Bakkt Holdings, Inc.
1Q23 Revenue Grew 4% Y/Y; Apex Acquisition Closes Bringing Nearly 6 Million Accounts

KEY POINTS

- **1Q23 revenue grew 4% Y/Y in a tough market.** Expense control improved with opex, excluding a non-recurring restructuring charge, down 11% Y/Y. These results do not include Apex Crypto, but the 2Q23 report and beyond will include it.

- **The acquisition of Apex Crypto closed on April 1 and significantly changes Bakkt’s trajectory.** With the combined custody solutions from Bakkt and trading capabilities from Apex, the company will be positioned to become the crypto infrastructure provider of choice. Additionally, the company expects the acquisition to provide access to new client verticals in growth sectors with leading fintech partners, including Webull, Stash, M1 Finance, and Public. Finally, Bakkt expects Apex to bolster its path to profitability.

- **Apex Crypto continued to add crypto-enabled accounts, up 29% Y/Y.** Bakkt expects Apex to continue adding accounts, particularly as it is seeing slight improvements in the crypto market. Apex gross revenue for 2023 is expected to be $1.9-2.4 billion. The company indicated that future earnings reports will include the differentiated revenue reporting (gross versus net revenue) for Apex due to accounting rules.

- **We note that the company spoke about its focus on international expansion in more detail than it has historically.** The company believes this is the right time to expand given demand coming from its client base and a more favorable regulatory environment in certain overseas markets. The company is focusing initially on the UK, the EU, and Southeast Asia. This represents a significant opportunity for Bakkt, and it may benefit from a lower barrier to entry given the current presence of existing clients in overseas markets.

- **On the balance sheet, Bakkt had $117.6 million in cash and equivalents at the end of 1Q23.** Bakkt’s 1Q23 cash burn, excluding one-time items, was $33 million and the company expects that this amount should go down for the remainder of the year as it is able to recognize the expense savings from its recent restructurings. Apex is expected to be roughly FCF break-even, excluding deal costs for the rest of 2023.

- **While 1Q23 was difficult for crypto,** President and CEO Gavin Michael highlighted that this is a pivotal moment given the recent close of its acquisition, focus on international expansion, and the “green shoots” in the crypto market.
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.

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.
Valuation

Bakkt Trading at Lower P/S than Comps

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Bakkt’s comparables include digital wallet and crypto companies. The comps have a median forward P/S that ranges from 1.5x for digital wallets to 3.0x for crypto, while Bakkt trades at 1.1x.

Figure 1: Bakkt Comp Table

<table>
<thead>
<tr>
<th>Category</th>
<th>Ticker</th>
<th>Company</th>
<th>Stock Price</th>
<th>Market Cap (mn)</th>
<th>2023 P/S</th>
<th>Rev Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Wallet</td>
<td>PYPL</td>
<td>PayPal Holdings Inc</td>
<td>$63.37</td>
<td>$71,695</td>
<td>2.2x</td>
<td>8.5%</td>
</tr>
<tr>
<td></td>
<td>SQ</td>
<td>Block Inc</td>
<td>$57.53</td>
<td>$34,800</td>
<td>1.5x</td>
<td>-0.7%</td>
</tr>
<tr>
<td></td>
<td>PSFE</td>
<td>Paysafe Ltd</td>
<td>$13.31</td>
<td>$809</td>
<td>0.5x</td>
<td>0.6%</td>
</tr>
<tr>
<td></td>
<td>median</td>
<td></td>
<td></td>
<td>$34,800</td>
<td>1.5x</td>
<td>0.6%</td>
</tr>
<tr>
<td>Crypto</td>
<td>COIN</td>
<td>Coinbase Global Inc</td>
<td>$61.94</td>
<td>$14,529</td>
<td>4.4x</td>
<td>-59.3%</td>
</tr>
<tr>
<td></td>
<td>MARA</td>
<td>Marathon Digital Holdings Inc</td>
<td>$9.71</td>
<td>$1,624</td>
<td>2.8x</td>
<td>NM</td>
</tr>
<tr>
<td></td>
<td>GLXY.TO</td>
<td>Galaxy Digital Holdings Ltd</td>
<td>$5.36</td>
<td>$558</td>
<td>2.1x</td>
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</tr>
<tr>
<td></td>
<td>CIFR</td>
<td>Cipher Mining Inc</td>
<td>$2.03</td>
<td>$503</td>
<td>3.2x</td>
<td></td>
</tr>
<tr>
<td></td>
<td>median</td>
<td></td>
<td></td>
<td>$1,091</td>
<td>3.0x</td>
<td>-59.3%</td>
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<tr>
<td></td>
<td>BKKT</td>
<td>Bakkt Holdings Inc</td>
<td>$1.27</td>
<td>$335</td>
<td>1.1x</td>
<td>46.5%</td>
</tr>
</tbody>
</table>

Source: YCharts
ABOUT THE ANALYST

**John Roy**  
Managing Director

Prior to Water Tower Research, John 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, he 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, John 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.

John 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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