement provide a turnkey platform that allows for people to invest in equities, options, fixed income, futures, cryptocurrency and soon to be NFTs.

Chris Donat, Analyst, Piper Sandler Companies

Okay. Can you say a little bit about the revenue model here? Because there's two big pieces of it. There's a fee side and then a net interest income side. What generates the fees for you? Who's paying you and what are they paying you for?

Bill Capuzzi, Chief Executive Officer

Yeah. So why don't I start at a high level and then Connor can jump in. So you mentioned it, Chris, sort of two sides to the revenue model for Apex. There's the recurring revenue and then there's the transactional side of Apex in terms of revenue. And at a really high level and depending on the ebbs and flows in the market, it's anywhere between 50-50, 60-40 either direction. And again, it depends on what's

happening in the marketplace as to how that works. The specifics – and Connor, why don't you spend a minute sort of breaking down transactional versus recurring?

Connor Coughlin, General Manager

Yeah. Thanks, Bill. So on the transactional side, and as Bill said, it's about a 50-50 split and it can change a little bit depending on what's going on in the market. But on the transactional side, there's two large buckets. The largest bucket is going to be your clearing revenue, which is a fee we'll charge portrayed to our customers. And the other bucket is going to be execution revenue. So this is a mix of both market access and payment for order flow. Then there's a third bucket there called the other, which is a whole lot of other smaller transactional things that our customers do like banking. So we have ACH fees, wire fees, ACH returns, instant cash transfers. We also will provide confirms and prospectuses depending on how a client's trading. And so that's a lot of what you're going to find in our transactional side of the revenue.

On the recurring side, this starts with account minimums. So for a new fintech startup that comes on our platform that might not be generating a lot of activity day one. There's going to be a minimum that they need to pay for the services we provide on a monthly basis. And then in the advisory business, it's more common to pay your clearing fees on an asset-based, instead of trade-based commission. So there's going to be asset-based fees that we collect, which will be recurring revenue that grows with our assets. There are credit and debit balances. So the credit side is the customer cash sitting on our books that we're going to collect interest revenue on and share with our clients. And then there's debit revenue, which is when we make a margin loan out to clients, they typically will pay us about 100 basis points for that loan and we're collecting interest there.

There's securities lending, which is our stock loan desk. And finally, there's also another bucket on the recurring side as well. And this is, if you want a paper statement, we like to do everything digital, but if you do want paper, we're going to charge you to ship that statement. There's maintenance fees on accounts, there's annual tax processing and there's proxy. So those are the largest buckets. And as we said, we're not super concerned about if it's 50-50 or 60-40, it's all about the different type of client on our books and what the market's doing, and we're all about the whole pie.

Chris Donat, Analyst, Piper Sandler Companies

Okay. As I think about some of the things that are tied more towards interest income, we're in a historically low interest rate environment right now. Is there upside to the model if short-term interest rates go higher? Is that something that gets passed onto either your business partners or the consumers if there were higher interest rates?

Connor Coughlin, General Manager

Yes. So the way that we've modeled the business today is we assumed low interest rates through the end of 2023 with no increases from the Fed [Federal Reserve Board], however, we have done some sensitivity analysis. At the end of Q1 this year, we had \$10.4 billion in credit balances. If the Fed were to give a 25-basis point hike in that target rate, that would – we would realize about \$10 million in net revenue to Apex over a 12-month period. On the debit and securities lending side, there's really no interest sensitivity. So even though those are paid to us in an interest-bearing way, there's no sensitivity in those buckets to what the Fed is doing.

Bill Capuzzi, Chief Executive Officer

And Chris, one thing you mentioned just to add is the pass along to the end customer. And I think it's an interesting question. The one thing I would say is, look, this is the power of the partnership. You mentioned Anthony Noto of SoFi. This is the power of the partnership between us and, in this case, let's use SoFi as a good example. That sort of decision in terms of, remember, their focus is on who do they want to target from an end customer and what do they want to offer, right, whether it's equities, options, futures, fixed income, cryptocurrency, NFTs, and our job is to bring that to life, right?

And so in the case of whether it's – we'll get to trading revenue or stock loan or interest income. We have a relationship with SoFi, their relationship with the end customers, their decision in terms of how they want to – how they want the revenues, how they want to get compensated from the end customer.

Chris Donat, Analyst, Piper Sandler Companies

Okay. You mentioned crypto and you had launched your crypto solution in 2018. And having had Gary Gensler on yesterday as our keynote speaker, and then we had Chris Giancarlo, the former CFTC Chairman today, but talked a lot about crypto and the regulatory environment there. I imagine – and I also cover PayPal and Square. So it seems when you provide crypto to certain customers, it can be a really powerful growth engine. Talk a little bit about how your crypto offering is structured and then what do you – what sort of demand have you been seeing for that from companies where crypto is not their core, but it seems like a really valuable ancillary service for driving customer engagement.

Bill Capuzzi, Chief Executive Officer

Yeah. Good question. So, let's start with, you're right, we built this a number of years ago. And I will tell you probably 2018, 2019, 2020, it looked like a giant losing bet in terms of the build out. And then the end of 2020 happened into 2021. It was, obviously fortuitous for us to build out Apex Crypto as a separate sort of sister company to the FINRA clearing business. And the superpower or sort of the value of Apex Crypto for us

and for our customers is its turnkey, right? So effectively customers of Apex that are onboarded avail themselves to be able to offer crypto pretty simply, right? They grab a few more APIs. They grab the market data that we provide. They plumb it into their app and off they go.

And we think of cryptocurrency as effectively just another asset class, Chris, right? And people especially retail, right, we reported 14.4 million end customers that we're supporting at the end of the first quarter, that's obviously grown over the course of the last few months. And they want access to the things that they want to invest in, right? And so today, as an example, there's few options for them. If they want to buy crypto, they go to something like Coinbase, and then they have to use some other means to buy an equity, right, or to put a passive investment.

The platform that Apex has provided is to allow for cryptocurrency to obviously be done compliant, right, you mentioned about Gensler, Giancarlo, it's to be done compliant and make sure that we're doing things the right way in terms of regulators. But make it seamless for the end customer, right, so that they can own Tesla, right alongside of Dogecoin, right. And that's what we've built is the ability for that to happen in a pretty seamless way.

Chris Donat, Analyst, Piper Sandler Companies

And any color, like I think you gave the total account number, but in terms of your actual business partners, have they had more inbound? Particularly like this last October that PayPal announced they would start enabling crypto trade on PayPal with Venmo. Does that cause other companies to pick up the phone for you?

Bill Capuzzi, Chief Executive Officer

Yeah. I mean, first quarter into the second quarter, it's been pretty active in and around cryptocurrency and people being interested in offering that to the end customer, largely because again, there's demand. People see this as more than just a speculative investment back when and want to actually hold it. I think the second part that is interesting is that we're now seeing more passive, right, advisory side of the business, looking to add cryptocurrency as part of our portfolio, right. So you think of robo-advisor that now - because again, we cater to largely the millennial and Gen Z community. You're now looking at people that are more passive providers, robo-advisors that want to add cryptocurrency as a component of the pie, right. So now you can take your, instead of it being all equities, you can say, okay, we want 5%, 10% exposure to cryptocurrency. And so Apex is facilitating that behind the scenes.

And then the last part which really kind of kicked off this year for Apex is offering Apex Crypto sort of as a standalone, right, for those firms that just want to offer

cryptocurrency via Apex. Separate and distinct from custody and clearing of equities, fixed income or options to be able to just offer cryptocurrency as a B2B play.

Chris Donat, Analyst, Piper Sandler Companies

Okay. Help me understand the structure here. So it's a sister company. Is it holding those assets like Bitcoin or Dogecoin? And then if people have fractional shares, similar to what you might do in the equity world, is that a fair analogy?

Bill Capuzzi, Chief Executive Officer

Yeah. I mean, that's a fair analogy. Again, it's a sister company simply because it's regulated differently, right? Some of the challenges that was part of the conference the last couple of days talked about is there's certainly a lot more for us to do to as an industry to get cryptocurrency in the similar place that the equity or the auction market is. But as a result of sort of whether it's the state registrations and we worked a lot with SEC around structuring Apex Crypto as a separate company, so that's not sitting inside the broker dealer, right. Separate distinct from that, which is why we set it up that way.

Chris Donat, Analyst, Piper Sandler Companies

Okay. I wanted to ask questions around your customers and sort of your ideal customer, because you have had some customers leave or graduate, if you will and then there's one high-profile in case recently where I think your customer might have regretted that decision after having their operational challenges in December and then again in March. To me that felt a little bit like an advertisement for Apex's services, you don't want the pain stay with us. But maybe help us understand how your systems work in unusual market volatility and unusual trading. And then how do you talk to your clients about the businesses you partner with?

Bill Capuzzi, Chief Executive Officer

Yes. So just to be really clear, Chris, because you said several or many...

Chris Donat, Analyst, Piper Sandler Companies

Yes.

Bill Capuzzi, Chief Executive Officer

One.

Chris Donat, Analyst, Piper Sandler Companies

One.

Bill Capuzzi, Chief Executive Officer

Over the course of Apex's tenure, and look at it, you just named the name it's Robinhood, right? And I think – look, we learned a bunch from that, right. If I'm really honest, right. So that was back in 2018. And I think there's two primary drivers, one was this early kind of instances of Apex and when we just talk about cryptocurrency, back then we didn't offer cryptocurrency. We didn't offer a lot of the things we offer today. And so we made it easier because in the case of Robinhood, they had to build a bunch of things because we didn't offer it at the time, right. So we learned in terms of product and service that we offered.

I think the second thing is that, you need to make it such that from a pricing perspective, right, you offer a great product at a fair price, right. And I think one of the things around Apex is that, and we learned also in terms of how to continue to be good partners with our customers and I call it kind of flattening the pricing curve to where – again, you offer a great product at a fair price, right. And I think in the case of one customer, pricing got a little bit out of whack as they grew kind of significantly in a really short amount of time.

You mentioned about sort of how it played out over the course of the last six months. And I totally agree with you and that could have been a better commercial, right? So on top of the product and service, the pricing, and the third piece of this is it's really hard to do this. It's not just about building great technology. You need to understand collateral management, treasury, risk management, right. A lot of the sort of guts in this byzantine industry that we work in and the superpower, the moat around Apex is really around how do you take great technology? Okay, fantastic. But marry that with – I've been in the industry a really long time, understanding how to navigate, sort of through from a regulatory, from a risk standpoint, how to navigate through sort of tough times.

And last piece on this, specific to meme stocks back in January is sort of this netting that happens when you have an ecosystem of customers that benefit translates to our customer, right. What I mean by that is, you have folks that are long GME and you have folks that are short-GME. And in the eyes of the NSCC, right, there's one position and it nets down based upon long and short. And so that's the power of an ecosystem where the challenges that were pretty prominent in on-display in terms of having to raise a whole bunch of money back when we really didn't have any bearing on Apex, right.

And our books, again, just use the reference to Robinhood, they look very similar in terms of the profile of customers that we support end customers, the differences that we have a fairly diverse customer base, right, from retail through institutional.

Chris Donat, Analyst, Piper Sandler Companies

Okay. So your large customer base in some ways becomes the most ballast for when you have unusual market developments and you're able to offset. I think about in my career, I've seen companies like OptionsXpress and ITG that went self-clearing and were both been subsumed by some other larger companies. But it seems like going self-clearing can also inflicted fair amount of brain damage on a management team.

Bill Capuzzi, Chief Executive Officer

Yes. Well, look, the last part is, there's a race in terms of getting eyeballs and keeping eyeballs on the platform. This is why the relationships with our customers works is like, look, focus on building great content, great experience for the end customer and leave the sort of backend, right, all of the guts, the plumbing to Apex, right. And in this world of where the world is shrinking, right, so we used to be just a U.S., lots of folks in the U.S. there is global interest and trade in the U.S. markets. And then you have sort of this consolidation, right or what's happening between banking, investing, investing in lending, these things are all starting to come together. And so you mentioned PayPal offering cryptocurrency, right? The folks like Walmart make an announcement that they're going to offer investing. You're starting to see these pieces of the puzzle come together and it creates opportunities for end customers, but for our clients, folks like SoFi, right, they got to continue to evolve and innovate in terms of the end customer versus focusing on building out a bunch of "commoditized" functions that Apex provides.

Chris Donat, Analyst, Piper Sandler Companies

You just made a reference to people outside the United States being interested in trading U.S. stocks. Can you talk a bit about that opportunity for you? Because it does seem like when we think about different asset classes, whether you draw the line around asset classes or geographies, it seems like, yes, if I'm using an app anywhere on the planet, I might want to trade crypto and I want to trade U.S. equities and I might want to trade some other opportunity, but I need someone to make it available to me.

Bill Capuzzi, Chief Executive Officer

Yes. Yes, look and like we said, it's complicated. To try and do this yourself is complicated, right, to kind of just navigate through rules, regulations. From a non-U.S. perspective, when you think about folks like – or places in the country like China or India, 2% of all Indians have a brokerage account, right, less than 7% of Chinese own an investing account. So you just think about, with more disposable income, right, folks are looking to put money to work. And folks like Apex are lowering the barriers to entry, right? So whether at zero commission, fractional share trading, access to cryptocurrency, 24/7 trading of equities. And we just announced being able to do instant settlements on an equity right on a sale. Those things are really important to allow those operators, those broker dealers or sort of platforms overseas to access U.S. market in a responsible, but on brand way.

Chris Donat, Analyst, Piper Sandler Companies

You mentioned some of the regulatory challenges or whatever. It's a complicated regulatory world. I can't prosecute either, you heard Gary Gensler's comments yesterday, or the press report, any feedback from you on those comments, anything that affects Apex, whether around payment order flow. I think the notion that's a holistic review that might be coming down the pipe, but anyway, what are your thoughts there?

Bill Capuzzi, Chief Executive Officer

Yes. Look, I think we're always going to do what's in the best interest of the end customer, right. I think current equity trading for retail customers frankly has never been better, right, in terms of price discovery, in terms of access to liquidity, in terms of spreads - with that said, Chris, there's always room for improvement, right? I do worry about sort of the dreaded unintended consequence, they're trying to push all this retail order flow into the current regime on exchange, right. I think that there would have to be some real changes in terms of how the equity markets are structured on exchange.

But again, our job is to provide best execution. And so if there are changes, great, we're going to make sure that we're fully compliant. I do think that there are a number of things that we're working on now as almost budding public company, I got to be careful what I say. But there are some things that we're working on from an M&A perspective. I think we'll provide some alternatives for our customers on trading to the sort of traditional payment for order flow route.

Chris Donat, Analyst, Piper Sandler Companies

Okay. Maybe to put one at Connor here, just in terms of things you have been spending money on. I mean, you talked a little bit about crypto in 2018, but where has Apex spending this money from a capital investment perspective, and then what's coming down the pipe or any changes on the pipe, anything big, besides what Bill might have just alluded to.

Connor Coughlin, General Manager

So, I think Bill hit on a lot of the exciting in-house opportunities that we're working on. He mentioned 24/7 trading, mentioned NFTs. But I think a lot of where our capital is going to go is into two buckets. The first is, we almost want to or maybe more than double our tech team, really lean in on the internal development. We already have – the tech team is more than 50% of our org, but we're going to continue to grow there. But we also see a ton of really exciting opportunity in the M&A space. And we definitely have plans to grow inorganically.

PEAK6, the largest shareholder, has an investing arm and M&A arm that for years has seen deal flow. And we're seeing that deal flow pick up as we get our name out there and as we now are coming into more capital. And we see as a platform, a lot of really natural leverage using our distribution and efficiency and economies of scale that will allow us to make some very complimentary acquisitions in the coming years that we're super excited about.

And there's a couple of different areas where we see them. One is going up into the front office, so getting – we don't want to be B2C, but we do want to get closer to the end investor and give them more turnkey tools. We can look across the financial silos. So get out of the brokerage vertical and look at banking or lending or insurance. There's a lot of opportunity there as we talk about the convergence of wealth management with all of those other verticals. And then we can look deep into our core. And so that's some of the trading stuff that Bill hit on before. That's what we would consider core custody and clearing. And in that area alone, there's so many exciting opportunities that we're looking at that we think that the opportunities are pretty endless.

Chris Donat, Analyst, Piper Sandler Companies

Got it. Just about out of time, I wanted to ask one kind of procedural question to Bill. Bill, through the de-SPAC process, where are we and what are the next steps?

Bill Capuzzi, Chief Executive Officer

Yes, it's been a lot of fun, Chris. So, where we stand now is, we re-file on Friday with the SEC, the revised S-4. We're expecting in short orders sort of close out with the SEC, let's call it over the next week and then go to sort of proxy vote. So, the expectation or the hope is that we kind of get to the end of this process by the end of this month and into early July. That's the expectation.

Chris Donat, Analyst, Piper Sandler Companies

Got it. Okay. Well, with that, I want to thank Bill and Connor for joining us. Bill, I mentioned that in opening comments that it's not your first time here at the conference, we had you a couple of years ago on a panel.

Bill Capuzzi, Chief Executive Officer

Yes. Thanks for having me back.

Chris Donat, Analyst, Piper Sandler Companies



Yes, it's good to have you back. Hopefully we'll have you in person next time around. So anyway, appreciate Apex presenting today wish you guys luck the next few weeks and that concludes the panel or the fireside.

Bill Capuzzi, Chief Executive Officer

Thanks guys. Thanks, Chris. Take care.

Connor Coughlin, General Manager

Thank you.