



## Fluence September 2019 - Quarterly Report

- Executed two multi-year supply agreements for MABR products with Chinese partners in conjunction with the establishment of two new final assembly facilities
- Q3 2019 gross bookings of US\$15 million
- Total backlog at 30 September 2019 of US\$269 million
- Subsequent to quarter end, raised A\$36 million (before costs) via an oversubscribed and upsized placement with strong participation from existing and new institutional investors
- Reaffirming guidance for 2019

New York, Melbourne, 29 October 2019

Fluence Corporation Limited (ASX: FLC) presents the following quarterly business update alongside its Appendix 4C (Quarterly cashflow report) for the quarter ended 30 September 2019 (Q3 2019).

### Reflecting on Q3 2019, Fluence Managing Director & CEO Henry Charrabé, said:

*“During Q3, Fluence made significant progress in migrating the business model towards the higher growth and higher margin pre-engineered Smart Products Solutions segment with the announcement of two additional multi-year supply agreements for MABR products in China. We are very pleased to have strengthened our relationships with Aerospace Kaitian Environmental Technology and Liaoning Huahong New Energy. Together with the previously disclosed ITEST partnership, Fluence has potential order visibility of more than 150,000 m<sup>3</sup>/day of capacity in China through the end of 2021. Cumulative MABR deployments to date represent only a small fraction of this amount, giving us confidence that we will continue to experience strong growth in proprietary MABR sales over the next several years. Further, we expect to continue this trend by negotiating additional multi-year supply agreements with other partners for our MABR technology in China.*

*“Additionally, we received an emergency order for five (5) NIROBOX™ from a customer in the Middle East. Fluence received this award in part due to its ability to meet an extremely aggressive two-week shipment timeline. Our NIROBOX™ product is pre-engineered, which allows for very rapid deployment, which no centralized custom solution could ever match. This win, along with other wins for individual NIROBOX™ units during the quarter in Taiwan and Puerto Rico, marked a return to growth for our pre-engineered desalination solution.*

*“With the clear visibility for MABR growth in China over the next several years and the renewed demand in desalination systems, we successfully raised A\$36 million (before costs) via an oversubscribed and upsized placement to existing and new institutional investors. Reflecting the strong interest in Fluence, we welcomed more than a dozen new Australian institutional investors to our register. Up to an additional A\$6 million could be added from a Share Purchase Plan currently open to eligible Australian shareholders. The capital raised from the placement will be used to fund final assembly capacity investments and working capital for our current and expected China partnerships, a second MABR module manufacturing line in our Changzhou manufacturing facility potentially to be commissioned in late 2020, possible Smart Products Solutions expansion in other geographies, cost realignment and for general working capital purposes. We expect this capital will be invested in higher return opportunities to deliver on the exciting growth opportunities we see.*

*“We continue to expect to achieve the important milestone of sustainable EBITDA profitability in Q4. With financial close of the Ivory Coast project anticipated during the quarter, we expect to recognize revenue of US\$20 million in Q4 2019, US\$80 million in 2020, and US\$82 million in 2021 from this project alone. This base revenue visibility from one individual project provides the runway for the higher margin and faster growing,*

*pre-engineered and standardized Smart Products Solutions and Recurring Revenue segments to ramp over the next several years, becoming meaningful contributors to Fluence' financial performance.*

*"Fluence has been advocating the virtues of pre-engineered, standardized and decentralized solutions for the world's water and wastewater challenges, and the events of the past quarter have only validated and strengthened this thesis. We are reaching a tipping point where customers value the ability to quickly deploy infrastructure that is easy to operate and maintain, playing into Fluence's core competencies and competitive advantages. We constantly strive to strengthen our unique position as a leader in the global decentralized water and wastewater segment."*

## **Business Update**

### ***Smart Products Solutions***

Pre-engineered Smart Products Solutions revenue was US\$7.3 million in Q3 2019, representing 189% Y/Y growth. Through the first nine months of 2019, pre-engineered Smart Products Solutions revenue was US\$12.9 million, representing 122% Y/Y growth compared to US\$5.8 million through the prior year comparable period.

We reaffirm our revenue guidance of US\$26 million from pre-engineered, standardized Smart Products Solutions for 2019, which implies segment revenue of US\$13.1 million in Q4. We have strong visibility to this revenue from the backlog of ITEST MABR orders and several recent wins. Specifically, ITEST placed orders for 35 Aspiral™ units in December 2018 and followed up with a 40-unit order in March 2019. The bulk of these units will be delivered and recognized as revenue in Q4. Additionally, the 3,000 m<sup>3</sup>/day SUBRE greenfield order in Panjin City, the 1,200 m<sup>3</sup>/day greenfield SUBRE order in Mianzhu City, along with unannounced orders in China and elsewhere, including NIROBOX™ orders in Taiwan and Puerto Rico received in Q3, are all expected to be recognized as revenue in Q4.

Beyond Q4, the signing of the additional supply agreements with Aerospace Kaitian Environmental Technology and Liaoning Huahong New Energy provide for potential future orders of 40,000 m<sup>3</sup>/day and 52,500 m<sup>3</sup>/day of capacity, respectively, by the end of the 2021. Combined with the ITEST agreement, these three (3) partnerships could result in future cumulative orders of more than 150,000 m<sup>3</sup>/day over the next two (2) years. We are extremely pleased to see the China MABR strategy gaining traction and will continue to push forward with additional supply agreements.

Demand for NIROBOX™ was another bright spot this quarter with seven (7) units ordered. As water scarcity and water security become greater risks for municipal, industrial and commercial entities, we see growing interest in our suite of offerings, particularly in the Middle East. We are exploring partnership opportunities for NIROBOX™ and expect to use proceeds from the recent capital raise to fund any working capital investment required under these agreements.

### ***Recurring Revenue and Aftermarket Sales***

We are pleased to announce that our project in Bimini, Bahamas, has passed the customer performance test, met all specifications in the contract, and is awaiting final regulatory approval to begin providing water to the customer. The receipt of final regulatory approval has been delayed due to the tragedy of Hurricane Dorian, which battered the northern Bahamas in early September. Our facility, located in the southwestern Bahamas sustained no significant damage and was brought back online as soon as personnel could safely return to the island, but the recovery efforts elsewhere in the Bahamas resulted in delayed receipt of final regulatory approvals. The customer is very pleased with the water quality from testing and is eager to commence the long-term supply agreement. Upon commencement of commercial operations, we expect to receive US\$1.7 million annually for the next 15 years of operation.

Development work on our Peru project has continued and we expect to receive the final environmental permits during Q4. This will allow Fluence to begin site construction by early 2020 and remain on schedule to achieve a mid-2020 commercial operations date, resulting in annual recurring revenue of US\$3 million for 10 years.

### ***Custom Engineered Solutions and Other Products***

#### **Ivory Coast**

As announced in early October, financial close on the €165 million Ivory Coast contract is anticipated to occur in Q4 2019. The parties to the agreement, including banks and the Ivory Coast government, have made considerable progress and are working through final negotiations of contracts and administrative points. Subject to financial close, Fluence still expects to recognize US\$20 million of high gross margin revenue in Q4 for work that has largely already been completed. We also expect revenue of US\$80 million in 2020 and US\$82 million in 2021 from this project.

#### **San Quintin, Mexico**

Fluence enjoys a very strong relationship with the customer, the State Water Commission of Baja California (CEA), and the local municipality and has been working to accommodate a slight change in project schedule requested by CEA. The change relates to the timing of construction expenditures and resulting drawdowns on the project finance facility. There is no change to the tariff that will be paid to Fluence for the delivery of potable water, but the commencement of construction has been delayed until this change can be formalized by the incoming Director of CEA.

The Director of CEA is a position filled by appointment by the state Governor. After the recent elections, a new incoming state Governor is taking office on November 1, 2019 and is expected to immediately appoint a new Director of CEA. Due to the short time period until handoff to the new administration, the exiting Director has decided to delay formalization of the contract timing changes to allow the incoming Director to take such responsibility. As a result, we expect to have the contract amendments completed by year end and for construction to commence in early Q1 2020.

In the meantime, Fluence is planning to increase its ownership by 43%, resulting in a total equity ownership by Fluence of 94% and ensuring that Generate Capital completes its due diligence on the project for the corporate term loan facility being negotiated.

#### ***Generate Capital Term Loan***

The due diligence process for the Generate Capital corporate term loan that was disclosed in the Q2 Business Update is progressing. The contemplated first use of this facility had always been to fund Fluence's equity contribution for the San Quintin project, so the delay caused by the change in local administration has delayed closing the Generate Capital facility. We expect to finalize the corporate term loan shortly after the San Quintin amendments are finalized. The two additional distinct uses of the US\$40 million corporate term loan from Generate Capital would be to finance the short-term working capital requirements for the Ivory Coast project and for the financing of purchase orders in China.

### **Q3 2019 Cash Flow Report**

The Appendix 4C quarterly cashflow report for Q3 2019 is attached.

Cash and Cash Equivalents were US\$11.0 million at 30 September 2019 (which excludes net proceeds of the recent capital raising that occurred after quarter end). Net Cash Used from Operating Activities in Q3 2019

was US\$4.8 million, approximately US\$1.2 million better than forecast in the 30 June 2019 Appendix 4C. Revenue in Q3 was US\$13.8 million.

Based on current contracts, the Company expects US\$22.0 million of cash receipts from customers during Q4 2019 and cash payments of US\$28.0 million, resulting in an expected net operating cash outflow for Q4 2019 of US\$6.0 million.

## **Reaffirming 2019 Outlook**

Fluence reaffirms its previously communicated expectations for 2019 as follows:

- Pre-engineered, standardized Smart Products Solutions revenue is expected to be US\$26 million, representing 18% Y/Y growth;
- Secured annual recurring revenue is expected to increase by the end of 2019; and
- Sustainable EBITDA profitability is expected to occur in Q4 2019, assuming financial close for Ivory Coast is achieved in Q4 2019.

## **Quarterly Update – Conference Call**

Henry Charrabé (Managing Director & CEO), Francesco Fragasso (CFO) and Adam Hinckley (VP Investor Relations & Project Finance) will host an investor conference call regarding the Company's quarterly update on Tuesday, October 29<sup>th</sup>, at 9:30 am AEDT / Monday, October 28<sup>th</sup> at 6:30 pm US ET. Call details below:

For those wishing to dial into the call, please register for the call through the following link: <https://s1.c-conf.com/diamondpass/fluence-10002343-invite.html>

Alternatively, at the time of the call, dial your respective local number below and provide the conference ID 10002343 to the operator:

AUSTRALIA TOLL/INTERNATIONAL	+61 2 9007 3187
AUSTRALIA TOLL-FREE	1 800 870 643
US TOLL-FREE	(855) 881 1339
US TOLL	(914) 202 3258
ISRAEL TOLL-FREE	1809 450 446

A link to the live webcast will be accessible on the Company's "Investor Relations" page at <https://www.fluencecorp.com/investor-news/>. Questions will need to be submitted electronically through the webcast interface. For those wishing to access the webcast please register in advance: <https://services.choruscall.com.au/webcast/fluence-191029.html>

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**About Fluence Corporation Limited (ASX: FLC)**

Fluence is a leader in the decentralized water, wastewater and reuse treatment markets, with its pre-engineered, standardized Smart Products Solutions, including Aspiral™, NIROBOX™ and SUBRE. Fluence offers an integrated range of services across the complete water cycle, from early stage evaluation, through design and delivery to ongoing support and optimization of water related assets, as well as Build Own Operate Transfer (BOOT) and other recurring revenue solutions. With established operations in North America, South America, the Middle East, Europe and China, Fluence has experience operating in over 70 countries worldwide and enables businesses and communities worldwide to maximize their water resources.

Further information can be found at <https://www.fluencecorp.com/>.

**Forward looking statements**

“This quarterly business update contains “forward-looking” statements. Forward looking words, such as “expect”, “anticipate”, “should”, “could”, “may”, “predict”, “plan”, “will”, “believe”, “forecast”, “estimate”, “target” and other similar expressions are intended to identify forward-looking statements. Forward-looking statements, opinions and estimates provided in this update are based on estimates and assumptions related to future business, contractual, economic, market, political and other conditions that, while Fluence considers them to be reasonable, are inherently subject to significant uncertainties, contingencies and (potentially) delays.

Many known and unknown factors could cause actual events or results to differ materially from estimated or anticipated events or results reflected in such forward-looking statements. Such factors include, but are not limited to operating, competition and development risks, economic and political risks, and a number of other risks including unanticipated and unusual events, many of which are beyond Fluence's ability to control or predict.