



Soluna Holdings, Inc.

October 2022 Flash Report

December 2022

Transcript

Good morning. This is Michael Toporek. I'm Chief Executive Officer at Soluna Holdings. Thank you for joining me for the October 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. Now, 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 investment decisions. This presentation lays some of that out for your review. 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, so the company is taking excess energy from renewable energy sources to power 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. 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.





We'll begin today with a business update, and then work our way through the flash results for October. Following is the business update. Just some quick highlights on a couple of key items, most importantly, I'm pleased to report Dorothy's Energizing Status is now in a narrow window of, call it, early February to early March. That's 50 Megawatts that doubles our footprint and that particular site can easily expand to a full 100 megawatts at a later date. Second, we continue to be fortunate enough to have support from many existing investors and we closed an additional common share offering, and third, in terms of the status of the operations themselves, I'm really pleased to report that our operating group has done an excellent job squeezing more efficiencies out of our facilities, so October revenues decline by 5.4% despite a 9.9% decline in average hash price. That represents what I'm going to call 4.5% of outperformance to the Bitcoin hash price.

Power costs went up 5% in October from September, but November costs are expected to decrease by about 6%, and November costs are expected to decrease by a further 10%. All of that enhances our operating margin, so we have the coming together of operational efficiencies with lower fuel pricing that we expect to result in improved performance over the course of November and December. A bit more detail on the status of Dorothy. We are in the modeling phase, where we're beginning to set the operational and logistical details required to energize our facility, and again, we expect that to happen sometime between early February and early March. We'll keep you posted as we hit significant milestones during that energization phase, so for example, when we schedule our interconnect to the grid when we accomplish our interconnect to the grid, and then as we begin to power up the facility and begin to test it out. It's a very exciting time for the company.

I think it's important for us to, again, refresh some of the calculations around Dorothy's earning potential. This is the earnings potential for the Dorothy 1A and 1B facilities, assuming you're using BITMAIN XPs. This is an illustrative monthly P&L, and you'll see there are Dorothy 1A and Dorothy 1B. 1A is owned about 65 to 68% by Soluna Corporate. The remainder is owned by Spring Lane Capital.

The company owns 100% of Dorothy 1B. Under each of those SPVs, we have the opportunity to go 100% hosting, 50/50, or 100% prop. The cash contribution to Soluna, on 1B, for example, at 50/50 in the current economic environment, we believe 792,000 or close to \$800,000 per month. Furthermore, for example, Dorothy 1A would be 539,000, so clearly, you would add 1A and 1B as we energize them. This is the same illustration as the prior slide, except for the main differences, this is \$19s at 100 Terahash, so on the Dorothy 1A, 50/50 scenario, we would make 384 per month. You add that to the 50/50 scenario for Dorothy 1B of 565 per month for a total.

As I mentioned on our opening slide to the business update, we were fortunate that the operating team hit a high level of efficiency in that, again, October revenue was down 5.4%, but the Luxor hash price, monthly average of hash price was down 9.9%, so we significantly outperformed the market, and it's not because we commissioned new machines, it's rather because we were more efficient with what we had. Let's do a little bit of a deep dive into power costs and look at power cost updates for Sophie and Marie. You'll notice that we did take big increases in June and July, but since then, September has come off by 37%, October went up by a little bit, and November was originally expected to decrease by 6%. It actually is going to decline by close to 15% from the previous estimate, so November is down 6% from October, and we're





expecting December to be further down from November. It begins to get us to costs below the June levels, and that, as you can imagine, is instrumental to increasing our margins.

We wanted to illustrate for you what the change in fuel cost prices would mean for our margins, so potential power cost declines in November and December, could represent 50 to \$150,000 incremental cash contribution margins for the company. That means that, say by December, we could be going from, call it 417,000 to 520,000, change of about \$155,000 per month in operating profits, so moving from a 25% contribution margin to a 32% contribution margin. In the following section, we'll review each facility's results, operating and financial, and then look at the consolidated results. On an operating metric point of view, September's business results were strong. Flat Bitcoin production despite volatile market conditions. Bitcoin equivalent mine per day, only decreased 1% despite average hash price declining by 10% from September to October.

Our peak hash rate remained around 1 exahash. Our cash contributions are expected to improve in November and December as power costs declined. Hosting margins in October remain at 35%. We continue to scale the facilities, and as you can see, adding Dorothy 1A and 1B continues to bring our hash rate under management to close to 2.6 exahash. Sophie continued to be a strong performer for us. In October, PetaHash increased by 2% to 300, almost 85 versus September of 377.

Cash contribution margin was 241,000 versus 324,000 in September. The decrease in cash contribution was because of a 3% decline in revenue, but a 10% increase in power costs, and there was a 10% increase in overhead costs that were one time, but we are including in this month. The site continues to perform despite a low Bitcoin pricing environments and we expect power costs to continue to decline in November through December, alleviating any margin pressure. You can see that the hash rate facility has been stable to increasing, and the Bitcoin mine per day, relative to the hash rate has been very, very strong. You can see the results here from an operating and a financial perspective for Sophie, and I do want to draw your attention to, as we move into November and December, obviously, the one-time charge to our operations here would not be there in November and December.

Furthermore, as fuel costs go down, I would expect to see cash contribution margins range around what the June 2022 number was. For Marie, the average hash rate in October increased to 500 and close to 535 from 517 in September, increased because the TVA reduced curtailments, and cooler temperatures increasing hashing conditions. The average proprietary hash rate remained above 250 PetaHash. The contribution margin in October was 140,000 compared to about 200,000 September. It's largely due to higher power cost, a 4% decline in revenue as a result of hash price decline.

The new hosting contract continues to demonstrate strong profitability from July and August lows. Again, looking at the financial and operating results for Marie, one thing I do want to point you to is as fuel costs improve, I expect results to look more like June of 2022, and that number's about \$240,000 in a cash contribution margin. On this page, you'll note Marie's operating metrics and especially the strong hash rate performance of the facility. Looking at our sites on a consolidated basis, the average BTC mined declined by 1%. The average hash rate set a new monthly record of 919.7 PetaHash, previous was 896.





That's a 3% up from September. Again, power costs are expected to decline in November and December, and looking across the graphs on the bottom of the page, you'll notice that our hash rate continues to increase not because of Capex, but because of increased operational excellence and some favorable temperatures and slightly less curtailment from the TVA. As we move from October to November and December, I would expect that the results will look more like the June '22 results as fuel costs continue to decline, but that does assume certain amount of hash rate and Bitcoin pricing in that discussion. Here, you'll see our operating metrics as a company, and again, I do want to talk to you about the average hash rate and the fact that it's climbed to a record for the company at 919.74. That's something we're very proud of.

I wanted to thank you for joining us for this monthly update. It's been my pleasure to join you and tell you about the exciting things that are happening at our firm, very specifically hitting an average hash rate record and our progress towards energizing Dorothy. As usual, if you have any questions or thoughts, please feel free to reach out to our IR firm, as well as to our management team directly. Thanks again, and have a great day.

