

January 11, 2021

Target:  Buyer: 

Bakkt, a crypto-asset trading, payments and loyalty platform announces acquisition by a SPAC (special purpose acquisition corporation) named VPC Impact Acquisition Holdings

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Transaction Overview

On January 11th, 2021 Bakkt announced their proposed acquisition by a public SPAC named Victory Park Capital Impact Acquisition Holdings (NASDAQ: VIH). The result, when completed, is that Bakkt will become a publicly traded business. Bakkt is notable, as they were founded by Intercontinental Exchange Inc (NYSE: ICE) the owners of a variety of major fiat-based asset exchanges including the New York Stock Exchange.

Target: Bakkt

Bakkt intends to offer three distinct sets of products; 1) a consumer app, launching in early 2021, featuring a crypto-assets wallet, loyalty reward and gift card redemption, crypto-assets trading, and crypto payments capabilities; 2) an institutional investor focused Bitcoin futures and options offering combined with their custody services known as the Bakkt Warehouse; and, 3) a product that manages fiat and crypto asset-based loyalty rewards and gift cards for a variety of merchants and businesses, including Starbucks.

In spite of its early stage of development, Bakkt aspires to be a direct competitor to the leading new-era crypto and fiat investment platforms such as Coinbase and Robinhood, payment providers such as Square (Cash App) and Paypal, and Neo-banks such as Revolut.

Bakkt's complete historical financial profile has not yet been disclosed (coming in an upcoming SEC filing) but ICE's Bakkt merger announcement has indicated that Q4 2020 was expected to be \$9 million in revenues and an operating loss of approximately \$30 million for the quarter. The business currently generates revenue from institutional investors via Bakkt's Bitcoin futures and options platform, which, according to Coindesk, is currently managing an average daily volume of \$37 million, or approximately 0.1% of the daily crypto asset derivatives volume. Bakkt also generates revenue from their loyalty and gift card reward services which has approximately 1,500 customers.

2021E – 2025E income statement projections reveal an expected \$890 million in Gross Revenue in 2021, primarily derived from crypto-asset trading on behalf of consumer customers. Bakkt anticipates consumer app users will grow from approximately 100,000 beta users today to 9 million users by the end of 2021 and grow to 31 million by the end of 2025. For comparison's sake, Coinbase currently has 43 million registered users, Binance (15mm), Robinhood (13mm), Revolut (10mm), and Square's Cash App (24mm monthly active users.)

Bakkt was founded in 2018 by ICE, with the goal of bringing trust to digital assets and allowing them to diversify into the rapidly growing sector. To date, Bakkt has raised \$883mm in capital and assets from strategic backer ICE (\$700mm asset & cash), strategic minority investors Starbucks, Microsoft, PayU and venture capital firm's ABC Partners, SGH Capital, BCG Digital Ventures, and Galaxy Digital Partners. Board members include SoftBank's Akshay Naheta, Goldfinch Partners' Sean Collins, and Tom Noonan, Sharon Bowen, and Jeff Sprecher from ICE. According to Pitchbook, Bakkt was privately valued at \$740 million at the end of 2018.

Buyer: VPC Impact Acquisition Holdings

VPC Impact Acquisition Holdings is a special purpose acquisition company. They were formed by \$6 billion fintech-focused investment firm Victory Park Capital. The company raised \$200 million in its initial public offering on the Nasdaq stock exchange under the ticker symbol of VIHAU on September 23, 2020. A total of 20 million units were sold at \$10 per unit. On the day of the announcement of the acquisition, VPC's stock price rose 58% to \$16.48.

Transaction Parameters

VPC Impact Acquisition Holdings is acquiring Bakkt in an all-equity transaction which will result in Bakkt becoming a publicly traded company and the sole operating business. Concurrent with the close of the transaction VPC expects to raise an additional \$325 million, via the sale of additional equity to ICE, Starbucks, Microsoft, and the Boston Consulting Group via a private placement of public equity (PIPE) at a valuation of \$10 per share.

Following the transaction, the combined business is expected to have \$574 million in cash to fund future operations and, based on the current value of VPC stock price, an enterprise value of \$4.5 billion.

This is the first time a crypto company has been taken public via a SPAC. A notable comparison is a reverse merger of Galaxy Digital with Canadian shell company Bradmer Pharmaceuticals in January 2018. Today Galaxy Digital trades at an enterprise value of \$1.5 billion. Comparable crypto M&A transactions include Coinbase | Tagomi (\$90mm), Poloniex | TRXMarket (\$150mm), NXMH | Bitstamp (\$400mm), Poloniex | Circle (\$400mm), Nexon | Korbit (\$120mm)

Strategic Rationale

This is purely a financially driven transaction, quite different than most acquisitions between businesses. VPC Impact Acquisition Holdings sole purpose is to acquire a high growth fintech company with competitive differentiation. From Bakkt's perspective, this transaction allows access to the necessary capital to fully fund anticipated financing needs to achieve profitable and cash positive operations.

Architect Partners' Observations

This transaction combines two popular themes, cryptocurrency and SPACs. In the crypto sector, signs of legitimacy and fast business growth are increasingly apparent and several leading crypto-based businesses, including Coinbase, eToro, BlockFi, and Gemini are all considering or have already filed to go public.

SPACs have exploded in popularity in the last 18 months. Since the beginning of 2020, over 390 SPACs have gone public and raised \$126 billion in gross proceeds according to our AP SPAC Tracker. A merger with a SPAC has the potential for great benefits for private companies that are ready to become publicly traded. Specifically, SPACs can be better than regular-way IPOs by providing higher valuations, more visibility to investors, more liquidity options for management/ investors and access to substantial amounts of capital to grow the business. The right SPAC can also bring credible and well-known board members and the exposure to a network of large investors and analysts. Please contact Architect Partners if you would like more information on the many complex nuances of SPACs and an evaluation if a SPAC could be the right financial vehicle for your company.

Sources

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[Pitchbook](#)
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