

AP INSIGHTS | M&A ALERT

February 7, 2023

Target:  **HUT 8**

 **US BITCOIN CORP**

Hut 8 Mining & US Bitcoin Corp. Announced a Merger of Equals

Author: Ayush Mishra
More Information: Eric F. Risley, efr@architectpartners.com

Transaction Overview

On February 7, 2023, Hut 8 (NASDAQ: HUT) (TSX: HUT) & US Bitcoin Corp. **announced** a merger of equals. The combined entity, "New Hut", will have an implied market capitalization of \$990M.

Hut 8 Mining (NASDAQ: HUT) (TSX: HUT)

Hut 8 Mining is a Canadian-based digital asset miner. The company also provides data center hosting for various sectors including crypto infrastructure and web3 gaming. They currently have 2.5 EH/s of installed ASIC capacity and 109MW of mining capacity. The firm operates 7 data centers in Canada, of which, 2 are self-mining focused and the other five are supporting third-party hosting.

Hut 8 was founded in 2011 and is based in Alberta, Canada. The firm was founded by Jaime Leverton, who serves as the CEO and leads the firm's ~105 employees. The company went public on the TSX, via the TSX Sandbox, in October 2019, and began trading on the NASDAQ in June 2021. Since beginning trading on the NASDAQ at \$4.40, the stock is down 51% to \$2.15 a share.

Hut 8 Mining's closest competitors are other cryptocurrency-focused mining companies such as Riot Blockchain (NASDAQ: RIOT), Marathon Digital (NASDAQ: MARA), Hive Blockchain (TSX: HIVE), Core Scientific (NASDAQ: CORE) and TerraWulf (NASDAQ: WULF).

Hut 8 currently has an enterprise value of \$215M, as of February 8, 2023, and an EV / LTM revenue multiple of 1.5x and EV / Current EH/s multiple of 86.0x. The industry average across Architect Partners' public company mining index is 3.0x EV / LTM revenue and 116.8x EV / EH/s.

US Bitcoin Corp

US Bitcoin Corp (USBTC) is a sustainable Bitcoin self-miner and hosting provider. US Bitcoin Corp is pushing for large-scale mining with a sustainable approach toward clean energy consumption with the majority of its operations powered by renewable energy.

USBTC was founded in 2020 by Asher Genoot and Mike Ho and received \$55M in venture funding, at an undisclosed valuation in August 2021 from Cypher

Metaverse, Accomplice VC, and Highfield Capital, among other investors. The company is based in Miami, Florida, and has 4 main Bitcoin mining data centers across the United States, operating 3.1 EH/s in self-mining and 680MW in total electrical capacity. The company purchased the 220MW King Mountain, TX facility in the Compute North bankruptcy sale, through a joint venture partnership with an energy provider.

Transaction Parameters

The combined company will be named "Hut 8 Corp" or "New Hut," and will be a U.S. entity. The existing Hut 8 firm along with US Bitcoin Corp will each own 50% of the newly formed firm. "New Hut" is expected to have a market capitalization of \$990M, derived from the consolidation of Hut 8's shares on a 5 to 1 basis, and the consolidation of USBTC's shares on a 15 to 10 basis. The deal is expected to close by the end of Q2 2023.

Following the announcement of the merger, Hut 8 stock fell 12% on Tuesday morning.

Self-Mining Output (EH/s)

Hut 8	2.5 EH/s
USBTC	3.1 EH/s
Post-Merger Total	5.6 EH/s

Total Installed Capacity (MW)

Hut 8	~145MW
USBTC	680MW
Post-Merger Total	825MW

Comparable crypto mining SPAC mergers: Power & Digital Infrastructure Acquisition Corp. | Core Scientific (\$4.3B [M&A Alert](#)), Good Works Acquisition Corp. | Cipher Mining (\$2B [M&A Alert](#)), Support.com | Greenidge Generation Holdings (\$1.3B [M&A Alert](#)).

Comparable crypto mining M&A transactions: Galaxy Digital | Helios Facility (\$65M), Crusoe Energy Systems. | Great American Mining (ND), CryptoBlox | CryptoTherm (\$20M).

Strategic Rationale

US Bitcoin Corp's portfolio of owned and managed sites accelerates Hut 8's growth trajectory by providing increased operating scale. Moreover, USBTC gives Hut 8 geographic expansion beyond Canada, into the US and introduces green energy sources (hydro, wind, and nuclear).

In addition, the combined entity now has numerous revenue lines besides self-mining, including hosting other miners, data center management, equipment sales, and rig repairs. This lessens the dependency on the price of Bitcoin for "New Hut" and allows for the inclusion of fiat-generating businesses.

Architect Partners' Observations

AP INSIGHTS | M&A ALERT

The key challenges for Bitcoin miners in the past six months have been 1) the reduced price of Bitcoin, 2) continued high hash rates despite the lower price, 3) higher energy costs from the shocks due to the Ukrainian war, and 4) debt levels suitable for the far more attractive mix of factors above from 9 months ago vs. today (aka overleveraged).

As a result of the challenges above, many Bitcoin miners have found themselves in challenging positions such as Core Scientific filing for bankruptcy, Argo Blockchain selling critical data centers for liquidity, and many other struggling for cash.

Over the last twenty-four months, many new Bitcoin miners have emerged, promising rapid growth and carbon-neutral data centers, but as the market tightens it has become increasingly difficult for companies to achieve those promises. Unsurprisingly, this seems to be the beginning of the consolidation we can anticipate from an early sector that has very little competitive differentiation and many overleveraged players. Architect Partners anticipates that this is just the beginning of these types of deals, as the smaller players are unlikely to survive this capital expenditure-heavy business; the cash will be king.

Public Crypto Mining Company Comparable Context (2/8/2023)

Company Name	Ticker Symbol	Price		Enterprise Value (\$mm)	Valuation Multiples	
		Current Price	% Within 52 Week Range		EV / LTM Revenue	EV / 2023E Revenue
Crypto Mining						
Marathon	MARA	\$6.81	12%	\$1,396	9.3	3.2
Riot	RIOT	6.52	16%	761	2.6	1.8
Hut 8	HUT	2.15	18%	421	2.9	3.7
Cipher Mining	CIFR	1.68	37%	389	--	--
Hive	HIVE	3.57	21%	355	3.6	1.8
Canaan	CAN	3.22	27%	228	0.2	--
Bitfarms	BITF	1.08	17%	286	5.4	--
Northern Data	NB2	11.33	10%	183	0.2	--
TeraWulf	WULF	0.71	1%	207	--	--
Argo	ARBK	2.18	16%	152	1.6	2.2
Greenidge	GREE	0.72	4%	98	1.1	1.1

Sources

[PitchBook](#), [Public Filings](#), [US Bitcoin Corp Website](#), [Hut 8 Mining Website](#), [Press Release](#), [CoinDesk](#)