Soluna Holdings, Inc.

Soluna Holdings April 2022 Flash Report

May 2022

Transcript

Good morning. I'm Michael Toporek, Chief Executive Officer of Soluna Holdings Inc.

Welcome to our April flash report. Before I begin this morning's presentation, it's important that I'd tell you that the following discussion is completely qualified by legal disclosures on the several pages that follow this one. Our goal is to share with you some of the strategic thinking and financial analysis that we're using to guide the growth of our business. This discussion is in line with our principles of being accountable and transparent with shareholders. We operate in a hyperdynamic economic environment. That's really a fancy way of saying things change quickly.

What we're telling you here is based on our estimates and assumptions, which are our best guesses. We reserve the right to revise our point of view based on new information and changes in the business environment. Despite an uncertain dynamic environment, we have to plan and make operating and investment decisions. This presentation lays some of that out for your review. The following several pages are legal disclaimers that you should review in conjunction with this presentation. This is the first page. This is the second page. This is the third page. I like to begin these presentations with a review of our operating principles.

The purpose of these monthly presentations is to review our results with you at some level of detail by location and provide both accountability and transparency to our

investor base. Those two things are critical elements of our relationship with you our investors. Furthermore, our interests as board members and managers have completely aligned with yours in that the board and management team own over 30% of the common equity of this business. And this investment is so important to my investment firm so much so that I'm fully engaged to ensure that we have what I like to call high-velocity execution and that we really build out the best team in the business. I specifically focus on decision rules around how we raise and deploy capital. The company takes into account our cost of capital, and at the same time, it's laser-focused on generating returns on invested capital that really merit the company's commitment.

We specifically report to you our investors in detail so that you can hold us accountable for our performance. As long as you learn about our business, I think you'll become clear that we have a long-term business strategy that revolves around really much more than crypto. Soluna buys curtail energy from renewable power plants and converts it to clean low-cost global computing. What that means is we're taking energy that would be other otherwise curtailed or wasted and generate no cash flow for renewable energy power plants, and use it to power batch-oriented computing like cryptocurrency mining for example.

As we grow our batchable high-performance computing business, it means that we're exploiting opportunities well beyond digital currencies. Other segments include graphics, video processing, scientific research, and pharmaceutical research. These are very significant opportunities for batchable dense computing.

Today, I'm going to cover the following items with you. I'm going to give you a quick business update and then work into April's results in some level of detail. First, is the business update. April was the best month in Soluna's history, I'm proud to say. Compared to March, April cash contributions dollars increased by about 38%. Proprietary mining revenue grew sequentially by 10%, hashrate was up by 15% and the Bitcoin equivalent that we generated was up by over 11%.

So you'll see a little bit of a mismatch, to say our revenue increased more slowly than cash contribution margin. That means our margins expanded. So what were these drivers? The Sophie and Marie facilities continued to scale. That drives a better absorption of fixed costs. And you're going to see that for the next couple of months as those sites continue to be fully fitted out with equipment and reach what I call a stage of maturity. Sophie moved to its 84% uptime for power costs at 2.5 to 2.70 cents per

kWh. You'll see a dramatic change in its margins. Our revenue growth is going to continue to grow as our hashrate grows. From April to May, based on equipment that we are actively plugging in, as we speak, there will be a 62% growth in proprietary hashrate that's up and running.

By the end of the second quarter, we're continuing to track to achieve our 1.26 EH/s target and at the end of May, we should hit at least 1.13 EH/s. So that means really that by the end of the second quarter, we'll have about a EH proprietary and call between 260 and 280 PH/s hosted. Let's talk about something fairly significant that happened this quarter on the financing front for the company. I have talked to many of you about this project financing, and we finally were able to announce our first significant project financing. It's not an LOI, it's a completed set of documents. So it's a $35 million project financing committed with Spring Lane Ventures. It's the first of several that we expect to close this year, and really gives us an opportunity to monetize our intellectual property because the economic agreement is that once we return Spring Lane's capital plus a hurdle rate, Soluna keeps a significant portion of the upside or further profits generated simply because we were able to create this investment opportunity and generate these profits for this capital.

So why is this Spring Lane financing so important?

First, we took our time to put it together right with an experienced partner so it could provide a structural template for our additional deals. Spring Lane is also a well-known green infrastructure investor. So most importantly, what this means for our public company investors is this firm, Spring Lane, conducted due diligence of the entire set of investment opportunities in the sector, and they concluded that our projects are one of the few real green data centers. Project Dorothy is co-located and plugged into a wind farm. So furthermore, after extensive analysis, not only is our project one of the few real green data centers, our project presents one of the best economic opportunities in the sector. That's why Spring Lane elected to invest with us.

As many of you have seen, the capital markets have been volatile, so as the price of Bitcoin, and as we all know, the price of Bitcoin has a significant effect on the price of equipment. So this sort of dynamic crypto ecosystem has relative to January reduced what was a 300 million CapEx budget. It's reduced it by about $100 million to between $180-$210 million. We've made significant progress towards raising that capital. And you'll see that we'll make additional progress, both with equipment financing

transactions as well as more project financing transactions. So what's important to see is that as crypto prices have declined, so have equipment prices, and so have our capital expenditure requirements. We continued to be vigilant with how we raise our capital. We're actively engaged with capital providers to provide financing both at the project level and at the corporate level. Spring Lane was just one opportunity that arose. We recently closed the preferred round. We continued to be engaged with the financing community on how to move our business plan forward in the most capital-efficient way for our investors.

Let me take a moment to comment on the recent market environment. I've gotten asked this question several times. Is high or low Bitcoin good or bad for Soluna? So the way I'm going to take this is what I'll call the first-order effects and the second-order effects. In the first-order effect, since we haven't yet spent both of our CapEx on equipment, the Bitcoin price is in the 25-35,000 range. First, our current operations continue to be very profitable, but also they provide an excellent opportunity to acquire equipment at incredibly reasonable payback periods. In the optimal scenario, prices will gradually rise after we buy our equipment into the fourth quarter and beyond, as we bring up our capacity. That's optimal. I have no control over that and it's our job to react and plan for the market environment.

The second-order effect takes longer and is important. We have top-decile power costs. The company's facilities were built to thrive in difficult pricing environments. So what'll happen is that network difficulty adjusts long-term with equipment pricing as well as the Bitcoin price. All of those second-order effects are important, but our company has been constructed to thrive in volatile, difficult mining environments. Just a reminder of what our targets are for 2022. We're hoping to energize... By the end of the fourth quarter, have 150 MW energized at our company and are expecting to ramp up our hashrate to 3 EH/s by the end of the year and 4 EH/s by the end of the first quarter of next year.

We continue to drive to hit our goal of 1.261 EH/s by the end of June. As I mentioned earlier, our proprietary hashrate is expected to grow from April to May by 62% already based on equipment that has shown up, that's getting plugged in as we speak. And that as you can see, will drive our results to hitting our second quarter of EH target. Let's spend a few minutes talking about some of our facilities in detail. Edith is an about 5 MW facility that we've owned for several years. We continue to optimize the equipment mix and it's been a fabulous facility for us. Cash contribution margin in April

was about $127,000. Bitcoin equivalent mined increased by about 7%. We continue to seek to optimize this facility and it's providing a steady cash flow generation for us.

One thing I'm very proud of at Edith is our strong returns on invested capital. As you'll see by the dotted line, once we crossed the zero line, all capital was returned, and then 16 months in we've doubled our capital. And in April of this year, we tripled our capital. You'll notice that the steepness of the line kinked out a little bit over Q4 and Q1 of '21 and '22 that's because we sold some equipment, bought some equipment, and made some small facility investments there so we can extend the longevity of the solid profitability we have at Edith. And you'll see that it was well worth the investment as we continue to harvest cash on that facility.

This presents Edith's non-GAAP historical financials. You'll see that revenue was at 191, our margins hit 66.4% and we generated about $127,000 in cash contribution from that facility. Our Project Sophie is our greenfield facility we recently built. It continues to ramp it... Ramped to about over 370 PH/s as of early May. That's a significant increase from April and we are continuing to ramp this facility. Cash contribution margins increased dramatically, and our steady-state will probably be hit sometime late June, early July. Sophie's power contract did come into play. We can move from our temporary to our permanent one, and you'll see that on the next slide, the dramatic effect on our profitability.

This table sets out Sophie's non-GAAP historical financials. Just to hit a highlight, we hit 1.6 million in revenue for the month. Cash contribution of 1.1 or all nearly 1.2 million, and the margin was very close to 73%. That's absolutely fabulous. And I expect Sophie to continue to perform similarly as we roll through, simply because we have outstanding power cost at this location and it's extraordinarily well managed by the team on the ground.

Let's take a few moments to talk about our Marie facility. It's also a 25 MW facility. Our proprietary mining hashrate increased by 37% from an average of 206 PH/s in April to 293 PH/s in early May. If you recall, in March, we had downtime that was caused by our infrastructure provider. We made some fixes to that, but we also had additional downtime caused in April. April's downtime was caused by a more permanent fix where a new power line was run to the facility. I anticipate that that has fixed nearly all of the issues at this facility.

I do expect there to be anywhere from three to six, centering around five downtime days at this facility over the course of the remainder of the year, as further infrastructure improvements are made by our infrastructure provider to make sure that our facility continues to run in a robust, solid fashion going forward. This unfortunately has nothing to do with how we run our business. These things happen, and we put pressure on our infrastructure provider to take steps to make sure that what they have fed us is extremely robust going forward. And they've taken the steps that we've all agreed to. And we're very pleased with the result.

This slide details for you the economic impact of the shutdown in March and April. There were five days that were affected in March and eight days that were affected in April. As I've said, we expect plus or minus five days for the remainder of the year, we have a new line at the facility. It's a much more robust solution and they're making some additional changes as I mentioned, that should ensure continued uninterrupted service going forward. This slide presents Marie's historical financial performance. Just point out a couple of numbers for you. Revenue was 1.56 million, with two revenue streams, one from proprietary mining, 1.192 million hosting, 375,000. Together, they provided a cash contribution of 1.28 million. You'll notice that the proprietary mining margins are very strong at 74.8 and the hosting margins are solid at 29.3%.

Here we present Marie's operating metrics. You can take a look at the average hashrate. Now that scaled, and the Bitcoin equivalent mined both from proprietary mining and hosting. Looking at our consolidator results. Our installed hashrate increased by 31% and we're on track to achieve 1.26 EH/s by the end of the second quarter. Our hashrate's ramping, the Bitcoin mined is ramping and our margins are expanding. On a consolidated basis, you'll see here that our total revenue hit 3.39 million. Our cash contribution margin hit 2.3 million. Our cash contribution percentage was 68.3%. And we do expect margins to continue to be strong as a consequence of increasing our facilities utilization, and at the same time, our power cost at Sophie really ratcheting to our contract of...

On this page, you'll see certain operating metrics that display for you exactly how we are ramping up our business. And here we walk through an explanation of the SG&A and tie it from our 10Q down to some analytical work that you can look at that gives you a better sense of the cash economics of our business and how strong our business actually is.

I'd like to thank you for joining us this morning. And as usual, if you have any questions, please feel free to reach out directly to me at the company or to our investor research group. Thanks again for your time.

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