

CleanSpark, Inc.

Fiscal Year 2022 Q1 Earnings Call

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Eastern

CORPORATE PARTICIPANTS

Zach Bradford - *Chief Executive Officer*

Gary Vecchiarelli - *Chief Financial Officer*

Rachel Silverstein - *Vice President, Compliance and General Counsel*

PRESENTATION

Operator

Good afternoon, everyone, and welcome to the CleanSpark Fiscal Year 2022 Q1 Earnings Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." A question and answer session will follow today's presentation. Please also note, today's event is being recorded.

At this time, I would like to turn the floor over to Rachel Silverstein, VP of Compliance and General Counsel.

Rachel Silverstein

Welcome, everyone. On behalf CleanSpark, Inc., thank you for joining our first quarter financial results conference call for fiscal year 2022. My name is Rachel Silverstein, and 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 Gary Vecchiarelli, our Chief Financial Officer.

On today's call we will make forward-looking statements under the Safe Harbor provisions of the Federal Securities Laws. Actual results may differ materially from those contemplated in these statements. Additional information concerning factors that would cause actual results to materially differ from these forward-looking statements are contained in today's press release and in our filings with the SEC. Except as required by law, we undertake no obligation to update these statements as a result of new information or otherwise. During today's call, we will also discuss certain non-GAAP financial measures in talking about our performance. You can find the reconciliation of GAAP financial measures in our press release, which is available on our website.

With that, it is my pleasure to turn the call over to our CEO, Zach Bradford.

Zach Bradford

Thank you very much. Good afternoon and thank you all for joining. It was a little over a year ago that we mined our very first Bitcoin in College Park, Georgia. While it's been just over a year, I believe it's fair to say that we are no longer new in this space. We have developed relationships across the industry, deepened our understanding of the mining ecosystem, and committed ourselves fully to the Bitcoin project for the value it brings to our shareholders and for the good it does in the world.

This is a new era for CleanSpark and for the Bitcoin block chain. We are evolving as a company and as an industry, becoming more transparent, more deliberate, and more intentional in what we do. Bitcoin mining has become our business, and we expect to bring fiscal discipline and operational focus to this great opportunity. We have heard your feedback about our previous communications and with that in mind hope to use this call to usher in a new era of transparency.

To do that, I want to share with you our vision for CleanSpark. It's actually quite simple. Our vision is to be a top five Bitcoin miner. Please note my emphasis on Bitcoin, rather than other crypto currencies. I echo what Fidelity's analysts recently said. Bitcoin is a superior form of money, different than other types of money that have come before and different than any other digital currency in the market. The vision is clear to us. How we get there is also clear. Bitcoin now accounts for 90% of our revenues.

Our commitment to mining Bitcoin means we are considering strategic alternatives for the energy business. All options are on the table. But know this: as a CleanSpark investor, you are investing in a sustainable Bitcoin mining company. After we share our quarterly results, we will take some time to unveil our strategic intentions to help you understand what makes us different from other miners.

With that, I'd like to transition our focus to some of our business highlights for the quarter. It was a record breaking quarter in almost every sense of the word. We have mined 660 Bitcoins, over a third of which was mined in December alone. I cannot emphasize enough how remarkable this growth has been. I am so appreciative of the teams that racked machines through the busiest time of year to achieve these incredible results, because of their work, we ended the quarter with a hash rate of 1.9 exahash per second. And just days after the quarter ended, we exceeded 2 exahash.

We are currently operating 74 megawatts of power in support of Bitcoin mining, of which 47 megawatts are at our own properties and 27 megawatts are co-location facilities. We also have an additional 20 megawatts under development at our newest facility. Our growth in this area has been truly remarkable. Since January of last year, we have mined over 1,826 Bitcoins and our hash rate has steadily increased to now exceed 2.1 exahash.

While we talk a lot about numbers on these calls, it's about people. That's why we are in this business, to make the world a little better, fairer, more sustainable, and more resilient. One way we are doing this is by doubling down on the commitments we have made in the communities in which we operate.

We recently awarded five scholarships to students in Gwinnett Technical College's computer science program. The scholarships will cover the student's entire associate's degree. We are just getting started and expect to make similar commitments in the future. These commitments are not only important in the sense of giving back, but for demonstrating our long-term partnership with the communities in which we operate. I will talk more about our community involvement later in the call. But first, I'd like to give the floor to Gary.

Before doing that, I just want to say how thrilled we are to have Gary on our team. He brings deep experience in capital markets, and in just the last 60 days or so, has more than demonstrated his ability to effectively lead and communicate strategic priorities. Gary brings more than two decades of technical, operational and strategic experience in finance and accounting to CleanSpark. He also happens to be a great guy. We are lucky to have him.

Gary, I'll let you take it from here.

Gary Vecchiarelli

Thank you, Zach. I am very excited to be here and especially thrilled at the opportunities I see before CleanSpark. I also want to thank the outstanding team at CleanSpark for assisting me in what has been a very smooth transition. I want to reiterate what Zach said earlier, this was a tremendous and record-breaking quarter by almost every metric.

From my perspective, I see a company that is well-positioned for the future, with a strong balance sheet and growing revenues with high margins that dropped significantly to the bottom line. Most importantly, we have a clear vision and strategic direction that will allow us to take advantage of the numerous opportunities we are evaluating. I am very much looking forward to

what this calendar and fiscal year will bring. And I am excited to share with you CleanSpark's performance for the first quarter.

As presented in our Form 10-Q, which has been filed with the SEC, our total revenues increased exponentially in the first quarter of 2022 versus the same quarter of the prior year. Total revenues for the first quarter were over \$41 million compared to \$2 million, representing an increase of over 17x. The overwhelming majority of this revenue was driven by our digital currency segment, with revenues totaling almost \$37 million. The investments we have made to-date have contributed to these record revenues.

Our energy segment saw a healthy increase as well, growing to almost \$4 million in the first quarter of 2022 from \$300,000 in the same period of the prior year. The majority of this growth was due to the acquisition of Solar Watt in the second quarter of 2021. Revenues also saw sequential growth in Q1 versus the prior Q4 as revenues increased almost 52% growing from \$27 million to \$41 million. Again, these revenue increases were driven by new installations of top of the line Bitcoin miners and a hash rate, which increased throughout the quarter.

Looking at gross profit, you will see the increase in revenues translated to greater profitability, particularly due to the high margins that Bitcoin mining brings. Gross profit in Q1 increased to \$32 million from \$930,000 in the same period a year ago. Gross margins also increased dramatically to 79% in Q1 from 41% in the same period last year. When comparing the company's performance compared to the most recent quarter, gross profit increased approximately \$12.5 million to \$32 million from approximately \$20 million, representing a 63% increase. Our gross margins continued to increase sequentially as well increasing from 73% in the fourth quarter to 79% in the first quarter.

Moving to the next slide, you will see the operating leverage of our business model start to take form. Much of the increase in our revenues translates to increases in net income. For the first quarter 2022, net income turned positive to \$14.5 million from a loss of \$7 million in the same quarter last year. Net margins for Q1 represented 35% on a US GAAP basis. Sequentially, the company saw improvements in quarterly net income as well. Net income was \$14.5 million, reversing a net loss in the preceding fourth quarter of \$5 million.

Adjusted EBITDA is a non-GAAP metric, which management uses to determine the cash flow produced from operations. A reconciliation of adjusted EBITDA to net income can be found in earnings release and Form 8-K. You will see the theme of profitability continue as adjusted EBITDA turned positive in Q1 to \$24 million reversing negative adjusted EBITDA of almost \$3 million in the same quarter of the prior year. Sequentially, the company also saw adjusted EBITDA improve by \$20 million from Q4 to Q1.

I want to make a few final comments regarding our operating expenses. Despite seeing significant increases in net income and adjusted EBITDA, we remain mindful of our day-to-day expenses. Payroll expenses saw the largest increase in Q1 compared to the same quarter last year, accounting for \$5.6 million difference. The majority of this difference is related to stock-based compensation, a non-cash expense.

I specifically want to call-out this increase because of the \$8.9 million of payroll expenses on our income statement, \$5.7 million, or almost two-thirds, is related to stock based compensation in Q1. It is important to note that this significant expense is primarily due to the valuation methods required to value equity grants.

One of the inputs used for these valuation methods is the volatility of the company's underlying stock. Since the company's stock has seen significant volatility over the past year, it inherently impacts the value of this non-cash expense. In short, the stock-based compensation is a computed value based on these valuation methods and the company remains committed to providing compensation that is competitive and aligned with shareholder interests.

Professional expenses have also increased significantly to \$3.3 million in Q1 versus \$1.7 million in the same quarter of the prior year. A significant portion of this increase relates to increases in audit and consulting fees, primarily due to new compliance requirements as a large accelerated filer. We do not expect these audit and consulting fees to stay elevated and they will in fact decrease in subsequent quarters.

Turning to our balance sheet, we had approximately \$5.2 million of cash on hand at December 31. Additionally, we own 633 Bitcoin, with a book value over \$30 million, bringing the company's total liquidity to over \$35 million. The company converted 650 Bitcoin to USD during the quarter to pay for growth CAPEX and operational expenses. And going forward, we expect to maintain minimal cash amounts on hand as we see Bitcoin as a store of value. During the first fiscal quarter 2022, the company raised almost \$60 million in equity proceeds, most of which was used for growth CAPEX and purchase of Bitcoin miners.

On a final note, I want to turn your attention to our mission commitments. We assigned commitments for over 20,000 additional state-of-the-art bit miner S19 machines, which will almost double our current hash rate. On these commitments, we have already funded deposits of over \$117 million, which will be applied to future deliveries. And I want to point out that this \$117 million is already paid for using proceeds previously raised through conversion of Bitcoin and issuance of equity, the remaining cash commitment for the deliveries is just shy of \$40 million and we expect to make these payments and take delivery monthly through October of this year. Additionally, over half of these miners to be delivered have infrastructure already committed and we expect to secure infrastructure for the remaining miners in the coming months.

I'd now like to turn it to Zach to talk in more detail about our vision and strategy.

Zach Bradford

Thanks, Gary. It's been an incredible quarter. I am now going to spend some time talking about vision. First, I will talk about how we plan to measure our success. Then, I will discuss the strategic pillars we have crafted for how we will get there. I will talk about the first two pillars, which are our infrastructure strategy and our ESG strategy. And Gary will wrap up by talking about our capital strategy, which is our third pillar.

As I mentioned at the beginning of this call, we have a vision to be a top five Bitcoin miner. So what do we mean by that? We intend to be a top five publicly traded miner in terms of our hash rate, efficiency, profitability and commitment to sustainability. Let me spend a minute talking about each of these and where we see ourselves right now.

In terms of the hash rate, we have achieved 2.1 exahash with a goal of 4 exahash by the end of the year. We plan to over-deliver on our promises. We have assets and contracts already in place for approximately 4 exahash of miners, with the intention of exceeding that by many multiples as we thoughtfully secure sustainable energy. In terms of efficiency, these numbers are harder to compare, but we believe we are one of the most efficient publicly traded Bitcoin

miners. Right now, our energy costs to mine 1 Bitcoin at our wholly owned locations is approximately \$4,500.

As Gary shared with you earlier, we are quickly growing in profitability. This quarter has been our most profitable quarter ever. We expect to continue to see profitability grow substantially this year.

I will talk more about sustainability when I introduce our ESG strategy later in the call. With our vision and these key metrics in mind, I'd now like to share with you how we intend to get there to our place as a top five miner. These foundational pillars will guide us over the coming months and years. I am excited to preview them with you as we believe they set us apart from nearly every other public Bitcoin miner. When you invest in CleanSpark, you are investing in a strategy that is prepared for the rapid pace of change that the mining industry is likely to see this year.

Let me spend some time talking about that last part, the rapid pace of change we expect to see. This is the foundation for our first pillar, an adaptable approach to infrastructure. Our infrastructure strategy is about how we will build and when we build with the ultimate goal of continuing to own the majority of megawatts we have under management. This is about owning our destiny, rather than letting external factors dictate how or when we grow. Now, we deployed a hybrid infrastructure that includes a combination of fully-owned datacenters and co-location arrangements with partners to share values.

Right now, the balance of our infrastructure is weighted towards owned mining facilities. And we intend to use colocation as needed to make sure that any machines received are hashing as soon as possible. We are thoughtfully evaluating additional sites to expand our operations and we believe colocation agreements are a useful strategy for securing our future in the present.

Our infrastructure pillar also governs our approach to how and when we acquire machines, we believe in balance. Many of our peers have taken the approach of making huge machine orders with delivery dates, many months or even years into the future, all while tying up substantial amounts of capital and taking on significant contractual risk. Many of these machines will be outdated before they ever start hashing. This is the Achilles heel in the strategy of many of our peers have chosen expeditious growth without regard to the consequence.

The ASIC ecosystem is ripe for disruption. We want to be in the position to take advantage of advancements in machine technology that are on the horizon. While a handful of companies hold most of the product space and while competing with them will be extremely difficult, all you have to do is consider the last 40 years of technological progress to understand that improvements are coming.

As part of this strategy, we are investing heavily in immersion cooling. We expect to have our first batch of immersion cooled machines hashing at our Norcross facility by the end of the current quarter. And as many of you on this call know, immersion cooling helps us to be more efficient. It also reduces otherwise unnecessary energy loads and we believe allows our machines to run longer and faster, by 30% or more by some estimates.

Our second pillar governs our ESG initiatives. We are committed to ESG principles, because it's the right thing to do. It is not a marketing campaign, but fundamental to the way we do business. As such, we have engaged NASDAQ's ESG advisory services to analyze our performance and help us engineer a roadmap for achieving our success. We are under no

illusions that the journey will be quick and easy. We have identified some low hanging fruit that we will immediately be able to work on so as to see some fast improvements in our results. But this roadmap is more like a cross-country trip than it is a quick drive to the convenience store. It will take sustained and intentional effort. The results of those efforts, we believe are that we will set the gold standard or better said a Bitcoin standard for publicly traded miners. We have long taken a keen interest in our environmental impact. We believe regulators will continue to scrutinize and tighten their oversight this year in respect to how Bitcoin miners use energy.

We are mitigating that impact by prioritizing renewable and clean energy, including wind, solar and nuclear energy. There are some carbon-producing energies in the regional energy mixes we buy from, which is why we also participate in carbon offsetting programs like Georgia's Simple Solar. We are committed to supporting renewable energy infrastructure, and like other forward-looking miners believe that Bitcoin mining plays an important role in the work of decarbonizing the economy. Miners are uniquely positioned to support large scale renewable energy and even perhaps nuclear projects. While we have spent a lot of time in our history as a miner talking about our environmental efforts, there is also the S and the G to keep in mind.

Social, we are making our workforce more diverse and inclusive by focusing on hiring women and people of color. We don't want diversity to just be a talking point. We think it is something to be celebrated and we firmly believe that a diverse workforce in terms of both how we look and how we think is crucial to achieving our vision of being a top five Bitcoin miner. We are also undertaking initiatives to ensure that our employees, no matter where they are at in the hierarchy, are paid above market rates, have access to affordable healthcare and have a healthy work life balance. We believe this approach will foster long-termism for our employees.

Our social commitments extend beyond our workforce and include the communities where we live and work. I mentioned earlier the scholarship in Gwinnett County. We intend to bolster our philanthropic efforts by contributing resources to improve the lives of others. Bitcoin mining is an incredibly profitable endeavor. The communities we work in should share the benefit.

Lastly, I want to briefly talk about governance. Over the last quarter, we took efforts to bolster our transparency by issuing monthly Bitcoin production updates. Articulating our vision and strategy in this call is another way we hope to demonstrate transparency in the way we make decisions. We are working to achieve value for our shareholders and the millions of people worldwide that rely on the Bitcoin block chain. Our attention to governance, including board oversight, underscores the commitment to be an ethical company. We have an obligation to do what is right, just and fair and to avoid harm. Governance to us means not only playing by the rules of the game, but leading the adoption of these rules.

I'd now like to turn the time over to Gary to discuss our third and final pillar, our capital strategy.

Gary Vecchiarelli

Thank you, Zach. Our capital strategy is premised on the wise and sustainable use of our resources. The motivating principle behind our capital strategy is straightforward and clear. We intend to operate our business in a smart, disciplined and profitable fashion.

Our capital strategy has three components and I'd like to think of them as potential levers that we can pull to achieve our vision. These three levers or tools are the use of debt, Bitcoin and equity. While it is no surprise, those three components are the types of capital available to our company, I want to share with you how management views its capital allocation and how we expect to use them going forward.

From our perspective, capital allocation is a very important priority, especially since we are involved in a business which requires significant investment in CAPEX. When coupled with strict fiscal discipline and a keen eye on our CAPEX costs and cash operating expenses, the proper allocation will help propel our growth even further. Let me share with you in detail how we expect these individual levers will be used in our capital strategy going forward.

Foremost, acquiring debt capital and leveraging our balance sheet is an obvious opportunity. As you are aware, we currently have no long-term debt and we see substantial opportunity to utilize our strong balance sheet to invest in growth. The cost of capital related to debt instruments is the easiest of the three types of capital to forecast and budget for and frankly, the lowest cost of capital currently. We are actively seeking to inject debt into our capital structure at reasonable rates. We only expect to see the cost of debt capital become more favorable as time goes on, especially as traditional debt markets continue to warm up to the crypto industry. On a side note, we have recently established new commercial banking relationships, which we are optimistic, will lead to lending at more traditional rates.

As I mentioned, our balance sheet is strong and presents an immediate opportunity for leverage. The overwhelming majority of our mining portfolio consists of top of the line miners, nearly all of them, the latest generation S19 models. We believe this makes us attractive to asset-backed lenders and we are exploring to use of the ABO or similar facilities to provide the growth capital needed to expand our operations.

The second lever available to us is our Bitcoin Holdings. We are in the business, because we believe in the future of Bitcoin, both as a store of value and a medium of exchange. As a miner, Bitcoin is our functional currency and how we get paid. Therefore, we think it makes sense to use Bitcoin to generate even more Bitcoin.

Now, monetizing Bitcoin does not only mean selling Bitcoin into the market. We expect to deploy advanced strategies to recognize further yields from our Bitcoin Holdings and we have recently established new relationships to help develop these yield producing strategies. Meanwhile, we will continue to be opportunistic about selling Bitcoin at the right prices. While we will convert some mined Bitcoin to USD. We expect our Bitcoin Holdings will increase incrementally over the long-term, because as I mentioned earlier, we believe in the long-term value of Bitcoin.

And there is one other point I can't stress enough. Our approach to huddling is very strategic. We have occasionally received feedback for not huddling everything we mine. However, I want to be very clear, a 100% huddle strategy comes with a significant downside for shareholders.

We believe that opportunistically selling and strategically growing our Bitcoin balance will be the best way to protect shareholder value in the long run. In fact, as one of the first publicly traded miners to actively and openly use Bitcoin to fund our operations and growth, we believe other miners will and are following our lead.

Finally, let me spend some time talking about the use of equity. I want to begin by saying that we have not issued equity utilizing our ATM since November '19. We also have no plans to drawdown on the facility in the near future. Like you have heard throughout our presentation, we will continue to be disciplined and strategic about every decision we make, including the issuance of equity.

As a publicly traded company, issuing equity will always be an option. But I want to emphatically state that we do not have an interest in issuing equity when management feels its stock is trading at a significant valuation discount to its peers. We also recognize there are other means of capital allocation, which have a much lower cost of capital.

Looking into the future is our expectation that there will be consolidation in the industry and we want to be in the position to take advantage of accretive acquisitions using our equity as currency, but naturally only at a respectable and fair valuation. Therefore, we do see issuing equity as consideration in any M&A transactions we may enter into in the future.

One final note I want to make regarding equity. We recognized that equity represents an anti-dilutive opportunity as well. We expect that as our strategy is executed and we continue to pass up significant profitability, the company will consider returning capital to shareholders most likely in the form of stock buybacks.

Bringing our description of this third pillar to a close, it is important to note that our cost of capital changes daily between these three components, each of which have trade-offs. We will continue to be mindful of dilution, especially when the valuation gap exists and we remain nimble in order to be opportunistic in lowering our total cost of capital.

How and when we prioritize our capital allocation will always be driven by the concept of maximizing shareholder value and the lowest cost of capital available to the company. We know the execution of our capital strategy will be measured by the returns recognized by shareholders and stakeholders, while also making them a proud member of the CleanSpark family.

I'd now like to turn the call over to Zach before we open the line for questions.

Zach Bradford

Thank you, Gary, and thank you for spending time outlining our capital strategy, which is the centerpiece of our financial pillar. Combined with our infrastructure and ESG pillars, we believe that our vision to be a top five Bitcoin miner will be accomplished and is sustainable. You can expect us to live by these pillars. They will guide all of our efforts during the remainder of the fiscal and calendar year and beyond. We intend to use them as a clarifying framework to help us make decisions that are in the best interests of our employees, shareholders, community stakeholders and the Bitcoin community at large. We are optimistic about the future and the opportunities we see on the horizon. Our industry is evolving, and we believe that CleanSpark is leading this process.

Operator, this concludes our prepared remarks. We'd now like to open the line for questions.

QUESTION AND ANSWER

Operator

Ladies and gentlemen at this point, we'll begin the question and answer session. To ask a question, you may press "*" and then "1." To withdraw your questions, you may press "*" and "2." If you are using a speakerphone, we do ask that you to please pickup your handset prior to pressing the numbers to ensure the best sound quality. Once again, that is "*" and then "1."

Our first question today comes from Kevin Dede from HC Wainwright. Please go ahead with your question.

Analyst

Hi, this is Nick Narain [ph] here for Kevin Dede of HC Wainwright. Thanks so much for inviting us to join the call. Thanks for taking our questions. We have a series of questions that I'm hoping we can address one by one if that's okay.

Zach Bradford

Yes, Nicholas, go for it.

Analyst

Awesome. Thank you. Given CleanSpark's hash rate rollout plans viewed against its current access to power, how does CleanSpark plan to address near term power needs?

Zach Bradford

That's a great question. Like I mentioned in the presentation, we're going to do it through a hybrid approach. Again, what that really means is colocation we view as speed to market. So as we build and develop our own infrastructure, we intend to supplement that with colocation, but we're always going to maintain a majority interest of our megawatts under our own management. We believe that is the most sustainable way to grow a business. That allows us to control our destiny instead of putting it solely in the hands of colocation. But again, it's about speed. Speed to getting hash rate up. Right now every hash that's hashed is worth more today than it's going to be worth in a year. So, we want to capture that opportunity now instead of later.

Analyst

Got it. Thank you. What are the criteria and which are most important in evaluating new energy sources for extending power access in current facilities or sources for potential new mining sites?

Zach Bradford

For us, first and foremost, price is going to matter a lot. But really, we won't look at something unless the sustainable mix of power is there. So, we focus on ensuring that it has a high mix of renewables. And so, both of those together, we don't see one going without the other. We think that they have to be looked at together. And I think that, that's one of the problems we're seeing in the industry is it's often viewed as an either/or and we think it can be both. Both the view of sustainability being important but also the view of the price. And that's also sometimes why it takes time to structure the right agreements for a company rather than grabbing the nearest power to us.

Analyst

Could you discuss CleanSpark's view to mining hardware? We understand the company primarily relies on Bitmain currently. But what other mining rig manufacturers are under review? And how does the CleanSpark management team view the Intel Bonanza Mine Chip introduction slated later this month?

Zach Bradford

We're actually really excited about hearing more and doing some diligence on what Intel has to offer and bring to the table. Right now, we use the best miners that are available. That's the Bitmain S-19 series. And we will continue to do so until somebody can bring something to market that is truly better. We think it's really important that miners do their due diligence in understanding what technology actually delivers. There's a lot of claims out there. There's a lot

of statements that are being made, and we believe prior to adopting anything new, we would have to do extensive diligence to make sure we're making the right decision for our shareholders and also, most importantly, that the vendors that we select can deliver on the results that they're promising.

Analyst

But given that everyone on this call is a Bitcoin bull. How does management see Bitcoin trading this year and potentially how high against continued steep network hash rate escalation?

Zach Bradford

I think that, that's something where we can all speculate. We believe it's going to continue to go on a very strong run into the future. But we also believe that there's going to be ebbs and flows. And that's where our opportunistic strategy really comes into play, is we expect to take advantage of those ebbs and flows as they occur. And so, any of us could guess, we think it's got a really long run ahead of it. We think we're going to see adoption increase at all levels bolstered from a government regulatory level where it's easier to interact with, to different countries adopting it as their own form of currency. We think that Bitcoin has a very strong future ahead of it. And with that will come increased value.

Now as it relates to difficulty, difficulty will certainly increase in the future. We think that there's going to be a balancing point. There's a lot of new machines that are coming online in the future that are going to lead to that increase. We're bringing new machines online. Our peers are bringing new machines online.

But I do think that sometime midway through this year, we're going to see a tipping point where the efficiency of these new miners are going to affect some of the older miners, older generation, whether it's an S9 or something similar. And I think that we're going to actually see an unplugging event happen this year. That still means a year as a whole. I think we're going to see difficulty continue to increase. But I do think at some point, at least, for a period of time, we are going to see a balancing effect where some machines are less efficient come offline in exchange for the new machines coming online.

So, I am not going to speculate what that percentage looks like. But I do think that it will be a meaningful percentage that difficulty increases this year. For us, it's about keeping a pace of growth that exceeds that difficulty. We believe we can do so. And so, that's going to continue to be our intention.

Analyst

And then one final question for you. Thanks so much for answering the previous four. How many CleanSpark uses energy relationships to bolster its position as a Bitcoin miner? And how should investors think about that asset and management's ability to utilize it?

Zach Bradford

I think it's less. I want to rephrase your question a little bit. It's less about the relationships and more about the experience. What we are bringing to our Bitcoin business and as I said before, that's what we are, is the energy expertise and experience that we have garnered, so that everything we do going forward is with energy in mind. We really understand it. And the value that that brings to the business is what lives inside each of our employees that they have gained over the past years. So for us, I mentioned one of the measurements we are going to use is efficiency. So, we are going to continue to drive efficiency of our mining operations and we are

going to continue to focus on renewables. We understand both of those very well. And that experience will definitely pay dividends in the future periods to come.

Analyst

Got it. Thanks again for taking our questions.

Zach Bradford

I appreciate the questions, Nick. And appreciate HC Wainwright taking interest.

Analyst

Absolutely, thanks so much.

Operator

Our next question comes from Tyler DiMatteo from BTIG. Please go ahead with your question.

Tyler DiMatteo

Hi, everybody. Good afternoon. How you doing there?

Zach Bradford

Hey, doing great, Tyler. Thank you.

Tyler DiMatteo

Good. Thank you. So, can I just touch a little bit upon, the hash capacity you ramp at your facilities, I know you briefly alluded to it. But how should we kind of think about the timeline here? Could we see another facility kind of built up by the end of the year here? I know you touched upon the colocation versus infrastructure. Could you just kind of add some more color to that for me in terms of the timeline, and that built?

Zach Bradford

Yes, absolutely. So, right now, we have 74 megawatts under management. We are in the process of building another 20. That's well, well, on its way, we should see that this quarter, which should bring a fairly significant jump in our hash rate. Now, what that leaves us pursuing between now and for exahash is essentially 40 megawatts. Now, as part of that, we are in discussions of both angles of that, both from a colocation side and a facility side. We believe we have opportunities to actually exceed our demands underway. We look forward to talking about those further in the coming weeks. But we do intend to both acquire a new facility and put that into use inside of 2022 and also enter into other colocation arrangements. So, I think you're going to see both mid-year happening on our side with some very substantial increases before year end is our goal.

Tyler DiMatteo

Okay, great. Thank you for that. So, if I could just follow up, when we look at the market today and we talk a little about rig pricing, it's really hard to ignore, and S19 Pro is going for \$2,000 to \$3,000 at the beginning of 2021. How do you think about rig pricing here over the next couple of quarters? And even in the 2023, given that there is this an arms race for rigs right now. I am just curious about how CleanSpark thinks through this in the near and medium term.

Zach Bradford

Yes. Our view is the arms race concept is the wrong way to look at it. We believe in maximizing the use of our capital. We've always been able to find rigs when we need them.

Now, we have entered into futures contracts where you make down payments and you pay along the way for future delivery. We've also engaged in spot pricing.

Now, our belief and what we're actually seeing developed in the market is mining rig prices are coming down right now from where they were last quarter. And fairly significantly, we have seen as much as a 33% decrease in spot prices. This isn't driven just solely by the price of Bitcoin, but it's simply economics supply and demand. There were a lot of...whether it was suppliers or other miners that entered into future contracts with an inability to plug their machines in. That has led to a glut of miners coming onto the market.

We actually expect this to continue in the coming months, where it should further push down spot prices on the miners. And we believe in taking advantage of those opportunities. We did so last quarter, where opportunistically we made a spot price purchase for immediate delivery. And we immediately were able to plug those machines in. And it just comes down to capital.

I also think we are going to see spot prices of miners decrease as other opportunities or other manufacturers come online. Intel has made their announcement, there are several other announcements coming around. Some of these are going to be more credible than others. And some manufacturers are actually going to be able to deliver results and others won't. Again, we want to be positioned to take advantage of new technology, higher efficiency, better performance, rather than entering into a contract and calling it an arms race and putting down hundreds of millions of dollars now, for miners that could well be obsolete before they ever show up. So, it's about a balanced approach and timing. But it all ties back to our capital strategy.

Tyler DiMatteo

Okay, great. Thank you. Really appreciate that. I'll turn it back to the queue.

Zach Bradford

Hey, thank you very much, Tyler. Appreciate you and BTIG's interest in CleanSpark. This actually concludes the time we have allocated to questions. We really do appreciate everybody's participation, especially the analysts.

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.

CONCLUSION

Operator

Ladies and gentlemen, with that we'll conclude today's conference. We do thank you for attending. You may now disconnect your lines.