CleanSpark

Fiscal Year 2022 Q3 Earnings Call

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CORPORATE PARTICIPANTS

Zach Bradford, *Chief Executive Officer*

Gary Vecchiarelli, *Chief Financial Officer*

Isaac Holyoak, *Chief Communications Officer*

CONFERENCE CALL PARTICIPANTS

Mike Colonnese, *H.C. Wainwright & Co.*

Greg Lewis, *BTIG*

PRESENTATION

Operator

Welcome, everyone, to the CleanSpark Fiscal Year 2022 Q3 Earnings Call.

At this time, I'd like to turn the floor over to Isaac Holyoak, Chief Communications Officer.

Isaac Holyoak

Thanks, David.

Thank you for joining us today for CleanSpark's Third Quarter Fiscal Year 2022 Financial Results Call.

Our press release was issued about 30 minutes ago and is available on our website at www.cleanspark.com/investors. Today's call is also being webcast, and a replay and transcript will be available on our website.

I am here with Zach Bradford, our Chief Executive Officer; and Gary Vecchiarelli, our Chief Financial Officer.

Keep in mind that some of the statements we make today are forward-looking and based on our best view of the world and our businesses as we see them today. As described in our SEC filings and on our website, those elements may change as the world changes.

We will also discuss certain non-GAAP financial measures about our performance during today's call. You can find the reconciliation of GAAP financial measures in our press release, which is available on our website.

Now it is my pleasure to turn the call over to Zach.

Zach Bradford

Thanks, Isaac.

Good afternoon and thank you for joining our call.

The CleanSpark team spent our third quarter executing on the vision we set out at the beginning of this calendar year, to be a top five Bitcoin miner. I am pleased to report that when compared to all public Bitcoin mining companies that we track, CleanSpark finished the quarter by mining the fourth highest amount of Bitcoin of any public miner in the month of June. We were also the fourth highest for the quarter as a whole. In fact, we had our most productive quarter ever in terms of Bitcoin mined, minting 964 Bitcoin, which is a 7% increase over the previous quarter and a 400% increase over the same prior year quarter.

In the terms of hash rate, we started the quarter with 2.3 exahash, and as of this call, our hash rate is 2.9 exahash, representing a 26% increase in our hash rate. Last year at this time, we were just under 1 exahash. With the significant operational progress we are seeing at our state-of-the-art emergent cool facility in Norcross, Georgia, and the newest site we announced this morning, we expect our growth to continue, and with that growth, the amount of Bitcoin we mine.

Georgia is a wonderful place to live and work. We enjoy the strong support of the business and civic community. Our growth in Georgia is a testament to the teams we have assembled at CleanSpark and within the communities we operate in.

While we have mined more Bitcoin than ever before, our reported revenues were lower, because the price of Bitcoin was lower. All companies building the new economy faced serious headwinds last quarter, as macro conditions and irresponsible financial decisions of a few bad actors reverberated through our ecosystem. We believe that Bitcoin is extremely undervalued at current prices, and we continue to see it as one of the most valuable and sustainable assets in the world, both in terms of its social utility and the economic rewards it promises.

Markets rise and fall, but block creation continues like clockwork, releasing into the world every 10 minutes another batch of Bitcoin, themselves the result of hundreds of thousands of miners securing transactions on the most important network to emerge since the Internet's first nodes came online in the second half of the last century.

Bitcoin is the next stage in the evolution of Internet and money, and CleanSpark is proud to be part of it.

We anticipated the potential for market volatility and have built these market risks into our operating model. Importantly, we see these headwinds as cyclical. They are important elements of market dynamics, and companies that prepare for them, including their shareholders, can anticipate the rewards that traditionally come when we emerge from a bear market.

One way we prepare for this market is through the strategic deployment of Bitcoin. While this summer, the industry was rocked by headlines of public miners liquidating their Bitcoin holdings, we were able to stay true to our long-held course of selling a portion of our Bitcoin to fund our growth in operations, which we have done since the early days of 2021. This strategy paid off and will continue to pay off.

We believe great companies use bear markets to grow. Despite harsh economic realities, we have assembled the teams, tools and ideas to make the most of this bear market. We have taken impressive steps to grow in this bear market, both during our third quarter and subsequent to the quarter's end.

In June, we made headlines by being one of the first in our space to begin buying distressed assets. We took over an existing contract for 1,800 Antminer S19 XP, the leading edge of digital infrastructure, which will add an additional 252 petahash to our hash rate. The machines are expected to arrive in batches at our facilities beginning later this month. We were able to secure the contract at an exceptional price, because of our strategic relationships and the unique circumstances that current market conditions have created.

We simultaneously announced in June a new partnership with TMGcore to acquire 257 units of their proprietary immersion cool tanks that are designed to improve the performance of mining machines, while substantially decreasing their failure rates over long-term use. Each tank fits 28 Antminer S19J Pro mining machine. These units will be deployed in batches at our College Park, Georgia, property and other locations as we determine. The partnership also provided us with two megawatts of colocation capacity at TMGcore state-of-the-art immersion cooled mining facility in Plano, Texas.

Then in July, we acquired more machines, an additional 1,061 Whatsminer M30S units that were already mining at Coinmint's renewable-powered co-location facility. The move added about 93 petahash of instant computing power. The move continued our tried-and-true hybrid approach of co-locating our machine while expanding our own mining facilities, which we believe puts us in an excellent position to sustainably grow our Bitcoin mining capacity in what is shaping up to be an incredible market for builders.

Speaking of expanding our mining facilities, I am pleased to reiterate this morning's bigness that we have entered into an agreement to acquire an existing mining facility in the beautiful city of Washington, Georgia, a small community about 1.5 hours outside of the Atlanta Metro region. The City Council met last night and unanimously approved in a public meeting the transfer of the power purchase agreement. And this morning before market open, we released over the wire the full details of our new campus.

We met with the City Council, City Manager and other civic leaders last week, and I'd like to take a moment to thank them for their trust in us, our industry, and the future of the new economy. This acquisition is a great example of how industry and community can come together for the benefit of both.

This active mining facility is located on a 27-acre site, with 36 megawatts of low-carbon plug-in-ready infrastructure. The total purchase also includes 3,400 S19 Series machine. The machines will deliver about 340 petahash immediately upon closing, bumping our hash rate up 12%. That 36 megawatts in total will add about 1.1 exahash to our processing power, increasing our overall hash rate to about four exahash, further securing our position as a top five publicly traded miner. We have miners on hand to immediately fill that shelf space and expect to have the facility at capacity soon after closing.

The total purchase was $25.1 million for land, infrastructure and machines, making this our third wholly-owned facility. We saw this as a unique, accretive opportunity that was financing using two levers available to us: equity and debt. Consideration includes $5.3 million of debt comprised of the seller finance note and assumption of a mortgage. The remainder of the consideration will be paid in cash.

As Gary and I have discussed on our previous calls, our capital strategy draws three levers: selling Bitcoin, obtaining debt and deploying equity. We carefully calibrated these three levers to secure a significant and almost instant growth opportunity that is a first-class outcome for our shareholders. The Washington, Georgia, site continues our infrastructure-first approach to mining where we seek to own and operate the majority of our facility. Importantly, our new Georgia site has significant growth opportunities baked into its future. The site includes exclusive rights to an additional 50 megawatts of development. The new substation is being built next to the property as we speak. That 50-megawatt expansion will add an additional 1.55 exahash, providing for a total of 2.65 exahash at the facility once completed.

All in, we expect the facility to have a substantial impact on how much Bitcoin we mine. We estimate right now that the initial 36 megawatts will increase our daily production by about five Bitcoin, increasing our overall daily production to about 18 Bitcoin at current difficulty rates. While we are in the initial stage of the planning how to most effectively deploy the additional 50 megawatts of power, we envision adding state-of-the-art infrastructure to continue our operational strategy, focused on efficiency, uptime and execution.

I'd like to also take a moment to update you on our partnership with Lancium. We recently traveled to Fort Stockton, Texas, to inspect one of their existing facilities, which features a well-run immersion cooled Bitcoin mining operations. Since then, Lancium has alerted us that they are a little behind schedule on the deployment of the first 50 megawatts we contracted with them. Those megawatts, originally expected to come online by the end of 2022, are now likely to go live in the first quarter of 2023 Calendar Year. We are not concerned by the delays Lancium is experiencing, because we have had more than enough near-term opportunities to capture additional hash rates. We remain excited about the relationship with Lancium, because of the favorable pricing structure it allows.

Now for the long-awaited update on our Energy business. We have made the formal decision to sell the assets of our Energy business. Let me share with you what this looks like and some of our reasons for doing so. First and foremost, we are pursuing the sale of our software technologies, mainly mPulse and GridFabric. We are working with our customers, and upon the conclusion of any outstanding commitments we will discontinue all Energy business activities.

I'd like to take a moment to reiterate our reasoning behind this decision. CleanSpark has long been focused on the vision of abundant, clean, affordable energy, and mining Bitcoin gets us closer to that vision. We believe that sustainable Bitcoin mining is our best hope for a more resilient North American grid. You could say that, if we were previously in the micro grid business, we have since transitioned to the macro grid business; and the macro grid business, that is Bitcoin mining, is absolutely the right decision for our shareholders. Perspective is important in this decision.

As we have mentioned before, over 90% of our revenues now come from mining, yet the Company was still spending a disproportionate amount of time and working capital focused on a segment that provided 10% of our revenue and resulted in negative cash flows. Gary will provide more information on the financial impact of this decision during his remarks. But before I transition to Gary, I'd like to take a moment to thank all of the CleanSpark employees for the work they have done over the quarter. In all the discussion about hash rate, ASICs, megawatts, efficiency and production, it's easy to lose sight that the point of Bitcoin is the people behind us and the people that use it. Our teams belong to both those groups. To the many employees who are listening now, thank you.

With that, I will turn it over to Gary to provide additional details and commentary on our financial results.

Gary, the floor is yours.

Gary Vecchiarelli

Thank you, Zach.

Before I get into the financial results for the third quarter, I want to briefly discuss the Company's decision to divest its Energy business assets. As you are aware, it is our goal to become and maintain our status as a top five publicly traded Bitcoin miner. While the decision to exit the Energy business was not taken lightly, we are excited to move on to the next chapter in the evolution of CleanSpark and solely focus on the business of Bitcoin mining. With the decision to divest the Energy business, we have reclassified our Energy business assets, liabilities, revenues and expenses as discontinued operations, and in line with accounting guidance ASC 205.

As required under the accounting rules, upon reclassification of its assets and liabilities, the Company must adjust the reclassified items to fair market value. The Company has assessed the Energy business assets and has impaired a substantial portion of its intangible assets as a result. The write-down of these assets reflects a conservative estimate as to their value. Actual proceeds from the sale of the assets may vary from this estimate, but we feel the write-down is reasonable given the macro environment and low valuations for similar businesses in the current market conditions.

Intangible assets, such as goodwill, have been written down, in some cases to zero, primarily because the Company has reduced its expenses in the Energy business to only essential items and is not directing further working capital to the Energy business. This write-down is due to the expectation that cash flows from the Energy business are expected to decrease going forward, which does not support the carrying value of their respective intangible assets.

I called this out specifically because the reclassification to discontinued operations has a material impact on our financial statements. However, I want to point out that, while it was a significant driver of our negative GAAP net income for the period, it is a non-cash item. Our reduction of expenses has also decreased our cash burn by over 80% in the Energy business. These efforts will allow us to further optimize our working capital and focus on maximizing return on investment on our Bitcoin mining business. That being said, our financial statements and reported metrics are now presented on a continuing operations basis and primarily represents the sole focus of our business, Bitcoin mining.

As you see on this slide, our revenues have increased 2.5x to almost $31 million from $9 million in the same quarter last year. This increase was driven by our substantial growth in hash rate. Looking at the bottom-left corner of this slide, you will note that despite mining more Bitcoin in the third quarter, our revenues decreased 17%. This was solely driven by Bitcoin prices as we are mining more Bitcoin at lower prices. As you are aware, Bitcoin prices have decreased in Q3 and that had a direct effect on our topline.

On the right side of the slide, you will see our gross profit. In Q3, our gross profit increased almost three-fold to approximately $21 million compared to the same quarter last year. While we had substantial increases in our gross profits, we did see a decline in our margin percentage by 20 points, directly attributable to the decrease in Bitcoin prices. In the final quadrant of this slide, you can see how the decrease in Bitcoin prices affected our margins and gross profits compared to the immediately preceding quarter. Again, despite mining more Bitcoin, we saw compressed margins by about 10% and approximately $8 million less in gross profit.

Moving to the next slide. You will note our net loss increased in Q3 compared to the same quarter last year. The largest driver of this loss includes a non-cash impairment of approximately $10.6 million due to Energy assets reclassified as discontinued operations, as I previously discussed. Also contributing to the loss is impairment of Bitcoin held on our balance sheet and realized losses on sale of Bitcoin.

Since the accounting rules do not allow companies to mark-to-market their Bitcoin, we had to impair our Bitcoin on a first-in, first-out basis, where the price of Bitcoin on any given day is less than the price when we minted it. While we continue to mine Bitcoin profitably, these losses represent the effect of the accounting rules, which, again, is a non-cash impact. When looking at our net loss in Q3 versus last quarter, you will see we were slightly in the red in Q2 and our current quarter noncash adjustments took us to a $29 million loss.

On the right side of the slide, you will see our Adjusted EBITDA, which is a non-GAAP metric management uses to assess its cash flow from operations. I want to point out that our Adjusted EBITDA metric is presented on a continuing operations basis and solely represents our Bitcoin operations. A full reconciliation of our GAAP net income to Adjusted EBITDA can be found in our earnings release on our website.

Our Adjusted EBITDA for the third quarter was approximately $15 million, which represents margins on revenue of 49%. The importance of our Adjusted EBITDA margins should not be overlooked. These are great margins and why we are in the Bitcoin mining business. With respect to our performance in the third quarter compared to the preceding second quarter, you will note that the lower Bitcoin prices translated to lower Adjusted EBITDA amounts and corresponding Adjusted EBITDA margin. Our Adjusted EBITDA decreased approximately $6 million, and our Adjusted EBITDA margins also contracted 11 points. However, our Adjusted EBITDA margins are still very healthy and represent the resiliency of our business model, especially considering we currently have very little debt service requirements.

As you have heard me say several times that the recent decrease in Bitcoin prices have led to lower revenues and contracted margins, I want to take some time discussing our operating expenses. Foremost, while we believe Bitcoin is worth significantly greater than today's price reflects, we feel very comfortable in our cost structure to survive any bear market or crypto winter. We expect to focus on what we can control in this market, and what we can control is our costs, especially our power costs. We control our costs through favorable long-term power purchase agreements, and where we are subject to market rates, we optimize our run time. Over the last quarter, we have kept our power costs under $0.04 per kilowatt-hour on a blended average basis.

While our wholly-owned operations in Norcross are not immune to periods of peak market demand and surges in energy prices, we have not seen the need to curtail our mining activities for more than a few hours at a time. We also feel very comfortable with our operations and the geographic location in Georgia as we experienced greater uptime than many of our peers who have operations concentrated in the State of Texas. Looking at our other operating expenses, you will see we have reduced payroll and G&A expenses due to cost containment efforts. We anticipate that we are at a turning point where we have built scale and anticipate increased Adjusted EBITDA margins when adding new wholly-owned locations, such as Washington, Georgia.

When looking at the balance sheet, our total liquidity on June 30 was over $13 million, comprised of cash and Bitcoin. The third quarter was also when we closed on the Trinity facility, and have drawn down $20 million on the $35 million facility, to date, of which we had $18 million of debt outstanding as of June 30. The transaction announced this morning includes a little over $5 million of debt, part of which is seller based financing and part of which is assumption of a mortgage. This will bring our total debt to approximately $23 million and our debt-to-EBITDA ratio is still exceptionally low. We believe our balance sheet is a source of our financial strength and sets us apart from our peers. We are not carrying much debt, so we don't have burdensome debt obligations eating away at our cash flow.

As of July 31, we have almost 40,000 miners on hand, the majority of which are deployed. With the miners on hand ready for deployment and 5,100 miners expected to be delivered, we will have over 13,000 miners we can put to work in the new Washington location and the expansion in Norcross.

Looking at our future commitments related to Capex, we have minimal commitments outstanding as of July 31. The recent slide in Bitcoin prices has caused price protection on our few remaining long-term miner contracts to kick in. The remaining commitments related to miners are very small, less than $2 million in total. I also want to note that the contract for 1,800 XPs signed in June were not only purchased at a discount, but had price protection which further decreased the average price per terahash. This has resulted in no further amounts likely due under that contract. As was discussed on our previous calls, we made a decision not to tie up capital in long-term miner purchase contracts, with the expectation that miner prices would decrease. With miner prices either hitting the bottom, or near the bottom, we anticipate purchasing more miners on the spot market in the near term.

The most significant portion of our Capex commitments relates to construction in Norcross. We anticipate remaining Norcross commitments to be around $3 million, putting our current total Capex commitments to less than $5 million over the next few months. In the coming weeks, we will be assessing potential Capex at the Washington location. But since the location is relatively turnkey, we expect any improvements on the first 36 megawatts to be minimal, primarily to make the location more energy efficient. The acquisition will come with 12 megawatts of miners, and we already have miners in hand to fill the remaining 24 megawatts, which means the facility will be at capacity and producing at least five Bitcoin per day based on current difficulty levels. Also, the Washington location has an additional 50 megawatts of capacity that is expected to be available in 2023. We will be completing engineering assessments in the coming months to determine the amount of Capex needed to utilize this additional 50 megawatts.

It is worth noting that since the substation is adjacent to the property, it is expected that any Capex deployed for this expansion will be in the form of switchgear, transformers, racks and cooling that will be on premises, and there is virtually no cost to us to have the power delivered to the property. On the topic of capital strategy, I want to provide additional color on the comments Zach made early on the call. Our capital strategy has allowed us to play offense, even in down markets such as now. This strategy remains very much in place, and we still consider using all three levers, Bitcoin, debt and equity, on a frequent basis. In July, we used our self-filing to raise approximately $25 million, 100% of which will be used for growth capital. Most of these proceeds will, in fact, be used to the acquisition we announced this morning.

In recent months, debt markets have tightened up, and lenders are only entering into transactions with quality names like CleanSpark. However, regardless of how active the debt markets are, a debt transaction takes time, time we didn’t have to capture this accretive opportunity. Going forward, we will continue to be opportunistic, and debt remains a lever we anticipate using further. As Bitcoin prices recover, we believe the value of our assets, including the Washington acquisition, will also increase in value. Given the fact asset values tend to follow Bitcoin pricing, we value being nimble and striking quickly in this market versus acquiring debt at low loan-to-value ratios and running a process which could take weeks or months.

I want to stress how important this really is. Being nimble in the current market allows us to make acquisitions, which not only immediately contribute to higher hash rate and more Bitcoin mined, but also give us a source of potential refinancing as Bitcoin and asset prices rise. Furthermore, regardless of what number we pull, we expect to minimize the time between the deployment of our capital and when the capital starts producing cash flow. This is especially important in the current market.

On a final note, we would like to update our hash rate guidance. Previously, our guidance was 3.4 exahash by September 30 and four exahash by the end of this calendar year. We feel comfortable saying we will surpass 3.4 exahash earlier than expected, and with the Washington acquisition, and the planned expansion at that site and other opportunities in our pipeline, we are increasing our guidance for the calendar year-end to five exahash. Furthermore, we are issuing new guidance for the end of Calendar Year 2023 of 22.4 exahash. This guidance is based on committed and contracted sites, sites currently under development, and co-location facilities. Given our history of strong execution, we feel confident in meeting the guidance of 22.4 exahash, which will help secure our position as one of the top miners in the world. We will continue to keep investors apprised of our progress and update our hash rate expectations as transactions warrant.

Isaac, back to you.

Isaac Holyoak

Thanks, Gary.

David, this concludes our prepared remarks. We would now like to open the line for questions from analysts.

Operator

Thank you. We will take our first question from Mike Colonnese with H.C. Wainwright & Co. Your line is now open.

Mike Colonnese

Great. Thanks. Hi, guys. Congratulations on the sale of the legacy business and the acquisition of our third site there in Georgia, very exciting times for you.

To start, can you provide any additional color on the sale of the Energy business in terms of when you expect this to finalize and the potential amount of proceeds you could and where you would deploy that extra capital?

Zach Bradford

Hi, Mike. This is Zach. Thanks for joining.

To add clarity we are pursuing the sale. We have not executed a final agreement, and so right now we don't have an estimate of what that will be. But what I can say is that any cash flow does come from that we will obviously be deploying directly into the mining business. But right now, we are just in the pursuit of that sale right now.

Mike Colonnese

Got it. Thanks for the clarification.

My next question is on your year-end 2023 hash rate guide, obviously, a big number. If you could just walk us through how you get there and remind us what your current contracted hash rate stands today.

Zach Bradford

Yes. That is actually built on our current contracted hash rate. We are at 2.9 exahash now, with the 36 megawatts that we are adding in Washington that adds 1.1. We also have about 0.4 to 0.5 exahash that will be additional coming online in Norcross over the next few months.

Now, the 50-megawatt expansion of Washington is 1.5. We also have some emerging plans that we are working on that will be about 0.5 exahash. Then with our contracted pipeline of co-location facilities, we have 16 exahash built into that number.

Now, to add some detail and color on that, that of course includes 500 megawatts we have contracted with Lancium. Now as part of that, 300 of those are our options. We do expect to further expand our own wholly-owned facilities beyond what we have done today, and we would then add those in; and we may pass, or we may do both.

There's 300 megawatts worth of capacity that are optionality for us to either do at our own site, or through co-location, but we feel extremely confident that we have all the capacity under contract in place to get to that goal by the end of next year.

Mike Colonnese

That's great. I appreciate all the color there. Specifically, as it relates the machine capacity coming online. If you could just update us there in terms of what's contracted on that side and the potential cadence we could expect to see that come online, at least through the end of this calendar year in 2022.

Zach Bradford

Mike, I am going to point out how important we think it is that we are going to rely on the spot market. We have 4.5 exahash of machines that we have under contract. We expect to lean in heavily into the spot market, and our strategy of execution has proved us it has worked very well. I think that there's a lot of fixation in the market based on the number of machines that a company has. But our peers have shown that sometimes the number of machines you have, it doesn't matter unless you have a plug to plug it in. We are going a plug-first approach on our infrastructure and we are very confident that the spot market will serve us well.

A few reasons that we can point to, obviously, there's more machines right now available on the market than ever before. But also with supply chains improving, spot market is even available from the manufacturers currently. Future contracts to a degree are no longer required and we are seeing a lot of good things. As Gary mentioned, we anticipate—we do watch it very closely. We think that we are at or near the bottom of the machine prices, and we expect to be making some moves in the coming months and quarters to fill that gap on the machine side. But we are also—and again, we have made this a big part of our strategy, we are incredibly focused on the length of time between deploying capital and plugging a machine in.

We believe that minimizing that is important for a variety of reasons, but not least of which is from a cost of capital point of view, if we deploy $100 million now for miners that are going to arrive next year, we frankly think that that's a poor use of capital. As opposed to, even if it cost us $105 million to pull that down 60 days out, that limits the length of time between the capital and the machine actually being plugged in. We do expect to stick to that strategy and have the plugs ready in time for these miners to be plugged in.

Mike Colonnese

Got it. Appreciate all the color, and I will jump back into the queue for the rest of the participants. Thanks, again.

Zach Bradford

Thank you, Mike.

Operator

Next we will go to Greg Lewis with BTIG. Your line is now open.

Greg Lewis

Hi. Thank you and good afternoon, everybody, and yes, congratulations on the acquisition of the facility in Georgia. I did have a couple of questions around that.

You mentioned, Zach, in your prepared comments around the transfer of the PPA. Not expecting you to get too granular in that, but is there any kind of color you can provide us on the type of power it is and the remaining length of the PPA, just given that it was a transfer?

Zach Bradford

Yes. Yes. It's actually a 10-year agreement is how it's structured. It has a provision in there that provides 70%-plus in carbon-free power. The majority of that is going to be nuclear based. It provides us quite a bit of flexibility in how we proceed, and we see it as a really advantageous contract for us from a market-based approach.

Greg Lewis

No. That's great. Just as I think about it, the facility has been there for a couple of years, so it sounds like there's—it sounds like we are—it sounds like we have seven years to eight left on that PPA, is that kind of the right way to think about it?

Zach Bradford

We are actually renewing it. We will have a full 10-year as part of this process.

Greg Lewis

Okay. Awesome. Great. Thanks. Great to hear. Then when you think about the build-out in next, as you evolve that or build that out in 2023, I noticed you mentioned some items, the switchgears, the transformers. When we think about the lead times on the supply chain out there, are these things that, I guess, we have to make a decision around that build-out sooner rather than later as we think around lead times for these things. Just kind of curious, is that something that we should expect to show up in Capex later this year?

Zach Bradford

Yes. Most of those lead times are currently readily available, because from our side it's a MEAG substation that's being built. MEAG is solely responsible for all the cost and lead times on that. They are going to have their own lead times, which they are already in the middle of procuring and much of it has already been procured, of course. On our side, it's all the smaller transformers and the basics there.

Most of that currently has lead times in under 12 weeks, pretty readily available. We would expect to begin the full engineering exercise, and we would likely procure those late at the end of this year. What our goal is going to be is to stay in touch with the utility very closely and try and deploy the capital. Again, we line this up so that when they hit—the power line hits the corner of our property, we are ready to take that in and be fired up right away. I expect much of the construction on our side will happen early 2023. So, yes, call it, three months to four months before that is when we will begin our procurement exercise.

Greg Lewis

Okay. Great. Then just one more on Washington, I guess, we bought the existing rigs that were in the facility and those were S19s. Realizing, as we kind of continue to acquire rigs in the second-hand market, there's—you guys—we expect you to be busy, and obviously, based on that forward guidance, you are going to be busy. We are not—are we still rig agnostic, i.e., if we can pick up S19J Pros at, I don't know, in the $15 per terahash to $20 per terahash range, we are interested in doing that; or are we at this point, pivoting more to XPs, I think, you mentioned in June, you bought maybe 1,800 or 1,900 XPs; or are we still really just knowing that there's a lot out there, any way to think about that?

Zach Bradford

Yes. We are interested in ROI. It's about what gives us the best return on investment. For example, we bought some Whatsminer's, and those Whatsminer's we measured in just simply based on ROI. We actually purchased those at $18 a terahash, which is, I think, that we probably nailed the bottom on that one. For comparison, the XPs being delivered from Bitmain, at Bitmain's pricing, which I will say, our pricing is lower than this, but its $50 a terahash for their August delivery. We have a lower price than that on our

XPs, again, because we purchased at a discount by taking over a distressed asset. We are measuring it based upon ROI.

To put that in perspective, the XPs are about 33% more efficient in output. They currently are costing about 100% more than an S19J Pro on the spot market. For us, we measure that delta. We are very interested in acquiring XPs, but we will always measure the return on investments on that machine. As they get closer and as they get equal, we will begin, of course, to switch over and buy more and more XPs as opposed to the S19J Pros. But realistically, because we do expect, because the XPs are new, there's going to continue to be a gap for some period of time, we are going to probably take a blended approach between the S19s and the XPs, and again, this is driven by ROI.

Greg Lewis

No. That's great to hear, Zach. And, guys, thanks again for taking my questions, and yes, keep building out the footprint. It's been pretty impressive what you have been able to do here over the last couple of quarters. Have a great rest of the day.

Zach Bradford

Okay. Thank you, Greg.

Isaac Holyoak

Thank you, Greg and Mike. Just real fast, I want to thank Greg and Mike for their questions, and thank everyone for joining us today. I wish everyone a good afternoon.

Back to you, David.

Operator

Okay. Thank you, Isaac. We have no further questions.

Ladies and gentlemen, that does conclude today's conference. We thank you for attending.