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Bakkt Holdings, Inc. (BKKT)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Bakkt Second Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference call is being recorded.

I will now turn it over to Ann DeVries, Head of Investor Relations at Bakkt. Please go ahead.

Ann DeVries

Head-Investor Relations, Bakkt Holdings, Inc.

Good morning and thank you for joining us for Bakkt's second quarter earnings call. Today's presentation, including the separate earnings call presentation that can be found at our Investor Relations website at www.investors.bakkt.com, will contain certain forward-looking statements about Bakkt. These statements are based on the current expectations of the management of Bakkt and are subject to uncertainty and changes in circumstance, many of which are beyond Bakkt's control, which may cause actual results to differ materially from those expressed or implied in such forward-looking statements.

For a more complete discussion on forward-looking statements and the uncertainties related to Bakkt's business, please refer to its filing with the Securities and Exchange Commission, including the discussion of Bakkt's risk factors in its most recent annual report on Form 10-K and its subsequent quarterly report on Form 10-Q.

During today's presentation, in addition to discussing results that are calculated in accordance with generally accepted accounting principles, we will refer to certain non-GAAP financial measures. For more information on this, the basis of presentation for our financial results and our non-GAAP measures, please refer to our earnings release, which was filed this morning with the SEC.

Joining me on today's call are Gavin Michael, Chief Executive Officer; and Karen Alexander, Chief Financial Officer. After our prepared remarks, we will answer questions we received from our investors through the Say Technologies platform. After that, Gavin and Karen will be available to answer questions from the analyst community. I'll now turn it over to Gavin.

Gavin Michael

President, Chief Executive Officer & Director, Bakkt Holdings, Inc.

Thank you, Ann. Good morning, everyone, and thanks for joining. We've stated our vision before, to be the leading platform that is connecting the digital economy. This means powering commerce and enabling consumers, businesses, and institutions to unlock value from digital assets while providing trust and transparency. I'm incredibly proud of the strong momentum we've gained as we continue to grow during what's been a very challenging environment. And let me talk about the market for a moment.

It shifted considerably around us, from both a macroeconomic and market perspective. There are a lot of headwinds to consumers and businesses with inflation, higher interest rates, risk of recession, and volatility in the markets across many asset classes. The crypto market has clearly been challenging as the collapse of some coins and other company failures caused stress to investors, lending platforms, and the broader sell off. These external factors have clearly weighed on the market, with some companies elongating decision time lines on strategic priorities such as their crypto plans.

Recent events have also led to more attention from regulators on the crypto space, and the market anticipates more stringent rules and customer protections to come. Our view is unchanged. Greater regulatory clarity will bring additional clarity to the crypto economy and help the market mature. We will continue to watch this space closely and collaborate with regulators as the conversation evolves.

Beyond crypto, we are seeing the impact of summer travel supply constraints reduce opportunities for consumers to redeem their loyalty points for travel experiences like flights. Even amid all of this challenge, we remain in a solid position. With \$315 million of available cash and other liquid assets at the end of Q2, we are well-capitalized to continue building through this time so that we can be opportunistic and ready for the eventual upswing.

Our platform has diverse revenue streams across loyalty, crypto and payments that provide stability in a volatile environment. It's what's helped us achieve strong revenue growth this [quarter and enables us to solve partner pain points and shape creative new approaches. For example, enabling banks to appeal to younger and] more tech savvy customer or enabling consumers to use the brand's rewards points to pay for their everyday purchases. There is real consumer demand driving these shifts.

Our robust risk management framework enables partners to feel assured that we are well-prepared for various market environments. Our infrastructure provides multiple layers of protection and provides heightened security and compliance. And we'll go deeper on what that means in just a moment. And we're disciplined in our capital allocation decisions. We're ruthlessly prioritizing our product plans to ensure we can build both our long-term road map and weather any slowness in the market.

Strong companies use challenging market conditions to be opportunistic and come out of this cycle even stronger. While others are slowing and halting growth demands, we continue to hire and expand for future growth, and it's been a great market to do so. We are well-positioned to be the safe, trusted and innovative platform of choice to deliver widespread utility to our partners and consumers.

Let's talk about how our platform meets shifts in the market. First and foremost, crypto isn't going away, and there's still interesting momentum with our partners, many of whom are multinational companies who've been watching this space for a long time and understand the peaks and troughs. Consumer interest in crypto also remains solid. A recent Morning Consult study shows only a 3% drop in US adults considering crypto purchases from January to June of this year. With that being said, we anticipate that some partners may move in a slightly more conservative pace than we previously expected.

We continue to make steady progress with our partners across the board and still expect to activate our crypto services in the second half of this year with an increased ramp up in 2023. We're continuing to innovate our crypto capabilities to meet shifting market demands as crypto shifts from being viewed as an investable asset to more widespread utility across consumers, businesses and institutions. We're excited to work with our partners to unleash its full functionality and utility.

In loyalty, we've seen recent shifts in consumer behavior. Consumers are valuing their loyalty points even more in a challenging economic environment as a way to offset rising costs. Consumers are looking to find ways to maximize their buying power. This presents an opportunity for loyalty programs to differentiate their brand and drive affinity by providing additional opportunities for customers to redeem their points. And that's where we come in.

We're increasing engagement with our loyalty platform users through funded offers and incentives and expanding our storefront options to provide much more choice. Crypto rewards also plays into this opportunity, either through redemption of points for crypto or earning crypto through everyday spending. Consumers have an opportunity to passively acquire a new asset class, and brands can attract new customers through innovative loyalty initiatives.

So, let's discuss how our platform is designed to make us a trusted and reliable partner. From inception, Bakkt was built to enable investors and consumers alike to transact in cryptocurrency and other digital assets using a platform that meets the highest standards to security [risk and compliance. Our crypto solution utilizes two separate individually-regulated subsidiaries: Bakkt Trust Company, a qualified custodian of bitcoin and ether, and Bakkt Marketplace, which operates our consumer-facing cryptocurrency platform. This separation of custody and exchange functions provides additional protection to investors] and minimizes potential conflicts of interest.

Bakkt Marketplace holds a virtual currency license or BitLicense from the New York State Department of Financial Services or NYDFS. This is often considered the gold standard of state financial service regulators. Bakkt Marketplace also has money transmitter licenses from every state in the US where required, including New York. Bakkt Trust Company is a limited purpose trust company supervised by NYDFS. It's overseen by a separate and independent board of managers, whose focus is on the safe and effective operation of our crypto custody operations. Its custody solution leverages both warm and cold storage with insurance policies. Crypto held is solely regarded as the consumer's property and it's never used for lending, pledging or other similar purpose.

Lastly, all cryptocurrency that is made available to consumers within the Bakkt ecosystem is sourced by Bakkt Marketplace from its bilateral trading arrangements with other institutional trading firms. When that crypto is brought into the ecosystem, Bakkt uses industry leading blockchain analysis techniques to ensure that it is not linked to illegal or illicit activities.

The cryptocurrency market is volatile by nature, and that's not always a bad thing. Volatility presents opportunities for investors amid increased transacting activity. But with volatility, you need a strong partner platform to operate on. One that isn't going to make any risky decisions and disappear when those bets don't play in their favor. Our

platform is built for this, and we will continue to lean into our compliance first approach because it will lead to long-term sustainability of our business.

Our platform provides a foundation for broad and long-term utility of digital assets. Our diverse product suite, including our crypto and loyalty platform capabilities, enables us to work with partners on several fronts to take advantage of market opportunities. We're investing in things that have staying power. And while the opportunity for our partners may be plentiful, it's important to understand that our platform is really designed for simplicity.

We have a single platform with flexible APIs and institutional grade tech stack. What we're doing is changing the presentation of the technology so the scalability across our platform is highly leverageable. It is designed to integrate quickly and support our partners at scale and create solutions they need to engage customers at every step of their journey. Flexible, simple, powerful, safe, compliance focused, these are what differentiate us and make Bakkt the platform of choice for partners and consumers alike.

Our platform provides a stable foundation upon which our partners can innovate to develop products and services that really delight their customers. We bring their creative ideas to life, enabling new and innovative customer experiences. We are built to make these types of opportunities easy with low barriers to entry. With complexity that comes with crypto and an increasing regulatory focus, the Bakkt platform continues to grow in relevance to partners that see the staying power of digital assets.

We remain steadfastly focused on execution. We continue to deliver results to our partners and our customers even amidst this challenging macro environment. Since our last earnings announcement, we've remained hard at work on our partner product integration, engaging with new partners, and launching new offerings. A few examples of what we've accomplished this last quarter, we've signed a strategic alliance with Visa and we're excited to provide our solutions to Visa's extensive network. We're delighted to be working with the mayor of Miami to activate the city's crypto ecosystem.

We signed a partnership with Sullivan Bank, making them the newest bank to join the Bakkt Crypto Connect platform. We've collaborated closely with Fiserv to enhance our market readiness processes, and this includes training, developing sales collateral and launching on their app market. We've processed more than 50 billion loyalty point redemptions on our platform in the first half of 2022, and we continue to grow our redemption offerings. For example, we've introduced cruises onto the platform and we continue to look for additional opportunities to collaborate with partners to delight customers.

We're making progress every day towards achieving our vision and we're not slowing down. Every step we take brings us closer to achieving our vision of connecting the digital economy. We remain focused on building scalable and repeatable processes and working with our partners to build awareness and understanding. Our work with Fiserv is making progress in our collective go-to-market plans across engineering, sales, marketing and product.

We've completed the training with Fiserv relationship managers on Crypto Connect and we're starting to co-develop the go-to-market model on our other crypto products such as Bakkt Crypto Rewards and Bakkt Crypto Payout. This is all based on the model we've established for Bakkt Crypto Connect. We've enabled the Fiserv RMs to have active partner conversations about Bakkt and our offerings with financial institutions.

The work underway with Fiserv illustrates the power of our B2B2C go-to-market approach and the scale and reach that it can help us achieve. By working with our partners and making our capabilities available to their

clients, we're better able to drive awareness and adoption of Bakkt crypto products that in turn can reach millions of customers.

We're leveraging other partner distribution channels and have been collaborating on shared sales and marketing activities. And this means everything from educational support materials to landing pages at marketplaces and webinars. Here is an example of the great work that we've already done with Finastra. We work closely with their sales, marketing and technology teams to go-to-market, and our integration with them is nearly complete. We're pleased with the overall progress and we're working closely with partners to constantly test the market and evaluate our path forward.

While our primary marketing strategy is joint co-marketing campaigns with our partners, we're making strides to further build out our brand awareness and provide education and thought leadership on the crypto economy. Our brand awareness is building through multiple initiatives, including the launching of our Ask the Expert series, our active product marketing campaigns, development and launching thought leadership materials and establishing primary research, which provides valuable data to inform focus areas. Our Bakkt Pack has grown to almost 2,000 participants in only just three months.

Despite all the work we are doing to build awareness around Bakkt, the way we go to market with our partners does not present any brand or channel conflict. We operate in such a way that our partners can fully embed our platform and use their own branding rather than ours, backed by Bakkt.

And with that, I'm delighted to pass it along to our newly appointed CFO, Karen Alexander, to review our financial results for the quarter.

Karen Alexander

Chief Financial Officer, Bakkt Holdings, Inc.

Thank you, Gavin, and good morning, everyone. I will now walk you through the second quarter financial results. As a reminder, we use the term predecessor to represent the results of Bakkt Holdings, LLC prior to October 15. These results exclude any results from VPC Impact Acquisition Holdings. Successor represents the results of Bakkt Holdings, Inc. from October 15 forward, which is the post-merger period. Combined represents the combination of predecessor and successor for the applicable period. This is a non-GAAP figure.

Turning to slide 14, we have our second quarter 2022 financial results. We saw strong net revenue for the quarter of \$13.6 million, which increased by \$5.1 million or 60% compared to the second quarter of 2021, primarily driven by strong activity from loyalty redemption. Similar to recent quarters, the key driver here is a rebound in travel as we've come out of the pandemic. We've had \$57.1 million of operating expense in the period, which is up \$17.3 million or 43% year-over-year due to an increase in non-cash compensation and head count.

The net loss for the quarter was \$27.6 million, which resulted in a diluted net loss of \$0.05 a share on an average diluted share base of 71.2 million shares. Net loss allocated to non-controlling interest in the operating company was \$23.7 million, leaving a \$3.9-million loss attributable to Bakkt Holdings, Inc. for a net loss of \$0.05 a share on an average basic share count of 71.2 million shares. The diluted EPS calculation considers the tax benefit from the DTL utilization that would be created if the partnership shares converted to Class A shares. As a reminder, any dilution from the partnership shares in the future will be dependent on usage of the remaining DTL.

On slide 15, we have our EBITDA and adjusted EBITDA for the second quarter of 2022. Adjusted EBITDA reflects adjustments for non-cash and acquisition related items that impacted the period. EBITDA and adjusted EBITDA

for the quarter were losses of \$26.8 and \$29.6 million, respectively. The loss in adjusted EBITDA was primarily due to increased investment in growing the company.

In the second quarter, we had \$39.7 million of cash burn as we invested in our business to drive future growth. This leaves us with about \$315 million of cash and other highly liquid assets readily available, representing significant liquidity. As Gavin discussed earlier, we have plenty of liquidity available to self-fund our road map should macroeconomic headwinds continue.

On slide 16, we show net revenue broken out between subscription and service revenue and transaction revenue. Total net revenue in the second quarter of 2022 was \$13.6 million, an increase of 60% compared to the second quarter of 2021. The strong revenue growth that we have seen in the most recent two quarters is the result of an increase in enterprise customers and the return of travel volume to pre-pandemic 2019 levels through May as COVID impacts have subsided.

Service revenue is tied to volume in our contact centers, so it can be more variable depending on activity levels, while subscription revenue is more of a recurring stream of revenue. Transaction revenue is directly tied to customer redemption and crypto buy/sell activity.

Turning to slide 17, we have total operating expense. Total expense for the second quarter was \$57.1 million, which was up 43% year-over-year. Total compensation expense of \$34.2 million increased 72% compared to the second quarter of 2021. This is driven by non-cash compensation charges related to the issuance of restricted stock units, as well as increased head count as we invest in the business to build our product road map and public company infrastructure.

On slide 18, we have our key performance indicators. These KPIs reflect the full breadth of how our capabilities are accessed across both partner and Bakkt experiences and across crypto and loyalty experiences. We look at transacting accounts as an important metric to reflect activity on our overall platform from our B2B2C model. Transacting accounts across the Bakkt platform were 681,000 in the second quarter of 2022, up 10% year-over-year. Digital asset conversions are a dollar weighted measure and were directly aligned to revenue growth. Volume of \$205 million for the quarter was up 60% year-over-year, which reflects strong growth that we saw in loyalty redemptions, particularly travel.

Crypto buy/sell volume is currently a relatively smaller portion of our overall platform activity. We expect this to increase materially in 2023 as we activate the partners we have announced as well as build new relationships. While our travel volume is seasonal and historically highest in the first quarter, we saw an increase in travel volume this quarter compared to the second quarter of 2021, reflecting strong post-COVID demand for travel.

On slide 19, we thought it would be useful to provide updated guidance for the full year of 2022. This revised outlook reflects the market conditions that Gavin described earlier. Note that our guidance assumes no further significant disruptions from the COVID-19 pandemic, and any potential acquisitions are not included in our projections. Our guidance is also subject to market conditions through the remainder of the year.

Net revenue for the full year is expected to be between \$57 million and \$62 million, an increase of approximately 45% to 60% compared to 2021 combined net revenue. This outlook reflects the elongated decision time frames that Gavin described in the crypto market. While we expect to activate our Bakkt crypto services partners in the second half of this year, we now expect the increased ramp up to occur in 2023. We are still seeing demand for crypto products from our consumers and partners. It is more a matter of when partners will develop their crypto strategies, not if.

The updated revenue outlook also reflects a softening in travel loyalty redemption volume that we have seen since June. There is still strong demand from consumers to use their loyalty points for travel, but limited airline supply and high prices have reduced some of these opportunities. We have begun to see airfares recede in late July. The low end of our revenue guidance reflects the risk that travel volumes do not return to the 2019 seasonally adjusted levels that we saw from February through May. The high end of our revenue guidance reflects our expectation for strong merchandise and other transaction volume during Q4.

As Gavin mentioned earlier, we believe the current macroeconomic conditions present opportunities for our loyalty redemption platform as consumers are looking to use rewards to increase their buying power. We've seen evidence of this in the customer activity on our loyalty platform. We are seeing a higher conversion rate of website visitors redeeming points compared to 2021.

We've responded to this volatile macroeconomic and cryptocurrency market by prudently reducing our cash burn so we can remain well-capitalized to meet market demand while building out product capabilities that have long-term utility in the cryptocurrency market. We are targeting using \$135 million to \$140 million of cash available and other highly liquid assets over the entire course of 2022. This estimate reflects a reduction in the second half 2022 cash burn of 15% to 20% versus the first half of 2022. We are managing our capital allocation by reducing discretionary expenses while still investing in our platform. We believe these platform investments present the best opportunity to provide returns to our shareholders as they provide the foundation for future growth.

We will adjust our plan as needed according to observed business trends and as additional opportunities appear. Our capital allocation strategy is expected to leave us with an estimated \$250 million to \$255 million in cash and other highly liquid assets at the end of the year. We are continuing to invest capital to grow our business and therefore expect to operate at a quarterly loss throughout 2022.

That concludes my section on the financial results. I will now turn it back over to Gavin for his closing remarks.

Gavin Michael

President, Chief Executive Officer & Director, Bakkt Holdings, Inc.

Our priorities remain consistent from previous earnings reports and aligned with our vision to connect the digital economy. As I said before, we're laser focused on execution and we're not slowing down. We're well positioned and agile, being able to adapt to a shifting macro environment. We have a strong balance sheet with plenty of liquidity. We have a diversified business that provides flexibility in our revenue streams and also what we can offer our partners. We have robust risk management practices.

The Bakkt ecosystem was created from day one with safety and soundness at its core, differentiating us from many other players in this space. We are highly disciplined in making capital allocation decisions, and our focus is on long-term growth. And we'll achieve this by bringing products that provide widespread utility to everyday consumers. I hope you can feel our enthusiasm and our passion for the team and our collective journey. We're committed to delivering long-term, sustainable value to our partners, to our customers, and to our shareholders.

I'll now turn it over to Ann to manage Q&A.

QUESTION AND ANSWER SECTION

Ann DeVries

Head-Investor Relations, Bakkt Holdings, Inc.

A

Thanks, Gavin. Let's move over to questions from the investor community. Leading into our Q&A session, we'll start by answering the top questions from Say ranked by number of votes. Given the volume of questions we have seen, we'll look to skip those questions that were addressed in our presentation, particularly those around strategy and long-term vision, which Gavin touched upon earlier. We'll also group together questions that share common themes. After that, we'll turn to live questions from the analyst community.

Our first question is from Sourabh A. who asks, what happened to the Apple Pay integration? Gavin, can you please take this one?

Gavin Michael

President, Chief Executive Officer & Director, Bakkt Holdings, Inc.

A

Yeah, sure. Let me do this one. The Bakkt platform is already integrated with the payment option on Apple Pay. Our customers have the ability to seamlessly pay at the point of sale with their digital assets via the Bakkt debit card anywhere Apple Pay is accepted. Our B2B2C go-to-market strategy provides a strong distribution channel to make this functionality more widely used.

For example, we went live with Wyndham Rewards members on our platform earlier this year and now their rewards members can use their points to pay for purchases anywhere Apple Pay is accepted. Our Apple Store front, available as part of our loyalty redemption offerings, is another great part of our platform and our relationship with Apple that truly differentiates us from others.

Ann DeVries

Head-Investor Relations, Bakkt Holdings, Inc.

A

Thanks, Gavin. Karen, this next question is for you. Justin J. wants to know, with this current recession and being a new company, is there any concern of bankruptcy or lack of growth?

Karen Alexander

Chief Financial Officer, Bakkt Holdings, Inc.

A

Well, Ann, while there's certainly headwinds in the market, we believe we are well-positioned to be opportunistic and to continue to grow our business. We have strong liquidity with over \$315 million of available cash and other highly liquid assets on our balance sheet. This capital puts us in a position to self-fund our road map and achieve our growth targets should the macroeconomic environment continue to remain challenging for a prolonged period.

Furthermore, the diverse nature of our business allows us to lean into various aspects of our platform with partners, depending on what their needs are. We feel confident that our platform capabilities and with an addressable market of well over 100 million users through our existing partners, we will achieve our growth plans. Also, I just want to note that in the highly unlikely event of a bankruptcy, customer assets are protected by the Bakkt Trust. Segregation of customer assets is a key mechanism for protecting them, which is why we are structured in that way.

Ann DeVries

Head-Investor Relations, Bakkt Holdings, Inc.

A

Thanks, Karen. Next up, Timothy W. asks, when will Bakkt have the ability to send crypto to an external wallet?

Gavin Michael

President, Chief Executive Officer & Director, Bakkt Holdings, Inc.

A

I'll take this one, Ann. Thanks for the question. We're very focused on this, enabling the ability for our partners to allow their consumers to directly deposit and withdraw crypto to the Bakkt platform remains a top priority. As with everything we do, we don't sacrifice security and regulatory compliance with any of our new features, products or services as we had them.

So, work is well underway to ensure that we have the right tools, controls and monitoring in place on the compliance side to ensure we protect our customers and comply with all of the relevant regulations. Our rollout of this capability is subject to regulatory approval, and we look forward to providing you with additional updates in the near future as more of our partners go live.

Ann DeVries

Head-Investor Relations, Bakkt Holdings, Inc.

A

We'll take one more question from the Say platform. Our last question is from Working P., who notes that at 8% to 10% inflation, Bakkt is losing purchasing power of its cash balance and wants to know why haven't we considered a share buyback of \$40 million to \$50 million, are there limitations around ICE ownership increasing beyond the threshold?

Karen Alexander

Chief Financial Officer, Bakkt Holdings, Inc.

A

Ann, I can take that question. We think the best use of our cash right now, especially given the current macro environment, is to fund the long-term growth of our company. While we understand that it might be tempting to do a share repurchase in this environment, we do not want to make short-term decisions that could negatively impact our long-term growth goals. We think it makes more sense for us to think about returning cash to shareholders when we're generating positive adjusted EBITDA.

Ann DeVries

Head-Investor Relations, Bakkt Holdings, Inc.

A

Thanks, Karen. And with that, I would now like to turn the call back over to the operator to open up the phone lines to take questions from the analyst community.

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Owen Lau with Openheimer. Owen. Your line is now open.

Owen Lau

Analyst, Oppenheimer & Co., Inc.

Q

Good morning and thank you for taking my questions. Could you please add more color on your strategic alliance with Visa? How is this partnership different from your partnership with Mastercard? And if you can also give us an update on the progress of activation on Mastercard, that would be great. Thank you.

Gavin Michael

President, Chief Executive Officer & Director, Bakkt Holdings, Inc.

A

Sure. Good morning, Owen. It's Gavin, I'll take that. Thanks for the question. With respect to Visa, look, we've just signed the strategic alliance. It's very early days. Our teams are working closely to collaborate on the scope and we're really excited to be working with them. We don't see it creating any issues with our other partners. We have robust agreements that really don't have any conflicts when we look across our landscape. So, we're excited to be working with them. A lot more to come.

In terms of overall activations, we continue to see strong traction in the go-to-market model across our partners. And not just part of the traction, the thing that's really helpful is that we're becoming part of their crypto marketing, their crypto sales process, and we're seeing a number of expansion opportunities ahead of us. We're doing significant work, as we've said before, around the integration for multiple use cases with our partners to connect our capabilities into their platforms in a very seamless way. And we're expecting to see the early wins that we've had with signing up several of the community banks. We started to see activations in the second half of this year and obviously an increased ramp as we go through 2023. We're really working right now to ensure that what we build has robust capability behind it and is ready to launch at scale in a highly repeatable fashion.

Another thing just to note is that we are a B2B2C business model, but there's an enormous amount of work that happens with the middle B, with our partners, goes on behind the scenes, but not many people really get to see. The collaboration is across our joint engineering teams, our go-to-market teams, and going live with each of these partners is obviously not an endeavor that we take lightly in any respect. What we're doing is being very thoughtful and very careful so that when we do go live it's a very seamless experience for our partners and for their customers. We truly believe that we want to see our partners get the very best and that's what we're striving to deliver for them. So, we expect to see activations in the second half and then ramping through 2023.

Owen Lau

Analyst, Oppenheimer & Co., Inc.

Q

Got it. That's very helpful. My follow up is, could you please share more information about your engagement with the mayor of Miami? What are the use cases you are exploring with your payout capabilities? But I guess more broadly, how do you see the penetration of the blockchain applications in the payment space overall? Do you see a more push back or do you see the adoption continue just more broadly speaking? Thank you.

Gavin Michael

President, Chief Executive Officer & Director, Bakkt Holdings, Inc.

A

Yeah. I'm excited to be working with the mayor. It's early days, again, in the collaboration. We see allowing our payout capability to be used to allow people to get paid in crypto. We've spoken about that before where we see traction and appeal with people wanting to receive a portion of their wages or salaries or fees in crypto. And that's another example of some of the work that we're doing. We also see a broader application as we bring utility to the crypto economy to allow payments and rewards to really come to life inside of the work that we're doing.

More broadly, yes, we're seeing a shift in narrative around the way that the crypto is being viewed. We see a move from providing not just the ability for people to buy and hold crypto to people to be able to earn it and get paid in it. That's really just the very beginning. The sort of value use case is certainly there over time and we really believe the digital gold narrative alone is too limiting. It was designed as a peer to peer electronic cash, and that's the way it's meant to be used. It's not meant to be just held.

So, while we see that people have shown a desire to acquire crypto, the hope of participating in some form of appreciation over time, we don't believe that takes away from the applications and the utility of it in a much broader sense. So, whilst we see the digital gold is the first, we don't see it as the last application of bitcoin. And so we're working to understand how you could programmatically pay with bitcoin, how you can look and stream as you think of it as a new form of payment. We're looking to how do we establish new forms of payment through the use of the technology over time. That's the focus as we move forward.

Owen Lau

Analyst, Oppenheimer & Co., Inc.

Q

Got it. Thank you very much.

Operator: Thank you for your question. Our next question comes from the line of Trevor Williams with Jefferies. Trevor, your line is now open.

Trevor Williams

Analyst, Jefferies LLC

Q

Great. Thanks. Good morning. So, on some of the big partnerships, I'm thinking Finastra, Fiserv, Mastercard, I know you just touched on those but maybe asked a different way. Just, Gavin, with the time that's elapsed since those were announced, maybe just give us a sense for kind of how things are tracking relative to what your expectations would have been at the time of the announcement. Maybe where you've been surprised, both positively and negatively, and if you're expecting any contribution from either of the three in the second half? It sounds like you're thinking now kind of steeper ramp in 2023, but any help there would be great. Thanks.

Gavin Michael

President, Chief Executive Officer & Director, Bakkt Holdings, Inc.

A

Yeah. Good morning. Thanks for the question. We certainly – the partnerships themselves certainly present the same degree of potential they did when we announced them. We're excited by the leverage that these give us in the B2B2C model by expanding our reach. We spoke during the presentation about the work that's happening with Fiserv and with Finastra as we enable their go-to-market and their sales teams and you continue to see us announce partners that come through those relationships like Sullivan Bank today.

Our focus has really been on getting the integration of the platforms to happen in a very seamless way, and we expect to see the early activation through the second half and then the ramp in 2023. I think that's always been our belief as we've entered into these partnerships. And whilst the macro presents some potential challenges in the way decisions are being made, we still see the full potential that we saw when we originally announced the partnerships.

Trevor Williams

Analyst, Jefferies LLC

Q

Got it, okay. No, that's great. And then just on the cut to the second half cash burn on the lower expenses. Can you just put a little finer point on where specifically you're pulling back in terms of investment, if there's anything specifically you'd call out on the product road map that's getting pushed out or if it's more on the sales and marketing side? Any color there would be great. Thank you, guys.

Karen Alexander

Chief Financial Officer, Bakkt Holdings, Inc.

A

Trevor, I could take that one. A, as we – we are continuing to work on investing in the product road map to activate those and be ready for the activations that will start happening on the partner side in 2022 and really ramp up in 2023. We had originally anticipated a certain amount of expense associated with partner activations happening at a higher volume in the second half of 2022. So, that's certainly a piece of it.

And then even beyond that, in this macroeconomic environment, really taking a look at the discretionary expenses to make sure that we're laser focused on the expenses that will build out the road map and activate partnerships and respond to where we see that we can meet our – the needs of our customers and partners is really where those cuts are coming from.

Trevor Williams

Analyst, Jefferies LLC

Q

Got it, okay. Thanks so much.

Operator: Thank you for your question. Our next question comes from the line of Pete Christiansen with Citi. Pete, your line is now open.

Peter Christiansen

Analyst, Citigroup Global Markets, Inc.

Q

Thank you, good morning. Thanks for the question here. I just want to hit on that last point real quick. I think it makes sense variable cash then would go down with some revenue being pushed out. And you talked about being increasingly prudent in this environment. But in terms of the reduced cash burn outlook and juxtaposing that with what you said early about continuing to hire and to scale, and given that the current environment actually is conducive for that, how should we [think about] internal scaling at this point and the pace of it, and do you still remain on track for that internal scaling? Thank you.

Karen Alexander

Chief Financial Officer, Bakkt Holdings, Inc.

A

Yeah. As Gavin mentioned, we are continuing to hire. We do believe this is a good market actually just given what's going on in the environment to find great talent that can help us build out our product road map. In looking at our hires, we're really focused on the hires that frankly draw a direct line to the revenue growth that we expect to see as we build out and activate the partnerships.

And so, I think, we're – one of the areas we're being more prudent in hiring is really looking at the more – the non-sales and non-tech development areas where we can work smarter, more efficiently, really look for efficiencies with our service providers to make sure that the hires and the investments that we are making are directly contributing to the buildout of the products and the activation of the [partnerships]. But we are still hiring.

Peter Christiansen

Analyst, Citigroup Global Markets, Inc.

Q

Okay. That's helpful. And as a follow up, Gavin, I was just wondering if you could dig a little bit into some of the elongation of decision making that you're seeing here. I'm just trying to understand how broad based is that. Is it really concentrated on just a select few of integrations or sign-ons? Or is it something more broadly given what we've seen in regulatory on the crypto side and also just the price levels coming down? And then a follow up to that is, how are you feeling about biz development productivity at this point given some of the corrections we've seen in the market?

Gavin Michael

President, Chief Executive Officer & Director, Bakkt Holdings, Inc.

A

Hey, thanks for the question. Nice to hear from you. With respect to the decision cycles, I think what we've said and what we're seeing is crypto is here to stay. It's got proven staying power. What we are seeing is – and the power of our platform is that our partners are looking for different entries into the crypto economy. We're able to offer them simple trading solutions. Maybe there's a hesitancy on whether they want to enter that, given the volatility of the market. We switched that around. You talk about what we can do with crypto rewards, how we can enable crypto payout, and all of a sudden the discussions take on a new bent.

I think what you see and what we've emphasized constantly is the ability for us to be able to expose our capabilities in new and creative ways to allow our partners to be able to innovate on our platform in a very safe, secure and scalable manner. So, when we talk about an elongation, it's not that crypto is going away, it's just simply that people are forming what's the right entry point into the market. And the great thing about the platform is it allows us to be able to have those discussions in those varying contexts.

With respect to the second part, I mean, our view is that – actually, can you just remind me of the second part?

Peter Christiansen

Analyst, Citigroup Global Markets, Inc.

Q

Well, yeah. First I wanted to follow up on what you just said, and then I'll ask the second part again. But is there any concern on your potential pipeline here and the partners that are associated with it, are they, given we're starting to start to see a lot more on the legislative front, particularly in crypto, has that become a hang up at all in their decision processing?

Gavin Michael

President, Chief Executive Officer & Director, Bakkt Holdings, Inc.

A

No. As I said, people realize it's here to stay. Our partners realize it's here to stay. And they're looking for different and increasingly innovative ways to enter the market. And that's the strength of the platform. The ability to be able to redeem a set of points into crypto. The ability to be able to earn crypto on an everyday spend is a very different proposition from a simple buy, sell and trading capability. So, we're excited to still by the fact that we are able to service a range of these customer and partner dialogues.

With respect to productivity around our sales team, it continues to grow. As we get more refined in the way the messages are being delivered, and you saw some of that in the way in which we're doing the marketing and brand building. We now have Ask the Expert series. We have product marketing functionality. We have great thought leadership that's coming out. And importantly, and to the point about what our partners are seeing, we have primary research capability now which helps verify and validate many of the concepts and products that we're taking to market. So, I think, the productivity continues to increase and the engagement is still there with our partners.

Peter Christiansen

Analyst, Citigroup Global Markets, Inc.

Q

No, that's helpful. And that's actually good news given regulatory shifts aren't deterring any activity here. One last one and you just talked about this. We're finding the marketing message and showing a number of the surveys that you offer, I think, are pretty [audio gap] (00:49:05-00:49:11) members would be interested in this?

Ann DeVries

Head-Investor Relations, Bakkt Holdings, Inc.

A

Pete, apologies, but you cut out for a couple of seconds. Can you repeat the question please?

Peter Christiansen

Analyst, Citigroup Global Markets, Inc.

Q

Sure. Yeah. Yeah. As it relates to refining your marketing messages and I know that you've put forth a lot of compelling survey work, which can be convincing, I think, for a potential partner, have partners or prospects considered surveys within their own community to see how adoption of crypto loyalty programs and so on and so forth would be applicable to their own offering?

Gavin Michael

President, Chief Executive Officer & Director, Bakkt Holdings, Inc.

A

So, I think, Pete, they're taking a combination of approaches. They're obviously looking internally into the customer segments that they service both proactively and reactively given inbound inquiries that they often get from their own customer set. They're using our research to help validate hypotheses across the broader market because much of what we're doing when we work with them is not just about trying to deepen the engagement within their own consumer space but helping them grow, helping them acquire new customers.

So, understanding the appeal of an offering, both with your existing customers and then in a broader base, allows them to make those decisions in a far more expedited way and, importantly, in a data-driven way so that they're able to understand, validate their business case and their assumptions by surveying internally and externally. And we help them with both.

Peter Christiansen

Analyst, Citigroup Global Markets, Inc.

Q

That's compelling. Okay. Thank you.

Gavin Michael

President, Chief Executive Officer & Director, Bakkt Holdings, Inc.

A

Pleasure. Thanks, man.

Operator: Thank you for your question. Our next question comes from the line of John Roy with Water Tower Research. John, your line is now open.

John M.A. Roy

Analyst, Water Tower Research LLC

Q

Great. So given all-in, everything all in together, what is your thinking on your path to profitability? Has that shifted out or is it just a matter of you're going to invest more? Maybe actually things will be cheaper. What's you're thinking on your path to profitability?

Karen Alexander

Chief Financial Officer, Bakkt Holdings, Inc.

A

Yeah. John, I could take that question. When we initially did the transaction in October of 2021 with VIH, that gave us a significant cash investment that the – and the intent always was to use the first two years of the business plan post that transaction to build out the road map and activate partners and capabilities.

So we – at this point, while not giving guidance beyond 2022 at this point, our longer term expectation has always been that we can work with this investment to activate our products and activate partnerships to get to an adjusted EBITDA – breakeven EBITDA in year three, which would basically be 2024 if you look at when that time line began with the transaction.

John M.A. Roy

Analyst, Water Tower Research LLC

Q

Great, thank you. And maybe, Gavin, one thing on – I know we've talked a lot, we say a lot about the crypto and the changing narrative there. Maybe if you could kind of summarize what you see is happening in the broader space. Are we going to a two-coin world? Or what are you actually seeing out there and what people are telling you about the narrative around crypto and its usages?

Gavin Michael

President, Chief Executive Officer & Director, Bakkt Holdings, Inc.

A

So, thanks for the question. Look, we're definitely seeing, as I've said before, that there is a changing narrative. We see it from a shift of stored value to a more widespread utility across consumers, across businesses, across institutions. Our goal is to work with the partners to unleash its full functionality, its full utility, and to provide them with optionality. We don't know exactly how it's all going to unfold. And the power of the platform is the ability for us to be able to be very agile and adapt.

Whether that's a discussion that starts with I want my consumers to be able to buy and trade or I want to reward them differently, they're able to come to us through a single set of APIs and get access to a single solution that will scale as their thinking matures. So, it's about that shift in narrative, it's about helping us unleash its full functionality utility. And importantly, it's about being agile and creating opportunity and optionality for our partners and for our consumers.

John M.A. Roy

Analyst, Water Tower Research LLC

Q

Great. Thank you so much. That sounds like a good plan.

Operator: Thank you for your question. There are currently no more questions registered. So, I will pass the call back to Ann DeVries for closing remarks. Thank you.

Ann DeVries

Head-Investor Relations, Bakkt Holdings, Inc.

Thank you, everyone, for attending our earnings call this morning. We look forward to connecting with you again soon.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect your line.

Editor's Note: Text in [] was added at the request of the company, after the completion of the event, to provide clarity on certain statements made.

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