HUT 8

Q4 2023 Earnings Conference Call

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Hut 8 Speakers

Asher Genoot
Chief Executive Officer

Shenif Visram
Chief Financial Officer

Mike Ho
Chief Strategy Officer

Presentation

Operator

Good morning, and welcome to Hut 8's Year-End 2023 Financial Results Conference Call. After today's presentation, there will be an opportunity to ask questions. Please note that this event is being recorded, and a transcript will be available on Hut 8's website.

In addition to the press release issued earlier today, you can find Hut 8's Transition Report on Form 10-K on the company's website at www.hut8.com, under the company's EDGAR profile at www.sec.com, and under the company's SEDAR+ profile at www.sedarplus.ca.

Unless noted otherwise, all amounts referred to during the call are denominated in U.S. dollars. Any comments made during this call may include forward-looking statements within the meaning of applicable securities laws regarding Hut 8 Corp. and its subsidiaries.

The statements may reflect current expectations and, as such, are subject to a variety of risks and uncertainties that could cause actual results to differ materially from current expectations. These risks and uncertainties include, but are not limited to, factors discussed in Hut 8's Form 10-K for the year-ended December 31, 2023, and the company's other continuous disclosure documents. Except as required by applicable law, Hut 8 undertakes no obligation to publicly update or review any forward-looking statements.

During the call, management may also make reference to certain non-GAAP measures that are not separately defined under GAAP, such as adjusted EBITDA. Management believes that non-GAAP measures taken in conjunction with GAAP financial measures provide useful information for both management and investors.

Reconciliations between GAAP and non-GAAP results are presented in the tables accompanying the press release, which can be viewed on Hut 8's website.

I would now like to turn the call over to Asher Genoot, CEO of Hut 8.

Asher Genoot, Chief Executive Officer

The second half of 2023 was an inflection point for Hut 8 Corp. On November 30th, Hut 8 Mining Corp. and US Bitcoin Corp completed a merger. Our thesis was to combine the operating scale and discipline of US Bitcoin Corp with the strong balance sheet, access to capital markets, and liquidity of Hut 8 Mining Corp.

Our results this period clearly demonstrate the strength and potential of the combined business.

First, for some context: From an accounting perspective, US Bitcoin Corp acquired Hut 8 Mining Corp. We adopted the Hut 8 brand name and ticker, but our historical and year-end financials represent US Bitcoin Corp's results through November 2023 and the combined company's results for the month of December 2023.

With that, I'll turn to our results for the period.

Our revenue grew 32% year-over-year to $60.6 million for the six-month period ending in December 2023. Today, 68% of our revenue is generated by our Digital Assets Mining—or self-mining—business. While we remain committed to growing this business, we are equally excited to further diversify our revenue stream across other business lines like Managed Services, High Performance Computing, and AI.

During this period, we were also net income-positive. Our adjusted EBITDA grew 386% year-over-year. Even excluding the impact of revaluing our Bitcoin holdings to fair value, our adjusted EBITDA would still have more than doubled year over year.

Our results for the fourth quarter of 2023 are yet another indication that this is a new chapter for Hut 8. Our revenue for the three-month period grew 212% year-over-year to $38.9 million. Our gross margin for the business expanded to 47%. And our net income was $10.6 million for the three-month period.

Most importantly, we did this all without raising any external capital during the period and have set the business on a new trajectory without diluting our shareholders.

Going into the merger, US Bitcoin Corp acknowledged the need for an extensive operational overhaul of the legacy Hut 8 Mining Corp business. With our post-merger restructuring program now well underway, we are confident that we can continue to drive costs down across the organization and increase cash flows in the coming quarters.

The market value of our Bitcoin holdings was approximately $557 million as of February 29th with a Bitcoin price of approximately $61 thousand. Based on the 9,110 Bitcoin we held at the time, we had the second largest treasury among publicly traded miners and one of the top six largest treasuries among all public companies alongside MicroStrategy, Tesla, Coinbase, Marathon, and Galaxy.

We intend to manage our holdings efficiently to fund growth through direct sales, option strategies, and other creative approaches to maximize shareholder value. At the same time, we recognize that our treasury provides proxy exposure to Bitcoin appreciation for our shareholders, and we will deploy our holdings with discipline.

The next item I want to discuss is our debt. Thoughtfully structured, strategic debt enables us to invest in growth and generate strong returns on invested capital without diluting shareholders. We believe our three tranches of debt are healthy and manageable, with balanced maturity profiles and favorable repayment terms.

We are committed to maintaining a strong balance sheet as we prepare for opportunities to invest post-halving. We are equally committed to strengthening our operations. Since I took over as CEO, we have focused tirelessly on driving efficiencies through a comprehensive restructuring program.

First and foremost, we have implemented US Bitcoin Corp's operating principles and proprietary technology across all our post-merger facilities. This means we now only mine when it is profitable, using our proprietary energy management software to curtail operations when the cost of energy exceeds expected revenues.

Our software drives significant cost savings by using a set of algorithms to automatically adjust the energy consumption of each individual miner in our managed fleet of approximately 260,000 machines. As an illustrative example, with our software, our realized cost of energy in ERCOT West Load Zone during the period would have been 2.6 cents per kilowatt hour instead of 5.9 cents. This is a savings of more than 50% with a curtailment rate just under 9%.

Our average cost to mine a Bitcoin excluding hosted facilities was $16,353 for the six months ended December 2023. Our average cost to mine a Bitcoin including hosted facilities was $18,815. Our average self-mining energy rate was less than 4.5 cents per kilowatt hour, and our average hosting rate was 6.3 cents per kilowatt hour. We continue to focus on driving down our cost to mine a Bitcoin and our realized cost of energy.

Earlier this month, we announced the closure of our Drumheller site. Our plan to relocate efficient miners and retire inefficient miners is already underway. This is expected to one, enhance our cash flow, two, reduce our cost to mine a Bitcoin, and three, drive a pro forma increase in our Bitcoin mined per exahash of approximately 11%. The pro forma 44 Bitcoin mined per operational exahash in February, excluding Drumheller, puts us in the top quartile of public miner performance during the month.

Reflecting on the last two months since I took over, I recognize the considerable time and effort we have spent on restructuring the business. While there is still work to do, I am proud of the progress we have made. We continue to mine when profitable while focusing on topline revenue growth and cost reduction across the business.

Looking ahead, we are focused on two key pillars: strengthening and growing our self-mining business and continuing to diversify our broader business. We have already made significant headway on both pillars and remain confident in our ability to execute.

First is strengthening and growing our self-mining business.

In an asset-intensive, commodity business like mining, being a low-cost operator is a key source of sustainable competitive advantage. As I detailed earlier, we are dedicating significant time and effort to improving our cost structure.

We also recognize that many of our peers have announced expansion plans, including forecasts to reach 20 exahash this calendar year. What sets us apart is that we have already proven that we can build and operate at scale. As of the end of February, we had approximately 27 exahash under management across our self-mining, hosting, and Managed Services business lines. For us, the question is not if we can scale, but when and how.

Unlike in 2021, miners are not in short supply. If purchasing miners today at market prices would generate the highest return on capital, we would do so. But we believe a new generation of miners with a more efficient iteration of the three-nanometer node is on the near horizon. We expect this generation to be followed shortly by an evolution to a two-nanometer node with further improvements in efficiency. With the halving quickly approaching, we are being thoughtful about the best time to upgrade our fleet and scale our operations.

On the other hand, we believe energy capacity and infrastructure will continue to be a scarce resource across industries. We have worked tirelessly to secure new megawatts with energy partners, and we currently have more than 1,100 megawatts of energy development capacity under exclusivity. This represents nearly 63 exahash of capacity if filled with current generation miners.

I look forward to updating you on our progress on these growth plans in the coming quarters, particularly as it relates to our self-mining exahash targets.

Furthermore, we believe our ability to build sites quickly and cost-effectively without sacrificing quality is unmatched. We will continue to execute decisively on accretive opportunities, just as we did recently with our acquisition of the 63-megawatt Salt Creek facility.

Speaking of which, we are on track to energize Salt Creek with miners hashing in April, less than three months after breaking ground at the greenfield site. We are recording some of the fastest buildout times in the industry thanks to our best-in-class development team. We expect to complete the project for less than $275,000 per megawatt, undercutting recent M&A transactions in the space by more than 40%. We are confident that this site, like the Bravo site designed and built by US Bitcoin Corp, will be able to achieve hashrate efficiencies among the highest in the industry.

Now, I'll move on to the second pillar, which is continuing to diversify our broader business. This includes Managed Services, High Performance Computing, AI, and power generation. I'll discuss each of these in turn.

First is Managed Services.

When we created the Managed Services business, we believed we could take our experience scaling US Bitcoin Corp and build a suite of turnkey solutions for institutions seeking project-level exposure to Bitcoin mining. Our thesis was validated by the market, and we grew the business to more than 680 megawatts under management in less than five months. Today, our partnership with Ionic Digital alone generates more than $20 million in cash revenue per year in addition to cost reimbursements and equity incentives.

Managed Services is a powerful growth engine. It eliminates the need to deploy large amounts of capital to achieve economies of scale. It subsidizes the cost of our mining business across our operations and our partners' operations, driving improvements in key cost metrics. And it generates a diversified stream of fiat cash flow that is de-risked relative to hashprice volatility.

Managed Services is the only proven offering of its kind. As demand for flexible load increases across institutions, governments, and renewable energy producers, we are positioned to capture this demand as the partner of choice for infrastructure development and operations. We continue to focus on refining our offering, driving topline growth, and executing on margin expansion opportunities.

Turning now to High Performance Computing, the second area of diversification.

The reality is that our HPC business is currently subscale. However, we believe there is an opportunity to streamline the business and use it as a platform to design, build, and operate AI-specialized data centers. Today, we are focused on performing a thorough review of the business and developing a plan to achieve growth and profitability.

The third area of diversification is AI.

Our conviction is that demand for AI compute will continue to rise, leading to substantial growth in demand for underlying GPU hardware. In October 2023, we placed a $40 million purchase order for our initial GPU cluster. Based on current market rates, we believe a deployment of 1,000 NVIDIA H100 GPUs has the potential to generate nearly $30 million in topline revenue per year. We continue to monitor the market as demand increases and will seize opportunities to scale accordingly. We plan on sharing an update on this growing division in the coming quarter.

And the final area is power generation.

In February, we completed our acquisition of the Validus assets. We continue to believe in the underlying thesis of vertical integration that drove the transaction, but our strategy for maximizing the value of the assets has shifted. These are some of the few non-contracted, merchant powerplants available in Ontario, making them more valuable to many players in the energy sector. As a result, we are actively working with Macquarie, our joint venture partner, to explore strategic opportunities to maximize our return.

Taking a step back, our near-term goal is to continue building a profitable, diversified business during fiscal year ’24. As one of the largest shareholders of Hut 8, I am more determined than ever to set a strong foundation for a lasting, generational business.

We have a strong balance sheet that enables us to grow while reducing the need for external capital and limiting shareholder dilution. Our new treasury strategy allows us to use our Bitcoin holdings creatively with the goal of achieving a lower cost of capital for each project we pursue. Our diversified revenue stream and portfolio of capex-light and capex-heavy businesses gives us the ability to make the right bets at the right time. And our team has a single-minded focus on building a best-in-class operating business.

In closing, we are profitable today and continue to drive down costs across the organization. We are committed to growing our self-mining business and diversifying our broader business. And we are relentlessly focused on maximizing shareholder value.

With that, I’ll turn it over to Shenif to review the financial results in detail.

Shenif Visram, Chief Financial Officer

Thanks, Asher.

Before we review the financial results, I want to take a few minutes to explain what you will see in our numbers. Our year-end financials are unique due to a number of factors.

Firstly, we completed the merger on November 30, so we only have one month of combined company financials for the month of December.

Secondly, while the merger between the two companies was a merger of equals, from an accounting perspective, US Bitcoin Corp, or USBTC, was deemed the acquirer of Hut 8.

Lastly, there was a change of year-end for the accounting acquirer, USBTC, from June 30 to December 31.

As a result of these changes, we are filing transition period financial statements as a bridge between USBTC’s last year-end, which was June 30, 2023, and Hut 8’s new year-end, which is December 31, 2023. The outcome of this is a six-month set of financials. In today’s call, we will be discussing the audited financials for the six months ended December 31, 2023 compared to USBTC’s six months unaudited ended Dec 31, 2022. In addition, we will discuss the December 31, 2023 balance sheet for the company on a combined basis.

Turning now to the results.

We generated revenue of $60.6 million in the six months ended December 31, 2023, which represents a $14.6 million increase from $46.0 million in the same period of the prior year. The year-over-year growth of 32% was driven by strong performance in our Digital Assets Mining, or self-mining segment, the continued ramp of our Managed Services business, and one month of the newly acquired High Performance Computing business.

Digital Assets Mining revenue totaled $41.5 million in the six months ended December 31, 2023, versus $25.7 million in the same period of the prior year. Total Bitcoin mined in the current period was 1,244 versus 1,273 in the prior period. The growth in revenue was due to an increase in the average price per Bitcoin mined from approximately $20,200 during the six months ended December 31, 2022 to approximately $33,300 during the six months ended December 31, 2023.

Managed Services revenue totaled $12.6 million in the current period, versus $2.6 million in the prior period. $12.6 million of revenue in the current period includes $9.6 million in fees and $3.0 million in cost reimbursements, versus $1.5 million in fees and $1.1 million in cost reimbursements in the prior period. The company began providing Managed Services for third parties in November 2022. As a result, the current period of six months ended December 31, 2023 reflects the full six months of activity in revenue, whereas the comparative period of six months ended December 31, 2022 reflects less than two months of activity.

High Performance Computing – Colocation and Cloud revenue totaled $1.1 million in the six months ended December 31, 2023. The revenue of this segment relates to the legacy Hut 8 business and was acquired as part of the merger with Hut 8 Mining Corp. and hence represents one month of activity. The prior year includes no revenue from this segment.

Other revenue totaled $5.4 million in the current period, versus $17.6 million in the prior period. Current period Other revenue consists primarily of hosting services revenue from our Alpha site. Other revenue from the prior period consisted of $14.0 million in hosting services revenue and $3.6 million in mining equipment sales. One of Hut 8's hosting clients defaulted on its contract during the six months ended December 31, 2022, which resulted in a termination of the contract without an obligation to refund. Hut 8 recognized the remaining deferred revenue of $13.1 million with respect to this client.

I'll now review costs and expenses.

Cost of revenue for Digital Assets Mining in the six months ended December 31, 2023 was $26.5 million, versus $23.2 million in the same period of the prior year. This reflects an increase in electricity utilized due to higher network difficulty and hosting costs from additional miners online, partially offset by lower average cost of power. Our cost to mine a Bitcoin excluding hosted facilities during the six months ended December 31, 2023 was $16,353. This includes electricity, offset by curtailment credits and electricity cost reimbursements. Our cost to mine a Bitcoin including hosted facilities was $18,815. These cost to mine numbers include our net share of the King Mountain JV.

Cost of revenues for managed services for the current period was $3.4 million compared to $1.1 million in the prior period. The cost of revenue primarily consists of reimbursable payroll and other site operating costs. The increase in costs is due to the full six months of activity for the current period six months ended December 31, 2023 compared to less than two months of activity in the prior period. Managed Services gross margins were 73% in the current period, versus 59% in the prior period.

Cost of revenues for High Performance Computing – Colocation and Cloud in the six months ended December 31, 2023 was $0.7 million. This reflects one month of activity, in line with the revenue reported for this segment. The prior year includes no costs from this segment.

Depreciation and amortization expense was $10.6 million in the current period, versus $11.8 million in the prior period. The decrease in depreciation and amortization expense was primarily driven by the lower net book value of plant and equipment after the recognition of a non-cash impairment charge during the six months ended December 31, 2022 as part of annual impairment testing, partially offset by additional depreciation associated with property and equipment acquired as part of the merger.

General and administrative expenses were $37.6 million in the current period, versus $10.6 million in the prior period. Stock-based compensation increased by $9 million primarily due to the acceleration of certain stock options and the issuance and immediate vesting of certain restricted stock awards as part of the business combination. Current period SG&A was also impacted by a non-recurring state tax provision taken for $9.6 million related to a facility build in Texas. In addition, we incurred $2.4 million of transaction costs related primarily to the business combination. The remainder of the year-over-year increase is due to an increase in headcount to support the growth of the company as well as the inclusion of one month of legacy Hut 8 SG&A.

The company implemented the new FASB fair value accounting rules, which led to a $32.6 million gain on the revaluation of our Bitcoin holdings in the current period. For our company, the impact of this implementation was lower relative to the size of our Bitcoin stack due to the business combination. Since legacy Hut 8 was acquired by US Bitcoin from an accounting acquirer perspective, the opening balance sheet for legacy Hut 8 was fair-valued as of November 30. As a result, the implementation of the new policy only created a gain in the appreciation of Bitcoin price from November 30 to December 31. The company expects that our net income in future quarters will be impacted by the fluctuations in Bitcoin price as we fair value our Bitcoin assets.

The prior year included a $63.6 million impairment of long-lived assets whereas the current period did not have any such impairment.

Other expenses totaled $4.5 million in the current period, versus $15.2 million in the prior period.
Total interest expense was lower by $3 million mainly due to the NYDIG debt restructuring in February 2023.

In addition, the company booked $6.2 million in equity for our 50% share of the King Mountain JV, which is accounted for under the equity accounting method.

The next item is net income.

Net income in the six months ended December 31, 2023 was $6.2 million, versus net loss of $81.3 million in the prior period. Prior year net loss included an impairment of long-lived assets of $63.6 million. In the current period, the company opted for early adoption of the new FASB fair value accounting rules, which resulted in a gain of $32.6 million.

I will now turn to adjusted EBITDA.

Adjusted EBITDA in the six months ended December 31, 2023 was $62.3 million, versus $12.8 million in the prior period, an improvement of $49.5 million. This improvement is mainly due to the gain on the fair valuation of our Bitcoin stack of $32.6 million, higher revenue from our Managed Services business, and the inclusion of our share of the King Mountain JV.

And finally, I'll discuss our balance sheet.

Our balance sheet remains healthy. We closed the fiscal year with $30.5 million in cash.

Our Bitcoin holdings are marked at fair value and totaled $388.1 million as of December 31, 2023, based on 9,195 Bitcoin held in reserve. Of this total, 6,813 Bitcoin valued at $287.6 million were unencumbered as of December 31, 2023.

Our total debt was $187.4 million, of which $126.2 million is to be repaid based on a cash sweep and has no minimum monthly repayment.

The first tranche, held by Coinbase, is a $50 million loan collateralized by 2,382 Bitcoin as of December 31, 2023. In January 2024, we took a subsequent draw for an additional $15 million which was also collateralized by Bitcoin, bringing our total encumbered to 2,572 Bitcoin. With the recent appreciation of Bitcoin prices, earlier this month we were able to reduce our encumbered Bitcoin against the $65 million loan to 1,872, freeing up 700 Bitcoin.

In tandem, we are exploring the opportunity to write a covered call on the newly unencumbered Bitcoin. We believe the premium generated will be considerable, offsetting our interest expense on the loan and significantly reducing the effective interest rate. In a downside scenario, the call would be struck, generating additional sales proceeds. In an upside scenario, we would retain a significant portion of cash and reclaim our Bitcoin. This trade demonstrates how our new treasury strategy enables us to generate value without directly selling our holdings or diluting equity.

The second tranche, held by Anchorage, is $44.4 million with a five-year term, cash flow sweep structure, and end-of-term balloon payment. The debt is collateralized by a portfolio of machines from our self-mining fleet and requires monthly payments only when the machines are profitable. This structure eliminates the risk of a fixed-payment structure, which contributed to widespread defaults in 2022.

And the third tranche, held by our JV partner NextEra, is $81.9 million with a five-year term. This tranche features a cash flow sweep on JV distributions, no minimum payment for the next four years, and ends with a balloon payment. Secured solely by our interest in the JV, it exemplifies why we are so bullish on project-level financing: it is highly accretive, non-dilutive, and has no recourse to the parent company.

Finally, in an effort to increase the transparency of our reporting to the market and our shareholders, our 10-K filing provides additional unaudited information including:

An eight-quarter history of unaudited financials spanning the three months ended March 31, 2022 to the three months ended September 30, 2023 of USBTC plus the three months ended December 31, 2023, which includes two months of USBTC only and one month of combined company, and;

A business combination footnote which shows pro forma financial information on the consolidated results of operations of USBTC and Hut 8 Mining Corp. as if the Transaction occurred as of July 1, 2022 with pro forma adjustments.

That concludes my commentary. I will turn the call back to our operator.

Operator

Thank you. If you'd like to ask a question, please press star one one. If your question has been answered and you'd like to remove yourself from the queue, please press star one one again. Our first question comes from Mike Columbus with H.C. Wainwright. Your line is open.

Mike Columbus, H.C. Wainwright

Hi; good morning, guys. Thank you for taking my questions. And appreciate the new disclosures here. Asher, it sounds like you have a large energy development pipeline and are really focused on growing the self-mining business but are holding off making these new rig purchases until these newer generation equipment become available in the market. When do you think we could see these rigs hit the market? What specs are you expecting from them? And generally, what are your views on the risk of losing share as your peers continue to expend in this market?

Asher Genoot, CEO

Yeah, I appreciate the question, Mike. So for us, we see it as kind of two parts of the chapter. First is in the area that we're in right now, pre-new generation machines coming out, we have been coming up in about a month. And our belief is that pricing will be more depressed post-halving than pre-halving. And so being patient until the halving happens to be able to see the impact it has on the markets, we're very close right now to a lot of the resellers, the manufacturers, to understand the pulse of where the markets are, the pie available and the pricing available. And so for us, unless there's a creative opportunity to acquire machines today, just based on current market pricing, we think it's more accretive post-halving or as the new generation check on that to be kind of first in line with the newest and best generation. I'll let Mike chime in a little bit more on the evolution of the check that we see then.

Mike Ho, Chief Strategy Officer

Hi, everyone. Mike here, Chief Strategy Officer. We believe that there will be a newer iteration on the three nanometer that will be released later this year. I can't give guidance on exact specs. That will be from the manufacturer. But based on the timeline that TSMC has given guidance on for the two-nanometer, we expect the two-nanometer to be commercially available towards the end of this year or into early 2025.

Mike Columbus, H.C. Wainwright

It's very helpful color, guys. And just one more for me. Can appreciate really optimizing the business here to drive profitability. So can you provide us with an update on your restructuring plans? I know you recent shut down operations at Drumheller. What other sites or miners are candidates to retire from here?

Asher Genoot, Chief Executive Officer

Yeah. So I split the restructuring program into a couple different parts of the business.

The first is our self-mining fleet. So Drumheller was a facility that we announced that we shut down. As a part of that shutdown, we also retired older generation machines. And so you'll see us continuing to be creative in how we maximize the value of every machine, whether that is done at the end of life finding a better home for them in terms of generating the most amount of profits or underclocking a certain percentage them to increase efficiency. And we share our efficiency numbers as well in this upcoming—in the 10-K that we released. And so that's kind of category one, which is mining. I'm a big believer that people need to be very comfortable that we have the ability to generate really strong unit economics. And so as we scale, those unit economics will continue to remain strong, only get better.

The second part of the restructuring I touched on briefly in my introduction, which was our HPC business. And so it's subscale today; requires time and effort in order to restructure how we run that business today. But we are excited by that business because we see it as a foundation to be able to grow the scale, especially when you look at GPUs, AI, and datacenters and kind of look at the different parts of the value chain within that ecosystem.

And then lastly is the asset that my predecessor had started. And the transaction closed shortly after I took over and maximizing the value of those assets. And just being hyperfocused as a team and as an organization on the area that we have key competitive advantages and can really create a moat around and compound over time.

Mike Columbus, H.C. Wainwright

Okay. Thanks, guys.

Operator

Thank you. Our next question comes from Joseph Vafi with Canaccord Genuity. Your line is open.

Joseph Vafi, Canaccord Genuity

Hey, guys. Good morning. I think one of the key advantages and competitive differences for Hut is your HODL. And I know Shenif talked about that a little bit. Just wondering if you see any other strategic uses for that HODL moving forward especially in this time of restructuring and the like now follow up.

Asher Genoot, Chief Executive Officer

We do. So for us, when we look at kind of use of funds and source of funds, we're constantly looking at opportunities in the markets today whether it be sites, greenfield, M&A activities, machine purchases and just investments in general and have a pretty high hurdle on what—on our analysis and kind of our metrics on doing so. But then once we have an investment we want to make, the other side of it is what is the cheapest cost of capital that moment in time.

And the five levers that we see we can pull on are, number one, the equity markets. And based on how we've traded in recent months, we've traded very close to our bitcoin actual HODL balance. And so we think our cost of equity's very expensive. The second is debt. We don't look at taking on any corporate debt going into the halving and maintaining strong balance sheet. The third is project level financing whether that be debt or equity or quasi-debt and equity. And I think Shenif shared a little bit about one of the tranches of debt that we have on our balance sheet. That's really project level financing. That doesn't have parent recourse. And so we think that's interesting because it allows us to continue to grow without dilution as a parent company or additional risk exposure. The fourth is selling some of our Bitcoin. We announced that on the Salt Creek project, we would look at our balance sheet in order to fund growth. And luckily, our cash flows have been able to manage a lot of those cash proceeds we needed to build out that facility. And the last one is to be able to use the balance sheet; we have of over 9,000 Bitcoins to be able to be strategic on how do we pull capital off that balance sheet. And so we'll have more announcement around some of those ideas and executing some of those ideas in the coming quarter.

Joseph Vafi, Canaccord Genuity

Sure. That's great color. And then with the halving coming, obviously, the mining fleet you have is pretty mixed at this point. Do you expect to see some reduction in your overall hash rate here pre and post halving? Thanks a lot.

Asher Genoot, Chief Executive Officer

Appreciate it. And so your question is around basically where we see kind of difficulty going?

Joseph Vafi, Canaccord Genuity

Well, difficulty, price, and probably some of those—probably some are marked more efficient than others. And I mean it all depends on where difficulty and price go. Right.

Asher Genoot, Chief Executive Officer

Right.

Joseph Vafi, Canaccord Genuity

But is there maybe a part of fleet that's still going that you think may not be going post the halving? Thanks.

Asher Genoot, Chief Executive Officer

Yes, definitely. So a big part of us, of the thesis behind merging US Bitcoin Corp and Hut 8 Mining Corp was to prepare for the halving. Our belief is always plan for the worst and hope for the best. And if the recent price action and Bitcoin price, I think had bailed a lot of folks out and had been able to keep folks profitable post-halving just because we were at around Bitcoin at 30,000 about a year ago. Right.

And so I think that that's important. And we want to build the business looking at kind of the worst case scenario because if you're strong there, then you'll reap rewards when the markets are better. So when we look at our fleet, right now, we're doing a lot of movements of our miners and what facilities could host the different efficiency of miners to be able to maximize that value. Some of the machines that are older generation we'll be underclocking to decrease those deficiencies. And as I mentioned in kind of the intro paragraph, we have our own proprietary software that we've been developing since we started the business. And that looks at real-time energy markets, any kind of hedges that we have in place or PPAs. And it curtails the machines accordingly—whether it be underclocking the machines or shutting them down relative to those energy rates and so continuing to mine at a profitability.

But the analysis there is less about “are you mining profitably, or are you not?” I think that—like we're very comfortable with and had been doing that historically at US Bitcoin Corp. Really, the question here is what the best and highest use of the rack space that you have available and is that the best return profile. And so as we continue to inspect the market, look at pricing, look at payback on terahash, I think that’s the second lever and the second area we think about when we think about which machines generate the best return. And it's not -- it -- that the first area is will you mine at a profit? Andd my answer is yes, we're not going to operate at a loss when we're mining Bitcoin. And we'll always look at real-time energy rates and run our software. But the second question is what the highest and best use of the rack space when and we’ll look at kind of the return on that capital invested, really upgrades or, I mean, new machines. And I want to circle back on the earlier question you have as well. I said I'll be announcing kind of what we're doing with our treasury management strategies this upcoming quarter. I want to tap Mike in here a little bit to share a little bit of what he's seeing on the option market today as we're looking at our bitcoin stack.

Mike Ho, Chief Strategy Officer

Yes, absolutely. We're constantly monitoring opportunities in the derivatives market, Bitcoin being a very volatile asset. Sometimes, that volatility is to our favor given the large stack that we have. Lately, we've seen increased volatility on the options specifically to the upside. We've seen that the implied volatility has spiked up over standard deviation, if not more, compared to the median average. And what that means is we're able to look at selling calls out of the money above the current slot reference at a favorable premium. The spot right now is around 70,000. If you look at more long-dated into June and September, that spot trading–the premiums trading–for example, the 85,000 call of June is around 7,500, 8,000. And if you looked at–look at that going out to September, the premiums are over 10,000. That represents almost a 50% premium to the market spot price of bitcoin at 70,000. What that means is over that period, if Bitcoin goes above 90,000, you're getting called. But you're receiving–you're able to essentially monetize that Bitcoin at 100,000, which is paying 50% premium for the market. And if Bitcoin turns relatively flat across this range, we're able to take in that premium and use it as growth non-diluted capital.

Joseph Vafi, Canaccord Genuity

Sure. That's great. Thanks for that color. And yes. And good luck with the option strategy. It's a nice lever to pull. Thanks, guys.

Operator

Thank you. Our next question comes from Josh Siegler with Cantor Fitzgerald.

Josh Siegler, Cantor Fitzgerald

Yes. Hi, guys. Thanks on the call. And I'd say congrats on your first earnings call. We look forward to much more.

Asher Genoot, Chief Executive Officer

Thanks. Appreciate you.

Josh Siegler, Cantor Fitzgerald

The first point. Yes, first point I just want to talk about is on timing the capital cycle. Obviously, you guys alluded to multiple times kind of waiting on next generation miners seeing where they're at, but how are you thinking about timing in terms of the pricing of those markers? Especially,as you know, if you're expecting something a week later this year, historically, we would expect to sort of be in the middle of the Bitcoin bull run. And maybe, miners might be more expensive at that time. So how are you reconciling that alongside with timing your capital deployment?

Asher Genoot, Chief Executive Officer

No. I think that's a great question. And thank you for bringing up that because I did want to clear it at some point. So our perspective is not: we're not going to buy any machines until new generation machines come up. We're using that as a variable as we determine investing in machines machines and the pricing of the machine then where we think machine pricing will go.

And so kind of step one is pre, post-halving. Then step two is pre, post-new machines. Right. And so I think that's important. We are constantly in active dialogues and discussions with the manufacturers. We'll be visiting them on their home turf in short order as well. And so we're very, very close to the market not just in terms of pricing but in terms of allocation, supply chains and what's coming out and durability.

I think the big difference here too compared to 2021 is the allocation of chips available from the actual foundries, TSMC, Samsung, SMIC. And why that's really important to talk–if people remember, back in 2021, there was a massive global shortage on chips. You couldn't even buy cars because they couldn't manufacture the cars enough because those chips weren't available. We're not in that era anymore. And so availability of the manufacturers to produce these machines is less bottleneck on chip availability but more so on them planning their production.

And so for us, there's a lot of announcements on these massive exahash targets. And for us, we think that real bottleneck here is going to be energy capacity. As you look at energy capacity, a lot of large sites have been utilized in, over the course of, kind of, the last couple years that different folks went into the market and negotiated these deals. And currently, there are sites that historically could have been for Bitcoin mining. But because of the parameters of where they're located, now, they could be interesting for traditional datacenters, AI a little bit as well. So you have more competition. And you have new technologies coming as well. And so we'd been hyperfocused on that energy infrastructure piece both from a greenfield perspective and creating new relationships and further deepening the existing relations that we have with energy generators and energy partners. And I mentioned in my script earlier that we have over 1,000 megawatts of exclusivity energy capacity, right, because we believe building—getting energy capacity, building that capacity is a lot longer the lead time than buying machines and having machines delivered and flagging in them in.

And so as we look at the markets, we are very thoughtful on how we deploy. But if you look at the history of US Bitcoin Corp, in 2021, we were not behind in how we bought machines. But when we were very thoughtful, we didn't buy machines for over $35 a terahash because when we looked at press releases in the market, people were buying for $50, $60, $80 a terahash. And in creating unique relations with the manufacturers and how you structure those deals, we're able to get access to supply but also had a low cost fuel to drive our return on investment higher. And so I think for us, the question is not if we're going to grow and how long we're going to wait, but what is the best entry point to deploy that capital to have a good return. A

And I think the confidence that I hope people see is in the Managed Services business and Colocation business. In our recent production report, we shared that we're managing 27 exahash today. Right? So if we only had our self-mining fleet today and where we said, hey, we're roughly around seven exahash, we didn't go and add 20 exahash, the questions are can you do it, do you have the operational ability, can you scale? But I think those questions don't really need to be asked or have been answered already, which means—which is we are already doing it. We have the capability. We have the software and we have the SOPs to do it. And so the question is when do we deploy that capital and how do we generate the highest yield and the highest return.

But we're very sensitive to your point, Josh, on not being caught flat-footed and being in a bull run where we can't get access to machines or pricing is elevated. And so we're actively monitoring in the markets and having discussions on a daily basis to have a strong pulse on that.

Josh Siegler, Cantor Fitzgerald

Yes. Understood. And honestly that makes a lot of sense. So appreciate the answer there. And then tying back to when you were talking about in terms of diversification and really looking at expanding even more beyond self-mining in the future. I'm curious if you can talk a little bit more about the financing options. I think everyone in this call understands that financing is very, very difficult task, it—in surely self-mining right now. But as it stands with these other verticals, so you expect that financing availability to open up?

Asher Genoot, Chief Executive Officer

Yes. And that's the key. Right. And I had this amazing conversation about a year and a half ago with one of the largest renewable companies, kind of CEO that just retired and learned about his journey and his past. And I was like, “What did you do that allowed you to grow your market cap by like $100 million, like what was it?” “Like we didn't see ourselves as an energy company. We saw ourselves as the financing company because we're such a CAPEX-intensive business.” And that really stuck with me.

As we look at our business today, it's no surprise that our business and the business of our peers is a heavy-CAPEX business. And how do you grow that business with the lowest cost of capital to drive the most amount of shareholder value? If you look at 2021, there was a lot of debt in the market. I think people learn that probably structuring that debt more creatively would have been more beneficial because you had a lot of distressed scenarios in 2022. And we were on the receiving side of that. And we were able to grow a lot through that bear cycle.

And then recently, most of the growth capital is coming from the equity market with a lot of ATMs that are available in the market. And so when we look at kind of the opportunities today, we see a couple different buckets of assets and investor opportunities.

So if you look at mining, you have the land and the substation, which is pretty kind of cookie-cutter. There's a lot of financing there at low cost. Then you have the datacenter, which is higher risk than a traditional datacenter financing because the used case is for Bitcoin mining. You're not going to use that existing datacenter for a—the Bitcoin mining datacenter for traditional datacenter. To build the Bitcoin mining datacenter, I shared we're going to be under $275,000 a megawatt to build the traditional datacenter for AI, about $8 to $54m10s, so very different infrastructure.

And then you have the ASIC chips themselves, which is high volatility, high risk. Now, on the other side of traditional datacenters, you have the datacenter and then you also have the GPUs and the NVIDIA GPUs. And so we look at all those as different asset classes that you have different investors that want exposure to that asset and the return and volatility of that asset. And by bifurcating them and looking at more project-level financing, we believe we'll be able to expand the pool of people that want exposure and that are willing to invest and also decrease the cost of capital, because there's different risks on each component of that of that business. So that's how we're thinking about financing, and that's where a lot of our conversations have been.

Josh Siegler, Cantor Fitzgerald

Understood. Appreciate the color, Asher. Thanks for taking my question. And good luck with the future.

Asher Genoot, Chief Executive Officer

Thank you.

Operator

Thank you. Our next question comes from John Todaro with Needham & Company. Your line is open.

John Todaro, Needham & Company

Great. Thanks for taking my questions. And, yes, congrats, Asher, on your –

Asher Genoot, Chief Executive Officer

Thank you for picking up coverage on us. Appreciate that.

John Todaro, Needham & Company

Yes, of course. And so two questions for me. First, on the GPU cluster, so I guess we got a little bit more color here. But as we think about this, kind of, what are the next steps? So does a site still need to be built? Is there going to be more of a colocation strategy where you use a third party site? So, yes, I guess just as we think about that, is this something that there's revenue in calendar '24, or is this more like a '25 story?

Asher Genoot, Chief Executive Officer

Yes. So we'll be announcing the full plan regarding that first order within the next quarter. And it would be something in this calendar year that we're looking to execute and bring on. We see the datacenter business and the GPU business as two opportunities that will converge down the line. And what I mean by that is today, as I mentioned, the current HPC business, it needs to go through some restructuring and investments in order to be equipped to handle AI machines. And so—but however, we don't want to wait for that in order to get our entry point into the GPU market and get exposure into that market. And we think of that similarly to kind of—I use analogy to mining, owning and building the datacenter is different than just buying the chips and kind of hosting and collocating, especially if you have a good customer and kind of partnership in place in order to scale and have good cash flows. And the markets today are long shifts in short supply. And I think the demand for AI chips is only increasing. We're just touching kind of the tip of the iceberg. And so we're excited to share updates on that in the near term and look to be launching that business unit in the near term as well.

John Todaro, Needham & Company

Okay, great. And then one on that, the mining side. So, I believe you've got in self-mining. I think it was mentioned around 4.5 cents a kilowatt hour. But either hosting or managed services was a bit higher at six cents. As you think about the business where there is the higher power cost, kind of how are those contracts structured? Do you expect some of that hash to come offline after that halving? How profitable would that be if, say, bitcoin would you say stayed at 70K?

Asher Genoot, Chief Executive Officer

Yes—no, appreciate that question. So let me give a quick background on why we started hosting machines and go to kind of what the strategy is today. So, the only hosted machine that we had in kind of the recent announcements that we discussed was machines hosted at the Charlie and Delta facilities, which are the Kearney and Granbury facilities. And the reason we had hosted machines there is during the Compute North bankruptcy, when Generate took over and hired us as the Managed Services operator to run the facilities, at that moment in time, we believe that our capital was better spent investing in distress opportunities than just going and building infrastructure. And we looked at the return profiles. We created a good deal where it was based on a kind of hashprice, based on hashprice that would determine our hosting rate. And it also created an alignment with Generate that we had our own skin in the game and that we cared deeply about uptime because we had customers and ourselves there. And it also helped during the transition where other customers saw, hey, you guys have your own machines there. You're putting kind of your money where your mouth is. And so, we can have comfort as well. And so that was kind of the thesis of why we had hosted at that moment in time, but where we are now in the market.

So obviously those sites had been sold off and there's a new owner and there's a new operator of those facilities that are looking to operate on their own. And so, for us, even if we had hosted miners, controlling the operations and managing them is critical to kind of how we think about kind of that growth. And so, from that perspective, this month we already started moving machines from the hosted facilities to vertically integrate them into our self-owned facilities. And so, you'll see some downtime across the end of this month and next month in those machines being offline and being relocated to our facilities.

And I mentioned on the Salt Creek facility, we announced kind of the groundbreaking of that last month in February. We expect that site to be fully online in April, which I said is under three months. Or from those of you following kind of build that timeline, I think from greenfield to fully online and hashing less than three months is a pretty short timeline. And by doing so, we'll be driving all of our machines to self-managed facilities and driving those costs down especially with the halving coming up in the next couple weeks.

John Todaro, Needham & Company

Got it. Thank you for that. I appreciate the answers. And good luck.

Asher Genoot, Chief Executive Officer

Thank you. Appreciate you.

Operator

Thank you. Our next question comes from Bill Papanastasiou with Stifel. Your line is open.

Bill Papanastasiou, Stifel

Hi, guys. Thanks for taking my questions. Just a quick one here. Hoping you could provide an update on market opportunities for Managed Services in a post-halving environment. Curious to hear what growth could look like on it digital. Obviously, a number of miners have been acquiring a significant amount of equipment and many of which don't have the infrastructure to house these rigs. And according to your earlier comments, we will also see newer generation equipment down the road. Any color you can provide there? Thanks.

Asher Genoot, Chief Executive Officer

Yeah. So, when we look at kind of our two non-self-mining business units, we have the Colocation business and we have the Managed Services business.

So, the Managed Services business is a third party hiring us to either build and/or manage all their facilities. And that's not just the operations of the construction. But that's turnkey solutions. That's managing the energy, the curtailment. That's doing the financials, putting on audit financials and books together, really running a turnkey suite. And the thesis behind that business is when you look at a mature market, usually you can hire an operator to come in and operate. And so, if you want exposure to a wind farm or an oil and gas well, you can hire an operator to come in and operate. And you don't have to actually be an operations expert. And the pricing of hiring those third party operators is fair. And it's not huge. And so, we believe that, as we look at the macro direction of renewables coming up, congestion is happening, governance wanting to get involved. Not all of those folks who either want this asset that has kind of curtailable load or who want exposure to Bitcoin mining actually want to be best-in-class operators and learn how to really operate facilities at scale. If they could hire someone to do it for them, especially if it ends up being cheaper than them doing it themselves, it's a really interesting product offering. And that's kind of where we see an opportunity.

And so, kind of the buckets of opportunities we see is we see kind of sovereigns and nation-states coming and mining and lending our technology and our operational expertise, having kind of over a gigawatt now of assets under management, 27 exahash that we kind of recently announced in our production report. And then also I think smaller kind of subscale miners are people who want access to mining. For them to hire whole software team, data science team, operations team development team, it's a lot of fixed SG&A. And so, by hiring us, they're able to have best-in-class talent, best-in-class software without having to spend those costs in order to build and grow.

So—and we like that business because when you look at kind of all-in cost to mine a Bitcoin, you have your cost of energy, your side expenses, and you have large corporate SG&A amongst kind of our industry. And I think that's kind of a big issue historically. And so, for us, kind of those stable cash flows offset a lot of that fixed SG&A for us. And our actual kind of cost to mine a Bitcoin from cost of energy and gross profit to kind of drop it down to the bottom line become a lot smaller of a step up because we have a lot of those fixed costs subsidized.

The second part is the colocation business. And so, as we build more megawatts, we believe that those megawatts will be valuable. And so the first part of building megawatts is kind of like having that infrastructure. And then it's what's the highest and best use. So we put our own machines there. What if we get the full kind of tranche of megawatts we spoke about? Now, we have more megawatts. Do we want to put all of them with self-mining machines?

Or if you look at the colocations, we've implemented three different models historically through our sites and kind of the sites that we manage. The first is a very simple structure, which is we have the site, we invest in the site customer comes and pays a fixed lease payment per month. And so, we pass through the cost of energy. We don't take that exposure. We don't take uptime exposure. We—the customer basically pays a fee every single month. And it's easy to model what our payback period is and what our IRRs are on that investment. On the other side of the spectrum, we basically take a profit share. Right? And we announced that with Celsius last year. And we basically take that exposure of hashprice volatility without spending the capex to actually buy the machines upfront. And at different markets, you have better deal that you can strike. And then we have this kind of middle ground scenario, which we implemented when we were managing the sites on behalf of Generate, which was instead of seven-cent hosting, we can give customers a discount to a floor, call it, 6.5 or 6.4 cents. But in return, we would basically get more upside if hash prices ran. And so, every single day, we looked at has- price. And we had a hosting rate aligned with hash price. So, you bring the floor down to 6.4. You can go up to 14 cents. For the customer, that makes sense because they have a lower floor. So, they get more protected on a downside scenario. And if hash price is run at the percentage of their revenue, it's still lower than when they first signed that deal. And so that allows you to get some exposure but have a protected downside.

And so, we think owning the infrastructure is extremely interesting because you can own machines, you can have really stable kind of cash flows, or you can have good proxy to the upside of hashprices without the capex spend as well. And so, I think having a multifaceted growth model is extremely important and the ability to manage through volatility and to capture as much upside as possible meanwhile protecting your downside.

Bill Papanastasiou, Stifel

Thanks for that color, Asher. And congrats again on your first earnings call. I really appreciate the analytical approach to your strategic decision making. Thanks again.

Asher Genoot, Chief Executive Officer

Thanks, Bill. Appreciate it.

Operator

Thank you. There are no further questions at this time. Please proceed with any further remarks.

Asher Genoot, Chief Executive Officer

Really appreciate everyone for hopping on this morning and for listening to my first earnings call. The team has been working tirelessly and around the clock since I took over this role. And we'll continue to work tirelessly around the clock for our shareholders. So appreciate everybody's time.

Operator

Thank you for your participation. This does conclude the program. And you may now disconnect. Everyone, have a great day.