



Fluence achieves positive EBITDA in Q1; and expects to be cash flow positive in Q2

Quarterly Activities Report for Quarter Ended 31 March 2020 (Q1 2020)

- Positive EBITDA (unaudited) achieved in Q1 2020
- Q1 2020 revenue of US\$47.3 million
- Q1 2020 gross bookings of US\$12.5 million, with total contract backlog at 31 March 2020 of US\$228.0 million, including US\$147.0 million related to the Ivory Coast Project
- Net operating cash outflow of approximately US\$7.9 million, US\$2.1 million higher than previously expected due to COVID-19 delays in cash collections on some projects
- Continued reduction in overhead costs on track; already reduced SG&A by more than 10% in Q1 2020 compared to Q1 2019
- Cash balance of US\$16.9 million as at 31 March 2020
- FY2020 guidance reaffirmed, with Smart Products Solutions revenue of at least US\$32.0 million, recurring revenue of US\$9.0 million and sustained EBITDA profitability in 2020
- Based on current contracts, and the anticipated collections from the Ivory Coast Project providing remaining conditions precedent are met, the Company expects to be cash flow positive in Q2 2020.

New York, Melbourne, 28th April 2020

Fluence Corporation Limited (ASX: FLC) is pleased to present this Quarterly Activities Report and accompanying ASX Appendix 4C (Quarterly Cashflow Report) for the quarter ended 31 March 2020 (Q1 2020).

Reflecting on Q1 2020 and the remainder of FY 2020, Fluence Managing Director & CEO Henry Charrabé, said:

“This first quarter of 2020 was dominated by the global concerns related to the spread of COVID-19. Despite the global health challenges and economic disruptions, Fluence still achieved the significant milestone of positive EBITDA due in large part to the financial close of the Ivory Coast Project for work already performed and delivered to the customer. The COVID-19 crisis is highlighting the fundamental need for safe water supply and hygiene. We continue to strengthen our position as a leader in the global decentralised water and wastewater segment and anticipate that longer-term demand for Fluence’s safe, secure water and wastewater treatment solutions will increase.

“New sales orders for Smart Products Solutions [SPS] continued to gain traction during Q1 2020, with orders totaling US\$8 million, up 60% on Q1 2019. We secured our first Aspiral™ sale in the province of Inner Mongolia to Beijing China Railway Science New Technology Co. Ltd., an integral part of the Chinese Railway System. We expect that the continued market penetration of Fluence’s MABR technology will lead to meaningful bulk commitments in time as our technology proves itself to new partners and its significant value add continues to be recognised.

“We were very pleased to receive the largest SPS order outside of China to date with a SUBRE greenfield project in Cambodia that will treat 15,000m³/day upon completion. This project will provide an excellent local reference for future biological wastewater treatment needs in Cambodia and in the region.

“During these unprecedented times, we have been actively working with local governments, partners and customers around the world to ensure the safety and well-being of all our employees, which is of the utmost

importance to us. While our manufacturing facilities have largely been operating as normal, we have taken increased measures to ensure that our employees are safe. As Fluence operates in many different global jurisdictions that have been affected by COVID-19, we eliminated all non-essential travel and encouraged all communications with customers and partners to be conducted via telephone or videoconferencing. We took these proactive steps as early as February 2020 in China and in March in the rest of the world. Fluence is seeing the benefits of being globally diversified, with the ability to rapidly adapt to changing economic demand in individual regions.

“We have seen a reduction in activity resulting from COVID-19, which led to lower Q1 bookings and consequently lower cash receipts, as well as delays in some customer payments, project commencement and project execution. We expect to see some H1 2020 revenue to shift to H2 2020. We have therefore made the prudent decision to implement cash conservation strategies in all jurisdictions, including, but not limited to, the deferral of board member fees and a 30% deferral of my and almost all other management salaries at headquarters. In addition, we have applied for COVID-19 relief funding made available by different governments in jurisdictions where we operate, to help offset any costs associated with the pandemic. Further, we have fast-tracked some reductions in overhead costs and we have already reduced SG&A by more than 10% in Q1 2020 compared to Q1 2019. These reductions are on top of considerable SG&A cuts in each of the past two years and are proof, that as we move our product mix towards SPS sales, we can continue to improve our operating efficiency. Overheads have been restructured to provide a leaner, more focused and nimbler organisation.

“On 7 January 2020, our Ivory Coast Project achieved the important milestone of Financial Close when the customer executed its financing agreements. Work is ongoing to finalise the conditions precedent to enable payments, and these are expected to be completed in Q2 2020. Revenue of US\$34 million was recognised in Q1 2020, with associated cash receipts expected in May. Given currently known information, we have reaffirmed our revenue guidance for Smart Products Solutions, Recurring Revenue projects for FY2020, and for sustained EBITDA profitability in 2020.

Despite the economic slowdown around the world, reaching the important milestone of becoming EBITDA positive while also transitioning the Company to focus on our pre-engineered Smart Products Solutions, puts us in the position to deliver on the high expectations we have for Fluence in 2020 and beyond.”

Q1 2020 Business Update

Smart Products Solutions

Q1 2020 revenue for pre-engineered Smart Products Solutions (“SPS”) was US\$2.9 million, while new orders were \$8.0 million (up 60% on Q1 2019). Historically, the first quarter has been the weakest quarter vis-à-vis SPS revenues, and this year has been no different. However, we also experienced some delays in new orders as a result of COVID-19 and expect these orders to come through during H2 2020.

Continuing strong growth in the SPS segment is expected for 2020, supported by volume commitments from ITEST, alongside anticipated orders from Aerospace Kaitian Environmental Technology and Liaoning Huahong New Energy, as well as the potential signing of additional commitments from new partnerships.

We have increased the assembly capacity at our factories in Yiyang and Panjin to meet this anticipated growth.

We are continuing to explore partnerships and sales channels for NIROBOX™, however, given the current market climate, this will be more challenging than expected in H1 2020. We expect opportunities for this product, as well as other pre-engineered products in our Smart Products Solutions segment, to grow as the need for local freshwater treatment systems and clean water continues to increase around the world.

Recurring Revenue and Aftermarket Sales

Total recurring revenue from Bimini BOOT, aftermarket and services revenue of US\$3 million was recognised in Q1 2020.

Development work on the Peru BOOT project continues, but construction has been delayed as Peru has been in a total COVID-19 lock-down since March 15. The length of this lock-down will have an impact on the commencement of commercial operations, which were forecast to commence in H2 2020. Once completed, the project is expected to generate annual recurring revenue of at least US\$3 million for 10 years.

Custom Engineered Solutions and Other Products

Ivory Coast

Financial close on the €165 million Ivory Coast Project occurred on 7 January 2020. Fluence is currently working on ensuring that all conditions precedent are met and expects this to be done during Q2 2020. With the initial engineering design steps of the project already completed, Fluence is now fully focused on moving towards construction commencement of this important turnkey water treatment plant.

During the quarter, Fluence recognised US\$34 million of revenue for work already completed and delivered to the customer, with cash receipts due in May. Additionally, the collection of the contract advance payment is also expected in May provided the remaining conditions precedent are met.

San Quintin, Mexico

During the quarter, Fluence and the State Water Commission of Baja California (CEA) held several video conference meetings regarding the requested changes to the project schedule and other contractual amendments. Fluence was expecting CEA to reauthorise the project commencement along with any potential contractual amendments during Q1 2020. However, given the COVID-19 economic impact this has now been delayed into Q2 2020.

Q1 2020 Cash Flows

The Appendix 4C quarterly cashflow report for Q1 2020 is attached.

Cash and Cash Equivalents were US\$16.9 million at 31 March 2020. Net Cash Used from Operating Activities in Q1 2020 was approximately US\$7.9 million (adjusted for rounding differences), US\$2.1 million higher than forecast in the Q4 2019 Appendix 4C due to COVID-19 related delays in collection from some projects. Revenue in Q1 2020 was US\$47.3 million. Operating costs were in line with the estimates previously provided.

Following is a Summary of Receipts and Expenditures for the March Quarter 2020 business activities (refer also accompanying ASX Appendix 4C):

	Year to date (3 months) \$US'000
Receipts from customers	14,250
Product manufacturing and operating costs	-14,132
Research and development	-860
S,G&A (Corporate Overhead)	-6,812
Investing Activities	4,750
Financing payments / receipts	-619
Other	-423

Notes:

- 1 Numbers in the table are presented on a cash basis, consistent with the ASX Appendix 4C.
- 2 Numbers exclude the effect of movement in exchange rates on cash held.
- 3 Expenditures include allocations of Staff Costs, which are shown as a separate line in the ASX Appendix 4C.

Based on current contracts, and the anticipated collections from the Ivory coast project, the Company expects to be cash flow positive in Q2 2020.

Quarterly Update – Conference Call

Henry Charrabé (Managing Director & CEO) and Francesco Fragasso (CFO) will host an investor conference call regarding the Company's quarterly update on Tuesday, April 28th at 9:30 am Australia AEST / Monday, April 27th at 7:30 pm US EDT. Call details below:

For those wishing to dial into the call, please register for the call through the following link: to <https://s1.c-conf.com/diamondpass/10005979-invite.html>

Alternatively, at the time of the call, dial your respective local number below and provide the conference ID **10005979** to the operator:

AUSTRALIA TOLL/INTERNATIONAL	+61 2 9007 4041
AUSTRALIA TOLL-FREE	1 800 173 224
US TOLL-FREE	(855) 336 4664
US TOLL	(208) 758 0667

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-200423.html>

For further information, please contact:

Investors:

Ronn Bechler
Market Eye
E: ronn.bechler@marketeye.com.au
P: +61 400 009 774

Media (Australia):

Tristan Everett
Market Eye
E: tristan.everett@marketeye.com.au
P: +61 403 789 096

Media (USA):

Erik Arfalk
Chief Marketing Officer
E: earfalk@fluencecorp.com
P: +1 914 998 3302

This announcement is authorised for lodgement on ASX by Henry Charrabé, Managing Director & CEO, Fluence Corporation Limited.

About Fluence Corporation Limited (ASX: FLC)

Fluence is a leader in the decentralised water, wastewater and reuse treatment markets, with its pre-engineered, standardised 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 optimisation 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 maximise 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, 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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Fluence Corporation (ASX: FLC)
Q1 2020 Summary

Q1 Summary

- Revenue of US\$47.3M vs US\$12.3M in Q1 2019, (US\$34.0M from Ivory Coast Project)
- Turning EBITDA positive in Q1 2020, expected to remain positive for the full FY 2020
- Reduction of SG&A by more than 10% in Q1 2020 compared to Q1 2019
- Gross bookings of US\$12.5M
- Backlog of US\$228.0M, (US\$147.0M related to the Ivory Coast Project)
- Cash balance of US\$16.9M as at 31 March 2020
- First payments from Ivory Coast Project expected in Q2 after conditions precedent are met
- Cash flow positive expected in Q2
- FY2020 Revenue guidance reaffirmed:
 - Smart Products Solutions US\$32.0M
 - Recurring revenue US\$9.0M
 - Sustained EBITDA profitability

Positive EBITDA in Q1
Expected Cash Flow Positive Q2

Q1 Summary By Product Area



Smart Products Solutions

- US\$2.9M revenue
- US\$8M in new bookings (+60% vs. Q1 2019)
 - Incl. US\$7M SUBRE order in Cambodia, largest SPS order outside China to date
- Expected continued strong SPS growth, mainly driven from key partners in China
- Increased assembly capacity at company plants in Yiyang and Panjin



Aspiral™ installation, ITEST, China

Recurring Revenue

- US\$3.0M from Bimini BOOT, aftermarket and services
- Peru BOOT expected to continue after construction delays and national lock-down due to COVID-19
- San Quintin, Mexico BOOT project contract amendment negotiations pushed into Q2 2020
- Aftermarket and service demand unchanged despite COVID-19 lockdown



BOOT installation, Bimini, Bahamas

Custom Engineered Solutions

Ivory Coast Project update:

- Financial close of Ivory Coast Project January 7
- Conditions precedent expected to be met in Q2
- Recognised revenue of US\$34M for work already completed
 - Cash receipts due in Q2 subject to CPs
- Further payments expected in May after conditions precedent are met



Ivory Coast Project, Ivory Coast (model)

Summary Financials



Segment Revenue (US\$m)	2017 ⁽¹⁾	2018 ⁽²⁾	2019 ⁽³⁾	2020 Guidance	Comments
Custom Engineered Solutions	45.5	72.7	27.3		---> CES 2020 revenue expected of >\$120M; \$41.4M in Q1/20, Backlog of \$204M over 2 years, underpinned by Ivory Coast
Smart Products Solutions	11	21.8	26.5	> 32m	---> \$2.9M in Q1/20, backlog of \$22.7M as of end of Q1/20
- China SPS	0.3	2.8	13		---> SPS from China in 2020 expected > 24M; Underpinned by 3 bulk partnerships in China worth > \$100m over 3 years
Service/Recurring Rev.	1.5	6.4	7.1	>9m	---> \$3.0M in Q1/20, and expected to grow in line with installed base and delivery of BOOT projects
Total revenue	58.0	100.9	60.9		---> Total 2020 revenue expected > 161m; \$47.3M in Q1/20. \$228M in backlog as of 03/31/2020 (incl. Ivory Coast, San Quintin, etc.).
SPS growth y/y		98%	21%		---> > 20% growth in 2020
China SPS growth y/y		833%	364%		---> > 85% growth; Strong pipeline of additional China distribution partners
Recurring growth y/y		327%	11%		---> > 29% growth in 2020
Profit & Loss (\$m)	2017 ⁽¹⁾	2018 ⁽²⁾	2019 ⁽³⁾	2020 Guidance	Comments
Revenue	58.0	100.9	60.9		---> As a result of above, expected 2020 revenue >161M; strong growth in FY20 underpinned by Ivory Coast and growth in SPS sales
SG&A	-47.2	-33.5	-29.3		---> Significant efficiency gains and cost reduction achieved in Q1/20 of more than 10% compared to same period prior year
R&D	-6.5	-7.2	-4.6		---> All R&D fully expensed through the P&L, Q1/20 in line with prior year
Total costs	-53.7	-40.7	-33.9		
Adjusted EBITDA	-41.7	-17.2	-24.2		
Normalisations	-4.0	-9.2	3.2		---> Reversal of prior years accruals, transaction costs, restructuring costs, stock-based compensation
Statutory EBITDA	-37.7	-8.0	-27.4	Positive	---> Q1 EBITDA positive, profitability is expected in FY20 and beyond
SG&A growth y/y		-29%	-13%		

Disclaimer



This presentation has been prepared by Fluence Corporation Limited (ASX: FLC) and is authorised by Henry Charrabé, Managing Director & CEO. The material contained in this presentation is to be read in conjunction with the Company's Quarterly Activities Report for the Quarter Ended 31 March 2020 (Q1 2020) and accompanying ASX Appendix 4C. It is provided in summary format and does not purport to be complete. All currencies quoted as "\$" are US dollars unless otherwise specified.

This presentation may contain forward-looking statements which are identified by words such as 'may', 'could', 'believes', 'estimates', 'targets', 'expects', or 'intends' and other similar words that involve risks and uncertainties. These statements are based on an assessment of past and present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this presentation, are expected to take place. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors many of which are beyond the control of the Company, its Directors and management. Although the Company believes that the expectations reflected in and the assumptions underlying the forward looking statements included in this presentation are reasonable, readers are cautioned not to place undue reliance on them, as the Company cannot give any assurance that the results, performance or achievements covered by the forward-looking statements will actually occur. Neither can the potential economic impacts of the unfolding COVID-19 pandemic be easily predicted or accurately forecast.

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