

# Northern Data AG responds to smear campaign on social media

Northern Data AG / Key word(s): Statement  
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16.07.2020 / 08:40

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German version of the news will follow in due course. (Eine deutsche Version der Nachricht wird zeitnah zur Verfügung gestellt.)

## CORPORATE NEWS

### Northern Data AG responds to smear campaign on social media

- Northern Data has been attacked anonymously with defamatory and outright false or deliberately misleading allegations through social media

- The company categorically rejects all allegations and reconfirms its guidance

Frankfurt am Main - July 16, 2020

Dear Shareholders,

Several critical allegations on social media, all of which are either outright false or deliberately misleading, caused a sharp decline in our share price yesterday.

As a stock-market-listed company, operating in a regulated environment, we are open and transparent, while still protecting our intellectual property and commercially sensitive information. A trusted relationship with satisfied customers is our number one priority, as this is what ensures the long-term success of Northern Data and creates value for all stakeholders.

We can assure our shareholders and stakeholders that our business is fully on track to achieve all targets set for 2020 and beyond, and that we are pursuing all necessary legal actions to defend ourselves against these defamatory allegations and smear campaign.

In detail:

- It is asserted that we are, in reality, NOT an HPC company but that our sole source of revenues is in bitcoin mining and, by implication, our revenues hence must be inherently volatile. It is alleged that we are "camouflaging" our operations as HPC, and associate ourselves with AI and other growth industries.

1. We are a provider of HPC solutions to our clients, offering applications in many verticals.

2. Indeed, bitcoin mining was one of the first applications of HPC in general. Hence, saying we are a provider of HPC services and at the same time having clients who perform bitcoin mining with the computer power we provide is not contradictory at all.

3. We have been publicly very open - and proud - that the roots of Northern Data lie in bitcoin mining, as Northern Data originated from a merger between Whinstone US and Northern Bitcoin AG. The previous experiences and lessons learned in this challenging environment helped us to achieve our current performance and understand and meet the needs of our clients.

4. We have disclosed on numerous occasions (via our website, various news outlets, our annual report, etc.) that our largest customers do themselves focus on bitcoin mining indeed.

5. We see a continuous increase in diversification with respect to the business and tasks our clients inquire. This increase in diversification will become visible in our Q3/2020 numbers. Other tasks we see demand for include AI/ machine learning, video rendering, life sciences and autonomous driving.

6. The non-bitcoin applications mentioned above are becoming increasingly computationally intensive with each year and, as a result, will increasingly make use of HPC solutions. For us, this journey has just started, and we expect that our client mix will evolve over the next 5 years.

7. Even though some of our customers are exposed to the volatility of the bitcoin price, we are not, because we get paid in \$ct / kWh and have a minimum consumption rate negotiated with our customers. With some customers, we have additional performance-related agreements in place, but the base revenues are always fixed. Hence, we are not vulnerable to the volatility of the bitcoin price, but naturally the credit risk of our clients. Only in some cases is our upside dependent on the bitcoin price and, even in these cases, only to a small extent.

8. Our current main focus is to scale up our operations to reach our targeted capacity at our Texas site (interim goal of 1 gigawatt (GW), in final stage 3.6 GW), while at the same time exploring new sites globally. Hence, we are happy for every new customer that we onboard, whether they are a bitcoin miner or a biotech company. To repeat: we do currently see the greatest demand for HPC solutions indeed coming from bitcoin mining operations, and we are very happy that we can meet the needs of these very demanding sector. However, we forecast that the demand will grow more rapidly for other applications in the coming years.

9. In general, we note a misunderstanding of how the bitcoin mining industry works today, and the transformation it has undergone. It has moved on from "do-it-yourself" small-scale mining operations to being dominated by large-scale global players with diversified interests such as a) holding nominal amounts of bitcoin as a diversified asset class and b) being part of the global mining network and having an influence on it. Many HPC providers in the bitcoin mining space face major difficulties in, firstly, setting up profitable facilities at all and, secondly, scaling them up to the levels required by these new kinds of market participants. Our customers choose to partner with us exactly because we offer a stable, full-service operation for them, at a scale which is quite unique. Therefore, we have been successfully onboarding several new large-scale clients over the last months. Also important: for many of our clients, bitcoin mining is a minor out of many revenue streams on their diversified balance sheet.

**Summarized: For Northern Data's financial performance, it does not matter what kind of operations our clients perform. The factors which do matter for us are: financials of the contract, duration, and rating (financial solidity) of the respective client.**

**- It is alleged that we charge our clients USD 0.052-0.065 / kWh and that this is far too high and unsustainable.**

1. This number is simply wrong and as a consequence the conclusions reached are nonsensical and part of an obvious, aggressive smear campaign.

2. The details of our contracts, both those with the energy providers on the one side and those with our customers on the other side, are complex and have not been publicly disclosed (various reasons: stock-market-disclosure reasons; confidentiality agreements with our clients; most importantly, keeping commercially sensitive data from competition).

3. For example, our customers pay us not only for the energy they consume, but the premium hosting services we provide them with. These premium hosting services include, for example: installation and maintenance of the hardware, AI-driven management of the operations, etc. Therefore, the prices paid by our customers are *not* just for the energy alone.

4. Finally, we have additional revenues from various services not directly related to power consumption at all (which is why the "reverse math" does not make sense).

5. As an interesting side note, we are in possession of material from those competitors praised by the author of the allegations (and/or cited as "experts" by him/her), offering clients simple mining contracts at much higher rates than the ones falsely attributed to us.

**- It is insinuated - in contradiction to the previous allegation - that some of our customers pay less than USD 0.03 / kWh, and that Northern Data must be making losses on those terms. Additionally, it is questioned why our mining clients commit to 5-year contracts**

1. All of our clients are profitable on a stand-alone-basis.

2. All contracts with clients are done at arms-length, especially when these clients are shareholders (we are actually very proud that satisfied clients have become long term shareholders and vice versa).

3. The 5-year (or sometimes longer) contracts show that our clients want to secure our capacity, our premium services and the current terms for a long period of time. Hence, these contracts are proof that our clients view our terms & conditions as that outstanding that it makes sense for them to lock those in. Ultimately, clients decide for themselves which company provides the best offering.

**- It is alleged that the conversion of our convertible bond has diluted shareholders with a low issuance price of the new shares**

1. The convertible bond notes were offered with subscription rights to all Northern Data shareholders. Hence, every shareholder at the time of issuance - when the share price was much lower - had the opportunity to equally participate.

2. The convertible bond notes and their terms have always been publicly announced and fully disclosed since November 2019.

3. Notes which were not subscribed to by existing Northern Data shareholders have mainly been taken up by one customer (same terms and conditions, no preferential treatment).

4. This investment is (once more) a testament to how satisfied our customers are with our services, such that they want to participate in the success of Northern Data for the long term (voluntarily signing a long-term lock-up for their shares).

## **- Technical details**

1. We are open and transparent, while still protecting our intellectual property and commercially sensitive information. In particular, our technological capabilities including our AI competencies are a major value driver for our business model and partly trade secrets. We are in the process to obtain patents on various of our solutions.
2. Most of the very detailed technical questions raised in the defamatory article are not relevant to our business model, but nonetheless we operate up to "Tier 3 level" HPC data centers, and are certified by ISAE3202.
3. We operate in full compliance with all applicable laws and regulation, including environmental laws, and at technical levels (for example innovative, proprietary cooling solutions) fully satisfying the needs of our demanding clients (as said above, bitcoin mining is one of the most demanding HPC use cases).

Dear Shareholders, we hope these facts facilitate a clear understanding of our business model. With our two largest clients being operational since Q2/2020, we are fully reiterating the guidance we have already given for 2020, and we will in due course provide guidance for 2021 and beyond. In order to further increase transparency, we are changing from half-year reporting to quarterly reporting, beginning with Q3/2020.

We are convinced that our emergence as a leader in the HPC space as service providers to large scale industry experts speaks to the cutting-edge competitiveness of our infrastructure, and we are looking forward to continuing our successful journey with you!

### **About Northern Data:**

Northern Data AG builds and offers global infrastructure solutions in the field of High-Performance Computing (HPC), offering solutions in the fields of machine learning and artificial intelligence, big data analytics, blockchain applications, game streaming and others. Operating internationally the Company evolved from the merger of German Northern Bitcoin AG and American Whinstone US, Inc. and is now a recognized leader in the provision of HPC solutions worldwide. The Company offers HPC solutions, both stationary in large state-of-the-art data centers as well as in high-tech mobile data centers, which can be located at any location worldwide. In doing so, it combines self-developed software and hardware with intelligent concepts for sustainable energy supply. In Texas, Northern Data is running the largest HPC data center in the USA and, at the same time, the world's largest dedicated HPC facility.

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16.07.2020 Dissemination of a Corporate News, transmitted by DGAP - a service of EQS Group AG.

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Language: English

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ISIN: DE000A0SMU87

WKN: A0SMU8

Listed: Regulated Unofficial Market in Berlin, Dusseldorf, Frankfurt, Munich (m:access),  
Tradegate Exchange

EQS News 1094857

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1094857 16.07.2020