



Soluna Holdings, Inc.

August 2022 Flash Report

September 2022

Company Update Transcript

Good morning. I'm Michael Toporek. I'm the Chief Executive Officer of Soluna Holdings. Thank you for joining me for our August 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 by outlining our key operating principles. First is an alignment of interests, transparency, and accountability. Brookstone Partners is 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, our targets, and marshaling the resources to get things done quickly. You'll also notice that since 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, and unsold energy from renewable power generators, and we convert it to clean low-cost computing power. So the company is taking excess energy from renewable energy sources and funneling it to powering batch-oriented computing. For example, cryptocurrency being 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. So 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.

Today, we'll begin by talking about a business update, and then I'll give you an update on our financial results for the month of August.

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 it 2.5 to 2.80 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.

Let's begin our business update with a high-level status report. First and most important is our Dorothy 50-megawatt project. Construction on that project is nearly complete.





That's a \$28 million capital expenditure project with about \$5 million of CapEx remaining. A portion of that CapEx will be funded by Spring Lane Capital, our capital partner on a portion of the project. Next, we've been productively engaged with ERCOT to get approval to energize this project we're hoping by some time in the fourth quarter. And finally, as a reminder, this 50-megawatt project doubles Soluna's operating footprint.

Next, we've also continued to build out a pipeline of projects, and the inbound interest for renewable power producers continues. And we're nearing LOIs on new projects that we expect to talk to you about later this year and early next year. As a reminder, those projects are behind-the-meter and they're eligible for ancillary revenues. Once those ancillary revenues come into Dorothy as well as these other projects, they will be industry-leading and beating power costs providers to our data centers.

Furthermore, I wanted to talk to you for a moment about the power costs and Marie hosting in general. We continue to understand from our power providers that power costs will be reduced to more historical levels in September and October. What that means is we should come back to normal margins roughly around where we were in June. That means our corporate cash contribution margin could be about \$800,000 or so in September. A portion of the months remains to play out, but that's roughly what we would expect. In addition, we did renew our Marie hosting contract under unfavorable terms, which I'll share with you as we move into the presentation.

I think it's important to step back and ask, what could turning on Dorothy do for the financial results of this company? The way I wanted to present it to you today was this Dorothy 1A, which is a 25-megawatt portion of the site, and Dorothy 1B, which is the other 25-megawatt portion of the site. If you recall, Spring Lane Capital is a 32% owner of Dorothy 1A. So that means that they get their capital back from distributions plus a hurdle rate. And then we have a very significant portion of the upside. In this analysis, we don't assume that we're getting a disproportionate portion of the upside. So if you take a look at the cash flows of Dorothy 1A, at a 100% hosting, 50-50, and 100% prop mining, you'll see the cash contribution margin for the 1A is 509 to 958 per month. And the cash contribution to Soluna is between 346 and 652 per month. Obviously, in 1B, the economics are the same, but we don't have the 32% partner. And to be clear, once they get their capital back plus their hurdle rate at 1A, then we get a disproportionate portion of the upside there. That is not modeled into these numbers. I hope you find this helpful as you think about Dorothy energizing.





As we look to energize Dorothy, one of the most important things we're doing is making sure that our corporate SG&A is right sized given the size company we are. On this slide, you'll see us comparing our SG&A costs relative to our public competitors. So here you'll see without Dorothy, we're the orange bar at 56%, and then with Dorothy, we're the orange bar at 33% of sales going to SG&A. We also expect that as we further scale, that number will come down, but actively today and through the month of July, August, and September, we've aggressively moved to reduce SG&A and we continue on that path. We expect that as we release our next 10Q, you'll see those costs drop and we'll sharpen those costs further as we energize Dorothy.

We've had to make some adjustments in our operations to support the Dorothy buildout and also really to adapt to the operating environment. So our current capital structure contemplated Dorothy to re-energize at the end of the second quarter. Also, Bitcoin pricing declines, power cost increases, and ERCOT delays have really played into adjustments that we've had to make. Most importantly, we've rescheduled the noteholder maturity to really better match with Dorothy's earnings ramp. So noteholder maturity got moved from October to the end of April. Furthermore, if you'll recall, one of our projects was project Edith, which was operating at 2.2 megawatts. It was early. We sold our GPU miners first because it made sense to be out of that business as Ethereum's fault, and that capital can be recycled to support Dorothy. But then as I mentioned in a prior slide, we're closely managing SG&A and CapEx, and I'm really happy to report that our August SG&A results represent a 30% decline from our June levels. We're eliminating certain activity-based spending like travel, and legal consulting because we're trying to make sure that every dollar that we have can be well justified and goes to properly support the buildout of our organization.

As I mentioned a moment earlier, we sold the GPU miners out of project Edith. To remind you, that was Soluna's first facility. It was a beta test for what we were doing and how we were doing it. It gave us firsthand experience in our proprietary data center design, but I'm going to go back to one of our original principles. Driving return on invested capital. The book on that deal is closed. We invested our capital, we harvested, and we closed the book on that. That over a period of, I believe under three years, delivered three and a half times return on invested capital over the course of our operation there. We thought it was prudent to sell that equipment given the Ethereum merge. Further, we can redeploy that cash to build out our flagship facility at Dorothy.

I wanted to share with you a little bit more detail on the return on the vested capital that we had for project Edith. You'll see here the dotted line is the cumulative dollars invested,





returned, and then accumulated from distributions. And you'll see the blue bar is our EBITDA contributions and the orange bar is our CAPEX. You'll see, in the first quarter of 2022, we did a little bit of refresh there and all the way to the right, you'll see the sale proceeds from these GPU miners. We achieved about \$500,000 upfront. And then in March of '23, we'll get approximately \$300,000. And you'll see in under three years, we achieved a three and a half times return on capital. And remarkably in 16 months, we got two times our capital back. So we're very proud of the results we've achieved here and we continue to run our business with the same focus on return on invested capital.

On this page, we have the details of Project Marie hosting contract economics from a historical perspective. Basically, I asked the question: We entered this hosting contract, what financial results did we achieve as a consequence of this contract? And was this contract profitable for us, not just on an income statement basis, but looking at the return on invested capital? And did it meet our expectations? So the capital that we have invested in this proportionate part of Marie that we have out on this hosting contract is about \$1.4 million. Over the car course of one year, we returned 78% of that capital. That is a very strong return that I'm extremely proud of the team for delivering through storms, tornadoes, and all sorts of outages if you've been following us. So these are great results that I'm very proud of. So given these results, let's take a look at the potential results of the renewal of that contract.

Next, I wanted to review with you the new terms of our hosting contract and demonstrate to you how these terms are significantly improved to us along several variables. First, there's significantly reduced risk while we believe in maintaining meaningful upside in our contract. And second, I wanted to also demonstrate to you that this was priced taking into account that we need to earn a strong return on invested capital. So margins to date, as you saw on the prior slide, are about 1.12 million. Based on this new contract construct, we believe we would earn 1.63 million. Taken together, that sums to 2.75 million. If you take into account how much capital we have invested per megawatt in that site, that gets us to a nearly 2X return on invested capital over two years.

So what are the new terms? We've structured it to mitigate risk on the power cost here too for there was not much volatility in our power cost. We did experience a couple of months, and now we have a return, what I'll call some sort of normalcy. Those two months were painful for us. So we traded off some contract terms and now that's a complete pass-through with no exposure to us, but we do maintain upside on Bitcoin with a profits percentage. So we get a power cost pass through, plus the fixed fee, plus a





profit share. From our point of view, that really optimizes the risk-return trade-off and helps assure that we get very close to a two times return on invested capital over the course of two years.

I'd like to take a moment to do a bit of a deep dive on our power cost at Sophie and Marie. So if you bear with me for a moment and follow me carefully on the right-hand side, you'll see our fuel cost adjustment relative to June. June was a solid month for us and we believe perhaps a normal month and fuel cost adjustment were 2.7. In July, that jumped by 43% relative to June. And August jumped by 66% relative to June. September will only be a 5% increase relative to June. October will bump up a bit and be an 11% increase relative to June. What that demonstrates to you is all the worst of this isn't behind us. We haven't completely returned to the June levels, but we're only a hair away from doing that. As you can imagine, that's vitally important to restoring our historical margins.

As referenced earlier, we do expect our power costs to decline in September. If you look at the chart on the right, that helps put out an illustrative normalized cash contribution, it slowly drives you to an \$877,000 number using June fuel cost level. Assuming a slightly elevated fuel cost for September relative to June, as explained on the prior slide, you're looking at roughly an \$800,000 cash contribution margin.

Let's take a moment to review the facility results. A quick high-level August business summary. Bitcoin equivalent mined increased by 6% and our peak hashrate remained above an exahash. Cash contributions remained healthy. 26% cash contribution on prop mining was slightly offset by weaker hosting margins though. As we previously discussed, the 10-megawatt hosting agreement at Marie was renewed. We anticipate hosting margins with a new contract will increase from levels in June and July.

On this graph, we demonstrate for you our path to 2.5 exahash and how by flipping on Dorothy, we exceed that target between Dorothy 1A and Dorothy 1B.

Some quick highlights on Sophie. We believe the site's performing exceptionally well, even in a low Bitcoin price environment. In terms of Bitcoin equivalent mine, we've increased that by about 3% a day. And our cash contribution margin was about 353,000 versus 366,000 in July. The change of margin was largely due to an increase in energy costs.





And here you'll see our historical financial and operating data for Sophie. You'll note that Bitcoin equivalent mine in July was 51, and in August was 52.58. And our cash contribution margin was about \$353,000.

I want to share with you some highlights on our Marine site. The average hashrate in August was 464 petahash compared to 493 in July. However, by September 10th, that increased to 539 petahash. If you look at the graph below on the right on hashrate graph, which is important, the orange portion is prop mining. The blue is hosted. You'll see that both hosted and prop mining increased in September to above both June, July, and August performances. We expect that to drive strong performance in September. The decrease that we experienced in August was due to seasonal factors, including TVA curtailments, weather-related hashrate reductions, and our power provider had a transformer malfunction, which was resolved. Again, to reiterate, the site has returned to very strong performance and we expect that to continue.

I wanted to highlight something important about Project Marie's historical financial and operating numbers. You'll see that we had a negative hosting margin for August. This was the last month under the prior hosting contract. And I expect that that number will be significantly different under the September restructured contract. So take into account better prop mining results, as well as hosting contract restructuring should set us up for a strong performance at Marie for September. Here, you'll see some of the Marie operating metrics, which we expect will be significantly improved in September.

At Edith, we had good performance, but the most notable thing that happened to Edith was the sale of our GPU miners at the facility. That sale closed in September and it valued the assets there at about \$790,000. \$500,000 of that was upfront, and \$290,000 of that was in a promissory note due March 2023. Pays interest at a 20% annualized interest rate on a monthly basis. We'll probably present Edith's results again next month, as we held those for a stub. And then that will be our closing the book and calling that a strong investment and one that we're very, very proud of.

Here you'll see Edith's historical financials and operating results, and we'll present them to you next month for the stub period for the month. And again, that'll be our last presentation of Edith's materials.

So on a consolidated basis, some important numbers to highlight. Average Bitcoin mined increased by 6% versus July. Our combined installed hashrate increased by 19% to one exahash over an average of 856 petahash in August. Our sites are stable and productive





in this environment. And you'll notice for example, on the hashrate on the right bar chart, our prop mining has moved from 606 to 736, and hosting has moved from 250 to 279.

The following is our consolidated Soluna computing financial information. I want to highlight for you, for example, in June, we hit a roughly \$800,000 cash contribution margin. July and August as a consequence of unanticipated power cost spikes were 433 and 493, respectively. September, we expect to look a lot more like June. And if we did hit an improved Bitcoin environment, it would begin to look more like April and May, but obviously, that's something we can't control. We can't control our power costs and our operating costs and our SG&A costs. And we're extremely focused on that. And as we ramp up Dorothy, we would expect our operating costs and our power costs on average across our enterprise to be significantly lowered, producing even better-operating cash flow margins.

Here you'll see our combined consolidated operating metrics that I think will be helpful to you in terms of understanding our operating performance. So June's Bitcoin price was 24,000, which is higher than it is today, but the difficulty level is a bit higher today than it was in June. But on the other hand, we do expect significantly reduced power costs in September, which should get us pretty close to June's operating cash flow performance.

I want to thank you for joining me today, and if you have any questions or follow-up thoughts, feel free to email me or our investor relations firm. Again, thank you, and good day.

