

Bakkt Q4'24 Earnings Call Script

Operator: Greetings, and welcome to the Bakkt fourth quarter 2024 earnings conference call. At this time, all participants are in a listen-only mode. As a reminder this conference call is being recorded. I will now turn it over to Cody Fletcher, Investor Relations Advisor at Bakkt. Please go ahead.

Cody Fletcher, Investor Relations - Orange Group Advisors

Hello everyone, and thank you for joining Bakkt's Fourth Quarter and Full Year 2024 Earnings call.

Before we get started, I'd like to remind everyone that today's earnings call includes a separate supplemental presentation that can be found at our investor relations website at www.investors.bakkt.com. During today's call, we will make certain forward-looking statements, including but not limited to statements regarding the Company's guidance for the first quarter of 2025, the Company's strategic realignment to become a crypto-focused business, the expected impacts of the Company's partnership with DTR and other statements regarding the prospects and expectations of the Company. These statements are based on management's current expectations and are subject to risks and uncertainties, 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 risks and uncertainties related to Bakkt's business, please refer to its filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K.

Further, in addition to discussing results that are calculated in accordance with generally accepted accounting principles, we also make reference to certain non-GAAP financial measures. For more detailed information on our non-GAAP financial disclosures, please refer to our earnings release, which can be found on our investor relations website.

Thank you, and I'll now turn the call over to Andy.

Andy Main, Chief Executive Officer

Thank you, Cody, and hello everyone. Thanks for joining Bakkt's fourth-quarter and full year 2024 earnings call, and it's great to connect with you all again. With me today is Karen Alexander, our Chief Financial Officer.

[Slide 3 – Bakkt's transformation](#)

To lead us off, we at Bakkt are undertaking a strategic transformation to a crypto future-focus – and to become a pure play crypto infrastructure company. To begin that transformation, I am thrilled to announce that Akshay Naheta, the CEO and founder of Distributed Technologies Research, or "DTR", a cutting-edge financial technology company on a mission to build the next generation of global payments, and I will be co-CEOs of Bakkt starting on March 21st. In connection with Akshay joining the company, he has brought to the table a new commercial partnership that, subject to applicable regulatory approvals, will tie Bakkt and DTR together to allow Bakkt to enter the cross-border stablecoin payments industry.

Akshay is a seasoned veteran in fintech, payments, and cutting-edge tech investments with a vision to simplify financial transactions through the creation of an advanced global payments infrastructure. He brings over 20 years of experience, with an intricate understanding of blockchain, financial markets, and payment systems. Previously, he held senior executive roles at SoftBank, where he spearheaded numerous technology investments. Prior to that he led the proprietary trading business at Deutsche Bank. We are thrilled to welcome Akshay to the team.

For context on why we believe this commercial agreement has the potential to be a pivotal addition, in 2024, we witnessed a breakout moment for stablecoins, processing over 5 trillion dollars in adjusted volume across nearly 200 million accounts, according to Pantera Capital. With the recent U.S. administration's support for strengthening the dollar's role in global trade through stablecoins, we're aiming to position ourselves at the forefront of this multi-trillion-dollar opportunity.

Through this commercial partnership, once we complete the applicable regulatory approval process, we will integrate a powerful, ready-to-scale and tested stablecoin payments infrastructure stack. By combining DTR's cutting-edge stablecoin infrastructure with Bakkt's regulated high-performance trading platform, we will enable customers to seamlessly onramp into crypto and then move within the Bakkt technology stack into the rapidly growing payments

ecosystem. This integration is expected to create a uniquely powerful offering for our clients, allowing us to build P2P-payment capabilities on a global scale, while expanding into additional financial services such as treasury management and payroll solutions. Our clients will benefit from a versatile storefront addressing both their crypto trading and everyday payment needs.

Another important piece of this partnership is a put/call option whereby Bakkt will have the right to buy DTR, or DTR may obligate Bakkt to buy DTR, within a price range upon the satisfaction of certain milestones.

The commercial agreement is designed to leverage our combined infrastructure to create a global payments network once we clear the applicable regulatory approvals. As a U.S.-regulated, publicly traded company with rigorous financial and security oversight, we offer institutions a safe and trusted environment for responsible crypto trading and payments processing. We believe the differentiation resulting from our partnership with DTR will open up a scalable revenue model opportunity in the multi-trillion global payments space, expanding our obtainable market while delivering a comprehensive suite of crypto and stablecoin native solutions for our institutional client base. Our commitment to regulatory compliance and security positions us uniquely in this rapidly evolving market.

For more information on this commercial agreement, please refer to the press release distributed earlier today.

To further advance our transformation to become a pure-play crypto infrastructure company, on Monday this week, we reached a definitive agreement to sell Bakkt Trust Company, our qualified custodian subsidiary, to Intercontinental Exchange. Additionally, we are exploring strategic alternatives for our Loyalty business. These decisions represent the next stage in our initiative to focus on our core competitive advantages in crypto brokerage and institutional trading services.

The digital asset custody landscape has undergone significant changes in the recent year, marked by increased competition, margin compression, and evolving regulatory requirements. Notably, the repeal of the SEC's SAB 121 has removed a major barrier for banks to enter the crypto custody space, intensifying the competitive landscape. By divesting Bakkt Trust, we will

be better able to concentrate our resources on areas where we believe we have competitive advantages to drive growth.

This move allows us to streamline our operations and further improve our cost structure. We expect the sale to reduce operating expenses by an additional 3.8 million dollars annually and free up approximately 3.0 million dollars in capital that is currently held for regulatory reserves, allowing us to reinvest in our core crypto business and fuel our growth initiatives.

Importantly, I want to emphasize that this transaction does not impact the custody solutions we provide to our partners and clients. We have built a robust network of reputable custody providers that will continue to support our customers' asset safekeeping needs. For our brokerage clients, we expect it will remain business as usual without interruption as we finalize the Bakkt Trust sale.

As we move forward to a pure play crypto-focused future, our business model focuses on supporting clients throughout their entire lifecycle in the crypto ecosystem. We will concentrate on three key priorities: First, expanding and deepening client relationships by supporting new entrants with our Bakkt Crypto Services platform and, once we have obtained the applicable regulatory approvals, extending into the stablecoin payments market through our commercial partnership with DTR. Second, increasing our commercial and operational effectiveness to drive profitability by streamlining processes and optimizing our infrastructure. And third, maintaining our best-in-class risk and compliance foundation while exploring strategic growth opportunities through partnerships with overseas exchanges and disciplined capital allocation to accelerate our product roadmap.

These strategic moves were the result of a thorough review process where we evaluated our business portfolio to determine how to most effectively allocate resources and position Bakkt for long-term success. We continue to remain focused on capitalizing on the significant market opportunity we believe is before us, especially as we deepen our focus on crypto's future.

[Slide 4 – Continued trading volume increase](#)

Turning to our Q4 performance, as we anticipated on our last call, the positive momentum in crypto trading volumes that began in November continued through the end of the year. This

was driven by a dramatic positive shift in crypto environment following the U.S. presidential election.

In the fourth quarter, we saw significant growth in all our KPIs in our crypto business such as notional trading volume, transacting accounts, and revenue. Our monthly notional trading volume achieved record highs in November and finished the year strong in December, bringing our fourth quarter total trading volumes to \$1.78 billion. This was a 465% improvement sequentially, outpacing the market by 360%. Year-over-year, trading volumes grew 778%, outpacing the market by 600%. This strong traction in our crypto business helped drive strong revenue growth and helped us to further close quarterly net loss.

[Slide 5: Q4'24: Financial and operational update](#)

For the quarter:

- Total revenues, net of crypto costs, execution, clearing and brokerage fees increased 6.6% year-over-year to \$17.8 million.
- Total operating expenses excluding crypto costs and execution, clearing and brokerage fees decreased 69.0% year-over-year to \$29.5 million.
- Net loss improved 48.7% year-over-year to \$40.4 million.
- Adj EBITDA. loss (non-GAAP) improved 66.3% year-over-year to \$6.4 million.

For the full year:

- Total revenues, net of crypto costs, execution, clearing and brokerage fees increased 8.8% to \$63.0 million.
- Total operating expenses excluding crypto costs and execution, clearing and brokerage fees decreased 45.4% to \$155.9 million.
- Net loss improved 54.2% to \$103.4 million.
- Adjusted EBITDA loss (non-GAAP) improved 31.6% to \$64.2 million.

From an operational standpoint, in 2024, we formed BakktX principally in connection with our planned launch of an institutionally-focused trading platform known as an electronic communications network, or ECN, and advanced trading infrastructure. Through our license with Crossover Technologies, we've implemented their proprietary matching technology that allows for smart order routing and trade matching. Currently, BakktX's order matching

technology is being utilized by our in-house, retail-facing principal brokerage, Bakkt Crypto Solutions, to offer U.S. clients and their customers more competitive crypto asset pricing with greater efficiency, reliability, and scalability. We are also in the process of adding service offerings to BakktX that will facilitate direct institutional integration, enabling leading global crypto institutions to access highly competitive and customizable liquidity for their retail-facing markets. BakktX is currently operational in all U.S. states except New York, where it remains subject to regulatory approval.

We believe this deployment enabled us to effectively handle the recent surge in trading volumes while maintaining 100% uptime. Given the immediate opportunities to support the rapidly expanding U.S. retail crypto market and BakktX's proven capability to service that market, we've paused our efforts to integrate a third-party central counterparty clearing partner or other risk management solutions, while continuing to develop service offerings that will facilitate direct institutional integration with highly competitive and customizable liquidity options.

Another significant contributor to our exceptional notional volume performance was the strategic addition of new supported coins. In Q3, we introduced nine new coins, followed by three more in Q4, and most recently, we listed President Trump's native token in Q1 of this year. Our team actively monitors market trends and identifies promising tokens to stay ahead of the curve. By continuously expanding our offerings and providing users with access to the most sought-after coins, we aim to maintain high levels of engagement and attract new users to our platform.

I also want to address an important client update. We have received notification from Webull that they will not be renewing their existing contract effective middle of June 2025.

As their business has scaled and evolved, they're modifying our contract to run more of their own infrastructure and operations. This transition aligns with the client lifecycle approach I outlined earlier - where clients may scale beyond from our comprehensive brokerage solutions as they mature potentially shifting to our direct institutional offerings and liquidity services. Webull represented approximately 74% of our crypto revenues for 2024. However, we continue to have a very strong relationship with Webull. We are working closely with their team to ensure a smooth transition for their brokerage infrastructure and are exploring alternative ways to continue to work together as their business scales. While this change will impact our revenue in

the short term, it reinforces the importance of our strategic initiatives that I discussed earlier as we continue to support Webull's strategy.

[Slide 6: Recapping our 2024 strategic priorities](#)

Turning now to page 6, I'd like to review our 2024 strategic priorities and how we executed on them.

1. **First, expanding our client base and strengthening our partnerships** was a core focus throughout the year. We formed relationships with a diverse set of companies that enhanced our capabilities in our core crypto brokerage and institutional trading by providing complementary strengths such as advanced trading infrastructure and high-performance matching engines. These relationships are setting a strong foundation for our business and help position Bakkt as a player in the crypto market.
2. **Our second strategic priority was to broaden our suite of products and services to better serve our clients' evolving needs.** Throughout 2024, we made significant enhancements to our ecosystem; expanded supported digital assets, introduced advanced order types, and incorporated algorithmic trading tools and smart order routing. We also made targeted investments in retail-focused offerings, adding support for 15 new coins on our crypto brokerage platform. We will continue to strategically add new products and features that we believe can drive incremental volume and revenue.
3. **Finally, we focused on continuously improving our cost structure and operational efficiency.** I'm pleased to report that this is an area where we made significant strides over the course of the year. We streamlined operations across the organization which led to operating expenses decreasing by 65.8% year over year on a run-rate basis as of Q4 and establishing a leaner and more efficient business.

As we look ahead, we remain committed to running our business in a disciplined manner and will continue to look for opportunities to save on costs and drive towards profitability as we guide ourselves into a focused future in the crypto ecosystem. I'd like to thank the team for their focus and commitment in a dynamic year as we positioned Bakkt for the future.

[Slide 7: Macro update: favorable tailwinds, continued](#)

Moving to slide 7, I want to highlight the favorable macro conditions for the crypto industry as we enter 2025. The year 2024 was remarkable for crypto adoption and sentiment, with positive catalysts and tailwinds converging. Bitcoin and other major coins reached new all-time highs, driven by surging institutional adoption and anticipation of a more crypto-friendly regulatory environment under the new U.S. administration. These price increases have reignited retail interest and mainstream media coverage.

The election of pro-crypto President Donald Trump marked a watershed moment for the industry. Since taking office, he has taken significant steps to provide regulatory clarity and support innovation, including repealing SAB 121, which seemingly had the effect of discouraging banks from offering crypto services, and establishing a Strategic National Digital Asset Stockpile to hold digital assets. The SEC's formation of a dedicated crypto task force, led by Commissioner Hester Peirce, signals a major shift towards developing a comprehensive regulatory framework. We look forward to working with the task force to shape the future of crypto regulation. Another notable development was the launch of President Trump's native token, TRUMP, (currently available on our platform) demonstrating the administration's commitment to embracing crypto.

As we look ahead in this favorable environment, we remain focused on our strategy to bring the most cutting-edge digital asset trading solutions to clients throughout their entire crypto journey and reinvent ourselves with a crypto future-focus. This approach aligns with the increased institutional adoption and renewed retail interest we're seeing in the market. Our client lifecycle model enables us to support businesses from their initial market entry with our comprehensive BCS platform, through their evolution with solutions like BakktX, to institutional trading services as they mature. We continue to pursue bringing some of the biggest crypto market makers onto our platform, improving liquidity and driving additional demand. Partnership discussions are ongoing, our volumes have improved, and our strategic focus on supporting clients throughout their entire lifecycle is positioning us well to capitalize on the current crypto-friendly regulatory environment.

[Slide 8: Our 2025 strategic priorities](#)

With that, on slide 8, I would like to outline our three key strategic priorities for 2025 as we accelerate our transformation into a pure-play crypto leader.

- 1. First, we aim to expand and deepen our client relationships throughout their entire lifecycle in the crypto ecosystem.** By supporting clients from market entry through maturity, we strive to capture opportunities at every stage of development. We'll focus on supporting new entrants with our comprehensive Bakkt Crypto Services platform, offering streamlined trading solutions for evolving businesses, and providing institutional trading and liquidity services for established players. With our commercial partnership with DTR, we expect to expand beyond traditional crypto trading solutions into the stablecoin payments market, significantly increasing our addressable market to include the cross-border payments ecosystem.
- 2. Second, we plan to increase our commercial and operational effectiveness to drive profitability.** We are committed to streamlining client acquisition, onboarding, solutioning, and revenue realization processes to increase our trading margins. As clients mature beyond our comprehensive brokerage solutions to our institutional trading platforms, we can capture higher margin opportunities with reduced operational requirements. Our operational infrastructure is being optimized to efficiently handle increasing transaction volumes while maintaining a seamless experience for our clients. We believe the divestiture of Bakkt Trust and exploration of strategic alternatives for our Loyalty program will further reduce our operating expenses and streamline our business model. We believe the operational efficiencies from our commercial partnership with DTR will enhance our ability to deliver innovative solutions, positioning us well to drive operating leverage as we work to continue to grow our revenues.
- 3. Third, we will maintain our best-in-class risk and compliance foundation while exploring strategic growth opportunities.** As a trusted partner to our clients, we understand the critical importance of robust risk and compliance frameworks in the evolving crypto regulatory landscape. The complementary regulatory expertise from both Bakkt and DTR will create a powerful foundation for our expansion in both domestic and international markets. We will continue to explore partnerships with overseas crypto exchanges looking to enter the U.S. market compliantly, leveraging our regulated infrastructure to help them navigate the complex landscape. The company will maintain a disciplined approach to capital allocation, focusing on high-return organic investments and opportunistic M&A that we believe will accelerate our product roadmap and add

complementary capabilities to our strategy, particularly in the areas of trading technology and payments infrastructure.

Underlying these strategic priorities is our commitment to building a culture that is client-focused, commercially driven yet risk-smart and agile in execution. By aligning our crypto-driven future-focused organization around these values, we believe we are well-positioned to achieve our objectives and aim to deliver long-term value for our clients and shareholders.

I'd like to thank you for your time, it's been a pleasure to update you on Bakkt from both a high-level financial and operational perspective. I will now hand it over to our CFO, Karen, for a deeper dive into the numbers. Karen?

[Slide 9: Financial results](#)

Karen Alexander – Chief Financial Officer

Thank you, Andy, I will now walk you through our fourth-quarter KPIs and financial results. As a reminder, in accordance with GAAP, we present crypto services revenue and crypto costs and execution, clearing, and brokerage fees on a gross basis, as we are a principal in the crypto services we provide our customers. By contrast, we are an agent in the loyalty redemption services we provide our loyalty customers. Therefore, loyalty revenue is presented on a one-line net basis.

[Slide 10: 4Q24 KPIs](#)

Starting on slide 10, we have our Q4 KPIs, which provide a snapshot of the underlying trends driving our business. We ended the fourth quarter with 6.7 million crypto-enabled accounts, reflecting steady growth over the past 12 months and a slightly larger increase from Q3 to Q4 partially due to a migration onto our platform from customers at our partner Swan in December of last year.

Next, we have our transacting accounts, broken down into crypto and loyalty accounts. There were 974,429 transacting accounts in the fourth quarter, of which 556,176 were related to loyalty redemptions and 418,253 were related to crypto trading. Similar to crypto-enabled

accounts, one of the key drivers for the substantial increase in trading volume from Q3 to Q4 was the successful migration of customers from our partner, Swan, to our platform. In December, we witnessed a significant spike in activity, with 50,000 customers finalizing their migration to Bakkt. We believe this influx of new users was a good indicator of the trust and confidence that Swan has in our platform.

As Andy mentioned earlier, we saw a significant increase in our fourth quarter notional crypto volumes after the election of President Trump and experienced a record-breaking quarter for crypto volumes. Our total notional volume for the quarter was \$1.99 billion, with \$1.78 billion from crypto and \$216 million attributable to loyalty redemption. In crypto, we outpaced the market both sequentially and year-over-year, and our loyalty redemption volume increased 33.8% sequentially. We hope to see this trend continue as market sentiment for crypto continues to improve and the regulatory environment effects more crypto-friendly policies.

Lastly, assets under custody at our custodian partners for our brokerage business reached \$2.3 billion, up 145.2% from the previous quarter of \$938.7 million, and up 228.1% year over year, driven by higher coin prices.

[Slide 11: 4Q24 Revenues](#)

On slide 11, we show our total revenue broken out between our crypto and loyalty products. Total revenue for the fourth quarter of 2024 was \$1.8 billion, up 447.3% sequentially and 737.9% year over year. Gross crypto services revenue for the quarter was \$1.8 billion, up 464.7% sequentially and 795.3% year over year. This growth reflects the improved market sentiment for crypto we saw in the fourth quarter.

Crypto services revenue, net of crypto costs and execution, clearing, and brokerage fees, totaled \$6.6 million, reflecting a 407.7% increase sequentially and 288.2% increase year-over-year. It is important to note that the smaller increase year-over-year was primarily due to Bakkt benefiting from a temporary higher take rate resulting from the one-time adjustment to a revenue share agreement with WeBull in the third and fourth quarters of 2023. As Andy mentioned earlier, Webull has notified us that they will not be renewing their existing contract when it ends mid-June 2025. In 2024, Webull was \$2.56 billion of our gross crypto services revenue.

Net loyalty revenues were \$11.1 million, down 8.3% sequentially and 26.5% year over year. Of this amount, loyalty transaction revenues contributed \$6.8 million while subscription and service revenues were \$4.3 million. The year-over-year decline was primarily related to reduced volume-based service revenue, partially offset by increased transaction volume.

Slide 12: 4Q24 operating expense

Moving to slide 12, total operating expenses for the quarter were \$1.81 billion, including \$1.78 billion of crypto costs and execution, clearing and brokerage fees. The increase in these variable costs was in line with the strong growth in crypto trading volumes.

SG&A expenses were \$4.7 million, down 44.7% sequentially and 59.8% year-over-year, driven by a reduction in insurance cost and marketing and promotion.

Total compensation expense was \$15.2 million, down 6.2% from last year primarily due to lower salaries, wages and benefits from our restructuring efforts in 2024.

Slide 13: 4Q24 condensed P&L

Turning to slide 13, we present our condensed profit and loss statement. Net loss for the quarter was \$40.4 million, improving 48.7% year-over-year. \$21.2 million was attributable to the non-controlling interest in the operating company and \$19.2 million attributable to Bakkt Holdings, resulting in a loss of \$2.95 per share on an average share base of 6.5 million shares for both basic and diluted.

Slide 14: FY24 condensed P&L

And on slide 14, we have our full year 2024 condensed profit and loss statement. Net loss for the year was \$103.4 million, improving 54.2% year-over-year. \$56.8 million was attributable to the non-controlling interest in the operating company and \$46.7 million attributable to Bakkt Holdings, resulting in a loss of \$7.97 per share on an average share base of 5.9 million shares for both basic and diluted.

[Slide 15: 4Q24 adjusted EBITDA \(non-GAAP\)](#)

On slide 15, we have our adjusted EBITDA for the fourth quarter of 2024. Adjusted EBITDA reflects adjustments for [certain] non-cash, restructuring, and acquisition-related items that impacted the period. Adjusted EBITDA for Q4 2024 was a loss of \$6.4 million. The year-over-year improvement in Adjusted EBITDA loss, which narrowed by \$12.6 million or 66.3%, was primarily due to the overall decrease in compensation and benefits expense and marketing expense.

[Slide 16: 4Q24 condensed balance sheet](#)

On slide 16, we have our condensed balance sheet as of December 31, 2024. We ended the quarter with \$39.0 million in cash and cash equivalents and \$24.9 million in restricted cash. Cash and cash equivalents increased by \$3.3 million in Q4 and we utilized \$7.1 million of available cash in the fourth quarter of 2024 including \$0.7 million of restructuring expenses.

[Slide 17: 2025 outlook](#)

Moving on to our outlook on Slide 17. Moving forward, we're amending our outlook process to only provide guidance on a quarterly basis, which aligns to industry standards given the volatile nature of crypto. All the following are estimated values and do not include any estimated revenues or expenses from the newly announced commercial partnership with DTR.

For Q1, we anticipate total revenues to be in the range of \$1.03 and \$1.28 billion comprised of gross crypto revenues of \$1.02 to \$1.27 billion and net loyalty revenues of \$8.5 to \$9.9 million. We expect crypto costs and execution, clearing and brokerage fees, or ECB, to be \$1.02 to \$1.27 billion, in line with our gross crypto revenue estimates and expect to end the quarter with \$22 million to \$26 million in available cash and cash equivalents. Our projected ending cash balance includes a potential first-time draw of up to \$5 million from the ICE line of credit by the end of March to support working capital requirements and does not include the sale consideration or released capital from the divestiture of custody. We intend to minimize our utilization of the ICE credit line, using it only as a short-term bridge to address immediate capital needs when needed.

Thank you everyone, that concludes the prepared remarks section of our Q4'24 earnings call.

I will now pass it back to Cody for closing.

Slide 18: Closing

Cody Fletcher, Investor Relations, Orange Group Advisors

Thank you, Karen, Andy and everyone for attending our earnings call. We look forward to connecting with you again soon.

Operator: Ladies and gentlemen, this concludes our event. You may now disconnect. Thank you.