



Fluence June 2019 - Quarterly Report

- Q2 2019 bookings of US\$19 million
- H1 2019 total bookings of US\$241 million, substantially exceeding expectations
- Continued strong MABR sales pipeline in China supports the ramp up of manufacturing capacity to underpin local sales growth
- Total backlog at 30 June 2019 of US\$278 million
- Advanced discussions and executed term sheet with Generate Capital to establish up to US\$40 million additional term loan facility
- Reconfirming guidance to achieve sustainable EBITDA profitability by Q4 2019

New York, Melbourne, 30 July 2019

Fluence Corporation Limited (ASX: FLC) presents the following quarterly business update alongside its Appendix 4C (Quarterly cashflow report) for the quarter ended 30 June 2019 (Q2 2019).

Reflecting on Q2 2019, Fluence Managing Director & CEO Henry Charrabé, said:

“Following a very busy and successful first quarter, Q2 was a period of consolidation for the business. Revenue in Q2 was US\$11.3 million, bringing the H1 result to US\$23.6 million. Historically, Fluence’s revenue has been skewed to the second half of the year, and given our backlog, we again expect to generate a substantial amount of revenue in the fourth quarter, with that revenue being at a higher margin than achieved over the first half of this year. Our flagship MABR-based products continue to produce a strong sales pipeline in China, and our total backlog now stands at US\$278 million. We feel comfortable with year-to-date bookings of \$241 million or \$54 million excluding the Ivory Coast project.”

“While the financial performance of the business over the second quarter has not been as strong as we would have liked, our conviction that there will be strong and growing demand for our decentralised pre-engineered Smart Product Solutions for water and wastewater treatment, has only strengthened. Like any emerging growth company looking to disrupt an industry reluctant to change, predicting the exact timing of this shift on a quarterly basis can be a challenge, but we have no doubt that it is happening given our growing backlog and that we are a leading force of this transformation. As we drive this change, we also remain acutely focused on identifying opportunities to increase organisational efficiencies and ensuring the Company is properly structured for future growth and success.”

“To capitalise on the strong pipeline of opportunities and reflecting the strength of our business and backlog, we have executed a term sheet and are in advanced discussions to secure a term loan facility from Generate Capital for up to US\$40 million to finance working capital investments. We are pleased at the prospect of strengthening our existing relationship with Generate, who has previously provided us with a project finance facility for up to US\$50 million and has been a great partner. This additional credit facility is anticipated to be a corporate loan earmarked for specific projects and, if secured, we view it as an important non-dilutive solution to meet our capital needs as we ramp activity in the back half of this year.”

“One of the immediate uses of proceeds is to support funding of the San Quintin project in Mexico, where we are expecting to increase our project ownership from 51% to approximately 94%. The ownership increase addresses the financial constraints of our minority partners, which halted the project and negatively impacted our second quarter revenue by approximately US\$4.5 million.”

“In the first half of the year, we experienced an unanticipated product mix shift of desalination customers selecting bespoke systems under our Custom Engineered Solutions segment rather than our pre-engineered Smart Product Solutions NIROBOX™ systems. As a result, we have adjusted our guidance for Smart Product Solutions revenue for 2019 to US\$26 million (compared to US\$44 million previously). Our revenue expectation for our Smart Product Solutions incorporating our MABR technology, Aspiral™ and SUBRE, is unchanged and we are ramping up production in China to meet expected demand.”

“We remain on track to achieve sustainable EBITDA profitability by Q4, subject to financial close on Ivory Coast, and expect to increase the backlog of recurring revenue from our project finance operations.”

Detailed Business Update

Smart Product Solutions

Smart Product Solutions revenue was US\$5.6 million in H1 2019, representing 74% Y/Y growth.

Our reduced expectation for 2019 revenue in the Smart Product Solutions segment comes entirely from a decrease in NIROBOX™ product forecasts given the shift in sales mix in H1. When the revenue target was established, we expected customers on key project wins, such as the US\$10 million Brazil project, to select NIROBOX™, but they instead chose a bespoke project that falls under our Custom Engineered Solutions segment. Additionally, the timing of new recurring revenue project wins has delayed construction revenue recognition for those projects incorporating NIROBOX™.

While NIROBOX™ provides a lower total life cycle cost of water delivered than a Custom Engineered Solution, the cost savings and speed of delivery have not been enough to convince some customers to abandon their legacy beliefs that each project needs to be individually designed and engineered. To address this, we have introduced two new products under the NIROBOX™ family, the ECOBOX (for industrial wastewater reuse) and the NIROFLEX (a skid-mounted treatment system), that provide greater optionality to customers to accelerate pre-engineered Smart Product Solutions adoption.

For Aspiral™ and SUBRE, internal revenue expectations are unchanged for the year. We continue to see tremendous interest in MABR-based products as the market recognises the lower electricity consumption and operating costs of these units. Given the unique operating cost advantages of MABR, we are in various stages of negotiations with several Chinese partners and the respective provincial governments to establish final assembly capacity within their provinces in exchange for multi-year order commitments. This would require minimal investment by Fluence and would enhance Smart Product Solutions revenue visibility. Given our large pipeline of MABR opportunities (including these provincial opportunities), we are ramping module production to meet demand. We currently have one line installed in our Chinese facility and are moving to full three-shift operations for this one line by year-end.

Recurring Revenue and Aftermarket Sales

We have completed construction on our project in Bimini, Bahamas, which is now in the final stages of commissioning. Potable water is now produced on a continuous basis and we will be conducting the performance test with the local water utility provider and the offtaker within days. Commercial operation is expected to be reached in the next few weeks, which we view as an important milestone in the development of Fluence’s business model.

While we have developed a strong reputation for our engineering capabilities, we are currently developing the track record as an owner and operator of projects. We see strong demand for project finance opportunities globally and expect to sign additional deals before year-end.

Custom Engineered Solutions and Other Products

Ivory Coast

We remain on track to reach financial close on the €165 million Ivory Coast contract in Q3 2019. Since signing the commercial contract in February this year, we have made significant progress with the financing parties towards meeting pre-conditions to financial close and continue to expect up to US\$20 million of revenue in 2019, US\$80 million in 2020, and the remainder in 2021.

San Quintin, Mexico

Following ongoing discussions through Q2 2019, it became apparent that our minority equity partners in the San Quintin, Mexico project would likely be unable to meet their equity capital commitments. The minority equity partners' funding issues have delayed the project's first disbursement from the project finance facility and negatively impacted revenue in Q2 by approximately US\$4.5 million.

While Fluence has been fulfilling its funding and operating commitments on San Quintin, we have not been able to recognise approximately US\$7 million of total revenue that had been expected in H1 due to the delays by our minority equity partners. In order to receive the first disbursement from the project finance facility with North American Development Bank, all project equity must be contributed.

To resolve the situation, Fluence has reached agreement in principle with the minority equity partners to contribute the equity that they were unable to provide (together with Fluence's initial commitment amounts to US\$8.5 million) and increase Fluence's equity ownership in the project from 51% to approximately 94%. Funding for this is expected to be provided by the new corporate term loan with Generate Capital, ensuring Fluence shareholders are not diluted. Revenue and cash inflows from this project are expected to commence in Q4 2019.

Generate Capital Term Loan

Fluence and Generate Capital have executed a term sheet and are in advanced discussion regarding a term loan facility for up to US\$40 million with funds earmarked for specific projects, such as the equity portion of San Quintin (outlined above), and the short-term working capital needs in China and Ivory Coast. Securing the loan is subject to customary conditions, including completion of due diligence and execution of definitive documents, which we expect to occur late in Q3 or early Q4.

This new corporate term loan facility would be in addition to the up to US\$50 million project finance facility previously secured from Generate for recurring revenue projects. Importantly, if and when the facility is finalized, the first use of proceeds is expected to fund Fluence's capital commitments for the San Quintin, Mexico project, which we expect will allow us to proceed with construction and draw down on the project financing facility from North American Development Bank for reimbursement for work previously completed. We expect to meet the project delivery timeline in early 2021 based on the expected closing of the additional Generate Capital term loan.

Q2 2019 Cash Flow Report

The Appendix 4C quarterly cashflow report for Q2 2019 is attached.

Cash and Cash Equivalents were US\$15.6 million at 30 June 2019. Net Cash Used from Operating Activities in Q2 2019 was US\$7.8 million. The overall cash result was negatively impacted by the delay in receiving the first disbursement from the project finance facility for the San Quintin project, which is now expected to occur in Q4 2019 once the Generate Capital facility is finalised.

Based on current contracts, the Company expects US\$26.1 million of cash receipts from customers during Q3 2019 and cash payments of US\$32.1 million, resulting in an expected net operating cash outflow for Q3 2019 of US\$6.0 million.

We expect a US\$5 million net increase in our cash balance if and when the new Generate Capital term loan is finalized and first disbursement from the North American Development bank occurs.

Outlook – Positive Progression in Quarterly Profitability

Fluence has adjusted its previously communicated expectations for 2019 as follows:

- Smart Products Solutions revenue is expected to be US\$26 million (down from prior guidance of US\$44 million, but still representing 18% Y/Y growth)
- Secured annual recurring revenue is still expected to continue to increase in 2019
- Sustainable EBITDA profitability is still expected to occur by Q4 2019, assuming financial close for Ivory Coast is achieved in Q3 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, July 30th, at 9:30 am AET / Monday, July 29th at 7:30 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-10001306-invite.html>

Alternatively, at the time of the call, dial your respective local number below and provide the conference ID 10001306 to the operator:

AUSTRALIA TOLL/INTERNATIONAL	+61 2 9007 3187
AUSTRALIA TOLL-FREE	1 800 558 698
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://edge.media-server.com/mmc/go/fluence-corp-19q2/>

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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 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 and also include unanticipated and unusual events, many of which are beyond Fluence's ability to control or predict.