

## MGTCI Q3 2019 Investor Update Call Transcript

Moderator: Good day, everyone, and welcome to today's MGT Investor Update conference call. Please note this call may be recorded. It is now my pleasure to turn today's program over to Mr. Lowrey, the company's chief financial officer. Please go ahead.

Mr. Lowrey: Thank you. Good morning and welcome to MGT's 3<sup>rd</sup> Quarter 2019 Investor Call Update and thank you for taking the time to join. Joining me is Robert Ladd, MGT's chief executive officer.

The agenda for today's call is for Mr. Ladd to give an overview of the company and status of its business to date. I will then discuss financial highlights of the company for the 3<sup>rd</sup> Quarter and year-to-date period. We will then address questions that are presented to the company.

Prior to starting the call, I'd like to read the following forward-looking disclaimer. During this call, we may make forward-looking statements about our future financial performance and other future events or trends. These statements are only predictions that are based on what we believe today, and actual results may differ materially. These forward-looking statements are subject to risks, uncertainties, assumptions and other factors that could affect our financial results and the performance of our business, which we discuss in detail in our filings with the SEC, including today's earnings release and the risk factors and other information contained in our most recently filed Forms 10K, 10Q and 8Ks. MGT Capital Investments assumes no obligation to update any forward-looking statements which we may make on today's call.

With that said, I would now like to turn the call over to Mr. Ladd.

Mr. Ladd: Thanks, Rob. As most of you know, back in June, the company decided to better control and simplify its operations by consolidating its Bitcoin mining operations at the facility we constructed in Lafayette, Georgia. I am pleased to announce that this transition is substantially complete. At this facility, we have immediate access to a minimum of 10 megawatts of power at an attractive price in the low single-digit cents per kilowatt hour.

MGT owns five transformers hooked up to the nearby, to the nearby electrical substation. With each transformer, we're able to serve two mining containers. At the present time, we have three containers onsite, one operating with 300 Bitmain S17 Pro ad miners that we just received. The other two containers are awaiting delivery of previously ordered S17s. The company is also waiting for delivery of two Pod V containers to house the balance of the S17 miners. We expect all hardware to be in place during November, during December, excuse me. When all is said and done, MGT expects to have over 80 Petahash of computing power in five containers drawing an electric load in excess of four megawatts.

## MGTCI Q3 2019 Investor Update Call Transcript

Let me put forth this statement more directly. By year end, 2019, MGT will own outright and operate approximately 1500 new generation Bitcoin miners capable of production of about 50 BTC per month at the current difficulty rate, all housed in containers owned by MGT on land and infrastructure owned by MGT.

As for the additional six megawatts of electrical capacity in place in Lafayette, the company is presently considering two methods to monetize its infrastructure investment. The first is to continue buying additional containers and miners. The second is to be a landlord for other miners, a proposition that entails less risk and capital spending.

Lastly, we continue the process of unwinding agreements and selling the inventory of our remaining S9 previous generation ad miners.

I will now turn the mic back to Rob Lowrey. He will provide details from last week's 3<sup>rd</sup> Quarter Financial Report.

Mr. Lowrey:

Thanks, Rob. As disclosed in our 3<sup>rd</sup> Quarter 10Q, our revenue, which is all derived from Bitcoin mining operations, for the 3<sup>rd</sup> Quarter was a modest \$90,000 and 190,000 for the nine months ended as a result of our consolidating activities to house all of our mining activities and company-owned and managed facilities. Additionally, the company did not operate a majority of its miners from January through May of 2019 due to unfavorable Bitcoin economics.

More importantly, management was able to curtail its operating expenses during this time of transition, keeping in mind the 2018 operating cost from which we compare 29 to included those while the company's primary operations were in Sweden.

So, in summary, operating expenses decreased six million or 75% during the three months ended 2019, compared to the three, same three months in 2018. And, 14, a \$14 million decrease or 90% during the nine-month period comparison. The primary drivers of the \$6 million decrease for the three-month period comparison were a million-dollar reduction in general administrative expenses, a \$3.7 million fixed asset impairment charge that occurred in 2018, absent in 2019, and a \$1.4 million reduction in Bitcoin mining operations.

And, then comparing the nine months in 2019 to 2018, the primary drivers of the \$14 million decrease in operating expenses were a \$4.5 million decrease in general administrative spend, \$2.5 million restructuring charge related to Sweden, which was absent in 2019, a \$3.7 million fixed assets impairment

## MGTCI Q3 2019 Investor Update Call Transcript

charge in 2018, absent in 2019, and a \$3.2 million reduction in Bitcoin mining operations.

As a result of the foregoing, the company's net loss for the three months ended September 30, 2019, was 2.3 million or 5.5 million lower than the same period in 2018. And, for the nine-month period comparison, the net loss was 7.6 million or 11.2 million less than the same period in 2018.

That concludes my remarks for operating results, and I'd like to turn it back to the moderator for the Q&A.

Moderator: At this point in time, Mr. Ladd and Mr. Lowrey will respond to investor questions that were submitted ahead of the call. Please note that there were several questions regarding the ongoing litigation, which the company is not at liberty to discuss.

Our first question today comes from Joseph K, who asked "What plans does the company have to build additional revenue streams?"

Mr. Ladd: This is Rob Ladd. I'll take that question. So, as I briefly alluded to, we are looking at ways to monetize our infrastructure in a lower-risk, lower-capital intensive way. And, that would be to, in essence be a landlord for others, either investors or owners of miners that want a place to place them with oversight and immediate electricity. So, while it's still a Bitcoin-dependent revenue, it is slightly different than having all our machines be owned and operated.

And, next question, please.

Moderator: Our next question comes from Sebastian A. "Is the company headed towards bankruptcy?"

Mr. Lowrey: This is Rob Lowrey. I'll address that question. And, the company is not planning on filing bankruptcy. We believe the operations from our Lafayette mining facility will provide sufficient cash to sustain operations. And, as Rob said, keep in mind that all of the infrastructure costs are mostly paid for as of today, as are the new mining machines. You know, they're not completely paid for as the 1100 are still due in, but once they're in, all the capital costs will have been paid for. And, you know, the ongoing costs would be, you know, the variable costs relating to electricity and the reduced GMA spend.

Next question, please.

Moderator: We'll take a question from Robbie, which asks "Why has the stock price gone down?"

## MGTCI Q3 2019 Investor Update Call Transcript

Mr. Ladd: This is Rob Ladd. We, obviously, have had many questions like that. I guess the first statement is that as management it's something that's literally out of our control. We make decisions that hopefully result in a better business profile going forward. I'd have to point to the one reason, I think, that most of you know is for the last several months, from two sources, the equity line as well as the conversion of debt held by a third party, the number of shares outstanding has gone up pretty substantially. So, I would just remind investors when looking at the stock price also consider shares outstanding to develop a market capitalization idea in their head as to what our businesses may or may not be worth. So, right now, we have about 370 million shares outstanding, giving us a market value of about six million.

Next question.

Moderator: The next question comes from Tim M. "How much debt versus cash does the company currently hold?"

Mr. Lowery: This is Rob Lowery, and I'll address that question. So, as disclosed in the company's 3<sup>rd</sup> Quarter 10Q, we did disclose cash holdings as of October 31<sup>st</sup>, was just about a million dollars. And, comparison to debt, the company does have one remaining note payable and it has an outstanding principle amount of \$1.3 million. But keep in mind as disclosed in our 10Q, payments on this note can be made in common stock as opposed to cash. And, for example, during the first nine months of 2019, over a million dollars of principle amount on that debt was paid through the issuance of common stock.

Okay. Next question, please.

Moderator: The next question comes from Roy B. "Does MGT sell all mined Bitcoins?"

Mr. Lowery: This is Rob Lowery again. So, it's been the company's policy to sell Bitcoin as earned to supplement operating cashflow. And, as you take a look at our balance sheet at the end of any reporting period, there's always a modest amount of coin on hand at, at the end of any reporting period. But, you know, the company may change its policy going forward with the commencement of its Lafayette facility. And, if so, we will disclose such policy change.

Next question.

Moderator: We have three questions from Chris G. The first question says, "Are there any plans to purchase additional miners?"

Mr. Ladd: This is Rob Ladd. Well, we, in addition to the 1100 miners that are coming in, we are in discussions to buy some more. We've had the advantage, based on our contractual relationship with Bitmain to acquire both coupons and price protection on miners. As a result, the 1100 as we indicated earlier are

## MGTCI Q3 2019 Investor Update Call Transcript

costing quite a bit less than we had anticipated. So, the idea now is to buy some additional miners to ensure that we fully utilize all the container space that we'll have in the next few weeks.

Next question.

Moderator: And, the second question from Chris says, "What are management's thoughts about the upcoming halving?"

Mr. Ladd: I'm not sure that we can add anything beyond, you know, the millions of pages written on it, you know, on blogs and other websites. The short answer, of course, is that on that day, our production will get cut in half. And, if price is the exact same, our revenues will be cut in half. And, since our electricity stays the same, our, our profits will be down more than half. So, that's steady state. If you look at the last two halving's, and again, there's no reason why history has to repeat, but in the last two halving's, the overall impact has been extremely beneficial to price of Bitcoin, making up well more than the, the halving of production from miners.

So, that being said, I'll also add in one other piece of information that wasn't necessarily asked, but everyone asks, "What is our break-even on, on Bitcoin price?" And, with the caveat that number one that depends very much on difficulty rate, because our costs are fixed but at the current difficulty rate the break-even price for us would be about \$2500 per Bitcoin right now. Post-halving, since we'll have half that quantity, it would be \$5000 in price.

Next.

Moderator: And, the third question from Chris asks, "What is MGT's long-term plan in Georgia and what is the company's power cost?"

Mr. Ladd: So, the power cost, as I said, is low single digits. There is a reluctance to give the exact number, because the city has sensitivity with other manufacturers, including a Volkswagen plant across the street. Not apples to apples, since we consume a 24/7 load, but on the price per kilowatt hour, I think it'll be determinable as we report going forward. But as I said, due to the city's reluctance to put out a number, I can just say its low single digits.

Our long-term in Georgia would be to grow, number one. And, we're looking at not only the other 10 megawatts as our current location, but also there's a few other locations that we've learned to, or that we've found from being there, that have similar power arrangements and similar land availability. So, depending on which avenue is cheapest, we'll expand. But we would like to prove that we can make money on our 10 megawatts so far. So, I think any plans for that would be in the 1<sup>st</sup> Quarter.

## **MGTCI Q3 2019 Investor Update Call Transcript**

Any more questions?

Moderator: We have no further questions at this time. We do thank everyone for their participation on today's call. This does conclude today's 3<sup>rd</sup> Quarter 2019 Investor Update.