

First Quarter 2020 Business Update
Conference Call
Webcast Script

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Henry Charrabé, Managing Director & Chief Executive Officer:

Thank you, operator.

Good morning to those of you in Australia, and good evening to our US listeners. My name is Henry Charrabé, Managing Director and CEO of Fluence, and I am joined on the call today by Francesco Fragasso, Fluence's Chief Financial Officer.

To start off with, I would like to thank Fluence employees around the world, as well as our board of directors for the outstanding work they have done during these extraordinary times. We have taken the necessary steps to ensure that all our employees are safe, and we are continuing to work with local governments, partners, suppliers and customers to ensure our business can continue to operate as smoothly and safely as possible. As we are a global company and are operating in many different jurisdictions, our employees are experiencing different cycles and effects caused by COVID-19. We will continue to do everything we can to ensure their well-being.

I would like everyone to note that all financial references today are in US Dollars and that we will make forward-looking statements, which are protected under the safe harbor provisions of Australian securities law. Further details are provided in the ASX release. Also, we look forward to answering your questions submitted through the online portal towards the end of this call.

As you may have read in our Quarterly Activities Report published this morning in Australia, we have eliminated all non-essential business travel and encouraged all communications with customers and partners to be conducted via telephone or videoconferencing in all of our markets. We implemented these changes in February for China and for the rest of our organisation in March.

During this call I will provide some more colour about the operational performance in Q1 2020. Importantly, despite the global economic slowdown and challenges, Fluence achieved the significant milestone of becoming EBITDA positive in large part due to the financial close of the Ivory Coast Project, announced on January 8. The expected gross profit from the project will result in Fluence being EBITDA positive for Q1 2020 and the full year. Becoming EBITDA positive has been a goal for Fluence and achieving this goal now opens a new chapter for the organisation.

In addition, given currently known information, we are confirming our previously announced guidance for FY 2020 with Smart Products Solutions revenue of at least \$32.0 million, recurring revenue of \$9.0 million and sustainable full year positive EBITDA. Total company revenue for Q1 2020 was more than \$47 million. During the quarter, Fluence recognised \$34.0 million in revenue from work already completed and delivered for the Ivory Coast project and payment is *expected* in Q2.

Further good news we can report is that based on current contracts and the anticipated collections from the Ivory Coast Project, provided remaining conditions precedent for that project are met, Fluence also expects to become cash flow positive in Q2 2020.

Reduction in overhead costs continues to be on track, 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. These reductions occurred prior to any measures taken subsequent to the COVID-19 outbreak.

With regard to the impact of COVID-19 on future business, we anticipate some of the first half-year forecast 2020 revenues will be pushed into the second half of this year. While these shifts have not had any material impact on our day-to-day business to-date, we are staying one step ahead and have been implementing prudent cash conservation strategies in all jurisdictions. Further, the board has decided to defer any director's fees for the time being and I, and almost all other management team members in headquarters, have deferred 30% of our salaries, as well.

COVID-19 highlights the fundamental need for safe water supply and wastewater treatment, and we anticipate that in the long-term, demand for our products and services will increase. Being a globally diversified company, with a distributed supply chain and different opportunities in differently impacted countries, makes us an agile global player in the decentralized water and wastewater industry. This allows us to adapt to rapidly changing economic situations around the world.

Moving on to more specific milestones achieved this quarter; I would like to start with our largest SPS order outside of China to date. As announced on March 2nd, we received an order for a SUBRE greenfield project to treat 15,000m³/day of wastewater in Cambodia. This project is a steppingstone for Fluence in the region, as it will be an excellent reference point for future partners and customers who are interested in biological wastewater treatment.

We are continuing to see strong demand from our partner ITEST located in Wuhan, China, alongside other established orders, and with potential new partnerships, we

anticipate demand for our solutions to continue to rise throughout the year. As a result, we have taken the necessary steps to ensure assembly capacity at our factories in Yiyang and Panjin is available so as to be able to deliver our MABR product in a timely fashion to all of our current and future customers and partners in China and around the world.

We are pleased to have achieved the first Aspiral™ sale in Inner Mongolia in China. This initial contract, with Beijing China Railway Science New Technology, is strategically important for Fluence. Once the technology is proven to the customer, we anticipate that we will see additional commitments in the near-term.

I would like to once again highlight that our Smart Products Solutions save on average 19 gigawatts per hour annually, compared to conventional technologies. This is equivalent to saving approximately 13,500 tons of CO₂ emissions per annum. In addition to this pollution reduction, Fluence's waste-to-energy installations around the world produce biogas from biomass and generate approximately 120 gigawatt hours annually of clean energy rather than energy generated from fossil fuels. We are committed to continuing our work to provide products and strategies, which align with the United Nations' Sustainable Development Goals.

Turning now to recurring revenue, unfortunately, the current COVID-19 situation has delayed the construction of our Peru BOOT project, as the country has been in a total lock-down since mid-March. Originally, we estimated that this project was to be completed in the early first half of 2020. We are still focused on trying to complete the project this year, despite this unanticipated delay. Once completed, the Peru BOOT project will provide recurring revenues of at least \$3 million per year for 10 years.

Regarding the San Quintin project in Mexico, during the quarter we have held several videoconferences with the State Water Commission of Baja California (CEA), which were originally intended to be held in-person, regarding the requested changes to the project schedule and other contractual amendments. Despite the complications of videoconferencing rather than face-to-face meetings, these discussions have been very productive, and we continue to be optimistic that we can reach agreement to restart the project. However, due to the impact from COVID-19 a final decision was not reached in Q1. We will continue our discussions with CEA and the local municipality and expect to receive guidance on this during Q2. Once received, we should be able to start construction shortly thereafter.

I would now like to turn over the call to Francesco Fragasso to discuss our Q1 2020 revenue and cashflows.

Francesco Fragasso, Chief Financial Officer:

Thank you, Henry.

First quarter unaudited revenue of \$47.3 million was positively impacted by the financial close of the Ivory Coast Project; however, the delay in the San Quintin project had a slight negative impact on overall expected revenue.

During the first quarter we recognised \$34.0 million in revenue from the Ivory Coast Project that we expect to collect in Q2. Additionally, the collection of advance payments related to the project are also expected during the 2nd quarter.

The expected gross profit from the project will result in Fluence being EBITDA positive on a full year basis for 2020.

SPS products will continue to grow and as we stated at the end of Q4 2019, we anticipate sales of \$32.0 million in the segment during 2020, largely underpinned by the continued strong growth in China leveraging the existing 3 partnerships and the recently announced SUBRE sale to Cambodia. SPS sales in Q1 2020 were \$2.9 million, and we had \$22.7 million in SPS backlog at the end of the quarter.

Alongside our SPS revenue, we anticipate recurring revenue to grow 30% in 2020 to a total of \$9.0 million.

As Henry stated earlier, we have fast-tracked some of our cost saving goals for 2020 and have already achieved more than a 10% reduction for SG&A costs in Q1 2020 compared to the same period of last year.

We will continue to implement our cost reduction strategies in the following months.

Fluence continues to invest in R&D, with Q1 spending in line with prior quarters. We are committed to providing the best technology and economic value-add in the market, so while cutting costs is a key focus, we are ensuring this is done sensibly.

Cash and cash equivalents were \$16.9 million at the end of March 2020. Net cash used for operations was approximately \$7.9 million. This net cash outflow was \$2.1 million higher than forecasted in the Q4 2019 Appendix 4C due primarily to COVID-19 related delays in cash collections.

However, based on current contracts and the anticipated collections from the Ivory Coast Project for work already executed and delivered, subject to conditions precedent, Fluence expects to be cash flow positive during Q2. Our contract backlog of \$228 million at the end of the quarter underpins our revenue base for the rest of this year and next.

I will now hand back the call to Henry.

Henry Charrabé, Managing Director & Chief Executive Officer

Thank you, Francesco.

Despite the current market volatility, and the difficulties it brings, we are glad to report that Fluence's plan for 2020 remains intact and that we are able reaffirm our 2020 guidance.

We will continue to execute on our strategy to be a leader in the global decentralised water, wastewater and reuse treatment markets. Another key focus is to deliver the Ivory Coast Project on budget and on time. Further, we will also focus on increasing sales of Smart Products Solutions - particularly in China in the near-term - and securing further recurring revenue contracts.

Water scarcity continues to increase, and we believe that COVID-19 may only strengthen that need. This reinforces our core thesis that there will be strong and growing demand for decentralised, pre-engineered Smart Products Solutions for water and wastewater treatment around the world.

Fluence's proprietary MABR technology continues to gain traction in key markets and with the financial close of the Ivory Coast Project in January and the Cambodia order in early March, we are confident that we are well positioned to deliver on the expectations we have for Fluence in 2020 and beyond.

I will now hand back over to the operator for Q&A instructions.

Operator, could you please repeat the instructions for how to submit questions?

After final question been answered:

We would like to thank all of you for taking the time to join us on the call today. We hope that all of you, and your families, stay safe, healthy and well during these unprecedented times and that together, all of us around the world come out of this current challenge only stronger and better than before.

I, as I imagine many of you, look forward to having the chance to meeting in person again in the near future.

Thank you and good-bye.