



29 July 2022

## **Fluence Corporation Quarterly Activities Report**

Fluence Corporation Limited (ASX: FLC; the “Company”) presents its Quarterly Activities Report and accompanying ASX Appendix 4C (the “Quarterly Cashflow Report”) for the quarter ended 30 June 2022 (“Q2 2022”). All financial numbers contained herein are in US dollars and are unaudited.

### **Q2 and 1H 2022 Summary**

The Company is pleased to report continued growth of revenue and Smart Product Solutions (SPS) bookings and to confirm guidance. Key achievements include:

- **Q2 Revenues from Continuing Operations of \$25.7M<sup>1</sup>** - Up 9% on Q2 2021
- **H1 revenues from Continuing Operations of \$60.2M<sup>1</sup>** - Up 52% on 1H 2021
- **Q2 SPS bookings of \$8.2M including 9 new MABR plants** - Up 46% on Q2 2021 and 30% on Q1 2022. SPS backlog now 57% higher than Q2 2021. Eight MABR plants sold in China despite COVID-19 headwinds. 326 MABR plants sold to date.
- **Over 80% of Q2 SPS revenues from outside China** – Includes the US, Latin America and Middle East.
- **CES revenues from Continuing Operations of \$19.8M<sup>1</sup>** - Up 43% on Q2 2021, mainly from the Ivory Coast project.<sup>1</sup>
- **Cost Efficiency Improvement** – 1H 2022 fixed expenses of \$12.5M (21% of revenues) versus \$11.0M (28% of revenues) in 1H 2021.
- **Contracted backlog \$80.0M** - \$49.0M of which is anticipated to become revenue in 2022.
- **Cash Balance of \$31.8M up from \$31.1M at end of Q1 2022 and up from \$23.7M at the end of Q2 2021** - Operating cashflow negative \$6.8M. Significant payments to vendors of \$31.7M largely offset by collections of \$24.9M, including the latest payment of \$14.3M from the Ivory Coast project in Q2 2022.
- **Maintaining Guidance** – Full year 2022 revenue outlook remains \$144.0M, up 40% from \$103.2M in 2021. \$109.2M (76%) of this anticipated full year revenue comes from H1 2022 revenues plus contracted backlog anticipated to become 2022 revenue. SPS revenue outlook remains \$45.0M, up 22% from \$36.9M in 2021. Underlying EBITDA<sup>2</sup> continues to be forecast at \$3.0M, up from \$1.0M in 2021.

### **Q2 and 1H 2022 Commentary**

The Company sold 9 MABR systems in Q2 2022 including 8 in China and 1 in Tanzania. The China sales include the first in-country SUBRE upgrade of an existing wastewater treatment plant. The Company continues to see significant COVID-19 headwinds in China due to irregular and unpredictable lockdowns delaying the closing and implementation of MABR projects. Accordingly, and as noted at the recent AGM, Fluence is putting more emphasis on building its South East Asia pipeline outside China. These efforts have resulted in a rapidly growing pipeline that includes more than 40 projects spanning wastewater reuse and treatment using MABR and desalination using NIROBOX.

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<sup>1</sup> Continuing operations excludes Italy business held for sale.

<sup>2</sup> Underlying EBITDA = Statutory EBITDA excluding one-off items

The Company reports continued strong pipeline growth for sale of water and wastewater treatment and reuse projects in the Caribbean and beyond, including resorts, residential communities and other commercial customers.

The Company secured its first operation and maintenance (“O&M”) contract in China covering 8 existing MABR wastewater treatment plants in Panjin City, Liaoning province. The contract has an annual value of US \$1.0M with one-year renewable terms. Fluence will ensure the plants continue to meet China’s Class 1A wastewater treatment standard. The Company intends to steadily grow its recurring revenues by selling water and wastewater treatment as a service and securing ongoing parts and service revenues including O&M contracts both on its existing installations and new plants.

The Ivory Coast project continues to execute well, with recognized revenue to date of \$135.6M (75% of the contract total) from start date, of which \$42.9M has been recognized to date in 2022.

The Company won two important treatment orders from Eramine (an Eramet subsidiary) at a lithium mine in Argentina for treatment of lithium brine with total value of approximately \$3.4M, bringing the total value of Fluence projects at this site to \$8.4M. The first order is a brine oxidation solution and the second involves stripping CO<sub>2</sub> from the lithium brine. These orders add to our list of around 10 references in this rapidly growing Lithium mining sector in Argentina for customers including Minera Exar, Livent and Sales de Jujuy (Allkem).

As previously announced, the Company secured a \$1.9M contract to supply 4 wastewater treatment plants to the US Federal Emergency Management Agency (FEMA), part of the US Department of Homeland Security. The plants are on schedule to be delivered, and the corresponding revenue expected to be recognized, by the end of the current quarter. The order was placed by SupplyCore Inc. (“SupplyCore”), a major supply chain and technology integrator and small business federal defense contractor which has provided key support to the U.S. military and its allies since 1987. As a procurement representative in support of the US Federal Government, SupplyCore has been awarded a contract to procure up to \$92.0M of water purification equipment over the next 5 years for the US Government.

The Company continued cost efficiency improvements during H1 including relocating headquarters to our existing facilities in Minneapolis, MN and closing the White Plains, NY office. In addition, the Brazil operations have been converted into a sales office, reducing headcount.

The Company continues to classify the Italian business unit as an asset held for sale. Limited progress was made towards completing a sale in Q2 2022.

As previously announced, in May 2022 Fluence welcomed proven water industry veteran Doug Brown as a Strategic Advisor to the Board. Mr. Brown is advising on development and implementation of strategies regarding the operation, marketing and financial performance of the Company, acquisition opportunities and financing alternatives. In particular, Mr. Brown will focus on identifying ways to increase the Company’s recurring revenues throughout its targeted regions. Concurrent with his appointment, Mr. Brown invested approximately A\$2.7M (US\$1.9M) as part of a placement of AU\$5.4M (US\$3.7M) at A\$0.21 per share.

Earlier this month the Company announced that Francesco Fragasso will step down as Chief Financial Officer effective 1 September 2022 to pursue a CFO role at a North American listed company outside the water sector. A search is underway for a replacement.

Reflecting on Q2 2022, Fluence Chief Executive Officer and Managing Director Tom Pokorsky said:

“We are pleased to continue revenue growth and diversification of bookings in Q2 2022, helping to offset the COVID-19 challenges in China. We are very encouraged by the rapid pipeline growth in South East Asia and in recurring revenue projects centred around water and wastewater services. Having been with Fluence for more

than 4 months now, I can see significant opportunities to further integrate Company operations, resulting in additional efficiency improvements with a consequent positive impact on EBITDA growth in future. I am working with the team to realize these improvements in the months ahead.”

## **Q2 2022 Cash Flows**

The Appendix 4C quarterly cashflow report for Q2 2022 is attached.

Cash and Cash Equivalents were \$31.8M as at 30 June 2022. In addition, the Company held \$17.8M in short and long-term deposits. Of this amount, \$13.0M is applied as collateral for bank guarantees for the Ivory Coast Project which is expected to be released over the course of the next 18 months. Net Cash used by Operating Activities in Q2 2022 was \$6.8M. Revenue in Q2 2022 was \$25.7M. During Q2 2022, we received payments of \$14.3M from the Ivory Coast Project. Operating expenses continue to be reduced as a percentage of revenue, falling to 21% for H1 2022 versus 28% for H1 2021.

The weakening of the Euro relative to the US dollar (-12%) during Q2 2022 resulted in a reduction in reported revenue and profit for the Ivory Coast project.

The negative exchange rate fluctuations resulted in the recognition of the exchange rate loss in Q2 2022 in the Group’s profit and loss statement, as well as the negative foreign currency translation reserve movement in the statement of changes in equity. There is, however, no cash impact as a result of this loss.

## **Quarterly Update – Conference Call**

Richard Irving (Chairman), Tom Pokorsky (Managing Director & CEO) and Francesco Fragasso (CFO) will host an investor conference call regarding the Company’s quarterly update on 29 July 2022 at 9:30 am Australia AEST / 28 July, 2022 at 7:30 pm US EDT.

Those wishing to dial into the call or access the webcast must register in advance via the link:

<https://s1.c-conf.com/diamondpass/10023690-d3v0n1.html>

Questions must be submitted electronically through the webcast interface.

A link to the archived webcast will be accessible on the Company’s website:

<https://www.fluencecorp.com/investor-news/>

This announcement is authorised for lodgement on the ASX by Tom Pokorsky, CEO and Managing Director, Fluence Corporation Limited.

-ENDS-

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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 (SPS), including Aspiral™, NIROBOX™ and SUBRE. In addition to rapid delivery and commissioning of decentralized solutions to meet a broad range of needs, Fluence offers ongoing operation and maintenance support, as well as Build Own Operate Transfer (BOOT) and other recurring revenue solutions. Fluence has a broad international footprint and focuses on high growth markets including China, the Middle East, South East Asia, and North America.

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, economic uncertainty associated with COVID-19, and a number of other risks and also include unanticipated and unusual events, many of which are beyond Fluence's ability to control or predict.

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