BAKKT HOLDINGS, INC. (NYSE: BKKT)
WTR Fireside Chat with Bakkt CEO Details Its Progress with Partners and the Crypto Market

KEY POINTS

- Water Tower Research hosted Bakkt CEO Gavin Michael on August 16. We took a deep dive into Bakkt’s partners and the continued demand for connectivity to crypto. The event is available on demand and open to all.

- Michael highlighted the continued signing of new partners, like Visa, and the expectations for activations in 2H22 and ramping in 2023. Bakkt is not seeing less demand for crypto capabilities, but it notes that the industry is getting more scrutiny from regulators. This could play into Bakkt’s strength as a highly regulated company with its background from the ICE and NYSE.

- 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. The company’s 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) it is compliance driven in a highly regulated environment; (5) more than $315 million in highly liquid assets to continue investing and weather the crypto storm; and (6) key partner wins that point to a strong product and the right price.

- 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.

- The company is continuing to invest in its platform with additional hiring. It has been working closely with its existing partners on integration and go-to-market. This includes collaboration with partners on training relationship managers, developing sales collateral, and app launches. It is optimistic about activating some of its previously announced partnerships in 2H22.

THE COMPANY

Bakkt was formed in 2018, with a vision to connect the digital economy. Its platform operates at the intersection of cryptocurrency (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.

Businesses leverage Bakkt’s crypto-related capabilities to facilitate new asset acquisitions 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.

Read all our reports on Bakkt on our website.
ABOUT THE EXECUTIVE

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 (f/k/a/ Bakkt 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.
EXECUTIVE DISCUSSION

John Roy: Well, hello investors. I’m John Roy, Managing Director here at Water Tower Research. And I’m very pleased to have Gavin Michael, CEO of Bakkt, here to discuss what’s going on there. And also Gavin, if you could for those of you who don’t know the company, could you give us a 30-second overview?

Gavin Michael: Sure. Good morning John. Appreciate you making some time for us this morning. For those that are sort of new to Bakkt, our vision is to be the leading platform that’s connecting the digital economy. We bring together crypto, loyalty, and payments, all under one secure and regulated platform.

The institutional-grade technology platform is really at the core of everything we do. We go to market through our partners. We’re a B2B2C business model. We acquire partners by embedding our services, our capabilities, where their customers are. And we have some terrific partners.

We have Mastercard and Visa. We just recently announced that we have Pfizer and Finastra as really platforms that are exposing the reach of what we do, together with great partners like Wyndham and Choice Hotels, again, giving different flavors to what we do.

The whole goal is to really power commerce and enable consumers, businesses, and institutions to unlock value from digital assets, and importantly, providing that trust and transparency.

John Roy: Can you give us an idea of how you’re doing with the partners? I mean, obviously that’s your key avenue. How are things progressing with the activations and any kind of color there certainly would be helpful to investors?

Gavin Michael: We’re making strong traction with the go-to-market model. And we’re doing significant work around the integration of our platform into multiple use cases for our partners across the board. Many of our partners are multifaceted relationships. We have a relationship with Fiserv that’s on the banking side working with community banks and with smaller institutions to be able to enable our crypto connect capabilities.

But we also work with them on payments on what they’re doing with their merchants. We have a relationship with Finastra, which is similar in that we’re embedding our capabilities into their core banking systems, again improving the reach of what we have.

When we think about the relationships that we have, our focus is really becoming part of their systems, becoming part of their crypto marketing, their crypto sales process, hence then start to see expansions from there into other areas.

Importantly, when we work with our partners, we’re working across a broad range of services that we’re delivering through this B2B2C model. Yes, we expect to activate our crypto services in the second half of this year and see significant ramp-up through the course of 2023.

John Roy: Interesting. You were mentioning the regulatory background that you have and certainly the regulatory environment is important. I mean, you’ve got banking, overlapping with crypto, overlapping with payments and loyalty.

I mean can you give us an idea of how important regulatory is in your environment? And how is the regulatory environment changing because it sounds like it is moving forward?

Gavin Michael: Yes, I mean recent events have also led to more attention from the regulators on the crypto space. And we anticipate more stringent rules and customer protections to come. But our view is really unchanged. Greater regulatory clarity will bring additional clarity to the crypto economy and it will help the market mature.

We continue to watch this space very, very closely. And we collaborate with regulators as the conversation evolves. But we take a compliance-first approach. We have a robust risk management framework that sits at the core of everything we do and it enables partners to really feel assured that we’re prepared for the various market environments.

Our infrastructure is designed to provide these multiple layers of protection and provide that heightened security and compliance that we know that our partners are seeking as they enter the crypto economy.
We’re there to be their trusted partner. And so regulation is really key and our compliance-first approach a significant differentiator when we look across the market right now.

John Roy: Right, yes, you were talking about that. I mean, certainly, in my experience in assessing technology companies, you look at their partners, because they’re the ones that really know and when you get these big partners signed up, it means well, they have what they need at the right price.

So kind of maybe changing it up just a little bit. Let’s talk a little bit out of the box in terms of what’s the future in terms of the product lines. So you’re mentioning some rollouts in the second half of this year and further into next year. What are the types of features that you expect to roll out and that your clients want?

Gavin Michael: So, working at that intersection of crypto, payments, and loyalty gives us great scope for delivery of new and innovative products into the marketplace.

Right now, our focus is rolling out our product roadmap items that include things like open loop crypto wallets, listing additional coins. And when we talk about additional coins because we self-custody Bitcoin, and Ether, we’re talking about the next several tokens, not several 100.

And so seeing these coins on the platform we think provides optionality. We’re obviously continuing to find ways to expand our loyalty storefronts to provide more options, more choice to our consumers and to our partners.

And the goal with all of this is recognizing that consumers value choice and that’s what our partners are looking for.

So when we think about our product roadmaps, it really is looking to provide optionality. You’re providing different entry points into the crypto economy, and then providing the ability for our services to be combined in these new and differentiated ways. We continue to look for additional ways to innovate our crypto capabilities to really meet the shifting market demands.

We’re seeing the narrative around crypto start to change. It’s simply moving away from being viewed as an investable asset into something that has more widespread utility across consumers, across businesses, across institutions. And our role is to work with our partners to unleash the full functionality and utility that it adds.

But as we said before, everything we do, we don’t sacrifice security or regulatory compliance with any of our new features and products. So as we’re adding services, we’re working closely with our regulators to make sure that they can see the way in which we’re bringing them to market.

And work continues to be underway to ensure that we have those right tools, those right controls, the right monitoring in place on the compliance side, to ensure that we protect our consumers and obviously comply with all the relevant regulations.

John Roy: Right. Now you obviously mentioned the interesting market for crypto. Let’s just put it that way. So what are your customers saying? What are their thoughts? Are they pulling back or are they saying it’s not a bother? What are your customers saying about their thoughts on their crypto efforts?

Gavin Michael: That’s really insightful. What we’ve learned is crypto isn’t going away. It’s got a proven staying power, there is still very strong interest and momentum with our partners. And many of our partners are multinational companies. They’ve been watching this space for a long time. They really understand the peaks and the troughs.

So we’re still seeing demand for the crypto products from our consumers and from our partners. So it’s more a matter of when they’re going to develop their crypto strategy, not if they’re going to develop a crypto strategy. They’re not getting cold feet. But I would say they’re being thoughtful about how they enter the crypto space.

So they’re taking the time to determine product fit and to enter the market, ensuring it’s done in a robust and scalable manner. You know that’s back to this optionality. So we provide different ways to come in. We can come in by storing the assets, we can come in by enabling crypto trading, the ability to buy and sell, or we can help you take rewards points and convert those rewards points into crypto, providing a different entry point for our partners to be able to come in on a value proposition that is still very strong, but may feel a little easier for their consumers for their customers to enter the crypto economy. So I think what we’re seeing is that thoughtful approach to how they enter the crypto space, not if they enter the crypto space.
John Roy: And so the corollary question to this would be, are you changing your strategy? In other words, more coins less coins. Wait for the regulators, don’t wait for the regulators? Are you changing the way you guys are progressive?

Gavin Michael: So the current market is a great opportunity for us. It’s a great opportunity for us to showcase our compliance-first infrastructure, this idea that we’re a trusted and reliable platform of choice for our partners and for our customers. We don’t see volatility as necessarily bad. It presents opportunities, it presents interest from investors. And this is what our platform was built for. We’ll continue to lead into this compliance-first approach and will continue to drive this changing narrative from crypto, moving from just an investable asset to something that has widespread utility.

So for us, our plans haven’t changed. We continue to invest, we continue to drive. We’re seeing great traction in both our pipelines. And in some of the recent announcements we made in our 2Q earnings with partners like Sullivan Bank, the newest bank onto our platform for Crypto Connect.

John Roy: You just reported 60% revenue growth in second quarter. Maybe you can give us some highlights and some takeaways from your second quarter report?

Gavin Michael: Well, we continue to grow even amid this challenging environment. As you said, strong revenue growth in 60%. And we benefit from having a platform that has these diverse revenue streams. We’re very disciplined to managing our business. And obviously, this includes prudent expense management. We’re targeting using $135 million to $140 million of available cash and other highly liquid assets over the entire course of 2022.

And this is a reduction in the second half of 2022 cash burn of 15% to 20% versus where we were in the first half. Yes, we’re being disciplined in our capital allocation. We’re continuing to execute every day, we’re not slowing down. We’re building new partnerships. We’re building to integrate and to activate our existing partners. But we’re doing it with discipline. And we continue to enhance our platform. We spoke about some of the new features we’re thinking about. But we’re doing that in a way that shows that discipline in the way we allocate our capital within the company.

John Roy: So looking at the competitive landscape. Who are your biggest competitors? Is it in-house development? What’s the competitive landscape like?

Gavin Michael: So it obviously changes constantly around us. We’ve some seen some players fall out of the crypto space with the recent sort of market events. And it’s becoming more apparent that having the right risk management framework and regulatory approach is obviously critical. And this in itself becomes a key differentiator for us, among other companies in the landscape. But we do sit in a unique space, this intersection of loyalty of payments in crypto. And so while we consider that in itself part of the competitive moat, we obviously continue to watch closely companies that participate in different segments of the space that we occupy because we’re watching to see what sort of lateral moves they could make as they enter.

But we have a very strong position, with the differentiation of the platform, providing optionality for our partners in where they start, and how they come to work with us. We have our compliance-first approach and the robust risk management framework that all provide significant competitive differentiation for us. But we also watch the market closely to understand what sort of moves are being made around us as we continue to invest in those areas across the platform to be able to continue to drive that competitive moat for us.

John Roy: Now speaking of competitive moats. You have a New York bit license, right? There are not many firms that do, right? I mean, it’s only like what 15, 20?

Gavin Michael: We do, John. I mean, we took an approach to regulation and to satisfy the regulation that was state based. So we have a bit license here in New York, a virtual currency license. We have an MTL in all the states that require us to have money transmitter licenses, including New York. And we also run a trust company, so we have a banked trust charter from the New York Department of Financial Services. That really provides us as a regulated custodian for our Bitcoin and Ether.

So when you think about the way the company is put together, we obviously have the market-facing and consumer-facing pieces that really allow our partners to interact with us. But when we look at the custodial side of the business, that’s in a separate trust charter run by separate board of managers. And we think that is the most from a safety and soundness point of view, the most thorough way to enter the market from a regulatory point of view.
John Roy: Excellent. So if you look going forward, what are the milestones that you suggest investors look for? Activations? Partner announcements? What other things are you suggesting?

Gavin Michael: So both of those. I think when you look at what are the lead indicators for us, obviously, new partnerships, as we’re announcing them to show that we’re still getting traction because of our B2B2C go-to-market strategy. But then the activations and we’re very focused on delivering those. As I said, we expect our crypto services to start going live in the second half of this year with a ramp through 2023. So activations are very important as are the investments we’re making in the capabilities and the enhancements that we put in place.

So when you look at those collectively, the activations, the new partnerships, the capability enhancements, all of those are very important proof points of the traction that we’re making in the market. But activations are obviously very important. But keep in mind, this B2B2C go-to-market strategy. So we know that when we announced partners, people immediately look for the activations, but there’s a lot of collaboration work that goes on with the middle B in that model.

And sometimes that’s not entirely visible. It’s both technology and engineering work to allow us to integrate into be part of their system. But it’s also working with them to be able to provide the sales collateral, the marketing collateral, to be able to provide with them the customer care capabilities. So when we look at our partners, we look at being more than just a technology provider to them. We want to be able to provide them with all the aspects they need to be successful both in their role as that middle B, and then enabling their end partners and consumers to be part of the back platform.

John Roy: Well, Gavin, thank you so much for spending time with me today. And investors if you have any questions, you can send it through to me. And we’ll get him to Gavin. Gavin, any final thoughts you want to impart on the audience?

Gavin Michael: So look, we think we’re very well-positioned for what’s happening around this. We’re excited by the partnerships that we have. We’ve been able to show through the announcements that we have broad reach into over a 100 million consumers. We’re hard at work activating, we’re staying very focused on the things that we’ve said we would do, bringing on new partners, deepening with existing partners and activating. And we’re looking forward to seeing our services in the market through the second half of this year. So with that, thank you.

John Roy: Thank you so much. Gavin we’ll talk to you soon.

Gavin Michael: Appreciate it, John.

John Roy: Bye.

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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