

THE AUSTRALIAN BUSINESS REVIEW

Waste water company Fluence flush with funds as Phil King takes 7.7pc stake

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7:23PM JANUARY 15, 2024



Fluence wastewater treatment system MABR technology

Small-caps investor Phil King and the Melbourne-based Liberman family have backed listed waste water company Fluence, as its new management team bids to convince investors it is turning the company around.

Mr King's Regal Funds Management has emerged as the third-largest shareholder with a 7.7 per cent stake in the company, behind chairman Doug Brown, who has increased his stake to almost 14 per cent following a \$40m capital raising late last

year, and Nikolaus Oldendorff, the Hamburg-based son of German shipping magnate Klaus Oldendorff, who now has 11.2 per cent.

The Liberman family, which participated in the capital raising through its investment company Jagen, has just under 5 per cent of the company.

Fluence chief executive Tom Pokorsky has brought several new executives into the company since taking over in March 2022, and has rationalised its operational units from 13 to four with a new strategy including looking for contracts with local governments in the US and broadening its operations in Asia.

“We have followed Fluence for many years because of the wonderful work they do providing sustainable water solutions in many developing countries,” Mr King said.

“We have been buying shares recently because we think with a strengthened balance sheet and new management team the company’s outlook has never been better.”

Mr Pokorsky said the release of the company’s fourth-quarter earnings report at the end of the month would provide evidence that his strategy was bearing fruit.

“When investors get a chance to see the fourth-quarter figures, versus the rest of the year, they will see how it sets us on the trajectory we want to be on,” he said in an interview with The Australian from his base in Florida.

The company, which has operations in 800 locations around the world, has its origins in an Israel wastewater treatment company that listed on the ASX in 2007 under the name Emefcy Group.

It merged with New York-based RWL Water in 2017 and was renamed Fluence, with operations in wastewater treatment, desalination and waste-to-energy operations.

The company has used the \$40m capital raising to repay debt and bring in Nikolaus Oldendorff as a strategic investor.

It has also seen the exit of cosmetics heir Ronald Lauder, who founded RWL Water, from the register. He had been a 25 per cent shareholder.

The restructuring and the investments from Regal and Jagen have meant the company still has an Australian shareholder base of 60 per cent.

Investors in the company have had a rough time, with the share price falling from about 50c in 2019 to below 20c in 2020, hitting a low of about 8c in December last year.

But the news of the capital raising, in which chairman Doug Brown put in \$11m of his own money, has seen its price recover to more than 10c this month.

“We have revamped the entire management team,” Mr Pokorsky said.



Phil King, co founder of Regal Funds Management Picture: Britta Campion

A veteran of the wastewater industry, he brought in Canadian-based Ben Fash as chief financial officer, and has made other strategic appointments to the company.

Mr Brown, the founder and former CEO of NYSE-listed Aqua Venture Holdings, which he sold for \$US1.2bn in 2020, came in as chairman in March last year.

This followed his time as CEO of NYSE-listed Ionics, which was sold to GE Water for \$US1.3bn in 2005.

“Doug has had two major wins in his career in the water industry – both in the billion-dollar shareholder value area,” Mr Pokorsky said.

“The entire management team put money into this capital raise to show our belief in what we are doing. That helped us convince a select number of significant shareholders and some new shareholders to invest.”

Mr Pokorsky said the company’s technology in its areas of operation, including water treatment and waste-to-energy processing, was sound, but the operations needed rationalising with a focus on a higher-margin business.

“When I came in, we had about 13 different profit and loss areas, all by geography, which were operating very inefficiently,” he said.

“I refocused them into one by geography – Southeast Asia – and three P&Ls by market product. In doing so we took several million dollars in operating costs out of the business and we have teams working together in product and marketing areas.

“We have streamlined the business and are now going after markets which are growing and have profitable potential.”

The company recently secured a major contract with global food company JBS for a wastewater-to-energy project at an abattoir in Canada.

It has also expanded its Asian operations outside of the company’s strong focus on China, where the economy has suffered from years of Covid lockdowns.

Mr Pokorsky said the previous management had a strong focus on the potential market in China. But while he thought the market had significant potential, it had been disrupted by Covid.

“Covid wiped it (the market for Fluence’s services) out and it is still not open yet. The money (for projects in the water management sector) is not flowing,” he said. “We made a specific decision to start markets in areas outside of China including Taiwan, Cambodia, Vietnam, South Korea and Thailand.

“We have had some really good success in doing that. Our pipeline of potential projects in the region is double what it is in China. Two years ago, we weren’t even marketing in those areas.”

‘With a strengthened balance sheet and new management team the company’s outlook has never been better’ *Phil King, Regal Funds Management co-founder*

The company, which is finalising the construction of a €180m (\$296m) water treatment plant in the Ivory Coast in Africa, is planning to focus on build, own and operate (BOO) projects to make better use of its technology.

Mr Pokorsky said the company would not be doing any more major construction projects such as the one in Ivory Coast, but would be focused on smaller BOO projects that would generate recurring revenue using its technology for periods of about 15 years.

Mr Fash said management knew they had to convince potential investors of the viability of its strategy given the company’s “chequered past from a profit perspective”.

“We still have some work to do to convince investors that we are going to do what we say we are going to do,” Mr Fash said.

“That comes from a history of past management not following through on commitments.

“There is a lot of weight being put on our fourth-quarter results. We have had a projection of it being a pretty good fourth quarter, but investors are waiting to see how good it really was before they make a judgement.

“We went through an inflection point last year where there was not enough revenue to replace the income from our project in the Ivory Coast and replace it with recurring revenue projects.

“We have been breaking even and we are expecting to be profitable in 2024.”

Mr Pokorsky said the company was expecting to increase its business in North America with municipal governments and major companies looking for waste-to-energy projects.

He said the US business was expected to benefit from President Joe Biden’s Inflation Reduction Act, which gives companies tax credits for waste-to-energy and renewables projects.

This was expected to see new contracts with industrial clients in areas such as abattoirs, as well as fish and food processing.

Water treatment was a growing market in developing countries, and in developed countries where regulations were becoming stricter.

The company’s operations included wastewater plants that remove nitrogen, which was much more damaging to the environment than carbon dioxide, and made the company a “strong ESG play” for investors such as Regal and Jagen.

Josh Smith, investment manager with Jagen, said Jagen had invested in the capital raising because of Fluence’s revamped management team and the financial commitment of Mr Brown, given his track record of building successful water ventures.

“The balance sheet has been recapitalised and is in good health for scaling profitably,” he said.

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