

CleanSpark, Inc.

Q4 2021 Results - Earnings Call

December 14, 2021, 5: 00 PM Eastern

CORPORATE PARTICIPANTS

Rachel Silverstein - *VP Compliance and General Counsel*

Zach Bradford - *CEO*

Matt Schultz - *Executive Chairman*

PRESENTATION

Operator

Good afternoon and welcome to the CleanSpark Year-End and Q4 Earnings Call.

All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key, followed by zero. After today's presentation there will be an opportunity to ask questions.

If you are at your computer, please use the "Submit" question box in your webcast viewer. Please note this event is being recorded.

I would now like to turn the conference over to Rachel Silverstein, VP of Compliance and General Counsel. Please go ahead.

Rachel Silverstein

Welcome, everyone. On behalf CleanSpark, Inc., I welcome you to our fourth fiscal quarter and year-end 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 and Matt Schultz, our Executive Chairman.

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 by federal securities laws. Investors are cautioned that these forward-looking statements involve a number of risks and uncertainties.

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 filed with the Securities and Exchange Commission.

Today, December 14, 2021, the company will be filing its Form 10-K, which will be available on SEC.gov and the company's website, shortly. A press release announcing our financial results is also being issued. Participants on this call may wish to review the press release, as the company included 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 and 10-K which contain a full discussion of this information and a reconciliation of its non-GAAP performance measures to the most comparable GAAP financial measures. The press release will also be available on our website. Following the prepared remarks, we will open for a short Q&A for the analyst community.

With that said, I would like to turn the call over to our Executive Chairman, Matt Schultz.

Matt Schultz

Thank you very much, Rachel. Good afternoon, everyone, and thank you for joining our call.

I want to start off the call by thanking my colleagues for all the work they've done to round out a terrific year of growth. We're in the middle of the holiday season, and our teams have worked, tirelessly, to prepare for today's call. What a way to end the year and what a year it's been.

I'll now turn it over to Zach Bradford, CleanSpark's CEO, to discuss our results in detail.

Zach Bradford

Hey, thanks, Matt. And I want to echo your words. Our team has put in a lot of work, and I'm thankful for their commitment.

I'm going to provide a summary of our results in more detail later in the call, but I want to take a quick moment to discuss some of our significant fourth quarter and year-end highlights.

Our revenue grew from \$10 million to \$49.4 million. That's nearly a 400% growth. And our adjusted EBITDA, which we believe provides an important measure of our performance, resulted in a non-GAAP net income for the year of approximately \$9 million, that ultimately was \$0.31 per share, compared on the same basis to a \$1.07 loss per share for the same period in the prior year.

We also achieved our projected revenue with almost \$50 million for the year.

CleanSpark is a Bitcoin miner. Bitcoin mining is our primary business segment in terms of revenue, our most efficient in terms of costs and margin and our most important in terms of maximizing value for our shareholders.

As of today's filing, our hash rate is approximately 1.3 exahash. Our calendar year-to-date Bitcoin production as of the end of November is 1,083, and we have over 40 megawatts of machines operating.

Based upon industry measures, we believe we are credibly undervalued as a Bitcoin mining company. We are rapidly growing and even outpacing many of our competitors. This growth is backed by our strategy of smart, sustainable growth, which includes taking steps to limit dilution to our shareholders.

Our hash rate growth over the past quarter is, consistently, among the top of publicly-traded Bitcoin mining companies. We believe the market is just catching up and will soon recognize and close what we see as a market value gap. We believe that our continued performance is what will help us close that gap.

We are laser-focused on shareholder value. One way we do this is by using some of our Bitcoin we hold to fund operations and growth. We are pursuing non-dilutive growth capital, such as debt. We also expect to take advantage of opportunity in the coming year to generate greater yields from the Bitcoins we hold on the balance sheet.

Now, our College Park facility is the highlight of our Bitcoin mining operations. Senior Vice President of Data Center Operations, Bernardo Schucman, one of the world's leading Bitcoin miners and his exceptional team have accomplished tremendous things in Atlanta, including the deployment of 48 custom designed mobile data centers.

Over the next few months, we will be ramping up our Norcross facility. We've recently announced the purchase of 20 megawatts of immersion cooling equipment. And we've designed

for a new microgrid for that facility. The energy business has been foundational to our accomplishments.

Now, our energy revenues were essentially flat year-over-year, and it's been a challenging year for the energy industry, as a whole. But we believe the way to drive the greatest increase in value to our shareholders is by applying our energy expertise into sustainable Bitcoin mining.

Now, we're deploying advanced technologies like renewable energy assets and immersion cooling to make our operations more efficient. Now, efficiency is key. And these efficiency enhancements are expected to increase production and decrease operating costs at all of our facilities.

As an added benefit, these systems are also expected to extend the life of our machines, so that our capital goes further to generate better returns for our shareholders.

Now, I'm going to turn again to review a little more detail on our fourth quarter and fiscal year-end financial results, after which we'll open it up for a brief Q&A, and I'll conclude with a few final remarks.

At a summary level of the financial side, I'm going to keep it focused pretty high level and specifically around key performance indicators that we've identified. Please refer to our 10-K for our complete financial statement.

Our 2021 annual revenue, as I mentioned, grew from \$10 million to \$49 million, representing a 5x increase in revenue from our prior year. We expect that this growth will continue in the next year, as CleanSpark expands its mining capabilities, as we deploy more miners and seek out additional energy opportunities.

As for the eventual or the ultimate operating results, our GAAP based net loss improved by \$1.5 million from a loss of \$23.3 million, last year, to \$21.8 million in 2021. Overall, these results led to a GAAP based net loss per basis--per share of \$0.74. That's an improvement of \$1.70 per share, compared to last year.

Now, a large portion of our losses in the current year, they were based on non-cash items. As mentioned before, we believe an important measure of performance is adjusted EBITDA, a non-GAAP metric that reconciles this.

Now, our non-GAAP adjusted EBITDA for the year was approximately \$9 million in income, or \$0.31 per share. That's a significant improvement from last year. Now, our improvements, both on a GAAP and non-GAAP basis, are encouraging. And we are taking steps to further streamline our operations, and we expect to achieve even stronger results for our shareholders in the coming year.

Now, as part of this, I think it's important to highlight our quarter-over-quarter revenue growth, which was incredible. Revenue for the three months ended September 30, 2021, was \$27.1 million. This is an increase of \$25.2 million, or nearly a 1300% increase from \$1.9 million for the same quarter, just a year ago.

Now, as for our balance sheet and operating capital, it's significantly improved from the prior year. Just a couple of highlights. We had a cash balance at the end of the year of \$18 million, and a book value of Bitcoin of \$23.6 million.

Now, this resulted in working capital of \$47.6 million. The Company's total liabilities were only \$11.7 million. Now, our net assets were \$305.7 million. This means we grew our net assets by a factor of over 19 times, since the start of this fiscal year.

We are ecstatic about the strength of our balance sheet and the strong foundation it has created for growth into 2022.

I also want to highlight a few additional items specific to our mining assets what we believe are going to drive our growth. At the end of our fiscal year, we had \$123.2 million in mining equipment, the majority of which was fully installed in hashing.

In addition to the miners that we had on hand; we also have prepaid an additional \$87.9 million for mining equipment. Subsequent to our fiscal year-end, we received over 4,400 additional miners.

The new machines receiving orders will further increase our production capabilities and revenues in the coming quarter.

CleanSpark, like all companies holding substantial amount of digital currency, we're required to measure impairment to the value of Bitcoin, pursuant to U.S. accounting rules. As a result, we did book a loss on impairment of Bitcoin of \$6.6 million for the year. Now, what this means?

So, although the book value of Bitcoin under U.S. GAAP was \$23.6 million, the fair market value on the very same day was \$27.5 million.

Now, lastly, I'd like to share that we have a substantial number of machines plugged in and ready to go. We're just waiting the final commissioning process to energize additional mobile data centers. And when that occurs in the next few weeks, we expect to see an immediate and substantial jump in our hash rate.

Now, I'm going to hand things back to Rachel and she's going to handle the Q&A portion of our call.

QUESTION AND ANSWER

Rachel Silverstein

Thank you, Zach. We received several questions from the analyst community that we will now address, prior to closing. First question: "How is the hash rate growth compared to our prior forecasts? And do you anticipate any challenges?"

Matt Schultz

I'll go ahead and take that one, Zach. This is Matt. As a high growth company, challenges are commonplace. How we face those challenges is what matters.

And we believe that our proactive approach to energy management and the subsequent access to mining rigs to be deployed and energized on a just-in-time basis, give us a unique competitive advantage.

We've found opportunities to purchase equipment to consume the energy available, as it comes online. And as Zach mentioned in his comments, we have 48 mobile mining centers, currently installed, and deployed at our College Park, Georgia, facility.

Over the next few weeks, those will all be coming online, and we expect to keep our revenue and Bitcoin production targets, as we've discussed in prior guidance. Thanks for that question.

Rachel Silverstein

Thank you, Matt. Second question: "Industry reports indicate that immersion cooling allows the miners to operate above the label hash rate. Does the Company anticipate the ability to overclock the rates at Norcross?"

Zach Bradford

I'm going to go ahead and take that one. This is Zach. Immersion cooling, we're extremely excited about it. Now, I'm sure, the way the question was posed, many people have read about immersion cooling and the exciting things that you can do. As I mentioned earlier, it's all about efficiency.

Now, I want to address what overclock really means, for those of you that don't know. What overclock means is you're able to push the machines at a faster rate of processing than the manufacturer label on it.

Now, the reason you're able to do so is because you're able to control the heat around it. That's really a limiting factor when it comes to miners and how quick they can process and how hard you can push them. It's all about heat transfer.

When you immerse them in a liquid, this liquid of course, is a non-conductive material from an electricity point of view. It's the heat transfer is much more efficient, which means you can push them harder, because you don't have to worry about them overheating.

So, now return back to the question. Do we think we're going to be able to overclock them? Absolutely. We're really excited about some of the developments that for the 19 series that we're going to be putting in that facility, overclocking is still being developed.

We don't quite know if we're going to be able to push them exactly what the percentage improvement is, but we know we're going to be able to push them, further. We also know they're going to last longer, and the maintenance costs are going to be lower. This is a really big gain for us, and we're really excited about it. Thanks for that question.

Rachel Silverstein

Thank you, Zach. Third question: "CleanSpark took the position of selling Bitcoin for expansion to avoid dilution. In retrospect, was this the best decision and does the company expect to continue this practice?"

Zach Bradford

I'm going to take that one, again. This is Zach. Now, Matt and I are two of the largest individual shareholders in the company, and just like all of our shareholders, we're extremely conscious of dilution. And our belief is it was absolutely the right move. If you think about Bitcoin mining, we're here to generate value.

But if you never turn that into a useful asset or additional row, it's just a number on a balance sheet. Rather than add additional dilution to our shareholders through another equity raise or things like that, we really think it's important to take other steps, such as selling and monetizing a Bitcoin, but also, we're going to pursue other things, like debt.

Now, anything that protects our shareholders from dilution, we see as a positive thing. Because again, I said this on our last call, it's all about generating earnings, per share. And I say this a lot, if we have lower shares outstanding than our peers--I'm just going to use simple math.

Let's just say one of our peers has three times as many shares outstanding, that means in simple math, they have to be three times larger and produce three times the amount of income to produce the same earnings, per share.

We are here to deliver value to our shareholders, and one of the ways, and one of the levers we can pull to do that is by limiting dilution and using the Bitcoin we have on our balance sheet, as an asset. And assets are there to be used for everybody's benefit and growth is what we're pursuing, right now. Therefore, it's the highest value for us to use.

Rachel Silverstein

Thanks, Zach. Next question: "Does CleanSpark use green energy or traditional energy resources?"

Zach Bradford

This is Zach. I'll go ahead and take that one, again. We use both, and anything that touches the traditional power grid right now, uses both. But we are focused on renewable and clean energy, as our base source.

Now, at each of our facilities, we have different mixes, and we are very--we have a very high concentration of renewable.

And in addition to that, we are participating in programs so that, currently, any amount of power we're using for Bitcoin mining that is not in a renewable or clean impact, it's being offset by renewable energy credits that we're buying.

The only reason, just to be frank, that we haven't already come out and said we're a 100% renewable is because, we're working with independent professionals to get it independently verified.

We think it's important that there's data behind statements. And so, when we're done with these reports and this data, we'll be putting it out there. But we're really taking steps and we're really close to being able to make those claims out in the public.

Rachel Silverstein

Thank you, Zach. In megawatt equivalency, roughly how many megawatts are expected to come online in the next few weeks?

Zach Bradford

This is Zach, again. I can answer that question. It's going to be about 23 megawatts of power that's going to be coming online at the College Park facility. We also expect an additional 5 megawatts to be coming online in the next few weeks with one of our partners.

So, it's--and I'm using round numbers, here. It's going to be about 28 megawatts of total power coming online, over the next couple of weeks.

Rachel Silverstein

This will be our final question, Zach. What are the potential difficulties in getting the miners online, as you receive them, and as you receive the scheduled shipments from now until September, 2022?

Matt Schultz

I'll go ahead and take that one, Rachel. Thanks. This is Matt. The difficulties or challenges have really been surrounding the availability of igniting and energizing the circuits. We've got a world class team of miners.

And as Zach mentioned in his earlier comments and we've talked about many times publicly, Bernardo and his team have been, personally, responsible for the mining more than 50,000 Bitcoins.

When it comes to the proper personnel and the proper approach, we really have that covered. What our challenges have been, and we've been fortunate that we've been proactive in the approach, but like what we talked about with regard to College Park.

We've got a series of circuits that will be energized. And that's just a process with regards to not only the final approval by the city and the utility, but then the commissioning of those circuits. And when you turn on that much power at once, it's--they ignite one system or one circuit at a time to measure and ensure that everything is falling within the specifications.

We really feel like our approach of energy, first, has set us apart. And so, we don't anticipate being impacted by supply chain and some of those other concerns. Earlier in the year, we saw delays in receiving Ethernet cables or receiving power cords to support that equipment.

But again, being proactive and preparing for that in advance allowed us to have that equipment available and online, in order to hit the benchmarks we talked about.

We feel really confident about the guidance we've given and expect to continue on that trajectory. Thanks for that question and appreciate everyone.

Rachel Silverstein

Thanks, Matt. That concludes our Q&A. And I'll now turn it over to Zach for closing remarks.

Zach Bradford

Hey. Thank you, Rachel.

CONCLUSION

Now, I just want to briefly conclude by wishing all of our listeners very happy holidays, especially our employees and shareholders. It's been a really great year for CleanSpark. Our financial results continue to trend upwards, our revenue growth is strong, and we have a clear understanding of how to improve our costs.

And we're a Bitcoin miner. We believe in the work we're doing, not only for the value it provides shareholders--and make no mistake, it's extremely profitable--but also for the value it provides

for growing energy generation in our communities, and access to financial wellbeing for users, worldwide.

What we are doing here is nothing less than building the infrastructure of the new economy. Our shareholders and employees, many of which are shareholders, by the way, are all part of that.

Happy holidays, and thanks everybody for joining our call.

Rachel Silverstein

Before we end today's earnings call, I would like to remind everyone that this call will be available for replay, later today. Please refer to today's press release for dial-in and replay instructions available via the company's website. Thank you for joining.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.