Coastal Crypto: Detailed Lender Package Narrative

1. Executive Summary

Coastal Crypto Mining Co. ("Coastal Crypto") is a U.S.-based Bitcoin mining and data center operator. The company currently operates a **1.5 megawatt (MW)** facility that generates approximately **$100,000–$200,000 per month in net operating income** after power costs. Coastal Crypto is seeking a **$5,000,000 commercial loan or credit facility** to expand its infrastructure and power capacity to **30 MW**.

Using production data and projections provided by management, as well as internal performance at 1.5 MW, the expansion is expected to increase daily Bitcoin production from approximately **0.04 BTC/day** to **0.81 BTC/day**, which at a current reference price of **$75,000 per Bitcoin** translates into roughly **$1.82 million per month** or **$21.9 million per year** in net profit, after power costs, at 30 MW.

This expansion leverages:

- Existing land, infrastructure, and operational expertise
- Bulk power purchasing that lowers per-unit energy cost
- Nearly linear scalability of mining output per MW

Post-expansion, conservative earnings multiples imply a potential valuation in excess of **$100 million**, which provides a robust margin of safety and strong justification for the requested **$10 million** in growth capital.

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2. Business Model Overview

2.1 Core Activity: Bitcoin Mining as a Service

Coastal Crypto operates a **specialized data center** populated with high-performance application-specific integrated circuit (ASIC) miners. These machines perform cryptographic computations that secure the Bitcoin network.

The company's revenue is generated by:

1. **Direct Bitcoin Mining** – Earning Bitcoin block rewards and transaction fees.

2. **Hosted Mining / Colocation (where applicable)** – Operating machines owned by clients for a fee, using the same power and infrastructure.

In both models, Coastal Crypto's profitability is primarily a function of:

- Total available power capacity (measured in MW)
- Mining hardware efficiency (hashrate per kW)
- Cost of electricity per kilowatt-hour (kWh)
- Bitcoin price and network difficulty

2.2 Power Capacity as the Primary Revenue Driver

Power capacity directly determines how many ASIC miners can be deployed. More MW = more machines = more hashrate = more Bitcoin earned. This is why scaling from **1.5 MW to 30 MW** is transformative: it allows the same fixed infrastructure and operational expertise to support dramatically higher revenue.

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3. Key Operating Metrics from Management

From Coastal Crypto's internal communication (Marcus / Coastal Crypto):

- **37 MW facility**
    - Mines approximately **1 Bitcoin per day**
    - Generates about **$3.5 million per month in profit** after power costs
- **100 MW facility**
    - Generates about **$10.5 million per month in profit** after power costs
    - Equivalent to **$126 million per year in profit**
- Current Bitcoin price reference used by management: **$75,000 per BTC**

These benchmarks are used to scale Coastal Crypto's current and projected performance.

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4. Current Operations at 1.5 MW

4.1 Power & Production

- **Current power draw:** 1.5 MW
- Relative to the 37 MW benchmark, this is **4.05%** of that capacity.
- Using the linear mining relationship (37 MW → 1 BTC/day):
    - At 1.5 MW, estimated production is **~0.04 BTC/day**.

4.2 Revenue & Profit Verification

At a reference Bitcoin price of $75,000:

- **0.04 BTC/day × $75,000 ≈ $4,450 per day**
- **Monthly equivalent ≈ $90,000**

This aligns with management's reported net income range:

- **$100,000–$200,000 per month in net operating income** after power costs.

This consistency validates both the internal financials and the mining-production assumptions used for scaling projections.

4.3 Existing Infrastructure

Coastal Crypto has already invested in:

- Land and physical site improvements
- Electrical interconnection and distribution equipment
- Cooling and airflow systems sized for expansion
- Security systems and monitoring
- Operational staff, processes, and support systems

Many of these costs are **fixed** or only moderately variable as MW increases, which is the foundation of the company's strong operating leverage.

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5. Expansion Plan: Scaling to 30 MW

5.1 Scope of the Expansion

The requested **$10 million** in funding is intended to:

- Increase site power capacity from **1.5 MW to 30 MW**
- Acquire and install additional ASIC miners
- Upgrade distribution infrastructure (transformers, switchgear, cabling)
- Enhance cooling and environmental systems to support higher machine density
- Fund working capital and a contingency reserve during ramp-up

5.2 Projected Production at 30 MW

Using the same benchmark (37 MW → 1 BTC/day):

- **30 MW = 81% of 37 MW**
- Expected production at 30 MW ≈ **0.81 BTC/day**

At the same $75,000/BTC reference price:

- **Daily net revenue (post power) ≈ 0.81 × $75,000 ≈ $60,750**
- **Monthly net revenue ≈ $1.82 million**
- **Annual net revenue ≈ $21.9 million**

These figures are consistent with the 37 MW and 100 MW profitability benchmarks provided by management and imply substantial economies of scale compared to the current 1.5 MW operation.

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6. Economics of Scale and Margin Expansion

6.1 Bulk Power Purchasing

As Coastal Crypto increases power usage from 1.5 MW to 30 MW, the company can:

- Negotiate **lower per-kWh rates** with utilities or power providers
- Lock in **longer-term supply contracts** at favorable pricing
- Potentially utilize demand-response programs or renewable energy partnerships

Lower power cost per unit means each Bitcoin mined carries a **higher net margin**, significantly improving profitability beyond simple linear scaling.

6.2 Fixed vs. Variable Costs

Fixed or Semi-Fixed Costs:

- Land and site improvements
- Building shell and basic fit-out
- Core electrical infrastructure
- Security, networking, and monitoring systems
- Base salaries for management and core staff

Variable Costs:

- Electricity
- Incremental hardware purchases (ASICs)
- Maintenance, consumables, and modest staffing increases

Because many of the highest-cost infrastructure items are already in place, the incremental cost of adding each additional MW of capacity is much lower than the initial 1.5 MW build-out. As a result, **EBITDA margins expand** materially as the facility scales.

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7. Collateral and Security for Lenders

The expansion will be supported by a combination of **hard assets** and **cash flow coverage**.

7.1 Hard Asset Base

1. **Mining Hardware (ASICs)** – High-value, resaleable equipment with an active global secondary market.
2. **Electrical Infrastructure** – Transformers, switchgear, cabling, and distribution assets.
3. **Cooling and Mechanical Systems** – HVAC units, fans, ducting, and related equipment.
4. **Real Property and Site Improvements** – Land, concrete pads, structures, fencing, and security installations.

These assets can be pledged through **UCC filings, equipment liens, and/or real estate mortgages**, providing lenders with tangible security.

7.2 Cash Flow Coverage

At steady-state 30 MW operations, the projected **$21.9 million annual net profit** provides ample coverage for:

- Debt service
- Operating reserves
- Capital replacement over time

Even with conservative haircuts to Bitcoin price and production assumptions, the pro forma cash flow comfortably supports a **$10 million loan** with traditional commercial underwriting metrics.

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8. Valuation and Upside Potential

8.1 Current Implied Valuation at 1.5 MW

At the current 1.5 MW level:

- **Annual net income:** $1.2M–$2.4M
- Using a modest **5× earnings multiple**:

    - Implied value: **$6M–$12M**

This range alone supports a **$10M valuation** before expansion, recognizing the strategic value of the existing site and infrastructure.

8.2 Post-Expansion Valuation at 30 MW

At projected steady-state:

- **Annual net profit:** ≈ $32M

Even with highly conservative multiples:

- 3× earnings multiple → **$96M valuation**
- 5× earnings multiple → **$160M valuation**

This indicates that the requested $10M loan represents a **small fraction of post-expansion enterprise value**, providing lenders with a substantial equity cushion and strong downside protection.

8.3 Comparison to 100 MW Projections

Management's longer-term vision contemplates expansions approaching **100 MW**, where the internal projections show:

- **$10.5M per month** in net profit
- **$126M per year** in net profit

While the current funding request is specifically for the 30 MW phase, these figures demonstrate the scalability of the model and potential for future refinancing or recapitalization events that could repay or restructure lender exposure on extremely favorable terms.

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9. Risk Factors and Mitigation

9.1 Bitcoin Price Volatility

Risk: Revenue is tied to the market price of Bitcoin.

Mitigations:

- Conservative underwriting using current or discounted BTC price assumptions
- Ability to hedge a portion of production through futures or options
- Flexible strategy to sell Bitcoin regularly to cover operating expenses and debt service

9.2 Network Difficulty and Technological Change

Risk: Mining difficulty can increase, reducing BTC earned per unit of hashrate; hardware can become less efficient over time.

Mitigations:

- Use of modern, high-efficiency ASICs
- Ongoing hardware refresh strategy funded by strong cash flow
- Expansion scale (30 MW) improves the company's ability to keep up with industry standards

9.3 Power Cost and Availability

Risk: Increases in power prices or disruptions to supply.

Mitigations:

- Long-term power contracts negotiated at 30 MW scale
- Potential to integrate renewables or participate in grid programs
- Diversified vendor relationships and careful site selection

9.4 Regulatory Environment

Risk: Changes in regulations impacting digital asset mining or electricity usage.

Mitigations:

- Operating in a mining-friendly jurisdiction
- Proactive compliance and legal counsel
- Ability to pivot to high-performance computing or other data center workloads in extreme scenarios

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10. Exit Strategy and Repayment Options

Coastal Crypto anticipates multiple paths to providing liquidity and repayment capability to lenders:

1. **Cash Flow–Funded Amortization** – Strong free cash flow allows for standard loan amortization over a negotiated term.
2. **Refinancing at Higher Valuation** – Upon reaching 30 MW steady state, the company may refinance with institutional lenders or capital markets at lower interest rates and higher valuations.

3. **Strategic Sale or Merger** – The expanded facility could be an attractive acquisition target for larger mining firms or traditional data center operators entering the digital asset space.

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11. Funding Request Summary

11.1 Acquisition Debt Request (DSCR Loan)

- **Debt Requested:** $5,000,000 (secured by DSCR loan)
- **Purpose:** Acquisition of the existing industrial property and 30-acre site
- **Loan Terms:**
    - 8% interest, 30-year amortization
    - Monthly debt service: ~$36,680
    - NOI from inherited lease: $45,000/month
    - **DSCR:** ~1.23
- **LTV:** ~$5M loan on a $7.14M valuation (~70%)

11.2 Equity Raise for Expansion & Development

- **Equity Requested:** $10,000,000
- **Purpose:** Infrastructure expansion from 1.5 MW to 30 MW, plus development of additional industrial pads across 20 buildable acres
- **Investor Return Structure:**
    - **18% preferred annual return** to investors
    - **80/20 profit split** (80% to investors, 20% to operator) after preferred return
    - **Five-year investment horizon**

11.3 Projected Post-Expansion Valuation

Based on projected future NOI from the expanded 30 MW operation and the development of three additional industrial complexes:

- Future NOI potential: **$2.16M–$2.88M annually** (from additional pads alone)
- Applying market cap rates (6%–7%): **$30M–$48M valuation range**

This positions the combined site and operations to approach an estimated **$50 million valuation** within five years—providing significant upside for equity investors while maintaining secure DSCR-based collateral coverage for the acquisition loan.

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12. Conclusion

Coastal Crypto is an already-profitable Bitcoin mining data center with a proven operating model at 1.5 MW and clear, validated performance metrics. The requested **$10 million** in expansion capital will enable the company to scale to **30 MW**, increasing net profit potential from roughly **$1.2M–$2.4M per year** to approximately **$32M per year**. We assume this after the $5 million DSCR loan for acquisition.

By combining bulk power savings, existing infrastructure, strong collateral, and a scalable mining model, Coastal Crypto offers lenders a compelling opportunity: a secured, asset-backed loan into a project with significant downside protection and extraordinary upside potential. The projected post-expansion valuation in excess of **$100 million** more than justifies the requested loan amount and provides a strong foundation for long-term partnership between Coastal Crypto and its lending partners.

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13. DSCR Loan Structure & Holding Company Strategy

13.1 Acquisition & Holding Company Structure

A newly formed holding company will acquire the property using a **DSCR-based commercial real estate loan**. After acquisition, the property will be **subdivided and developed** into a scalable high-capacity mining operation for Coastal Crypto. The holding company will assume the existing lease currently held between Coastal Crypto and the property owner.

13.2 Existing Lease Structure

- **Monthly lease payment:** $45,000
- The holding company will inherit this lease and use it as the income stream supporting the DSCR loan.

13.3 Property Valuation Based on Cap Rate (Income Approach)

The valuation of the property is determined using the **Income Capitalization Method**, based on the rental income generated by the inherited lease and a market-aligned cap rate.

Monthly NOI: $45,000
Annual NOI: $45,000 × 12 = **$540,000**

Applied Cap Rate: 7.49% (reflective of industrial properties with development upside and stabilized income)

Property Value = Annual NOI ÷ Cap Rate
= $540,000 ÷ 0.0749
≈ **$7,210,947** (rounded)

This establishes the estimated full market value of the asset at approximately **$7.21 million**.

With a loan request of **$5,000,000**, the implied loan-to-value (LTV) is:

LTV = Loan Amount ÷ Property Value
= $5,000,000 ÷ $7,210,947
≈ **69.3% LTV** (rounding to industry-acceptable **70% LTV**)

13.4 Loan Terms (DSCR Loan) Loan Terms (DSCR Loan)

- **Loan Amount:** $5,000,000 (fixed)
- **Interest Rate:** 8% fixed
- **Amortization:** 30 years
- **Loan-to-Value (LTV):** ~70% based on a $7.14M valuation

13.5 Monthly Debt Service Calculation

A fully amortized 30-year loan at 8% results in approximately:

- **Monthly payment:** ~$36,680

13.6 DSCR Calculation

DSCR = Net Operating Income / Monthly Debt Service

- Net Operating Income (lease income): **$45,000**
- Monthly Debt Service: **~$36,680**

DSCR ≈ 1.23

This DSCR exceeds the typical lender requirement of **1.20**, demonstrating that lease income adequately supports the debt obligation.

13.7 Lender Appeal

- Strong DSCR (1.23+) at acquisition
- Stabilized rental income covering debt payments
- Clear capital-backed redevelopment plan
- Future upside from subdivision and expanded industrial utility