EQUITY VALUATION · CIRCLE INTERNET GROUP, INC. (NYSE: CRCL) · SISTER NOTE TO OUR COIN VALUATION

Circle (CRCL): The Price of Distribution

Circle collects the interest on $73 billion of digital dollars — and gives nearly two-thirds of it away to the partners who distribute them. Down nearly 80% from its high and six weeks from the Coinbase renewal window, the stock still prices a float it may never keep. A scenario valuation, plus direct answers to the ten questions dominating the debate.

TON618 CAPITAL RESEARCH · CRCL $64.62 · USDC $73.0B · AS OF 5 JUL 2026 ·

≈$50

PROBABILITY-WEIGHTED FAIR VALUE / SHARE · VS $64.62 MARKET

At $65, CRCL still prices most of the bull case. Our scenario model — normalized FY2027 earnings capitalized at growth multiples, plus $2.5B of corporate liquidity — supports **≈$50 (range $40–$62)**. Today's price requires USDC in circulation to average ≈$124B in 2027 (vs $73B and falling) *with sharing terms intact* — while the share of float income Circle keeps has already fallen from ~50% to ~37%, Coinbase's contract resets in August, and a 140-company consortium just declared that float income belongs to distributors. The bull case is real (≈$119 if the supercycle and the terms both hold); we weight it 25%. The market weights it much higher.

≈$50
Fair value/share, probability-weighted across bear $15 / base $32 / bull $119 (25/50/25).

37%
Share of reserve income Circle now keeps — down from ~50% in 2023. The decisive trend.

$124B
Average 2027 USDC required to justify today's price at 35× — vs $73B today, declining.

6 wks
To the August 2026 Coinbase renewal — the counterparty is a founding member of the rival OUSD consortium.

1 Executive Summary

CRCL at $64.62 — down roughly 78% from its 2025 all-time high — still prices most of the bull case; on probability-weighted normalized 2027 earnings we estimate fair value at ≈$50 per share (range

$40–$62), roughly 23% below the market price. That sounds impossible for a stock this beaten up, so we show the arithmetic: to justify today's price on fundamentals, USDC in circulation (currently $73B and *shrinking*) must average roughly **$124 billion in 2027** — a ~70% increase from here — while Circle's yield-sharing terms hold steady. Both assumptions are under direct attack: the Open USD consortium launched June 30 with an explicit "give the float income away" model, and Circle's revenue-share agreement with Coinbase — a founding member of that rival consortium — comes up for renewal in **August 2026, roughly six weeks from this note**. Our bear case ($15) and bull case ($119) are both live; the distribution of outcomes is unusually wide, which is precisely why the analyst community is split rather than clustered. What tips us below the market price is the direction of travel in the one number that matters: the share of reserve income Circle actually keeps has fallen from ~50% in 2023 to ~37% today, and every recent industry event pushes it lower.

The Current State of Circle's Story

Circle issues USDC, the second-largest "stablecoin" — a digital token that always trades at one dollar because every token is backed by a dollar of Treasury bills and cash held in reserve. Circle's business is beautifully simple, which is also its problem: holders of USDC get a dollar that moves at internet speed but **earns nothing**, while Circle collects the interest on the $73 billion of reserves — about $2.6 billion in 2025. That interest ("reserve income") is 94% of Circle's revenue. Everything about the company's value therefore reduces to three numbers: how many digital dollars are in circulation, the interest rate earned on the reserves, and — increasingly the decisive one — **how much of that interest Circle must give away to the partners who distribute USDC**.

That third number is the story of 2026. Coinbase, Circle's original partner, already collects effectively all of the shared income on USDC held on its platform (after Circle's issuer retention) plus half of the residual ecosystem income; distribution partners collectively absorbed 63% of Circle's reserve income in 2025, up from 50% in 2023. Then, on June 30, 2026, more than 140 companies — Stripe, Visa, Mastercard, BlackRock, and notably **Coinbase itself** — announced Open USD (OUSD), a rival stablecoin that will hand *nearly all* of its reserve income to the businesses that distribute it. The market's read was immediate: CRCL fell 17.5% that day. The threat is not that OUSD instantly takes USDC's users; a similar consortium coin (Paxos's USDG) has managed only ~$3B in twenty months. The threat is to the *price of distribution*: when the biggest payment companies in the world declare that float income belongs to the distributor, every Circle partner negotiation that follows starts from that premise.

Data shows a company that is real and solvent: $2.5B of corporate liquidity, essentially no debt, GAAP-profitable in Q1'26, growing transaction volumes (+263% YoY), and genuine regulatory assets (a conditional national trust-bank charter, the first mover under the GENIUS Act). **We believe** the equity is nonetheless still expensive, because the market continues to capitalize a version of the business — issuer keeps the float — that the industry is actively dismantling, and applies a growth multiple to it. The bull case (a stablecoin supercycle in which USDC doubles and Circle's terms hold) is genuinely possible; we weight it 25%. The market, at $64.62, implicitly weights it far higher.

EXHIBIT 1 · THIRTEEN MONTHS, TWO BEAR MARKETS

CRCL weekly closes since the June 2025 IPO (priced $31). Two distinct bear legs separated by a +100% rally — the February low predates Open USD entirely.
Source: Schwab market data. Last point 2 Jul 2026 close $64.62.

2 Investment Context

- **What the security is:** CRCL is a leveraged claim on three variables: USDC float (currently $73B), short-term interest rates (reserve yield 3.5% in Q1'26, tracking SOFR down), and Circle's retained share of the float income (~37% and falling). It is *not* a claim on crypto prices directly — USDC circulation actually grew 28% YoY through Q1 while BTC fell — but it is rate-sensitive in the wrong direction: Fed cuts compress revenue.
- **The drawdown came in two distinct legs, not one:** IPO June 5, 2025 at $31; all-time intraday high **$298.99 on June 23, 2025** (the $262.97 in the 52-week range is the post-early-July window); a grind to **$49.90 on February 5, 2026** (rate-cut expectations, November earnings, the December 2 lockup expiry). Then a **~+160% rally** to ~$132 by May 11 (Q4 beat +35.5% on Feb 25; Q1 beat +15.9% on May 11) — interrupted by the stock's worst day ever, **−20.1% on March 24** (a CLARITY Act draft provision restricting stablecoin yield, plus Tether's Big-Four audit announcement). Leg two: ~$132 → $62.63, driven by consortium headlines (−10.6% June 3, −11.3% June 5 on the first Visa/Mastercard/Stripe reports; **−17.5% June 30** on the formal OUSD unveiling). It closed July 2 at $64.62, a +2.7% bounce on a tape that included Goldman Sachs's initiation-cut to Neutral/$96.
- **Six weeks to the biggest catalyst:** the Coinbase Collaboration Agreement's initial three-year term (entered into August 2023) lapses **August 2026**. Per the 10-K it is not a cliff: absent agreed modifications the agreement *auto-renews* for successive three-year terms, and Circle holds a right to reduce certain monthly payments if renewal terms are not agreed — so August is a renegotiation window with embedded leverage on both sides, not an expiry. Q2 earnings land ~mid-August (expected; not yet announced). OUSD itself launches "later in 2026."
- **Regulatory scaffolding:** GENIUS Act signed July 18, 2025 (federal stablecoin framework; effective by January 2027 at the latest); CLARITY Act (market structure) passed the House July 2025 but is stalled before a Senate floor vote — our standing house estimate (June 23 note) is ~13% probability of signature before August 2026, with full-year 2026 roughly a coin flip.

3 Business & Revenue Architecture

The float-economics engine, from SEC filings (10-K FY2025, 10-Q Q1'26):

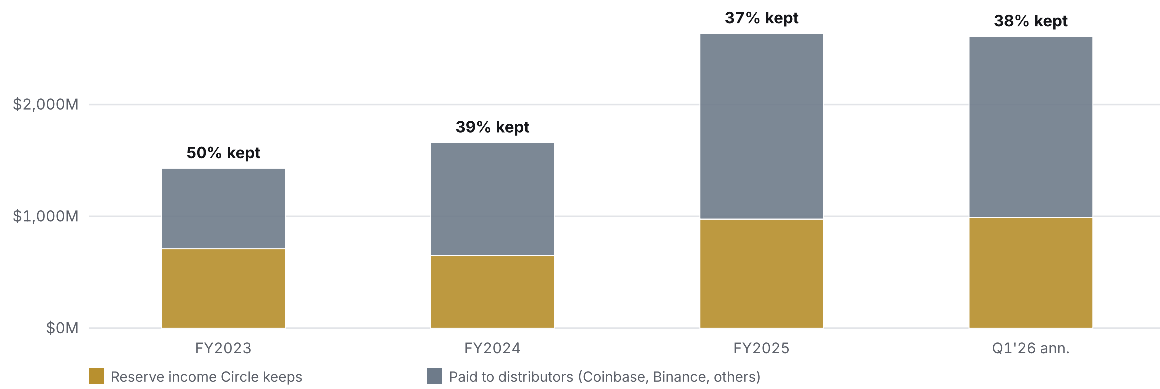
($M UNLESS NOTED)	FY2023	FY2024	FY2025	Q1'26
Reserve income	1,430.6	1,661.1	2,636.8	652.5
Other (contract) revenue	19.9	15.2	109.8	41.6
Total revenue	**1,450.5**	**1,676.3**	**2,746.6**	**694.1**
Distribution & transaction costs	719.8	1,010.8	1,661.5	405.4
Distribution ÷ reserve income	**50.3%**	**60.8%**	**63.0%**	**62.1%**
Operating expenses	453.2	491.7	1,179.4	242.4
Operating income	269.5	167.2	−96.4	45.0
Net income	267.6	155.7	−69.5	55.3
Adjusted EBITDA	—	≈285*	582.0	151.0
USDC in circulation, avg ($B)	—	—	—	75.2
Reserve return rate	—	—	—	3.5%

FY24 adjusted EBITDA as disclosed in the 10-K key-metrics table. The FY25 GAAP operating loss is an IPO artifact: $424M of stock-based compensation vested on the IPO. USDC in circulation: $75.3B at year-end 2025 → $77.0B at March 31, 2026 (+28% YoY) → peak ≈$79B mid-March →* *$73.0B on July 5*** *(DeFiLlama and CoinGecko agree), i.e. −8% from the March peak and below the year-end 2025 level.*

The one-line model. Circle's gross profit ≈ USDC float × reserve yield × (1 − distribution ratio) + a small but fast-growing services line. Each factor's direction today: float **falling** (Q2'26), yield **falling** (3.5% vs 4.2% a year ago, tracking Fed cuts), distribution ratio **high and structurally contested** — up from 50% to 63% in two years, roughly flat year-over-year in Q1'26 (62.1% vs 62.3%). The dollars behind the ratio are disclosed: Coinbase alone received **$330.6M in Q1'26** (≈51% of reserve income; $1.4B in FY25, up from $924.5M in FY24), rising on "increased reserve income and their on-platform balances" per the 10-Q, with Binance (+$14.0M YoY) and newer partners (+$16.6M) layering on top. One disclosed trend runs *in Circle's favor*: USDC held on Circle's own platform (Circle Mint, corporate treasuries, Circle Wallets) — which sets Circle's retained share under the Collaboration Agreement — rose from 5.7% to **17.2%** of all USDC in a year. The distribution-cost fight predates Open USD; OUSD industrializes it.

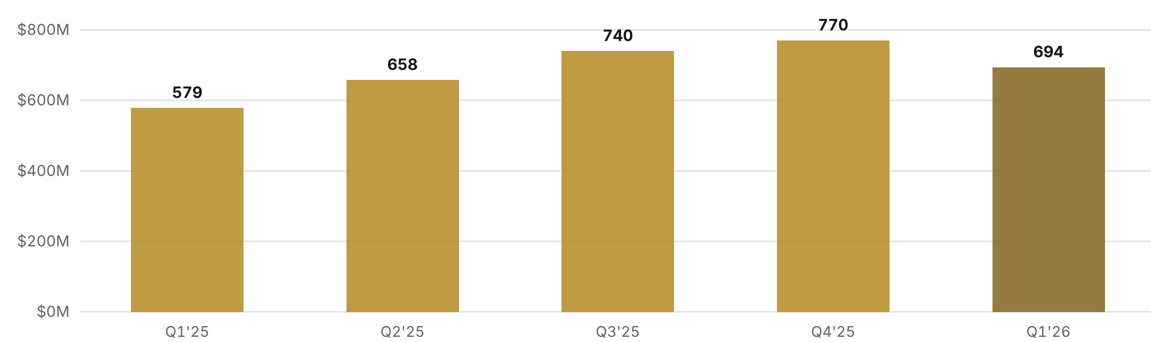
The non-float businesses (question 7 below, in brief): other revenue was $41.6M in Q1'26 — doubled YoY but still **6% of revenue** — guided to $150–170M for FY2026. Circle Payments Network runs $8.3B *annualized* volume; USYC (tokenized money-market fund) passed $3B AUM; Gateway went live across seven chains; the Arc blockchain is in testnet with mainnet targeted "summer 2026" and a $222M ARC token presale completed at a $3B network valuation. Real products, immaterial revenue — so far.

EXHIBIT 2 · WHO KEEPS THE FLOAT — THE DECISIVE TREND



Reserve income split ($M, SEC filings; distribution & transaction costs shown against reserve income). Circle's kept share fell from ~50% to ~38% before Open USD existed.

EXHIBIT 3 · THE REVENUE TURN



Total revenue by quarter, $M (SEC filings; Q4'25 = FY2025 minus Q1–Q3). Growth through 2025, then a sequential decline in Q1'26 as the reserve yield fell to 3.5%.

4 Financial Statement Analysis & Quality of Earnings

Screened against our standard forensic checklist before valuing; **escalation to a full forensic work-up is not warranted**, but Q1'26 earnings quality — question 8 — deserves the sharpest treatment, so we give the flags transparently:

- **The celebrated Q1 "beat" was an adjusted-number beat.** Adjusted EPS $0.47 vs ~$0.27 consensus; **GAAP diluted EPS was $0.21** and GAAP net income *fell 15% YoY* to $55.3M. Revenue missed (~$694M vs ~$715M expected) because the reserve return rate dropped 66bp YoY — rates giveth and taketh away.
- **Below-the-line flattering:** the Q1 effective tax rate was **2.5%** ($1.4M on $56.7M pre-tax) — not a repeatable rate; normalizing to ~25% takes GAAP EPS to ≈$0.16. Operating income fell **52% YoY** ($45.0M vs $92.9M) even as revenue grew 20%, because opex grew 76% YoY (post-IPO public-company cost base, headcount, D&A on acquisitions).

- **Cash conversion was weak in the quarter:** operating cash flow $21.1M vs $55.3M net income (0.38×), on working-capital swings around stablecoin redemption liabilities. One quarter is not a trend, and FY25 OCF was healthy; watch it.
- **Balance sheet is clean and simple:** $1.52B unrestricted cash + $0.79B segregated backing for corporate-held stablecoins + ~$0.18B investments and digital assets = **≈$2.5B corporate liquidity, ≈$9.4/diluted share**, against essentially zero debt (the converts settled). The $76.9B reserve backing customer USDC is properly segregated against $76.8B of matching deposit liabilities. Goodwill is modest ($266M). Auditor Deloitte; no restatements; timely filings.
- **Structural flags (disclosed, not disqualifying):** (1) revenue concentration — 94% from one interest-rate-sensitive line; (2) SBC $51.8M in Q1 (≈7.5% of revenue, ~3–4%/yr dilution — we value on rising share counts); (3) the distribution-cost line is a related-negotiation black box: Coinbase terms reset in weeks and are not itemized quarterly.

Verdict on question 8: the earnings problem at Circle is composition, not accounting. Nothing suggests manipulation; everything suggests a company whose GAAP earnings power at today's float, rates, and sharing terms is modest (≈$150–220M/yr normalized-tax run rate) relative to a $17B valuation.

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5 The Ten Questions (and an Eleventh)

Q1. How real is the Open USD threat? Real, but aim the fear correctly. What was announced June 30 (by "Open Standard," 140+ firms including Stripe, Visa, Mastercard, BlackRock, Amex, BNY, Google — *and Coinbase*) is a governance consortium and an economic doctrine: near-all reserve income rebated to distributors, free minting and redemption. The token itself is **not live** (launch "later in 2026"); the regulated issuer-of-record and reserve arrangements were not detailed at announcement, and chain reporting is conflicting (subsequent coverage points to a Solana-first launch, with Base, Stellar, Polygon and others to follow — treat as unconfirmed). So the 2026 threat is not user migration — it is **negotiating contagion**: OUSD resets what every large distributor believes float income is worth, exactly as Circle renegotiates with Coinbase (Q4) and courts new partners. Morgan Stanley (Equal-weight, $106) kept its rating precisely on the view that the direct near-term impact is limited. We agree with the mechanism but not the complacency: our bear case (25%) is substantially an OUSD-succeeds scenario, and our base case already concedes a rising give-away ratio. The −17.5% one-day repricing was rational direction, debatable magnitude.

Q2. Can a consortium stablecoin actually take share, or does distribution ≠ adoption? The USDG precedent argues patience: Paxos's consortium coin, live since November 2024 with Kraken, Robinhood, Galaxy and now 100+ partners — and, per the network's own December 2025 release, more than 90% of reserve earnings distributed to partners — took **13 months to reach $1B** and sits at ~$2.9–3.0B — 4% of USDC's float — though notably two-thirds of that came in the last six months (accelerating, not stalling). Consortium coins fight coordination costs, cold-start liquidity, and the fact that a stablecoin's value is its network, not its rebate. OUSD's backers are an order of magnitude larger and include the two biggest card networks plus the largest US crypto exchange, and it launches into a GENIUS-regulated market where trust is commoditized by statute. Our read: supply share shifts slowly (years), but OUSD does not need to take share to hurt Circle — see Q3. Distribution doesn't equal adoption; it does equal *pricing power over the issuer*.

Q3. Is the "issuer keeps the float" model structurally broken? The data says it is already two-thirds gone. Circle kept ~50% of reserve income in 2023, ~39% in 2024, **~37% in 2025 and ~38% in Q1'26** — before OUSD existed. The drivers compound: Coinbase's take (a disclosed $1.4B in FY25, $330.6M in Q1'26 — roughly half of all reserve income by itself — growing with reserve income and Coinbase's on-platform balances); Binance and newer distributors demanding their own incentives; GENIUS banning issuers from paying yield directly to holders (which pushes the value transfer to intermediaries who can); a CLARITY draft provision on affiliate yield that took the stock down 20% in a day in March. The one countervailing disclosed trend: USDC on Circle's *own* platform — the slice on which Circle's retention is calculated — rose from 5.7% to 17.2% of float in a year, which helps explain why the ratio flattened rather than rose in Q1'26. The tug-of-war is live; the three-year direction is not. OUSD and USDG (>90% rebated) simply state the endgame plainly: in a competitive, regulated market, **float income accrues to whoever owns the customer**. Circle's terminal state is closer to a service-fee infrastructure business than a seigniorage bank. That can still be a good business — but it deserves a service-margin multiple on the retained slice, which is the arithmetic heart of this note.

Q4. Does the Coinbase partnership survive intact? Survive: almost certainly. Intact: we doubt it. Morgan Stanley calls a voluntary Coinbase exit at the August renewal "very unlikely" because the deal is *favorable to Coinbase* — which is exactly the point: the side for whom a deal is favorable renews it, on the same or better terms. Coinbase enters the negotiation holding a $1.4B/yr payment stream from the arrangement (Circle's disclosed FY25 distribution costs to Coinbase), a founding seat in the rival consortium (a credible outside option it did not have in 2023), and one of its largest revenue lines to defend. Circle enters having lost roughly 35% of its market value since the first consortium headlines in early June (and half since the May peak) — a slide its counterparty's consortium helped cause. The realistic outcome set: renewal at status-quo terms (good for CRCL, relief rally), renewal with a larger Coinbase take or broader "ecosystem" carve-outs (our base-case drift), or a shorter/looser agreement that keeps optionality for OUSD (worst). We model the distribution ratio drifting to 65% in the base case and 68% in the bear; the August announcement is the single highest-information event of the summer for this stock.

Q5. Has USDC circulation actually stalled? In 2026, yes — with an important shape. USDC grew 72% YoY to $75.3B (YE2025), added another $1.7B in Q1'26 to $77.0B (+28% YoY), peaked around **$79B in mid-March**, and has since bled to **$73.0B** — below where it started the year. So: not a full-year stall, but a five-month decline that coincides with falling rates (lower opportunity cost of leaving, but also less yield for distributors to rebate), the March regulatory scare, and the consortium news. Meanwhile *usage* diverges from *float*: on-chain USDC transaction volume was $21.5T in Q1, +263% YoY (63% of all stablecoin transaction volume per Visa's on-chain data) — velocity is exploding while balances stagnate. That is genuinely mixed: bullish for USDC's relevance, bearish for the reserve-income model, which is paid on balances, not velocity. Management's "~40% multi-year CAGR" guidance requires the resurgence to start soon; H2'26 supply data is the swing factor between our base and bear cases.

Q6. What does the valuation debate actually rest on? Three assumptions and a multiple. (i) **Float path:** our reverse valuation says $64.62 requires ~$124B average USDC in 2027 at a 35× multiple (~$145B at 25×) — the bulls' "stablecoin market resurgence" is not upside to the price, it *is* the price. (ii) **Retention:** every point of distribution ratio is ≈$29M of pre-tax income at base assumptions; the grid in §6.4 shows the same stock is worth $46 or $14 at identical $95B float depending on whether retention holds at 60% or decays to 72%. (iii) **Rates:** each 25bp off the reserve yield is ≈$237M of revenue at $95B float, of which ≈$83M survives distribution as retained pre-tax income. (iv) The multiple: 25–45× normalized earnings is the honest range for a business this uncertain, and it moves fair value by ±$10+. On the

Street: the "18 analysts / $129 average / $65–$243 / 9-7-2" framing in circulation matches one retail aggregator (Public) but **neither institutional-facing aggregator we checked** — MarketBeat shows 24 analysts, 9 Buy / 13 Hold / 2 Sell, average $117, range $55 (Compass Point) to $190 (Bernstein); StockAnalysis shows 26 analysts averaging $137; Wolfe Research's $40 Underperform (Feb 2026) appears to be the true street low, and Susquehanna's July 1 initiation was Neutral at **$69** (aggregator-reported; its "full valuation" phrasing we could not verify in the primary text). The split is real and the cross-vendor dispersion is itself evidence: nobody's model agrees because the three assumptions above span order-of-magnitude outcomes. Ours are stated explicitly so you can disagree with the right one.

Q7. Can Arc and the non-stablecoin businesses become a second growth engine? Not by 2027 at reportable scale; possibly as an option worth real money. The facts: Arc is a purpose-built Layer-1 (stablecoin gas, sub-second finality) with **testnet live since October 2025** (244M transactions, 100+ institutional partners onboarded per Circle), **mainnet targeted for summer 2026** — i.e., imminent but not yet shipped — and an ARC token whitepaper (May 11) allocating Circle 25% of a 10B-token supply, marked by a **$222M presale at a $3B fully-diluted network valuation** (BlackRock, a16z crypto, ARK among buyers). Circle's own FY26 guidance *excludes* all Arc economics, and all non-reserve revenue today is $41.6M/quarter. The honest valuation treatment: Circle's ARC allocation at the presale mark is ~$750M gross (illiquid, vesting, governance-encumbered — we'd haircut ≥50%), plus Arc's strategic value in defending USDC's rails. Call it $1–3B of option value in the bull case (embedded in our bull multiple), near-zero in the bear. The 2027-pivotal-year thesis is coherent — Arc mainnet + CLARITY + supply resurgence — but it is a *thesis about options*, and today's price already pays for much of it.

Q8. How does earnings quality look under the hood? Covered fully in §4. Summary verdict: no accounting shenanigans — clean balance sheet, segregated reserves, Deloitte, no restatements — but the Q1 beat was adjusted-metric optics over a GAAP quarter in which operating income halved, the tax rate was 2.5%, and cash conversion was 0.38×. Sustainable EPS power at today's float/rates/terms is roughly a third of the adjusted print. Earnings quality is *mediocre by composition*, not by malfeasance.

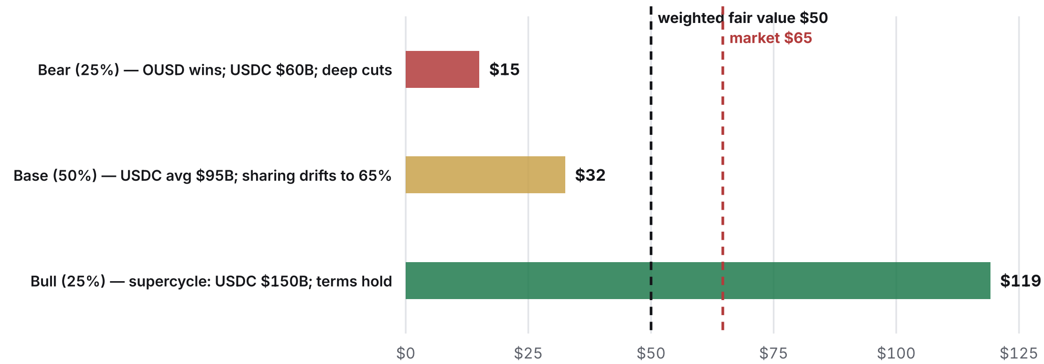
Q9. What does stablecoin regulation do to competitive dynamics? It built Circle's moat, and is now leveling it — on purpose. The GENIUS Act (signed July 18, 2025) delivered what Circle spent a decade lobbying for: full-reserve, disclosed, federally supervised stablecoins. But a statute that makes trust a compliance checklist *commoditizes* trust — OUSD launches GENIUS-compliant on day one, banks issue through subsidiaries under FDIC-proposed procedures, and five crypto trust charters were conditionally approved by the OCC the same December day (Circle's First National Digital Currency Bank among them, alongside Ripple, Paxos, BitGo, Fidelity). Circle's residual regulatory edges are real but narrowing: the conditional OCC charter, incumbency in every major framework (MiCA, Japan — see the Nomura MOU), and public support for the Fed's proposed "skinny" payment account for issuers (proposal-stage, May 2026). The CLARITY Act cuts both ways: category legitimacy (bullish for float growth) versus the yield-restriction provisions that produced the March 24 −20.1% day (bearish for the economics). Status: stalled pre-floor in the Senate; our June house estimate was ~13% signed before August, ~coin-flip for 2026. Net effect of the whole regulatory arc: **it converts stablecoin issuance from a trust franchise into a regulated commodity** — good for USDC volumes, corrosive for USDC margins. That is the same direction as Q3, arriving by law instead of by consortium.

Q10. Is the ~78% drawdown a buying opportunity or a broken thesis? Neither, at this price — which is the uncomfortable answer. The thesis is not "broken": USDC is growing in usage, regulation arrived, the company is liquid, GAAP-profitable, and optionality (Arc, CPN, USYC, Japan) is accumulating. But "down 78%" is not an argument — the stock IPO'd at $31 thirteen months ago and still trades at 2.1× that; the

$49.90 low printed in *February*, before OUSD existed, and the interim ~+160% rally shows how fast this name reprices on narrative. On our numbers the market price still requires the bull's float path, while the observable trend in the decisive variable (retention) points the other way. The Seeking Alpha bull framing — "any dip toward $50 is a compelling buying opportunity ahead of a forecasted stablecoin market resurgence" — is at least priced honestly at $50: our own model says ≈$50 is fair value with the resurgence *probability-weighted*, and the bull leg ($119) shows what conviction pays if the resurgence and the Coinbase terms both break right. Below ≈$45–50 the risk/reward genuinely inverts (you pay bear-case prices for a live bull option); at $64.62 you are paying a ~30% premium to our weighted value for the privilege of finding out about the Coinbase renewal in six weeks. For a fund whose mandate is BTC-anchored: CRCL adds distribution-war and rate risk with no BTC upside — as with COIN, the equity is not a substitute for the asset.

Q11 (ours, not the brief's). Where is Tether in all this? The brief's ten questions treat Open USD as the competitive event, but the largest competitor is the incumbent, and 2026 has quietly been a strong Tether year on every front that matters to Circle. Size first: USDT is **~$184B — 2.5× USDC — and roughly 60% of the entire stablecoin market**, and it held that supply through 2026 while USDC shrank from its March peak. The instructive frame is the industry's float-retention spectrum: **Tether keeps ~100%** of its reserve income (its distribution was built free, on offshore exchange liquidity and emerging-market dollar demand), **Circle keeps ~37%**, and **OUSD/USDG propose ~0–10%**. Circle occupies the uncomfortable middle — it pays for distribution like a challenger while being valued like an incumbent. The economics gap is stark: Tether self-reported **more than $10B of 2025 net profit** (unaudited, and inclusive of gains on its bitcoin/gold holdings) against Circle's $975M of *retained* reserve income; per dollar of float, Tether currently monetizes at several times Circle's rate. Tether's model is the one CRCL bulls are implicitly paying for; Circle's is the one they own. Two 2026 developments then attack Circle's remaining moats directly. **First, USAT (launched January 27, 2026):** a GENIUS-compliant, made-in-America stablecoin issued through Anchorage Digital Bank, N.A. — the first federally regulated stablecoin issuer — with Cantor Fitzgerald as reserve custodian and former White House crypto lead Bo Hines as CEO, distributed day-one on Kraken, OKX, Bybit, Crypto.com and MoonPay. The GENIUS Act was supposed to be Circle's home-field advantage; USAT is Tether buying a ticket to the same field, with deeper pockets. **Second, the audit:** Tether signed a Big-Four firm for its first full financial audit on March 24, 2026 — the same day CRCL suffered its worst-ever session (−20.1%, alongside the CLARITY yield headline), which tells you the market already understands the stakes. Circle's oldest institutional moat is transparency; a clean USDT/USAT audit narrows the trust discount that pushes compliance-constrained buyers to USDC. The asymmetry that remains: institutions and MiCA-regulated European venues still cannot or will not hold USDT today, and Tether's legal history is a real barrier until the audit actually lands — Circle's institutional niche is defensible. Its growth flank is not. For our model, the Tether read is that **the bear case does not require OUSD to succeed** — an audited, onshore-present Tether alone can cap USDC's share — and the bull case leans almost entirely on total-market growth ($310B → $500B+) rather than share gains from an incumbent that is getting stronger, not weaker.

EXHIBIT 4 · SCENARIO VALUATION VS THE MARKET PRICE



Probability-weighted scenario valuation (normalized FY2027 earnings + $2.5B corporate liquidity). The market sits ~30% above the weighted value.

6 Valuation

6.1 Cost structure calibration

Gross profit = reserve income × (1 − distribution ratio) + other revenue; EBIT = gross profit − opex. Calibrates to Q1'26 actual EBIT within $1.3M (model 46.3 vs actual 45.0) and FY25 within $2.1M (−94.3 vs −96.4). Corporate liquidity $2.49B ($9.35/diluted share) valued separately; interest on it excluded from scenario NI.

6.2 Scenario valuation (normalized FY2027, $M except per share; ~285M diluted 2027 shares)

	BEAR (25%)	BASE (50%)	BULL (25%)
Avg USDC in circulation	$60B	$95B	$150B
Reserve return rate	2.75%	3.00%	3.25%
Distribution ratio	68%	65%	63%
Other revenue	180	320	550
Gross profit	708	1,318	2,354
Opex (GAAP, incl. SBC)	900	1,060	1,250
EBIT / Net income	−192 / −192	258 / 193	1,104 / 828
EPS	−$0.67	$0.68	$2.90
Franchise value	2.5× gross profit = 1,770	35× NI = 6,759	38× NI = 31,457
+ Corporate liquidity	2,494	2,494	2,494
Equity / per share	**4.3B / $15**	**9.3B / $32**	**34.0B / $119**

Scenario narratives: **Bear** — OUSD ships and takes the marginal flows, the Coinbase renewal worsens terms, deep Fed cuts; USDC stagnates at $60B and the retained slice cannot cover the cost base. **Base** — USDC flat through 2026 then resumes growth (avg $95B in 2027), sharing drifts to 65%, rates settle at 3%; a real but modest earnings engine valued as a 35× grower. **Bull** — GENIUS-era supercycle: total stablecoins multiply, USDC averages $150B, the Coinbase terms hold, Arc/CPN begin to monetize; 38× on $828M.

Probability-weighted fair value ≈ $50 (−23% vs market). The asymmetry cuts both ways: our bull case nearly doubles the stock, and our base case nearly halves it. This is an option-shaped equity; we price the option, not the dream or the despair.

6.3 Reverse valuation — what $64.62 requires

Market franchise value (diluted market cap less corporate liquidity) ≈ **$14.7B**, requiring normalized net income of **$421M at 35×** ($1.48 EPS) or $590M at 25×. At base-case rates, terms, and cost structure, that needs **average USDC of ≈$124B (35×) to ≈$145B (25×) in 2027** — versus $73B today, falling. Alternatively, hold the float at ~$95B and today's price requires the distribution ratio to *improve* to ≈54% — against a three-year trend moving the other direction and a consortium formed expressly to prevent it. Run-rate check: the market currently pays ~78× annualized Q1 GAAP net income and ~24× annualized adjusted EBITDA (EV basis) for a business whose revenue declined sequentially.

6.4 The two levers that decide everything (base RRR 3.0%, 35×, $/share)

DIST. RATIO ↓ / AVG USDC →	$75B	$85B	$95B	$110B	$130B
60%	23	35	46	62	84
63%	17	27	38	53	74
65% (base)	13	23	**32**	47	66
68%	9	16	25	38	56
72%	9	9	14	26	41

Read it as the OUSD grid: the market price ($64.62) lives in the upper-right — big float, protected terms. The entire lower-left half of the table — any world where distribution wins the negotiation — is worth less than half of today's price *even with the float growing*.

6.5 Relative valuation cross-check

PEER	P/E (TTM)	NOTE
COIN	57.8×	Distribution counterparty; collects more USDC economics than Circle per on-platform dollar — see our COIN note (FV $102 vs $165)
HOOD	54.7×	Retail flow monetizer, richly valued
V / MA	31.6× / 31.2×	What mature payment-network economics command
PYPL	8.5×	What ex-growth payments commands; PYUSD issuer
CRCL	**~78× ann. Q1 GAAP**, ~24× EV/ann. adj. EBITDA	n/m on TTM (FY25 IPO-SBC loss)

The pair trade inside the pair: **Coinbase gets paid on USDC whether or not Circle prospers, and joined the consortium attacking Circle's remaining share** — on stablecoin economics alone, COIN holds the senior claim. Yet both stocks, on our sister analyses, price their respective bull cases as base cases (COIN −38% vs our FV, CRCL −23%). The consistent house view: crypto's *equities* currently cost more than the exposures they proxy.

6.6 What the options market is saying (Schwab chain, July 2 close)

EXPIRY	ATM IMPLIED MOVE	25Δ SKEW (PUT − CALL IV)	OI PUT/CALL
Jul 17 (12d)	±14.2%	−1.8 pts	0.61
Aug 21 (47d)	**±27.6%**	−3.1 pts	0.64
Sep 18 (75d)	±34.4%	+0.2 pts	**1.44**
Dec 18 (166d)	±46.9%	**−7.4 pts**	0.96
Jan 15 '27 (194d)	±49.9%	−5.6 pts	0.49

Four readings. **(1) The market has circled August too:** at-the-money implied volatility peaks at the August 21 expiry (~92%, the top of the term structure) — squarely over the Coinbase renewal and Q2 earnings — and pricing a ±28% move through that window means hedging the renewal via options is already expensive. **(2) Skew is inverted for an equity:** 25-delta calls trade *over* puts at most tenors (−3 to −7 vol points in Dec/Jan), i.e., the market pays a premium for upside convexity — consistent with our "option-shaped equity" framing, positioning for a violent recovery leg rather than orderly downside. Total open interest tilts to calls (put/call 0.66; Thursday's volume 0.41). **(3) The exception is September:** the only major expiry where put OI exceeds calls (1.44), with size at the $35/$60/$65/$80 strikes — downside protection sized for the *post-renewal* window, including a 7,800-contract block at $35, below even the February low. **(4) The market's own distribution admits our numbers:** the January-2027 straddle spans roughly $32–$97; our base case ($32) sits at its lower edge — one standard deviation down, not a tail — while our bull case ($119) sits just outside the upside breakeven. A caution on over-reading: a meaningful slice of far-out-of-the-money call OI ($110–$445 strikes) is stranded from the $200+ era and says little about current positioning.

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7 Risks to Our View — the Bull Case, Steelmanned

1. **The float is early, not peaked.** Total stablecoins ≈$310B against card-network volumes in the tens of trillions; GENIUS made the asset class legal infrastructure; management guides ~40% multi-year CAGR. If 2027 average USDC is $150B+, our base case is the error and fair value is >$100. This is the single strongest bull argument and the one our 25% bull weight respects.
2. **Retention could stabilize.** The Coinbase renewal could land at status-quo terms with a long tenor (Coinbase has $1.4B/yr of reasons not to blow it up), OUSD could fracture on consortium politics (USDG's two-year crawl is the base rate), and Circle's direct-distribution assets (Mint, CPN, Gateway, Arc) structurally reduce dependence on revenue-shared intermediaries.
3. **Non-float revenue could inflect.** Other revenue doubled YoY; Arc mainnet plus ARC token economics (Circle's 25% of a $3B-marked network) plus USYC ($3B AUM) plus Japan/Nomura could make 2027 the year "6% of revenue" becomes 15–20% at software margins.
4. **Rate risk is two-sided.** If the Fed stops cutting (or inflation re-accelerates), the reserve yield holds ~4%+ and every scenario's revenue line lifts ~15–30%.
5. **Acquisition/strategic value.** A $16B float platform with a conditional national trust charter is a strategic asset for exactly the institutions in the OUSD consortium; consolidation is a real terminal

outcome.

What would change our rating to constructive at current prices: a Coinbase renewal at unchanged-or-better terms **plus** two consecutive months of USDC supply growth; or price below ≈$48 with the renewal unresolved; or hard evidence of Arc mainnet monetization at scale.

8 Coda — The Distribution Question

Our answers to Q1–Q4 and Q11 reduce to one structural fact, so we state it plainly. **Coinbase is a triple-hedged counterparty:** it is a minority *shareholder* of Circle (equity received in the 2023 Centre Consortium dissolution; the stake sits in Coinbase's own investment portfolio), the *senior economic claimant* on USDC ($1.4B in FY25, paid before Circle keeps anything), and a *founding member of the rival consortium*. Whatever happens to USDC, Coinbase gets paid; Circle is exposed one way. The instinctive prescription — walk away — is the one move Circle cannot afford: firing your largest distributor while OUSD recruits distributors converts a conflicted partner into a committed enemy. The winning posture in August is instead to make Coinbase *choose between its annuity and its option* — trade flat-or-better economics for tenor and meaningful restrictions on Coinbase's OUSD participation, using the agreement's auto-renew mechanics and Circle's payment-reduction right as procedural leverage.

The longer-term answer is distribution that is paid in a currency other than yield — because any partner whose business model is collecting float income is, definitionally, already in the OUSD/USDG camp (Stripe, Visa, Mastercard, PayPal, Robinhood, Kraken, the exchanges). Four channels pass that screen. **(1) Retail closed-loop:** the GENIUS Act's Stablecoin Certification Review Committee clause requires unanimous Treasury/Fed/FDIC approval before a non-financial public company can issue — a near-prohibitive bar that pushes a Walmart or Amazon toward white-labeling a chartered issuer rather than building one; their prize is interchange displacement worth multiples of any float yield, so they would pay for rails and savings, not demand the reserve income. **(2) The absent mega-platforms:** Google joined OUSD; Apple did not (nor has X) — an Apple Pay-scale integration is low-probability and slow, but it is the only single deal larger than the Coinbase relationship, and it monetizes ecosystem lock-in, not basis points. **(3) Bank processors — already in the door:** Fiserv's FIUSD is being built on Paxos *and* Circle infrastructure with reach into roughly 10,000 financial institutions and six million merchants, and FIS separately partnered with Circle for bank USDC transactions; thousands of community banks will never issue their own coin, and they monetize deposits and fees, not Circle's float. **(4) The Tether flank:** MoneyGram settlement rails, the Nomura Japan channel, MiCA Europe (a Tether-free zone by regulation), and emerging-market neobank distribution attack the incumbent where Circle's compliance is an offensive weapon. None of this replaces the Coinbase channel (its on-platform balances are undisclosed but generate roughly half of all distribution costs by themselves); the point is to *de-lever the renewal table* — every point of float reaching users through partners paid in savings, lock-in, or deposit economics is a point no distributor can tax and no consortium can poach with rebates. Circle's own-platform share tripling to 17.2%, the Fiserv/FIS integrations, and Japan are the embryonic version of exactly this strategy. The fair criticism is pace, not direction.

The endgame scenario — a Coinbase takeout — is modeled in full in the companion note (Coinbase (COIN): The Right Company at the Wrong Price, §7), and CRCL holders should know its shape: an illustrative deal at a 35% premium ≈ **$87/share** (≈$23B) would be *better for Circle's shareholders than for Coinbase's* on our math — the deal only turns clearly attractive for the buyer below roughly $15B (≈$56/share), because Coinbase already collects about half the reserve-income pool by contract without bearing the issuer's regulatory burden, and it chose exactly that structure over ownership in 2023. We estimate ≈12% odds of a combination within two years (conditional-gate build; Allaire's super-voting control, anchored by a $263 tape a year ago, is the main gate). Our ≈$50 fair value embeds **no control premium**; the practical read-through is asymmetric — the M&A option adds meaningful support to the stock in the mid-$50s (where a buyer's math starts working), and very little above it.

9 Catalyst Calendar

WHEN	EVENT	READ-THROUGH
August 2026	**Coinbase Collaboration Agreement renewal**	The decisive datapoint for the distribution ratio — binary repricing risk both ways
Mid-Aug 2026 (expected, unconfirmed)	Q2'26 earnings	First full quarter of supply decline + RRR compression; watch RLDC margin vs 38–40% guide
Pre-Aug 8 recess	CLARITY Act Senate floor window	Passage = category legitimacy; yield-provision language = margin risk (March 24 redux)
"Summer 2026"	Arc mainnet launch	Tests the second-engine thesis; ARC token economics become markable
"Later in 2026"	**OUSD token launch**	Supply-share evidence begins accumulating; watch which exchanges default to it
Weekly	USDC circulation (public, real-time)	The stall either ends or it doesn't — the most falsifiable input in our model
2026–27 (timing undisclosed)	Tether Big-Four audit completion; USAT onshore traction	A clean audit narrows Circle's transparency moat; USAT exchange adoption tests the GENIUS home-field advantage
Through H2'26	Fed path	Each 25bp ≈ $180M/yr revenue at current float

10 Methodology & Sources

Scenario valuation on normalized FY2027 GAAP earnings (SBC expensed, 25% normalized tax), franchise multiple plus separately-valued corporate liquidity; bear case on a distressed gross-profit multiple. Calibrated to reproduce FY25 and Q1'26 actual EBIT within ~$2M. Primary sources: SEC EDGAR 10-K FY2025 (acc. 0001876042-26-000062) and 10-Q Q1'26 (acc. 0001876042-26-000150) via edgartools; Circle press releases (Q4'25, Q1'26 results; OCC charter; Gateway; Arc); Schwab market data (quotes, price history); DeFiLlama + CoinGecko stablecoin supply (pulled July 5, 2026); OCC, Federal Register, White House (GENIUS); The Block, Fortune, CoinDesk (OUSD announcement, June 30, 2026, cross-verified); Tether.io (USAT launch, January 27, 2026; Big-Four audit engagement, March 24, 2026 — Tether financials are company-reported and unaudited); Paxos/PR Newswire (USDG); Congress.gov/CRS (GENIUS Act SCRC provisions for non-financial issuers); Fiserv/FIS–Circle collaboration announcements and trade-press coverage (FIUSD, American Banker); MarketBeat/StockAnalysis (analyst aggregation — treated as indicative given cross-vendor dispersion); Morgan Stanley, Bernstein, Susquehanna, Wolfe, Compass Point, Goldman Sachs, Mizuho views as carried by Investing.com, Benzinga, Seeking Alpha, and wire coverage (attributed, not independently confirmed with the banks). Companion note: *Coinbase Global (COIN) — What a Normal Year Is Worth* (TON618, July 4, 2026). All ten framing questions taken from the client brief and answered against primary data; where the brief's embedded claims did not survive verification (USDT ≈$145B → actual ≈$184B; "18 analysts / $129 / $65–$243" → matches one retail aggregator but neither institutional aggregator checked; Q1 EPS $0.47 → adjusted, GAAP $0.21; OUSD backers list → incomplete without Coinbase/Mastercard; Coinbase rev-share structure → platform-based payment-base allocation plus half of the residual, not "50% of all"), the corrected figures are used throughout.

Addendum — The National Trust Bank Charter (13 July 2026)

This note was published 5 July 2026. The addendum below was added 13 July 2026 to reflect a development that post-dates publication. The valuation above is unchanged; this section explains why.

What happened. On 10 July 2026 the U.S. Office of the Comptroller of the Currency granted Circle **final** approval to establish **First National Digital Currency Bank, N.A.**, operating as **Circle National Trust** — converting the *conditional* national trust-bank charter this note already carried as a regulatory asset (§2, §3) into an operating one. Circle is the first stablecoin *issuer* to hold a federal national trust-bank charter. The stock rose as much as ~5–14% intraday on the announcement; by the 13 July close it had round-tripped to roughly **$63**, essentially the $64.62 that anchors this note.

What the charter is — and is not. A national trust bank is a *limited-purpose, non-depository* national bank. It does not take deposits, make loans, or add balance-sheet leverage. Circle National Trust's chartered purpose is **fiduciary custody** of digital assets: at opening it will custody assets for Circle and its affiliates, and — per Circle — "depending on demand" it may later offer custody to a limited number of institutional customers (banks and other financial institutions). The charter is also, in Circle's words, "designed to enable future capabilities, including management of the USDC Reserve" under federal oversight — a *prospective*, not live, capability.

Why it does not move our fair value. The reason CRCL screens rich in this note is a single lever: the share of reserve income Circle actually *keeps* (~37% and structurally contested), not the credibility of where the reserve is custodied. A custody charter touches none of the three numbers our model runs on — float size, reserve yield, and the distribution ratio. It does not reduce what Circle owes Coinbase, and Circle National Trust is not a party to the August renewal. This is a **moat-and-durability** development, not an earnings-power one:

- **It widens the regulatory moat and thins an already-thin tail.** Federal chartering hardens Circle's "most-regulated issuer" position under the GENIUS Act against both Tether (offshore; its onshore USAT is issued through a third-party bank, Anchorage) and the still-structurally-undisclosed OUSD consortium. That modestly lowers the deepest bear-case tail — a regulatory event that strips Circle's home-field advantage — but that tail was already thin, and the conditional charter (December 2025) had pre-committed most of this information, so the *incremental* news is small.

- **The earnings upside is marginal and deferred.** Bringing USDC reserve management in-house could, over time, trim custody fees now paid to outside custodians and improve reserve transparency; institutional custody could add a modest fee line. Both are second-order against a ~$2.6B reserve-income pool, and both are prospective, not booked.
- **The market agreed within a session.** The reaction pop faded to roughly flat inside three trading days — consistent with our read that a custody charter is franchise-*affirming*, not franchise-*transforming*.

Two cautions on the framing. First, the "only licensed stablecoin *bank*" phrasing that appeared in some coverage overstates it: several crypto-custody entities already hold OCC approvals (Anchorage has operated as a national trust bank since 2021; Crypto.com received an OCC license in February 2026), and Circle National Trust is a *custody* charter, not a deposit bank. Circle's genuine distinction is narrower and still real — the first stablecoin *issuer* to hold a federal national trust-bank charter. Second, nothing here changes the central question this note poses — whether Circle can retain the float it earns the interest on. The charter makes Circle a better-regulated collector of a shrinking share; it does not enlarge the share.

Read-through. Fair value **unchanged at ≈$50** (bear $15 / base $32 / bull $119; 25/50/25). We characterize the charter as confirmation of the "right market, right regulatory seat" leg of the thesis while the "wrong seat" — giving away roughly two-thirds of the float income — remains the operative reason for the discount. The datapoint that can actually re-rate our estimate is still the **August 2026 Coinbase renewal**, not this charter.

Sources for this addendum: Circle press release, "Circle Receives Final OCC Approval to Establish National Trust Bank" (10 July 2026); OCC; contemporaneous coverage (CoinDesk, CNBC, Yahoo Finance, BusinessWire), cross-verified. Market level as of the 13 July 2026 close (~$63, Schwab/consolidated tape).

DISCLOSURES

applied; it does **not** imply the report was prepared, reviewed, or authored by a CFA charterholder, and the report is **not** issued, reviewed, endorsed, certified, or approved by — nor affiliated with — CFA Institute.

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DATA, METHODS & LIMITATIONS

Data as of 2026-07-05 (market data 2026-07-02 close; stablecoin supply 2026-07-05): SEC EDGAR (Circle 10-K FY2025 acc. 0001876042-26-000062; 10-Q Q1'26 acc. 0001876042-26-000150), Charles Schwab market data (quotes, price history, peer P/E, and the CRCL option chain as of the 2026-07-02 close), DeFiLlama and CoinGecko (stablecoin circulation), Circle press releases and the Arc materials, OCC and Federal Register documents, and financial-press reporting (The Block, Fortune, CoinDesk, CNBC, Investing.com, Benzinga) for the Open USD announcement, analyst actions, and legislative status. Scenario probabilities and normalized multiples are analyst judgment. Sell-side ratings and price targets are cited as carried by aggregators and press and were not confirmed with the issuing banks; aggregator counts disagree materially and are treated as indicative. The Open USD consortium's issuing entity, chain infrastructure, and final economics were undisclosed at announcement; our bear case is an assumption about how that model could evolve, not a description of announced terms. An adversarial claim-verification pass against primary filings and sources was completed 2026-07-05; eight blocking findings were corrected as a result, most materially the reattribution of the filings' 17.2%-vs-5.7% "USDC on platform" metric to Circle's own platform (a retention-favorable trend) with the Coinbase-side pressure re-evidenced from disclosed dollar payments ($330.6M Q1'26; $1.4B FY25), plus corrections to the February low date (Feb 5), the interim rally magnitude (~+160%), the drawdown depth (~78%), the renewal mechanics (auto-renew, not expiry), and two §6 sensitivity figures. The scenario values and fair-value estimate were unaffected.

SELECTED SOURCES

- Circle Internet Group, Inc. Form 10-K FY2025 (CIK 1876042, accession 0001876042-26-000062); Form 10-Q, period 2026-03-31 (accession 0001876042-26-000150) — SEC EDGAR (reserve income, distribution costs, Collaboration Agreement structure, USDC-on-platform metrics).
- Circle pressroom: Q4/FY2025 results (Feb 25, 2026); Q1 2026 results (May 11, 2026); OCC conditional approval (Dec 12, 2025); Arc materials and ARC token whitepaper (May 2026).
- Open USD / Open Standard announcement coverage: The Block, Fortune, CoinDesk (June 30, 2026), cross-verified; Paxos / PR Newswire (USDG, Global Dollar Network).
- DeFiLlama stablecoins API and CoinGecko (USDC/USDT circulation, pulled 2026-07-05); Charles Schwab market data (CRCL daily history since IPO; peer quotes 2026-07-02).
- OCC Conditional Approval #1356; White House GENIUS Act fact sheet (July 18, 2025); Congress.gov H.R. 3633; TON618 "CLARITY Act Probability" note (June 23, 2026) and "Coinbase (COIN): The Right Company at the Wrong Price" (July 4, 2026) — companion analyses.