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CleanSpark

Fiscal Full Year and Q4 2022 Earnings Results

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Josh Siegler, *Cantor Fitzgerald*

Brian Dobson, *Chardan Capital Markets*

Gregory Lewis, *BTIG*

PRESENTATION

Operator

Good afternoon. At this time, I would like to welcome everyone to the conference call.

At this time, I would like to turn the floor over to Isaac Holyoak, Chief Communication Officer.

Isaac Holyoak

Thanks, Brent, and thank you for joining us today for CleanSpark's fourth quarter and fiscal full year 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'm 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 business as we see it 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.

It is now my pleasure to turn the call over to Zach.

Zachary Bradford

Thanks, Isaac. Good afternoon, and thank you for joining our call.

I want to pause for a minute and say, what a year. It's true what they say about Bitcoin. It moves lightning fast, and so do we. Much like dog years, it feels like a year in Bitcoin is about seven years of experience in traditional markets, and for CleanSpark, that time distortion has been even greater. We've established ourselves as one of the leading publicly-traded Bitcoin miners in the world, all in just one year.

When we checked in with you last December for our Fiscal Year 2021 earnings call, we reported revenue for that fiscal year of $49.4 million. We had just over 10,000 machines operational for about one exahash, and, at the time, we were just using 33 megawatts of power. We had two sites, one fully running at College Park and one under development at Norcross, and for the fiscal year, we mined 892 Bitcoin last year, and we were also operating two business segments. Now this fiscal year, we've doubled, tripled, and even quadrupled some of these key performance indicators.

Our revenue for Fiscal Year 2022 was $131.5 million, almost a 250% increase over the prior year. Our Adjusted EBITDA was $65.7 million, a 500% increase. At the end of the fiscal year, we had over 42,000 miners operational, a 313% increase. Our hash rate was 4.16, a 312% increase, and our operational megawatts were 140 megawatts, a 324% increase.

As of this call, we have four owned and operated sites that we own 100% with no partners and little debt, and for Fiscal Year 2022, we mined 3,750 Bitcoins, a 320% increase in our production.

I get asked all the time when I'm at events what our secret is. I tell them two things.

First, I believe that a lot of the entrants into this space thought the bull market would never end and they forgot to plan accordingly. This is not to cast aspersions on our colleagues. We all hoped it wouldn't end, but it did, and we believe strongly it will come back. We started preparing early on by calibrating the three levers of capital available to us, Bitcoin, equity, and debt, and principal among those is Bitcoin. Since October of last year, we've used our Bitcoin to fund our operations and growth, and that has made a big difference for us. For example, our average sale price per Bitcoin in Fiscal 2022 was over $35,000 of Bitcoin.

The second thing I tell people is that the key to successful Bitcoin mining is operational. Some groups believe that it is as simple as acquiring capital and plugging in machines. Well, that may have been true in the bull market. The key differentiator now is operational prowess. You have to roll up your sleeves and do the work. This is what makes us a Bitcoin miner. Despite harsh economic realities, we have assembled the teams, tools, and ideas to make the very most of this bear market. We believe great companies use bear markets to grow, and we've certainly grown a lot during this bear market.

We are particularly proud of the growth and development of our owned and operated facilities.

In the last four months, we've expanded our campuses with the acquisition of the Washington and Sandersville sites. We also fully completed Phase 2 of our Norcross campus. While the smallest of our sites, Norcross is truly a special place, deploying the state-of-the-art immersion cooling technology. We recently opened the facility to the local community, including dignitaries, business leaders, and other officials. All walked away impressed. It reminds me that as we do the work of educating people about Bitcoin and Bitcoin mining, seeing really is believing.

We did something similar in Washington. After acquiring the facility, we invited the mayor, city council, chamber of commerce, and community members to tour the air cooled facility. Again, this is the way to the hearts and minds of the communities we operate in; full transparency as we work to cultivate trust in an industry that is new for most people.

The last thing I want to mention about our growth in Georgia is that it has made us a power purchaser of consequence. We are now one of the largest power purchasers in the state of Georgia, and we are the Municipal Energy Association of Georgia's largest customer. We intend to continue to build our relationships with our partner cities and to procure the best possible power rates for us and the communities we operate in.

One last key highlight for the year, and this was a very big one for us. We transitioned to a pure play Bitcoin miner. As many on this call know, Matt and I founded CleanSpark in 2014 to help people achieve energy independence for homes and small businesses. We built localized power grids or micro-grids for military bases, factories, small businesses, and people's homes. In 2020, we began applying that expertise to Bitcoin mining. When we acquired our very first Bitcoin mining campus in Georgia, since then, we've grown our expertise in Bitcoin mining to the point that we are passing the baton on our micro-grid business.

Subsequent to the quarter's end, we sold many of our energy assets, including our mPulse and GridFabric products and the contracts associated with them. Along with the sale of those assets, we transitioned our entire software team to new owners. These moves bring two clear advantages.

First, it allows us to continue to deepen our expertise in Bitcoin mining by streamlining our operational focus. Second, it secures us significant cost savings in the reduction of payroll and working capital requirements that are incredibly impactful in a bear market environment. As our long-time investors know, this was a low-margin, high-capital business, the exit of which will save us tens of millions in capital in the very near term. We are in the process of selling the remaining assets, and we hope to fully divest of our legacy business in the very near future.

I'd now like to transition my discussion to talk a little bit more about what next year looks like for us and what you might reasonably expect from us as we continue to grow.

A few minutes ago, we filed the new Form S-3 with the SEC. In conjunction with this filing, we also filed a new at-the-market offering that allows us to sell into the market up to $500 million of common stock in one or more public offerings over the next three years. There are two things to note about this filing, and I want to address both head on.

First, we had previously filed an offering under the same terms. This filing functions as a refresh of our existing shelf offering, which was also $500 million, of which we only drew down about $280 million. The filing of our updated shelf registration statement is designed to give us greater financial flexibility, allowing us to continue to secure additional capital on an opportunistic basis to take advantage of current market opportunities.

Second, I want to take a moment to discuss concerns about dilution. CleanSpark has established a clear track record of choosing to issue equity for accretive purposes. We make acquisitions within a specific ROI range because we expect them to be accretive to the shareholders in the long run. This move allows us to maneuver through a bear market while strengthening our operations and establishing a platform for growth.

Over the last two years, we have added more assets than we've sold in equity. Over those two years, we raised approximately $395 million in equity, and during the same time, we purchased miners, facilities, infrastructure, and acquisitions totaling approximately $440 million, also adding only around $20 million in debt to our balance sheet, all the while, employing, as of today, about 130 hardworking people. To add to that, our Bitcoin mining revenue and Adjusted EBITDA for last two years combined was $170 million and $77 million, respectively.

These moves translated into specific growth opportunities that have made us one of the top publicly-traded Bitcoin mining companies.

This month, we've now hit a high of 5.8 exahash per second, and we are on track to hit six exahash per second before the end of the year because machines we were temporarily hosting our Sandersville site are now being moved out earlier than expected. Adding to that, our daily Bitcoin production high has reached 21.7. We also exceeded our year-end hash rate guidance, and in November, mined a record 535 Bitcoin that month.

I want to reiterate that our strategy of using equities is paired with how we use the Bitcoin we mine, even before the current bear market when the Bitcoin price was still hovering around a $50,000 price level. We used Bitcoin to support our operations and growth when our peers were choosing to dilute shareholders in favor of holding the Bitcoin they produced. At the time, this was a bold move. We continue to believe in this approach to maximize value for our shareholders and reserving equity as a financial tool to support growth. This strategy has rewarded us well, allowing us to grow even during these tough times for the mining industry, but we will not prioritize growth at any cost; bold growth yes, but not the sort of arms race that has so quickly deteriorated the financial health of our industry.

With that in mind, I'd like to spend some time talking about our growth philosophy.

We set bold, realizable projections for our hash rate growth in our last earnings call. At that time, we guided towards 22.4 exahash by the end of 2023. Earlier this year, we announced a partnership with Lancium. As part of the agreement, Lancium agreed to build clean campuses in West Texas to host 200 megawatts of our machines or about 6.6 exahash of our 2023 Calendar year-end guidance. Originally, they committed to provide the first 50 megawatts in December of this year and the next 150 megawatts in spring of '23. In August, Lancium let us know they were experiencing delays, and we communicated to you that we were shifting our expectations for the initial 50 megawatts to early '23. Just recently, they informed us of capital constraints affecting their ability to meet their commitments for all 200 megawatts, pushing the readiness of these facilities into late 2023, and based upon current market conditions, it's likely to be even later. While we intend to continue to work with Lancium long term, we all know that being in a co-location business is incredibly difficult right now, and for this reason, we are revising our 2023 Calendar year-end guidance to 16 exahash.

Look, if we can beat 16, which we want to do, we will. We have a track record of doing just that. We guided a five exahash for the end of this calendar year, and we're now looking at six. We chose to go into the spot market for machines instead of locking up money in long-term machine contracts, and we were right about that, often setting the floor price. We chose to sell the Bitcoin we mined to fund our growth in operations, and that, too, has proven to be correct, and all along the way, we've gotten better and better about execution. This team continues to exceed my expectations, and I'm proud of them, and I want you as shareholders to have the same pride that I do. If we can beat 16 exahash, and we certainly have a track record of over-delivering on our guidance, we'll do our damnedest to continue to do so.

As I said, we will grow, but not at all cost. To this point in our development, we've been laser-focused on increasing Bitcoin production. With Bitcoin’s current prices, we're also focused on maximizing margins. If producing less Bitcoin at a higher profit margin is the right thing to do, we're going to do that. Let me repeat; the goal is to maximize margins, and the surest way to do that is to responsibly mine while being responsive to both Bitcoin and power prices, and to be clear, just because we are maximizing margins does not mean we are seeing large production decreases. Currently, our uptime averages are greater than 90%. While our internal analysis indicates that we are in or nearing the bottom of the bear market, that does not mean we're out of the woods.

I want to thank our shareholders for trusting us and taking this journey with us. Bitcoin is not some passing fad. It is a technological and financial advancement in human history. Our world is only beginning to understand it. Adoption is increasing throughout the world. Layer two and three technologies continue to emerge and develop. This is transformational technology, and that part about adoption is key. When the Internet was at Bitcoin’s current stage of growth, adoption was growing at 85% a year versus the 165% a year that Bitcoin is growing. We are just at the beginning, so to our shareholders, thank you for sticking with us on this journey. You invest in CleanSpark because you believe in our team; that we are efficient, skilled operators who mine at the best margins possible for our shareholders.

Before passing the mic to Gary, I'd like to make one more comment, and that is to thank the teams that have made this all possible. The CleanSpark team is incredible. From corporate headquarters to the mining campuses, our people are committed to do what we are jointly accomplishing. I'd especially like to thank our teams in the field. You've racked and repaired in heat and cold, rain and shine, 24 hours a day, seven days a week. The result is a truly impressive network of mining campuses that are making a difference in the beautiful communities they are located in. Thank you.

I'd now like to give the floor to Gary, our Chief Financial Officer, to discuss our financial results.

Gary A. Vecchiarelli

Thank you, Zach.

I would like to echo a few points Zach made, as they cannot be emphasized enough. Twenty-twenty-two was a transformative year for CleanSpark, and while the Company achieved historical revenues and Adjusted EBITDA, it would not have been possible without what we consider to be a best-in-class operational team. It is that team and the individuals who comprise that team which have made us one of the most efficient Bitcoin mining operations on the planet. Their efforts are the reason why we can talk about these record numbers today.

Reviewing the numbers for the 2022 Fiscal Year, you'll note that our revenues were $131.5 million, which was an increase of 235% over the prior year. This was obviously due to a full year of Bitcoin mining operations, where we increased our hash rate by over three times by the end of the year. Granted, Bitcoin has been a volatile asset. We started the fiscal year with Bitcoin prices at near all time highs, only to end at multi-year lows. While our GAAP revenues reflected a significant decline in Bitcoin prices, we continued to mine more Bitcoin every single month and ended the year with 3,750 Bitcoin mined for the year.

We did see a significantly greater net loss this year, more than doubling. The primary drivers of this net loss were non-cash in nature, with over $100 million of non-cash items hitting our P&L. Some of these items relate to the exiting of the energy business, as we discussed on our Q3 call. We also have significant non-cash charges related to modification of equity instruments, primarily driven by the volatility in our stock in recent years, for which volatility is a key input in evaluation of valuing equity instruments. We also saw almost $50 million in depreciation directly related to a rapid growth and acquisition of miners and related equipment, some of which was recorded at much higher costs than current spot market pricing.

While we know Bitcoin market prices and margins compressed as year went on, when you take a step back, I believe these numbers paint an important picture, and that is the power and scale of our business. When Bitcoin price is high, our margins expand and we experience significant cash flow. However, when Bitcoin price is depressed, as we are in the current market, our business model and operations have the resiliency to still operate on a positive Adjusted EBITDA basis. Our ability to mine Bitcoin efficiently and profitably during a bear market is a direct reflection of our disciplined operations and low debt leverage.

Looking at the fourth quarter specifically, you can see the effects lower Bitcoin price had on the most recent quarter. We mined more than twice as much Bitcoin in the fourth quarter compared to the same quarter last year and only recognized an increase of 15% in revenue. Comparing the fourth quarter to preceding third quarter, it's a similar story. We mined 27% more Bitcoin than the third quarter, yet saw a 16% decline in revenue. Since we mined more Bitcoin, we used more energy, which directly affected our gross profit. Compared to the same quarter 2021, our gross margins were only 36%, producing $9.5 million of gross profit compared to almost $20 million in the same period last year. Looking at the fourth quarter compared to the immediate prior third quarter, our margins were cut in half due to the decline in Bitcoin pricing.

Moving to the next slide, you will see we had a loss of over $42 million in the fourth quarter compared to $5.4 million in the fourth quarter of the prior year. We experienced significant net losses on a GAAP basis for several reasons. Foremost, due to the decline in Bitcoin prices, we had impairments to our goodwill balances over $12 million. These goodwill balances were originally recognized as a result of our entry into the Bitcoin mining industry back in December of 2020. The analysis required by the accounting rules did not support the carrying value of the goodwill. Like many of our industry peers, our goodwill was written down.

Our stock-based compensation was almost $14 million, which is significantly higher than the prior periods due to modification of certain equity instruments. It is important to note that these two items represented almost $26 million of the GAAP-based loss alone, and both of these charges were non-cash items.

Additionally, we did see the loss in discontinued operations decrease from $7.5 million in the third quarter to $1.1 million in the fourth quarter. This is a direct effect of our exit from the energy business, and we expect this number to drastically decrease in 2023 and eventually be zero as we complete the sale of any remaining energy business assets.

On the right side of the slide, you will see our fourth quarter Adjusted EBITDA, a non-GAAP metric Management uses to evaluate the cash flow from operations. This also shows the effect of a low Bitcoin price has on our cash flow, as we saw Adjusted EBITDA margins decreased 11%, about a quarter of what the Adjusted EBITDA margins were at both Q4 '21 and the preceding third quarter of this year.

However, I want to point out that while our margins and cash flows have been compressed, our excellent operations team continues to mine Bitcoin on a profitable basis. This is achieved by an hourly assessment of breakeven pricing models incorporating current Bitcoin prices, current power prices, and our hash rate as a percentage of the global hash rate. This constant monitoring of our operations allows us to not only recognize Bitcoin on a profitable GAAP basis, but also on an Adjusted EBITDA basis.

Taking a look at our balance sheet, you'll note that we had over $31 million of total liquidity as of September 30, with over $20 million in cash. This liquidity was primarily used for the Sandersville, Georgia acquisition and our $28 million purchase of 10,000 S19J Pro machines from Bitmain subsequent to year-end.

We also had a fair market value of $9 million for assets held for sale related to our energy business. As you will read in our Form 10-K, we sold a portion of these assets in November. The remaining energy business assets are expected to be sold in the near future.

As I pointed out previously, we have very little leverage on our balance sheet, with approximately $21.2 million of notes payable outstanding. This amount is primarily the Trinity loan that we closed early in the year. In August, we added several million dollars of assumed mortgages and a short-term seller carry back loan related to the acquisition of the Washington, Georgia site.

We believe we have one of the best, if not the best, balance sheets in the mining industry, and we expect to utilize our balance sheet for continued growth in the coming year.

On the next slide, you'll see a snapshot of our current cap ex. We have 58,500 miners deployed, with over 4,000 ready to be deployed and another 6,400 to be delivered in January. Our current hash rate is 5.8 exahash, and as Zach mentioned, we expect it to be at six exahash by December 31; numbers that have surpassed expectations and are a testament to the operational team we have on the ground in Georgia.

I also want to point out that we have no current outstanding commitments for miner cap ex. This is an important data point, as it provides us the ability to be nimble and quickly acquire assets on the spot market if we so choose.

We also have budgeted $70 million for construction to build the 200 megawatt expansions at Sandersville and Washington, which represents an approximate cost of $350,000 a megawatt.

We currently need an additional 95,000 miners to reach our current guidance of 16 exahash by December 31 of next year. This number is not reflected here, as the number of miners and the cost of that cap ex will fluctuate. This cost will fluctuate depending on the model miners we purchase and the cost per terahash. The 95,000 number was based on the assumption that all of those miner purchases would be S19J Pros, and the number could potentially be lower if the Company decides to purchase more XPs or other models with higher processing power.

As you also see at the bottom of the slide, we have over 10,500 miners that we energize in the near future, which represents an additional one exahash of processing power, which would get us close to seven exahash early next quarter.

I want to end my comments talking about our capital strategy, something that has really set us apart amongst our peers.

On our first quarter call, we discussed the three levers we could pull for capital in our business. We've applied a minimal amount of debt on our balance sheet, and having low debt service has allowed us the flexibility to grow during these tough times While debt markets are currently closed for most mining companies, we continue to have positive conversation with lenders, primarily because of our balance sheet and financial position. However, we remain cautious given the contracted margins, and we'll obtain debt at a time when we feel comfortable, something I previously referred to as smart leverage, and what I mean by that is that we aren't going to take on toxic debt that will jeopardize the great work and growth we've experienced thus far.

Bitcoin is another lever of ours which we have been very transparent about using. In 2021 and throughout 2022, we were vocal about selling Bitcoin to pay for operational expenditures and growth cap ex. Our strategy again proved effective, as we sold Bitcoin at an average price of over $35,000 for the Fiscal Year

2022. Now, it's easy to Monday morning quarterback this considering where Bitcoin prices are now, but we believed then, as we do now, that Bitcoin is our functional currency, and we'll continue to use our Bitcoin production as a means of liquidity.

Last, I want to address our use of equity. As Zach discussed earlier, we have filed for a refresh in our ATM facility of $500 million. I see the facility as just another tool in our toolbox; one of several tools in equity we can use, but do not have to use. We have used both the Bitcoin and equity levers to get us to this point and it’s paid off, as our hash rate has exponentially increased in the last year, especially over the last few months. We will continue to use equity as appropriate, but I want to be very clear. When we use equity, we intend to use it for growth capital expenditures where the return on investment is meaningful and helps produce accretive result for our shareholders. From where I sit, using equity will allow us to acquire assets, which will produce free cash flow and have no encumbrances or debt service. This is important to our company, as we want to be prepared for the next increase in Bitcoin price, and having unencumbered assets will allow our free cash flow margins to greatly increase.

Furthermore, we have said before that a rising tide lifts all ships. That means with a rising Bitcoin price, we would expect there would be corresponding increases in the price per terahash of machines and infrastructure, and hopefully, an increase in our stock price, too. However, we also expect that a higher Bitcoin price would increase economics and essential miners, also reducing the number of opportunities for low-priced acquisitions. In fact, if Bitcoin price were to rebound significantly, the limited acquisition opportunities might actually call for a premium opposite of what we're seeing currently in the marketplace. Therefore, we see much opportunity in the short and midterm to make accretive acquisitions at historically low prices.

Thank you for your time.

Isaac, back to you.

Isaac Holyoak

Thanks, Gary.

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

Operator

Our first question comes from the line of Mike Colonnese with H.C. Wainwright. Your line is open.

Mike Colonnese

Good afternoon, guys, and congratulations on how much you’ve been able to accomplish over the past few months despite this bear market. Really, really impressive to see.

Zachary Bradford

Hey, (inaudible).

Mike Colonnese

Absolutely.

My first question, if you can provide a little bit more color on the expansion roadmap and deployment timeline for the additional build-out at Washington and Sandersville. I know you mentioned you had about 200 megawatts of additional capacity at those two sites, just curious how we should expect that to layer in over the course of 2023.

Zachary Bradford

Yes. This is Zach. I'll address that.

Something exciting about our Sandersville site is we're still actually shelfing more minors, we actually have some capacity yet to come online; almost 35 megawatts that'll come online likely by the end of January, fully billed, fully paid for. As we mentioned earlier in the call, we're just waiting for machines that were temporarily being hosted there as part of the exit of the prior owner to come off shelf, you're going to see a bit of a bump in the very near term in Sandersville.

Now, after that, we intend to expand Sandersville another 150 megawatts. We expect that build-out to be complete and functional likely near the end of 2023. It's going to be a fairly significant process, it's going to take a while, but Washington, we are adding 50 megawatts, and that construction has actually begun. We expect that to be ready and energized by April of this year, which will give us room for I think about 16,000 machines.

Mike Colonnese

That's great. Appreciate the color there.

Any visibility you can provide on blended power costs for the quarter, how prices have trended since, and when we might expect you to negotiate any additional power contracts similar to what you've secured at College Park as we look out?

Zachary Bradford

Yes, absolutely, over the last quarter, our fourth quarter, our power prices landed on a weighted average basis just over $0.05, and it's interesting. I was in Amsterdam. I spent some time speaking on panels as we looked also at sites worldwide, and here in the U.S., what we're seeing as a result of the different pressures in the market is pressures related to pricing. What we're not seeing pressures on is access like they are in Europe, and anybody can see—and we—a great place I would point people to is following the Henry Hub. We use that as part of our predictions for power pricing.

We're starting to see power prices come in on an elevated basis as a result of the macroeconomic events, but we're also predicting those to drop off fairly quickly come spring, and yes, we have absolutely seen these pressures, but one of the key things, and we've spent a lot of time and effort on this, I mentioned in the call, we're the largest power purchaser for MEAG, which is the—which is our largest provider.

They partner with the cities that we operate in, and as a result, we have a lot of purchasing power, we are actively working on securing agreements to lock in lower rates from a long-term point of view across all of our sites, and that's what we want to bring to the table in this process is our combined purchasing power with three out of the four cities we operate in being through MEAG, and we expect the right time to lock in the best rates is going to be the same time that we start to see the declines, we're kind of aiming for a spring time period to make some of those moves, but with that said, I want to emphasize, we picked Georgia for a reason, because we're comfortable in our ability to manage rates wherever they may be and still manage to run profitably and effectively from a direct mining cost point of view. We're really happy with where we're at, but we do expect to make moves early ‘23, mid ‘23 to bring significant improvements to our blended power cost long term.

Mike Colonnese

That’s great to hear. Thank you for taking my questions.

Zachary Bradford

Excellent. Thank you, Mike.

Operator

Your next question is from the line of Josh Siegler with Cantor Fitzgerald. Your line is open.

Josh Siegler

Yes. Hi. Thanks for taking my questions.

I was curious if you can make some commentary on what you're currently seeing in the secondary market as far as pricing for rigs is going. What gives you confidence in your ability to acquire the 95,000 or so of rigs to hit your 16 exahash target based off of the prices right now?

Thank you.

Zachary Bradford

Hey, Josh. Thanks for listening in.

What we're seeing right now from a rig pricing point of view is we are seeing buying opportunities continue to persist in the teens, and we do expect to—and what I mean teens, it's in the dollars per terahash anywhere from $11 to $19, and most of that on the low end depending on if the units are state side or not. What we are anticipating is we're anticipating there to be plenty of inventory available, especially over the first six months of next year. I do think that prices will stay largely suppressed for at least a few more months.

With that said though, one of the things we're keeping a very close eye on is that when Bitcoin prices move up, the price of rigs seems to move up a little quicker than Bitcoin does because everybody's moving in anticipation and worry that they're seeing in the rear view mirror, which is why we have strategically chosen and the way that we're going down its path is from a dollar cost average point of view. We've acquired machines in the low teens. We've acquired machines in the 20s. We think that the fundamental long-term value is probably in the 30s, anything below the 30s we see as a really good thing, but we are absolutely confident that we can acquire those rigs at the low prices. A lot of inventory out there. We've obviously been privy to everything from new rigs coming directly from (inaudible) Bitmain. We've seen bankrupt asset cost. We've seen a lot of different things, there's definitely 95,000 rigs out there for us to acquire.

We also could, of course, evaluate doing future contracts back through the traditional way with Bitmain, and again, Bitmain’s not the only manufacturer out there. There's MicroBT and Canaan. We, of course, have chosen to work mostly with Bitmain. That's what we watch closest, but we're seeing some really great technology moves out of MicroBT and the Whatsminers in particular, suffice it to say, great prices, plenty of rigs.

Josh Siegler

Great. That's extremely helpful color. Thank you.

I was wondering if you can provide investors with a update on how to think about your (inaudible) balance, especially the significant decline we saw in October. Is this kind of the new level that you feel comfortable with or is it more around tactically selling Bitcoin to help fund both your site expansions as well as your miner rig purchases?

Thanks.

Zachary Bradford

Yes. How we want our investors to think about it is simply that using Bitcoin real time is the right move. Our (inaudible) balance is the same as having cash in a bank account, but if we can use Bitcoin to get more Bitcoin by putting the cash flow from those into expansion, into rigs, whatever it may be, that's the reason that we're selling Bitcoin. It's one, to support our operations. Essentially, we're paying for our own lunch and not our shareholders, and that's really how we want to see it, so our shareholders should know that whenever we're selling Bitcoin, that means we're not pulling the equity lever or the debt lever to grow our business.

Josh Siegler

Very helpful. Thanks for taking my questions.

Zachary Bradford

Thank you. Appreciate it, Josh.

Operator

Your next question is from line of Brian Dobson with Chardan Capital Markets. Your line is open.

Brian Dobson

Hi. Thanks so much for taking my question.

You've given us some really good color on your hash outlook, but could you maybe clue us in a little bit about how you're thinking about global hash and how that might evolve over the next 12 months if Bitcoin pricing was to remain near current levels?

Zachary Bradford

Yes. I think if Bitcoin mining was to remain near current levels, we'd see a fairly muted growth in global hash rate. The fact that we saw global hash rate climb last month and then start to taper back off with the decrease in difficulty, but also how quickly we saw it looking to move back up a little bit, and right now just with Bitcoin moving, another $1,000 dollars from what it was averaging a few weeks ago as it moves into the 18s. I think it's going to be fairly muted at these levels because I think we've found a point where the either less efficient or the higher cost miners are really having a lot of pain and having to unplug, and even a few thousand more dollars in Bitcoin price goes a long way for them to bring them back online, so overall, if it was to stay where it is, I think we'd kind of see it trend slightly up, but mostly flat. Now, we are, of course, believers that Bitcoin is going to go up, so I do think that we'll see a healthy amount of hash rate come online, but we feel confident, also, to keep up in both scenarios.

Brian Dobson

Yes, thanks.

You've also given us some great color on your appetite for acquisitions and the hurdle rates that you consider. As you step back and view the entire industry, I suppose, do you think that your competitors are as disciplined as you are, and what type of consolidation would you expect?

Zachary Bradford

Yes. I'll speak to the consolidation on that. I think we've set a good example of how consolidation can be done responsibly. I still think that there is more consolidation to come. Some of that's going to come from pain of other players, but also there's other private miners out there that are creating some interesting opportunities. There's also infrastructure players that build infrastructure that needs to be finished off that will create great opportunities for new sites, I do think that companies like ours, we're going to continue to have great opportunities to consolidate in public, private, and also just infrastructure that's underutilized in the very near-term, and, yes, we're really happy with the direction that we see it going.

Brian Dobson

Yes, excellent. Thank you very much.

Operator

Your next question comes from the line of Greg Lewis with BTIG. Your line is open.

Gregory Lewis

Hey. Thank you, and good afternoon, everybody, Zach, Gary.

Gary, I was wondering if you could talk a little bit about the rig finance market. Clearly there's been a lot of stress in that market, and really just kind of curious as you think about acquiring more rigs over the next few quarters, is there any kind of market currently for rig financings?

Gary A. Vecchiarelli

Yes. Great question, primarily, the rig financing market has been a secondary market, and that's typically—it has—before the recent interest rate hikes, they were like low to mid-teens, and with the recent hikes, it's really gone to the high teens, and it's just dried up. The economics just don't work for financing rigs at 18%, 20%, 24%. You know as good as anyone else, I mean, there's money out there to be loaned at 20%, 25%, 30% because there's that risk-reward, if we wanted that cost of capital, we could go get it, but that's not—doesn't fit into our ROI calculation, and we're just being much more choosy when it comes to debt.

Looking forward, I think that we're really going to wait for the more traditional debt markets to open up and for that margin expansion, just because we want to be more comfortable to be able to service that debt, which means that we—we're not going to be going after 18%, 20% cost of capital, and going forward, I just—I think we're just going to keep our eye on it, and as things improve, I think that there is going to be more money that's available for financing.

Gregory Lewis

Okay, okay, great.

Then, I mean, you guys kind of highlighted your ability to execute and grow hash. A lot of your competitors haven't been able to achieve what you've done. Clearly, there's a lot of rigs now that have gone from, I guess, you'd say, more traditional, conventional Bitcoin miners maybe to some financiers that were providing financing for rigs. Have discussions started to come into the market about these new owners of rigs looking to deploy those rigs, and really, I guess what I'm wondering is, is that something—just given what you've done on the infrastructure side, is that something that CleanSpark would think about entertaining in 2023; i.e., I guess I'm kind of asking is there any—do you—Zach, do you see a path forward where CleanSpark is actually hosting other miners?

Zachary Bradford

I think that's an easy answer for us, and that'd be absolutely not. The co-location business is a business where you have to take margins that are not only highly volatile, but when, in a time of strain, to get highly compressed, and you have to try and chop those amongst multiple players. You have to cover your own dollar plus a margin, and then there's the owner of the rig that has to try and not only make money to pay your bill, but then they want to, of course, make something else. We specifically chose to avoid hosting anybody all the way from the beginning, and we definitely wouldn't go back into that.

I think if you look at where the most pain has been experienced in this industry over the last nine months, you're going to find it in the co-location space, we wouldn't take that risk, and we also would much rather just buy those rigs from other players, and when it comes to the opportunities, too, we—when we evaluate a site, it's got to meet the CleanSpark standard, and that standard means that we have to run it in the CleanSpark way, and that means we are going to manage our power actively, and that's also one of the biggest strain points that co-location client—co-location businesses don't have. If you have an uptime guarantee with a client, you may not be able to make the right choice to manage power the right way without a lot of complications in an agreement, we're going to stick to doing what we do best and run our own sites and self mine.

Gregory Lewis

Super helpful. Thanks, guys. Have a great day.

Zachary Bradford

Thanks, Greg. Appreciate it.

Operator

There are no further questions at this time. I will now turn the call back over to Mr. Isaac Holyoak.

Isaac Holyoak

Thank you.

I'd like to thank you for your questions and everyone who's joined us today. We wish everyone a good afternoon, a good evening, and happy holidays.

Operator

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