



H I V E

HIVE Blockchain Q2 F2020 Webcast

Prepared Remarks

December 2, 2019 9 a.m. EDT

Note: The prepared remarks are not actual transcript of the webcast presentation. Actual presentation can be viewed/heard [here](#).

DARCY DAUBARAS

Slide 1: Title

- I'd like to welcome everyone to today's webcast for HIVE's Q2 Fiscal 2020 financial results for the quarter ending September 30, 2019.
- I'm Darcy Daubaras, Chief Financial Officer for HIVE
- I'm joined on today's call by Frank Holmes, Interim Executive Chairman

Slide 2: Forward Looking Statements Disclaimer

- Before we begin, I'd like to remind you that during today's presentation, we will be making comments containing forward-looking information
- I invite you to read our financial disclosure for some of the risks and uncertainties that may affect HIVE's performance in the future. And as such, actual results may differ materially from the views expressed today. For further information on these risks and uncertainties, please consult our most recent MD&A and filings on SEDAR
- We will also be referencing non-IFRS measures; reconciliations of these measures are included in our MD&A
- Unless otherwise indicated, please note all figures are in USD
- I'll now turn the call over to Frank Holmes

FRANK HOLMES

Slide 3: Today's Presenters

Thanks to everyone on the line for joining our second quarter earnings call

- I am Frank Holmes, the Interim Executive Chairman at HIVE
- And I am joined by Darcy Daubaras, HIVE's CFO

Slide 4: Quarterly Highlights

- I will start with some quarterly highlights on slide 4:
 - During Q2, we generated a record \$12 million in income from digital mining of both Ethereum and Bitcoin
 - Gross mining margin was negative 600 thousand dollars. However, as Darcy will discuss in more detail, excluding non-recurring charges, underlying gross mining margin was \$5.4M, or approximately 45% of income
 - During the quarter, we again generated positive cash flow and increased our already strong cash position to approximately \$8.2M, with an additional \$7M in cryptocurrency assets
- As I have noted previously, our priority since we assumed management in the latter portion of 2018 has been on:
 - strengthening our operational control of HIVE including improving transparency, accountability and financial controls

- and improving our operational efficiency, including optimizing our cost structure to set the foundations for profitable growth

- During the quarter, we undertook a major initiative in this regard by moving to a new service provider arrangement for our GPU mining facility in Sweden. This process was completed in November.
- Related to this, we assumed complete control of our supply chain, including entering into direct agreements with local energy suppliers.
- We anticipate this new structure will result in an approximately 25% reduction in operating costs at this facility and positive mining margins at current prices; under our original service provider agreement, we would have been otherwise mining at a loss
- After completing this transition, we are now looking to optimize our other areas of operations and assessing expansion opportunities and the best use of our capital going forward
- I will now turn over to Darcy for a deeper dive into our quarterly results

DARCY DAUBARAS

Slide 5: Income from Digital Currency Mining

- Thanks Frank.
- As can be seen on slide 5, we generated record income from digital currency mining in the second fiscal quarter of \$12M, with coin production of just under 600 Bitcoin, 21,000 Ethereum and 33,000 Ethereum Classic
- Our income increased approximately 84% more than the same quarter the previous year
- This sharp rise was driven by our expansion into Bitcoin mining in October 2018
- Our mining output of Ethereum coins also increased year-over-year, but income growth was offset by a 38% decline in the average Ethereum price vs the prior year

Slide 6: Gross Mining Margin

- Turning to slide 6
- As Frank noted, our gross mining margin in Q2 was negative 600 thousand dollars. However, underlying gross mining margin was \$5.4M, or approximately 45% of income
- Reported gross mining margin was impacted by approximately \$6M by certain non-recurring charges.

- These relate primarily to a value added tax provision we took in Switzerland related to historical periods
- They also include some upfront energy costs in Sweden for which we anticipate receiving energy rebates in the future
- Finally, a small amount relate to overlapping costs related to our transition to a new service provider from our old one. This transition was completed after the quarter in November.
- I will highlight that Gross mining margin is a non-IFRS figure which is calculated as the value of coins received at the time of mining less operating and maintenance costs

Slide 7: Net Income (Loss)

- Turning to slide 6
- Net loss for the second quarter was \$11.5M
- This loss was driven primarily by:
 - the \$6M in non-recurring charges I noted
 - and \$6M in non-cash charges, specifically depreciation expense and the quarter end revaluation of our digital coin portfolio which declined as a result of coin prices declines during the quarter

Slide 8: Financial Position

- Turning to slide 8, while we reported an IFRS net loss due to the items I mentioned, we generated positive cash flows as our sales of coins was more than enough to settle our required cash operating costs and cash expenses
- This was accomplished through increased coin production as opposed to overdepletion of our inventory, which I will discuss in a moment
- The positive cash flow production boosted our cash position to \$8.2M, though the value of our digital coin portfolio declined during the quarter along with coin prices to \$7.2M
- We maintain a strong net cash position and healthy working capital to fund our operations and growth

Slide 9: Coin Inventory

- Turning to slide 9, we outline our current coin inventory, which we hold in so-called cold storage
- During the quarter we significantly increased our Ethereum coin portfolio after restarting production following a temporary shutdown in the previous two quarters
- Our Bitcoin portfolio declined as coin production declined vs the previous quarter due to the significant increase in the difficulty of mining

Slide 10: Coin Inventory

- On slide 10, we outline the dollar value of our coin inventory at September 30, which has increased this fiscal year
- The value of the portfolio declined during the quarter as I noted, but this was entirely due to the decline in coin prices as opposed to depleting inventory
- Our inventory at September 30 would have been worth approximately 25% than at June 30 if prices remained the same as on that date
- I will now turn the call back over to Frank.

FRANK HOLMES

Slide 11: 42M Crypto Wallets Created So Far

- Thanks Darcy.
- It has been a wild ride for cryptocurrency prices, which are extremely volatile and are still well down from their peaks two years ago
- Despite this, as can be seen on slide 16, the number of Blockchain wallets continues to grow significantly as more people and institutions begin to understand the value of blockchain technology

Slide 12: Major Events Moving the Price of Bitcoin

- Additionally, as can be seen on slide 12, we continue to see more institutional adoption of blockchain technologies and cryptocurrencies
- We are also seeing more regulation of the industry, which is important
- As a very young industry, industry news related to major institutions or governments or regulators can result in wild swings in prices
- This is evident in the share bounceback in the price of Bitcoin in the first half of this year and the decline that has occurred over the second half of the year

Slide 13: Mining Margins Negatively Impacted Since June 30

- Turning to slide 13, we can see the decline since June 30 has corresponded with a significant increase in a significant escalation in the difficulty of mining Bitcoin, which recently reached a record high
- That combination of declining coin prices and increasing mining difficulty has resulted in tough market conditions for miners

Slide 14: Initiatives to Drive Profitability

- On slide 14, we outline initiatives HIVE has undertaken to respond to improve our future profitability and respond to these unprecedented mining market conditions
- As mentioned previously, our first large undertaking was assuming full control of our GPU mining operations in Sweden
 - With the 25% cost reductions we anticipate, we expect to be able to continue mining with healthy gross mining margins under existing market conditions
 - Obviously, as these are GPU mining units, we have the flexibility to switch to mining other proof-of-work coins if they are deemed more profitable or if Ethereum ever does move to a proof-of-stake mechanism, or event to other operations that require high efficiency computing resources

- With the transition in Sweden complete, we are now focused on achieving similar positive results at our smaller GPU mining facility in Iceland, which has become less price competitive than other jurisdictions
 - We are exploring ways to either reduce our costs there, which are fixed, or relocating equipment to a lower cost jurisdiction

- As noted on the last slide, Bitcoin mining conditions have become very difficult since the end of Q2. We have therefore made the prudent decision to suspend 200 PH of our cloud mining operations, which operate under a fixed costs basis and it has therefore become unprofitable to mine at this time
 - We are considering various factors to determine what to do with this equipment as well as our other 100 PH of capacity
 - These factors including both market conditions as well as what conditions will be for legacy ASIC miners when the halving of Bitcoin rewards occurs, expected next May 2020
 - This suspension of mining will obviously result in a reduction of revenues, but will prevent negative cash outflows from these operations

- As Darcy noted, we have a healthy net cash balance and significant digital assets portfolio to draw upon to fund future growth initiatives

- We are currently reviewing various investment opportunities including potential M&A in order to identify projects that will deliver shareholder returns
- We have recently appointed Dave Perrill, CEO of rapidly growing US data center company Compute North, to our Board. Dave will help us execute on the next stage of our growth strategy

Slide 15: Crypto Assets Remain Highly Volatile

- On the next slide 15, it is important to note as we have previously for investors that volatility remains high for cryptocurrency
- We are bullish on the potential of blockchain technology as well as the long-term value and function of cryptocurrencies
- But we can't ignore the volatility of the asset class and the impact speculators have on pricing

Slide 16: HIVE Share Price Since Senior Management Change

- Turning to slide 16, I'd like to provide an update on HIVE's share price since I took over as Interim Executive Chairman in September 2018; Darcy joined as CFO a couple months later
- As we noted last call, historically there has been a significant correlation between cryptocurrency prices and HIVE's share price as investors have used us as a proxy for cryptocurrencies

- This has decoupled the past six months as large, early investors in HIVE have pared down positions. The decline in our market cap also resulted in a leading blockchain industry ETF having to divest its holdings in HIVE as I noted last call

Slide 17: Cryptocurrency Miners Have Underperformed Coins

- This decline has also coincided with the increase in mining difficulty
- As seen on slide 17, the shares of HIVE and other larger crypto miners have underperformed the cryptocurrencies themselves the past four months
- We cannot control external impacts of shareholder movements or exogenous factors such as mining conditions
- However, we can remain focused on improving the profitability of our operations
- As a large HIVE shareholder, I am hopeful that our share price will ultimately reflect improving fundamentals into 2020
- With that, I'd like to thank our investors for your ongoing support and move to Q&A