BAKKT HOLDINGS, INC. (NYSE: BKKT)
Connecting the Digital Economy with Major Partners Signed and Strong Revenue Growth Momentum

**KEY POINTS**

- Bakkt is a digital asset platform B2B2C company with major partners already signed, including Mastercard, Finastra, Wells Fargo, Bank of America, Global Payments, and Fiserv. While the company’s stock has gotten hit with the crypto declines in IH22, its advantages are significant: (1) a scalable and flexible platform that provides a one-stop-shop for connecting crypto to banking; (2) a diverse business model that is not solely reliant on crypto; (3) high ease-of-integration software; (4) compliance driven in a highly regulated environment; (5) more than $350 million in cash to continue investing and weather the crypto storm; and (6) key partner wins that point to a strong product and the right price.

- Management is fully committed to crypto and sees its adoption growing over the years. The total serviceable market was $1.6 trillion in 2020 and is projected to be $5.1 trillion in 2025, a 26% CAGR. Sitting at the confluence of crypto, loyalty, and payments, Bakkt is uniquely differentiated.

- Regulatory compliance first infrastructure is a differentiated strength of Bakkt. Borne out of NYSE-owner Intercontinental Exchange, Inc. (“ICE”) (NYSE: ICE), Bakkt is secure and fully regulated, creating a significant moat that comes to the forefront when markets are in turmoil, as they are now. Bakkt is one of less than 20 firms that have a New York Bitcoin license. It also operates a qualified custodian with a trust charter and is regulated by the NYDFS.

- Now that Bakkt has several partners signed up, the next step will be activations—when the customer is live and fully integrated with the Bakkt platform. Investors are watching for activations as a clear sign Bakkt is making progress. Investors should be getting an update on how the company’s partnerships are tracking on the 2Q earnings call in August.

- Consensus estimates Bakkt’s 2022 revenue growth will be more than 50%, after it grew more than 30% in 2021. As Bakkt is still investing for growth, EBITDA margin is expected to be negative again this year and next but improving from -221% in 2021 to -189% in 2022 and -63% in 2023. The company had more than $350 million in cash at the end of 1Q22 and a burn rate of $36 million, implying more than two years of runway to cash positive.

- Bakkt’s comparables include digital wallet and crypto companies, and other deSPACs. The comps have a median forward P/S that range from 0.7x for de-SPACs to 2.3x for crypto, while BKKT is trading at 2.7x. BKKT is trading near its Week low, roughly in line with its comps.

**KEY STATISTICS**

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Source: YCharts, as of August 2, 2022

**OUR INSIGHTS**

The Opportunities

Bakkt is tapping into the $1.6 trillion of digital assets across cryptocurrencies, rewards and loyalty points, gaming assets, and gift cards, which have the opportunity to grow to $5.1 trillion by 2025. Its partnerships with the likes of Mastercard and Fiserv show that its technology works for some of the most demanding customers, its pricing is competitive, and the features it provides are in demand. While its crypto business is ramping, the loyalty business should continue to bring in solid revenue.

The Obstacles

The recent downturn in crypto has taken a toll on consumers’ confidence in the crypto-based approach and it could take some time to work through and regain that confidence. Digital assets are a new asset class and are likely to see regulatory changes over the next few years. How investors and consumers use cryptocurrencies, NFTs, and other digital assets could evolve. However, the growth potential for digital assets is significant as its $1 trillion in value is significantly smaller than global stocks ($198 trillion) and global debt ($295 trillion).

Upcoming Fireside Chat

We will be hosting Bakkt CEO Gavin Michael for a fireside chat on August 16, 2022, at 11:00 am EDT. It is open to all investors. Click here to register. Read our reports on Bakkt on our website.
COMPANY OVERVIEW

Bakkt was formed in 2018, with a vision to connect the digital economy. Its platform operates at the intersection of cryptoassets ("crypto"), loyalty and rewards and payments. It is uniquely positioned to enable consumers, brands, and financial institutions to better manage, transact with, and monetize those assets in exciting new ways.

Bakkt’s institutional grade technology platform is at the core of everything it does. It has thoughtfully built a unique and powerful platform, melding together institutional-grade loyalty services to complement its institutional-grade crypto capabilities. The Bakkt platform provides end-to-end services for its partners, which includes easily digestible technology services, 24/7 customer support, and marketing playbooks.

Bakkt’s customers include consumers, businesses, and institutions. It enables consumers to access and use the digital assets they have earned or accumulated over time, and to acquire new types of digital assets, such as crypto. Its business customers include merchants, retailers, and financial institutions. Businesses leverage Bakkt’s crypto-related capabilities to facilitate new assets acquisition and rewards opportunities for their customers. Its loyalty-related capabilities help businesses deepen their relationships with their customers. Bakkt enables institutions to trade crypto using Bitcoin futures contracts that are traded and cleared on ICE and to store Bitcoin and Ether securely in its custody warehouse.

Pulling all of one’s disparate digital assets into one place is something the market needs, wants, and is willing to pay for. The trick is to do it efficiently, without error, in a way that is flexible enough to meet the customers’ demands for ease of use. This is Bakkt’s secret sauce: (1) connect the digital world to the existing/traditional one; (2) see it all in one place; (3) make it easy to use every day; and (4) do it in full regulatory compliance so clients trust the system. Examples include getting your paycheck paid out in crypto, converting reward points into crypto, and making everyday purchases with rewards points.

**Regulatory compliance is a key differentiator for Bakkt and creates a significant barrier for competitors.**

**Figure 1: Bakkt Makes Digital Assets Accessible**

Trust is complex, difficult to achieve, and easy to lose. Bakkt works within heavily regulated environments with institutions and businesses to deliver to customers at scale. Partnerships with the likes of Mastercard and Fiserv give clients, prospects, consumers, and investors strong evidence that Bakkt is working well and has earned the trust of its clients.
Digital/Crypto Potential

Much of investor focus has been on its crypto potential, which we discuss below, but the current revenue mix has the company generating well over 95% of its revenue from its loyalty offerings. Also, as a company that focuses on a business-to-business-to-consumer (B2B2C) go-to-market strategy, which includes white label options, tracking downloads of its app misses much of its business. So, while an increasingly large part of its future will be crypto driven via B2B2C, it is the loyalty business that is bringing in the revenue today.

Bakkt is moving to grow with digital asset adoption. The growth of crypto in general is central to its prospects. According to coinmarketcap.com, there are more than 19,000 cryptocurrencies trading on 526 exchanges with a total market cap of $1.14 trillion. The market cap growth of cryptocurrency accelerated significantly in 2021, while trading volume has stabilized around one million trades a day, down from the speculative highs of 2016. This implies that Bitcoin is becoming more accepted by investors and institutions. Bitcoin and Ethereum are the two most liquid cryptocoins in the market, as they represent ~60% of the market cap. Bitcoin has ~42% of that total, while Ethereum has ~18%. Bakkt offers both Bitcoin and Ethereum today. Over the last six months, these percentages had been fairly stable until recently, with part of the sell-off of Ethereum likely due to the upcoming move to proof-of-stake.

Figure 3: Total Cryptocurrency Market Cap

Source: coinmarketcap.com
As volumes have decreased, the value traded continues to grow and is now bigger than many major exchanges. Bitcoin alone is now trading more than $10 billion per day, double that of the London Stock Exchange. Stablecoins, such as Tether, have a daily traded volume of ~$170 billion. The total value of NFTs (digital artwork) traded in 1H21 was $2.5 billion. The decentralized finance (DeFi) network now totals $100 billion. While some may see this as a peak for crypto, digital assets have room to grow (see Figure 4). The $2 trillion in digital assets is significantly smaller than the $295 trillion in global debt.

**Figure 4: Market Value of Various Asset Classes**

![Figure 4: Market Value of Various Asset Classes](source)

The crypto market has taken a hit in 1H22, as has the S&P, but the overall trend continues. The total serviceable market (SAM) was $1.6 trillion in 2020 and is projected to be $5.1 trillion in 2025. While the data in Figure 5 is a little dated and growth may have slowed, the addressable market is significant and growing Y/Y. Through the partnerships that Bakkt has announced, it has access to an addressable market of well over 100 million consumers.

**Figure 5: Total Serviceable Market**

![Figure 5: Total Serviceable Market](source)
Regulatory Compliance First Infrastructure Is a Key Differentiator

Bakkt's institutional grade technology platform is secure and regulated. It was borne out of the company’s heritage from its former parent company, ICE, which owns the NYSE. To operate as Bakkt does across cryptocurrency and fiat currencies, it has focused on putting in the right infrastructure, including a trust charter, a Bitcoin license, money transfer licenses, and an experienced management team to make sure operations are smooth. Bakkt is structured as below:

- **Bakkt Holdings, Inc.:** Holding company; publicly traded on the NYSE (BKKT).
  - **Bakkt Marketplace, LLC:** Consumer-facing crypto exchange. Holds a virtual currency business activity license (“BitLicense”) from the NYDFS. Holds money transmitter licenses from every state in the US, except Hawaii.
  - **Bakkt Trust Company, LLC:** Qualified custodian of Bitcoin and Ether. Chartered under the New York Banking Law and regulated by the NYDFS with institutional-grade custody platform. Leverages both online (“warm”) and offline (“cold”) digital asset storage, which are covered by an insurance policy. Bakkt rebalances between warm and cold storage to minimize risks.

As one of less than 20 firms with a New York Bitcoin license, combined with its other licenses, experience, and heritage, Bakkt has a significant moat that forms a strong barrier to entry for even large competitors. This is a key element of why large partners are signing up to work with Bakkt.

PRODUCTS

Multiple Crypto Products on a Single Platform Is a Significant Advantage

Bakkt’s product suite is large and growing (Figure 6). Being a one-stop shop for banks and other clients makes Bakkt a vendor of choice. Having all the products working together in a regulated and controlled environment has significant value. The build versus buy decision is generally quite simple for customers (nearly always ‘buy’) as the core crypto competency is not readily available, according to the company. Bakkt provides sales and marketing support as well as 24/7 customer service, which enables customers to get started quickly as they do not need to ramp up hiring.

Figure 6: Key Products

- **Crypto Services:** Buy/sell/hold
- **Crypto Rewards:** Convert existing points to crypto, Earn crypto rewards
- **Pay with Digital Assets:** Pay with crypto, Pay with points
- **Powering Loyalty:** Loyalty redemption, Cross-brand connected loyalty ecosystem, Loyalty storefronts

*These products are under development and expected to launch later this year.

Source: Bakkt
Enabling Crypto Services
Bakkt’s first pillar, enabling crypto services, provides consumers, businesses, and institutions easy access to crypto buy and sell capabilities. American Bank, Manasquan, Hanover, and Valliance Bank are new customers who have signed up for Bakkt Crypto Connect, which enables end-users to seamlessly move into and out of Bitcoin and Ether within their trusted banking environment.

Figure 7: Bakkt Crypto Connect Provides Seamless Customer Experience within Trusted Banks

Fueling Crypto Rewards
Bakkt’s Crypto Rewards pillar marries the company’s loyalty program with cryptocurrency. uChoose Rewards will be using it. Crypto Rewards represents an easy opportunity for consumers to passively acquire crypto, which the company feels will help drive widespread adoption of crypto.

Figure 8: Crypto Rewards Will Enable Redeeming and Earning in Crypto
Paying with Digital Assets

Bakkt’s Crypto Payout adds payroll to the equation and is part of the company’s main pillar of paying with digital assets. Crypto Payout gives employees a choice to get paid in cryptocurrency for their paycheck. Laetro and BringMeThat are customers who have signed up to use Crypto Payout.

Figure 9: Crypto Payout Will Provide an Easy Way to Get Paid in Crypto

Bakkt also offers the ability to pay with digital assets, which includes a broad array of opportunities. Bakkt enables using digital assets such as crypto and points as for payment. Wyndham Rewards is using Bakkt's Pay with Points to further connect it to the crypto and digital ecosystem.

Figure 10: Pay with Points Allows Unlocking of the Value in Points for Everyday Purchases

Source: Bakkt
Powering Loyalty

Bakkt offers a full spectrum of content that retailers and financial institutions can make available to their customers when redeeming loyalty currencies, driving consumer loyalty and engagement. Its redemption solutions span a variety of rewards categories, including merchandise (such as Apple products and services), gift cards, digital experiences, and charitable giving.

The company’s travel solution offers a retail e-commerce booking platform with a powerful search capability, as well as live agent booking and servicing. Its unified platform capabilities include a mobile-first user experience, a multi-tier construct to accommodate loyalty tiers, comprehensive fraud protection capabilities, and a split-tender payments platform to accept both points and credit cards as forms of payment. The company has a rewards redemption platform for the Apple Store, merchandise, travel, and vacation packages that drove more than 12 million visits to Bakkt’s platform in 2021, enabling almost $500 million in annual redemption volume.

![Figure 11: Wells Fargo and United’s MileagePlus Use Bakkt to Enable Its Customer Loyalty Programs](image)

Bakkt continues to invest in its platform and work to grow its offerings. Projects under development include crypto payouts, open loop crypto wallets, new cryptos, enhanced storefronts (including Apple), and real-time consumer account funding.

![Figure 12: Future Product Roadmap](image)
GO-TO-MARKET STRATEGY

Bakkt’s B2B2C Model Enables Flexibility, Reach, and Ramp Growth

The B2B2C strategy allows Bakkt to acquire customers quickly through partners. Large partners with scalable relationships can drive strong end-user growth. B2B2C is considered by many to be more efficient and scalable than a direct-to-consumer strategy. Bakkt’s platform is built to operate at the intersection of crypto, loyalty and payment, and with its differentiated platform capabilities, the company has seen end-users recognizing its service and capabilities.

Bakkt provides its partners with a full range of engagement approaches—from fully white label (the end-user sees only the partner’s logos and branding) to a direct consumer application with Bakkt branding. This flexibility allows Bakkt to support different partner desires that can change over time. One key consideration is avoiding brand and channel conflict. The company has seen some customers lean into its crypto capabilities, while others focus on the discounted gift card offers, while others want to redeem points for merchandise or cash. Flexibility helps the company sign up partners and allows it to broaden the relationship within partners over time.

The company has focused much of its efforts in building its partner network in four key areas: financial services, travel and entertainment, retail, and payments and platforms. While it has made significant headway building partnerships in these industries, there remain significant untapped growth opportunities in each area (Figure 13).

Figure 13: Partnership Opportunities in Many Sectors

![Partnership Opportunities in Many Sectors](Image)

Source: Bakkt

Bakkt’s deep expertise in loyalty services and redemptions really sets it apart as it looks to connect across a variety of digital assets. The company has been able to sign a significant portion of the premier loyalty partners in North America. In the last 12 months, the company had more than 12 million visitors to its loyalty redemption.

There is a positive network effect in play as well. The value of its network will increase as more partners are added and more end-users start using crypto, causing more partners to sign up, etc. Bakkt has seen higher conversion rates and roughly 30% lower acquisition costs (as of January 2022) with its Choice Hotels and Wyndham Rewards partnerships.

Scaling is critical for Bakkt’s customers like Fiserv, Finastra, and Mastercard. Ease of integration is also key, making a product easy to use even more important today.
**Key Partners Include Mastercard, Finastra, Fiserv, and Starbucks**

Mastercard is a marquee partner that Bakkt signed last October. The MC-Bakkt system is designed to make it easier for merchants, banks, and fintechs in the US to offer their consumers the capability to buy, sell, and hold digital assets in custodial wallets. The company is also working with Mastercard to streamline the issuance of Mastercard debit and credit cards by banks and credit unions with the option of crypto reward capabilities that are entirely powered by the Bakkt platform.

Mastercard serves more than 20,000 financial institutions with 2.9 billion cards in use worldwide. Partner banks are increasingly competing with a broader group of fintechs in an ongoing race to create compelling offers. By using Bakkt, these banks can join the crypto movement without having to build in-house capabilities and increased customer acquisition and engagement, while appealing to a younger customer demographic with a more innovative offering.

Another crypto service partner, Finastra, will enable consumers to buy, sell, store, and spend a range of cryptocurrency via the Bakkt platform. These capabilities will be available to customers with community banks and credit unions as part of Finastra’s Fusion Digital Banking solution. Finastra’s solution is being used by more than 5,000 financial institutions in the Americas alone. Many community banks and credit unions are interested in offering their customers innovative new opportunities and Bakkt’s robust digital marketplace helps to seamlessly integrate crypto, cash management, money transfer, and wallet capabilities.

In addition to offering crypto buy, sell, and hold crypto assets to Fiserv financial institution clients, Bakkt is also integrating with Fiserv’s current omnichannel ecosystem, Carat, allowing businesses to pursue new options for merchant acceptance, payout, royalty programs, and transactions with crypto and digital assets. The Fiserv partnership extends and enhances Bakkt’s reach significantly. Fiserv serves more than one-third of all US financial institutions, approximately 10,000 financial institution clients.

Starbucks continues to be a strategic partner for Bakkt in developing practical and trusted applications for customers to convert their digital assets into US dollars to use at Starbucks. Starbucks has integrated the Bakkt’s platform as a payment method for customers to reload their Starbucks Card in the Starbucks app. Today, Bakkt is a payment method on the Starbucks app.
**FINANCIALS**

**Key Performance Indicators Show Growth Continued in 1Q22**

Investors should be getting the latest from the company on its 2Q22 earnings call, however, it is still useful to review 1Q22 numbers. Net revenue grew 54% Y/Y in 1Q22, roughly half from the Transaction business and half from the Subscription and Service business.

**Figure 15: Net Revenue**

![Net Revenue Chart](chart)

The company generates revenue when consumers use its services to buy, sell, and spend digital assets. There are two main types of revenue:

- **Subscription and service revenue.** A recurring subscription revenue stream is generated from partner platform fees as well as service revenue from software development fees and call center support. Subscriptions tend to be stickier and create a more stable revenue stream than transactions.

- **Transaction revenue.** The company generates transaction revenue though loyalty redemption volumes where it receives a take rate on the volume and from crypto buy/sell where it makes a spread on both legs of the transaction. The spread is generally around 125 bps on crypto transactions, 75 bps on regular payments, and a 2-6% take rate on loyalty and rewards.
Transaction accounts grew 26% Y/Y and digital asset conversion volume grew 91%. These were driven by increases in airline travel driving loyalty redemption. The sequential decline from 4Q is seasonal.

Figure 16: Transaction Accounts and Digital Asset Conversion Volume

Adjusted EBITDA decreased in 1Q22 by 71% as the net loss widened from $29 million to $43 million. The company used $35 million in cash as it continued to invest in headcount and technology for growth. With more than $350 million in cash on the balance sheet, the company has plenty of cash to continue investing in the business. Management expects to operate at a loss as it scales up the business and acquires new customers and partners to drive growth.

Figure 17: Adjusted EBITDA (non-GAAP)
MANAGEMENT

Bakkt Management Team Has Significant Experience

Figure 18: Bakkt Management

Gavin Michael, Chief Executive Officer

Gavin Michael has served as Bakkt’s Chief Executive Officer and a director since the Closing. Dr. Michael has served as the company’s President since December 2021. Dr. Michael served in the same role at Bakkt Opco Holdings, LLC (“Opco”) from January 2021 until the Closing. Prior to joining Opco, from November 2016 until April 2021, Dr. Michael was the Head of Technology for Citi’s Global Consumer Bank, responsible for the long-term strategic direction, planning and management of Citi’s global technology organization, execution of its cloud architecture, data and service strategies, and driving digitization efforts to accelerate speed to market. Before joining Citi, from April 2013 until November 2016, Dr. Michael was Head of Digital for Consumer & Community Banking at Chase, where he was responsible for all aspects of the digital business, including the Chase Mobile App and Chase Online. Dr. Michael was also previously the Chief Technology Innovation Officer at Accenture, the IT director for Lloyds Banking Group’s retail banking business, and Head of Strategy and Architecture at National Australia Bank. He has also held senior technology roles at IBM and served as a Director of Avanade, Inc. Dr. Michael earned a Ph.D. in Computer Science from Australian National University and a bachelor’s degree from the University of Western Australia.

Karen Alexander, Interim Chief Financial Officer

Karen Alexander has served as the interim Chief Financial Officer and interim Principal Financial Officer of Bakkt since May 2022. Ms. Alexander joined Bakkt in June 2021 as the Chief Accounting Officer. Prior to joining Bakkt, Ms. Alexander worked at GE Capital from October 2004 to April 2021 in finance and accounting roles of increasing responsibility, most recently serving as Global Technical Controller from January 2017 to April 2021. Ms. Alexander began her career as an external auditor with Arthur Andersen LLP and Ernst & Young LLP. She holds a bachelor’s degree in accounting from Miami University (Ohio).
Alex Jacobs, Chief Administrative Officer

Alex Jacobs is Chief Administrative Officer at Bakkt. In this role, he is responsible for strategic initiatives across the company, including Board management, real estate, company strategy and narrative and internal projects on culture and company process. Prior to joining Bakkt, Mr. Jacobs served as Chief of Staff to Citi’s Head of US Retail Banking. He also held previous roles in Global Retail Banking and Consumer Lending, coordinating day-to-day business activities as well as numerous CEO and Board of Directors presentations to drive approval and investment in key business initiatives. After joining Citi in 2014, Mr. Jacobs was a member of Citi’s Global Productivity organization, driving high-priority projects for Citi’s management team, including business redesign, organization strategy and operational transformation of business lines across products and geographies. Mr. Jacobs earned a B.B.A. from the Ross School of Business at the University of Michigan.

Nicolas Cabrera, Chief Product Officer for Payments

Nicolas Cabrera has served as the Chief Product Officer for Payments of Bakkt since June 2019. In this role, he oversees both B2B and B2C product strategy and development, go-to-market execution, and partner integrations. Mr. Cabrera joined Bakkt in June 2019. Prior to joining Bakkt, Mr. Cabrera served as cofounder and SVP, Product at OneMarket (Westfield Labs), the retail innovation group of Westfield, the world’s largest listed retail property owner. At OneMarket, he launched unique product solutions including indoor location detection technology, shopper identity resolution, product marketplaces, and mobile payment solutions. Prior to this, Mr. Cabrera held roles including Head of Digital and Direct at Westfield and Head of Product and Marketing at eBay & PayPal, Australia New Zealand, as well as strategy and development roles for Sagem in the Asia-Pacific region. Mr. Cabrera holds an Executive MBA from the University of California, Los Angeles (UCLA), a PhD in Entrepreneurship from the University College of Dublin, and a Bachelor of Business degree from the University of La Sorbonne, Paris.

Marc D’Annunzio, General Counsel

Marc D’Annunzio has served as Bakkt’s General Counsel and Secretary since the Closing. Prior to this role, Mr. D’Annunzio served as General Counsel and Secretary for Opco since May 2019. Mr. D’Annunzio is responsible for legal, regulatory, compliance and governance matters. Mr. D’Annunzio joined Opco in May 2019 from Alston & Bird LLP, an international law firm, where he practiced in its Payments group. Mr. D’Annunzio has more than 25 years of experience in the payments and loyalty industries, focusing on M&A transactions, strategic alliances, complex commercial relationships (including co-branded and private label card programs, and processing relationships for leading retailers), new product launches, and compliance. He holds a Juris Doctor and a Bachelor of Arts in Economics and History, each from the University of Michigan.

Mark Elliot, Chief Sales & Marketing Officer

Mark Elliot is Bakkt’s Chief Sales & Marketing Officer, responsible for sales and marketing teams. Prior to Bakkt, Mr. Elliot was the CMO at Biocatch leading all facets of marketing and communications, with focus on accelerating growth for the software provider. Mark re-designed brand and doubled lead-generation in the first nine months. Prior to this role, Mr. Elliot was the CMO at TIAA. Mark directed all facets of B2C and B2B marketing, managing a team of 400 marketing professionals and a $250 million budget for all advertising, media, public site digital experience and brand management. Prior to this role, he led measurement and media approach for rebrand from TIAA-CREF to TIAA and managed rebrand of EverBank to TIAA Bank and the integration of bank marketing team. Previously, Mr. Elliot led the branch segmentation approach with transition to digital banking at JP Morgan Chase. He developed the long-term payments strategy across card and debit addressing both consumer and merchant needs. At Capital One, Mr. Elliot drove product development, marketing and P&L accountability for over $100 billion in online deposits while leading expansion of retail banking into new geographies and testing “digital first” new relationship banking model. He also led strategy and business case for acquisition of ING Direct.
Nancy Gordon, Chief Product Officer for Loyalty & Rewards

Nancy Gordon has served as the Chief Product Officer for Loyalty & Rewards of Bakkt since March 2021. Ms. Gordon brings to Bakkt over 20 years of experience across the financial services industry in various roles at Consulting, Banks and FinTech organizations. Most recently, Ms. Gordon was Managing Director in Ernst & Young’s Financial Services Consulting practice, where she provided customer growth strategies for firms seeking innovative approaches to drive top-line growth and optimize operating efficiencies. Prior to working at Ernst & Young, Ms. Gordon led product development for Chase Ultimate Rewards and led data transformation initiatives across JPMorgan’s consumer banking, investment banking, wealth & asset management and corporate functions. Previously, Ms. Gordon has served as the Chief Operating Officer of Swift Exchange, a mobile-based rewards and payment digital wallet, and also led Citi’s Consumer Loyalty Assets for the Global Consumer Group, including the launch and growth of Citi ThankYou Network. Ms. Gordon earned her Bachelor of Business Administration from George Washington University.

Kim Jimenez, Chief Human Resources Officer

Kim Jimenez is the Chief Human Resources Officer responsible for leading efforts to shape the employee experience. Prior to joining Bakkt, Kim held positions at Citi responsible for performance management, talent acquisition, compensation, talent development, diversity and executive coaching. Over her 15-year career at Citi, Kim served as HR Senior Advisor within Global Consumer Banking Technology and HR Senior Advisor for Citi’s Retail Services Operations leading global initiatives to align and strengthen human resources capabilities to support critical business strategies. Kim began her career at Citi as the HR Director for CitiFinancial responsible for human capital strategic initiatives. Before joining Citi, Kim held Human Resources leadership positions at both Saks Fifth Avenue and Sweetser Behavioral Health. Kim earned a Master of Business Administration with a concentration in Human Resources Management and a Master of Science in Organizational Leadership.

Josh Klenert, Chief Design Officer

Josh Klenert is Bakkt’s Chief Design Officer. Mr. Klenert is an award-winning creative director and media executive with more than 15 years of experience, including over a decade as a senior-level leader. Mr. Klenert was most recently at ServiceNow, leading design inside the pre-sales innovation team, specializing in taking a human-centered approach to solving enterprise customers challenges on the Now Platform. With both in-house and studio experience, he specializes in elevating the role of customer-centric design practices within organizations, driving strategic innovation and leading cross functional teams to deliver world class product to customers. He brings a consistent, high-impact experience to users and clients alike for such major companies as The Huffington Post, AOL, iHeartRadio, Billboard and the Sundance Film Festival. At JPMorgan Chase, he helped design the next generation digital banking experience.

Michael Lewis, Chief Engineering & Operations Officer

Michael Lewis has served as Bakkt’s Chief Engineering & Operations Officer since February 2021. Prior to joining Bakkt, Mr. Lewis worked for Citigroup, where he served as the group’s Chief Technology Officer and Managing Director for the Global Consumer Bank from 2018 onwards. While at Citigroup, Mr. Lewis also served on the board of the Banking Industry Architecture Network (BIAN), an independent, not-for-profit association to establish and promote a common architectural framework for enabling banking interoperability globally. Before his time at Citigroup, Mr. Lewis served as the Global Chief Digital Officer and division Chief Information Officer for Personal Insurance at the American Internal Group (AIG). Mr. Lewis received his Bachelor of Arts from the City University of New York.

Dan O’Prey, Chief Product Officer for Crypto

Dan O’Prey is Bakkt’s Chief Product Officer, Crypto. Dan most recently served as Chief Strategy Officer as part of the executive team at Digital Asset, creators of the Daml smart contract language. He was responsible for defining the corporate strategy and aligning the top-level product strategy, assisted with over $300 million of financing, and oversaw marketing and communications across the firm. Dan joined Digital Asset as part of the acquisition of Hyperledger, the first permissioned distributed ledger platform, where he was co-founder and CEO. Dan then co-led the creation of Hyperledger
at The Linux Foundation, where he participated at the board level since inception and was elected as the Chair of the Marketing Committee for three consecutive terms. Prior to Hyperledger, Dan was the cofounder and CEO of MadeiraCloud, a Sequoia Capital backed SaaS company for designing, monitoring and managing cloud infrastructure resources based in Beijing, China. The company later rebranded to HyperHQ and was acquired by Ant Financial. Dan is a frequent public speaker and co-created the Synchronize DLT and Crypto conference. He holds a BA in Business Management and Information Management from the Sheffield University Management School.

**VALUATION**

**Bakkt Trading In Line with its Crypto Peers**

A hallmark of our research at WTR is that we do not offer specific stock recommendations and/or stock price targets. Our purpose is to help educate our readers about a company and some of the factors that we believe can be relevant to their choices about when and if to invest in a particular issue. We do offer data and graphs about how the stock has been valued historically—typically, using conventional metrics—and sometimes we present data and graphs that juxtapose historical valuations among issuers that are believed to be comparable.

Bakkt’s comparables include digital wallet and crypto companies, and other deSPACs. The comps have a median forward P/S that range from 0.7x for de-SPACs to 2.3x for crypto, while BKKT is trading at 2.7x. BKKT is trading near its 52-week low, roughly in line with its comps. Bakkt has traded down YTD, in line with it comps.

**Figure 19: Bakkt Comp Table**

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<td>$45,860</td>
<td>2.2x</td>
<td>86.0%</td>
</tr>
<tr>
<td></td>
<td>PSFE</td>
<td>Paysafe Ltd</td>
<td>$2.08</td>
<td>$1,505</td>
<td>0.9x</td>
<td>4.2%</td>
</tr>
<tr>
<td></td>
<td>median</td>
<td></td>
<td></td>
<td>$45,860</td>
<td>2.2x</td>
<td>18.3%</td>
</tr>
<tr>
<td>Crypto</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>COIN</td>
<td>Coinbase Global Inc</td>
<td>$67.19</td>
<td>$14,917</td>
<td>3.0x</td>
<td>513.7%</td>
</tr>
<tr>
<td></td>
<td>MARA</td>
<td>Marathon Digital Holdings Inc</td>
<td>$12.95</td>
<td>$1,377</td>
<td>1.5x</td>
<td>3353.0%</td>
</tr>
<tr>
<td></td>
<td>GLXY.TO</td>
<td>Galaxy Digital Holdings Ltd</td>
<td>$7.93</td>
<td>$888</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CIFR</td>
<td>Cipher Mining Inc</td>
<td>$1.88</td>
<td>$465</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>median</td>
<td></td>
<td></td>
<td>$1,132</td>
<td>2.3x</td>
<td>933.3%</td>
</tr>
<tr>
<td>de-SPAC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>PSFE</td>
<td>Paysafe Ltd</td>
<td>$2.08</td>
<td>$1,505</td>
<td>0.9x</td>
<td>4.2%</td>
</tr>
<tr>
<td></td>
<td>DAVE</td>
<td>Dave Inc</td>
<td>$0.66</td>
<td>$246</td>
<td></td>
<td>25.6%</td>
</tr>
<tr>
<td></td>
<td>CIFR</td>
<td>Cipher Mining Inc</td>
<td>$1.88</td>
<td>$465</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ML</td>
<td>MoneyLion Inc</td>
<td>$1.61</td>
<td>$378</td>
<td>0.7x</td>
<td>115.5%</td>
</tr>
<tr>
<td></td>
<td>median</td>
<td></td>
<td></td>
<td>$422</td>
<td>0.8x</td>
<td>25.6%</td>
</tr>
<tr>
<td></td>
<td>BKKT</td>
<td>Bakkt Holdings Inc</td>
<td>$2.90</td>
<td>$765</td>
<td>2.7x</td>
<td>38.4%</td>
</tr>
</tbody>
</table>

Revenue Growth is for 2022 estimates versus 2021.

Source: YCharts
New Business Model
Bakkt's business model is newly developed, untested, and continually evolving and may encounter additional risks and challenges as it grows and changes.

Bakkt primarily generates revenue when its users buy, sell, convert, spend, and send digital assets through its platform and its success depends in part on transaction volume from consumers. Although Bakkt has some recurring revenue, its future revenue will be heavily dependent on transaction fees earned from users from buying, selling, conversion, and spending, and the margin it charges in connection with consumer purchases and sales of cryptoassets, unless and until it develops more recurring revenue opportunities for its platform. If Bakkt is not able to continue to grow its base of active users, it will not be able to continue to grow its revenues or its business, which would negatively affect Bakkt's business, financial condition, and results of operations and may cause Bakkt to be unable to continue as a going concern.

Limited Operating History
Founded in 2018, Bakkt has a limited operating history and a history of operating losses. As a result, Bakkt's ability to accurately forecast its future results of operations is limited and subject to several uncertainties, including its ability to plan for and model future growth. Bakkt's historical revenue was achieved largely as the result of its white labeled product to loyalty partners and does not reflect any revenues from the launch of its broader platform or its initial attempt at attracting consumers directly through the launch of its consumer app, and therefore should not be considered indicative of its future performance.

Cryptocurrency Risks
Cryptoasset custodial solutions and related technology, including Bakkt’s systems and custodial arrangements, are subject to risks related to a loss of funds due to theft of cryptoassets, employee or vendor sabotage, security and cybersecurity risks, system failures and other operational issues, the loss, destruction, or other compromise of Bakkt’s private keys and a lack of sufficient insurance, which could cause damage to Bakkt’s reputation and brand.

Cryptoasset transactions may be irrevocable and stolen or incorrectly transferred cryptoassets may be irretrievable. Once a transaction has been verified and recorded in a block that is added to the distributed ledger, an incorrect transfer of a cryptoasset generally will not be reversible, and Bakkt may not be capable of seeking compensation for any such transfer or theft. It is possible that, through computer or human error, or through theft or criminal action, the cryptoasset could be transferred in incorrect amounts or to unauthorized third parties, or to uncontrolled accounts. Such events would have a material adverse effect on the ability of Bakkt to continue as a going concern.

Further, when cryptoasset custodial solutions or transfer venues (whether involving Bakkt systems or others) experience system failures or other operational issues, such events could result in a reduction in cryptoasset prices or confidence and impact the success of Bakkt and have a material adverse effect on the ability of Bakkt to continue as a going concern. Investor sentiment for cryptocurrencies may affect Bakkt’s share price (Figure 20).
Cryptoassets, such as bitcoin, were only introduced within the past decade and distributed ledger technology continues to rapidly evolve. The unique characteristics of these digital assets present risks and challenges to Bakkt that could have a material adverse effect on its business.

**Regulatory Risks**

There may be a general perception among regulators and others that cryptoassets are used to facilitate illegal activity such as fraud, money laundering, tax evasion, and ransomware scams. Because Bakkt provides the ability to buy, sell, convert, spend, and send certain cryptoassets, any negative perceptions associated with cryptoassets could harm Bakkt’s reputation and brand.
ABOUT THE ANALYST

Prior to Water Tower Research, John was a Lead Equity Research Analyst at UBS covering IT Hardware (including IBM, DELL, and HPE), Communications Equipment (including CSCO, ANET, and JNPR), and IT Services (including ACN, and CTSH). During his 20 years covering technology stocks on the sell-side, John was also a lead analyst at Merrill Lynch, W.R. Hambrecht, and Janney Montgomery Scott.

Prior to his equity research career, John was a lead software architect at JPMorgan, an AI sales engineer at Neuron Data, and a systems engineer and AI researcher at Hughes Aircraft.

John holds a Ph.D. degree in Computer Science from the University of California, Irvine, a MSEE degree from the University of Southern California, and a BSEE degree from the University of California, San Diego where he was a Regents Scholar.
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