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Bakkt Holdings, Inc. (BKKT)

Q4 2023 Earnings Call

CORPORATE PARTICIPANTS

Ann DeVries

Head-Investor Relations, Bakkt Holdings, Inc.

Karen Alexander

Chief Financial Officer, Bakkt Holdings, Inc.

Andrew A. Main

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

OTHER PARTICIPANTS

Andrew Bond

Analyst, Rosenblatt Securities, Inc.

John M.A. Roy

Analyst, Water Tower Research LLC

Peter Christiansen

Analyst, Citi

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Bakkt Quarter Fourth and Full-Year 2023 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 the call over to Ann DeVries, Head of Investor Relations at Bakkt. Please go ahead.

Ann DeVries

Head-Investor Relations, Bakkt Holdings, Inc.

Good evening, and thank you for joining us for Bakkt's fourth quarter earnings call. Today's presentation, including the separate earnings call presentation that can be found on our Investor Relations website at www.investors.bakkt.com, will contain certain forward-looking statements. 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.

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 afternoon with the SEC.

Joining me on today's call are Andy Main, Bakkt's incoming Chief Executive Officer, and Karen Alexander, Chief Financial Officer. After our prepared remarks, we will answer questions we receive from our investors through the

Say Technologies platform. After that, Andy and Karen will be available to answer questions from the analyst community.

I'll now turn it over to Andy.

Andrew A. Main

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

Thank you, Ann. And good evening, everyone. It's great to speak to you on my first Bakkt earnings call. Let me firstly start off by saying how excited I am to be Bakkt's CEO. I want to thank you for being here today and for your ongoing interest in Bakkt.

Seeing it's our first time together, I thought I should do a quick introduction, with a focus on my most recent experience. I've been working in digital platforms, championing technologies, and selling products for the bulk of my career. Starting in 2013, I was the head of Deloitte Digital, and over seven years grew that business from a startup into a multibillion-dollar business and a globally recognized brand.

After that, in 2020, I moved on to become Ogilvy's Global CEO where I led a rapid turnaround of a then-lagging business to become the world's leading creative agency in just two years, one year ahead of market expectations. I have also been a Bakkt board member since October 2021. I've certainly gained a lot of satisfaction from achieving the ambitions of those businesses. So that's enough about me, and now onto talking about Bakkt.

So on page 4, I'm excited to share my perspectives on the business. Let's first start by talking about what's happening in the markets. 2023 undoubtedly brought some challenges, and as the market spent the first half of the year rebounding from the industry events of 2022. But with the new milestones like the approval of Spot Bitcoin ETFs and new record Bitcoin price highs, we've finally begun to see strong tailwinds. In Q1 2024, we are already seeing higher transaction volumes from our retail clients as their target audiences and customers are showing greater interest in crypto. So we're cautiously optimistic that with all the positive developments we have seen in crypto, the markets will continue to stabilize and improve.

Moving on to Bakkt, we have a strong foundation and I'm very proud of what the company has accomplished to date. Our team has spent significant time and resources developing the Bakkt platform and I can say with confidence that our products are in a strong position. We have robust custody and trading solutions that appeal to both institutional and retail clients who, along with Bakkt, are positioned to benefit from the positive market turn.

My perspective on our clients and partnerships is that we are well-positioned to grow from the strong base. We provide a strong value product proposition to clients and emphasize that we offer the leading client experience in the industry, for example, taking as little as a few weeks to activate our solutions for our clients. This speed of activation makes Bakkt a strong partner for growth, and in fact, Bakkt, your partner for growth, is the north star of our business, which we will amplify and demonstrate by our behavior in the marketplace.

Next, I'd like to address what this moment means for the company. The reason the board appointed me as CEO is because Bakkt is at an inflection point. Given our strong position with the Bakkt platform, the focus at this particular inflection point is now to scale the business. And to build on what I said as part of my introduction, I've got the experience in commercializing powerful product platforms, scaling young businesses, and being market, client, and partner-focused, and the board believes that these are some of the ingredients and the skills that Bakkt needs now.

In addition to the inflection point around scale, we're also at a financial inflection point. We're pleased to quickly close the transaction of our recent capital raise, and can confidently say that the proceeds and the other available cash alleviate the conditions that initially raised doubt about our ability to continue as a going concern. This additional capital significantly adds to our balance sheet and will help fund the future of our business, providing stability as we continue to focus on executing for our clients and partners, broadening our network, and driving revenue.

I understand the circumstances of the transaction have resulted in dilution of our stock, which has contributed to the drop in our share price. As we've recently received notice from the New York Stock Exchange that our stock price does not currently meet the minimum share price requirement, I want to assure folks that we are committed to remaining publicly listed. We understand disappointment and frustration in response to this recent news, but it's important to note that this notice does not result in immediate delisting.

To resolve this issue, we plan to pursue a reverse stock split, which will be subject to shareholder vote. Ultimately, we strongly believe that this capital raise is the best path forward to scale our business and drive Bakkt towards profitability.

Now is the time for growth. And the good news is that I believe we have the right platform, the right products, the right strategy, and the right team in place to make that happen. We are laser-focused on enhancing shareholder value by executing on top line growth and being disciplined about costs. We will focus on scaling the business by driving efficient and focused execution.

Over time, you'll see us shift our business mix to include more recurring revenue streams, which is not only great for our clients, but helps Bakkt have longer-term, predictable client relationships. We'll also focus on prudent expense management to demonstrate strong operational performance. I believe there are several opportunities we can focus on to fine-tune our operations and put us on that path towards profitability. Together, these actions will accelerate our drive towards self-sustainable growth.

Lastly, I look forward to capitalizing on the market opportunity in crypto. We see that the demand environment is improving, which is driving increased volumes through the Bakkt platform, and I'm very excited about the position we are in.

Moving on to slide 5, I'd like to elaborate on the overall strength and efficiency of the Bakkt platform, which we've spent years investing in, is unique in the market, and differentiates us from most other crypto providers. When you look at why our clients choose Bakkt, there are three compelling reasons I'd like to walk through today.

First and foremost, Bakkt stands out because of our status as a highly regulated public company listed on the New York Stock Exchange. Our clients can have confidence that Bakkt will prioritize the safety of their assets. And let's not forget about the Bakkt Trust. Our custody solution is operated under Bakkt Trust Company LLC, NYDFS Regulated Custodian. We keep Bakkt's custody and trading functions separate to provide additional protection and minimize potential conflicts of interest. Bakkt's custody entity maintains a separate and independent board, solely focused on upholding safe and effective operations.

Our experience and expertise in the complexity of security and compliance give our clients the peace of mind that they deserve and they need. And in fact, we continue to invest heavily in these areas in accord with the latest standards and best practices. And a great example of this is our recently launched Collaborative Custody, which addresses single-point-of-failure risk.

The second compelling reason why clients choose us is that we partner with clients to enable their growth. Crypto moves fast, and so does our ability to scale up and grow quickly when the market shifts. The Bakkt platform is very versatile and we work closely alongside our clients to help their product offerings grow, which creates a compelling growth flywheel for Bakkt's own business.

And the third reason why clients choose Bakkt is that we help solve for accessibility. Our experience across both traditional finance and crypto means that we can help our clients navigate both worlds seamlessly. Bakkt serves as the onramp to crypto for our clients, so in turn they can offer dynamic, flexible solutions for their customers.

Moving along to slide 6. In the year ahead, we're going to be laser-focused on three strategic priorities. Firstly, growing our client network and going deeper with existing relationships. Secondly, expanding our products, solutions, and the Bakkt ecosystem. And thirdly, prudently managing our expenses. Let me just touch on each of these very quickly.

So what does that look like in practice on the client side? Well, that means continuing to execute on our land-and-expand strategy, expanding our business internationally, forming new relationships globally, and growing our network of crypto natives, neobank and fintech clients. On the product side, not only will we be bringing Bakkt's products to more businesses, but we'll also expand our product offering by introducing complementary institutional crypto capabilities such as Collaborative Custody and institutional trading. And as we do this, a major driver is to strengthen and extend the Bakkt ecosystem and through greater focus and our marketplace relationships with our business partners.

And then on the expense side, we're going to clearly grow our business, while prudently managing expenses. We've already made progress on this front, and we're going to continue to identify opportunities to strategically allocate capital and manage our operating costs. So, these three strategic priorities are how we will accomplish our goals of creating sustainable shareholder value and reinvigorating our investors' confidence in us.

Moving on to slide 7, I'd like to talk about retail crypto trading as a driver of our growth in 2024. Our crypto trade offering is a dynamic platform that allows us to offer a suite of solutions, including trade, coin transfer, and fiat onramps. Throughout 2023, we strengthened our product offering and signed new clients to our retail trading network, which positions us to drive revenue in 2024. We'll be providing our advanced end-to-end capabilities to new retail clients, including notable crypto-native names like Mobilum and BitJem.

International expansion also continues to be a key focus when it comes to scaling our business. We recently shared that we've gone live on the digital brokerages SogoTrade in Hong Kong and Singapore, both very fast-moving crypto hubs. We continue to expand the long-term relationship with Hapi, a stock trading platform.

We're now live together in Brazil, Guatemala and Spain, which builds already on live capabilities in Argentina and Mexico. And since these recent expansions, we've also gone live in Taiwan, which will broaden our reach in Asian markets even further. As we enter new international markets, we're working with our clients to cater to their preferences and position Bakkt's technology and offering to meet each market's demands. This includes investing in the support of new coin pairs in order to lay the groundwork for more trading volume as we expand.

We have built a broad network of clients that allows us to take advantage of the tailwinds we've seen industry-wide. Our notional trading volumes have been very strong this month, with March quarter-to-date volume up over 260% from Q4 2023. Our client assets under custody also continues to trend upwards, having recently surpassed \$1 billion. The crypto industry has undoubtedly been volatile over the past few years, but I believe we're beginning

to see indicators that the trading environment is improving and Bakkt is well positioned to take advantage of this positive market shift.

Moving ahead to slide 8, let's talk about how we will further expand our institutional crypto capabilities, which will provide significant opportunities for growth. Since Bakkt relaunched our custody platform in Q4, we've witnessed that the industry reach important milestones such as the SEC approval for Spot Bitcoin ETFs. This has led to astonishing institutional interest and growth in crypto.

For our institutional client segment, Bakkt's highly secure and compliance-first approach to crypto, as well as our institutional-grade custody foundation, uniquely positions us. For example, I'm very excited to share that Bakkt just signed an agreement that intends to provide our secure custodial services to a new Bitcoin ETF provider, 7RCC, and their investment manager are launching a ETF combining Bitcoin and carbon credits. We are in advanced discussions with other Bitcoin ETF providers as well.

We also serve as a custodian for a newly signed client, BlockWyre, a full-stack fintech infrastructure platform that has a focus on payments, but also offers custody, trading and banking. We've also been appointed as a custody provider for Two Prime, a SEC registered investment advisor that works for family offices, institutions, and corporate treasuries seeking exposure to digital assets. The company has an expertise in risk management and utilizes bespoke investment strategies for its clients.

Our custody solution is highly sticky and we will build incremental higher-margin solutions on the stack. For example, we've added additional capabilities to our institutional crypto offerings. Bakkt is now available as a key agent for Unchained's enterprise Collaborative Custody product. This model helps Bitcoin holders increase security when safeguarding their assets through the use of a vault secured by multiple institutional key agents. By enabling access to our NYDFS regulated custody through Unchained's unique platform, we've created a simple and efficient way for us to continue to scale our custody business.

We are also actively working to launch our own high-performance institutional trading venue, also known as an Electronic Communication Network or ECN. For those not familiar, an ECN is a technology-based solution that enables streamlined high-speed access, lower costs, and lower latency to support crypto transactions for institutional clients.

Collaborative Custody and ECN are perfect examples of high-demand products that can be developed at speed by taking advantage of the investment and consumable services that already exist on the Bakkt platform. In turn, this further sharpens our competitive edge and enables opportunities for high-quality revenue streams at low costs, with minimal capital requirements, driving us towards profitability. I'm excited to share more about our growing capabilities throughout 2024.

Now I'm going to turn over to Karen, who will speak about our financial results. So, Karen, over to you.

Karen Alexander

Chief Financial Officer, Bakkt Holdings, Inc.

Thanks, Andy. I'll now walk you through our fourth quarter financial results. A quick reminder that, in accordance with GAAP, we present crypto services revenue and crypto costs and execution clearing and brokerage fees on a gross basis since 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, so loyalty revenue is presented on a one-line net basis.

Crypto costs and execution clearing and brokerage fees, which we will refer to as crypto costs and ECB for the remainder of this call, drive gross crypto services revenue. And the difference between these line items represents crypto trading's contribution to margin. Please see the notes section of our earnings presentation for additional detail on crypto services revenue and related cost.

Turning to slide 10, we have our fourth quarter 2023 financial results. We had total revenue of \$214.5 million, of which \$199.4 million was gross crypto services revenue. Total revenues increased significantly year-over-year due to our acquisition of Bakkt Crypto, which closed on April 1, 2023. We had \$15.1 million of net loyalty services revenue.

Operating expenses were \$293 million, which reflects a significant year-over-year increase in crypto costs and ECB, driven by related crypto services activity.

During the fourth quarter in accordance with generally accepted accounting principles, we conducted our annual goodwill and intangible asset impairment testing. Earlier this year, we spoke about strategically allocating more of our capital towards the crypto business while maintaining existing offerings and relationships in the loyalty business. Given the pullback and significant investments in the loyalty business, we have lowered long-term revenue growth expectations for this business.

Additionally, the impairment accounting rules do not allow us to consider operating forecasts for new products and markets without an observable performance track record. As a result, we recognized non-cash intangible asset impairments of \$37.2 million and non-cash long-lived asset impairments of \$30.2 million. These charges are non-cash and do not have any impact on our future operations or our liquidity or cash flow from operating activities.

Operating expenses excluding crypto costs and ECB and non-cash goodwill, intangible asset and long-lived asset impairment charges were \$27.8 million. This represents a decrease of 55% year-over-year. This improvement is primarily due to a reduction in total compensation and benefits and acquisition-related expenses and reflects our commitment to maintaining disciplined expense management. The net loss for the quarter was \$78.7 million, which resulted in a diluted net loss of \$0.29 per share on an average diluted share base of 93.1 million shares.

Net loss allocated to the non-controlling interest in the operating company was \$52 million, leaving a \$26.7 million loss attributable to Bakkt Holdings, Inc. for a net loss of \$0.29 per share and an average basic share count of 93.1 million shares.

Following our recent capital raise, our total share count as of March 15 is 321.7 million shares. Following the capital raise, ICE still remains our largest shareholder as they own 55% of our aggregate shares. Note that their percent ownership is down due to new Class A share issuances and not due to the sale of shares by ICE.

On slide 11, we have our full year 2023 financial results. Total revenue of \$780.1 million increased significantly year-over-year due to our acquisition of Bakkt Crypto. Net loyalty services revenue of \$53.1 million was in line with previously provided guidance. Total operating expenses of \$1,008 million represents a significant year-over-year increase in crypto costs and ECB, driven by related crypto services activity. Operating expenses, excluding crypto costs and impairment charges were \$195 million, down 19% year-over-year, driven by lower compensation and benefits expense resulting from the execution of firm-wide expense management initiatives over the course of the year.

On slide 12, we have our EBITDA and adjusted EBITDA for the fourth quarter of 2023. 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 \$76.4 million and \$19 million respectively.

On slide 13, we show revenues for the company. Total revenue in the fourth quarter of 2023 was \$214.5 million. Gross crypto services revenue for the quarter was \$199.4 million. The quarter-over-quarter increase that we saw in the fourth quarter was due to higher overall industry-wide transaction activity levels.

Net loyalty revenues of \$15.1 million decreased 2% year-over-year. This was driven by a 9% year-over-year decline in subscription and services revenue to \$7.1 million as volume-based service revenue, which includes technology development services that we offer our loyalty clients came in lower. Note that revenue related to development services can be lumpy as it varies based on timing of client customized development requests. Transaction revenue of \$8 million was up 2% year-over-year. This improvement was primarily due to higher travel and merchandise-related redemption revenue.

Turning to slide 14, we have total operating expense. Total expense for the quarter of \$293 million includes \$197.8 million of crypto cost and ECB. These costs are driven by crypto trading volume. As we mentioned earlier on the call, in accordance with generally accepted accounting principles, we recognized non-cash intangible asset impairments of \$37.2 million and non-cash long-lived asset impairments of \$30.2 million during the quarter.

SG&A expenses of \$11.7 million increased 39% year-over-year due to the recognition of a \$3.6 million marketing expense associated with a strategic marketing agreement. Total compensation expense of \$16.2 million declined 49% compared to the fourth quarter of 2022 due to lower head count and a decrease in incentive bonuses and benefits.

Other expenses of \$30.2 million includes the non-cash long-lived asset impairment charge I referred to earlier. We're pleased with the continued progress we have been making in reducing our expense base through our disciplined approach towards allocating capital. This will remain a key focus for us as we look ahead for the remainder of the year, and we're committed to continuing this trend, as I'll describe further when I address our outlook for 2024.

Turning to slide 15, we have a slide comparing gross crypto services revenue and crypto cost and ECB. Gross crypto services revenue of \$199.4 million increased 4% quarter-over-quarter and was impacted by improving industry wide volumes. This was offset by lower activity levels from Webull Pay customers, a trend we first discussed last quarter and continued in the fourth quarter. Crypto costs and ECB were \$197.8 million for the quarter.

As a reminder, we continue to recognize the benefit related to the adjustment that we made to our revenue share agreement with Webull Pay to increase revenue retained by Bakkt while Webull Pay engagement stabilizes. This was reflected in our results for the quarter and acts as a partial offset to the declining gross revenue. The difference between crypto services gross revenue and crypto costs and ECB represents the net revenue contribution of retail crypto trading services.

On a percentage basis, the net contribution for Q4 2023 of \$1.6 million is a take rate of approximately 80 basis points. This is higher than Bakkt Crypto's historical take rate of approximately 30 basis points to 40 basis points prior to Q3 2023 due to the adjustment of the Webull Pay revenue share agreement in Q3. We expect the take rate to revert back closer to pre-Q3 2023 levels as Webull Pay activity levels increase.

On slide 16, we have our key performance indicators. As a reminder, we have included Bakkt Crypto in historical KPI figures on this slide for comparison purposes. We have 6.2 million crypto-enabled accounts at the end of the fourth quarter, which reflects a steady increase over time. Next, we have our transacting accounts, which we break out into crypto and loyalty accounts. There were 915,000 transacting accounts in the fourth quarter, of which 700,000 were from loyalty redemption, and 215,000 were crypto trades. Loyalty redemption transacting accounts were down 13% year-over-year due to a decline in hotel, rental car, and gift card activity.

Crypto transacting accounts were down 53% sequentially as the third quarter reflected increased activity related to the delisting of certain coins. While the number of transacting accounts declined sequentially, we saw an increase of about 80% of the notional amount per trade. This led to a sequential increase in notional trading volume for crypto, which we will cover next. Total notional traded volume was \$442 million, of which \$203 million was from crypto and \$239 million was related to loyalty production. On this chart, we also have included crypto industry trading volumes, which is the orange line. As depicted here, our crypto trading volumes were up 6% on a sequential basis, but less than the overall industry, which was up over 100% sequentially.

During the fourth quarter, our volumes continued to be impacted by the lower activity levels from Webull Pay customers. Also, recall that in the third quarter, our activity levels were elevated related to the delisting of certain coins. While we don't normally provide inter-quarter update, I was happy that Andy could share the additional color on what we're seeing in Q1 2024 trading engagement to date. We're pleased with the increased volume activity and higher coin prices we have seen in the market so far this year. Meanwhile, loyalty redemption volume was down 9% year-over-year due to lower redemption activity across most categories.

While overall volumes were down, we did have some benefit related to the mix shift from lower margin products such as air travel to higher margin products such as hotels. Our assets under custody of \$702 million increased 39% (sic) [41%] sequentially due to higher coin prices. As Andy mentioned earlier on the call, this trend has continued in 2024, with our current assets under custody surpassing \$1 billion.

Turning to slide 17, we have our condensed balance sheet as of December 31, 2023. We ended the year with \$70.3 million of cash, cash equivalents and available-for-sale securities. Our cash usage for the fourth quarter was \$20.8 million and included \$4.4 million of insurance spend. Our cash usage for the full year was \$169.1 million and includes the \$55 million of cash used to purchase Bakkt Crypto.

Our cash usage from quarter-to-quarter may include contractual payments where timing is not always consistent as well as normal operating expenses. Excluding some of these lumpier items, we are continuing to see improvements in our operating expense base, which I'll cover more on the next slide.

Our recent capital raise strengthens our balance sheet and provides us with additional liquidity to fund our operations for at least the next 12 months. As of February 29, 2024, we had \$38.1 million of cash, cash equivalents and available-for-sale securities. Our January and February cash burn was unusually high due to the timing of certain annual payments, such as taxes on stock vesting, as well as a \$4.9 million increase in cash collateral required by our surety bond insurers.

We received net proceeds of approximately \$38 million from the preliminary close of the capital raise on March 4. We expect to have cash, cash equivalents and available-for-sale securities of between \$68 million to \$72 million at the end of March. Our expected cash burn for the month of March includes a \$7 million increase in restricted cash due to the conversion of the compensating balance arrangement for a purchasing card facility to a pledged escrow account.

We are committed to maintaining a strong liquidity position through our prudent expense management and judicious capital allocation decisions. In 2023, we brought down our expense base significantly with second half 2023 operating expenses, excluding crypto cost and impairment charges, declining 42% from the first half of the year. As Andy mentioned, expense management will remain a key priority for us in 2024. We expect to continue to bring down expenses with full year 2024 operating expenses expected to decline 13% to 18% in 2023.

We are proud that we were able to take the necessary measures, some of which required very difficult decisions to alleviate the conditions that raise substantial doubt about our ability to continue as a going concern. We are committed to doing everything possible to move onward, succeed as a business, and we are focused on enhancing value to our shareholders.

Moving on to slide 19, we have updated the 2024 full year outlook, which we first provided as preliminary guidance on last quarter's earnings call. Since we provided that preliminary guidance, we've had a few months of client activity and engagement metrics to fine-tune the wide range that we provided in November. Accordingly, we are updating our expected outlook for 2024.

We expect total revenues to be in the range of \$3,292 million to \$5,114 million. This range includes gross crypto revenue of \$3,239 million to \$5,057 million. There are several factors that influence that wide range. First, we have considered a range of potential trading engagement metrics based on observed trading engagement in 2023, as well as longer-term historical trading engagement metrics with the third quarter of 2023 being a low point for both our platform as well as the broader market.

As we mentioned earlier, we've seen improved trading activity so far in the first quarter of 2024 with March volume to date being exceptionally strong. Our expected revenue range for the full year 2024 considers a reversion to 2023 engagement metrics at the low end of the range and a steady improvement in engagement metrics at the high end of the range. It does not assume that the exceptional trading volume we are observing this month will continue for the rest of the year.

Second, we have considered a range of possible scenarios for the activation of new clients currently in our pipeline. The range of assumed timing and conversion rate of these pipeline opportunities is reflected in the range of expected gross crypto revenue in 2024. One metric we have considered is the increase in crypto-enabled accounts from new clients. We are expecting our crypto trading accounts to grow by 2 to 3 times with a significant portion of that growth coming from new clients.

Third, as Andy mentioned earlier, we are enhancing our trading platform to support crypto coin pair trading offerings that are in high demand by international retail traders. The expected revenue range assumes that crypto coin pairs will be activated in the second half of 2024 to support this demand. Finally, our expected gross crypto revenue range assumes the addition of institutional clients beginning in the second quarter of 2024 with steady ramp-up in AUC from those clients in the second half of 2024.

We expect net loyalty revenues of \$53 million to \$57 million, consistent with the performance of that business in 2023. We expect crypto costs and ECB of \$3,220 million to \$5,027 million, driven by the range of expected gross crypto revenue. We expect total operating expenses of \$160 million to \$170 million. This range assumes expense efficiencies that we believe we will achieve through the integration of our regulated crypto trading entities beginning in 2024.

It does not anticipate any acquisition or inorganic transaction expenses like the acquisition expenses we incurred in 2023 related to the acquisition of Bakkt Crypto. Included in operating expenses are \$13 million to \$16 million of

non-cash compensation and about \$1 million of depreciation and amortization. The range of expected operating expenses assume no further long-lived asset and intangible asset impairment charges and non-cash compensation expenses consistent with 2023 levels.

The net of operating expenses in non-cash expenses represents our expected operating expenses for 2024. Expected operating cash flow usage of \$58 million to \$72 million reflects both the expected revenue and expense ranges I have walked through. Free cash flow, which is a [indiscernible] (00:37:01), is expected to be a usage of between \$65 million to \$79 million.

We expect to end the year with \$35 million to \$50 million of available cash, cash equivalents and available-for-sale securities. We believe we have sufficient cash to fund our operations in 2024. As you will note from this range, we expect our cash utilization to reduce over the course of 2024 as we achieve our revenue growth and expense reduction targets.

I will now pass it back to Andy for his closing remarks.

Andrew A. Main

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

Thanks, Karen, for taking us through the financials. Before we close, I just want to emphasize how excited I am to be in this role alongside the rest of the Bakkt team at this pivotal time. Bakkt has built a formidable platform and product suite, serving a real human need to help businesses bring the benefits of crypto to their customers and grow alongside the ever-changing digital economy.

Our focus on compliance, security, and a flexible and scalable solutions gives our clients the confidence they need to incorporate the latest technology innovations, specifically crypto, directly into their own products. While there had been ups and downs in the last few years, now that we're able to put the going concern behind us, we look forward to leveraging our product suite for our clients while expanding the client base toward businesses so they can better serve their customers. With the recent momentum in the crypto markets, we are now intensely focused on enhancing shareholder value and excited about the opportunity ahead.

And at the end of the day, Bakkt helps our clients innovate their business models to solve for unmet or even unknown human needs. And this is why this market is so exciting and why Bakkt is very well-positioned. People are buying and selling crypto, investing in it, paying with it, and holding onto it to see the power it has to transform our global financial system. They see the innovation, the convenience, and they want to participate firsthand in that innovation. In some cases, they want to own a piece of this. And in order to do these things, they turn to companies they trust to help meet their needs while managing the risk that's inherent in new innovations. And that's the same reason why our clients turn to Bakkt.

Thank you everyone for your ongoing interest in Bakkt. And I'll now turn it over to Ann to manage the Q&A. So, Ann, over to you.

QUESTION AND ANSWER SECTION

Ann DeVries

Head-Investor Relations, Bakkt Holdings, Inc.

A

Thanks, Andy. Let's move over to questions from the investor community. Leading into our Q&A session, we'll start by answering top questions from Say, ranked by number of votes. We have consolidated some of the questions that address similar themes. After that, we'll turn to live questions from the analyst community.

The first question we will address is around our share price. A number of investors, including [ph] Jason S and Rajeev S (00:40:08) would like to understand why our stock price is underperforming, while prices for Bitcoin and other crypto have been very strong this year. Karen, can you please provide your thoughts on this?

Karen Alexander

Chief Financial Officer, Bakkt Holdings, Inc.

A

Sure. I can take that question. First off, I want to convey that I understand the frustration from our shareholders over the stock price. As a fellow shareholder with a vested interest in seeing our company and stock price do well, it's been incredibly difficult to witness our stock underperform the market by so much.

There are a few factors which have negatively impacted our stock. The first is related to a series of amended SEC filings, which contain certain statements around risks to our ability to continue as a going concern that were negatively interpreted by some participants in the media and investors. These amended SEC filings were part of a process for us to obtain an effective shelf registration in order to access the capital markets.

As you may recall, we started the process of seeking an effective shelf in April of 2023 and worked diligently with the SEC throughout the course of the year to meet their requirements. This process took an extraordinarily long time. By the time our shelf was deemed effective, we needed to raise a relatively large amount of capital to address the risk of whether we could continue as a going concern under the conservative forecasting parameters required by the accounting rules. The capital in and of itself also created downward pressure on our stock price as the relatively large size created dilution to our shareholders.

Notably, we now believe we have alleviated the issues that led to the disclosure of the going concern risks. I know many of you have been frustrated that we haven't been in the news recently with updates around our positive achievements. As a public company, we are held to the highest standards around compliance. We pride ourselves on our approach to being compliance-first focused in everything we do. That's what differentiates us to our clients and prospects. We take this very seriously. As a public company, we have to obey the rules around blackout periods in the weeks leading up to our earnings release, where we are restricted in what we are able to share publicly.

I know the last few months have been challenging, and I hope that you will remain patient. We believe our stock price will react positively once we are able to demonstrate a consistent track record of building scale and driving financial results towards profitability.

Ann DeVries

Head-Investor Relations, Bakkt Holdings, Inc.

A

Thanks, Karen. Our next question is from Working P. He wants to understand why Bakkt has not been named the custodian for the Bitcoin ETFs and what we are doing to address this. Karen, can you please take that question?

Karen Alexander

Chief Financial Officer, Bakkt Holdings, Inc.

A

Yes, I can jump in here. As Andy mentioned earlier on this call, we're pleased to have signed an agreement with our intention to be the custody provider for 7RCC, which is an investment manager launching an ETF combining Bitcoin and carbon credits. We're excited to be entering the Bitcoin ETF space. We're in advanced conversations with several other market participants and hope to have additional updates on our progress in the space with you soon.

Ann DeVries

Head-Investor Relations, Bakkt Holdings, Inc.

A

Thanks. Next up, investors, including [ph] Laura H and Brandon C (00:43:13) would like to understand what Bakkt plans to do to increase share price and break out of penny stock territory. Andy, can you please answer this question?

Andrew A. Main

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

A

Ann, thanks so much for the question. I think Karen touched on this before, but we believe by demonstrating a consistent track records of building scale and driving our financial results towards profitability will ultimately be the impetus for driving long-term shareholder value. We are committed to making this happen and we'll put our resources behind this to drive us forward to that successful outcome. In order to resolve potential delisting issues around our current stock price in the short term, we plan to pursue a reverse stock split, which will be subject to shareholder vote.

Ann DeVries

Head-Investor Relations, Bakkt Holdings, Inc.

A

Thanks, Andy. Next up, [ph] Janet N, Rayden L, and Sayeed H (00:44:06) want to better understand the future of the company, our growth plans and whether we can remain in business. Andy, can you please take this one, too?

Andrew A. Main

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

A

Yes, Ann. I'm very happy to. So, we are intensely focused on making every possible effort to increase value for our shareholders. We spent the time and resources to build a robust foundation for the company, which includes being publicly traded and NYDFS regulated embedded crypto platform with separate trading and custody functions and comprehensive security and operational controls. And as I mentioned earlier, we believe we are at an inflection point.

Our key focus as we move forward is on leveraging a robust foundation to commercialize and scale our platform to drive shareholder value. We'll achieve this with our partnerships and growing the Bakkt ecosystem strategically shifting our business mix to more recurring revenue streams, prudently managing expenses to demonstrate strong operational leverage, and continuing to innovate our products by building upon our acquisition of Bakkt Crypto and growing our institutional capabilities. I firmly believe we have the right platform, the right products, the right strategy, and the right team in place to drive growth for our company, and I'm excited to be joining the company at this time to lead us onward.

Ann DeVries*Head-Investor Relations, Bakkt Holdings, Inc.*

A

Thanks, Andy. Our last question from the Say platform is from [ph] Sayeed H (00:45:41), who wants to know what Bakkt will do to regain the confidence of our shareholders. Andy, can you take this one as well?

Andrew A. Main*Director, Incoming President & Chief Executive Officer, Bakkt Holdings, Inc.*

A

Yes. Sure. Thanks so much for the question. I know that we've obviously had a lot of activity lately, which have been the ups and downs of building a cutting-edge digital business. You, our shareholders, have dealt with much of this volatility and I thank you for your continued support to us. I'm excited to the opportunities ahead to efficiently scale and deliver financial results that we, as a team, can be proud of. I'm eager to deliver strong results for our shareholders. While you don't know me well yet, I'm confident that with my experience, combined with Bakkt's strong product foundation and core competencies, we can deliver results that will help us regain confidence from the market.

Ann DeVries*Head-Investor Relations, Bakkt Holdings, Inc.*

A

Thanks, Andy. 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: Of course. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from the line of Andrew Bond with Rosenblatt Securities. Your line is now open.

Andrew Bond*Analyst, Rosenblatt Securities, Inc.*

Q

Thanks. Hey. Good evening. Andy, you mentioned the goal of being EBITDA breakeven. It was kind of a target. And I think that the company's original target was the end of 2024. So, just wanted to know when you think you guys can reach that adjusted EBITDA breakeven target?

Karen Alexander*Chief Financial Officer, Bakkt Holdings, Inc.*

A

Hey, Andrew. It's Karen. Good to talk to you. Yeah. So, in our comments, and obviously in how we've been organizing our targets, we're still striving to achieve that breakeven on an adjusted EBITDA basis. And we're actually optimistic about our ability to continue to activate revenue from new clients, manage expenses and recognize the synergies from the integration of the regulated entities which we received approval on last week.

To be candid, some of the noise that we experienced in the recent disclosures about conditions that raised doubt about our ability to continue as a going concern did impact the timing of some of our commercial execution. We were obviously very pleased to report on this call and in the 10-K that we have resolved that risk.

And that is providing the tailwinds that we need to make sure that we are reinvigorating both commercial and – commercial discussions and we're seeing good traction of those. So, given the disruption that we saw over the past month with some of those disclosures, we – we haven't put any comments on here in terms of timing to breakeven on an adjusted EBITDA basis, although it still remains our longer-term goal. Again, I just want to just take a quarter or two to process through what's happened in terms of the pacing of our commercial discussions before we provide for a specific outlook.

Andrew Bond*Analyst, Rosenblatt Securities, Inc.*

Q

Got it. Follow-up in terms of the custody business, and you mentioned some potential growth from some of the ETF providers, but Bakkt made a bunch of announcements around partnerships and enhancements to the platform and potential wins. So just in terms of visibility of revenue growth, when can you expect to see some of this kind of hit the top line?

Karen Alexander*Chief Financial Officer, Bakkt Holdings, Inc.*

A

Yeah. And that's a great question. So when we provided guidance both back in November and then what you saw today, I haven't broken out the institutional portion of crypto. Historically, it has not been material to our results, but we do expect that to pick up, especially in the second half of the year. So, we are seeing traction in terms of names, for instance, the Unchained relationship that we announced the other week, the exciting announcement that we have with 7RCC. It's just going to take until the second half of the year before you start seeing that contribute to the overall crypto revenue picture.

Andrew Bond*Analyst, Rosenblatt Securities, Inc.*

Q

Got it. And just lastly, on the trading volume quarter-to-date increase, I believe it's 260% from last quarter. How does that translate – or how should we think about that from a net revenue perspective?

Karen Alexander*Chief Financial Officer, Bakkt Holdings, Inc.*

A

Yeah. So, in terms of just the revenue for the year for crypto, yeah, that range that we have now on a net basis of \$20 million to \$30 million, we are definitely expecting a strong first quarter. At the moment, we're almost finished with March. We see volumes, notional volumes going in the range of \$560 million so far for March. So, we expect it to be a strong volume quarter.

In terms of the take rate on that, our take rate, as I mentioned, has been influenced by the adjustment that we had with our rev share agreement with Webull Pay. So, yeah, we were an 80 basis point take rate for Q4. I expect that to come down a little bit, but I still think it's going to be higher than the 30 to 40 bps that we had seen before Q3. So I would expect it – I think we're excited to be able to share the full Q1 trading results, but you'll see a significant uptick in the contribution of retail trading.

Andrew Bond*Analyst, Rosenblatt Securities, Inc.*

Q

Cool. Got it, Karen. Thank you.

Operator: Thank you for your questions. The next question comes from the line of Peter Christiansen with Citi. Your line is now open.

Peter Christiansen*Analyst, Citi*

Q

Thank you. Good evening. Welcome, Andy. Wish you the best of luck here.

Andrew A. Main*Director, Incoming President & Chief Executive Officer, Bakkt Holdings, Inc.*

A

Yeah. Thank you.

Peter Christiansen*Analyst, Citi*

Q

Karen, the guide for the year-end cash, is that free and unrestricted or does that include restricted cash?

Karen Alexander*Chief Financial Officer, Bakkt Holdings, Inc.*

A

Yeah. Hey, Pete. It's Karen again. That does not include any restricted cash. So that's truly cash that we have available to fund our operations. Our restricted cash has had some movement in it, as I mentioned during the call. So, yeah, in 2024 to date, we did actually have to post some additional collateral related to the surety bonds that we're required to hold.

We did also move some cash that we've always disclosed as supporting the Bank of America purchasing card facility into a facility that will not be restricted cash. So we've taken all of that into account when I have provided the expectation that we'll end the year at about \$35 million to \$50 million.

Peter Christiansen*Analyst, Citi*

Q

That's super helpful. And then as I think about, like, the business going through a scaling phase, I would assume that would acquire additional collateral for some of your business lines. Just how are you thinking about that and factoring that throughout this year?

Karen Alexander*Chief Financial Officer, Bakkt Holdings, Inc.*

A

Yeah. So, I mean, as we mentioned, we saw an exceptionally strong Q1, an exceptionally strong March in particular. We actually work with a number of liquidity providers to make sure that we have multiple sources of liquidity for every coin we offer on the platform.

So we've been able to manage that – those liquidity relationships with the cash flows that we have on hand. The forecast that I provided has what we believe to be the best estimate in terms of what's truly available for cash in operations and does not anticipate any significant increases in, for instance, segregated restricted cash accounts in that regard. And so far, with what we've seen in trading in March, that has sustained – that assumption has sustained itself.

Peter Christiansen*Analyst, Citi*

Q

That's helpful. And then I guess, I mean, thinking towards the end of the year, I'm not going to make any presumptions about 2025 and the need for cash at that point. But assuming that the company will need to raise further capital and given the process [indiscernible] (00:55:03), is that something you feel like you're in a better position to expedite for potential future funding? Just want to get a sense of that. Thank you.

Karen Alexander*Chief Financial Officer, Bakkt Holdings, Inc.*

A

Yeah. So, certainly, having the shelf helps us quickly access additional liquidity should we need that. As I mentioned on the call, we believe we have sufficient liquidity for at least the next 12 months. So it's not 12 months, then we fall off, there's at least 12 months from how we have to think about disclosing the liquidity position of the company. So at the moment, there is no anticipation in the near term that we would have to access the capital markets again. But certainly, having the effective S-3 gives us the ability to do that, should a situation change.

Peter Christiansen*Analyst, Citi*

Q

That's great. And then I guess I wanted to ask Andy real quick about Collaborative Custody and the positive demand that you're seeing there. I was just wondering if you could put some color on that business and some of the demands that you're seeing from clients for this product and really how Bakkt fits in.

Andrew A. Main*Director, Incoming President & Chief Executive Officer, Bakkt Holdings, Inc.*

A

Yeah. Yeah. So thanks for the question. So that's a really exciting area for this and it's – we view it as really innovative, right? So, like, so what it does, right, and we're working with Unchained Capital as our partner in bringing this to market. But unlike traditional custody where we as custodian have full control over the client's key material, in Collaborative Custody, we only hold and secure a portion of the key. So it's just like a really good solution to give clients more control over their assets, which is super important, right, for an offer.

So you're right, I mean, it's opening the door to new revenue streams. And so, we're really going after the market here. And we think, with this, it will increase our assets under custody as a result, which is only good for Bakkt's overall revenue picture.

Peter Christiansen*Analyst, Citi*

Q

That's helpful. Thanks all for the deep transparency. Thank you.

Karen Alexander*Chief Financial Officer, Bakkt Holdings, Inc.*

A

All right.

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

John M.A. Roy*Analyst, Water Tower Research LLC*

Q

Great. Thank you. Andy, certainly, there's been a lot of discussion about scaling up this year and in future years. I wonder if you could give us a little more color on your experience that would relate to how you would scale up and how your background can help manage this process.

Andrew A. Main*Director, Incoming President & Chief Executive Officer, Bakkt Holdings, Inc.*

A

Yeah. So thanks for the question, because I think a lot of people also have that same question as well. So first of all, I know Bakkt super well, right, because I was on the board for the last couple years, even before the de-

SPAC. So I've been very intimately involved with the business, and particularly in my role on the board, I was working a lot with product development, marketing and sales, so I was really helping in the market, right, with our teams there. So that's got some built-in relationships.

And then secondly, the crypto market overall has been something I'm very passionate about in terms of the needs it solves for people who want to participate in this, not only sort of end consumers but also like institutions who are taking positions in crypto on behalf of their larger investors, too.

And then, most recently, I would say that I am a business builder, and I think that's been evidenced from the fact I was one of the folks who scaled Deloitte Digital into a multi-billion business from a fairly, it's basically a start-up to begin with clearly [ph] with a (00:59:13) large company but we scaled that into a very large business. And then recently, I was the Global CEO of Ogilvy, the advertising market and creative agency company, and basically led the turnaround of that business and got it back on a path to sustainable growth and higher profitability, but did that also well ahead of market expectations.

So bringing all these things together, I believe is a really good sort of confluence, and all these intersections that work in the context of Bakkt. And then just when I was at Deloitte Digital, as Bakkt is a sort of digital platform business, Deloitte Digital very much is part of this business, with all about digital platforms like connectivity, speed, convenience, with great branding and great service and all that good stuff in the latest technology.

And certainly got a very good attitude towards how to build and get leverage from digital platforms. And one thing that excites me about Bakkt is that we built this amazing platform. I mean, all these services that are there for consumable to build on future offers, and so our ROI on what we've built thus far should be super good because we've got all that to play with to take us forward. So but that's why I view that my prior experience can come in very helpful in this role at Bakkt that I've taken on.

John M.A. Roy

Analyst, Water Tower Research LLC

Q

All right. Thanks, Andy. So, Karen, have a slightly different question. If you look at the linearity of net revenue through the year, can you give us any kind of color on how we should be thinking of that from a modeling perspective?

Karen Alexander

Chief Financial Officer, Bakkt Holdings, Inc.

A

Yeah. Sorry, John. Were you asking about the revenue or the operating expenses? I didn't catch that piece of it.

John M.A. Roy

Analyst, Water Tower Research LLC

Q

Revenue, net revenue.

Karen Alexander

Chief Financial Officer, Bakkt Holdings, Inc.

A

Yeah. So, I mean, in terms of – we've obviously provided a guidance range. When you take the revenue numbers that we have provided on the crypto side and deduct the crypto cost and ECB from the gross crypto revenues, we're getting a range of \$20 million to \$30 million. And so, what we tried to do in thinking about that range is consider a variety of potential things that could influence where we land.

One of them is clearly what we are seeing in terms of retail crypto trading demand. Yeah, as we mentioned several times, March has been exceptionally strong. I – in the high end of my range, I'm not assuming that that exceptionally strong levels continue at the same level. But I do think that when you think about how the platform has performed in 2022 and 2023, I think we are coming out of the dearth of trading that we saw in the third quarter of 2023.

I also commented a bit in terms of what we are expecting and working on in terms of new client activation. So there's certainly timing considerations there. There's also things where, as Andy mentioned, we've been listening to the voice of our customer in terms of what's going to make them and their customers most successful in terms of what they're seeking out of crypto. So for instance, internationally, we know that USDC and crypto coin payers is really important to that customer base. So we're working on getting that stood up and we should see some influence on that in the second half of the year.

And then thinking about what we're seeing on the institutional side, as I mentioned from our previous call, I think you're really going to see that start picking up with us getting assets under custody in the second quarter and then seeing this steadily ramp up through the year. So, hopefully, that gives our investors some sense in terms of the things that we're looking at both internally and within the market that'll influence where we'll land on a revenue basis.

Operator: Thank you for your question, John. That concludes today's call. Thank you for your participation and enjoy the rest of your day. Goodbye.

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