CASTELLAN
EQUITY RESEARCH

LONG THESIS
NYSE: CRCL
6 JULY 2026

RATING	**BUY**
ENTRY PRICE	**$68.34**
PRICE TARGET	**$142.00**
UPSIDE	**+108%**
MARKET CAP	**~$16.1B**
NEXT CATALYST	**18 Aug 2026**

INITIATING COVERAGE

Castellan Capital Ltd
London, United Kingdom
castellancapital.com

Equity Research · Long Thesis

Circle Internet Group

NYSE: CRCL · Digital Asset Infrastructure

Circle is the world's only publicly-traded pure-play stablecoin infrastructure company. At $68.34 — precisely its June 2025 IPO opening price — the stock has given back thirteen months of fundamental progress: FY2025 revenue +64% to $2.7B, USDC onchain volume +263% YoY in Q1'26, and a $222M Arc blockchain raise backed by BlackRock, Apollo and a16z. The June 30 OUSD selloff (-17.5% intraday) compounded by Russell index reconstitution is, in our assessment, an overreaction driven by sentiment rather than a structural impairment of Circle's business model. We initiate with a **Buy** rating and a price target of **$142**, representing 108% upside from entry.

KEY INVESTMENT POINTS

- **OUSD selloff is a sentiment event, not a fundamental reset.** The 17.5% one-day crash on 30 June was driven by market-cap-weighted emotional selling: OUSD has not yet launched, has no live supply, and its closest structural precedent (Paxos USDG) reached only $3B in 18 months vs USDC's $73B.
- **The market is underpricing Coinbase renegotiation optionality.** The Circle-Coinbase revenue-share agreement expires ~18 August 2026. OUSD's announcement — perversely — has structurally weakened Coinbase's bargaining position, as OCC rule-making restricts its ability to monetise USDC yield. Even marginal term improvement adds $100–170M to the RLDC line at near-100% incremental margin.
- **Arc is a free embedded option.** $3B FDV presale backed by BlackRock, NYSE parent ICE, and a16z is excluded from all guidance and no analyst model. Circle shareholders own 25% of ARC token supply. Successful mainnet delivery in 2026 re-rates CRCL from a rate trade to an internet infrastructure multiple.
- **Volume is growing faster than rates are falling.** USDC onchain volume +263% YoY in Q1'26; USDC represents 63% of all stablecoin transaction volume. Management guides 40% CAGR in USDC circulation through the decade.
- **Regulatory trend legitimises the moat.** The GENIUS Act establishes a federal compliance standard that Circle already meets and that most would-be competitors cannot easily replicate.

EXHIBIT 1: KEY FINANCIAL METRICS

METRIC	FY2025A	Q1'26A	2026E	2027E
Revenue & Res. Inc.	$2.7B	$694M	~$2.8B	~$3.7B
YoY growth	+64%	+20%	+14%E	+33%E
Adj. EBITDA	$582M	$151M	~$604M+	~$1.0B+E
Adj. EBITDA margin	n/a	53%	~50%E	~55%E
EPS (diluted)	($0.18)*	$0.21	$0.85E	~$1.60E
USDC supply (EoP)	$75.3B	$77.0B	~$105B+E	~$150B+E

*FY2025 GAAP EPS impacted by $424M IPO-related SBC vesting. E = Castellan estimate. Sources: Circle SEC filings, Zacks consensus, Castellan analysis.

1. Executive Summary

We initiate coverage of Circle Internet Group (NYSE: CRCL) with a **Buy** rating and a 12-month price target of **$142**, representing 108% upside from our entry reference price of $68.34. Circle is the world's first and only publicly traded pure-play stablecoin infrastructure company. Its core asset — USDC, the second-largest stablecoin globally with $77 billion in circulation — is the institutional settlement currency of choice across decentralised finance, cross-border payments, and an increasing number of traditional financial institutions integrating digital dollar infrastructure.

At $68.34, CRCL trades at its June 2025 IPO opening-day price, having given back thirteen months of fundamental appreciation despite the underlying business growing revenue 64% in FY2025 to $2.7 billion and USDC onchain transaction volume surging 263% year-on-year in Q1 2026. Three events compressed the stock from its $299 all-time high: (i) Federal Reserve rate cuts reducing the reserve return rate (from 4.2% to 3.5%); (ii) the Coinbase revenue-sharing agreement structure; and (iii) the 30 June 2026 launch of the OUSD consortium. In our assessment, all three headwinds are either structurally reversing or materially overstated by current market pricing.

The OUSD event — which erased roughly $2.5 billion of market capitalisation in a single session — is the analytical centrepiece of this note and the source of our conviction that the current price represents an attractive entry. We dissect the OUSD competitive threat in Section 5, reaching the conclusion that the selloff reflects an emotional repricing of Circle's business model based on a coin that has not yet launched, a partner list whose integration commitments remain unverified, and a competitive dynamic that history — specifically the $3 billion supply ceiling reached by USDG in 18 months of consortium operation — suggests will unfold far more slowly than the market implied on 30 June.

2. Company Profile & Business Architecture

2.1 Corporate Overview

EXHIBIT 2: COMPANY FACT SHEET

Founded / HQ	2013 · Jeremy Allaire & Patrick Neville · New York, NY	**Ticker / Exchange**	CRCL / NYSE
IPO	June 2025 · $31/sh priced · $69 open · $1.2B raised	**Follow-on**	August 2025 · $1.5B
Market cap	~$16.1B at $68.34	**Employees**	~1,100
ATH / ATL	$298.99 (23 Jun 2025) / $49.90 (5 Feb 2026)	**Auditor**	Deloitte & Touche LLP
Share classes	Class A (listed) / Class B (founder high-vote, capped 30%) / Class C	**Q2'26 earnings**	18 August 2026

2.2 Product Architecture

Circle operates a three-layer platform: (i) digital assets and services anchored by USDC and EURC stablecoins; (ii) network infrastructure through the Circle Payments Network (CPN) and the Arc blockchain; and (iii) developer tooling including Agent Wallets, Circle CLI, and the Agent Marketplace. The business generates revenue across two distinct models: reserve income (interest on USDC backing assets, currently ~94% of total revenue) and fee/subscription revenue from platform services (~6%, but growing 2x year-on-year).

— **USDC** — $77B in circulation at Q1'26 end (+28% YoY). Available on 30+ blockchains. Processes $21.5T in onchain transactions per quarter (+263% YoY). Represents 63% of all stablecoin transaction volume (Visa Onchain Analytics, Q1'26). Circle CEO Allaire cited Artemis data showing $30T in Q1'26 onchain transactions, approximately 80% of dollar-stablecoin volume.

— **EURC** — Euro-denominated stablecoin. Supply doubled YoY to €358M in Q1'26. MiCA-aligned positioning; minimal Tether competition in EUR denomination creates a cleaner runway for institutional euro-denominated settlement.

— **USYC** — Tokenised money market fund. $3B+ AUM, +300% YoY. Largest tokenised MMF globally. BlackRock-custodied. Non-rate-correlated revenue (fund management fees rather than reserve spread).

— **Circle Payments Network (CPN)** — $8.3B annualised transaction volume as of March 2026. Network usage fees and FX spreads rather than reserve income. Kyriba integration (corporate treasury), Managed Payments for FI on-boarding.

— **Arc blockchain + ARC token** — $222M institutional presale at $3B FDV. Treated in full in Section 7. Positioned as the institutional Layer 1 'Economic OS' for AI-native financial activity.

3. Financial Analysis

3.1 Income Statement — Five-Quarter Review

EXHIBIT 3: INCOME STATEMENT SUMMARY (USD millions unless noted)

	Q1'25A	Q2'25A	Q3'25A	Q4'25A	Q1'26A	Note
Revenue & Reserve Inc.	578	658	740	770	694	
YoY growth	—	—	—	—	**+20%**	Beat consensus +$20M
of which: Reserve income	558	630	706	733	653	94% of total revenue
of which: Other revenue	21	~28	~34	~37	**42**	2x YoY growth
Reserve return rate	4.2%	~4.0%	3.8%	3.8%	3.5%	-66bps YoY
Dist. & transaction costs	~348	~372	~380	~394	407	+17% YoY
Gross profit	155	~172	~166	172	149	22% margin
RLDC margin	39.9%	~40%	~40%	~40%	**41.4%**	+150bps YoY ▲
Adj. EBITDA	122	~160	~190	~210	151	+24% YoY
Adj. EBITDA margin	~44%	—	—	54%	**53%**	
Net income	65	(SBC)†	~153	133	55	-15% YoY (opex invest.)
EPS (diluted)	$1.11	($4.48)†	$0.64	$0.43	$0.21	Beat est $0.17 by 24%
Avg USDC in circ.	$54.2B	~$61B	~$67B	~$72B	**$75.2B**	+39% YoY
USDC EoP supply	$60.3B	~$63B	~$68B	$75.3B	**$77.0B**	+28% YoY

†Q2'25 EPS distorted by $424M IPO-related SBC vesting charge; operating business profitable throughout. RLDC = Revenue Less Distribution Costs. All figures from Circle SEC filings and third-party data. Some periods estimated where granular breakdown unavailable. Sources: Circle Q1'26 8-K, TradingView, TIKR, Zacks.

3.2 The Operative Metric: Revenue Less Distribution Costs (RLDC)

GAAP net income is an unreliable guide to Circle's economic engine. The relevant metric is **RLDC margin** — revenue retained after paying distribution partners (principally Coinbase) and transaction costs — which expanded **150 basis points year-on-year to 41.4% in Q1'26** despite the reserve return rate falling 66bps. This expansion demonstrates the operating leverage embedded in the model: as USDC circulation grows and a higher proportion is held off-platform (where Circle retains 50% of reserve income rather than 0%), RLDC margins expand mechanically. The Coinbase renegotiation in August 2026 is the most proximate step-change in this progression (see Section 4).

3.3 Valuation Framework

Circle's P/S of approximately 5.8x forward 2026 revenue exceeds the industry average of ~2.5x; however, headline revenue is a distorted metric for Circle — roughly 60% of gross revenue is immediately paid out to Coinbase and other distribution partners. On an **EV/Adj. EBITDA basis of approximately 26x** annualised Q1'26 run-rate, Circle is priced in line with a well-run fintech infrastructure company, which is exactly what the long thesis argues it is.

EXHIBIT 4: VALUATION SUMMARY

Metric	Value	Commentary
Market cap (at $68.34)	~$16.1B	At entry price
Forward P/S (2026E ~$2.8B rev)	~5.8x	Industry avg ~2.5x; premium warranted given growth + regulatory moat

Metric	Value	Commentary
EV / Adj. EBITDA (Q1'26 ann.)	~26x	At ~$604M Adj. EBITDA run-rate; in line with infrastructure fintech
2026E consensus EPS	$0.85	Zacks; implies P/E ~80x on GAAP; inflated by opex investment cycle
Arc blockchain (embedded opt.)	$3B FDV	Not in guidance; 25% owned by CRCL shareholders; zero in consensus
Price target — Castellan	**$142**	+108% from entry · Multi-year position
Analyst range (as of 6 Jul 2026)	$106–$190	MS Neutral $106 · Wolfe Under $131.76 · Bernstein Buy $190 · WBlair OP
ATH (June 2025)	$298.99	-77% from ATH; IPO froth corrected; current level = fundamental entry

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4. The Coinbase Revenue-Share Agreement: August 2026 Catalyst

4.1 Deal Structure

The Circle-Coinbase Collaboration Agreement, filed as an exhibit to Coinbase's 10-K, has an effective date of **18 August 2023** and an initial three-year term expiring approximately **18 August 2026**, with automatic three-year renewals contingent on Coinbase meeting undisclosed product and reseller thresholds. The current economics are as follows:

EXHIBIT 5: COINBASE REVENUE-SHARE MECHANICS

USDC Location	Circle retains	Coinbase receives	Estimated annual transfer
On Coinbase platform (~20% of total USDC supply per Circle filing)	**0%**	**100%**	~$540M/yr at current rate & supply
Off-platform (DeFi, other exchanges, CPN)	50%	50%	~$370M/yr split
Total 2024 distribution cost	—	**~$908M**	~50% of Circle's gross reserve income in 2024

4.2 Why Regulatory Developments Have Shifted Bargaining Power

Coinbase's ability to justify its current 100%/50% split rests on its role as a distribution channel that makes USDC attractive to holders — historically by offering USDC yield-equivalent rewards (~3.5% APY 'loyalty rewards') funded from its USDC reserve income share. The OCC's 25 February 2026 proposed rulemaking creates a **rebuttable presumption that any coordinated arrangement between a stablecoin issuer and a related third party to pay holders yield constitutes a prohibited yield arrangement** under the GENIUS Act. If finalised as drafted, this directly constrains Coinbase's primary user-acquisition tool for USDC balances.

In our analysis, this is the single most underappreciated dynamic in CRCL's investment case. Coinbase's distributive value to Circle — the reason the deal justified such generous economics — depended on Coinbase differentiating USDC to end users through yield programs. A regulatory environment that limits that differentiation materially weakens Coinbase's negotiating position at the August 2026 renewal. Ironically, **OUSD's announcement further weakens Coinbase's hand**: the company is now simultaneously Circle's largest distribution partner and a founding member of USDC's primary competitor — a dual-role that reduces Circle's incentive to preserve Coinbase's preferential economics on renewal.

> *"The regulatory shift may ultimately favour the stablecoin issuer... Under a stricter federal regime, we see a better chance Circle wins improved terms at the August renegotiation." — Analyst commentary, March 2026*

4.3 Illustrative Margin Sensitivity

Illustratively — and this is not a prediction, but an illustration of the materiality — consider a scenario in which Circle renegotiates the on-platform take from 100% to 80% (retaining 20% rather than 0% of on-platform income). At current reserve return rates of 3.5% and approximately $15B of on-platform USDC (roughly 20% of $77B), the incremental annual RLDC to Circle would be approximately $105M — equivalent to more than 2.5x Circle's entire Q1'26 subscription and services revenue base, flowing through at near-100% RLDC incremental margin. Even a modest improvement in deal terms represents a step-change in Circle's standalone profitability that is entirely absent from current consensus models.

5. Open USD (OUSD): Anatomy of a Market Overreaction

The 30 June 2026 selloff in CRCL is the analytical centrepiece of this initiation note and the primary source of our conviction that the current entry point is attractive. We present our assessment of OUSD as a structured, evidence-based analysis rather than a dismissal of the competitive risk — which is real — or an endorsement of market panic.

5.1 What Happened on 30 June 2026

Two distinct events compounded on 30 June to produce CRCL's worst single-session performance since its IPO (-17.55% to $62.63, a four-month low):

EXHIBIT 6: ANATOMY OF THE 30 JUNE SELLOFF

Event	Date	Mechanism	Estimated contribution
FTSE Russell annual index reconstitution: CRCL removed from Russell growth indexes	26 Jun	Forced mechanical selling from passive ETFs and index funds tracking removed indexes; no fundamental driver	**Compounding pre-cursor: CRCL already -32.8% over prior 30 days before OUSD**
Open Standard consortium announces Open USD (OUSD) stablecoin	30 Jun	Market re-priced Circle's business model based on the identities of OUSD's 140+ backing partners, including Coinbase, BlackRock, Visa, Mastercard, Stripe — several of whom are Circle's own partners	**Primary catalyst for the ~17.5% intraday move; primary source of our overreaction thesis**

The Russell removal alone would have created selling pressure but not the scale of move seen. The OUSD announcement accelerated and amplified selling in a stock that was already technically weak, resulting in a price move that we argue incorporated the maximum-pessimism scenario for OUSD adoption without any evidence of that scenario actually unfolding.

5.2 What OUSD Is — and What It Is Not

Open USD (OUSD) is a US-dollar stablecoin announced on 30 June 2026 by Open Standard, an independent entity governed by a board comprising its 140+ partner companies. Founding CEO is Zach Abrams, co-founder of Bridge (the stablecoin infrastructure company Stripe acquired for $1.1 billion in late 2025). The three design principles are: (i) zero-fee minting and redemption with no volume caps; (ii) nearly all reserve income (interest on backing US Treasuries minus a small management fee) is distributed pro-rata to partners based on OUSD distributed/held; (iii) consortium governance — no single entity controls decisions.

Critically, as of the date of this report, OUSD has not launched. It is expected to go live later in 2026, initially on Solana and the Plasma network, with Stellar, Base, and Polygon to follow. The 140+ partner list represents logo commitments at this stage, not live integrations. The market on 30 June re-priced Circle as though OUSD were already operating at scale — which it is not, and may not for many months.

EXHIBIT 7: PARTNER CATEGORIES — OPEN USD CONSORTIUM (SELECTED)

Category	Key names	Strategic read
Payments networks	Visa, Mastercard, American Express, Discover, Stripe, Western Union, Adyen, Klarna	These control the 'pipes' of global payments. Their participation is the most structurally significant element — if Stripe routes merchant stablecoin payments through OUSD as its 'default,' that is direct competition to USDC at the payment layer.

Category	Key names	Strategic read
Asset managers / custodians	BlackRock, BNY, Standard Chartered, DBS, BBVA	BlackRock simultaneously custodies most of USDC's reserves (via BUIDL) AND is an OUSD partner. This dual-role does not represent a defection from USDC; BlackRock's custodial relationship with Circle predates and is contractually separate from its OUSD partnership.
Crypto-native	Coinbase, MetaMask, Aave, Morpho, Ripple, Galaxy, Anchorage	Coinbase's presence is the most strategically sensitive — it is Circle's largest distribution partner AND an OUSD founding member. Its official statement called USDC 'a cornerstone of our platform' while simultaneously endorsing the competitor.
Big Tech / retail	Google, Shopify, Samsung, IBM, DoorDash	Shopify's commitment to support OUSD as a payment option for merchants is notable. Google's participation appears more strategic signalling than deep integration at this stage.

5.3 Our Overreaction Thesis — Six Supporting Arguments

We believe the market substantially overreacted to OUSD for the following reasons, each of which is grounded in observable evidence:

1. The closest precedent suggests multi-year, not immediate, displacement.

The only live consortium stablecoin with a similar yield-sharing model is USDG, launched by Paxos through the Global Dollar Network in November 2024, backed by Mastercard, Robinhood, and Kraken. As of 30 June 2026 — 18 months after launch — USDG had reached approximately $3 billion in supply. USDC has $73 billion. For OUSD to materially threaten USDC's supply base within a two-year horizon, it would need to grow at roughly 25 times the pace of USDG, despite facing the same structural challenges: cold-start liquidity, no established trading pairs, and governance friction across 140+ competing entities that are rivals to each other in their core businesses.

2. Logo membership is not the same as deep integration.

As ARK Invest research director Lorenzo Valente wrote: 'Putting your name on a list is easy. Actually changing corporate behaviour and business models is hard.' Omid Malekan, Columbia Business School adjunct professor, described the OUSD announcement as the 'logo spray and pray' phase of stablecoin adoption. The precedent is sobering: Meta's Libra (later Diem), launched in 2019 with a similarly impressive 28-company roster including Visa, Mastercard, and PayPal — only to see most partners withdraw within months under regulatory pressure, ultimately failing to launch at scale.

3. OUSD's zero-fee model may not be financially sustainable at scale.

Circle CEO Jeremy Allaire's public rebuttal addressed this directly: distributing nearly all reserve income to partners 'risks starving the infrastructure needed to run a global stablecoin network — giving away all income is a recipe for systematically underinvesting and ensuring that your platform will remain limited in scope.' USDC's reserve income funds Circle's compliance infrastructure, audits, attestations, multi-chain engineering, and the institutional relationships that underpin the network. If OUSD retains only a 'small management fee,' its ability to fund comparable infrastructure at scale is materially constrained.

4. Stablecoin adoption is not primarily yield-driven.

Bitwise CIO Matt Hougan's post-selloff note made this point forcefully: most stablecoins globally pay no yield whatsoever — including Tether's USDT, with $145B+ in supply — yet adoption has surged because stablecoins make it easier to move dollars across borders, settle trades, and access blockchain-based financial rails. USDC's 263% year-on-year volume growth in Q1'26 occurred during a period of declining reserve return rates, demonstrating empirically that transaction utility — not yield — is the primary adoption driver.

5. Circle's Standard Chartered partnership (2 July 2026) validates continued institutional momentum.

Two days after the OUSD selloff, Circle announced that Standard Chartered — a G-SIB (Global Systemically Important Bank) — would offer institutional clients USDC minting and redemption through a single onboarding experience, initially in the DIFC (Dubai International Financial Centre) with further markets subject to regulatory approval. Notably, Standard Chartered is also an OUSD partner — demonstrating that major institutions are placing bilateral bets across the stablecoin ecosystem, not making exclusive defections away from USDC. CRCL rose approximately 5% on this announcement.

6. The market capitalisation impact was mathematically disproportionate to any reasonable adoption scenario.

CRCL's market cap fell by approximately $2.8B on 30 June. For this re-pricing to be rational, OUSD would need to demonstrably impair Circle's future earnings by an NPV amount approaching $2.8B. Given that OUSD has not launched, that USDG precedent suggests multi-year displacement at most, and that Circle's RLDC margin is already expanding, we cannot construct a base-case adoption scenario for OUSD that justifies that quantum of value destruction within any credible modelling horizon.

5.4 Where the Bear Case Has Validity — And How We Weigh It

A rigorous long thesis must engage the bear case on OUSD honestly. We do not dismiss the threat; we size it correctly.

— **Coinbase's dual role is a genuine source of tension.** Coinbase simultaneously earning $900M+/year from USDC via Circle and committing to OUSD creates a real conflict of interest that Dragonfly GP Omar Kanji described as making 'a potential breakup between Circle and Coinbase appear more plausible.' Even if the August 2026 renewal proceeds, the possibility that Coinbase channels new user acquisition through OUSD rather than driving further on-platform USDC growth is a structural threat that did not exist before 30 June.

— **Stripe's commitment is the most concrete competitive risk.** Stripe has stated it plans to make OUSD the 'default stablecoin for businesses on its platform.' Stripe's merchant payment volume is substantial; if that commitment is honoured and deeply integrated, it could generate meaningful OUSD supply that does not displace existing USDC (most Stripe merchants are not currently on USDC) but does capture new stablecoin-native payment volume that Circle would otherwise have targeted.

— **OUSD's backer list controls more global payment distribution than any previous consortium stablecoin attempt.** Comparing it to Libra or USDG understates the difference in distribution muscle — Visa and Mastercard together touch the majority of global card transactions; Stripe powers a significant portion of internet commerce. If even 15-20% of those relationships translate into live integrations, OUSD's supply trajectory may materially exceed USDG's.

Our net assessment: OUSD is a **medium-term structural competitive risk, not a near-term fundamental impairment.** A 17.5% one-day re-pricing for a threat that has not yet launched, has no live supply, and faces validated structural barriers to adoption is an overreaction by any reasonable analytical standard. We expect CRCL to partially recover to the $80–90 range as the market digests the absence of early OUSD traction data, with the full re-rating towards our $142 target driven by the Coinbase renegotiation outcome, Q2'26 earnings, and Arc mainnet progress.

6. Regulatory Environment: Moat Builder, Not Moat Breaker

EXHIBIT 8: REGULATORY TIMELINE AND CRCL IMPACT ASSESSMENT

Regulation	Status	Circle impact	Assessment
GENIUS Act (US federal stablecoin framework)	Signed July 2025	Mandates 1:1 reserve backing, restricts reserves to cash/T-bills/repos/MMFs (exactly Circle's existing model), monthly attestations, consumer protection. Circle was already compliant. Prohibits issuer-paid yield directly to holders.	**Positive**
CLARITY Act — draft yield restrictions	Draft stage; Senate Banking Committee	Initially read as banning yield-equivalent rewards — CRCL fell 20% in March 2026. Revised reading: Act permits 'activity-based/transaction-based' incentives; restricts passive yield. Weakens Coinbase's leverage, not Circle's.	**Net neutral-positive**
OCC proposed rule — affiliate yield loophole	Comment period closed May 1, 2026	Rebuttable presumption that Coinbase-Circle yield-sharing arrangement is a prohibited yield arrangement. If finalised: directly reduces Coinbase's bargaining power at August 2026 renewal.	**Positive for Circle**
Federal Reserve — stablecoin KYC rules	Proposed June 18, 2026	Requires payment stablecoin issuers to run CIP programs similar to banks. Adds compliance cost; Circle has applied for national trust charter and is positioned for bank-equivalent regulation. Disadvantages less-compliant offshore rivals.	**Neutral; barriers to entry**
OUSD / Open Standard — GENIUS Act compliance	Not yet launched	Open Standard has stated it will operate in compliance with the GENIUS Act. However, distributing nearly all reserve income to partners may itself face OCC/GENIUS scrutiny as a functional yield arrangement.	**Regulatory overhang on OUSD**

The regulatory trend, taken holistically, moves in Circle's direction: compliance-first, single issuer, federally chartered, transparently attested, US-regulated. Each new rulemaking either confirms Circle's existing operational model or disadvantages less-regulated competitors. OUSD's zero-fee, near-all-income-distributed model will itself face regulatory scrutiny that its 140 partners may have underestimated at the announcement stage.

7. Arc Blockchain & ARC Token: Embedded Free Option

7.1 Presale Details

EXHIBIT 9: ARC TOKEN PRESALE — KEY TERMS

Term	Detail
Raise	$222M from institutional investors led by a16z ($75M lead). SEC-filed private placement (Reg D).
Valuation	$3.0B fully diluted network valuation · $0.30/token · 740M tokens sold
Key investors	a16z crypto (lead), BlackRock, Apollo Funds, ICE (NYSE parent), ARK Invest, General Catalyst, Marshall Wace, Bullish, Janus Henderson, Standard Chartered Ventures, SBI Group, IDG Capital, Haun Ventures

Term	Detail
Circle's retained stake	25% of total ARC supply — directly links token appreciation to CRCL shareholder balance sheet
Investor protections	Repayment rights if ARC tokens not delivered OR if network fails to complete PoS transition by 8 May 2028
Guidance treatment	All Arc/ARC financial impacts excluded from 2026 guidance — creates clean analytical separation between core stablecoin business and Arc optionality
Mainnet target	2026 (no specific quarter committed; public testnet live since October 2025)

7.2 Why Arc Matters to CRCL Shareholders

Arc is not a speculative crypto side project. It is a publicly-disclosed, SEC-filed capital raise by a NYSE-listed company, with some of the world's most consequential institutional investors providing capital. The read-through matters: BlackRock, which already custodies most of USDC's backing reserves through its BUIDL money market fund, has now separately purchased exposure to the blockchain that those reserves will settle on — closing a vertical loop that is strategically rational. The NYSE parent (ICE) backing the L1 that its own listed companies may eventually use for tokenised equity settlement is similarly strategic, not speculative.

For CRCL shareholders, the embedded option works as follows: (i) Circle retains 25% of ARC supply, so token appreciation accretes to the corporate balance sheet; (ii) Arc's success as a settlement network drives incremental USDC demand (assets settle in USDC on Arc); (iii) transaction fee revenue on Arc is non-rate-correlated, directly addressing the rate-sensitivity critique of Circle's core model; (iv) Arc is not in guidance, not in consensus models, and not in the price — it is a pure call option on execution. If Arc fails to launch, CRCL at $68 is still trading at a 90%+ discount to the most bearish institutional analyst's price target based on the stablecoin business alone.

8. Risk Matrix

EXHIBIT 10: RISK ASSESSMENT — PROBABILITY AND IMPACT

Risk Factor	Probability	Impact	Severity	Mitigant / Castellan View
Fed rate cuts compress reserve return rate faster than USDC volume compensates	Medium	High	HIGH	The primary bear case. Rate fell 66bps in year to Q1'26; volume +263% YoY. Volume has been winning — but bears watching every quarter.
Coinbase deal renews on unchanged terms August 2026	Low–Med	High	MEDIUM	Regulatory developments weaken Coinbase's leverage. Even auto-renewal at current terms is the 'flat' scenario — not the bear case, which would require worse terms.
OUSD achieves rapid adoption, erodes USDC distribution network	Low	High	MEDIUM	USDG precedent ($3B in 18 months vs USDC's $73B) is the most reliable guide. Stripe commitment is the most specific risk to monitor. Multi-year timeline, not 2026.
Banks/fintechs issue own stablecoins under GENIUS Act, commoditise USDC	Low	Medium	MEDIUM	After GENIUS Act passage, year of Meta/Amazon rumours produced the 'opposite' — largest firms chose USDC (Allaire, May 2026). Network effects + compliance costs are barriers.
Arc mainnet fails to launch on 2026 timeline	Medium	Low	LOW	Arc failure ≈ zero incremental loss from current pricing — it is not in the price. Investor repayment rights provide floor for presale participants.

Risk Factor	Probability	Impact	Severity	Mitigant / Castellan View
Insider selling continues at elevated pace	Medium	Low	LOW	$225M net insider sales since IPO predominantly via option exercises (~$25.81 strike) — routine post-IPO monetisation. Monitor for rate changes.
USDC secondary depeg event (reserve/custody failure)	Low	High	MEDIUM (tail)	March 2023 SVB episode was the reference event. Circle now holds significantly shorter-duration, more-liquid assets with monthly Deloitte attestations. Risk materially lower than pre-2023.
OCC rule not finalised, Coinbase retains full leverage at renewal	Medium	Medium	MEDIUM	Political/regulatory uncertainty is real. If OCC rule stalls, Coinbase's bargaining position is stronger at renewal. This is the swing variable for 2026 margin trajectory.

9. Scenario Analysis & Price Target Derivation

Our $142 price target is anchored in the mid-case scenario below, which assumes: (i) USDC circulation continues to grow at approximately 30–35% per annum; (ii) the Coinbase deal is renegotiated with modest (not transformative) term improvements; and (iii) Arc delivers a functioning mainnet but achieves only modest early transaction volume.

EXHIBIT 11: SCENARIO ANALYSIS — 12-MONTH FORWARD

	Bear Case	Base Case	Bull Case
Key assumptions	OUSD achieves $20B+ supply within 18 months, Coinbase deal renews at current terms, Fed cuts compress return rate to 2.8%, Arc delays to 2027	OUSD remains below $10B supply in 2026, Coinbase deal improves modestly (retain 15–20% on-platform), return rate holds ~3.2–3.5%, Arc mainnet in 2026	OUSD adoption significantly below USDG trajectory, Coinbase deal significantly improved, OCC rule finalised, Arc mainnet gains traction, return rate stable
2026E USDC EoP supply	~$85B	~$105B	~$120B
2026E RLDC margin	~38%	~43%	**~48%**
2026E Adj. EBITDA	~$450M	~$650M	**~$900M**
Implied EV / Adj. EBITDA	~35x	~25x	~18x
Implied 12M price target	~$80–90	**~$142**	**~$200–220**
Upside / (downside) vs entry	**+17–32%**	**+108%**	**+193–222%**

We note that even in our bear case — which assumes OUSD outperforms all historical consortium stablecoin precedents by a wide margin — CRCL still generates meaningful upside from current levels. This reflects the degree to which the market has already de-rated the stock beyond any rational scenario analysis.

10. Catalyst Timeline & Investment Monitoring Framework

EXHIBIT 12: CATALYST TIMELINE — NEXT 12 MONTHS

Catalyst	Expected timing	Bull signal	Bear signal
Coinbase deal renegotiation	~18 Aug 2026	Any improvement in Circle's on-platform retain rate; deal terms disclosed	Auto-renewal at current terms or worse; Coinbase publicly escalates OUSD integration
Q2 2026 earnings (CRCL)	18 Aug 2026	USDC EoP above $80B; RLDC margin above 41.5%; management commentary affirms Coinbase renegotiation	USDC supply stalls or declines; RLDC margin compresses; no commentary on Coinbase deal
OUSD supply data — first 90 days post-launch	Late 2026	OUSD supply below $5B — consistent with USDG trajectory, confirms overreaction thesis	OUSD supply above $15B — suggests Stripe/Coinbase integrations are live and routing material volume
OCC rule — final rulemaking	H2 2026	Rule finalised as drafted — directly constrains Coinbase yield-sharing, strengthens Circle's renewal position	Rule withdrawn or materially watered down — Coinbase retains current leverage

Catalyst	Expected timing	Bull signal	Bear signal
CLARITY Act passage	H2 2026	Includes activity/transaction-based incentive carve-outs — legitimises Arc/CPN monetisation, removes regulatory ambiguity discount	Strict yield restrictions without activity carve-outs — narrows Circle's near-term monetisation options
Arc mainnet beta launch	2026 (no specific Q)	Mainnet live with active validator set and early transaction volume — adds new revenue line to analyst models	Delay past Q1 2027 — resets execution expectations; presale investor patience tested
Standard Chartered expansion — new markets	Ongoing	Additional G-SIBs offering USDC minting/redemption services — confirms institutional network effect thesis	Standard Chartered prioritises OUSD integration over USDC expansion — confirms dual-defection risk

10.2 Weekly Monitoring Checklist

— **USDC weekly supply** (CoinGecko / DefiLlama) — track vs 40% annual CAGR management guidance.

— **OUSD supply** once live — any reading above $10B within 6 months of launch warrants thesis review.

— **Coinbase Q2/Q3 stablecoin revenue** — a proxy for on-platform USDC share and distribution cost trajectory.

— **Fed funds rate / SOFR** — reserve return rate driver; 25bps cut ≈ ~$50–70M annual revenue impact at current supply.

— **Arc testnet throughput and developer activity** — leading indicator for mainnet readiness.

— **USYC and EURC supply** — non-USDC revenue diversification progress; USYC above $4B = additional diversification signal.

— **Insider Form 4 filings** — monitor for acceleration or deceleration in selling rate post-Coinbase renegotiation.

— **Standard Chartered and other institutional custody announcements** — institutional distribution network health.