



31 October 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 September 2023 (“Q3 2023”). All financial numbers contained herein are in US dollars and are unaudited.

Introduction

During Q3 2023, Fluence continued to execute its plan to transform the organisation. The formal restructuring and repositioning of the business announced in Q4 2022 has now essentially been completed. Save for filling a few key positions, the Company is now fully operating and reporting under the new organisational structure. Among the benefits being realized by the realignment are: (1) enhanced commercial collaboration across all business units; (2) a significant reduction of \$3.9 million (20%) in fixed costs YTD Q3 2023 compared to the same period in 2022; and (3) improved ability to allocate capital effectively.

The stated goals of the strategic realignment and reorganisation included growing the Company’s sales reach, improving efficiency, reducing costs, and ultimately improving EBITDA growth. The Company was realigned to enable the more effective and efficient sale of products in applicable global markets. Rather than organising by geography, the Company reorganised around product lines with the following principal areas of focus:

- Decentralised Municipal Water and Wastewater treatment including MABR (Aspiral, SUBRE and Nitro), Nirobiox and aeration products (“DMWW”);
- High-Strength Wastewater and Waste-to-Energy, providing solutions that support the shift to global decarbonization, taking advantage of government incentives such as the Inflation Reduction Act in the United States and the new nitrogen removal laws in Mexico (“HSWW”);
- Specialised Industrial Water solutions, focusing on water reuse applications and high-growth markets such as lithium mining that supports the trend toward electrification (“SIW”);
- Southeast Asia and China, with a particular focus on efforts in countries such as Taiwan, Vietnam, Cambodia and Korea to strengthen and diversify its sales pipeline (“SEA & China”); and
- Recurring Revenue, including Build-Own-Operate (“BOO”) projects and Operations & Maintenance (“O&M”) contracts for equipment sales; and
- The Ivory Coast main works project continues to progress toward completion as the Company transitions away from large turn-key projects to Smart Product Solutions (“SPS”) and Recurring Revenue in the above noted markets.

Fluence has been reporting under these product-based business units for all of 2023. As part of this realignment and reorganisation, a large amount of focus has been placed on North America. Fluence has now completed the first phase of expanding its North American sales and support team, which included hiring two new sales managers for the DMWW group, one new sales manager for the SIW group, one sales manager for the HSWW group, and five new technical team members. These efforts have been rewarded as our total sales pipeline has

grown by 86% since the end of 2022 to over \$600 million. Year to date order bookings are almost double versus what they were for the same period last year.

Overall, Fluence is on-track to significantly exceed its order booking target of \$70.0-80.0 million in H2 2023, a total that represents an increase of more than 300% over both H1 2023 and H2 2022. The Company has already booked orders totaling \$75.8 million through Q3 2023.

On September 18, 2023, Fluence revised its annual guidance to total revenue of \$80.0-85.0 million for FY 2023 (from \$90.0-95.0 million) and EBITDA of \$0-0.5 million (from \$2.5 million). This revision to guidance was due, in part, to delays in booking orders originally forecast for earlier in the year.

The Company remained in compliance with the minimum unrestricted cash and cash equivalents covenant in its Loan Agreement throughout the reporting period. The Company, however, was not in compliance with the consolidated Debt Service Coverage Ratio ("DSCR") covenant during the reporting period and secured waivers from Upwell LLC ("Upwell"), most recently in July. Fluence continues to make all principal and interest payments in full and on time. The Company and Upwell continue to be actively engaged in good faith negotiations with respect to a potential amendment to the Loan Agreement.

Q3 2023 Review

The Company is reporting the following highlights for Q3 2023:

- **New order bookings of \$75.8 million in Q3 and \$94.2 million YTD** representing a YTD increase of 190%. Orders in SPS up 42% and Recurring Revenue up 15% YTD 2023 over the same period in 2022.
- **Backlog currently at \$114.6 million**, an increase of 117% from Q2 2023. The majority of the backlog is expected to be recognized as revenue in Q4 2023 and throughout 2024.
- **Q3 2023 revenues of \$12.7 million**, down over 56% from Q3 2022, mainly due to the wind-down of the Ivory Coast Main Works project. Recurring Revenue increased 35% in Q3 2023 as compared to Q3 2022.
- **Fixed Costs savings of \$3.9 million YTD 2023** over 2022, representing a reduction of 20% and reflecting the impact of implementing the restructuring announced in Q4 2022.
- **Cash Balance of \$10.5 million plus \$11.0 million in security deposits.** Cash down from \$18.1 million from Q2 2023 primarily due to no Ivory Coast collections in Q3 but a number of payables that needed to be settled after large milestone collections in Q2 2023. The Company expects to generate approximately \$5 million in cash flow from operations and the release of collateral in Q4 2023 primarily from the Ivory Coast project.
- **Guidance for total revenue of \$80-85M for FY 2023 and EBITDA of \$0-0.5M.**¹

YTD Q3 2023 suffered from lower revenue primarily due to the wind-down of the Ivory Coast Main Works project, lower than anticipated bookings in H1 2023, and supply chain delays experienced within the SIW business. Despite the overall decline in revenue due to the aforementioned factors, Recurring Revenue continued to grow and was up 15% YTD Q3 over the same period in 2022.

The Company has experienced a significant increase in orders in Q3 2023, which are expected to drive meaningful revenue growth in future quarters. These new orders included three (3) new wastewater-to-

¹ EBITDA excludes the impact of Other Gains and Losses, which include FX gains and losses, gains and losses related to various legacy balance sheet clean-up items, restructuring, and other exceptional items. The Management team has been focused on reviewing legacy accounts across the business in 2023 and does not expect some of the legacy issues discovered during this review to impact financial results beyond 2023.

energy projects totaling \$8 million (including two in North America), two (2) new water reuse projects for the semiconductor industry totaling \$8 million (including one in Taiwan), and the €48 million Ivory Coast Addendum project to connect the water treatment plant to the distribution network. Not only do these new orders provide the foundation for significant growth in future quarters, but they are a direct result of the shift in strategy and the realignment announced by the Company in Q4 2022. These orders illustrate that Fluence is gaining traction as a result of the revised strategy.

Additionally, the Company's pipeline continues to grow due to collaboration across business units and market growth in our core end markets, as evidenced by the recent orders noted above and a sales pipeline that has almost doubled since the end of 2022. The growth in sales pipeline that the Company has experienced has primarily been in areas of focus and investment. Specifically, all business units have experienced material growth in its sales pipeline in North America along with our SEA & China business materially growing their pipeline in countries like Taiwan, Cambodia, Vietnam and Korea as our focused shifted to opportunities outside of China.

This pipeline growth is broad and diverse, which is expected to lead to sustainable growth in orders going forward. While Fluence is well on its way to hit its H2 2023 order target of \$70-80 million, we expect to see continued growth throughout Q4 2023 and into H1 2024 and beyond.

Key Recent Wins

The Company secured several notable new wins recently, including:

- Three (3) HSWW and wastewater-to-energy contracts: \$8.0 million (Mexico and Italy)
- Two (2) water reuse projects in semiconductor industry: \$8.0 million (Taiwan and Israel)
- €48.0 million Addendum to Ivory Coast project
- One (1) follow-up Aspiral MABR order for \$0.3 million in North America from existing customer Pilot Truck Stop
- Two (2) new Nirobox ocean desalination plant orders for two resorts in Honduras: \$0.5 million
- Two specialized industrial water plants in South America totaling more than \$2.2 million

Q3 2023 Cash Flows

The Appendix 4C quarterly cashflow report for Q3 2023 is attached.

As at 30 June 2023, Cash and Cash Equivalents were \$10.5 million. In addition, the Company held \$11.0 million in short and long-term deposits, of which \$9.6 million is applied as collateral for bank guarantees for the Ivory Coast Project. An additional \$3.1 million in guarantees are expected to be released to the Company in Q4 2023, as the Main Works on the Ivory Coast project are completed and commissioned. Another \$2.7 million is expected to be released after the 12-month warranty period on the Main Works expires (expected in Q4 2024). There will likely be a requirement to deposit additional collateral related to the Ivory Coast Addendum in Q1 2024.

Net cash flow from Operating Activities in Q3 2023 was -\$6.3 million due to a combination of low revenue and operating losses, no milestone payments from the Ivory Coast, and slow collections from several other business units. Fluence also realized \$1.1 million in FX losses in Q3 2023 that impacted cash, which was primarily due to the volatility of currencies in Argentina and Egypt.

Fluence expects to collect several milestones from the Ivory Coast in Q4 2023 as well as the release of a portion

of the collateral from the performance bond on the Main Works. The Company is also expecting to collect several other large payments on other projects across the business as well as customer deposits on several of the new orders announced in September. This is expected to generate approximately \$5 million cash flow from operations and the release of collateral in Q4 2023.

Ivory Coast Progress

In Q3 2023, Fluence continued to successfully execute the Ivory Coast water treatment project, including receiving sign-off and payment of Milestone 5 of the Additional Works which will be paid in Q4 2023. The Company was successful in receiving provisional acceptance from the customer in October 2023 and continues to work towards full 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=H1bYHKLlgZI>

Additionally, Fluence announced the signing of an Addendum to the original Ivory Coast contract for €48.0 million. These works are a critical step to connect the water treatment plant that was part of the original scope of the Main Works to the distribution system to deliver the water produced by the plant to the people of Abidjan. Fluence has arranged a term sheet from Societe Generale and the West African Development Bank to finance the project on behalf of Federal Government of Ivory Coast. If financial closing is achieved before the end of 2023, the Company may be able to recognize revenue from this project in Q4 2023. The bulk of the revenue, however, will be recognized in 2024 before concluding in H1 2025. Fluence is also actively seeking to secure a long-term operations and maintenance contract from the customer, which would not be possible without the work being undertaken pursuant to the Addendum.

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

-ENDS-

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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 Southeast 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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