



Soluna Holdings, Inc.

Soluna Holdings May 2022 Flash Report

June 2022

Transcript

Good morning. I'm Michael Toporek, Chief Executive Officer of Soluna Holdings. Thank you for joining me for this May 2022 flash report. The following discussion is completely qualified by the legal disclosures on the several pages that follow this one. Our goal is to share with you some of our strategic thinking and financial analysis that we're using to guide the growth of our business. This discussion's 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. [00:01:00] These presentations lay some of that out for your review. The following several pages are legal disclaimers that you should review.

As I usually begin most of our flash reports, I like to reiterate certain of our key operating principles. Most importantly, that's the alignment of interest, accountability, and transparency. We're very careful to transmit to your investors information on our performance every month. Transparency and communication with you are vital. Our interests are completely aligned with yours, in that we own over 30% of the common equity of this business. Furthermore, I've personally got myself involved here to assure that we have high-velocity execution and that we build the best team in the business. The decision rules are on how we raise and deploy capital take into account the cost of capital, and at the same time is very focused on generating returns on invested capital that merit investment, and that we communicate to you and are held accountable for, on a location by location and by investment basis. I think you'll learn that we have a long-term business strategy that revolves around much more than just crypto.





We buy curtailed energy from renewable power plants and converted to clean low-cost global computing. What that means is we're taking energy that would be otherwise curtailed and result in no cash flow for renewable energy power plants and using it to drive batch-oriented computing like cryptocurrency mining, for example. This means that we're also looking at opportunities beyond digital currencies, which include graphics, video processing, scientific research, pharma research. These are very significant opportunities for batchable dense computing. In this section, I'm going to give a general business and business environment update and then get into our May 2022 results in the following section.

The business environment for our company has radically changed in the past several weeks. But as we look at that environment in our company, we are further convinced that we are the right company with the right plan for a volatile environment. Since the beginning, when we began setting up the facilities for this company, we've engineered our cost structure to thrive in a Bitcoin downturn. I'd like to share with you some of that Soluna DNA of how we've architected ourselves to succeed in this environment. First low-cost power. Every site in our portfolio must have the ability to operate at between 2.5 to 2.7 cents per kilowatt-hour. That assures us of operational profitability, in nearly every cryptocurrency operating environment. We also have positioned ourselves to be a solutions provider to renewable energy generators and grid operators. So essentially we're creating our own low-cost, power opportunities.

We are not going to utilities and power generators simply trying to locate low-cost PPAs. That puts us in line with everyone else. Furthermore, as we've articulated to you, we are building a plan to add significant high-performance computing to our portfolio of assets. That's a clear target to both grow our business organically and by acquisition. Our company is building itself to sit at the intersection of power and computing businesses. Soluna is also an enterprise with a strong operating culture. This volatile environment creates opportunities for us to consolidate the mining and high-performance computing verticals. As we look at any potential acquisition of assets or businesses or other combinations, our orientation is to apply our strong value orientation and our return on investment capital lens to assess every potential opportunity. In today's operating environment I thought it was important to illustrate to you how critical it is to have low-cost power and give you a quantitative example of what exactly that means.

So on this slide, I'm highlighting Sophie's low-cost power, where in the first column, you'll see our May '22 results. 1.3 million in revenue approximately, and our cash contribution margin is about \$830,000. If you take those results and simply say the average Bitcoin price, that we realized in May of 2022, was about \$31,700. So take that with our 84% uptime and our 2.5ish cent costs and say, "What if we were only able to realize 22,000 per Bitcoin?" That would give us approximately \$429,000 in cash contribution margin. To give you some context around that, we put together an illustration of five-cent power, but 99% uptime relative to our 84% uptime, you would obtain \$294,000 in cash contribution dollars. And at six cents that moves to \$157,000 in cash contribution dollars. So even moving from Sophie's results at 22,000 to five-cent power, that's a 45% reduction in cash generated at a particular location.

So that gives you some sense of how critical cost that is and how moving from two and a half cents to three and a half and into five cents can make a radically different financial result for a company. We're continuing to move forward to hit our targets. At Dorothy, we expect to energize at least 20 megawatts by





September, that's about 600 peta hash, and we're working with a Texas regulator to ensure the security of the grid as we ramp to a hundred megawatts. With Marie, we expect to reformulate our hosting deal in September of 2022, as it expires, or convert those slots to proprietary capacity of about 300 peta hash. In this environment, I thought it was important to share with you a financing update. As many of you know, we've been talking about project financing as a way to help us monetize our intellectual property. So we've ramped up the resources on our team to help us drive a result here and interestingly, despite recent market conditions, we've had a strong reception in the marketplace and have an active process in place.

Also, as many of you have followed our presentations may have seen, we've talked about the cost of the computing equipment declining and how that's changed the size and scale of our capital expenditure budget. So since the publication of our January 2022 earnings power illustration, the cost of computing equipment has scaled down by about 60 to 70%. I wanted to close this business update section by really reiterating to you what makes Soluna different. First, we target solutions to two key constituencies. The first is power producers where we help them sell every megawatt. As we transition to batchable computing, the second constituency that we expect to provide a solution for is data scientists where we will provide them with low-cost batchable computing, significantly blow their current cost stretching, allow them to stretch their budgets way beyond where they are right now. So what does this mean for our business plan? We create low-cost, power opportunities. We create them. We don't simply run around trying to sign PPAs provided by local utilities. We're also diversifying to batchable computing and we're sitting at the intersection of computing and power.

You'll see how the project financing allows us to monetize our intellectual property and as always, we continue to be focused on return on invested capital and investor transparency. Now let's dive into some of the details of our May 2022 results. Some high points from our business summary, despite the average Bitcoin prices decreasing by 23%, our Bitcoin Equivalent Mind was about the same. That was because our average hashrate deployed grew by 22% month over month. Our margins continued to meet expectations specifically at Sophie and Marie. As we move forward, we're continuing to focus on hitting our Q2 exahash target.

Just to take a moment to review with you, our exahash history and our targets for June. The gold bar is our proprietary hashrate and the blue bar is our hosted hashrate. And you'll see, as we make our way through June, we'll have about 280 peta hash hosted with the remainder proprietary to take us to a bit over 1.2X of hash. Let's now take a look at each facility and then we'll get the consolidated results. Let's take a look at Edith. It's our most mature facility. We continue to optimize the equipment mix there. Cash contribution was down purely as a consequence at Bitcoin prices. The facility is operating well and according to our plan and expectations.

On this slide, you'll see our non-GAAP historical financials, and I'll just highlight our capped contribution for the month. Move to \$65,000. Here are some statistics on Sophie's operating results. The hashrate increased by about 40% from last month, and we expect to continue to ramp up the hashrate at this facility as more machines are received. Cash contribution margin in May was 830,000. The site is performing exceptionally well in this environment. We're very satisfied with the results here. Here are Sophie's





historical non-GAAP financials. Just want to point out the cash contribution dollars of \$830,000, which is still a 63% margin and is in line with our expectations for this location.

The major developments at the relocation were prop mining hashrate increasing by 33%. And if you'll recall, this location has about depending on the time of year, anywhere from 3.7 to 4.3 or 4.4, a hundred percent uptime cost, or at 83% uptime, a significant discount down to the 2.5 to 2.70 cent range. Based on Bitcoin prices as of today, we continue to run at a hundred percent uptime. We have the cutoffs calculated and should Bitcoin I think the cutoffs are below 20,000. I think they're in the 18,000 zone. Should Bitcoin cutoff in that zone, we expect to flip to 83% uptime. We monitor the situation carefully and are mindful of all the variables around those decisions. Here we're presenting Marie's non-GAAP historical financials. I'd like to highlight a couple of numbers here. First, the cash contribution margin at the site was just under \$700,000.

I do want to highlight that the hosting profitability has been reduced because the portion of our revenue that depends on Bitcoin generated obviously has declined with the price of Bitcoin. Here we have certain key operating metrics for the Marie site, broken down by hosting as well as proprietary. The major takeaway about our site for this past month is that our sites are performing consistently despite this lower Bitcoin pricing environment their performing, as we expect and our hashrate continues to scale. Here's the roll-up of Soluna Computing sites on a non-GAAP historical basis, just the number I'll highlight for you is in May 2022 our cash contribution from the sites rolled up together is just under \$1.6 million. And here we present for your information, the Soluna Computing operating metrics on a consolidated basis. I wanted to thank you for joining me and I really look forward to talking to you next month.

