BAKKT HOLDINGS, INC. (NYSE: BKKT)
WTR Fireside Chat with Bakkt’s Head of Loyalty & Rewards Highlights Loyalty and Crypto Combo

KEY POINTS

- Water Tower Research hosted Nancy Gordon, Bakkt’s Chief Product Officer for Loyalty & Rewards, on September 6, 2022. We took a deep dive into Bakkt’s powering loyalty capabilities and how Bakkt plans to combine it with crypto. The event is available on demand and open to all.

- Gordon highlighted how loyalty is core to Bakkt’s platform and leveraging its experience is key to its value proposition. She also mentioned how loyalty is seeing an uptick in the current economic climate as consumers are looking to maximize their buying power.

- Gordon also discussed evolving trends in the loyalty space and how Bakkt is positioned well to innovate. She discussed how areas such as connected loyalty, tokenization, and NFTs can help brands increase engagement with customers. Bakkt also offers the unique combination of crypto and loyalty capabilities on its platform, which provides numerous use cases for its partners.

- 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 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.

KEY STATISTICS

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Source: YCharts, as of September 7, 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.

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.
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.
**EXECUTIVE DISCUSSION**

**John Roy:** I’m John Roy, Managing Director at Water Tower Research. Today I am very happy to be joined by Nancy Gordon, Chief Product Officer for Loyalty & Rewards at Bakkt. Could you give us your background and what really got you enthused about going to Bakkt?

**Nancy Gordon:** I was delighted when Gavin, our current CEO, asked me to join his leadership team as the Chief Product Officer in early 2021. I was really intrigued by Bakkt’s vision to connect the digital economy and I believe that our offering across loyalty, crypto, and payments is unique in market.

I found the prospect of what we could do to be very compelling. I was thrilled to help shape the vision and execute along our journey. When I joined Bakkt, brought 20 years of customer engagement experience. I’ve had various roles in consulting and banking, FinTech, and even advertising. My experience ranges from different perspectives. I’ve been a loyalty program operator. I’ve worked at a technology company. I’ve been a marketer as well as a consulting leader.

All in all, I’d say that my experience is really rooted in white space value creation, product development, management, and bringing new ideas to life in market. Along the course of my career, I’ve had several proud moments, one being the launching and managing of a billion-dollar reward program for a large credit card issuer. I’ve led market entry for a mobile-based rewards and payment digital wallet. I’ve driven early innovation around pay with points. Generally, I’ve worked with large enterprise companies on all their customer engagement strategies.

So just putting this all together, I really joined Bakkt to oversee a suite of loyalty capabilities that enable our clients to acquire, reactivate, and engage their customers more effectively.

**John Roy:** As an aside, have you worked at a start-up before? I know this is a well-funded start-up, but it’s still a start-up.

**Nancy Gordon:** Yes, I have worked at start-ups before.

**John Roy:** That can always be an interesting activity. Let’s put it that way.

**Nancy Gordon:** A start-up is entrepreneurship. When you work in big corporates in innovation labs, you’re doing intrapreneurship. So those are the two terms I’ve always felt like they’re two sides of the same coin.

**John Roy:** Could you tell us about loyalty and the business that you’re in and how loyalty works at Bakkt. Who’s your target customer?

**Nancy Gordon:** Bakkt is a platform where brands leverage our solutions across loyalty, crypto, and payments. That’s a theme you’ll hear me talk about a lot. When working at this intersection, that’s where I see the next generation of loyalty coming together: bringing the new and innovative approaches to what’s been historically known as traditional loyalty.

More specifically, in our loyalty business, what we provide is an extension to our partners’ engagement strategies. We enable compelling content and integrated experiences in our partners’ environment. In that way, we embed our capabilities as part of our clients’ digital experience, and it creates a seamless interaction. More specifically, we have a lot of content. We have gift cards, travel content, merchandise, Apple products, and they really function as commerce engines, where our clients can enable their customers to shop with their points and other forms of payment.

In addition to providing these turnkey reward services, we also help our partners participate in what’s an emerging digital asset economy, which includes capabilities like paying with points or exchanging points for crypto or cash. We really try to help our partners make their loyalty currencies liquid and fungible in a way that suits their business needs. Our core target customers today are primarily enterprise and regional financial institutions. We work with travel and hospitality companies. We work with platform companies and our roster continues to expand even outside of these sectors.

**John Roy:** As a B2B2C, you got to get in with these big guys and hit them so they can service their customers?

**Nancy Gordon:** That’s exactly right.

**John Roy:** Within the Bakkt world, where is loyalty? Is it a side part of the business or is it core to the business?
Nancy Gordon: It’s core. I think it’s front and center. Everything we do is about creating consumer affinity for the brands we work with. Whether it’s in our own app or whether it’s embedded in our partners’ experience, this customer affinity comes forward in both a rational and an emotional perspective. If you’re a brand, you want to be top of mind with your customer and you want to deliver value to them in their everyday lives. But brands will also want to create experiential moments that could be aspirational.

We really position ourselves to be both. By powering brands and, in this case, Bakkt is a brand that we power. We want to reward customers in ways that are relevant to them. It could be about redeeming points, it could be about creating experiences, or it could be about leveraging our content for offers and incentives. We really cater to end-users that are looking for choice. For example, they want a variable denomination gift card that they could send to a friend in real time.

On the other end of the spectrum, there are end-consumers who want to use their rewards for something more aspirational such as redeeming for a trip to Europe. We really can accommodate both. In addition, those are some of the more traditional ways that that we serve rewards. But in addition to that core offering, we’re finding that brands also want to use their reward currencies in conjunction with newer asset classes like crypto. It enables us to develop some use cases for the digital platform and the digital economy.

Our modular platform approach is really a key differentiator to our partners because it allows us to meet them where they are in their journey on digital assets and helps us to lead and guide them as this new category emerges.

John Roy: One of the things I want to talk about is how you drive innovation. Historically, I’ve always seen innovation as partially answering questions that customers have; in other words, their ideas, can you do this? And then the other one was, we can do this, maybe it’s something that’s available. Maybe you could walk us through how you see innovation and how you see that really coming through within Bakkt?

Nancy Gordon: We get a little bit of both. We get our clients who say, “we’re interested in this, help us think that through” and then on the flip side, we’ll come up with ideas that will bring to our clients. We like to push the envelope. The way we do that is by obsessively gathering insights. Those insights come from macroeconomic activity, customer lifestyle preferences, our own proprietary research that we do, and client demand.

We also take a global and cross-sector approach because sometimes great ideas can be applied in new ways. Taking everything that we’ve seen to date and using those inputs, we definitely see some emerging trends in loyalty and we think we’re well-positioned to drive that change. For example, customers continuously seek experiential loyalty in addition to transactional—getting things that others can’t get. You hear about drops or hard-to-get items versus just the spending get.

Brands are also looking for connected partner ecosystems, where currencies could be fungible within their own ecosystem, as well as with their partners, but also enabling for dynamic exchange, but all the time having brand attribution. They’re recognized for the role that they play in those transactions. We’re also seeing that consumers and brands alike will increase adoption of digital assets like crypto and NFT, particularly as they prepare for Web 3.0 in the commerce that that’s going to provide.

We work on components to drive innovation that addressed those three areas. We’re proud of the people we brought onto the team, the platform that we’ve assembled, and the scale by which we serve today. I talked a lot about enterprise clients with great partners. We have a solid product development roadmap that’s really rooted in insight from this loyalty community. We think that our current solutions, along with the roadmap, will help brands deliver on this experiential loyalty and transform the existing earning get value props that are in place today into something that are more personalized digital moments that can happen organically, as customers interact in their day-to-day lives.

For brands, this notion I mentioned earlier of connected loyalty where you can unite loyalty between partners, within brands themselves with other digital assets, like crypto, NFT, and tokenization. We think about multiplying our impact on our current providers and their customers by drawing more brands and customers into the mix. It’s a rapidly evolving landscape. Being on the forefront of it is something that we’re proud to participate in.
**John Roy:** You mentioned NFTs. Could you go into that a little bit? To me that would be something certainly you're bringing to your clients. It's not something that they necessarily are totally versed in this point.

**Nancy Gordon:** I think NFTs have grown in popularity, right along with the marketplaces where they could be traded. I think if we move beyond the hype of NFTs and the high price tags, they're really a novel technology that we think can fundamentally change the landscape for digital assets. It's a space we're actively exploring. As it relates to loyalty in particular, NFTs really could deliver new engagement mechanisms. There's a value chain that begins with the issuance of the tokens, but then it goes into downstream incentives.

Imagine a scenario, where an NFT is awarded to a customer, because they've achieved a certain status or a certain threshold. At issuance that NFT can have some sort of embedded incentive. Maybe it's the rights to a new product, maybe it's access to event. Not only does the issuance of the NFT have value, but due to its traceability, the brand can then reactivate and add additional incentives to that owner at a later point in time.

This technology is instrumental in providing building blocks around forging a relationship between parties that could grow over time. We call it longitudinal engagement, like longitudinal loyalty, and we think it has the power really to disrupt the entire rewards and incentive industry. We along with crypto, since NFTs are becoming a core component of all digital wallets, especially in all digital Web 3.0 environments and metaverse creator communities, we've really starting to see a whole new market emerging around NFTs and consumer loyalty that Bakkt can support.

**John Roy:** The current macro environment, both for crypto and in general, is evolving. Are you seeing an impact on consumer behaviors in your research? Are you seeing your clients change their approaches?

**Nancy Gordon:** Yes, 100%. Consumers are telling us that they value their loyalty rewards, be it points, miles, or cash back more than ever. Why? It's helping them to offset budgetary challenges in the current environment. We've always felt that rewards provide consumers a way to offset rising costs to maximize their buying power and it could all be still part of a great rewards experience. Brands provide tangible opportunities for their customers to redeem their points.

I think this is in contrast to traditional thinking that breakage is good. It’s really not good. It’s a detriment to engagement and a detriment to maintaining value right in challenging times. I think most cutting-edge loyalty markers, including our clients, already know this. Redemption is good.

What we’re doing is responding to the customer needs, we’re helping our partners increase engagement by enabling both incentives, offers, as well as a rewards content or storefronts to provide more choice where their rewards could be used.

Most recently, we've invested in our merchandise and our travel experiences, really delivering on personalized shopping experiences. We're continuously expanding the quality and the scale of our supplier networks. That helps brings us the content to use with our partners.

**John Roy:** When you look at the intersection of crypto and loyalty, how do you see that playing out in the future?

**Nancy Gordon:** Crypto is increasingly garnering a lot of interest as an offering from loyalty. We’ve done some proprietary research in the space. There’s a ton out there that others have done. But consumers really have an opportunity to passively acquire the new asset class. Brands have the ability to attract customers through a new innovative offering. There’s an appeal among younger, more tech savvy customers who want to acquire crypto through everyday purchasing decisions and activities. This audience sees value and they understand what fractional ownership means. They understand how this digital asset has potential to grow over time and how it could be leveraged in new communities that are developing. The way we’ve thought about crypto at the intersection with loyalty today is that brands can really add it to an existing program or they can replace their value prop entirely with crypto. To illustrate, one example may be that it is the core value prop. Most credit card programs today allow you to swipe and earn points.

Well, in this case, you could swipe and earn crypto. That’s one way. A second may be leveraged crypto as a promotional incentive; to do X get Y. Another could be where do you accumulated reward points and now they're facilitating a redemption; redeem 1,000 points and get the equivalent of a $10 crypto deposit. There’s a variety of different ways that brands can offer crypto experiences regardless though we think early mover advantage and the halo effect from innovation will go with...
that. I think enabling customers today to start building out their digital wallets will yield future benefits for the brands as this market materializes.

**John Roy:** If you take a step back, I’ve always been a big believer in you measure a tech company, pre-revenue or pre-big revenue, by its partners and how its unique in its offerings. How do you see Bakkt and its relationships with its partners and how is it unique in its world?

**Nancy Gordon:** I think we’re unique across a variety of different dimensions. The technology behind it. The content that we have. The experience that we could deliver and the interactions that it supports. Our tech stack is designed for simplicity: single platform, flexible APIs, institutional-grade tech components underneath. We could deliver variability across client solutions.

The scale of our platform could be leveraged across different iterations. It could iterate quickly; it could support our partners and engage their customers. It really takes the load off our clients to build something outside of their core experience. Within the platform, core differentiators solutions can be designed across loyalty, crypto, and payments, within loyalty, merchandise, travel, gift cards, experiences a whole new suite of offerings. We’ve differentiated in our talent that we’ve brought in.

We’re investing both in our consumer app and our embedded storefront experiences that live within our client environments. These modular modern capabilities that can be configured by clients will accelerate both our current revenue sources and create a stream of new revenue sources. Then finally, I’d say it’s really what happens between the participants in our ecosystem that create that that hyper value. We’re delivering, today what’s needed in the market. We’re expanding on future modalities that are going to drive loyalty programs, but we’re also supporting the digital economy across a variety of different digital assets, crypto in particular.

Combining all this with our compliance-focused approach on it being highly secure, reliable platforming, having appropriate licenses, I think really starts to create a competitive moat for us that becomes difficult to replicate. I think that’s really what differentiates us and makes Bakkt a platform of choice.

**John Roy:** Certainly the licenses, the first to market with some of the big partners out there, like MasterCard, definitely are something you want to look for.

This has been super interesting. Thank you so much for coming by and spending some time with us today. Investors, if you have any questions, let us know. We’ll get them to Bakkt and see if we can get them answered. Thanks so much, Nancy. Thanks so much for innovating.

**Nancy Gordon:** Thank you, John.
ABOUT THE ANALYST

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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