

# Northern Data releases shareholder letter

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## **PRESS RELEASE / IR MESSAGE**

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

**Frankfurt/Main – 19 September 2022**

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

Thank you for your patience as we have worked through our 2021 financial accounts, before concluding the audit process last month. The results confirm strong growth and record results in the fiscal year 2021.

2022 is a much more challenging year. As many of you know, the current market volatility has created uncertainty for the technology sector and particularly the crypto currency mining sector. While Northern Data is much more than just a crypto currency miner, revenues resulting from our Bitcoin and Ethereum mining activities still constitute the vast majority of our overall group revenues in FY2022.

For cryptocurrency mining, the three main factors are the trading price of the respective cryptocurrency, the price of energy, and the price of hardware. At least the first two factors face severe headwinds at the moment. Bitcoin is testing lows, and energy prices are skyrocketing.

Despite these challenges, we expect to grow our topline for 2022 and are forecasting total revenues of approximately EUR 200 - 250 million for the financial year 2022. We expect to deliver a positive, adjusted EBITDA of EUR 40 – 75 million.

Most importantly, we are convinced of the long-term macro factors and that we have the right strategy to succeed. We believe – as severe as the current downturn might be – that this is just an interim set back in the long-term mega cycle of the rise of blockchain technology, cryptocurrencies and in general a data-driven and data-hungry world, which will create a massive demand for HPC data center solutions.

We are confident that Northern Data will be a key infrastructure pillar of this exciting world. We take a long-term view on our strategy, maintaining focus on the big picture rather than on short-term volatility.

As previously indicated in our operational update for August 2022, we have worked thoughtfully and deliberately to find the right balance between focusing on reaccelerating cryptocurrency mining revenues, making targeted investments in growth areas and continuing to innovate to ensure Northern Data's long-term success in any market environment.

## 2022/23 Financial Outlook

In our financial planning we have modelled a range of outcomes, some of which assume that low revenue growth continues into next year, and we are building our 2023 plan to generate free cash flow even in such a low growth scenario.

We have made the decision to review our investment strategy, and will reduce or discontinue investment in areas which do not directly contribute to generating revenue.

While geopolitics impose challenges with regards to the pricing of energy, we are in the fortunate position that we do not have any power contracts that require us to take a contractually agreed load of electricity (so called “take or pay”). Different to industry practice, we have successfully negotiated power purchase agreements, which allow us – but do not force us – to buy certain amounts of power on a daily basis, providing us with the flexibility to manage down operations in regions where power prices are unpredictable, with minimal impact on our equipment.

We have used this flexibility to actively manage operation time of our hash power to maximize economic return, which also includes curtailing energy at certain sites, which has been the main driver of our decreasing self-mining hashrate output over the past two months.

Such active management of resources will also include a move towards a more capex-conscious investment policy and accordingly this will reduce the rollout of new ASIC miners in 2022. We believe that in the current market environment this will be a prudent way of managing our capex and avoiding dead weight while maintaining strategic opportunities to react once the market has recovered.

As a consequence of this tighter investment strategy, we expect the total number of miners online by the end of the year to be lower than the initially envisaged 100k ASICs. We are working towards increasing the currently existing capacity by the end of the year with an additional number of 10,200-16,200 miners, so that by the end of the year our total, own mining deployed hashrate accumulates to 3.5-4.0 EH/s, represented by 36,000-42,000 ASIC miners.

As at the end of August, the status is as follows:

Total ASIC Miners deployed = installed but to a certain extent not producing Bitcoin for various reasons like curtailment because of high energy prices at certain locations:

- Total number of ASIC miners deployed: 33,500 (of which 20,300 online)
- Thereof 3rd party hosting ASIC miners deployed: 7,700 (of which 2,400 online)
- ASIC Miners deployed for our own mining: 25,800 (of which 17,900 online)

Most importantly, going forward we will focus on self-mining Bitcoin and will wind down 3rd party mining-clients in line with our contractual obligations when possible. Especially in this challenging environment, we have realized that Bitcoin mining on our own account is much more profitable and especially much more controllable and predictable than delivering miner hosting services to clients who might face their own issues and hence not make the most out of our offering. Hence, going forward we will no longer include “miners under management” in our monthly reporting.

Based on these assumptions, we expect to grow our topline revenues for 2022 and deliver a positive, adjusted EBITDA of EUR 40-75 million.

The adjusted EBITDA is a result of the decision we took at the end of H1 to sell all our self-mined BTC and ETHs. In line with IFRS, we book every mined BTC and ETH at the price on the respective day of mining, meaning that a certain proportion of BTCs and ETHs we had in our treasury when selling were mined at the prior year's market prices, which were higher than on the day of selling. As such these had been accounted for at higher prices than the prices, we sold them for. Since we don't participate in the trading business, we consider this to be one-off depreciation. However, even after this depreciation, we have still maintained overall profitability on our BTC and ETH mined.

Northern Data has no financial debt and maintains a multi-million, double digit, cash position. However, in order to manage our group liquidity prudently while making reasonable growth investments in some of our business segments, we intend to establish credit facilities on group level, and we are in ongoing discussions with lenders for project dedicated financing.

## **Organizational Structure**

In order to show the depth and breadth of our business model, we have already begun to simplify our business structure into three autonomous, global business segments:

- Cryptocurrency Mining
- Cloud Solutions
- Data Centre Infrastructure Solutions

Internally, this will allow for more transparency and accountability. Externally, it will enable us to better articulate the value proposition of each segment and crystalize value. Specifically, this will create an opportunity for strategic investors to take minority stakes in individual business segments, supporting growth without direct dilution for our shareholders at the holding level.

In addition, this structural simplification will allow us to reduce our global organizational costs by c. 30% by year end 2022.

## **End of Ethereum mining**

Now that the "merge" has taken place, Ethereum's switch from Proof of Work (POW) - i.e., mining - to another consensus mechanism called Proof of Stake (POS), our ETH mining revenue will go to zero for the time being. We have factored this event into our 2022 guidance and we have prepared to shift the newly freed computing capacity to Cloud Solutions for HPC tasking. For this year, we expect to generate EUR 5 – 14 million revenues from our Cloud Solutions segment. While this is lower than our Ethereum mining revenues at full capacity, the revenues from Cloud Solutions come at higher margins.

Moreover, there are around 10 altcoins that remain POW based, which allows us to shift part of our capacity to mining those currencies (and we have already begun this).

While the merge has happened, an ongoing debate within the Ethereum community remains, that challenges whether a move to POS is really the right step for the Ethereum network. While speed and the ability to scale is one of the main arguments for the merge, opinions remain that it cannot be justified by the sacrifice of security.

In our view, there are use cases which require more speed, and other use cases which need 100% security. And since either are important, we could see another fork of the Ethereum blockchain, or an increased importance of the already existing, POW based blockchain of Ethereum Classic. It will take some months until the dust around the merge has settled, and until we will see longer

term trends evolving, but we see it as a viable possibility to resume mining “a” version of Ethereum again in the future.

Based on the above, we have taken the most conservative approach to forecasting Ethereum and Altcoin mining associated revenues and did not include any revenues from such activities into our 2022 guidance, post the merge.

Dear Stakeholders, Partners and Friends of Northern Data, we operate in an environment which is itself ever changing and evolving, hence our way to success must necessarily be to adapt to those changes constantly. Over the last three years, we have been laser-focused on building Northern Data and have created an innovative and flexible HPC company which will be able to steer through the current, very challenging market environment, and is well positioned to benefit from some of the most exciting megatrends of this decade.

We are grateful for your ongoing support and look forward to welcoming you at our Strategy Day for analysts and investors, planned for October. More details will be announced soon.

### **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 and employs a workforce of over 220 people in 7 countries.

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