

Bakkt Holdings, Inc. (NYSE: BKKT)

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Strong Customer Activity Drives Revenue +41% and Digital Volume +73%; Global Payments Pilot Launched

KEY POINTS

- 3Q22 revenue grew 41% Y/Y, driven by strong digital asset conversions (up 73%) and transacting accounts (up 21%). The company had more than \$273 million in cash and other highly liquid assets at the end of 3Q22. President and CEO Gavin Michael highlighted the company’s “initial activations with our crypto capabilities” and expectations to “bring even more of them to market in the near term.”
- Michael also discussed the acquisition of Apex Crypto, which the company expects will accelerate its growth plans as it will significantly expand its client verticals and cryptocurrency product offering. The transaction structure links the value to Apex Crypto’s financial performance. Michael discussed how the \$145 million in stock is contingent on Apex Crypto meeting aggressive gross profit growth target rates through 2025. Investors might view the deal structure as clearly intentional and the issuance of additional stock for the deal is highly dependent on strong performance by Apex Crypto. See detailed [note](#).
- The company also provided color on the expected financial benefits associated with the Apex Crypto acquisition. The acquisition has strong financial benefits and is expected to be accretive to adjusted EPS in the first full year following deal close. Operating margin should expand by at least 20% and growth should accelerate due to the acquisition. Excluding deal costs, free cash flow through 2025 should be ~\$80 million from the acquisition and associated business restructuring initiatives.
- As the company had previously disclosed, during the quarter, Bakkt took a non-cash goodwill and intangible assets impairments charge of \$1,547.7 million in accordance with GAAP. Bakkt indicated that it does not reflect issues with core business fundamentals, which remain strong, and it has no exposure to FTX. The company also noted that ICE is its largest shareholder with 66% ownership, which is consistent from June 30.

KEY STATISTICS

Price	\$1.73
52-Week Range	\$1.70 - \$28.40
Average Daily Trading Volume (30-Day)	1,445,566
Shares Outstanding (MM)	264
Market Capitalization (\$MM)	\$456
Insiders Own (%)	21%
Short Interest/% of Float	11.9 / 19.1%
Fiscal Year-End	December

Source: YCharts, as of November 9, 2022

EARNINGS SNAPSHOT

Financial Summary (non-GAAP)

(\$MM, except per share)	3Q22	Y/Y	Q/Q
Net Revenue	\$12.9	41%	-5%
Operating expenses (ex imp)	\$60.0	54%	5%
Operating loss (ex imp)	-\$47.2	58%	8%
Net loss (ex imp)	-\$44.8	56%	62%
Adjusted EBITDA (ex imp)	-\$30.7	27%	4%
EPS (ex imp)	-\$0.17	NM	-\$0.12
Cash and Cash Equivalents	\$273.7	NM	-\$41.3

OpEx (excluding impairment)	3Q22	Y/Y	Q/Q
Compensation and benefits	\$37.8	70%	11%
Professional services	\$2.7	-18%	42%
Technology and communication	\$4.1	32%	-2%
Selling, general and administrativ	\$7.8	77%	-20%
Acquisition-related expenses	\$0.5	-72%	150%
Depreciation and amortization	\$6.4	94%	5%
Related party expenses	\$0.3	-40%	0%
<u>Other operating expenses</u>	<u>\$0.5</u>	67%	0%
Total Operating Expenses	\$60.0	54%	5%

Source: Bakkt Filings 8k, WTR

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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 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.

Regulatory compliance first infrastructure is a differentiated strength of Bakkt. Borne out of NYSE-owner Intercontinental Exchange. Bakkt is secure and fully regulated, creating a significant moat that comes to the forefront when markets are in turmoil. Bakkt is one of less than 20 firms that have a New York Bitcoin license.

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 cash and other 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.

On the 3Q22 earnings call, the company noted that as a result of its efforts to simplify its business, the completion of most large dollar investments in 2022 and the acquisition of Apex Crypto, it expects to implement a restructuring plan in 4Q22. This will result in a restructuring charge in 4Q22 and the company expects to see associated expense reductions from the restructuring in 2023. This action could be viewed as a positive as the company appears to be prudently managing its costs and cash usage in light of a challenging macroeconomic environment. The company recently announced the acquisition of Apex Crypto. See Figure 1 for updates and our detailed report [here](#).

Figure 1: Apex Crypto Acquisition Update

- Expect Apex Crypto to be accretive to revenue growth rate and adjusted EPS in the first full year following deal close
- Targeting operating margin expansion in 2023 of >20%¹
- Expect free cash flow of ~\$80mm through 2025 from the acquisition² and associated restructuring initiatives
- Expect cash savings through 2025 of ~\$20-\$25mm, primarily due to headcount and technology efficiencies



¹ Assumes full year impact on operating margin
² Excluding deal costs

Source: Bakkt

VALUATION
Bakkt Trading In Line with Its Crypto and Digital Wallet Peers

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Bakkt’s comparables include digital wallet and crypto companies, and other deSPACs. The comps have a median forward P/S that ranges from 0.5x for de-SPACs to 1.9x for crypto, while BKKT is trading at 1.6x. BKKT is trading near its 52-week low, roughly in line with its comps.

Figure 2: Bakkt Comp Table

Category	Ticker	Company	Stock Price	Market Cap (mn)	2023 P/S	Rev Growth
Digital Wallet						
	PYPL	PayPal Holdings Inc	\$78.68	\$89,697	2.9x	18.3%
	SQ	Block Inc	\$57.21	\$34,216	1.7x	86.0%
	PSFE	Paysafe Ltd	\$1.18	\$858	0.5x	4.2%
	<i>median</i>			\$34,216	1.7x	18.3%
Crypto						
	COIN	Coinbase Global Inc	\$45.98	\$10,352	2.8x	513.7%
	MARA	Marathon Digital Holdings Inc	\$9.61	\$1,123	1.9x	3353.0%
	GLXY.TO	Galaxy Digital Holdings Ltd	\$3.92	\$427	0.6x	
	CIFR	Cipher Mining Inc	\$0.77	\$190		
	<i>median</i>			\$775	1.9x	1933.3%
de-SPAC						
	PSFE	Paysafe Ltd	\$1.18	\$858	0.5x	4.2%
	DAVE	Dave Inc	\$0.28	\$105		25.6%
	CIFR	Cipher Mining Inc	\$0.77	\$190		
	ML	MoneyLion Inc	\$0.95	\$231	0.4x	115.5%
	<i>median</i>			\$210	0.5x	25.6%
	BKKT	Bakkt Holdings Inc	\$1.73	\$456	1.6x	38.4%

Source: YCharts

ABOUT THE ANALYST



John Roy
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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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