

## BAKKT HOLDINGS, INC. (NYSE: BKKT)

Fireside Chat with Bakkt's Head of Bitcoin and Crypto Highlights Crypto's Future within Bakkt

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### KEY POINTS

- Water Tower Research hosted Chief Product Officer for Bitcoin and Crypto Dan O'Prey on September 27, 2022. We took a deep dive into Bakkt's crypto effort and how crypto will drive sales for Bakkt. The event is [available on demand](#) and open to all.
- O'Prey highlighted the continued growth of crypto even in tough markets. Banks and other clients are still very interested in having crypto capabilities and working closely with them to determine the right entry point. Bakkt is uniquely positioned to provide a diverse set of solutions, including crypto, payments, and loyalty capabilities to its partners. He looks to regulatory clarity and ease-of-use to kick crypto adoption rates up. The company is well positioned with its regulatory compliance-first approach.
- 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) compliance driven in a highly regulated environment; (5) more than \$315 million in liquid assets to continue investing; 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.

### KEY STATISTICS

Price	\$2.29
52-Week Range	\$1.98 - \$50.80
Market Cap (\$MM)	\$604
Avg. Daily Vol. (30-Day)	1,393,579
Shares Out (MM)	264
Insiders Own %	21%
Short Int. (MM) / % of Float	12.3 / 19.8%
Fiscal Year-End	December

Source: YCharts, as of September 29, 2022

### COMPANY OVERVIEW

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 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.

Read all our reports on [Bakkt](#) on our website.

### ABOUT THE EXECUTIVE



#### **Dan O'Prey**

Chief Product Officer,  
Bitcoin and Crypto

Dan O'Prey is Bakkt's Chief Product Officer for Bitcoin and 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 MM 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 3 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.

## EXECUTIVE DISCUSSION

**John Roy:** I'm John Roy, Managing Director at Water Tower Research. I'm very pleased today to be joined by Dan O'Prey, Chief Product Officer for Bitcoin and Crypto at Bakkt. Dan, very nice to have you.

**Dan O'Prey:** Thank you so much for having me, John. Pleasure to be here.

**John Roy:** For those of you that don't know you, can you give us your background and how you fit into the whole Bakkt situation?

**Dan O'Prey:** I've been in and around the space for eight or nine years. Back in 2013/14, I started a company called Hyperledger, which was the first of what is now enterprise blockchain-type companies, and then that ended up being acquired by a company called Digital Asset, where for about six years I was in a couple of different roles overseeing marketing, communication strategy, and product development.

Then I joined Bakkt about a year and a quarter ago to lead our Bitcoin and Crypto product group. Bakkt has three core areas of focus: Bitcoin and Crypto on my side, loyalty and rewards, and payments. One of the interesting and new things about Bakkt is the intersection between each of those different three pieces.

**John Roy:** Hyperledger certainly made a splash when it came out. There are a number of companies in the Crypto space today. What do you think makes you different from your competitors?

**Dan O'Prey:** I think our main thesis is that as Crypto becomes mainstream, it's going to be available in far more places. There's going to be less of a need to go directly to a dedicated Crypto exchange; you'll be able to get it through your bank, through your broker, through your wealth management, and through your pension. As it becomes more available in more different places, that need for dedicated Crypto exchanges or direct-to-consumer Crypto companies is lessened. We are different in the fact that we are a platform. We help non-Crypto companies provide Crypto services to their consumers.

We are powered by Bakkt behind the scenes, taking care of custody and security, and regulation and licensing so that our partners don't have to touch Crypto, but they can keep their relationship with the user inside their application with their branding and provide trading capabilities, rewards, payouts, and payments, all powered by us behind the scenes.

**John Roy:** Obviously, there were a lot of events over the last six months in Crypto. Can you give us your view as to how that's changed the industry?

**Dan O'Prey:** It's certainly been an interesting time. But that's to be expected in a still very young and emerging industry. I think last year, in particular, we saw a bit of irrational exuberance of people chasing gains and taking risks or at least not appreciating the risks that they were actually taking, both on the consumer side in terms of trusting companies that didn't necessarily have a strong track record or lending between each of those different companies. I think it was sad as it is for people to lose money and I hope that all does end up getting recovered. It was a healthy thing for the industry to clear out some of the more speculative high-risk business models, projects, and companies ultimately.

As an industry explodes, as the Crypto space has done, and you're going to see like a Cambrian explosion, and then another coalescence. Bakkt has been more on the conservative end of that spectrum, being very calculated and measured with the risks that we consider. We didn't participate in any of that lending that ended up blowing up or integrations with some of the stable coins that had issues, and really when you're in it for the long term, and you're building a solid foundation, you've got to be careful and calculated and we're well capitalized. We haven't been hit directly by any of the challenges in this space. We don't participate in those activities.

It's a good opportunity before the next bull run for the adults in the room to come in, the financial services providers who are trusted and regulated and we'll do things the right way. The markets were proven, but the models that were tried were not.

**John Roy:** Has the volatility radically changed the adoption, maybe the adoption rate for certain types but can you give a little bit of color on what you see there?

**Dan O'Prey:** It's a volatile space by its nature. It has always been pretty volatile. That's one of the things that is attractive to many investors and speculators. There's the potential for massive gains, but with that comes the potential for drops in price. Bitcoin is still hovering around \$20,000, which is still a very large market cap for where it is today.

Taking a step back or looking at the long term, there are going to be peaks and dips along the way. Our partners are not coming in last year through all the excitement, they've been monitoring this space, they're looking at this as something for the long term, and they're well aware that there will be volatility as we go through that phase of price discovery for how much these assets are worth.

As we move beyond just that investment speculation stage into actually providing utility by leveraging Bitcoin as a means for payment, then we'll start to see, as that wider adoption and wider utility comes out, volatility start to dampen. It hasn't had a huge impact on our business thankfully. Our partners have been around, they know what they're getting into, and they know that this is the nature of the space. But moving forward, I expect to see that sort of dampen over time with every run.

**John Roy:** If you take a step back and looked at Bakkt, particularly. Can you give an idea of what the products are for our audience and maybe who your target customers are?

**Dan O'Prey:** We are a B2B2C company primarily. We enable our partners, typically through financial institutions and regulated entities, but also merchants like Starbucks as well, for a suite of different offerings. The heart of that offering is our custody solutions. We have a NYDFS charter trust license, so we are custodian of Bitcoin and Ether today.

Building on top of that, we allow our partners to embed or enable them to embed trading capabilities. You can buy and sell Bitcoin and Ether directly from your bank account through our partnerships with Fiserv and Finastra, their community of credit unions and banks through rewards, so earning on the Bakkt card spend or converting your loyalty points or spending your loyalty points like cash, getting payouts, or getting paid in Crypto for a portion of your salary. We're seeing a lot of interest there within the sort of gig economy worker space; so electing 20% of your biweekly paycheck to come in Bitcoin.

Once you have that Crypto, rather than holding and waiting for the price to go up, you can have that convenience and leverage from being able to use it and tap to pay and spend it anywhere that Visa and Mastercard are accepted.

**John Roy:** Could you give us an idea of how the Crypto capabilities within Bakkt intersect with the other elements because I think that's a unique position to be in?

**Dan O'Prey:** It's definitely one of our biggest differentiators. I mentioned there's the payment side and the loyalty side as well, and several of our products will cross one, two, or even all three of those. The younger generation wants to receive Crypto or Bitcoin as that method of reward rather than a particular point and it's an opportunity to then differentiate your loyalty program, attract a younger, generally wealthier, Crypto-savvy generation, and actually provide earning Crypto as part of that and that's also a great entry point we're really looking at.

How do we get the next 100 million people onboard? We're not going after the Crypto diehards of today. The next 100 million people may not want to transfer their money to a Crypto exchange and then look through a list of hundreds of coins and decide what they want to buy. But if you're earning that on the Bakkt spend that you're doing anyway or through a loyalty program that you already have, it's free money as such. It's a great entry point for people to get their toes wet without having to sort of actively go in and invest in Crypto directly.

**John Roy:** Within the Crypto product line, what platform capabilities are you most excited about it? Can you give us a preview as to what might be coming down the pipe?

**Dan O'Prey:** A couple of years ago, I started thinking Crypto custody, holding private keys, securing them, making sure they don't get lost. It's a difficult job, but there are a few different custodians out there. Now, I'm actually quite excited about the opportunities that we have, being a highly regulated trusted custodian, both on the B2B2C side and directly for institutions as well. There's actually a lot of room to differentiate with that and layer on additional services down the line that we are planning to add, as well.

But then, I think, looking a little bit further out, the most exciting area for me is, and Bakkt was focused on driving that utility, actually enabling people to get value from these assets rather than just the pure speculation or store value side. I'm quite excited about the intersection with payments and Crypto, and actually leveraging Crypto native rails under the hood to do faster, more efficient payments.

Whether the consumer knows or whether they're holding Crypto and actually paying with that Crypto, whether they're just seeing dollars to dollars, or dollars to euros, actually leveraging the rails and the new infrastructure as an alternative payment rail to add value to consumers with a cheaper, faster Internet native global payment system. That to me is, as you know, money payments is the biggest use case in the whole of the Crypto space and the area that I'm personally most excited about it.

**John Roy:** You were mentioning that Bakkt is fairly highly regulated. There's been a lot of buzz about the regulatory changes in Europe and the US as well. Can you give us your view of what's happened and what's likely to happen?

**Dan O'Prey:** It's tough to guess. There are multiple different areas of action. We saw the Biden executive order, I believe in March of this year, to help push multiple agencies to be more coordinated and come out with their stances. But particularly in the US, there are still different views within different regulatory bodies on who has oversight and which jurisdiction it's in.

We've seen the Chair of the SEC, Gary Gensler, start to make some moves and make some suggestions that that certain Crypto currencies could be deemed securities and need to be registered. He's been very clear that Bitcoin isn't one of those and is a commodity, so it won't be under that jurisdiction. But then you see slightly different views from the CFTC that regulates commodities and futures, as well as the Treasury and the Fed. There's still a gray zone; a lot of clarity in some areas like with Bitcoin, less clarity with things like stable coins, or further out to other Crypto tokens.

We encourage the thoughtful regulation on this space that will actually help us as a business and protect consumers and our partners and we engage with our various regulators to ensure that we are compliant with where the market is today and anticipate where it can go. I wouldn't want to make any predictions on that. It can take a little bit of time, but I think it's going to be important. This is a new and very difficult space to regulate in many regards.

On the one hand, the industry wants clarity today, but we also want to make sure it's well thought out regulation as well. I think going through the time, staying engaged with the regulators, and helping them really understand because there are a lot of differences and nuances between projects and companies and business models as well. It's not a one size fits all space.

**John Roy:** The maturation of regulation is certainly one of the stages in the adoption. Where do you see we are in the adoption of Crypto by institutions and consumers? Are we in the first inning? Are we still in the batting cages?

**Dan O'Prey:** I'm not a big baseball guy, so I'll try and use your analogy. I would say we're in the second. This is not the super early stages of the industry, where it was more of a wild west. We have seen institutional adoption in major traditional financial services players. Fidelity and BNY Mellon are all active in this space. We've seen public companies put it on their corporate balance sheets. We've seen smaller nations like El Salvador and the Central African Republic adopt Bitcoin as legal tender. Some companies like BlackRock and multiple banks that previously historically had not been too friendly to the space actually start to offer it to their consumers as well.

So institutional adoption is here and is growing rapidly. I think it's a great opportunity for traditional financial services players who have the user base, who have the trust, who are regulated, and have the protections in place to actually still step into this space and provide these capabilities to their consumers in a way that traditional Crypto companies or Crypto native companies just can't do today.

**John Roy:** Your title is Chief Product Officer for Bitcoin and other Crypto. Is it really that big of a distinction? Is it Bitcoin and then everything else? Maybe you can give us your insight.

**Dan O'Prey:** I think there is a distinction between those two. People talk about the Crypto space and sometimes I make the analogy of the dot-com era or Internet companies when we used to talk about a company being an Internet company. Over time, people now talk about your e-commerce companies or social media companies, and there are just companies in different spaces. Similarly in the Bitcoin and Crypto industries, there are vast differences between the stable coin space or the NFT space, and Metaverse and DeFi and lending and Bitcoin.

We're starting to see the industry start to make a bit more of a distinction there. Bitcoin is unique in that it is truly decentralized. Some of the other projects have made tradeoffs for slightly less decentralization in order to get more functionality or more speed. They will have leaders or foundations or teams. Bitcoin has none of those. It really is a fully peer-to-peer neutral network that that anyone can interoperate with anyone and no one can

have control or influence over and that's really important to be the fundamental decentralized network that multiple companies can interact with without being concerned of a particular jurisdiction or government or having too much potential sway or team or company.

**John Roy:** Some people when speaking of Bitcoin, they look at it as digital gold. Is that what you see? Are we seeing the narrative shift?

**Dan O'Prey:** There are multiple phases, right and multiple different use cases. I think in the original white paper, it was a peer-to-peer electronic cash. It was designed as a means to make payments without any centralized intermediaries.

Over time, because it has a hard supply cap and they'll only ever be 21 million Bitcoin, it was helpful to the mainstream to understand an analogy to something that they used to and gold as a historical form of money that is limited in its supply. It was a helpful metaphor for understanding what this very new and very different technology was and that is still a use case. It is volatile, but actually interestingly over the last few days, we've seen multiple currencies fall against the US dollar, but Bitcoin has actually stayed surprisingly steady, but that is just the first use case. Bitcoin is not just supposed to be buy it, store it, and forget about it. It can be used, it can be an Internet native payment rail.

Now with the creation of new technologies like layer 2 solutions and the lightning network on top of Bitcoin, now you have the base settlement layer and a fast, cheap efficient payment network on top of it. We'll start to see, I believe, more of that focus on utility and actually being leveraged as a means to transact.

I mentioned earlier, that doesn't necessarily mean everyone's paying in Bitcoin directly. There are ways to abstract that away from the user and get more value by leveraging that network. Digital gold is the first sort of use case, but then moving to the means of transaction at the moment with a lot of adoption going on.

**John Roy:** As you look ahead, what could really be a catalyst for a faster Crypto adoption rate? What would really make it take off in your mind?

**Dan O'Prey:** Normal mainstream users care about convenience, safety, and trust. Ironically, as this was created to have no central intermediaries, normal people who are not Crypto native, they don't want to have to deal with their own private keys and risk losing all their funds. They don't want to have to research different Crypto exchanges and understand what the risks are there. They have a bank account. They have a brokerage. They have a loyalty program.

The more we can get Crypto alongside where users already are with entities they already trust, Bakkt is what will help us across the chasm to the real next 100 million mainstream users. Whether you're making a payment right now, you've got Venmo or Cash App or PayPal and you try to tip someone, you have to ask, do you have this or that?

In the future, if you're lightning enabled, it doesn't matter which platform you use, you can just make payments, and then we'll be off to the races in terms of mainstream adoption.

**John Roy:** Dan, this has been super useful. Thank you so much for your insights and have a great day.

**Dan O'Prey:** Thank you very much, John. Pleasure to be here.

**ABOUT THE ANALYST**



**John M.A. Roy, PhD**  
Managing Director

Technology Research

In his role at Water Tower Research, Dr. Roy provides cutting-edge equity research coverage of IT hardware companies supplying hardware to both commercial and individual users, and communications equipment companies that power the connected world.

Prior to Water Tower Research, Dr. Roy worked as a lead analyst at UBS, covering IT Hardware, Communications Equipment, and IT Services. During his 20 years covering technology stocks on the sell-side, Dr. Roy was also a lead analyst covering IT Hardware and Nanotechnology at Merrill Lynch; and Alternative Energy, Advanced Materials and Nanotechnology at W.R. Hambrecht, and at Janney Montgomery Scott. Before his sell-side equity research career, Dr. Roy was a lead software architect at J.P. Morgan, an AI sales engineer at Neuron Data, and a systems engineer and AI researcher at Hughes Aircraft.

Dr. Roy holds a Ph.D. 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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