

Third Fiscal Quarter Financial Results Conference Call Transcript

August 16, 2021

Rachel Silverstein, VP of Compliance

Welcome everyone. On behalf of CleanSpark Inc., I welcome you to our Third Fiscal Quarter Financial Results Conference Call.

My name is Rachel Silverstein, I am CleanSpark's VP of Compliance and General Counsel.

With us today with prepared remarks are CleanSpark's Chief Executive Officer, Zach Bradford & 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 as defined within federal securities laws. Investors are cautioned that these forward-looking statements involve a number of risks and uncertainties. The actual results of the company could differ materially 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, regulatory developments, changes in bitcoin difficulty rates, the company's ability to achieve future growth, the company's ability to produce and market new products in a timely fashion, uncertainty surrounding the pandemic, 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. Forward-looking statements may include words such as anticipate, could, estimate, intend, expect, believe, potential, will, should, project, and similar expressions.

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.

Today, August 16, 2021, the company will file its form 10-Q which will be available on SEC.gov and the Company's website. A press release announcing our financial results will also be issued. Participants on this call may wish to look at the press release as the company will include a summary of the results discussed on this call.

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 which will contain this information for a full reconciliation of its non-GAAP performance measures to the most comparable GAAP financial measures.

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

Following the prepared remarks, we will open up for a short Q&A for the analyst community.

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 Rachel noted, I am joined today by Lori Love, our Chief Financial Officer.

This was another quarter of strong growth for CleanSpark. This rapid growth means CleanSpark more than doubled its comparable year-over-year revenues. At the conclusion of the nine months ending June 30, we realized \$22.3 million in revenue, representing a 176% revenue growth when compared to the \$8.1 million in revenue we realized for the comparable nine-month period one year ago. For the three months ending June 30, we realized \$11.9 million in revenue, representing a 250% revenue growth when compared to the same period three months ago.

Our growth was not without challenges. The Company has continued to navigate the volatility of Bitcoin, successfully procured for immediate and future delivery over 30,000 next generation mining rigs, managed supply chain constraints, resolved a legal dispute, aggressively expanded our sales and marketing efforts, and increased our labor force for energy products while increasing our quarterly energy revenue 61% from the prior quarter.

Rapid growth is not free, and our efforts ultimately resulted in a loss for the quarter. It is important to note that many of these expenses, but not all, were related to non-cash items or were considered one-time non-recurring expenses. Lori will speak to these specifics during her section of the presentation.

Achieving long-term profitability is our guiding principle as we continue our trend of rapid revenue growth. We are now halfway through our fourth fiscal quarter and the efforts we have taken over the prior three quarters have placed the Company in a very strong position as we move into our next fiscal year. We believe these efforts will translate into a bright future and increase stockholder value.

We now expect to more than double our current hashrate before the end of 2021 and more than quadruple our current hashrate in 2022. Our energy business continues to build momentum with positive regulatory tailwinds and incentives in place for green energy, along with our backlog of executed contracts of over \$20 million. The combined efforts of our Bitcoin mining and Energy businesses are expected to contribute to record growth through the balance of 2021 and 2022.

I will turn it over to Lori to review the third fiscal quarter financial results. After Lori, I will cover business developments and other current developments. Then Lori will run through our earnings expectations before a brief Q&A and closing remarks.

Lori Love, CFO

Thank you, Zach, and good afternoon, everyone.

I would first like to discuss our balance sheet and operating capital as it is our assets that will drive the future of our business.

All the numbers I reference related to our balance sheet will be as of June 30, 2021. All the numbers I reference related to our statement of operations will be for the three- and nine-month periods ended June 30, 2021 and June 30, 2020.

Our Balance Sheet continued to strengthen with working capital of over \$36.2 million. The company has limited liabilities with only \$15.7 million in total liabilities and net assets of \$281.8 million.

We have grown the net assets on our balance sheet by a factor of over 17x since the start of this fiscal year. We are pleased with the strength of our Balance sheet and the strong foundation it has created for growth.

I also want to highlight a few specific assets that will drive our continued growth.

We had cash of \$22.2 million and over \$4 million in inventory, the majority of that inventory we expect to install and convert to revenue over the fourth quarter.

We also had \$62.4 million in mining equipment, the majority of which was fully installed and hashing as of June 30. In addition to the miners that we had on hand, we also fully paid deposits of \$125.8 million for mining equipment scheduled to be delivered after June 30.

The mining equipment ordered will drive a substantial amount of revenue for the Company over the coming years. A significant portion of the equipment arrived and was installed in August, which will increase our revenues in the current quarter.

I will now turn to the results of our operations and related growth. I will first discuss our revenues.

For the quarter ended, our total revenue is derived from three reportable lines of revenue, which I will discuss individually.

These reportable lines of revenues are Digital Currency Mining, Energy Products and Services and Other revenue activities, which includes all other revenue generating activities that fall outside of our two core lines of business. For further details on all our lines of revenues, I encourage you to review our 10Q.

Our Digital Currency Mining activities produced \$16.1 million in revenue which made up 72% of our total revenue for the nine-month period. For the three-month period, these activities produced \$8.6 million in revenue or 73% of our total revenue.

Our Digital Currency Mining revenues increased by \$1.9 million or 22% from the previous quarter ended March 31.

This quarter-over-quarter increase was driven by the deployment of additional miners and, because of these efforts, increased bitcoin received. We expect rapid growth in this segment.

There are no comparable revenues for the previous three and nine-month periods ended June 2020 due to this being a new line of business this year.

Overall, we are pleased with these results, and our growth in the sector. The growth from last quarter, although significant, represents only a fraction of the growth in our future and we are very excited about what the future holds. At the end of the quarter we were required to measure our Bitcoin assets for impairment, which I will discuss shortly, but it should be noted that the price has since recovered and now exceeds the average value of the Bitcoin we held at quarter end, against which that impairment was measured. I also want to mention that we continued with our strategy of holding bitcoin. We only sold 1.25 Bitcoin last quarter at prices above \$60,000.

Our Energy Business activities produced \$5.0 million year to date revenue which made up 22% of our total revenue. For the three-month period, these activities produced \$2.9 million in revenue or 24% of our total revenue.

Our Energy revenues increased by \$1.8 million or 61% from the previous quarter ended March 31.

This quarter-over-quarter growth came primarily from revenues associated with the residential energy business.

We have also experienced strong growth in our OpenADR software solutions which aid in load management and grid services. The Electric Vehicle sector is leading this growth as we now have 15 customers. Due to our strong backlog of executed contracts and inventory improvements, we expect our total energy revenues to increase significantly over the next 12 months.

I will now briefly cover our other revenues.

Our Other Business activities produced \$400,000 and \$1.2 million for the three and nine months ended.

Overall, we do not expect our other business activities to play a significant role in our revenue growth for the company.

Wholistically, the company achieved \$22.3 million in consolidated revenue for the nine months ended June 30.

For the comparative year-over-year three- and nine-month period we saw revenue growth of 250% and 176% respectively.

It is also worth mentioning that our nine-month revenue was more than double the \$10 million in revenues we reported for our entire fiscal year ended September 30, 2020. Doubling annual revenues in 9 months is a noteworthy achievement.

We expect that our trend of significant growth will continue as CleanSpark deploys and expands its mining capabilities and delivers on its contracted backlog in the energy segment.

I will now discuss our costs and expenses.

Our direct costs of revenues *excluding* depreciation and amortization was \$6.7 million. Our cost of revenues and associated margins continue to improve as we focus our efforts on high margin revenue streams. The results of such efforts are evident with only a \$119,000 increase in costs of revenues while increasing revenue by more than 2 ½ times for the nine months ended compared to the same period. For the three months ended, our costs of revenues were \$3.8 million compared to \$2.8 million for the prior year, representing a \$1 million dollar increase in costs with a corresponding revenue increase of nearly 3 ½ times.

We experienced an increase in professional fees of \$3 million for the nine months ended compared to 2020. For the three months ended, our legal fees increased by approximately \$1.3 million compared to 2020. The increase in the three- and nine-month periods is mostly attributable to legal fees. In June we resolved the case related to much of these fees, so we expect these fees to decrease dramatically in the coming quarter.

Our payroll expenses increased by \$15.7 million for the nine months ended compared to 2020 and increased by \$10.8 million for the three months ended compared to 2020. This is largely due to costs incurred for employee bonuses and stock-based compensation that are largely considered nonrecurring events. In addition, the Company continues to add talent to support our tremendous growth. Our employee head count now stands at 74 spanning all entities.

CleanSpark, like all companies holding substantial amounts of digital currency, is required to measure impairment to the value of Bitcoin pursuant to US accounting rules. As a result of the decreased value of Bitcoin at the end of the quarter, we incurred losses on the impairment of Bitcoin of \$3.7 million. As I previously stated, Bitcoin price has increased significantly since the end of last quarter.

Additionally, for the nine months ended, the organization reported \$6.8 million in other income primarily driven by the unrealized gains on securities of \$5.3 million. Also included in this figure is gains on sales of Bitcoin of \$672,000. For the three months ended, other expenses were \$2 million with the bulk of that made up of unrealized losses on securities of \$2.2 million. These unrealized losses do not represent actual sales of investments; rather, they represent market price fluctuations that are measured at the conclusion of each reporting period.

Overall, CleanSpark reported a net loss of \$16.4 million for the nine months ended compared to \$16.3 million for the nine months ended 2020. The Company reported a net loss of \$16.7 million for the 3 months ended compared to \$8.6 million for the same period ending 2020. For the quarter ended 2021, we reported loss per basic share of \$0.60 cents from a loss per share of \$2.32. This represents an improvement of \$1.72 per share.

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

I will now turn it back over to Zach.

Zach Bradford, CEO

Thank you, Lori I first want to comment on the growth of our Bitcoin Mining Segment:

We experienced the strongest growth in this segment.

This growth is guided by our ESG principles as we strive towards our goal of reaching 100% net carbon neutrality. As we bring additional power online our energy mix will periodically change. As of now, the current energy mix we use for Bitcoin mining across all facilities is approximately 90% carbon free. In addition to adding onsite renewables, we plan to begin purchasing additional renewable energy credits next quarter to offset 100% of the carbon-based power sources utilized by the company. We believe that blockchain technologies are important for the future of our society and we are proud to support these technologies and the system of trust we believe they facilitate. We have continued to achieve strong results and we are bullish about our Bitcoin mining future.

We increased our production capacity substantially throughout the quarter, resulting in 191 Bitcoin, an increase of 47, or 32.2%, from the prior quarter. Bitcoin prices continue to be volatile with year-to-date highs exceeding \$64,000 and lows approaching \$28,000. Daily prices impact our reported revenues as the revenue value for any given day is based on the daily Bitcoin price on the day the Bitcoin is received. Although we saw prices decrease near the end of June, the average revenue we recognized per bitcoin mined during the quarter increased to \$45,341, a 2.6% increase over the prior quarter. We monitor volatility closely, and although we may choose to sell Bitcoin from time to time based on market conditions, we currently plan to continue holding bitcoin. We believe that holding Bitcoin will result in long-term value appreciation.

When this presentation was prepared Bitcoin was at \$47,000 per coin. All USD amounts I refer to will be based on this price. As of the 14th of August, we held 525 Bitcoin with a fair value of approximately \$24.7 million.

Our current hashrate capacity now exceeds 820 PH/s, which is nearly double our capacity just 46 days ago. We anticipate achieving 1.0 EH/s in production capacity within the coming month when the balance of the mining rigs scheduled to be hashing in August are installed. That's 1 quintillion hashes per second.

To put this in perspective, we produced just over 3 BTC on June 30. We are now capable of producing between 6 and 7 Bitcoin per day. At current difficulty rates, 1.0 EH/s would result in approximately 8-9 bitcoins per day, which would result in \$376,000 to \$423,000 per day or \$137 million to \$154 million in annualized revenue.

We have over 22,000 of the latest generation Bitmain S19 and S19 pro mining rigs scheduled to arrive and be installed over the next 12 to 14 months, and we expect to place additional orders in the near future to continue growing our mining fleet beyond what we have currently ordered. As a result of these pre-orders, our hashrate is expected to increase as shown on the following slide:

For perspective, at current difficulty rates, if we had the 3.4 EH/s of capacity in place today it would result in 26 to 28 bitcoins per day. Which in turn would result in \$1.2 to \$1.3 million per day, or \$446 to \$480 million in annualized revenue.

We continue to work on expanding the Company's total energy capacity to accelerate the growth of our bitcoin mining operations in Atlanta this fall. The expansion will bring this site's total capacity to 50 MW. In addition to this expansion, our partnership with Coinmint has allowed us to continue our growth while construction is ongoing. All the new mining rigs received this summer were promptly deployed with Coinmint. This partnership has increased the total available power for mining by approximately 25 MW.

We are also excited about our recently announced purchase of an additional data center. The data center is located on over 7 acres in Norcross, Georgia. It will provide 20 MW of additional power for CleanSpark's mining business, with the opportunity for additional mining power expansion in the future. The Company expects to complete the installation of the mining infrastructure and miners later this year. We expect this facility will hold over 6,000 S19s, capable of producing over 650 PH/s upon installation.

The new facility's mining operations are expected to operate at 100% net carbon-neutral. This will be achieved through our participation in Georgia's Simple Solar program. The program will allow CleanSpark to offset any carbon-based energy included in the regional energy mix with solar power. The Company also anticipates adding onsite solar, energy storage and other renewables which will be managed by the Company's mPulse controls platform. We are following through on our commitment to mine with the lowest carbon footprint possible.

This new facility, along with our other initiatives, is expected to help us achieve our goal of 2.0 EH/s this year.

We intend to continue to prove that Bitcoin mining can be done sustainably, responsibly and at a substantial profit. We also have plans to unveil additional details surrounding our complete ESG strategy later this year.

Now on to our Energy Segment:

We continue to see strong growth trends in the energy business. We executed over \$6.0 million in additional energy-related contracts last quarter and increased our quarter-over-quarter revenues by 61%. This strong sales growth has resulted in a very robust backlog that we expect to result in positive revenue growth over the next several quarters. With that backlog comes additional operational and logistical challenges. Although we are seeing strong sales growth, as we discussed during our last earnings call, the energy industry as a whole is still encountering certain global supply chain constraints. Battery supply was a key factor for us to navigate this past quarter. Fortunately, we believe we have significantly shored up our supply chain and a large number of batteries were received into inventory in June and July. We are also

seeing positive improvements to the overall global supply chains and expect continued normalization through the balance of 2021.

We didn't see the full benefits of increased inventory until near the end of last quarter. Accordingly, we expect to realize those benefits as we close out this fiscal year, further strengthening our position for the next. The Company's strong balance sheet and access to capital supported our ability to secure this much needed inventory.

With growing sales and a strong contracted backlog, are allowing us to now turn our attention to refining our operations and increasing our installation and implementation capabilities. The refinement of these activities are critical for moving the energy segment into profitability in the coming quarters. With inventory secured, we can now increase the number of projects completed each quarter.

We have more work to do to reach our long-term goals, but we are very encouraged by the results we are already seeing. We have increased the headcount of our project implementation team and continue to recruit to fill additional positions. For perspective, these improvements led to the completion of over three times the number of residential battery installations during the month of July compared to the entire prior quarter. We expect the rate of deployments for all our energy products to continue to increase through the current quarter and into next year.

Our strongest growth is in the residential sector, which accounted for approximately 54% of the total energy business revenues last quarter. We expect our residential energy revenues to continue to grow and eventually exceed 70% of total energy revenues over the next several quarters as we roll out new solutions.

I am excited to announce that our mVault product line is now available in California and the associated application can be found in both the Apple and Android app stores. The mVault product line is built on the backbone of our mPulse controls platform and empowers a homeowner to integrate a microgrid at their home and view its performance through our application-based user interface. The system operates autonomously, without any required input from the homeowner. A homeowner is also provided certain controls to manage aspects of their system, such as increasing the reserve level on their batteries to prepare for fire outages or other events—this is part of our commitment to helping people solve modern energy and environmental challenges.

Lastly, although we experienced our share of challenges, it was an excellent quarter with strong revenue growth. We believe that our combined Bitcoin and Energy strategy will result in profitability as we focus on rapidly scaling both businesses. We expect the next six months to be a transformational period for the company.

Now let me turn it over to Lori to run through our outlook for the balance of 2021.

Lori Love, CFO

Thanks Zach, I now want to speak to our financial outlook and expectations:

As a result of industry trends, volatility in Bitcoin and other market impacts and constraints, we are updating our revenue expectations for the 2021 fiscal year.

We now expect to achieve between \$38 and \$48 million in Bitcoin mining revenues this year, which is an increase in expectations of approximately \$8.0 million overall since our most recent guidance.

We are installing projects under our energy business as quickly as possible, but we believe it is prudent to reduce our overall revenue expectations for our Energy business to between \$9 and \$12 million dollars in fiscal 2021. We are taking steps to increase this further, but we conservatively estimate that a portion of our backlog will not be installed until the first quarter of our next fiscal year. We also expect our other revenues to contribute \$2 million in fiscal 2021.

As a result, we expect to achieve between \$49 and \$62 million in combined revenues in fiscal 2021. This is a net increase in baseline revenue expectations of approximately \$3 million.

We intend to remain as conservative in our projections as possible, while still providing quality data points to our shareholders. As noted earlier, there are certain risks surrounding our projections, I will mention a few but investors should also review our risk disclosures in our filings.

Bitcoin is extremely volatile and, as a result, it is difficult to forecast future performance. These future forecasts are currently based off an average bitcoin price of \$47,000 and fluctuations from that point will affect the final numbers actually recognized by the Company. We have included the potential for limited shipment delays in mining equipment in our forecast. If such delays occur and are longer than anticipated, it could negatively affect our forecasts.

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, resulting in increased value to our shareholders.

We expect to see demand from residential, commercial, and industrial clients to continue to increase as the U.S. continues the process of normalizing business activities post-pandemic.

Our backlog for the non-Bitcoin segments remains strong at approximately \$24.2 million as of the date of this call. We believe our contracted backlog demonstrates the pent-up demand for resilient, distributed energy solutions as the pandemic begins to improve.

As stated in our last earnings call, we continue to expect our fiscal quarter ended December 2021 to be the strongest quarter our Company has ever experienced.

Let me conclude by reiterating Zach's confidence in our long-term business outlook. We continue to expect to generate strong revenue growth through the end of 2021 and we believe that the next 6 months will be transformational.

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

Rachel Silverstein, VP of Compliance

Thank you, Lori, we have received several questions from the analyst community that we will address prior to closing.

Q&As

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

Zach Bradford, CEO

To close, let me reiterate our focus on profitability and growth. We are working to transform the Energy and Bitcoin industries by developing and implementing best in class solutions. The microgrid and distributed energy industry continues to develop. We expect there will be significant industry-wide growth as the world adjusts to the pandemic and the realities of a changing climate. Quality market participants and trusted companies like CleanSpark are positioned to lead this wave of growth.

I also want to emphasize our belief that the long-term winners in this industry will be the high quality and respected leaders like CleanSpark.

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 cutting-edge product line. We have a highly profitable Bitcoin mining business with a goal of reaching 100% carbon neutral mining.

We are committed to our ESG strategy of responsible profits in cryptocurrency mining. And we are confident in our long-term growth strategy as we maintain our focus on building the business to take advantage of opportunities while being good corporate citizens.

CleanSpark is well positioned for the future. Lastly, we are deeply grateful for the continued support of all our stakeholders. Most importantly, the shareholders who have entrusted CleanSpark with their investment dollars.

On behalf of our entire organization, thank you again for joining us. Have a great day.

Rachel Silverstein, VP of Compliance

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.