Bitdeer Technologies

Q3 2024 Earnings Call Transcript

Yujia Zhai, Investor Relations Advisor

Thank you, operator and good morning, everyone. Welcome to Bitdeer's third quarter 2024 earnings conference call. Joining me today are Jihan Wu, Chairman and CEO; Matt Kong, Chief Business Officer; Haris Basit, Chief Strategy Officer; and Jeff Laberge, Head of Capital Markets and Strategic Initiatives. Haris will begin today by providing a high-level overview of Bitdeer's third quarter results and then cover the Company's strategy as well as provide a detailed business update. After that, Jeff will cover Bitdeer's third quarter financial results in more detail and then we will open the call for questions.

Before management begins their formal remarks, we would like to remind everyone that during today's call, we may make certain forward-looking statements. These statements are based on management's current expectations and are subject to risks and uncertainties, which may cause actual results to differ materially from those expressed or implied in such forward-looking statements. For a more complete discussion on forward-looking statements and the risks and uncertainties related to Bitdeer's business, please refer to its filings with the SEC.

Further, in addition to discussing results that are calculated in accordance with international financial reporting standards or IFRS, we will also make references to certain non-IFRS financial measures such as adjusted EBITDA and adjusted Profit. For more detailed information on our non-IFRS financial measures, please refer to our earnings release that was published earlier today, which can be found on Bitdeer's Investor Relations website. Thank you - I will now turn the call over to Haris. Haris?

Haris Basit, Chief Strategy Officer

Thank you Yujia and good day everyone. Welcome to our first earnings call since we became a public company last year. Bitdeer stands out in the industry with a unique value proposition and we are excited to share the many developments happening at the company and walk you through the progress we've made since last quarter. Before diving in, I'd like to briefly highlight our Q3 financial results and Jeff will provide more details in his section.

For Q3, total revenue was $62.0 million dollars, gross profit was $2.8 million dollars, and adjusted EBITDA was negative $8.5 million dollars. This lower performance compared to Q3 last year was primarily driven by the impact of the 2024 halving, higher global network hashrate, lower hosting and cloud mining revenue and higher R&D costs related to the one-off development expense of our SEAL02 chip. These negative impacts were partially offset by slightly higher average self-mining hashrate for the quarter and higher Bitcoin prices. While many of our peers have pursued a self-mining hashrate growth strategy, we pursued a more long-term strategy of first focusing resources on the development our own ASIC technology. We believe this significantly differentiates our business from the rest of the sector in terms of our strategic positioning, revenue and cost structure. In parallel, we strategically expanded our energy infrastructure pipeline to be online when our mining rigs are also available. This allows us to rapidly increase our self-mining hashrate using our own ASIC technology in the coming months and years.

This strategic focus on technology has been a core part of our strategy and is driven by the DNA of our leadership team, which has a proven track record of founding and scaling successful tech companies.

As we look ahead, we anticipate the industry moving toward commoditization, which will require bitcoin miners to diversify and differentiate their business models in order to remain competitive. To this end, we are focused on building a vertically integrated business by developing industry leading hardware and software solutions across our ASICs and AI Cloud business lines, as well as ensuring geographical diversification across our global operations and supply chain. We are prioritizing strategic growth anchored in deep R&D to create a strong competitive moat around our business.

With regards to our ASIC business, we have made significant strides in our product roadmap this year and are ramping up to commercialize our advanced SEALMINER ASICs to disrupt what industry experts have estimated to be a $4 - $5 billion market, annually, over the next 5 years.

We see strong demand for diversified ASIC solutions and suppliers. Commercializing our SEALMINER ASICs will enable us to enter this growing market, diversify our revenue streams and significantly accelerate the growth of our self-mining business. Having our own ASIC mining rigs is a big step towards full vertical integration and will provide us with distinct advantages including a diversified revenue stream, lower cost structure, higher capital efficiency and dramatically improved supply chain compared to the rest of the industry.

We announced our R&D technology roadmap for our SEALMINER products in early June and have already energized the first batch of SEALMINER A1 mining rigs powered by the SEAL01 chip. These chips are performing within our expectations. We began mass production in October and have plans to install 3.7 EH/s in phases between December of this year and Q1 2025. This deployment will coincide with the energization of our Tydal, Norway phase 1 project as well as our hydro-cooling lines at our Rockdale, Texas facility.

In October, we successfully incorporated our SEAL02 chip into our SEALMINER A2 mining rigs, including both an air-cooled and hydro-cooled model. Testing of SEALMINER A2 mining rigs achieved 226 TH/s for air-cooled and 446 TH/s for hydro-cooled, with both having 16.5 J/TH efficiency. We commenced mass production of our SEALMINER A2 and the first production run is expected to deliver 18 EH/s, which will be used for self-mining, and selling to external customers. Notably, the commercial sale of SEALMINER A2 will mark a significant milestone as we begin delivering these machines to customers starting in Q1 2025. We will continue to provide progress reports on our hashrate production as a commitment to maintaining transparency for all stakeholders, including shareholders, suppliers, and especially clients, who will need clear guidance to make their commercial decisions. In addition, we taped out our 3rd generation chip with an industry-leading target efficiency of 10 J/TH and anticipate initial sample wafers in Q2 2025.

Looking forward, we remain fully committed to executing a successful market entry into the multi-billion dollar ASIC market in 2025. We are already engaged in discussions with a number of potential customers, and early demand is promising, indicating strong interest in our cutting-edge technology and the industry's desire for technology and supply chain diversification. We are excited to meet this demand and begin driving a differentiated and diversified revenue stream for our shareholders.

Last but not least, I want to emphasize that we are also planning to tape-out a fourth generation chip in the second half of 2025, which we are targeting to achieve an unprecedented 5 J/TH efficiency. We believe this chip, along with the 3rd generation chip could position Bitdeer as the preeminent supplier of the most energy efficient mining rigs on the market. We believe this will significantly strengthen our competitive position and unlock substantial value for our shareholders.

Now moving on to our AI cloud business. Our NVIDlA DGX SuperPOD system in Singapore achieved around 98% utilization in September, establishing ourselves as a leading provider of advanced Al computing solutions in Asia. We possess strong capabilities in deploying AI infrastructure and offering cloud platform services such as bare mental, Virtual Machine and Serverless GPU. These support computing across multiple regions, utilizing both our own and third-party assets. We have also recently expanded our GPU cloud capacity into Canada. Our cloud services business model and technology allows us to collaborate with partners to scale quickly in response to customer demand. Demand has been steadily increasing for our GPU cloud services, and we are positioning Bitdeer to serve the rapidly expanding market of companies focused on LLM training and inference, catering to small and medium-sized companies as well as large corporations.

In terms of our energy assets, we are actively exploring opportunities to leverage our global power capacity of 2.5 GWs to capitalize on the significant boom in demand for power for HPC and AI datacenters. In July, we engaged TLM Group, a leading consultant in HPC and AI datacenter development, to perform a comprehensive suitability analysis on each of our sites. TLM Group completed their feasibility assessment of our U.S. sites and confirmed the suitability of several of them for Tier 3 HPC and AI datacenters. These sites have abundant power available in a short time frame, low-latency fiber and plentiful water resources. We have commenced discussions with development partners and potential end users for these sites.

The shortage of reliable power for AI data centers is a critical challenge for the industry, and we are well positioned to leverage our substantial power capacity to meet this growing demand. We are actively collaborating with leading data center developers and advisors to secure long-term partnerships and strategic opportunities that can position Bitdeer to play a significant role in the rapidly evolving HPC and AI ecosystem.

Moving onto the buildout of our additional 1.6 GW electrical capacity and infrastructure, construction across our global sites continues to progress steadily. This quarter, we incorporated more detailed updates into our monthly production reports to provide greater visibility into the status of our infrastructure expansion. The 40 MW phase 1 expansion at Tydal, Norway remains on schedule to be energized in December 2024. In Rockdale, Texas, the 100 MW hydro-cooling conversion has been delayed by one month due to supply chain impacts from the U.S. dock workers strike in early October. Phased energization is now expected between January and March 2025. Meanwhile, the 500 MW project in Jigmeling, Bhutan, is advancing well, with the primary substation expected to be completed by Q1 2025. With these projects and other projects such as phase 2 of Tydal Norway and phase 1 of Clarington, Ohio, we are poised to bring over 1.1 GW of new power capacity online over the course of the next year.

In summary, we have many exciting milestones on the horizon. We remain on track to deliver our SEALMINER A2 ASICs, substantially grow our self-mining fleet at a competitive cost advantage and leverage our industry-leading global power portfolio.

I'll now turn it over to Jeff Laberge, our Head of Capital Markets and Strategic Initiatives to go over our financial results for the quarter.

Jeff LaBerge, Head of Capital Markets and Strategic Initiatives

Thank you Haris, before I go over Bitdeer's third quarter financial results, I'd like to remind everyone that all figures I refer to today are in U.S. dollars and that all comparisons are to Q3 of last year.

Q3 consolidated revenue was $62.0 million vs. $87.3 million.

Self-mining revenue was $31.5 million, up 4.7%, primarily due to an increase in our average self-mining hashrate for the quarter to 7.8 EH/s from 6.1 EH/s and higher year-over-year Bitcoin prices. These positive factors were largely offset by the April 2024 halving and higher global network hashrate.

Cloud Hash Rate revenue was $7.1 million vs. $15.6 million. This decline was primarily due to long-term Cloud Hash Rate contracts rolling off. This hashrate was subsequently reallocated to our self-mining operations.

General Hosting revenue was $9.6 million vs. $22.2 million. Membership Hosting revenue was $9.9 million vs. $16.0 million.

The decrease in hosting revenue was mainly caused by two aspects: first, we're converting 100MW of hosting capacity at our Texas facility to hydro cooling capacity, which is expected to be fully renovated and equipped with SEALMINER hydro-cooled mining rigs by the first quarter of 2025. Second, some hosting customers removed less efficient miners after the halving in April 2024. This extra capacity is currently being replenished by new hosted mining rigs.

Total gross profit for the quarter was $2.8 million vs. $21.1 million and gross margin was 4.5% vs. 24.2%. The decrease in our gross margin was primarily driven by lower hosting and cloud hash rate revenues and higher average power prices, primarily at our Rockdale, Texas facility.

Total operating expenses for the quarter were $42.9 million vs. $27.3 million. The increase was primarly driven by higher R&D costs including a $13.4 million one-off incremental development expense related to the SEAL02 chip, higher stock-based compensation and non-cash amortization expenses of intangible assets related to the acquisition of FreeChain.

Other net gain/loss for the quarter was a net loss of $14.7 million vs. a net gain of $0.9 million. The net loss was due to a $14 million non-cash derivative gain on the Tether warrants offset by a $29 million non-cash derivative loss on the convertible bond issued in August

IFRS net loss was $50.1 million vs. $1.8 million.

Adjusted profit was negative $26.2 million vs. positive $10.5 million.

Adjusted EBITDA was negative $8.5 million vs. positive $28.0 million.

This quarter’s losses were primarily due to the year-over-year revenue declines in our Cloud Hash Rate and hosting businesses, lower gross profit margins in our self-mining business as a result of the halving and higher R&D as described previously.

Net cash used for operating activities was $90.7 million; Net cash generated from investing activities was $10.2 million including $30.1 million of capital expenditures for infrastructure construction and mining machines and the proceeds from disposal of cryptocurrencies of $39.9 million received from our principal business. Net cash generated from financing activities for the quarter was $168.1 million primarily as a result of $166.3 million raised from our convertible notes issued in August.

Looking forward, we expect capex spending to accelerate for the continued build out of our global power and datacenter infrastructure. Between Q4 2024 and 2025, we anticipate infrastructure capex to be in the range of approximately $250 to $275 million. It should be noted that this infrastructure spend assumes the sites are developed for Bitcoin mining and does not include capex for SEALMINERs used for self-mining.

Finally, we ended the quarter in a strong financial position, with $291.3 million in cash and cash equivalents, $39.7 million in cryptocurrencies and $92.7 million in borrowing excluding derivatives.

Thank you everyone - that concludes the prepared remarks section of our earnings call, operator, please open the call for questions.