



Fluence Corporation

**Fourth Quarter and Full Year 2017 Business Update Conference
Call**

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C O R P O R A T E P A R T I C I P A N T S

Henry Charrabé, *Managing Director and Chief Executive Officer*

Robert Wowk, *Chief Financial Officer*

Richard Irving, *Executive Chairman*

P R E S E N T A T I O N (Q & A n o t i n c l u d e d)

Operator:

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Fluence Corporation Fourth Quarter and Full Year 2017 Business Update Conference Call. At this time, all participants are in a listen-only mode. I would now like to turn the conference over to our host, Mr. Henry Charrabé, Managing Director and Chief Executive Officer of Fluence Corporation. Mr. Charrabé, please go ahead.

Henry Charrabé:

Thank you very much, Operator, and good evening in the U.S.; good morning to all of those of you in Australia. This is Henry Charrabé, and I'm Managing Director and Chief Executive Officer of Fluence. I am joined on this call by Richard Irving, our Executive Chairman, and Robert Wowk, our Chief Financial Officer. Before we begin, I want to mention that we will make forward-looking remarks which are protected under the Safe Harbor provisions of Australian securities law. Details are provided in the press release.

Yesterday, we released our quarterly cash flow report for the December quarter. Along with this release, we thought it is best to speak to you directly about the state of our business and give you the chance to ask questions. After my prepared remarks about operations, Bob will briefly cover the financials and Richard will make some comments, and we will then answer any questions you might have. Let's begin.

Two thousand and seventeen was a truly transformative year for us. We combined two already exceptional Companies into a leader in the decentralized water and wastewater treatment space. We go into 2018 with an outstanding product line, global footprint, more financial resources, and unrivaled opportunities for growth. We expect our revenues to nearly double this year. We are targeting to meet our goal of positive EBITDA occurring during 2019. Furthermore, we have great visibility. Our backlog today already covers two-thirds of the revenue we expect to generate this year. We are very confident in our near-term outlook as well as our ability to drive growth for years into the future.

Before we discuss our operating accomplishments for the December quarter, I want to mention our preliminary results. We are finishing our audit and expect to announce our key results by the end of February; final audited financial statements by the end of March. However, I can already tell you that 2017 revenue in aggregate for the two businesses for the full year should be around US\$58 million and gross margin should be between 24% and 26% on a pro forma basis. If you compare to 2016 by looking at the result of Emefcy and RWL Water combined on a pro forma basis, revenues were essentially flat, though of significantly higher value at quality, as evidenced by the gross margin improvement of about 6% in 2017.

Now, let me address our operating accomplishments in the December quarter and how these position us for the growth we expect for the coming year and beyond. This shows that we are executing on the numerous opportunities we see around the globe. We're extending our technology leadership, and we're getting traction in many geographies, especially South America, Africa and China.

First, let's discuss innovation, which of course underpins our technology leadership. One of our important new technology offerings is SUBRE, a submerged version of our innovative MABR wastewater treatment technology. SUBRE addresses larger, centralized traditional wastewater treatment facilities and is a new market for us. In October, Fluence was awarded its first SUBRE contract to upgrade the centralized wastewater treatment plant of a wastewater utility in Israel. This is a foothold in what we anticipate to be a giant market. For instance, we estimate the SUBRE market potential in Europe alone as a US\$2 billion range. We see even larger market potential in the United States and in China.

Our innovative product portfolio is enabling us to penetrate new geographies and thus accelerate our growth around the world. A great example of this, building traction, is our business in South America. We signed several deals in this region recently that will help drive growth in 2018.

In Venezuela, the agricultural arm of the state-owned oil and natural gas company, PDVSA, is reinitiating a contract with Fluence. We will supply a wastewater treatment system for its ethanol plant in Portuguesa. The project has potential to generate approximately US\$18 million of revenue in 2018.

As another example, in Ecuador we have won an additional project with a company Eurofish. Eurofish is a large processor of fish such as tuna, sardine and mackerel. This project follows a wastewater-to-energy plant we built for them already in 2016. We were awarded a second contract to expand that wastewater treatment plant. This expansion of the first plant will process 2,100 cubic meters per day of well water and will create demineralized water for boiler and cooling circuits and desalinated water for factory uses. The new contract was just signed in December and the project was valued for us at around \$600,000.

Another deal is in Argentina with Coarco, a leading engineering and construction company. With them, we are supplying aeration equipment to upgrade and revamp two wastewater treatment plants owned by AySA, an Argentine municipal utility. The contract value is approximately US\$1 million.

We are also going to supply aeration and other equipment to Nutreco, a Dutch producer of animal nutrition, fish feed and processed meat product.

As you can see, demand for our water and wastewater treatment solutions is growing in South America, and our business is gaining momentum in the region. To meet this rising demand across South America, we are building a new manufacturing facility in Argentina. The new plant is scheduled to start production in the second quarter of 2018.

Meanwhile, we are building momentum in Africa with our desalination unit. In this last quarter we won a \$4.1 million tender for a Smart Packaged Nirobox desalination system. Additionally, we're now negotiating several Nirobox contracts in North Africa, which are expected to close some time in the second quarter. In the meantime, we have also submitted several tenders for desalination solutions in South Africa, and the decisions for those tenders are expected to be made no later than the second quarter of 2018.

In the United States, an impediment to our sales success has been the lack of demonstration plans and reference sites in the U.S. We have resolved this issue with the deployment of the MABR demonstration unit at Stanford University, which is a high profile reference site close to a number of large potential customers. This MABR unit was shipped and installed in January and now is already fully operational.

This demo unit allows the faculty and research students to test and certify compliance with California's strict Title 22 requirements for water reuse. Under the terms of the agreement with Stanford, we expect the MABR unit to undergo system start-up, process optimization, and test plan development for three to six months, followed by steady state operations and testing for another six to nine months. However, during this period, we will be able to demonstrate its performance to prospective customers and are looking to enter into potential contracts. This latest installation serves as an introduction of our MABR technology into California, where wastewater treatment technology is in high demand. We are very excited about this latest development, as it sets us up nicely for growth in the large U.S. market.

Now, finally, let's talk about China, with its tremendous opportunity that continues to develop. China remains a major focus for growth for us in the years ahead. We have spent a significant amount of time and resources to establish our distribution network, manufacturing capability, and market presence in the region. We believe we are well positioned to capture incremental share of the wastewater treatment market going forward. Just a mere 18 months ago, we had no footprint in China whatsoever. Today, Fluence has a strong network in China, and we are proud to work with our Chinese teams in technical offices in Beijing, our commercial office in Shanghai, and our manufacturing plant in Changzhou, just outside of Shanghai. Our sales pipeline is continuing to grow. We have a number of deals in various stages of negotiation through our nine partners, who, together, are active in provinces with over 70% of the rural population. We expect to close some of these deals right after the Chinese New Year and into the second quarter of 2018.

A recent example of near-term deals we are striving for is the framework agreement we signed with our partner Jinzi. The deal is to deliver six C-MABR Containerized Smart Packaged wastewater treatment plants. The plants are part of a multimillion-dollar order. They're expected to be delivered, installed and become operational during 2018. This is a landmark project for us in our view, and the agreement is the result of a number of key factors including: one, the distribution deployment partnership we formed in November 2016 with Jinzi; two, the successful operation of a plant; and three, our very close collaboration with our partner Jinzi. To prepare for Jinzi and many other deals, we successfully produced our first MABR modules and our first Smart Packaged MABR units in our own production facility in Changzhou. These are important milestones for us. We remain committed to deploying wastewater treatment solutions for rural regions and are on track to ramp our production to further meet the growing market demand. Our confidence in China, and the opportunity, has never been higher. This is a multibillion-dollar opportunity over the next few years and is driven by the mandate handed down from the central government in the last five-year plan. That certainty around demand gives us the confidence to invest as heavily as we have.

We have established multiple distribution partnerships covering 70% of the geographic market. Manufacturing is in place, so we can fulfill those orders. We have certifications, demo plants and reference customers needed to win new projects. Our momentum is just beginning. As we expected, we are already contracted for dozens of MABR modules in 2017 and we expect that to significantly grow in 2018.

Now, let me please turn over the call to Bob Wowk, our CFO, who will add some detail on the preliminary financial results and guidance. Bob, please go ahead.

Robert Wowk:

Thank you, Henry.

As Henry mentioned, we expect to announce finalized 2017 numbers by the end of February, and release fully audited financial statements by the end of March. We expect 2017 revenue to be around \$58 million for the combined RWL and Emefcy entities on a pro forma consolidated basis. Pro forma gross margin

should be in the range of 24% to 26%. As you compare to 2016, revenue was approximately the same but of higher quality, with smaller, more high-margin projects and product sales, spread globally. The improvement in the gross margin from roughly 19% to roughly 25% in 2017 is a direct outcome of that favorable revenue mix. We will provide more commentary on 2017 with the publishing of our key results at the end of February.

Now, let me give you the numbers for our 2018 guidance.

Revenue is expected to be in the range of \$105 million to \$115 million. This represents a near-doubling from 2017. Importantly, our forecast visibility is quite high. Of the year-end backlog of \$95 million, \$75 million is expected to be recognized in 2018. The backlog and the associated revenue in the forecast includes revenue from delayed projects originally anticipated to be generating revenue in 2017.

This includes the San Quintín project in Mexico. While the San Quintín project has progressed and financial close is still anticipated in Q1, as Henry mentioned, there are still some further steps to be completed before that project can commence. There is some contingency built into the revenue and gross profit forecast in the event of any delays beyond the Company's control. To keep this in perspective, this project is anticipated to produce substantial reoccurring revenues for 30 years after it becomes operational.

Also please note that, based on current backlog, pipeline profile and consistent with historic experience, the Company anticipates 2018 bookings and revenue to be more weighted to the later part of the year.

Gross profit is anticipated to be in the range of \$22 million to \$25 million, which reflects the mix of contracts in 2018 and the lower margin profile of the San Quintín Mexico project during its construction phase.

We are still targeting to reach positive EBITDA sometime during 2019.

Today we have \$33 million of available cash for continuing operations, and thus are sufficiently funded to reach our near-term growth objectives.

I will now like to turn it over to Richard to make further comments. Richard?

Richard Irving:

Thank you very much, Bob. You've heard a clear summary of our business to date and I'd just like to frame some overall, shall we say, high-level points about who Fluence is and where we're going.

We believe our team, product, geographic scope, references and financial resources enable us to become the global leader in the large and growing market for decentralized treatment.

This is what we've been aiming for all along and we see the Frost & Sullivan award that we announced yesterday as being a very encouraging third party validation of that aspiration.

We've talked about targeting sustained high growth of revenue of 20% to 25% per year or more. Given 2016 revenues—now, I'm not talking last year but the year before—2016 revenues of \$61 million, even the bottom end of our guidance for 2018 of \$105 million represents more than a 30% compound annual growth rate. We're guiding to beat even our own growth target in an environment where our peers generally show organic top line growth of 5% or less a year.

China is as big as ever and we're on plan. It's important for all to remember the ramp will be gradual. We told you our goal for 2017, was that we would book sales of tens of MABR modules, and we achieved it. We still anticipate this to grow into the hundreds in 2018 with the big revenue ramp from the rural wastewater treatment deployments in China in the 2019 to '20 timeframe. This is based on China sources who tell us that these five-year plans always tend to be back-end loaded, with early market successes, of course, extremely important for us. That's what we believe we're achieving.

We've achieved local proof points via demo systems. We have a very healthy funnel of projects. Selling the Smart Packaged MABR plants that Henry referred to as C-MABR also makes us highly responsive to customer needs.

Meanwhile Nirobox, another Smart Packaged plant, is ideal to meet urgent fresh water needs. We can deliver these in weeks and bring plants on line within only a few months of the initial order, far faster than our competition. This is a competitive advantage which is key to help us win more orders. We also note some recent tenders that were highly competitive on price. This makes Nirobox another key growth driver for Fluence.

While Fluence's future will move more and more towards selling many smaller Smart Packaged plants, like C-MABR, like Nirobox, we're also very excited to be moving forward with the San Quintín desalination plant in Mexico and with projects for PDVSA, and indeed, to have additional large opportunities in our pipeline.

We continue to target increasing our recurring revenue. You've heard this for some time and we are very attracted to be in key deals like the San Quintín opportunity. We want to grow Reuse as a Service, where we would look to sell plants on a basis of getting recurring revenue. You can anticipate more news around these themes in the year ahead.

Finally, we enter 2018 with a unified global team with which to build the Fluence business. In the year ahead, we will continue to streamline our organization and operations, so we can deliver growth via a lean organization. This, along with top line growth, will be key to delivering (EBITDA) profitability during 2019.

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[Conclusion of Fluence webcast script.]