

Second Fiscal Quarter Financial Results Conference Call Transcript

May 7, 2021

Natasha Bentancourt, Chief of Staff

Welcome everyone. On behalf of CleanSpark, Inc., I welcome you to our Second Fiscal Quarter Financial Results Conference Call. My name is Natasha Betancourt, I am CleanSpark's Chief of Staff.

With us today with prepared remarks are CleanSpark's Chief Executive Officer, Zach Bradford, and Lori Love, our Chief Financial Officer.

Before beginning, I would like to remind everyone that with the exception of historical information, the matters discussed in this presentation are forward-looking statements that involve a number of risks and uncertainties. The actual results of the company could differ significantly from those statements. Factors that can cause or contribute to such differences include, but are not limited to, continued demand for the company's products, competitive factors, the company's ability to achieve future growth, the company's ability to produce and market new products in a timely fashion, the company's ability to continue to attract and retain skilled personnel and the company's ability to sustain or improve the current levels of productivity. These forward-looking statements are subject to risk and uncertainties, and actual results may differ materially. When used in this call, the words anticipate, could, estimate, intend, expect, believe, potential, will, should, project, and similar expressions as they relate to CleanSpark, Inc., are as such a forward-looking statement.

Investors are cautioned that all forward-looking statements involve risk and uncertainties that may cause actual results to differ from those anticipated by CleanSpark, Inc. at this time.

Further information on the company's risk factors is contained in the company's quarterly and annual reports and filed with the Securities and Exchange Commission.

Finally, please note that on today's call, management will refer to non-GAAP financial measures in which CleanSpark excludes certain expenses from its GAAP financial results. Please refer to CleanSpark's press release from May 6, 2021 for a full reconciliation of its non-GAAP performance measures to the most comparable GAAP financial measures.

On May 6, 2021, the company filed its Form 10-Q, which is available on SEC.gov and the company's website. We also issued a press release announcing our financial results. Participants on this call who may not have already done so may wish to look at the press release, as the company provides a summary of the results on this call.

The press release may be found at <https://www.cleanspark.com/investor-relations/news-releases/>.

Following the prepared remarks, we will open up for a short Q&A. Please feel free to enter your questions under the "Ask a Question" section at the bottom of your screen.

With that said, I would like to turn the call over to our CEO, Zach Bradford.

Zach Bradford, CEO

Thank you very much. Good afternoon everyone and thank you for joining our call. As Natasha noted, I am joined today by Lori Love, our Chief Financial Officer. I will begin with our 2021 second fiscal quarter highlights and business development activities, and then I will let Lori run through our financial results before a brief Q&A.

This was another record-breaking quarter for CleanSpark, including a significant milestone achievement of the Company's reaching its first profitable quarter. Achieving profitability has been our guiding principle since we began to build the company. We were pleased to continue our trend of more than doubling revenues over the comparable reporting periods of the prior year. The addition of Bitcoin mining has dramatically enhanced our business and revenue growth. We also believe that we are the only publicly traded cryptocurrency mining company in the United States that mines 95% carbon neutral. Not only are we approaching carbon neutral, we are doing so at some of the lowest energy costs for Bitcoin mining in the nation. I will speak further about our environmental goals later in the call.

Revenues in our Bitcoin mining and Energy segments continue to show very strong growth trends. Achieving profitability for both the quarter and the fiscal year to date gives us even more confidence in our long-term business strategy. This growth necessitates an increase in guidance, which Lori will speak to later in this presentation.

I first want to comment on our Energy Segment:

The Energy segment of our business is strong, and we are seeing a rapid increase in sales. The energy industry as a whole is still encountering some global supply chain constraints surrounding battery energy storage, which has temporarily impacted the timing of certain deployments. Fortunately, the flexibility of our technology as a vendor and hardware agnostic solution has enhanced our ability to manage these constraints, enabling us to work with multiple energy storage suppliers. We expect global supply chains to normalize near the end of 2021, but to avoid further interruption of deployments we have taken steps to secure a large supply of energy storage products for the balance of this year, and we expect that we will be able to meet all future demand for products through the remainder of the global shortage. The ability to secure this supply was supported by the funding the company secured in March 2021.

The total revenues in this segment were \$1.1 million for the quarter and \$2.3 million for the six-month period. We now have a contracted backlog of executed contracts to deliver over \$24.5 million in energy solutions, and with battery supplies now in position, we expect our total energy revenues to increase significantly, and we anticipate delivering on approximately \$14 to \$18 million of these contracts over the next two quarters. We further expect our fiscal quarter ended December 2021 to be the strongest quarter our energy business has ever experienced.

We are seeing the strongest growth in the residential sector, which accounted for approximately 40% of the total energy business revenues last quarter. We expect our residential energy revenues to increase to 60% to 70% of total revenues over the next two quarters. The growth over the next two quarters is expected to be largely connected to our mVault product line. mVault products are being released to customers in southern California in this summer, and we expect to further expand that roll-out by late summer 2021.

We expect to see demand from commercial and industrial clients continue to increase as the U.S. begins to normalize business activities post-pandemic. We are currently executing on several commercial projects scheduled to be complete this year, and expect to close on several more that would be completed in fiscal 2022.

Now on to our Bitcoin Mining Segment:

The results we have achieved have exceeded all initial expectations and we are extremely bullish about our future. We believe that blockchain technologies are important for the future of our society, and we are proud to support the blockchain and the system of trust it facilitates.

Our current production capacity now exceeds 330 PH/s, and we expect to achieve 400 PH/s in production capacity within the coming month as our May shipments arrive and are installed.

We have the latest generation Bitmain S19 and S19 pro Antminer mining rigs schedule to arrive as follows:

- 4,587 units in June 2021,
- 150 units in July 2021,
- 1,750 units in August 2021, and
- 1,600 in September 2021.

In fiscal 2022, we expect to receive 1,890 units per month through July 2022, and 290 units per month August through October 2022. These deliveries are expected to increase our hash rate upon installation to over 1.2 EH/s by September 2021, and to over 3.2 EH/s in 2022.

In addition to the S19's, we expect to receive 1,000 Avalon 1246 rigs in June 2021.

To put this in perspective, at current difficulty rates, 1.2 EH/s would result in 7-9 Bitcoins per day, which, at a Bitcoin price of \$57,000 (the price at the time this presentation was prepared), would result in \$400,000 to \$510,000 per day or \$145 million to \$185 million in annualized revenue.

Further, at current difficulty rates, 3.2 EH/s would result in 18-20 Bitcoins per day, which, at a Bitcoin price of \$57,000, would result in \$1.02 million to \$1.14 million per day or \$370 to \$415 million in annualized revenue.

We continue to work on expanding the company's total energy capacity at our facilities to increase our Bitcoin mining capacity. We expect to have the power capacity increase completed this summer, and anticipate bringing additional mining equipment online in parallel with the available power. We have further increased our commitment to mining with the lowest carbon footprint possible. Again, today we believe that we are the only public company in the United States that is mining using 95% carbon free energy. Our goal is also to mine Bitcoin at the lowest energy cost nationwide. We intend to prove that Bitcoin mining can be done sustainably, responsibly, and at a substantial profit.

Our first on-site microgrid project at our Atlanta facilities is also expected to be completed later this year. We plan to install a microgrid that will provide resilient backup power to our network switches. The microgrid will keep the systems live during power "blips," which are caused when the local utility or substation has momentary outages. These outages, often just a second or two, can cause significant disruptions if the network switches drop power. Even a momentary outage can cause mining rigs to lose their connection with the mining pool, and the resulting reboot and reconnecting may take more than an hour for some rigs. For large operators, these outages can be very costly and the microgrid solution may pay for itself within the first few utility outages.

Overall, we believe that our combined Energy and Bitcoin strategy will continue to result in increasing profitability as we focus on increasing our Energy solutions and Bitcoin mining activities.

Overall, this was certainly an excellent quarter and I want to mention a few additional operational highlights before I turn it over to Lori.

- In March 2021, the Company closed an underwritten public offering and received gross proceeds of \$200 million, before deducting underwriting expenses and fees. This funding has been a catalyst to create significant growth. We have deployed a large portion of the capital to expand our Bitcoin mining operations, the purchase of mining rigs, to support our expanded sales and marketing initiatives, along with securing much critical supply chains for energy products.
- We have also seen rapid growth in our Electric Vehicle (EV) charging initiative, and we now have 11 companies that are using our OpenADR software solutions to aid in load management and grid services for EV charging stations.
- Our team has now grown to 74 employees as of today.
- Finally, as mentioned, we stepped-up our marketing and brand activities significantly during 2021. We have added exceptional marketing and sales talent and expanded our efforts across all platforms. These investments and business development activities are key to what we believe will be a record year, and will continue to be important assets in the future as our business expands.

We continue to believe that the long-term winners in this industry will be the high quality and respected leaders, such as CleanSpark. We will continue leading the way for the industry as we create long-term value for our shareholders.

All of us at CleanSpark pride ourselves in our ability to solve modern energy challenges. We have a recognized and respected brand; we have a flexible and cutting-edge product line, capable of delivering sustainable and intelligent solutions to the market; and we have a highly profitable Bitcoin mining facility that is 95% carbon neutral.

These advantages position CleanSpark extremely well for the future.

Now let me turn it over to our CFO, Lori Love, to run through our financials.

Lori Love, CFO

Thank you, Zach, and good morning everyone.

Let me make a few brief comments specific to our operating segments and growth. For the quarter ended March 31, 2021, our revenue was derived from three business segments that I will discuss individually.

The first segment I want to discuss is our Energy segment, which provides software, including our recently launched mVoult residential solutions switchgear equipment, and services. For further detail on all our product offerings in this segment, I encourage you to review the MD&A section of our recently filed 10-Q or visit our website. This segment produced \$2.3 million in revenue for the six months ended March 31, 2021 compared to \$4.4 million for the six months ended March 31, 2020. This decrease is attributable to the reduction of commercial projects, which we attribute to the pandemic. For the three months ended March 31, 2021, our revenues from this segment were \$1.1 million compared to \$3.4 million in 2020 for the same period. As discussed earlier, the reason for the decrease was our commercial line of business. We expect commercial projects in our backlog that were delayed to largely resume in the coming quarter.

The company's wholly owned subsidiary p2klabs is our Digital Agency segment. They provide design, software development, and other technology-based consulting services, along with internal design and marketing services to all CleanSpark Companies. Revenues associated with this segment for the six months ended March 31, 2021 were \$800,000 compared to \$300,000 for the six months ended March 31, 2020. For the three months ended March 31, 2021, revenue was \$426,000 compared to \$296,000 for March 31, 2020. We

expect to see only moderate growth in this segment, as we continue to focus on the utilization of the resources of p2k internally.

Finally, our Digital Currency Mining segment produced \$7.4 million in revenue, which made up 72% of our total revenue for the six-month period. For the three months ended March 31, 2021, our mining revenue was \$6.7 million, which was 82% of our revenue for the quarter. Due to this being a new segment for CleanSpark, there are no comparable revenues for the previous three and six months ended March 31, 2020.

Wholistically, the company achieved \$10.4 million in consolidated revenue for the six months ended March 31, 2021, which exceeds our entire fiscal year ended September 30, 2020. Comparatively, the company more than doubled its year to date revenue for the same period last year, and we expect that trend to continue as CleanSpark begins to deliver on its significant contracted backlog in the Energy segment of our business and further deployment of its mining capabilities.

Our cost of revenues and associated margins dramatically improved as we continue to focus our efforts on high margin revenue streams. The results of such efforts are evident, with nearly a \$1 million reduction in our cost of revenues while increasing revenue by more than double for the six months ended March 31, 2021 compared to March 31, 2020. For the three months ended March 31, 2021, our costs of revenues were \$1.5 million compared to \$2.9 million, representing a \$1.4 million dollar decrease.

We experienced an increase in professional fees of \$1.6 million for the six months ended March 31, 2021 compared to March 31, 2020. For the three months ended March 31, 2021, our legal fees increased by approximately \$1.4 million compared to March 31, 2020. The increase in the three and six month periods ending March 31, 2021 is mostly attributable to legal fees. We expect these fees to decrease in the coming quarter as we resolve certain pending legal matters.

Our payroll expenses increased by \$4.8 million for the six months ended March 31, 2021 compared to March 31, 2020, and increased by \$2.3 million for the three months ended March 31, 2021 compared to March 31, 2020. This is due to the significant increase in employees and associated costs and an increase in stock-based compensation. Our employee head count now stands at 74 spanning all entities.

Additionally, for the six months ended March 31, 2021, the organization reported \$8.9 million in other income, primarily driven by the unrealized gains on securities of \$7.6 million. Also included in this figure is gains on sales of Bitcoin of \$635,000. For the three months ended March 31, 2021, other income was \$9.9 million, with the bulk of that made up of unrealized gains on securities of \$8.7 million and realized gain on sale of Bitcoin of \$585,000.

For the first time in the company's history, CleanSpark reported net income for not only the quarter, but also for the year to date. We posted year to date net income of \$232,000, compared to a net loss of \$7.7 million, which represents an improvement of nearly \$8 million. For the three months ended March 31, 2021, we posted net income of \$7.4 million, compared to a net loss of \$5.8 million for the three months ended March 31, 2020, which is an improvement of nearly \$13 million.

For the quarter ended March 31, 2021, we reported earnings per basic share of \$0.28 cents from a loss per share of \$1.13 just one short year ago.

Our balance sheet has continued to become stronger and stronger, with cash in excess of \$157 million and working capital of over \$171 million. The company has limited debt, with only \$8.9 million in total liabilities and net assets of \$283 million.

We also have \$856,000 in inventory that will be installed and converted to revenue in the current quarter, along with deposits of \$45.5 million for mining equipment. Since April 1st, the company has received and deployed 900 S19 Pros with more deliveries expected in the coming weeks.

For further context on my commentary today on our reported numbers, please feel free to refer to our form 10-Q.

I now want to speak to our financial outlook and expectations:

As a result of our strong trends, we are updating and increasing our revenue expectations for the 2021 fiscal year.

We continue to expect our Energy business to achieve \$16 million to \$20 million in revenues in fiscal 2021, and our Digital Agency business is expected to achieve \$1 million in fiscal 2021. We expect to achieve between \$30 million and \$40 million in Bitcoin mining revenues this year, which is an increase in expectations of \$20 million to \$30 million overall since our most recent guidance. As a result, we expect to achieve between \$47 million to \$67 million in combined revenues in fiscal 2021.

We intend to remain as conservative in our projections as possible, while still providing quality data points to our shareholders. Bitcoin is extremely volatile, and as a result it is difficult to forecast future performance. These future forecasts are based off of an average Bitcoin price of \$50,000, and fluctuations from that point will affect the final revenues actually recognized by the company. We have included the potential for shipment delays in mining equipment in our forecast, If there are no delays, our results could be significantly better, and if delays do occur and are longer than anticipated, it could negatively affect our forecasts.

Our backlog for the non-Bitcoin segments remains strong at approximately \$24.5 million as of the date of this call, an increase of \$18 million from \$6.5 million as of December 2020. This increase is directly attributable to our newly expanded sales team and our focus to aggressively increase our sales in all of our energy offerings. We also believe our increase in contracted backlog demonstrates the pent-up demand for resilient, distributed energy solutions as the pandemic begins to improve and also as the new administration has executed on their green initiatives.

We also intend to continue with a strategy of holding the Bitcoin we mine, as we believe that Bitcoin will continue to increase in value over time. As a result, we are pursuing methods to generate yield from the Bitcoins we hold on our balance sheet.

Let me conclude by reiterating Zach's confidence in our long-term business outlook. We have continued to execute through a pandemic, while navigating supply chain constraints and yet, quarter over quarter, we are delivering record breaking results.

With that I would like to turn the call over to the Natasha, who will be moderating the Q&A.

Natasha Bentancourt, Chief of Staff

Thank you, Lori, I would like to initially open up questions for our analyst and then Q&A for our audience.

[Q&A session discussions can be accessed by playing the recording found on the company's website at <https://www.cleanspark.com/investor-relations/news-releases/>]

I now want to turn it over to our Zach for closing remarks.

Zach Bradford, CEO

To close, let me reiterate our focus on profitability and growth, while being disruptive to both the Energy and Bitcoin industries as we seek-out best in class solutions. As the microgrid and distributed energy

industry further develops, we expect there to be significant industry-wide growth post-pandemic, and the quality market participants and trusted companies such as CleanSpark will be positioned to lead this wave of growth.

We also want to again express our commitment to our ESG strategy of responsible profits in cryptocurrency mining.

We remain confident with our long-term growth strategy as we continue to focus on building the business to capitalize on our opportunities while being good corporate citizens.

We remain deeply grateful for the continued support of all stakeholders of CleanSpark, most importantly, the shareholders who have entrusted the company with their investment dollars. On behalf of our entire organization, thank you again for joining us today. Have a great day.

Natasha Bentancourt, Chief of Staff

Before we end today's earnings call, I would like to remind everyone that this call will be available for a replay later today. Please refer to today's press release for dial-in and replay instructions available via the Company's website at <https://www.cleanspark.com/investor-relations>.

Thank you for joining us today. This concludes our earnings call. You may now disconnect.