

Bakkt Holdings, Inc. (NYSE: BKKT)

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VP of Research Highlights Bakkt's Positive Findings in Its Consumer Crypto Studies

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KEY POINTS

- On January 19, we held a fireside chat with Bakkt VP of Customer and Market Insights Kim Kardash. The conversation can be accessed [on demand](#).
- Kardash highlighted how Bakkt leverages data, collected through consumer research, market intelligence, and customer analytics, to keep up with changes in consumer sentiment around crypto and loyalty. She explained that the company has put in place research platforms and intelligence partners over the past year. These efforts provide multiple ways to gather insights on topics very quickly, which is extremely helpful given the volatile market environment.
- In October, the company fielded its first ever attitudes, awareness, and usage tracker, which is similar to a brand tracker. It's made up about 70 questions about past behavior and intended future behavior, such as how someone has interacted with crypto in the past six months. The tracker found no change pre and post FTX when it came to likelihood to purchase in the future by the crypto-curious, and only a 7% drop by crypto owners.
- With respect to bigger trends, 70% agreed with that crypto is the future of money—both crypto-curious and crypto owners. It seems that consumers are comfortable with things evolving and changing, and they just see everything going digital, so why not money?
- Kardash also noted that its recent research study reinforced the importance of Gen Z to the future success of crypto. Gen Z's adoption of crypto started to pick up in 2022. From July to October, Gen Z Bitcoin ownership growth jumped 8%, which outpaced every other generation. This should position Bakkt well given its recently announced acquisition of Apex Crypto, whose partner base consists mostly of fintechs with significant Gen Z and millennial customer demographics.

KEY STATISTICS

Price	\$1.92
52-Week Range	\$1.13 - \$9.01
Average Daily Trading Volume (30-Day)	3,266,618
Shares Outstanding (MM)	264
Market Capitalization (\$MM)	\$506
Insiders Own (%)	21%
Short Interest/% of Float	12.4 / 19.9%
Fiscal Year-End	December

Source: YCharts, as of January 23, 2023

KEY POINTS

- Kardash's research found that banks are positioned incredibly well to deliver on a crypto value prop and one of those reasons is trust. The company found that the crypto-curious trust their bank 30% more than the typical crypto trading app for purchasing crypto.
- A December study found that of those who already own crypto, 75% said that they would be open to moving their crypto from an exchange to a bank if their bank had a mechanism to do that, which is what Bakkt's Crypto Connect does.

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.

ABOUT THE EXECUTIVE



Kim Kardash
VP of Customer and
Market Insights

Kim Kardash serves as the VP of Customer and Market Insights at Bakkt. In her role she seeks to understand consumer sentiment and behaviors as well as market influencers to deliver insights that drive strategy. Kim brings 15+ years of experience to Bakkt, including 10 years in financial services where she oversaw consumer insights and marketing efforts.

EXECUTIVE DISCUSSION

John Roy: Welcome investors. I'm John Roy, Managing Director at Water Tower Research, and I'm very pleased today to be joined by Kim Kardash from Bakkt. Could you give us your background and what you do at Bakkt?

Kim Kardash: I serve as VP of Customer and Market Insights at Bakkt. There are a lot of different pieces within that, so I'll break it down for you briefly. First, there's consumer research, which means understanding the needs and wants of the consumer through qualitative and quantitative methods, and then taking those learnings and educating our organization, partners, and clients with the voice of consumer.

What we want to show them is who is this person outside of their transactions and what do they value? Then there's market intelligence. What are other players in our space doing and how well are we positioned in that space? What trends are out there that are affecting consumers?

Lastly, the third piece of my role that I oversee is customer analytics. The best way to find out what customers want is by looking at what they do, what is their actual behavior, and what are the insights inside our own business data? When you combine all three of those pieces together, you get a good understanding of why customers do what they do and how we can design better experiences for them and serve them in the future. In parallel to Bakkt, I've held many different types of roles from consumer insights at a financial planning firm to various marketing roles to even being a producer and writer of a financial talk show for five years.

In 2013, when I worked on the show, there was a call-in segment and that was my first exposure to hearing consumers asking about Bitcoin. What is this? Should I buy it? Since then, crypto has been a curiosity of mine.

John Roy: Could you give us more detail and color about the research at Bakkt and your role there?

Kim Kardash: I want to explain what customer research is because there can be so many different things. I like to think about it in terms of a customer journey. It can be very top of funnel like thought leadership, all the way down to the

bottom of the funnel and understanding why customers leave you. But in between those two ends, research can be CX metrics that help you understand the consumers' experiences with your product. How are we doing? It can also be preference data to understand how they rank or rate certain attributes or features. All of this is designed to help organizations figure out what's important to customers.

How are we using it at Bakkt? Right now, we're using attitudinal and preference research to give us a baseline on demand from consumers on various crypto and loyalty offerings. We are then using that data to help our partners and potential partners which segments of their customer base have the highest crypto affinity and product fit. What that leaves us with is our research really giving us the confidence to say to our partners and clients, these little demographics that will respond to a crypto offering and why.

I know I've been talking about crypto, but not all our research has been focused on the crypto space. We've used various methods to understand traditional loyalty behaviors with our rewards storefronts. When it comes to loyalty points redemptions, how are people thinking about their loyalty points? How are they strategizing about using them? What do they think of the various reward options available in the market? What is missing? What's their awareness about various ways to pay and make transactions?

That's a lot. What I love most about the research here at Bakkt is I get to study products in both existing and nascent areas. For the more nascent areas with some of our crypto offerings, there's not a lot of, well, I already knew that, so we didn't need to do the research. There's always a learning for us and that's super exciting. In some ways, I feel like we're learning it along with the consumer. There's not this established track record of what's typical consumer behavior in this market. This also helps us in keeping our own biases out of the way.

Being too experienced in a subject matter can be a roadblock for a researcher. As our crypto use cases evolve, I'm excited to evolve the topics we study with the consumers. But above all and one of the things I'm trying to put into action at Bakkt

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is making the research actionable. What thrills me the most is seeing research being put to use in product and marketing recommendations or using it as a way to start a conversation with a prospective partner, bringing them a new point of view, and help answering a business challenge for them.

John Roy: How does Bakkt keep up with changing consumer sentiment around crypto and the evolving industry?

Kim Kardash: As you know, crypto markets and sentiments are changing so fast, and because Bakkt sits at the intersection of crypto and loyalty offerings, I don't think that there's an industry or vertical I don't touch. Anything from keeping up with the banking industry to Apple products to loyalty redemptions to crypto and the gig economy, to credit card issuers, understanding which brands are in and out of favor with consumers, that's so much to keep track of on a daily or weekly basis.

But the problem in studying all these areas is that traditional research can be slow and manual and costly, and that doesn't work for us. We don't have the time. I've spent the past year putting together research platforms and intelligence partners in place to help us with that. I feel confident that I have multiple ways to figure things out for whatever topic pretty much immediately.

Companies have their martech stacks, the marketing tech. The same is true for research. You have to have your restech, your research technology stack, and we have a great one. With the program we have in place, we can do crypto sentiment tracking. We can keep up with industry trends. We can understand consumer buying behaviors, perform advanced plot methods, execute user testing, do qualitative research, and brand tracking. We can really tell a complete story from multiple sources.

I want to talk about one program in particular that I'm excited about that was built specifically to help us keep up with all the changing consumer crypto sentiment and usage. In October, we fielded our first ever attitudes, awareness, and usage tracker. You've probably heard of a brand tracker, how is the health of the brand, how are consumers thinking about the category, how much are they using that product? Well, think about that in terms

of one being built specifically for crypto. I would like to think that this is probably the first of its kind just based on the various crypto use cases that we're testing and tracking in it.

It's made up about 70 questions with questions about past behavior and intended future behavior, things like how someone has interacted with crypto in the past six months. What is their unaided awareness level of coins beyond Bitcoin? How much trust do they have in different ways to acquire crypto? It's also giving us the opportunity to compare crypto apps to newer acquisition models like Crypto Rewards through your favorite brand or through your primary bank. There's also attitudinal testing, which is very important. How much does the consumer agree about certain statements around crypto?

We released our first wave of the data from this tracker in December and wave two will go to field in April. That's also where we expect to measure any longer-term impacts from last year's volatility and the FTX collapse.

John Roy: What has the consumer sentiment done from pre and post FTX?

Kim Kardash: That was one of the focuses in the wave one tracker. We fielded wave one end of October, and as soon as we came out of the field, guess what happened? FTX events started to unfold. We went back a few weeks later and got a short-term assessment, and I'm going to give you two big learnings pre and post. The first is that the change in sentiment, pre and post FTX, really depends on where someone is in their crypto journey. For the crypto-curious audience, these are people who don't currently own crypto, but have expressed interest in learning more about it or signal that they would purchase in the future.

There was really no change pre and post FTX with them when it came to likelihood to purchase in the future. It stayed steady, around 40% likely to still purchase in the future. If you think about it, that makes a lot of sense. They don't have a personal stake in it right now. They have less recall of the events. They aren't paying as close attention to the day to day. It's not part of their orbit. Those who did have recall, we found that they can only really speak about the events in very big ways.

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For those who do own crypto, that's where we did see a slight dip in likelihood to purchase in the future, but only about 7%. They, of course, have higher recall of the events and are able to describe in more detail of what happened. But I think, overall, we can confidently say that consumers have shrugged off market volatility and the FTX collapse. There are no signals of immediate exit from the market. We're not seeing that. We know consumers move to the new cycle very quickly these days, but we expect any long-term impact to prove out in wave two.

That was the first learning. The second learning from the study is that consumers already had high levels of safety and regulation concerns prior to FTX, and those concerns begin to jump drastically once someone has over \$100 invested in crypto. It does not take a large monetary amount for these things to start becoming meaningful to them. The FTX event certainly didn't change that sentiment. It was already in place. We also ask consumers about what safety and regulation features were the most important to them. We tested a few different features. I'll name a few: the crypto provider has a bit license, the provider's crypto is held in both warm and cold wallets, the provider's crypto is not held on the trading apps balance sheet. In other words, it's your crypto, not ours. What we found is for both crypto owners and the crypto curious, it's your crypto not ours was a top safety feature for all. This ended up, of course, being the main reason for the FTX collapse weeks later. This is still the most important feature post FTX as well.

John Roy: What are some of the bigger trends you're seeing with crypto in terms of the future of finance? What do you expect in the near term?

Kim Kardash: Let's talk about what you just said. The future of finance or, I think said another way, crypto being the future of money, and we have done a little sentiment testing around this. Going back to pre-FTX data. Pre FTX, almost 70% of the people in this research project agreed with the statement that crypto is the future of money.

This was crypto owners and non-crypto owners both agreeing to this. Post FTX, this only dipped 5%. The majority of consumers still agree that crypto is the future. Why is that when all these events have taken place in the past year? We asked them to explain why they feel that way and

I think consumers have a great way of really simplifying things better than those of us who are very close to it on a daily basis. I think they got to the core of it without a technically driven explanation.

The first is that they were able to recognize that everything in our lives evolve. Why wouldn't money? Many said that this is the financial development of our lifetime. It's really the next logical step. The second reason why consumers agree that crypto is the future of money is, while they talked about, they're already seeing businesses and brands they know embracing crypto as a way to pay.

That's a signal to them that, oh, I might need crypto in the future for digital purchases. These brands I'm interacting with are already advertising this. The third theme is that consumers really understand that crypto can solve real problems.

Faster and cheaper transfer of funds, more secured transactions, privacy, prevention of counterfeiting. Even despite the volatility and the collapse of large players in the market, there is still this belief in crypto and we expect that to keep playing out in the intent to purchase data and ownership data. That's one thing I'm seeing and thinking about in terms of the future trends.

The second thing I want to add to that is a theme around Gen Z and this is an interesting generation. With Gen Z, their adoption for crypto started to pick up in 2022. From July to October, their Bitcoin ownership growth jumped 8%, which outpaced every other generation. This generation, in particular, is truly instrumental to the success of crypto more broadly.

I would say that one challenge for us and really all brands is truly appreciating the differences that this generation brings and figuring out how we can best meet their needs. Their values are different from previous generations. They admire different brands. They receive information in different ways and that all makes for different behaviors, and that applies to how they use crypto in their lives.

Our research shows that the reason for purchasing crypto does vary by life stage. Crypto as a long-term investment, sentiment is strongest with those 55 plus, and it's the lowest for those 18 to 24, so Gen Z. It's going to be interesting to see how their main triggers for purchasing evolve.

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This audience has also shown the strongest belief in the future of digital currencies and blockchain, which further signals their strong entry into the market and how they will use crypto in their lives. We're definitely keeping an eye on Gen Z.

John Roy: Now when your team goes through its research, has it given you guys more conviction with the products that Bakkt has?

Kim Kardash: Yes, absolutely. I really see the majority of my role as being almost an educator. My goal is to make sure that the organization and especially our sales team has access to the data they need that best tells our story. This means having a variety of different sets of data that are current.

We talked about the industry changing fast. This is not an industry where we can be bringing data to a meeting that's two years old. Things are changing too fast. Because of our B2B2C model, it's important that I bring different voices to the research as well.

I need both a B2B data set to resonate to who we sell to, but then I also need to make sure that consumers' voices are represented as well. We've got a double challenge.

I think what I've been able to do for not only the organization, but also the partners we work with, is show the needs of the consumers and the opportunity it can bring to the brand. Why is it a good thing for their brands?

I think a good example of this is a recent thought leadership piece we just completed in partnership with Wise Marketer on crypto rewards. It's a report called The Future of Crypto Rewards and involved a research panel of global B2B loyalty experts. I would say one of my favorite lines from that report is from a loyalty expert who said, I used to think crypto was a fad. I couldn't really envision the connection to loyalty programs. I've changed my perception.

Any brand that is not experimenting with crypto rewards and NFTs is already behind. When our team shows up at conferences or meetings with prospects, we have a really strong story to tell a fresh data that's coming from multiple sources, and I think it sets a really strong foundation for those conversations and relationships.

John Roy: You were talking about fresh data there. What data are you seeing particularly in terms of client verticals and banks for that matter, that crypto will continue to be important, and they will continue to be active in the crypto economy?

Kim Kardash: I'm excited about some of the research we've been doing in a banking space for our Crypto Connect product, and that's the product that allows customers to buy, sell, and hold crypto from their primary bank or credit union. It's awesome to see that our research has proven that banks are poised incredibly well to deliver on a crypto value prop, and one of those reasons is trust. We found that the crypto curious trust their bank 30% more than the typical crypto trading app for purchasing crypto, and that's huge.

We ask our favorite question of why? Like why do you feel that way? We hear things like I trust the bank with my regular income. I would trust them with crypto as well or things like my bank just can't disappear. The brick-and-mortar still brings a very good sense of trust to the experience. There's a face-to-face interaction. Probably one of my favorites is my bank has never let me down.

We also just completed another recent study in December to understand how a banking and crypto value prop lives together and how a crypto offering might drive new assets for a bank. One insight in particular that I think is an incredibly huge implication in a positive way for banks is of those in the study who already own crypto, 75% said that they would be open to moving their crypto from an exchange to the bank if their bank had this offering.

75% is obviously very high and I don't take this as 75%, but people actually do this.

But I think what it does suggest is that crypto owners are open to different ways of doing things. They aren't tied to their exchanges as the #1 main source of crypto. They could be a winnable audience to the bank. We want to help our partners solve a real business challenge for them and decreasing outflows to crypto exchanges or bringing the money back to them is one of the real challenges we can solve for them.

John Roy: As a final question, what is on your roadmap for research? What are you guys planning to be doing?

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Kim Kardash: I'll give you one of my favorites and I would say, more voice of consumer is probably one of the most important things on my mind this year. Quant data is great, but it is not a replacement for talking to customers.

Qualitative work is super important. Back in August, we launched our first in-depth interview program, which consists of a series of one-hour long conversations with consumers and really understanding what their experience is like with the loyalty programs they have memberships in.

If they purchased crypto before, what has that journey been like for them? How do they get educated on this topic? You get to hear them open up about things like their hobbies, their family, their job, why they like or dislike certain brands. You really begin to get this full picture of their lives, which you cannot get with quant data.

I love using that to help the organization understand experience through a consumer's eyes. This is an actual person and that really helps us build empathy for our end-users.

John Roy: This has been super helpful to understand what you guys are doing. Investors, if you have any questions, let us know, and we'll get Kim to take a cut at it. Kim, thanks so much.

Kim Kardash: Thanks, John.

John Roy: Bye.

ABOUT THE ANALYST



John Roy
Managing Director
Technology Research

In his role at Water Tower Research, Dr. Roy provides cutting-edge equity research coverage of companies building and using technology to drive the modern world. Technology is everywhere, and its impact is only growing. Whether its AI, Blockchain, FinTech, Quantum Computing, Autonomous Vehicles, Cryptocurrencies, or 5G, Dr. Roy has the expertise.

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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