

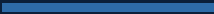
Circle Internet Group, Inc.

NYSE: CRCL • Stablecoin & Blockchain Financial Infrastructure

RECOMMENDATION	PRICE (16 Jul 2026)	12-MO FAIR VALUE	INVESTMENT SCORE
WATCHLIST	\$60.40	\$68	48/100

Report date: July 17, 2026

Preferred holding horizon: 1–2 years • Prepared for internal investment review



Executive Summary & Investment Thesis

Circle is the issuer of USDC, the world's second-largest stablecoin (~\$77B in circulation, roughly 80% of the regulated dollar-stablecoin market ex-Tether). It has built a genuinely strong franchise: a regulation-first brand, deep fiat on/off-ramps across 185+ countries, a fast-growing payments network, a new OCC national trust bank charter, and an emerging platform (Arc L1 blockchain, Circle Payments Network, agentic-payment tooling). Operationally the business is executing well — on-chain USDC transaction volume grew 263% year-over-year in Q1'26.

The problem is the **economics and the price you must pay for them**. Roughly 94% of revenue is *reserve income* — interest earned on the Treasuries and cash backing USDC. That makes Circle, today, a leveraged bet on two variables it does not control: (1) short-term U.S. interest rates, and (2) how much of the reserve yield it can keep rather than share with distribution partners. Both are now under attack. In late June 2026 a 140-member consortium (Visa, Mastercard, Stripe, Coinbase, BlackRock, Ripple and others) launched **Open USD (OUSD)**, a rival stablecoin explicitly designed to return nearly all reserve yield to distributors — striking directly at Circle's core margin. The stock has fallen from a 52-week high of ~\$263 to ~\$60.

- **Bull anchor:** Circle is the regulated, institutional-grade stablecoin winner. OCC trust-bank charter, GENIUS Act tailwind, and a re-rating from 'rate trade' to 'payments software' as transaction/platform revenue scales.
- **Bear anchor:** ~94% reserve-income dependency + falling reserve return rate (3.5% in Q1, down 66 bps y/y) + OUSD's yield-sharing model = margin compression that a still-rich multiple has not fully priced.
- **Our call:** A high-quality franchise attached to a business model under credible structural attack, at a valuation that still requires the bull case to be right. That is a WATCHLIST, not a buy — despite the ~50%+ drawdown.

Why not simply 'buy the dip'?

The 77% decline from the peak is real, but the peak was a bubble (the stock IPO'd at \$31 in June 2025, ran to ~\$263, and was priced for near-monopoly economics). A lower price is not the same as a cheap price. On a still-negative trailing GAAP P/E and ~30x+ forward EBITDA, CRCL is not a value stock — it is a growth/platform stock whose central profit engine is simultaneously facing rate risk and a well-capitalized competitive assault. The risk/reward is genuinely two-sided, which is exactly why it belongs on a watchlist with defined triggers rather than in the portfolio today.

1. Business Overview — How Circle Actually Makes Money

Circle operates a full-stack internet-financial platform organized around three pillars: **(1) Circle Digital Assets & Services** — the USDC and EURC stablecoins, the USYC tokenized money-market fund, and Circle Mint (institutional mint/redeem); **(2) Circle Applications** — the Circle Payments Network (CPN), StableFX, and agentic-payment tooling; and **(3) Arc** — a purpose-built layer-1 blockchain and developer infrastructure. Despite this breadth, the revenue mix is highly concentrated.

Revenue Line	Q1'26	% of Total	What Drives It	Key Risk
Reserve income	\$652.5M	94.0%	Avg USDC in circulation × reserve return rate (~3.5%)	Fed rate cuts; yield-sharing competition
Subscription & services	\$34.9M	5.0%	Platform, CPN, developer & institutional services	Early-stage; small base
Transaction revenue	\$6.7M	1.0%	Payment/network transaction fees	Nascent; needs volume scale
Total rev. & reserve income	\$694.1M	100%	+20% y/y, but down from \$770M in Q4'25	Sequential decline on falling yields

Source: Circle Q1'26 results (11 May 2026); percentages Circle-reported / author calc.

Competitive advantages

- **Regulatory moat.** First BitLicense (2015), first global issuer MiCA-compliant (2024), GENIUS Act-aligned, and now a federal OCC national trust bank charter (Circle National Trust) — positioning it to eventually custody the USDC reserve under direct federal oversight.
- **Network & integrations.** USDC is embedded across major exchanges, wallets, and 185+ country fiat rails; ~99.8% share of x402-protocol (agentic) transactions and rising CPN volume (~\$10B annualized).
- **Trust/brand.** Fully-reserved, transparent, BlackRock-managed reserves — the 'safe, compliant' stablecoin of choice for regulated institutions.

Competitive disadvantages

- **Thin economics it doesn't fully own.** Circle already shares a large slice of reserve income with distribution partners (notably Coinbase). OUSD is designed to take that logic further and hand almost all yield to distributors.
- **Rate dependency.** ~94% of revenue is interest income — a structurally low-quality, non-recurring-feeling revenue base for a company valued like software.
- **No control of its own primary demand channel.** Much USDC demand flows through Coinbase, now a co-sponsor of the competing token.

2. Industry Analysis & Custom Evaluation Framework

Stablecoins are one of crypto's clearest product-market fits: dollar tokens used for trading settlement, cross-border payments, on-chain finance, and increasingly agentic/AI payments. The total market is large and growing, and U.S. regulation (GENIUS Act) has legitimized the category — but legitimization is a double-edged sword: it also invites banks, card networks, and fintech consortia in. The competitive intensity of this industry just stepped up materially.

Custom framework — the six levers that decide CRCL's return

Lever	Why it matters for Circle	Current read	Signal
USDC circulation growth	Directly scales reserve income; management targets ~40% through-cycle CAGR	\$77B, +28% y/y but flat q/q; redemptions nearly matched mints	Amber
Reserve return rate	Yield kept per dollar; falls when the Fed cuts	~3.5%, down 66 bps y/y — the single biggest earnings swing factor	Amber/Red
Yield-share / take rate	How much reserve income Circle keeps vs. pays distributors	Under direct assault from OUSD's distributor-friendly model	Red
Platform / non-reserve rev.	The re-rating catalyst: fee revenue that is rate-independent	Only ~6% of revenue but growing 100% y/y off a tiny base	Amber (green optionality)
Regulatory position	Moat + reserve custody economics	OCC trust charter is a genuine, differentiated positive	Green
Competitive share	Defends the whole model	#1 regulated issuer, but Tether dominates ex-US and OUSD now targets US	Amber

The framework crystallizes the thesis: five of six levers are amber or red, and the two most powerful earnings drivers (reserve rate and yield-share) are both pointing the wrong way. The green lever (regulation) is real but does not by itself pay for the multiple.

3. Financial Analysis

\$694M	\$151M	\$55M	\$21.5T	~\$1.5B
Q1'26 rev & reserve +20% y/y	Adj. EBITDA +24% y/y (53% mgn)	Net income (cont.) -15% y/y	On-chain volume +263% y/y	Cash & equiv. net-cash B/S

What the numbers actually mean

- **Growth is real but decelerating and rate-driven.** +20% y/y revenue looks healthy, yet revenue fell sequentially from \$770M (Q4'25) to \$694M (Q1'26) because the reserve return rate dropped. This is the tell: top-line is hostage to rates, not just adoption.
- **Margins mask a mix problem.** 53% adjusted-EBITDA margin sounds software-like, but it sits on interest income. GAAP net income actually **fell 15% y/y** to \$55M as operating expense jumped ~76% (post-IPO stock-based comp) and distribution costs rose with circulation.
- **Distribution cost is the quiet killer.** Revenue-less-distribution-cost (RLDC) margin is ~41% — meaning Circle already gives away a large share of gross reserve income to partners. OUSD is engineered to widen that giveaway industry-wide.
- **Balance sheet is a genuine strength.** ~\$1.5B cash, net-cash, no meaningful debt. Circle can fund platform investment and withstand a rate/competition air-pocket — this is what keeps it a watchlist name rather than an avoid.
- **Cash conversion weakened.** Operating cash flow of ~\$21M in Q1 was down ~63% y/y — worth monitoring, though quarter-to-quarter reserve timing distorts this line.

Returns & capital allocation

Reported ROE/ROIC are not yet meaningful for a company this early in its platform build and this affected by SBC and a huge low-yielding reserve asset base (\$80B+ total assets, mostly customer-backing Treasuries that are *not* shareholder capital). There is no dividend and no material buyback; capital allocation is being directed into Arc, CPN, the trust bank, and product. That is defensible strategically, but it means shareholders are paying up-front for optionality whose payoff is uncertain.

4. Competitive Analysis

Competitor	Threat vector	Circle's relative position
Tether (USDT)	Larger circulation, dominant offshore/emerging-market liquidity, higher retained yield	Circle wins on U.S. regulation & institutional trust; loses on scale, offshore reach, and profitability per token
Open USD (OUSD)	140-firm consortium (Visa, Mastercard, Stripe, Coinbase, BlackRock, Ripple); returns nearly all reserve yield to distributors and controls payment rails	The most dangerous threat — attacks Circle's core margin AND its distribution (Coinbase) simultaneously. Not yet at scale, but structurally aimed at the profit engine
Bank-issued tokens / tokenized deposits	JPM & peers issuing tokenized deposits; keep economics in-house	Circle offers neutrality & cross-institution reach banks lack, but banks own the customer & balance sheet
Tokenized MMFs (incl. Circle's own USYC)	Yield-bearing alternatives pull idle balances away from non-yield USDC	Circle participates via USYC, but this cannibalizes the free float that funds reserve income

Moat verdict: Circle's moat is *regulatory and reputational* — real, but narrower than it appeared 12 months ago. The OUSD launch demonstrated that Circle does not have a network-effects lock on U.S. stablecoin rails, because the biggest distributors can and did decide to build a competing one that pays them more. A moat that your largest customer can route around is a moat with a gate in it.

5. Management Assessment

- **Execution & vision:** Co-founder/CEO Jeremy Allaire has navigated a decade of crypto regulation better than almost any peer — the MiCA and OCC milestones are concrete evidence of strategic foresight and follow-through.
- **Guidance:** Management reaffirmed FY26 guidance at Q1 and frames USDC growth on a long-term (~40% CAGR) basis rather than defending quarterly circulation — reasonable, though it also conveniently de-emphasizes the flat sequential quarter.
- **Capital allocation:** Prioritizing reinvestment (Arc, CPN, trust bank) over returns is appropriate for the stage, but unproven — the market is being asked to trust that platform revenue will eventually replace rate-driven revenue.
- **Insider signal — a caution flag:** Director Patrick Sean Neville sold >\$85M of stock in June 2026, and insider selling has been described as heavy. This partially offsets external validation (e.g., ARK's ongoing purchases) and is a governance data point worth weighting.

Net: a credible, mission-driven management team with a strong regulatory track record, but the combination of heavy insider selling into weakness and a still-unproven pivot to platform economics tempers the score.

6. Growth Drivers — Likelihood & Impact

Catalyst	Horizon	Likelihood	Impact	Comment
Reserve custody economics via OCC trust bank	Med	High	High	Could let Circle capture more of the reserve stack & improve unit economics
CPN + agentic/x402 payments scale	Med–Long	Med	High	The key re-rate driver: rate-independent fee revenue; today tiny (~6%)
Arc L1 mainnet + ARC token ecosystem	Long	Med	Med	\$222M presale at ~\$3B (a16z, BlackRock) validates vision; execution risk high
Fed holds / hikes (Warsh Fed)	Short	Med	High	Market pricing ~50% odds of a Dec hike — a genuine upside swing to reserve income
Global USDC adoption / new markets	Long	Med	Med	40% through-cycle CAGR target; depends on defending share vs OUSD/Tether

Notably, the rate lever cuts both ways versus the consensus fear: with a hawkish Warsh-led Fed and markets pricing a meaningful chance of a December hike, the 'rates only go down' bear narrative is not guaranteed. A higher-for-longer path would be a real positive surprise for reserve income — one reason to keep CRCL on a watchlist rather than write it off.

7. Risk Assessment — Probability & Severity

Risk	Type	Prob.	Severity	Notes
OUSD/yield-share compresses take rate	Competitive	High	High	The defining risk; attacks 94% of revenue at its source
Fed rate cuts shrink reserve income	Macro	Med	High	Offset by hawkish Warsh Fed & possible Dec hike — genuinely two-sided
Circulation stalls / share loss	Company	Med	High	Flat q/q circulation; redemptions ~matched mints in Q1
Coinbase renegotiation / defection	Competitive	Med	High	Coinbase co-sponsors OUSD; distribution economics could worsen
Regulatory tightening (Fed reserve rules)	Regulatory	Med	Med	Double-edged: raises barriers but constrains flexibility
Valuation de-rating	Valuation	Med	High	Still not cheap; any thesis wobble re-rates a premium multiple lower
Crypto market downturn	Macro	Med	Med	USDC demand correlates with crypto activity/BTC price

8. Valuation

No single multiple is adequate here because Circle is mid-transition from a rate-driven earnings stream to a platform/payments model. We triangulate. Trailing GAAP P/E is negative/not meaningful (SBC-distorted). EV/EBITDA (~30–37x on adjusted figures) is the most-used peer metric and already embeds strong growth. The most honest approach is a scenario-weighted view of forward earnings power, because the entire debate is about which regime — 'rate trade' vs 'payments software' — Circle ends up in.

Method	Read	Interpretation
Trailing GAAP P/E	Negative / n.m.	Distorted by stock-based comp; not usable
EV/EBITDA (adj.)	~30–37x	Priced for a premium-growth winner, not for margin compression
Consensus PT vs price	~\$123–136 avg vs ~\$60	Implies ~100%+ upside — but dispersion is enormous (\$50 to \$190)
Analyst range	\$50 (Mizuho) → \$190 (Bernstein)	A ~4x spread signals the market has no consensus on the model
Our scenario-weighted FV	~\$68 (12-mo)	Modest upside to spot; not enough margin of safety for the risk

Verdict: fairly valued to modestly expensive relative to its risk. The stock is far cheaper than at its bubble peak, but 'cheaper' is not 'cheap.' The consensus \$130s target relies on the platform re-rating arriving on schedule and the take-rate holding — precisely the two things OUSD and rate cuts threaten. We do not require the bear case to be right to stay out; we only require the reward for taking the risk to be insufficient, and at ~\$60 it is.

9. Market Sentiment

- **Analyst ratings:** Consensus 'Moderate Buy'; ~53% Buy / ~41% Hold / ~6% Sell. Average 12-mo target ~\$123–136 (well above spot), but with an unusually wide \$50–\$190 range.
- **Recent revisions are mixed-to-negative:** Mizuho downgraded to Underperform (\$50), JPMorgan cut its outlook, Morgan Stanley Equal-Weight (\$106); offset by constructive notes from Needham, H.C. Wainwright (\$150) and Bernstein (\$190) post-OCC charter.
- **Insider & institutional:** Heavy insider selling (Director sold >\$85M in June) is a caution; conversely ARK Invest has been actively buying the dip (multiple 200K+ share purchases).
- **Overall tone:** Sentiment is fearful and divided — a classic post-shock 'no consensus' setup. That can precede opportunity, but only once the take-rate question is resolved.

10. Technical Analysis (timing only)

- **Long-term trend:** Decisively broken — down ~77% from the \$263 peak; trading near the bottom of the 52-week range (\$49.90–\$262.97) and below the 200-day moving average.
- **Medium-term:** Bearish; a 'triple-bottom' support broke on the OUSD news, with technicians flagging risk toward the low-\$50s and even the \$31.90 IPO price in a worst case.
- **Support / resistance:** Support ~\$50 (52-week low zone) then ~\$32 (IPO); resistance ~\$80 (prior shelf) then the 200-DMA well above.
- **Momentum:** RSI dipped toward oversold (low-30s) on the crash and has stabilized; volume spikes on down-days indicate distribution, not accumulation.
- **Timing read:** No confirmed base yet. Even a fundamentally-inclined buyer would want to see the stock reclaim and hold ~\$80 before treating the trend as repaired.

Investment Scorecard

Category	Score /10	Rationale
Business Quality	6	Strong franchise & brand, but low-quality (rate-driven) revenue mix
Financial Strength	7	Net cash, no debt, positive EBITDA — the standout strength
Competitive Advantage	5	Regulatory moat is real but narrower post-OUSD; distributors can route around it
Management	7	Excellent regulatory track record; offset by heavy insider selling
Growth Potential	6	Large TAM & optionality, but core growth is rate-hostage; platform still tiny
Valuation	4	Not cheap; consensus target relies on the contested bull case
Risk	3	Elevated — model under simultaneous rate & competitive attack (low = worse)
Technical Setup	3	Broken long-term trend, no confirmed base

OVERALL INVESTMENT SCORE	48 _{/100}	RECOMMENDATION: WATCHLIST
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Scoring interpretation: a good-but-not-great franchise (business/financial/management scores 6–7) dragged down by a contested model, an unattractive risk score, a rich valuation and a broken chart. The number deliberately sits below the 'buy' threshold — the quality is there, the entry point and model clarity are not.

Final Recommendation: WATCHLIST

We would **not** buy CRCL today with our own money, and we would not short it either. This is a deliberate 'watchlist' call: a company we want to own at the right model-clarity and the right price, but where the current setup offers insufficient reward for a materially two-sided outcome. Because the recommendation is not Buy, the trade-plan section below is framed as *the conditions that would move it to Buy*, not an entry plan.

What would move CRCL to BUY

Trigger	Why it changes the thesis	What we'd want to see
Take-rate defended vs OUSD	Removes the core existential risk	1–2 quarters of stable/growing circulation & RLDC margin after OUSD goes live
Platform revenue inflects	Enables 'software' re-rate, rate-independent	Non-reserve revenue rising toward ~15–20% of total
Valuation reset with margin of safety	Pays us for the risk	Price in the ~\$40–50 zone, or EBITDA multiple compressing to ~20x on holding fundamentals
Rate path clarity (hawkish surprise)	De-risks the earnings base	Fed hold/hike confirmed, reserve rate stabilizing
Technical repair	Confirms sentiment turn	Reclaim & hold above ~\$80 on rising volume

Illustrative accumulation zone (only if triggers align): a starter position could be justified in the ~\$45–52 area with a stop below ~\$40 (a break toward the IPO price would signal the bear thesis winning) and a first target around \$80. This is a contingency plan, not a current recommendation.

Scenario Analysis

Scenario	Revenue outlook	Earnings outlook	12-mo FV	Prob.
Bull	Circulation compounds ~40%; platform/fee revenue inflects; take-rate holds; Fed stays higher-for-longer	Margin expands; net income scales on operating leverage	\$110–140	25%
Base	~15–20% revenue growth; reserve rate drifts lower; OUSD takes some share but Circle defends its core	Flat-to-modest EPS growth; SBC still a drag	\$60–75	50%
Bear	OUSD + rate cuts compress take-rate; circulation stalls; Circle becomes a low-margin payments utility	Earnings power impaired; multiple de-rates hard	\$30–45	25%

The probability-weighted fair value lands around \$68 — only modestly above the ~\$60 spot. Crucially, the distribution is wide and roughly symmetric: a real path to ~\$120+ exists, but so does a real path to the \$30s. When the expected value is close to the current price and the tails are fat in both directions, the correct action is to wait for the distribution to narrow (i.e., for the take-rate/rate questions to resolve) rather than to commit capital now.

Final Verdict — Investment Memo

Would I personally invest in Circle today? No — but I want to. Circle is a genuinely impressive company: the regulated, institution-grade stablecoin leader, with a real regulatory moat, a pristine balance sheet, and credible long-term optionality in payments and on-chain finance. If I could buy the *franchise* in isolation I would be interested. What stops me is that I cannot separate the franchise from its **current profit model**, and that model is under a two-front attack at a price that still requires optimism.

The biggest concern

~94% of revenue is reserve income, and both inputs to that income are deteriorating or threatened: the reserve return rate is falling as rates ease, and OUSD is a purpose-built mechanism to hand reserve yield to the very distributors Circle depends on. A business whose largest customers (Coinbase et al.) just co-founded a competitor designed to keep the economics for themselves has a structural, not cyclical, problem to solve. Heavy insider selling into the decline does not help the confidence picture.

What would need to change before I invest

- Evidence — one to two quarters — that Circle can defend its take-rate and circulation after OUSD is live at scale.
- A visible inflection in rate-independent platform/fee revenue toward ~15–20% of the mix (the 'software re-rate').
- Either a lower price that builds a real margin of safety (~\$40–50) or a demonstrably higher and more durable earnings base that justifies today's multiple.
- A repaired technical structure (reclaim and hold ~\$80) to confirm sentiment has turned.

What could invalidate the bearish caution (i.e., make me wrong)

If OUSD stalls on coordination/regulatory friction (140 competitors rarely move as one), if the OCC trust charter lets Circle capture more of the reserve stack, and if a hawkish Warsh-led Fed keeps rates higher-for-longer, Circle's

earnings could surprise to the upside and the stock could re-rate sharply from a low base. That plausible bull path is exactly why this is a WATCHLIST rather than an AVOID — I want to be ready to act the moment the take-rate question resolves favorably.

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