

# Northern Data releases shareholder letter

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## **PRESS RELEASE/IR MESSAGE**

### **Northern Data releases shareholder letter**

**Frankfurt am Main – 21 December 2022**

#### **Dear Shareholders, Partners, and Friends of Northern Data**

As 2022 draws to a close, I wanted to share a positive and strategic update on Northern Data. Northern Data has worked purposefully to achieve its market-adjusted targets in 2022 but experienced a challenging year, not only in the cryptocurrency market, which has been heavily affected by many difficulties and a loss of confidence but also by unparalleled macroeconomic conditions. This year has seen a geopolitical turning point, with interest rate increases in full force, and global inflation rate highs that have had a brutal effect across markets. Looking objectively at the circumstances under which we have had to operate, not much more could have worked against us.

Despite these fierce headwinds, which have already adversely affected and removed many of our competitors from the market, we have continued to focus on our core business and have taken advantage of the market challenges to reposition ourselves and become even more robust. Our motivation and belief in our business model remain firm and we continue to recognize the potential of Northern Data in the context of the megatrends that will push us forward with our people, infrastructure, and hardware, in the coming years.

We worked hard in 2022, to stabilize and improve our financial position, we have strengthened management and optimized our three business divisions making them more cost-efficient. We have invested heavily in the development and expansion of our finance department, which is becoming more efficient and capital markets aligned.

Before I summarize the operational development of 2022 below, I would like to share my personal outlook with you:

I am optimistic about our future.

We believe in the megatrends in High-Performance Computing (HPC) and we will invest to harness both the medium to long-term opportunities in this space. We will actively play to our strengths and consciously use the opportunities created in this and any future crisis. It is not the first nor the worst cycle in Bitcoin mining that we have seen and mastered. As such, I can tell you

with certainty: we will master this storm, too. We also have one of the largest GPU clusters in Europe and are continuously expanding our HPC infrastructure. We are proud of this.

Northern Data has forged new and strong partnerships in H2 2022. These partnerships will allow us to identify and capitalize on the opportunities of the future in HPC, at pace.

Our Data Center Infrastructure Solutions division is also developing additional co-location services, and we have recruited high-caliber leadership, with the expertise to make even better use of existing HPC infrastructure and accelerate profit generation.

We were all hoping for better results from our Cloud Solutions division in 2022. The opportunities and developing customer relationships in Cloud Solutions remain promising but are not expected to materialize until fiscal year 2023. We would like to highlight our strong partnership with NVIDIA and the benefits of our platform in conjunction with the NVIDIA technology stack. I am confident that this can generate recurring revenue in the future.

Our strength and roots remain our next-generation data centers, which allow us to build and operate a modern, highly automated, high-performance computing infrastructure that enables us to meet the ever-increasing demand for computing power – based on both ASIC chips and GPUs – securely, cost-effectively and sustainably.

At present, our company generates revenues almost exclusively in BTC mining. Therefore, I would like to place the focus of my remarks on this division:

We were able to significantly expand our market share in mining in 2022, despite many aggressive competitors. Presently, Bitcoin mining is the backbone and security of the Bitcoin network. Tomorrow, the blockchain ecosystem is likely to have a stronger impact on society, and mining will play a more important role in economic markets. This is a trend that we are also convinced of and absolutely want to capitalize on. If we seize the opportunity now, blockchain can even accelerate the development of Northern Data.

Northern Data will continue to use BTC mining to strengthen and expand its HPC activities, creating a foundation to capture market share from established cloud players.

We seized the opportunity to pursue growth in mining, early on, recognizing that entire generations will rely on this technology in the future. The competitive landscape has evolved rapidly. Many investors have entered the crypto market with great expectations and have suffered high losses. This has led to distortions in the market, partly due to the high proportion of debt financing. Northern Data is not carrying financial debt and therefore has access to the unique opportunity to consolidate and expand our current position in BTC mining while scaling cloud solutions and colocation services in parallel. We see significant opportunities in the HPC markets we are targeting

However, scaling in conjunction with the expansion of mining will require significant investment in order to compete with established companies in the field of data center infrastructure and cloud solutions.

The deeper our footprint in the mining business, the more powerful our economic model can become. A leading market position in mining can be reflected in rising revenues and a higher shareholder reward in the medium term.

With many of our competitors being forced to exit the market due to the declining profitability of mining, the demand for new hardware has fallen dramatically, and in the course of this year, this has pushed the prices for new hardware to historic lows. On the other hand, however, the efficiency

and the performance of the hardware have continued to increase and improve. Therefore, we again intend to use this situation, as we did in 2020, to our advantage: a very favorable entry time, an uncertain global economy, volatility on the capital market, and a realignment of the blockchain network for the future. As such we are exploring alternative forms of financing for our mining division and are in talks with financially strong partners who want to shape the future, together with us and benefit from it.

Technically, our total computing power (3.3 EH/s) would currently be able to generate more than 300 Bitcoin per month (assuming around 250 EH/s in the market). We will reach this value as soon as we migrate our hardware in Europe to new and more favorable electricity contracts. This year's global electricity crisis, especially in Europe, put us in a position where alternative solutions are required. We have dealt with this and developed strategies that we are already implementing.

We are currently renegotiating the electricity contracts and intend to make particular use of stranded energy sources. This is energy which, in remote regions, is only profitable and accessible to certain types of customers, and is therefore relatively inexpensive to purchase. Taking into account the output of the roughly 13,000 ASIC miners that are to be commissioned with corresponding power contracts in the coming months, Northern Data's monthly BTC production could already be around 500 BTC mathematically (at the current mining difficulty). Because with energy costs of around EUR 0.03/kWh, the production of a Bitcoin for around EUR 10,000, and therefore high profitability at the current BTC price, is still possible.

But that is only what should be immediately possible. If the market is approached in partnership and on largescale and additional hardware is used, then we could significantly expand monthly production.

Our contracts with hardware manufacturers are paused and have been renegotiated to take account of the current situation of the market. However, the available capacities could catapult us into another league of producing computing power for BTC.

We are optimistic about the future price development of BTC. 2023 could be the crucial year before Halving BTC earnings. In addition, fundamental regulation (originating in the US) is expected to provide institutional investors with the necessary guardrails for long-term investments in the blockchain ecosystem.

We operate in a sector that could not be more promising for the future. Cryptocurrencies and specifically Bitcoin go hand in hand with megatrends, which will transform the information and technology sectors, as well as the turn from a national to a global economy. This makes Bitcoin the logical payment system in the age of digitization. It is thus nothing more and nothing less than the digital currency for the digital global society. It has now established itself as an integral part of our financial system, and its value potential increases steadily with its acceptance. We also remain bullish on Bitcoin. And we are proud that with our global HPC infrastructure, we are making an important contribution to the operation of the Bitcoin network and the entire ecosystem around the blockchain. In the long term, we are convinced that the Bitcoin price will reach significantly higher (possibly even six-figure) amounts before the end of this decade.

## **Operating Performance 2022**

Despite ongoing market and macroeconomic challenges in 2022, we continue to adhere to our earnings guidance of EUR 40-75 million adjusted EBITDA – a further demonstration of our intense focus on cost control and profitability. Our planning and execution allowed us to get in front of the decline in BTC prices by liquidating in late spring this year.

2022 has been a very productive year, against a backdrop of BTC prices down over 60% since the beginning of the year, this is a respectable result for 2022. As a result of this and the prioritization of our cash position, our revenue growth in 2022 has been adjusted and is expected to be in the range of EUR 190-194 million for the full year.

While the technology and crypto markets continue to face significant challenges, we have sharpened our focus and increased our value-creation efforts across the Northern Data Group. We continue to optimize our cryptocurrency mining revenue and build capacity and structure in high-performance computing through our Cloud and Data Center Infrastructure Solutions divisions. This will enable sustainable, profitable growth in the long term.

We have expanded our Bitcoin mining business in 2022, and successfully held ground in an environment that has been simultaneously impacted by collapsing Bitcoin prices, extreme increases in electricity prices, and hash-rate highs (YTD: +46%).

We continue to expand our Cloud Solutions capacity in a Capex-friendly manner. Our collaboration with NVIDIA will offer the benefits of our platform in conjunction with the NVIDIA technology stack to current and prospective customers. Opportunities such as the NVIDIA partnership and other evolving customer relationships in our Cloud division are promising, and we remain optimistic for revenue growth in 2023.

### **Organizational Agility**

We have met the commitment set out in our previous Shareholders letter and simplified our structure and organization to enable a clear focus on our core businesses:

- Cryptocurrency Mining
- Cloud Solutions
- Data Centre Infrastructure Solutions

These business divisions will operate as branded Group companies, both independently and in partnership, delivering new capacity or routes-to-market, to drive profit generation across the Northern Data Group. Alongside this, we have significantly enhanced the management teams and leadership within the business divisions with key appointments, who bring with them experience at renowned market leaders in their respective fields.

We are striving for operational excellence, and this has supported the delivery of structural savings that benefit both growth and margins and allowed us to overachieve on the 30% global cost saving target that we set in September. Leveraging our divisional business model, we see further opportunities to maximize efficiency, and drive efforts to simplify, standardize and share support functions.

### **Partnering for the Future**

As we build out the fundamentals of our businesses, we remain convinced that we are pursuing the right strategy to succeed over the long term. As difficult as the current downturn may be, we view it as a temporary setback in the long-term rise of blockchain technology and an increasingly data-driven and data-hungry world that is creating massive demand for HPC solutions.

We are also in active discussions with investors for financing solutions, which would support specific growth investments in our business divisions. In line with this, we are also exploring strategic partnerships and business opportunities which will continue to enhance the scope of our

current product and service offerings, as well as add new initiatives; with the goal of maximizing our strategy and shareholder value.

Finally, we want to thank you, our shareholders, for your continuing support, your confidence, and above all for your trust. Rest assured that our passion for innovation and quality will generate the sustainable, profitable returns that you rightfully expect from us. We also would like to thank our employees for their commitment to Northern Data. It is their hard work, alignment behind our strategy, and dedication that enables us to deliver on our promises.

**Yours,**

**Aroosh Thillainathan**

### **About Northern Data:**

Northern Data firmly believes that High-Performance Computing (HPC) will — quite literally — determine what the future will hold. HPC has the power to unlock unprecedented potential and opportunities for research and development, business, and government. Our multinational organization is rapidly staking out a position of global significance in the area of GPU- and ASIC-based solutions by designing and operating efficient, green HPC infrastructures. We offer a combination of intelligent, sustainable data centers, cutting-edge hardware and self-developed software for various HPC applications. These include bitcoin mining, blockchain technology, artificial intelligence, big data analytics, IoT, and graphics rendering. The Northern Data Group currently operates custom, large-scale data centers and proprietary mobile high-performance data centers.

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