



Second Quarter 2018 Business Update Conference Call Webcast Script

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Henry Charrabé, Managing Director & Chief Executive Officer

Good morning to those of you in Australia, and good evening to our US listeners. I am Henry Charrabé, Managing Director and Chief Executive Officer of Fluence. I am joined on the call by Richard Irving, our Executive Chairman, and Francesco Fragasso, 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 ASX release.

This morning we released our quarterly cash flow report and business update for the second quarter of 2018. Along with those releases, we thought it's best to speak to you directly about the status of our business and to give you the chance to ask questions. After my prepared remarks about operations, Francesco will briefly cover the financials, then we will answer any questions you might have. Now let's begin.

Second quarter results demonstrate that our business momentum continued to build during the first half, by more than doubling first quarter revenue, setting us up for a very strong second half. Our pipeline of opportunities is growing across all geographies, with great results in South America, clear progress in China, expansion in the Caribbean, and visibility on meaningful growth in Africa. During the second quarter, we recognized \$22.6 million of revenue. Based on current backlog and our strong visibility into known sales opportunities, we remain confident that our 2018 full year revenue will reach between \$105 and \$115 million as previously guided. Francesco will go over financials in more detail later, so let us now turn to operational highlights.

We continue to deliver against our previously communicated strategic targets.

First, we are focused on increasing our recurring revenue through project finance and other ongoing contracts, as evidenced by the recently announced Nirobox project in the Bahamas, where we are deploying three smart-packaged desalination plants, providing the financing, and enjoying recurring revenues for the coming years. In addition, we are closing after-market service contracts, mainly in Latin America, which add to our recurring revenues, as well.

Second, we see accelerating deployments in China and our Aspiral product gaining increased attention and demand. This is evidenced for example by the second quarter deals announced with Gloryland, Kaitian Environmental, Hubei ITEST and repeat orders from our partner Jinzi. We



are also beginning cluster or volume order negotiations, which provide us with confidence that China will continue to be a major opportunity in the immediate future.

Third, through the sales of our Aspiral system and Nirobox, we experience the continued proliferation of our smart, packaged systems all around the world. This quarter, as mentioned above, we have sold Niroboxes in the Bahamas, and additionally on the Island of Barbuda in the West Indies and in the Philippines. In addition, we see several smart-packaged systems opportunities coming closer to fruition, including potential Aspiral sales outside of China which will not only support our strategic targets, but also are a strong driver towards hitting our 2018 revenue guidance.

Work is ongoing for the Portugesa project in Venezuela; one of our largest revenue contributors for this year. We are implementing water and wastewater treatment solutions for PDVSA's ethanol plants. During the first half of 2018, we recognized \$10.4 million, out of the total \$26.2 million forecast revenue for 2018.

In Israel, our first SUBRE contract, the retrofit submerged version of our MABR technology, for the Ma'ayan Zvi centralized wastewater treatment plant, should be installed and operating in the fourth quarter. Our SUBRE technology will enable the plant capacity to increase by 15-20% while ensuring strict nitrogen discharge regulations are met. Our Aspiral system at Stanford University has been handed over to the University's research team and we expect positive feedback from them during the next months. In the meantime, we are using this site to showcase our Aspiral product to potential customers in the United States.

We have spoken at length about the San Quintin project in Baja California, Mexico. This is a milestone project for Fluence, due to its size and the element of recurring revenue from water sales for 30 years after construction. We expect to start the construction phase and to receive the first disbursement during the third quarter, assuming no additional local legislative delays. The plant is planned to be fully operational around mid-year 2020.

Across the border in the U.S., we were awarded a contract in April to build a wastewater reuse system for a larger project we previously installed in California. We should complete installation of this plant by the end of the year. The US is a nascent market for us. With this project, plus the Aspiral demo unit at Stanford University, and our operating MABR plant in the US Virgin Islands, we have the marketing foundation in place to capture growth in the US as its market evolves.

Crossing the Atlantic to Europe, we are excited to be starting our first wastewater and waste-to-energy system designed specifically for ArcelorMittal's steel mill in Belgium. Arcelor Mittal is the world's largest steel producer. This €3.9M project marks our entry into steel-related applications and will be a showcase project to help win business at other steel mills around the globe.

In the Philippines, we sold another Nirobox 500 to J-Park. This system should be installed and operating in the third quarter.



We are in continuing negotiations with an African Nation for the construction of a substantial water treatment plant, for which we signed an exclusive MoU in Q3, 2017. We hope to be able to report positive news on this project within the coming weeks.

Finally, I want to discuss one of our best long-term opportunities, China. We are building an extensive foundation for growth in the region. We now have 6 smart-packaged Aspiral demo units and 3 operating Aspiral plants, with an additional 5 Aspiral installations under construction. We have 22 distinct partnerships covering 14 provinces, with 10 commercial contracts signed.

This foundation is delivering new business. In May, in collaboration with a new local partner Glory Land, we secured a contract for an Aspiral-based plant in the Chiangping District of Beijing with very strict discharge requirements. In June, in collaboration with new partner Kaitian Environmental, we won a contract with the Yiyang City government for an Aspiral-based plant. Later in the month, Yiyang engaged us and Kaitian for another 3 Aspiral units to be used in various districts in Yiyang. In July, new partner Hubei ITEST contracted with us to use an Aspiral solution for highway service areas near Xiaogan. This is expected to be the first in a rollout of Aspiral solutions at multiple service areas.

We remain bullish on the opportunity in China. Activity is picking up as the country moves through the current five-year-plan period. The current plan mandates that significant wastewater treatment capacity be installed in rural areas, which we believe represents capital investment in the billions of dollars over time. Fluence's Aspiral product is the perfect solution for these decentralized wastewater treatment challenges.

Underpinning all of our work around the world is an aggressive and strategic marketing approach designed to build awareness of Fluence and our industry-leading technologies. During the quarter, we re-branded our MABR technology as Aspiral, creating a more memorable and unifying umbrella for a number of variations of this technology. We committed significant resources to exhibiting at six different major trade shows around the world, as well as producing white papers and other thought-leader material. We see significant advances with our product marketing strategies, as we identify targeted opportunities in specific regions and with specific customers and segments.

In addition to the marketing changes, we also strengthened our management team with the promotion of Tony Hargrave to Chief Operating Officer. Effective today, Tony will transition into the COO role from Philippe Laval, who has been an integral part of RWL Water and has helped during this past year with the merger that formed Fluence. We wish Philippe the best in his future endeavors and look forward to cooperating on potential future opportunities with him.

We believe Tony's new role will reinforce the fact that we have a world-class management team. Tony has an engineering background, an MBA, and almost 30 years of international experience



in the water industry, particularly in China, Europe and the United States. We believe that his addition to our C-suite will facilitate our international growth.

Let me now turn over the call to Francesco Fragasso to offer you more details on our financials. Francesco?

Francesco Fragasso, Chief Financial Officer:

Thank you, Henry.

As Henry noted, business momentum continues to build, and we expect second half results to be significantly stronger.

Second quarter revenue of \$22.6 million dollars was more than double that of Q1, giving total first half revenue of \$32.8 million. We expect strong revenue growth in the second half. Based on the current backlog and visible sales pipeline, we continue to anticipate 2018 revenue in the guidance range of \$105 to \$115 million dollars, representing near doubling of 2017 revenue.

Revenue forecast for the second half of the year includes \$15 million from the ongoing Portugesa contract with PDVSA, and \$13 million from the San Quintin, Mexico desalination Build Own and Operate Contract, with construction expected to start in August. We are continuing to seek recurring revenue contract opportunities.

Given the evolving product mix in 2018, we continue to anticipate gross profit for the full year to be in the guidance range of \$22 to \$25 million dollars.

We are still targeting to reach a positive EBITDA sometime during 2019. This will be accomplished via revenue growth, expanding gross margin, and disciplined expense control.

Now let me discuss cash.

For the three months ended on June 30, our net cash used for operating activities was \$14.2 million dollars, slightly above our first quarter usage of \$13 million dollars. Use of cash was mainly manufacturing and operating costs, and payroll. Marketing and administrative expenses represented an additional small outflow. Cash receipts from customers for the quarter amounted to \$6.9 million compared to revenue of \$22.6 million. The difference between receipts and revenues represents funds previously paid in advance by PDVSA, plus an increase in debtors which is expected to be received as cash during the remainder of the year.

At the end of the second quarter, cash and cash equivalents totaled \$41 million dollars.



In the third quarter, based on our current backlog and contracts, we expect a cash inflow of about \$16 million dollars, an outflow of approximately \$29 million dollars, and a resulting net cash used in operating activities of \$13.6 million dollars.

Let me turn the call back to Henry for the question and answer session. Henry?

Henry Charrabé, Managing Director & Chief Executive Officer

As you heard, we are confident about Fluence's growth story and see the strategic inroads we are making in 2018. In the next weeks and months, we will continue to communicate significant and strategic sales, which we believe will underpin our near and mid-term goals.

We appreciate your interest in Fluence, as well as the support of our shareholders. Please feel free to get in touch with any of us should there be more questions. That concludes our call. Have a good day or evening.