



31 July 2023

## **Fluence Corporation Quarterly Activities Report**

Fluence Corporation Limited (ASX: FLC; the “Company”) presents its Quarterly Activities Report and accompanying ASX Appendix 4C (the “Quarterly Cashflow Report”) for the quarter ended 30 June 2023 (“Q2 2023”). All financial numbers contained herein are in US dollars and are unaudited.

### **Q2 2023 Summary**

The Company is reporting the following results for Q2 2023:

- **Q2 2023 revenues of \$16.8M** – Up 15% over Q1 2023, mainly driven by SPS Revenue. Down 39% from Q2 2022 mainly due to the wind-down of the Ivory Coast Main Works.
- **SPS revenues up 105%** from Q1 2023 and 64% over Q2 2022, primarily due to revenue growth in our Specialized Industrial Water business.
- **Backlog currently at \$52.8M**, \$46.6M of which is from SPS and Recurring Revenue.
- **New orders in Recurring Revenue up 36%** in Q2 2023 over Q2 2022. Orders in SPS up 35% in Q2 2023 over Q1 2023 but down 43% over Q2 2022 due to order delays. Orders expected to increase significantly in H2 2023 vs. H1 2023.
- **Fixed Costs savings of \$3.8M in H1 2023** over H1 2022, representing a reduction of 28% and reflecting the impact of implementing the restructuring announced in Q4 2022.
- **Cash Balance of \$18.1M plus \$11.8M in short and long-term deposits** – Cash up \$2.9M from Q1 2023 primarily due to the collection of Milestone 9 of the Ivory Coast project (\$18.8M), which was received in April 2023. The Company had Operating Cash Flow of \$2.2M in Q2 2023.
- **Reducing guidance to total revenue of \$90-95M for FY 2023 (of which SPS plus Recurring Revenue is \$60-70M) and EBITDA of \$2.5M** – Still represents an increase in EBITDA of almost 10% over FY 2022.

### **Q2 2023 Commentary**

The Company has virtually completed the formal restructuring and repositioning of the business announced in Q4 2022. Other than a few key positions that are in the process of being filled, we are now fully operating and reporting under the new organizational structure. Among the benefits the Company is seeing from this realignment are: (1) a significant reduction of \$3.8M (28%) in fixed costs in H1 2023 compared to H1 2022; and (2) enhanced collaboration across all business units.

While H1 2023 suffered from lower revenue and slower bookings than expected, these delays can be attributed to a number of external factors, which are detailed below. Nevertheless, the pipeline continues to grow due to collaboration across business units and market growth in our core end markets, as evidenced by recent LOI’s and LOA’s, verbal awards, and a pipeline that has more than doubled across the Company since December 31, 2022. Despite the slower than expected start, the Company still expects strong growth in order bookings this year.

While H1 2023 revenues were lower than H1 2022 primarily due to the wind down of the Ivory Coast Main Works, SPS revenue for Q2 2023 was up 105% over Q1 2023 due to growth across all business units, primarily

driven by our Specialized Industrial Water business. Another key reason for the reduction in revenue was due to delays in China where certain projects have been awarded and are ready to proceed but will not move forward until down payment is received. Customers, including a number of State-Owned Enterprises (“SOE’s”), have been slow to release funds in the wake of COVID shutdowns. The remaining amounts result from order delays in the Municipal and High-Strength Wastewater & Biogas business units. We expect improvement in these orders throughout the balance of 2023.

Fluence has now completed the first phase of expanding its North American sales and support team, which included hiring two new sales managers for its Municipal group, two new sales managers for its Specialized Industrial group and five new technical team members. We are now seeing the benefits of these efforts as our North American pipeline has grown by over 200% in 2023 with quality projects and YTD order bookings that are double those of all of last year. The total North American Municipal pipeline was \$12M at the beginning of 2023 and the new team has grown it to \$38M in the first six months of this year. In just over three months, the new sales team in North America for High Strength Wastewater & Biogas business unit has built a pipeline of \$21M and recently signed an LOI for our first anaerobic digester order in North America worth over \$1M. Additionally, we signed a service agreement with one of the largest meat processing companies in North America to advise and scope out a large anaerobic digestion facility to create renewable natural gas in support of the company’s sustainability goals. Fluence is in an excellent position to exclusively negotiate the delivery of this project for this customer, which has dozens of facilities across North America with potential for similar projects. The High-Strength Wastewater & Biogas business in the rest of the world is also expecting to see significant growth in bookings in H2 2023, with LOI’s and verbal awards of more than \$5M already in hand.

Further, We are anticipating closure of several high probability Build-Own-Operate (“BOO”) projects in the last half of 2023. The total contracted revenue for the three highest probability projects is almost \$50M.

The Specialized Industrial Water business in South America is already ahead of their order target and expected to continue their strong performance H2 2023, led by several Operations & Maintenance (“O&M”) contracts secured in H1 2023 as well as product sales in several reuse applications for food & beverage as well as the rapidly growing lithium mining space (that support the global electric vehicle industry). As mentioned above, the Specialized Industrial Water business is also expecting future growth in North America with the recent hires of both sales and technical leadership in the US.

In China and Southeast Asia, the pipeline remains robust, particularly in several new countries that have been the focus of business development efforts. The pipeline in Southeast Asia (including Taiwan, Vietnam and Korea) is now larger than that of China, including several sizeable projects where Fluence is well-positioned.

Overall, Fluence is expecting to book orders totaling \$70-80 million in H2 2023, which could potentially represent an increase of more than 300% over H1 2023 and H2 2022.

## **Key Recent Wins**

The Company secured several notable new wins recently that were not announced publicly, including:

- New repeat orders from a long-standing truck stop client totaling almost \$500k
- Four new orders from Coca-Cola in Argentina and Brazil for water reuse applications totaling \$2.7M
- Three of our first MABR / MBR system sales in Saudi Arabia
- Two new industrial treatment plant projects in Italy for food and beverage companies totaling \$1M
- Two of the largest MABR retrofit projects in the world each totaling 25,000 CMD to help the Shexian Jingdian and Shexian Qingzhang WWTPs in China comply with new stringent effluent regulations

## ***Ivory Coast Progress***

In Q2 2023, Fluence saw continued successful execution of the Ivory Coast Water Treatment Project, including receiving payment on Milestone 9 of the Main Works equal to \$18.8M as well as the release of an additional \$3.0M in advance payments that had been contractually retained by the customer pending completion of milestones. The Company also received sign-off and payment of Milestone 4 of the Additional Works of \$2.1M in June. The Company continues to progress toward planned plant commissioning in Q4 2023. The latest video showing plant progress is available on the Fluence YouTube channel and can be viewed at: <https://www.youtube.com/watch?v=WgUMBCTwXnQ>

Additionally, the customer has proposed additional ancillary work on the project, which we are currently negotiating. Assuming we can successfully negotiate a profitable, low-risk addendum to the current contract and the customer can secure the proper financing, we may be able to recognize significant additional revenue from this project later this year and into 2024.

## **Q2 2023 Cash Flows**

The Appendix 4C quarterly cashflow report for Q2 2023 is attached.

As at 30 June 2023, Cash and Cash Equivalents were \$18.1M. In addition, the Company held \$11.8M in short and long-term deposits, of which \$9.9M is applied as collateral for bank guarantees for the Ivory Coast Project. Most of these guarantees are expected to be released to the Company during the course of FY 2023 as the Main Works on the Ivory Coast project are completed and commissioned. Net Cash flow from Operating Activities in Q2 2023 was \$2.2M. Fluence received the payment for Milestone 9 of \$18.8M in April and settled \$12.9M in related payables in the quarter.

## **Quarterly Update – Conference Call**

Thomas Pokorsky (CEO and Managing Director), Ben Fash (CFO) and Doug Brown (Chairman) will host an investor conference call regarding the Company's quarterly update on 31 July 2023 at 9:30am Melbourne Time (AEST) / 7:30pm US EDT.

For those wishing to dial into the call or access the webcast, you must register in advance via the link:

<https://s1.c-conf.com/diamondpass/10031962-hf89u7.html>

Questions will need to be submitted electronically through the webcast interface.

A link to the archived webcast will be accessible on the Company's website:

<https://www.fluencecorp.com/investor-news/>

This announcement is authorised for lodgement on the ASX by Thomas Pokorsky, CEO and Managing Director, Fluence Corporation Limited.

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## **About Fluence Corporation Limited (ASX: FLC)**

Fluence is a leader in Wastewater Treatment and Reuse, High-Strength Wastewater Treatment, Wastewater-to-Energy, Industrial and Drinking Water markets, with its pre-engineered, standardized Smart Products Solutions (SPS), including Aspiral™, NIROBOX™, SUBRE and Nitro. In addition to rapid delivery and commissioning of solutions to meet a broad range of needs from smaller communities to city-scale systems, Fluence offers ongoing operation and maintenance support, Build Own Operate (BOO) and other recurring revenue solutions. Fluence has a broad international footprint and focuses on high growth markets including North America and South East Asia.

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.

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## **Appendix – Material Business Risks**

### **Risk Management**

Fluence’s approach to managing risk is documented in a Corporate Risk Registry reviewed and approved by the Board of Directors (the “Board”). The Risk Registry seeks to ensure that risk management is embedded throughout the business and managed in a structured and systematic manner. The Risk Registry is reviewed regularly by the Board’s Audit and Risk Committee (the “ARC”) and is evaluated and updated as the Company’s business model evolves and underlying risks change.

The ARC assists in discharging the Board’s responsibility to manage the organization’s risks, and monitors management’s actions to ensure they are in line with Company policy.

The following is a summary of the key continuing significant operational risks facing the business and the way in which Fluence manages these risks:

- **Corporate** – The Company manages a number of corporate risks such as safety, recruitment and retention of key employees, tax, foreign exchange, purchasing and procurement, potential lower than anticipated return on capital invested and potential lower underlying earnings. All the aforementioned risks are managed through Fluence’s risk management framework, which includes review and monitoring by management, the ARC and the Board.
- **Liquidity, Interest Rate, and Credit** – The Company’s activities expose it to a variety of financial risks such as interest rates, credit, and liquidity. This risk includes examples such as the ability to collect trade receivables from customers, increases in interest rates and the ability to meet its financial obligations including its debt obligations, among other examples. These risks can adversely effect the Company’s ability to operate profitably or as a going concern. The Company’s overall risk management program focuses on each of these risks and seeks to minimize potential adverse effects on the financial performance of the Company. The Company uses different methods to measure the different types of risk to which it is exposed. These methods include sensitivity analysis in the case of cash flow forecasts, interest rates, pricing risks and accounts receivable aging analysis for credit risk. Risk management is carried out by senior executives under policies approved by the ARC and the Board. Finance reports to the ARC on a monthly basis.
- **Material Contracts** – Fluence regularly enters into contracts with customers that exceed \$1 million. Successful execution of such contracts is imperative for the continued success of the Company. Most notably, the Ivory Coast project represents a significant share of Fluence’s FY 2023 revenue. Some of the key risks associated with these material contracts include executing on time and on budget, cash flow, contract management, performance and quality of the equipment being delivered and reputation. Fluence management manages these material contracts closely with regimented steering committee reviews, operating reviews with subcontractors and other strict project management practices. Direct project management utilizes well defined project definitions, adequate optimization and resourcing of workflows, effective monitoring to identify issues early, automation of controls, collaboration, and project validation. Internal and external legal counsel are deeply involved in the negotiation process, including with key subcontractors, as well as the maintenance of the contract during the execution of the project. Finally, Fluence negotiates favourable payment terms and reviews counterparty credit risk to manage cash flow as effectively as possible.
- **Design, Engineering & Quality of Equipment** – Fluence designs and engineers water and wastewater treatment equipment and systems for the global market. This presents the risk of delivering equipment that does not meet customer specifications or regulatory compliance standards. A core strength of the Company is that it employs a large staff of highly specialized engineers that have significant experience in designing and installing water treatment equipment and systems. Many of Fluence’s senior engineering and technical employees have been with the Company for a number of years and have significant experience with Fluence’s products and technologies. Fluence also provides a standard 1-year warranty

and the Company and its service staff will address any deficiencies after installation and commissioning. Lastly, the Company maintains insurance coverage that is sufficient to cover the risks associated with delivering water treatment equipment and services.

- **Cost Controls, Inflation, & Supply Chain Constraints** – Rising input costs and supply chain constraints experienced over the past few years have the potential to reduce profit margins where those costs cannot be recovered from customers and project delays. Significant input costs include labour, components and materials, and freight. Fluence has the ability to recover costs through price increases incorporated into project bids, which usually have a limited time to be accepted before the Company has the right to increase costs. The Company sources components and equipment from multiple suppliers and vendors, allowing us to get the most competitive pricing on various input components. Service contracts such as Operations and Maintenance contracts have annual escalators typically linked to inflation.
- **Political, Regulatory and Compliance** – Fluence is a global company and operates in numerous countries around the world. The Company must comply with a range of governance requirements which are conditions of its listing on ASX. New or evolving regulations and international standards are outside the Company's control and can often be complex and difficult to predict. The potential development of international opportunities can be jeopardized by changes to fiscal or regulatory regimes, adverse changes to tax laws, difficulties in interpreting or complying with local laws, material differences in sustainability standards and practices, or changes to existing political, judicial or administrative policies and changing community expectations. Fluence seeks to manage and minimize this risk through its existing risk management framework including Board approved governance policies which are subject to regular review.
- **Anti-Bribery and Corruption** – Fluence's business activities and operations are located in jurisdictions with varying degrees of political, economic and judicial stability, including some countries with a relatively high inherent risk of bribery and corruption. This exposes Fluence to the risk of unauthorized payments or offers of payments to or by employees, agents or distributors that could be in violation of applicable anti-corruption laws. Fluence has a clear Anti-Bribery and Corruption Policy and internal controls and procedures to protect against such risks. However, there can be no assurances that such controls, policies and procedures will absolutely protect Fluence from potentially improper or criminal acts.
- **Environmental, Social, Governance** – Fluence is keenly aware of the potential risks climate change could present to the Company and its customers across Australia and the rest of the world. With the continued impact of climate change, it is expected that we will see an increase in weather extremes and resource variability in the future. Fluence's portfolio of solutions are specifically developed to resolve some of today's most pressing environmental issues. The Company continues to monitor and review future impacts as new information and data becomes available. This informs the Company's approach as it develops its water asset portfolio. We expect the water market to continue to adjust as market participants consider these impacts and position for future change. The Board is conscious of its approach in seeking to build a sustainable business and is in the process of developing a reporting framework to manage and monitor the Company's ESG impact.

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