



## **Fluence Cashflow Positive as Cash Balance Increases in Q2**

### **Quarterly Activities Report for Quarter Ended 30 June 2020 (Q2 2020)**

- Positive cash flow in the quarter including net operating cashflow of US\$2.7 million, due to continued focus on streamlined operations and timely collections
- Cash balance of US\$20.1 million at 30 June 2020 (up from \$16.9 million at 31 March 2020)
- New contracts won in multiple geographies including Argentina, Jamaica, Ghana, Vietnam and Ethiopia
- H1 2020 EBITDA positive and revenue more than doubled to US\$57.4 million (vs H1 2019)
- Overhead cost reductions continue, with SG&A reduced by more than 25% in H1 2020 (vs H1 2019)
- Non-dilutive debt facility of US\$20 million secured from Upwell Water
- Anticipate Ivory Coast Project to achieve all conditions precedent in Q3 2020, which would enable the Company to continue to be cashflow positive that quarter
- FY 2020 guidance reaffirmed for positive EBITDA, US\$32 million in SPS revenue and US\$9 million in recurring revenue

*New York, Melbourne, 30<sup>th</sup> July 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 30 June 2020 (Q2 2020).

#### **Reflecting on Q2 2020 and H1 2020, Fluence Managing Director & CEO Henry Charrabé, said:**

*“The COVID-19 pandemic continues to cause disruption in all of the geographies in which the Company operates, slowing down new orders as sales conversion has become more difficult without face to face meetings. However, based on presently known information and despite a challenging quarter, we are pleased to again reaffirm our 2020 financial guidance. We continue to work closely with local governments, partners and customers to ensure the safety and well-being of everyone affected by the COVID-19 pandemic.*

*“We are seeing continued interest in MABR based Smart Products Solutions (SPS) and have made good inroads with potential partners and customers. During the quarter, we were able to seek out and secure deals in multiple regions, including Argentina, Jamaica, Ghana, Vietnam and Ethiopia. We have also expanded our focus on growth opportunities in South East Asia given the recent successes in Vietnam and Cambodia.*

*“Negotiations with additional potential partners in China are still ongoing. We are seeing significant progress in developing these efficient sales channels within China and in other jurisdictions. New SPS sales orders slowed during the quarter, especially in China as travel restrictions made final negotiations more difficult. We remain confident in meeting our Smart Products Solutions guidance, which is largely based on existing contracts. Our dedicated team remains focused on closing new partnerships and commitments.*

*“The Ivory Coast Project is very important for Fluence. Whilst all of the remaining conditions precedent to receiving milestone payments for work done to date are progressing, circumstances beyond the control of both Fluence and the Ivory Coast Government have caused delays in certain conditions precedent being met. After several months of travel restrictions, our project management team returned to Ivory Coast this month, which will help expedite matters. Both the Ivory Coast Government and Fluence are committed to executing the project as quickly as possible. When complete, the project will provide 150,000m<sup>3</sup> of drinking water a day to the residents of Abidjan.*

*“Following a change in government in Baja California late last year, the State Water Commission of Baja California (CEA) re-opened the terms for the commencement of the San Quintin project. Negotiations have progressed at a pace that has been slower than we would have preferred. Fluence is nevertheless focused on ensuring that all contracts increase shareholder value by achieving minimum target returns on capital and has proposed revised terms consistent with the original contract that was awarded. If the Company can reach agreement on these revised terms with CEA, we believe this will be a good project for Fluence and would greatly benefit the residents of San Quintin in Baja California, Mexico.*

*“These are challenging times and the market continues to be volatile for infrastructure projects in many regions, with downside risk on performance if travel restrictions and further waves of COVID-19 continue. Fluence is well positioned though to continue to grow despite these extraordinary conditions given a significant proportion of forecast revenue for 2020 and 2021 is represented by contracted backlog.*

*“We were pleased that we were able to achieve positive cashflow in the quarter, despite the delay in Ivory Coast and the complicated global economic situation. This was made possible thanks to collection of receivables and our continued focus on streamlining operations and increased efficiencies.*

*“We are delighted to have secured a finance facility with Upwell Water, an excellent partner. The funding provides Fluence with working capital to further support our growth in MABR and other Smart Products Solutions, helping solidify Fluence’s position as a global leader in decentralised water and wastewater treatment solutions.*

*“The improvements in operating cash flows, together with our new debt facility, place Fluence in a strong financial position going forward, capable of executing on the many growth opportunities we see across our diversified global footprint.”*

## **Q2 2020 Business Update**

### ***Non-dilutive Debt Facility***

The Company secured a US\$20 million non-dilutive debt facility with Upwell Water, which was signed on 28 July 2020.

The proceeds of the Upwell Facility will be utilised for general working capital purposes and to replace the Company’s current project loan facility with Generate Capital. This new facility aligns well with Fluence’s continued ambition to transition towards a more capital light business structure and supports Fluence’s growth of the MABR and Smart Products Solutions (“SPS”) business. The Upwell Facility has an initial three-year term, while the project sub-facility loans will have maturities aligned with the underlying project revenue contracts.

### **Ivory Coast**

Fluence and the Ivory Coast Government are continuing to work together to ensure that all conditions precedent are met as soon as possible. The Ivory Coast Government continues to support the project, with a growing imperative to deliver fresh water to the residents of Abidjan.

Fluence was expecting to receive cash payments from the project during the second quarter. Due to procedural, administrative and legal delays in satisfying conditions precedent, such collection is now expected to occur during Q3 2020.

These delays can be further attributed to travel restrictions that have made in-person meetings impossible. We were also saddened by the sudden death of the Ivory Coast Prime Minister Amadou Gon Coulibaly in July. He leaves behind a great legacy of leadership for Ivory Coast that spanned decades.

### ***Smart Products Solutions and Recent Wins***

Q2 2020 revenue for pre-engineered SPS was US\$7.7 million and US\$10.6 million for H1 2020, representing 38% YoY growth. New orders and sales were impacted by the travel restrictions in China, with sales orders of US\$8.5 million (up 49% on Q2 2019). Second quarter sales, which is a seasonally stronger quarter compared to the first quarter, were impacted by renewed travel restrictions in China. However, while we have been experiencing some delays in new orders because of COVID-19, we still expect to meet our revenue target for SPS in 2020.

During Q2, Fluence won a contract to provide the effluent treatment plant for a meat processing plant in Gorina, Argentina. The plant will process 5,000m<sup>3</sup>/day. Once completed, the plant will not only be producing clean water, but also 14,000m<sup>3</sup>/day of biogas, which will feed a 1.5MW cogeneration unit, helping to produce electricity for the meat processing plant. This will lower the negative environmental impact of the meat processing plant and help protect water sources in the area. This plant will be the second, and largest to date, anaerobic digester built in Argentina, both of which have been built by Fluence.

During the quarter, Fluence also won a contract to build a SUBRE solution in Kingston, Jamaica. The plant is a greenfield project that will house 3 stacks of 6 SUBRE units each, allowing the plant to process 675 m<sup>3</sup>/day upon completion.

Fluence has continued its success in Asia, receiving a repeat order from its customer Vucico in Vietnam, with an additional order of a Nirobox™ MEGA capable of desalinating 1,500 m<sup>3</sup>/day.

Demand continues to grow in Africa as well, with two additional contracts secured during the quarter demonstrating the growing trend towards local, decentralised freshwater treatment systems:

- Fluence will be providing Aspiral™ units, which include its proprietary MABR technology, to ARSI University in Ethiopia; and
- Fluence will be partnering with Sky Links for the Ghana rural water authority, providing 11 pre-engineered and standardised surface water treatment systems in various villages in Ghana.

### ***Recurring Revenue and Aftermarket Sales***

Total recurring revenue of US\$0.9 million was recognised in Q2 2020 and is growing at a steady pace.

Development work at the Peru BOOT project was completed during the quarter. However, construction of the project is delayed as Peru has been in total COVID-19 lock-down since March. Commencement of commercial operations will therefore be delayed, and this is now expected to occur late in H2 2020. Upon completion, the project is expected to generate recurring revenue of at least US\$3.0 million per annum over 10 years.

### ***San Quintin, Mexico***

Fluence and the State Water Commission of Baja California (“CEA”) have continued to hold regular meetings via video conference regarding CEA’s requested changes to the project schedule and other contractual amendments. The parties are continuing to actively negotiate.

The Board and Management of Fluence have set targets for return on capital and will only pursue projects that meet such criteria and increase shareholder value. Should Fluence and CEA be unable to agree upon an appropriate schedule and other contractual amendments, Fluence expects to be able to recover some of its planning costs, having access to land rights, equipment, and designs for the project.

As soon as a definitive position has been reached, Fluence will update the market accordingly.

## United Nations Sustainability Goals

Fluence is committed to operating sustainably and is continuously measuring how our solutions contribute to resource conservation, energy savings, the generation of energy from waste, and the reuse of water. Advanced MABR wastewater treatment technology is one example of Fluence's focus on energy efficiency.

Fluence's Smart Packaged Aspiral™ plants are ideally suited for a decentralised approach to wastewater treatment in a world where a billion people suffer from the lack of proper wastewater treatment. Decentralisation not only stands to increase access to clean water, but it does so in an environmentally friendly way.

With the Aspiral™ Micro, our latest addition to the Aspiral™ family, Fluence can efficiently treat wastewater flows starting from 5 m<sup>3</sup>/day, thereby also providing sustainable solutions from a very small scale.

## Reaffirming FY2020 Guidance

Despite the impact of travel restrictions and delays in both Ivory Coast and San Quintin, Fluence is pleased to reaffirm its guidance for FY 2020. The business is progressing well to achieve EBITDA profitability for FY 2020, US\$32 million in SPS sales and US\$9 million in recurring revenue.

Fluence recognises that these are unpredictable times. Continuing economic and travel restrictions due to COVID-19 may lead to delays in concluding new deals and softer revenues leading into 2021.

## Q2 2020 Cash Flows

The Appendix 4C quarterly cashflow report for Q2 2020 is attached.

Cash and Cash Equivalents were US\$20.1 million at 30 June 2020. Net Cash inflow from Operating Activities in Q2 2020 was approximately US\$2.7 million (adjusted for rounding differences). Revenue in Q2 2020 was US\$10.1 million reflecting delays in execution due to COVID-19. Operating costs were lower than Q1 2020 and for H1 2020 were more than 25% lower than H1 2019.

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

(US\$'000)	June Q	Year to date (6 months)
Receipts from customers	15,687	29,937
Product manufacturing and operating costs	-7,013	-21,145
Research and development	-529	-1,389
S,G&A (Corporate Overhead)	-5,101	-11,913
Investing Activities	-129	4,621
Financing payments / receipts	787	168
Other	-339	-762

Notes:

<sup>1</sup> Numbers in the table are presented on a cash basis, consistent with the ASX Appendix 4C.

<sup>2</sup> Numbers exclude the effect of movement in exchange rates on cash held.

<sup>3</sup> 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 Q3 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 Thursday, July 30<sup>th</sup> at 9:30 am Australia AEST / Wednesday, July 29<sup>th</sup> 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/10008657-invite.html>

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-200730.html>

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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.