Soluna Holdings, Inc.

Corporate Presentation

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Presentation Transcript

(00:00):

Good afternoon. This is Michael Toporek. I am the Chief Executive Officer of Soluna Holdings. Thank you for joining me this afternoon.

(00:12):

I'll begin with a bit of a preamble that the following discussion is completely qualified by the legal disclosures on the pages that follow this one. Our goal is to share with you some of the strategic thinking and financial analysis that we're using to guide the growth of our business. This discussion is in line with our principles of being accountable and transparently shareholders. We operate in a hyperdynamic economic environment. That's really a fancy way of saying things change quickly. What we're telling you here is based on our estimates and assumptions, which are our best guesses. We reserve the right to revise our point of view based on new information and changes in the business.

(00:52):

Despite an uncertain dynamic environment, we have to plan and make operating investment decisions. This presentation lays some of that out for your review. The following several pages are legal qualifiers that you should read at your own leisure. Page one, page two, page three. Before getting into the details of what we do, I wanted to be clear on a few points. This is an investor conference where capital market participants are looking for strong investment

opportunities. There are many great companies at this conference. I want to tell you specifically about ours and why it's a compelling investment opportunity at current valuations.

(01:46):

Before getting into that, I wanted to share with you some things that third parties have developed independently of us as their points of view. They view us as trading as significant discounts to many of the public mining peers that you're seeing here today. They look at us and see best in class, power costs, and a top-tier development pipeline. They also recognize the alignment of a management team and how we're incentivized to work on behalf of common shareholders.

(02:20):

As investors, things that you look at are near-term catalysts. An important catalyst for us that we can achieve for you as prospective shareholders is a rapid revenue ramp. And as you can tell, we've done it from Q1 last year through Q4 this year, this is depending on Bitcoin price, which we anticipate to hit for Q1 Q2, Q3 Q4. Last year in the second quarter, we put out an illustration of our earnings power for the rest of the year. Our performance was very much in line with that. Last January we put out a very strong informational piece to our investors, again, illustrating the earnings power of the company for the next 12 months. What you're seeing here is extremely consistent with that.

(03:15):

The next catalyst I'd like to discuss with you is growth in the near term hashrate. Our proprietary mining hashrate will grow over the second quarter by 36%. I am sincerely hoping that investors recognize that and reward that growth with an accelerated share price. Some of the details behind that. And at the end of the first quarter, we anticipate hitting an exahash in total, that's 284 PH/s as part of a joint venture we have for hosting, and the remainder about 716 PT/s hash for proprietary use. We anticipate growing that portion by another 261 PH/s over the next quarter, so we'll have approximately an exahash of proprietary mining. We're then expecting further growth in that into the third and fourth quarter driving increased revenue, profits, and share price.

(04:31):

So what makes us different from some of the firms that you're talking with or hearing from today? To crystallize that for you, I want to be clear and put it out on this one slide. Soluna is a leading curtailment solution provider to the renewable energy generation sector. We provide a solution to renewable power generators. They generate access power at certain times, we take that power and monetize it for them. The next part of the equation that also makes us

somewhat different than many of the companies you're hearing from today is we plan to use that capacity overtime for what we're calling dispatchable distributed dense computing.

(05:24):

Let me show are with you a few of our key operating principles. First is an alignment of interests, transparency, and accountability. A private equity firm I help to manage owns about 30% of the common shares of this company, which makes our alignment with the common stockholders rock solid. In addition, every month you'll get detailed operating and financial data from us on every location. It's again, by month, by location detail operating and financial data. That kind of transparency helps drive accountability to our shareholders every month.

(06:11):

Furthermore, it'll help you see what we're calling high-velocity execution. In every quarter, we disclose certain returns on invested capital metrics that'll really let you see our return on invested capital discipline and metrics in action. And I think part of what we're talking about here is a long-term strategy beyond crypto.

(06:36):

Let's talk a little bit more about what we do. We're talking to, for example, wind farm operators about the curtailed energy and how they can convert that to dollars. That problem is global, it's significant and we see ourselves as a solutions provider to the renewable energy sector where realistically over the next three years, we see most energy projects being built and specked out with some sort of curtailed energy user like compute on-prem. That type of computing that can be on-prem clearly has to be some sort of batch-oriented computing that can flip on and off with the different loads that are provided by the wind farm and the grid near the wind farm.

(07:32):

As a solutions provider, we're solving real problems for two constituencies really. One is the power plant owner that's looking to monetize the curtailed power that's being generated. And the second is really the data scientist that's saying, "I'm paying something like Amazon a great deal for batchable computing that I send them information and I get it back. The timing is not necessarily required to be always on, and the information can be returned to me within a certain window." Those two factors alone can significantly reduce cost. They're paying Amazon for an always-on kind of service that they don't need. And our data centers are specifically geared towards batchable computing, which makes them much more cost-effective for data scientists.

(08:36):

So what's the size of the market opportunity for this kind of batchable computing? We all know that digital currencies are a form of batchable computing, and the current market size of that is let's call that $10 billion. In addition, there's pharmaceutical research, graphics and video processing, scientific research that can all benefit from moving to this kind of green batchable computing that we offer that will provide them with significantly more value. Our vision quite simply is that we're developing high-performance data centers that increase the ability of renewable energy to be integrated into the grid. So right now that means we're doing zero-carbon crypto mining, and we eventually expect to migrate to a significant portion of our revenue being zero carbon batchable computing other than mining.

(09:45):

We believe that certain decisions we've made have really helped us from an operating perspective to be in a great position to maximize investor returns. First and most importantly, we've designed to develop projects that can operate at 2.50 cents or less per kilowatt-hour in terms of cost of energy. The reason that's important is that according to our analysis during the last crypto winter 2018, 2019, one would've been cash-flow positive nearly every day as a consequence of having power cost at that level. Furthermore, power cost at that level allows us to buy more flexibly from the technology market. We are not committed to having to buy the latest and greatest bleeding-edge technology. We can buy a generation back and still earn tremendous returns on invested capital without having to pay a premium for that latest bit. Also, another operating decision we made is to have data centers that are incredibly flexible that can accept almost any type of processor, which puts us in a position to optimize our mix for processors from a return on the invested capital point of view.

(11:06):

Going back to our targets for 2022, you'll see that we put out the first quarter hitting an exahash, second-quarter 1.261EH, third-quarter 2EH, fourth-quarter 3EH, first quarter next year, 4EH. We've successfully demonstrated that we expect to hit that first-quarter number based on plugs available immediately and equipment available immediately on the ground, we expect to hit that by the end of this month. Furthermore, we continue to be on track to hit the 1.261 for the second quarter. Again, that is a 36% increase in our proprietary hashrate that will drive further earnings acceleration.

(11:58):

This is an important page, I'll leave you the time to spend on it, but this is where we really lay out revenue and contribution margin scenarios, 2045, 60,000 for your review. We consider contribution margin after electrical cost and after personnel cost. There is some overhead cost that's not in that's underneath that line, and corporate costs are outside of that as well. What you will notice is that by the end of Q4 2022, we will be at 45,000 Bitcoin, approximately a 100 plus million dollar contribution margin run rate, which if you were to take out those other costs I

mentioned would leave us around $100 million quote-unquote "EBITDA number" run rate for Q4 2022. We've met our numbers last year, we expect to put our heads down, drive operations to try to meet these targets.

(13:08):

So just to give you a quick business summary and mention that we're on target at the end of March to hit the one exahash based on equipment and plugs on the ground, 36% growth in hashrate into the second quarter. Our operations are continuing to scale. We have this new site we're building out called Dorothy, which I'll get into in a little bit, that's in full swing. And our project pipeline continues to be robust as our company becomes a leading curtailment solutions provider to the renewable energy business.

(13:45):

In our earnings illustration in January, we put out a $300 million CAPEX budget. Because of current market conditions, I would tell you that number is closer to 230, maybe 250. That's really driven by crypto prices declining in, hand-in-hand equipment prices decline. We're very fortunate in that we're able to raise capital on a project basis and on a corporate basis. On a corporate basis, we've raised some debt as well as some preferred equity. And on a project basis, we've raised some equipment and project debt, as well as project equity or equity participation in certain segments of our projects. I can get into that later in the Q&A if you'd like.

(14:37):

So let's look at the facilities that we operate. Review each one, our operating metrics, and how we measure success. The facilities are Edith, Sophie, Marie, and Dorothy. Edith was our first pilot project up in Washington State. It's small, it's 2.6 megawatts, Dorothy and Maria, both fully scaled in Kentucky, and Dorothy is a hundred-megawatt facility located at a wind farm in Texas. So Edith for example is a mature facility, it's done very well for us. The hashrate is down a little bit because we are in the middle of transitioning to new equipment and we expect March and April hashrate to pick up and results to pick up accordingly.

(15:31):

I'm going to spend a moment here because this is very important. We release this graph by facility every quarter. We want you to measure us by the payback period on the capital we've invested. So in about 16 months, we achieve two times our return on capital on Edith. And we expect within 22 months, which will be sometime between the first and second quarter of this year, we hit three times our capital invested. This is how we hold ourselves accountable for putting money to work in these facilities for your benefit as shareholders.

(16:11):

Sophie's scaling up nicely and an important thing happened as of March 1. Prior to March 1, we were in a ramp-up power contract, which was a fixed price. Now we're back onto our variable price contract, which means that for 85% uptime, we're hitting costs between 2.5 and 2.70 cents per kilowatt-hour. This facility was very specifically built next to a utility substation at the request of the utility. Why? Because they're taking more renewable energy onto the grid and they need an ability to balance out the grid so they very specifically wanted our load there for specific times throughout the day and during the week.

(16:56):

You'll see our return of capital here. We expect that'll happen 21 months in, by the end of Q4 2023 or early Q1 2024. This will be continuously updated every quarter as we achieve our results. Marie is a site that was a legacy hosting site for another company, we bought it. The legacy customers rolled off a little earlier than planned, but we continue to ramp up the installation of our hashrate there and the success of this facility is part of the reason that we were able to make our hashrate number for the end of March. Again, our return on invested capital here is about 22 months in.

(17:44):

On a consolidated basis for February, for example, the Bitcoin equivalent generated per day increased by about 16%. That kind of growth we anticipate to continue as I've mentioned earlier between the first and second quarter. The other important thing that happened is the movement of Sophie to its long-term power contract. As of March 1st, it lets us operate at a lower power cost, which should drive increased margins going forward.

(18:18):

I'm not going to spend a lot of time on this page, but this is the kind of financial information you get on a consolidated basis from us as well as on by-site information from us, that'll be in the appendix of this presentation. And these are the operating metrics that you'll see. Many of these metrics were already graphed in prior pages. A little bit on project Dorothy, it has a capacity to grow to 150 megawatts. We plan to build out a hundred megawatts, which we've broken into two phases, power source directly from the wind farm and a bit from the grid to fill in when we can't pick up from the wind farm. Phase one is 50 megawatts that we broke between 1A and 1B, phase two is another 50 megawatt that we broke between 2A and 2B.

(19:07):

This is our timeline, we successfully began to break ground in February and March by preparing for construction. We expect modular data centers to be erected from March to April and energizing 25 megawatts between May and June, and the next 25 megawatts between July

and August. And the timeline for phase two is below. For Dorothy, for each 25-megawatt phase, we expect it to take up to 26 months to return all capital there.

(19:44):

We have a development pipeline that exceeds 1.2 gigawatts. You'll notice it's global because the problem that we're solving is global, and it has a variety of timing involved, but we expect to monetize our intellectual property around solving the curtailment issue for power producers. We expect to be successful with significant project finance partners at our equity and debt oriented to help us grow this pipeline out and monetize our know-how. Again, thank you for having me at this conference.

I appreciate the time you spent and look forward to answering your questions.