



Soluna Holdings, Inc.

June 2022 Flash Report

July 2022

Company Update Transcript

Good morning. This is Michael Toporek. I'm Chief Executive Officer of Soluna Holdings. Thank you for joining me for this June 2022 Flash Report. We begin with the usual preamble.

The following discussion is completely qualified by the legal disclosures on the several pages following this one. Our goal is to share with you some of the strategic thinking and financial analysis we're using to guide the growth of our business. The discussion is in line with our principles of being accountable and transparent with shareholders. We operate in a hyperdynamic economic environment. That's 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.

I'd like to continue with outlining key operating principles. First is the alignment of interests, transparency, and accountability. Brookstone Partners, a private equity firm that I'm affiliated with, owns just under 30% of the common equity of the company. I believe that helps align the senior decision-making, both at the board level and at the company level, regarding how we allocate capital, how we raise capital and the general operating principles of the company. It also helps align us economically with the interest of the common shareholders.





We are dedicated to high-velocity execution. That means establishing our goals, and our targets, and marshaling the resources to get things done quickly. You'll also notice that since our inception in this business, we've emphasized return on invested capital, measuring our returns on invested capital, and capital discipline in terms of how we run the business. We've also expressed to you a long-term strategy and vision that extends beyond crypto mining, into batchable computing and other high-density computing sectors.

Soluna is a solutions-oriented company. We buy curtailed energy, unsold energy from renewable power generators, and we convert it to clean, low-cost computing power. The company is taking excess energy from renewable energy sources and funneling it to powering batch-oriented computing. For example, cryptocurrency is one of them. Soluna's market opportunity beyond crypto is what we're calling batchable computing. That's basically computing power that can be flipped on and off as resources are economically available from power generation.

The first market we're applying this to is the digital currency market. Other sectors that we believe can benefit from this type of batch computing to deliver low-cost computing resources are pharmaceutical research, for example, graphics and video processing, and all forms of scientific research, including academic and commercial scientific research.

Following is our strategy update section. We like to think of Soluna as the right company with the right plan for a volatile environment that we've specifically engineered to thrive in a Bitcoin downturn. By that we mean, when we first entered this sector, we were very careful to engineer our growth to make sure that our power costs were between call 2.5 to 2.8 cents or can reach that level if switched in certain fashions at every site we were engaged with. That was critical for us because that was approximately the power cost required to be profitable every day of the prior crypto downturn. We've engineered our business in that fashion from the beginning, and that's why you'll see we are very well-positioned to get through the current environment in a very strong position to deliver great returns to our investors as we emerge from the downturn.

As we look at our strategy, we believe we have a distinct investment thesis. Soluna is not a collection of projects, but rather, a solutions-based enterprise providing solutions to the renewable power generating sector. Furthermore, as we assess our strategy through the market cycles, we expect to continue investing through the cycle. Our low-cost power enables us to continue that investment. But as you'll see throughout this





presentation, we outline execution milestones that somewhat result or are path-dependent as we move forward.

Our distinct investment thesis has several parameters. First and most importantly, it's driven by access to low-cost power. Every site that we've engineered has to have the ability to operate between, call it, \$25 to \$27 per megawatt hour. That assures operational profitability and gives us the ability to invest through the cycle. That's probably the lowest decile to lowest quartile costs on the Bitcoin mining network. That ensures our survivability and our profitability through the cycle.

Furthermore, the next point is that renewable energy generators and grid operators actually need flexible load capacity, especially as renewable energy generation increases. That creates an increasing supply of low-cost power opportunities. Third, we've talked about expanding into high-performance computing. That's a clear target for us to grow organically and by acquisition. Our business exists at the intersection of power and computing. And finally, we believe we've built a strong operating culture.

This volatile environment creates opportunities for us to consolidate mining and high-performance computing verticals. Also, our strong value and return on invested capital orientation continue to be applied to every opportunity we're assessing.

We believe that now is the time to invest in this sector, is vital to us to invest through the cycle. The cost of computing equipment is down between 70% and 80% since January. Miner payback has always fluctuated between nine months and a year on the short end, and up to 24 months. As we've gotten under a year, it's always been the harbinger of a low-end cycle. We are there. This is a very good time to be buying miners. Our near-term pipeline of 100 plus megawatts at less than \$30 per megawatt hour provides a very attractive platform for us to use to grow through the cycle. But furthermore, we're specifically sourcing non-dilutive capital to fund that growth. We have a long-term pipeline of nearly two gigawatts, and our project financing process is extremely active with a strong reception in the marketplace.

In our press release, we disclosed that Truist is leading that process and we already have identified and closed with a project financing partner, Spring Lane capital. We expect the process with Truist to identify additional partners with whom we can build out additional capacity. This specifically allows Soluna to monetize its intellectual property. Other firms are putting up capital and we get a significant portion of the upside on that capital, specifically because Soluna's team is able to generate





proprietary access to low-cost power by understanding the regulatory and power generating environment. That dramatically enhances our return on invested capital.

We've taken the opportunity to review the power costs of our public peers. We believe that based on publicly available information, we have top decile power costs. That enables us to continue to invest through the cycle. Looking at our asset base, aside from Edith, which was our pilot project, Marie has the ability to run with 83% uptime, at about \$23 per megawatt hours. Its 100% uptime or 99% uptime costs are 37 to 44. Sophie runs at 84% uptime with \$24 to \$27 megawatt per hour cost. And Dorothy is expected to run at under \$27 per megawatt hour. It's this power-generating base that's specifically organized to take advantage of this kind of Bitcoin mining environment.

Let's, for a moment, walk through the megawatts available and under \$30 per megawatt hour to the company. The first piece of that is 10 megawatts, which is the hosted capacity available for renewal at Marie. We have a hosting client there rolling off in September. We can elect to renew, or we can elect to use that 10 megawatts for proprietary mining. The next 20 megawatts is a Dorothy 1A. That is not subject to ERCOT approval because it would be 20 megawatts or less at behind the meter, which we can energize.

Then the remainder of Dorothy 1 would be 30 megawatts, which would be subject to ERCOT approval, and Dorothy 2, which is an additional 50 megawatts. If you recall, we took Dorothy and divided it up into 1A, 1B, each 25 megawatts. Dorothy 1 is 50. Dorothy 2 is 50 megawatts divided into 1A and 1B. All of that cumulatively is over 100 megawatts of near-term, a low-cost capacity that we could bring online for proprietary mining.

Soluna's execution milestones are path-dependent. Let's examine several variables and how they would affect the near-term development path of the company. The first piece of that equation revolves around how execution is subject to capital availability. The challenging market environment has made it more difficult to raise capital for growth. However, the Truist process to raise project financing is active, and robust, and we believe that based on that activity, is highly likely to yield several project financing options not dissimilar to the Spring Lane construct that we've already closed on.

Furthermore, as many of you are tracking the evolution of the industry in Texas, we await ERCOT approval to energize a significant portion of our Dorothy project. Since Dorothy is behind the meter, up to 20 megawatts of the capacity of Dorothy 1 are not





subject to ERCOT approval. The incremental 30 megawatts for the remainder of Dorothy 1 need ERCOT approval, and we're targeting approval sometime around call it September, October, or early November timeframe. We have an active dialogue with the regulators and expect that to be productive.

Looking deeper into how do we grow our proprietary mining capacity and take advantage of this environment, one path is, we get timely ERCOT approval. We focus on energizing Dorothy 1 and 2. And we use that, and a partner that we identify from the Truist project financing, to capitalize that growth. However, if ERCOT delays approval of the capacity above 20 megawatts, we could energize the first 20 megawatts of Dorothy, and then look at the 10 megawatts of capacity at Marie that we currently have as part of a hosting agreement. We can use that capacity for proprietary mining in order to increase our size and scale and take advantage of this environment.

Given the information I've just conveyed, I think it's important that we take a look at the capacity that we talked about energizing at the beginning of the year and updating that to what I call a path-dependent outcome. On the left of the slide, you'll see the prior target that we put out in January. On the right, you'll see what I call updated targets. In Q3, we can and expect to begin to ramp call in September and into the fourth quarter, Dorothy 1A 20 megawatts. Not ERCOT dependent.

In Q4, we expect with ERCOT approval to be able to energize the remaining five megawatts as part of Dorothy 1A. And then in conjunction with a result from the project financing process that we've been undertaking with Truist, plus ERCOT approval, we'd be able to energize Dorothy 1B. The remainder, which is all of Dorothy 2, would likely move into the first quarter of next year, assuming that again, ERCOT approval and we had appropriate project financing organized.

Furthermore, I do want us to update Soluna's targets for 2022 in terms of hashrate growth. On the left, you'll see prior targets. On the right, you'll see what I call our path-dependent targets. Dorothy 1A is expected to ramp. That'll take us to approximately 1.8 exahash. As we 1B, that'll take us to 2.6 exahash.

Soluna's growing pipeline supports a growth path beyond 150 megawatts and four exahash. We have the current Dorothy project, which we've discussed. In addition, we've got Kati in the design phase, and Cynthia is in the later stage of what we call prospecting. All of these projects, Kati and Cynthia, in our pipeline, we are expecting to have significant project finance partners help us capitalize on those projects and take





advantage of the intellectual property of the team in terms of generating these kinds of low-cost power opportunities.

On this slide, you'll see a picture of Dorothy under construction. We are co-located with a wind farm. You'll see our structures stand between the wind-generating masts. The first phase is 50 megawatts. We're expecting that compute power will be at 1.6 exahash, with about 35 million in annual revenue. We expect to begin energizing it in Q4 2022. And based on current calculations, that should mine about five Bitcoin a day. Our average power cost should be south of \$27 per megawatt hour.

In this section, we'll review the facility results, by facility, as well as on a consolidated basis. A quick review of some high points from our June Financial Results. We had about flat Bitcoin production, despite an extremely volatile Bitcoin market. Bitcoin equivalent mined decreased about 1%, despite Bitcoin prices decreasing relative to the prior month by 23%. Our average hashrate deployed was flat, with peak hashrate remaining above one exahash.

Our cash contribution margins remain strong. Our blended cash contribution margin, which includes both proprietary mining, as well as hosting, is a 37% cash contribution margin. We have a 43% cash contribution margin for proprietary mining. Sophie remains at its 84% uptime with power cost in the two-and-a-half to 2.7 cents per kilowatt hour. We will continue to scale our operations in an intelligent fashion focused on return on invested capital. Our July 9th exahash number was over an exahash. As we energized Dorothy 1A in the fourth quarter, we should begin to move to about 1.8 exahash. And as Dorothy 1B energizes, that takes us to 2.7 exahash.

At Sophie, our average June petahash increased by about 11% to 357 petahash versus May, 322. We're continuing to ramp up installed machines, and I think we'll have about 500 more S19s installed as the July month progresses. Our cash contribution in June was about 569,000 versus 830,000 in May. The bulk of this decrease was due to the change in Bitcoin prices. Our site is performing exceptionally well, and as it was designed to do.

Here, you'll find a review of our monthly financial results and some of our operating metrics for Sophie. I'd like to point out to you our cash contribution dollars for June of \$569,000, which is a cash contribution margin of 52%. This kind of performance is what you should expect from us as we move forward. We will continue to drive value for your investment. As we ramp Dorothy, I'm really looking forward to putting up





strong numbers regardless of a \$20,000 Bitcoin price we're currently experiencing in the market.

At Marie, our average hashrate in June was a bit lower compared to May's. The decrease really was due to several seasonal factors, including TVA curtailments and hashrate reductions due to weather, and several short outages that we experienced at the site. We are currently operating the site at 100% uptime. We have the ability to toggle this site to 83% uptime and hit about a 2.3 cent per kilowatt hour rate card. The crossover point obviously depends on many factors, including network difficulty, but at Bitcoin of around 18,000, we would probably switch to the 83% uptime. But we need to notify our power provider in advance of that, and that needs to be held for a month. So we need to be convinced that Bitcoin prices will remain at that level. You'll see when we turn to the next page that we're focused on maximizing contribution of margin dollars versus contribution margin percentages.

Here, you'll see presented Marie's non-GAAP historical financials. I want to point out several numbers. Let's go to cash contribution percentage. You'll notice that for proprietary mining for the month of June, it's 31%. Here, as I mentioned in the earlier slide, we're focused on maximizing proprietary mining dollars. We could hit a higher margin percentage by operating at the lower power capacity, but we'd have less dollars. And our hosting profit has declined because there we are fairly leveraged. We get our cost reimbursed, plus a percentage of the profits. The profits are after certain costs, and those profits are significantly smaller for our hosting customer. Hence, we have less profit to share there.

Here, you'll find Marie's operating metrics for your review. As we look at Edith, our hashrate remains plus or minus relatively stable, but this facility was our pilot project at just a few megawatts. It is somewhat subscale. And even in these times, given the cost, it still generates a profit for us, but obviously not nearly as much as it has in the past. This is a small facility. It was a pilot facility and it still operates well for us. And we expect over time that it will return to its historical level of profitability.

Here, you'll find Edith's non-GAAP historical financials, as well as certain key operating metrics on the site. On a consolidated basis, our sites are performing as expected. When we talked about Marie, there was some challenge with respect to the TVA. Our combined install hashrate is up by about 15%. Our Bitcoin equivalent mined per day held steady. We continue to assess running Marie at a potentially lower uptime, and that's really Bitcoin price-dependent.





On this line, you'll see Soluna's consolidated non-GAAP historical financials. You'll notice that revenue was clearly affected by a lower Bitcoin price. Our margins held strong. Proprietary margins are 42.6%. We can't increase those, but at a cost of lower dollar profit from proprietary mining. So we're obviously choosing to maximize dollars of profit versus just percentages. But we do have operating leverage to make sure that if Bitcoin prices continue lower, we're going to be able to continue to do really well at Marie.

Here, you'll find certain consolidated operating metrics for the company. I would like to thank all of you for sticking with me through this presentation. I know it was a lot of information, and I sincerely hope you found it valuable. Thank you.

