



**H I V E**

HIVE Blockchain Q3 F2020 Webcast

Prepared Remarks

March 3, 2020 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 Q3 Fiscal 2020 financial results for the quarter ending December 31, 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 third 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 highlights on slide 4:
  - During Q3, we generated \$5 million in income from digital mining of both Ethereum and Bitcoin
  - Gross mining margin was \$3.8 million. However, as Darcy will discuss in more detail, excluding certain items, underlying gross mining margin was approximately \$1.1M.
- 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
- These efforts have begun to bear fruit. For the first 9 months of fiscal 2020, our gross mining margin was 26%, or 37% excluding

upfront energy costs, compared to 24% in same nine months of 2018 with the increase driven by:

- improvements to the mining profitability of our facility in Sweden, due to our assumption of direct control of our relationships with local energy suppliers and our move to a new service provider arrangement for our GPU mining facility in Sweden, which was completed in November.
- and our decision to prudently suspend Bitcoin mining in Q3 after a sharp increase in mining difficulty that resulted in our cloud mining operations becoming unprofitable
- Post-quarter, we entered into hedging agreements related to our electricity prices in Sweden for 2020. Combined with our service provider change in November, we anticipate a 40% reduction in our operating and maintenance costs in 2020 vs under our previous service provider arrangement
- We ended the quarter with \$6.2 million cash position and cryptocurrency inventory of \$3.4 million, with working capital of \$11.8 million
- Our strengthened balance sheet and greater cost certainty enables us to make appropriate investments to drive future growth
- We continue to look at ways to optimize our other areas of operations and are 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 income from digital currency mining in the third fiscal quarter of \$5 million, with coin production of 23,000 Ethereum, 33,000 Ethereum Classic and 127 Bitcoin
- The decrease was driven by our suspension of Bitcoin mining in the third quarter as part of our focus on improving mining profitability. The significant increase in Bitcoin mining difficulty resulted in our mining operations, which operated on a fixed cost basis, becoming unprofitable.

### **Slide 6: Gross Mining Margin**

- Turning to slide 6
- Gross mining margin during the third quarter of fiscal 2020 was \$3.8 million, or 77% of income. However, it was approximately \$1.1 million excluding the reversal of a value added tax provision originally recorded in the second quarter of fiscal 2020, as well as upfront energy costs paid during the quarter in Sweden for which the Company anticipates receiving energy rebates in the future.

- This compares to (\$2.2) million, or -27%, in the same quarter of fiscal 2019 in the prior year.
- The increase in gross mining margin was driven by an improvement in the profitability of the Company's Ethereum mining operations in Sweden due to a change in its service provider relationship, as partially offset by a reduction in Bitcoin mining profitability.
- 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 7
- Net income for the third quarter was \$3.4 million
- The year-over-year increase was driven primarily by:
  - the improvement in gross mining margin
  - an impairment charge taken in Q3 of fiscal 2019
  - and a decrease in depreciation expenses in fiscal 2020 stemming from impairments taken in the prior fiscal year.

### **Slide 8: Financial Position**

- Turning to slide 8, we increased our working capital during the quarter
- Our cash position stood at \$6.2M at December 31, 2019, along with an additional \$3.4 million in digital currencies and \$7.9 million in amounts receivable and prepaids including the energy tax rebates in Sweden I noted
- 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 our inventory decreased as we suspended mining of Bitcoin during the quarter

### **Slide 10: Coin Inventory**

- On slide 10, we outline the dollar value of our coin inventory at December 31, 2019, which has decreased this fiscal year partially due to the decline in Ethereum price from March 31 to December 31, 2019
- I will now turn the call back over to Frank.

## **FRANK HOLMES**

### **Slide 11: What is the Blockchain?**

- Thanks Darcy.
- Turning to slide 11, I'd like to take a look into current and future conditions for blockchain technology and its impact on cryptocurrency mining, especially with the increasing attention being paid to it this year
- IDC defines blockchain as a digital, distributed ledger of transactions or records.
- As Fidelity notes, it is essentially a database that does not store information at a single computer server or physical location, compared with traditional information databases. Instead, a blockchain is hosted by all of the computers across the network that store the information. This allows for publicly available and readily verifiable information.

### **Slide 11: Blockchain will have transformational impact...**

- As seen on slide 12, Gartner recently released a report indicating that, like other technologies, Blockchain was going through a hype cycle.
- It has passed the peak of inflated expectations and Gartner estimates the market will begin to climb out of what it calls the Trough of Disillusionment by 2021, as technology advances and

pragmatic use cases uniquely supported by blockchain continue to roll out.

- 60% of CIOs in the Gartner 2019 CIO Agenda Survey said that they expected some level of adoption of blockchain technologies in the next three years

### **Slide 13: Blockchain spending anticipated to grow...**

- As can be seen on slide 13, more institutional adoption is anticipated to result in more spending on Blockchain technology
- IDC predicts that global spending on blockchain will grow at a 60% CAGR from \$1.5B in 2018 to \$15.9B by 2023
- The banking industry is expected to be the largest adopter, followed by certain manufacturing industries

### **Slide 14: Greater security and smart contracts important drivers...**

- Slide 14 outlines a wide variety of uses for blockchain technology that companies are undertaking
- A recent survey by Deloitte indicated that leading uses included data validation, data access/sharing, identity protection, payments and digital currency
- These are driven by the inherent security and transparency of distributed ledger technologies

- For example, 95% of survey respondents see smart contracts as an important blockchain capability, something Ethereum is known for

### **Slide 15: Ethereum can help enable Blockchain adoption**

- 45% of respondents to the Deloitte survey say their organization or project is focusing its activities on a public blockchain like Bitcoin or Ethereum, which as seen on slide 15 satisfy the five properties required of a distributed ledger technology system
- The blockchain eliminates the need for an independent third party to validate transaction as the blockchain is able to ensure transactions and information are correct.

### **Slide 16: Blockchains rely on miners...**

- On slide 16, we highlight that this is where HIVE comes into play. We are the record producers in DLT systems, also called miners, as we mine newly minted coins such as Ethereum. We serve an essential function in the protocol by securing the distributed network consensus through proof-of-work.
- Public and enterprise blockchains are secured and maintained by miners, which are nodes of computers that validate and process the transactions on the blockchain. Validation and processing requires substantial computational power.

- Miners are responsible for adding transactions and creating a secure, tamper-resistant consensus that allows the blockchain to function. Miners are paid a small transaction fee following verification of transactions.
- Miners update the blockchain by adding the transaction to the immutable blockchain.
- Miners are rewarded with newly minted cryptocurrency such as Ethereum for participating in this computationally intensive task.

### **Slide 17: Factors impacting HIVE's gross mining profitability**

- HIVE's gross mining profitability is impacted in three ways:
  - Our hash rate, or mining capacity, and power consumption, which we aim to optimize on an ongoing basis
  - Market factors that we cannot control, such as the price of coins we mine and the network hash rate or mining difficulty
  - Our operating expenses, notably electricity costs

### **Slide 18: Mining market factors have worsened in past two years**

- Since current management has assumed control in the latter part of calendar year 2018, we have focused on improving our operational efficiency by entering into new service provider

relationships to optimize our facilities and lowering our operating expenses through direct contracts with local energy suppliers

- However, we have not had control of external mining market factors, notably the decline in prices and in the case of Bitcoin the massive increase in mining difficulty

### **Slide 19: HIVE Correlated to Ethereum Historically**

- As HIVE is one of the largest industrial-scale miners of Ethereum, our share price over the past two years has had a high correlation to Ethereum prices and its market conditions, as can be seen on slide 19

### **Slide 20: Ethereum mining conditions have improved in CY2020**

- However, there has been an improvement in mining market conditions in the current calendar year of 2020
- Daily block rewards increased in early January
- The price of Ethereum has risen significantly since a low in December, 2019
- And, compared to the price rise, the network hash rate has been relatively stable

### **Slide 21: HIVE's YTD rebound correlated with Ethereum**

- As seen on slide 21, the price rise in Ethereum has been correlated with HIVE's share price rise, though HIVE has risen significantly higher
- That is potentially due to the expectation of improved gross mining margins due to the combination of improved mining market conditions and lower operating expenses

### **Slide 22: HIVE's Trading volume has surged**

- Slide 22 illustrates that the increase in HIVE's share price has been mirrored through a surge in trading volumes
- Due to our significant trading liquidity, HIVE historically has been used as a proxy for Ethereum by many traders

### **Slide 23: Crypto Assets Remain Highly Volatile**

- On a YTD basis, we have not only outperformed Ethereum but also Bitcoin and miners of Bitcoin, as seen on slide 23

### **Slide 24: Crypto assets remain highly volatile**

- Finally, on slide 24, it is important to note that volatility in cryptocurrencies and miners of them remain much higher than other assets

- With that, I'd like to thank our investors for your ongoing support and move to Q&A