

AP INSIGHTS | M&A ALERT

November 3rd, 2022

Updated August 10th, 2023

Target: APEX Crypto™

Buyer:  Bakkt.

Bakkt Announced the Acquisition of APEX Crypto

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Transaction Overview

On November 3rd, 2022, Bakkt (NYSE: BKKT) [announced](#) the acquisition of the crypto trading platform, Apex Crypto for a maximum consideration of \$200 million of cash and stock.

Target: APEX Crypto

Apex Crypto, formerly a part of Apex Fintech Solutions, offers a US-compliant cryptocurrency trading platform, offering custody, execution, settlement, and tax services via application programming interface (API) integration for fintechs, trading app platforms, and neo-banks. The platform currently supports over 44 digitally native assets and has licenses of varying application in numerous jurisdictions, including a BitLicense in New York, a Money Transmitter license in 27 USA states, and is registered as a Money Services Business (MSB) under FinCEN.

Apex Crypto's closest competitors are other crypto-focused trading infrastructure platforms such as Coinme, NYDIG, Wyre, MoonPay, and Bitstamp.

Apex Crypto was founded in 2019 and is based in Chicago, IL. The firm was founded by Danny Rosenthal, who serves as the CEO and leads the firm's ~10 employees. The firm was part of the larger Apex Fintech Solutions platform, which boasted \$96 billion in assets under custody, with over 220 institutional clients, and 23 million end clients. Current clients of the platform include WeBull, Public.com, Titan, and Stash. The company has not raised any outside capital to date.

Buyer: Bakkt (NYSE: BKKT)

Bakkt offers users crypto trading, payouts, and custody. Outside of crypto, the firm offers payout and loyalty solutions that enable clients to incentivize retail customers to use their platform. The firm initially catered towards crypto trading in 2019 but has since pivoted to focus on end retail users of the firm's partners. Bakkt's current partners include Mastercard, Fiserv, Hanover Bank, Wyndham Rewards, and Global Payments.

Bakkt was founded in 2018 by the Intercontinental Exchange (NYSE: ICE) and went public in October 2021 through a SPAC merger with VPC Impact Acquisition Holdings at a \$2.1 billion enterprise value. Currently, Bakkt has an enterprise value of ~\$230

million and has a liquid cash & cash equivalent balance of \$315 million, not including this transaction. From its highs in October 2021, Bakkt stock is down over 95%, and the stock is down 80% from its original listing price of \$10.00.

Transaction Parameters

Bakkt is acquiring Apex Crypto, from Apex Fintech Solutions, for a maximum consideration of \$200 million. This is composed of \$55 million cash upon close, up to \$45 million in Bakkt stock based on financial targets by Apex Crypto, and an additional \$100 million in stock based on financial performance through 2025.

UPDATE: In the second quarter of 2023, Bakkt announced financials including Apex Crypto that show \$335.3M in revenue and \$1.3M in gross profit after crypto costs and execution, clearing and brokerage fees (COGS) are included.

Estimated* Multiples Based on Q2 2023 Revenue

Enterprise Value / LTM Revenue	0.15x
Enterprise Value / LTM Gross Profit	38.5x

*Assumes previous three quarters were the same revenue and gross profit as Q2 2023

Notably this is what we'd characterize as "principal" revenue recognition, where Bakkt must recognize the entire transaction amount vs "agency" where you'd recognize just the spread amount. According to Bakkt, this is in accordance with GAAP standards.

Comparable crypto trading infrastructure transactions include Coinbase | FairX (\$275 million [M&A Alert](#)), FTX | Bitvo (ND [M&A Alert](#)), Blockchain.com | Altonomy (\$250 million [M&A Alert](#)), FTX | Liquid (ND [M&A Alert](#)), Huobi | Bitex (ND, [M&A Alert](#)), Amber Group | DeCurret (ND), DHS Consulting | Allentro (\$575 million), Exegy | Vela (ND), and SBI Financial Services | B2C2 (ND).

Strategic Rationale

This transaction accelerates Bakkt's product and client verticals. Bakkt has previously stated its desire to grow its crypto offering to corporate clients. Currently, they have some segments but do not have the product to serve the most active end users. By acquiring Apex Crypto, they fill this gap with crypto trading, regulatory frameworks, and clients in the fintech, crypto exchange and neo-bank segments. It also furthers the working relationship between Bakkt and Apex Fintech Solutions (Apex Crypto's owner) in a cross-sell arrangement. For Apex Crypto, it finds a new home solely dedicated to digital assets, although we are a bit surprised that Apex Fintech disposed of the asset.

Architect Partners' Observations

Deal structure is very heavy on earn-outs over time. The \$200 million headline number is only a \$50 million outlay of cash up front, with earn-outs over the next several years in stock and cash. These types of structures generally can signal a buyer's market, as the deal is de-risked (to an extent) for the buyer. We can also infer that with only 10 people at the company, employee retention is a critical piece of this acquisition and the rationale behind such a material earnout.

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We also continue to see heavy interest in crypto infrastructure firms, where both of these firms live. It is our belief that there will be several more transactions announced in the next several months as firms expand their product, geography, and regulatory reach.

Sources

[PitchBook](#), [Bakkt Website](#), [Apex Crypto Website](#), [Apex Fintech Solutions Website](#), [Press Release](#)