



31 January 2024

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 31 December 2023 (“Q4 2023”). All financial numbers contained herein are in US dollars and are unaudited.

Q4 2023 Highlights

The Company is reporting the following highlights for Q4 2023:

- **Q4 2023 Revenue of \$27.7M**, almost double any other quarter in 2023 and which included \$20.5M of SPS plus Recurring Revenue (68% growth over Q4 2022).
- **EBITDA¹ of \$2.9M (10.5% margin)** in Q4 2023 and positive net income in December 2023.
- **FY2023 EBITDA¹ of \$0.2M**, in-line with revised guidance.
- **Gross margins of 30.6%** in Q4 2023 and 27.8% in FY2023, expanding by 3.9% over FY2022.
- **Backlog currently at \$91.8M**, an increase of 92% from Q4 2022. \$51.1M forecasted to be recognized in FY2024 (73% of FY2023 total revenue).
- **Fixed Costs savings of \$6.8M in 2023** versus 2022, representing a reduction of 26% (\$4.2M and 16% reduction excluding a large, one-time item), reflecting the impact of the restructuring announced in Q4 2022.
- **Cash balance of \$24.6M plus \$7.9M in security deposits.** Q4 2023 operating cash flow plus the release of deposits of \$3.7M. Net proceeds from Capital Raise in Q4 2023 of \$24.9M of which \$13.2M was utilized to repay debt.
- **Guidance for FY 2024 of \$90-100M of revenue and EBITDA of \$3.5-4.0M.**

Financial and Operating Update

We are delighted to present Fluence’s strongest quarterly financial and operating performance of FY2023. Q4 2023 included revenue of \$27.7M, which was nearly double that of any other quarter in 2023. A major contributor was SPS plus Recurring Revenue of \$20.5M, representing 68% growth over Q4 2022 and almost 140% higher than the average of the first 3 quarters of 2023. Gross margin of 30.6% in Q4 2023 exceeded our forecast for the quarter and allowed us to achieve an overall gross margin of 32.2% in H2 2023. Q4 2023 EBITDA¹ of \$2.9M represents a margin of 10.5%. Equally as important, the Company generated positive Net Income in December, illustrating the sustainability of the revenue and margins Fluence is generating. These results not only demonstrate a significant turnaround after a comparatively slow H1 2023 but illustrate that the change in strategy to focus on SPS and Recurring Revenue, combined with the realignment and

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reorganization along product lines is beginning to build momentum and show demonstrable results.

With respect to full-year results, Fluence finished FY2023 with revenue of \$70.1M, gross margin of 27.8%, and **EBITDA¹ of \$0.2M, meeting updated guidance of \$0-0.5M**. Revenue was short of guidance by \$9.9M, which was balanced by gains in gross margin of approximately 2% and Fixed Costs savings compared to forecast. Variances to revenue guidance were primarily driven by two factors: (1) divestiture of the Aeromix product line, resulting in the operations of the business being accounted for as an asset-held-for-sale (discussed in further detail below); and (2) delays in the formal commencement of the Ivory Coast Addendum project resulting from bureaucratic delays in closing the project financing. The financing has significantly advanced since December 31 and is expected to close imminently.

During FY2023, Fluence management was focused on executing its plan to transform the organisation. A formal restructuring and repositioning of the business was announced in Q4 2022. The Company is now fully operating and reporting under the new organisational structure. Among the FY2023 benefits the Company expected to realize through the realignment were: (1) enhanced commercial collaboration across all business units; (2) a significant reduction in fixed costs through headcount reductions and rationalization of select operations; and (3) improved ability to allocate capital effectively. We believe the Company achieved all three of these objectives in FY2023.

The strategic realignment and reorganisation aimed to grow the Company's sales reach, improve efficiency, reduce costs, and ultimately improve EBITDA growth. As previously noted, 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:

- Municipal Water and Wastewater treatment including MABR (Aspiral, SUBRE and Nitro), Nirobox and aeration products (formerly Decentralized Municipal Water & Wastewater or DMWW);
- Industrial Wastewater & Biogas, 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 (formerly High-Strength Wastewater and Waste-to-Energy or HSWW);
- Industrial Water & Reuse solutions, focusing on water reuse applications and high-growth markets such as lithium mining that supports the trend toward electrification (formerly Specialized Industrial Water or SIW);
- Southeast Asia and China, with a particular focus on efforts in countries such as Taiwan, Vietnam, Cambodia and South Korea to strengthen and diversify its sales pipeline ("SEA & China");
- 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.

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Segmented Financial Results

(US\$ millions)	FY2023 ⁽²⁾		FY2022 ⁽²⁾⁽³⁾	
	Revenue	EBITDA ⁽¹⁾	Revenue	EBITDA ⁽¹⁾
	Municipal Water & Wastewater	\$11.1	\$2.3	\$14.8
Industrial Wastewater & Biogas	\$7.0	\$0.1	\$8.5	\$0.7
Industrial Water & Reuse	\$14.9	\$1.1	\$12.6	\$1.9
SEA & China	\$13.6	(\$0.0)	\$9.6	(\$1.4)
BOO	\$2.8	\$0.3	\$2.1	\$0.8
IVC	\$22.2	\$1.2	\$69.5	\$6.2
Corporate ⁽⁴⁾	(\$1.6)	(\$4.8)	(\$0.9)	(\$7.0)

(2) Aeromix removed as an asset-held-for-sale.

(3) Restructuring was executed in 2023, therefore business not managed under new structure in '2022 and numbers are estimated

(4) Includes all intercompany eliminations and unallocated expenses

Revenue in FY2023 was lower than FY2022 primarily due to the wind-down of the Ivory Coast Main Works, which resulted in a reduction of \$47.3M. Revenue growth in Industrial Water & Reuse and SEA & China was offset by lower revenue in Industrial Wastewater & Biogas and Municipal Water & Wastewater, which was a result of order delays that were expected to be received in H1 2023. Gross margin improved across almost all segments as well as reductions in R&D and SG&A.

Fluence finished FY2023 with \$98.9M in new order bookings, representing growth of 129% over FY2022. SPS plus Recurring Revenue order bookings of \$46.9M represented 13% growth over FY2022. H2 2023 order bookings totaled \$80.5M, exceeding Company guidance of \$70-80M provided in the Q2 2023 business update. This resulted in Fluence finishing FY2023 with backlog (orders-in-hand) of \$91.8M, an increase of 92% over where the Company finished FY2022. Of the \$91.8M of backlog, \$51.1M is forecasted to be recognized in FY2024. This represents almost 73% of FY2023 revenue already booked, positioning Fluence for strong growth in FY2024.

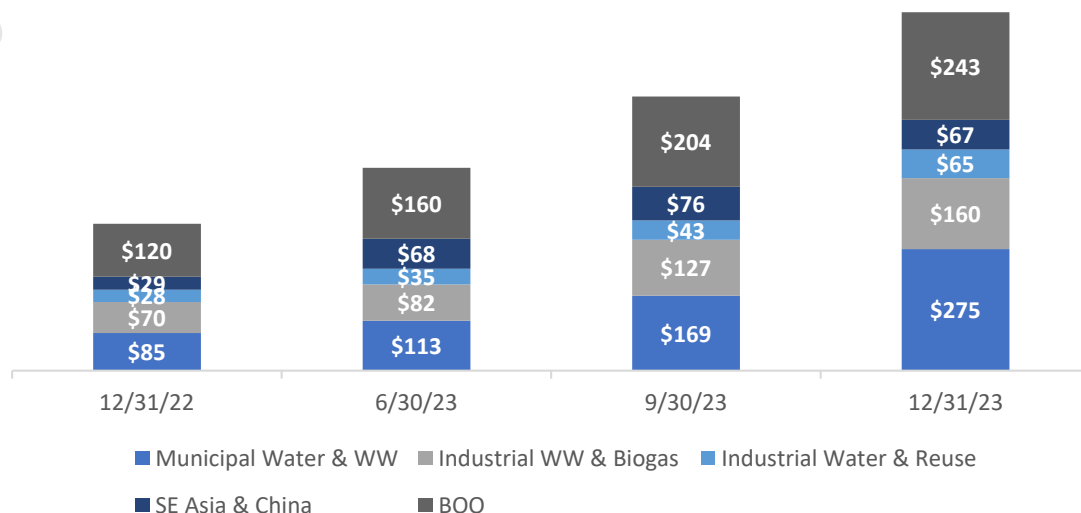
As part of the Company's realignment, a large amount of focus has been placed on North America. Fluence has made a significant investment in leadership, sales, and technical talent in North America. In FY2023, the Company hired two new sales managers for the Municipal Water & Wastewater group, a new sales manager for the Industrial Water & Reuse group, a sales manager for the Industrial Wastewater & Biogas group, and five new technical team members. Additionally, we are pleased to announce that Fluence recently hired Steve Sheidler to lead the global Municipal Water & Wastewater group starting on February 1, 2024.

Steve has 30+ years' experience in the municipal water and wastewater industry. He has designed process solutions, built, and operated plant facilities throughout his career. Steve has managed sales and manufacturing operations for several global product brands including polymeric and ceramic membrane process solutions. He has written and presented numerous technical papers at regional and national level associations and holds his professional engineering license in Pennsylvania and Virginia. Steve was recently the President of VAG USA, LLC, a valve manufacturer in the water and wastewater space, where he increased

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EBITDA by over 14% and drove revenue 12% year over year within his first two years. He has held other leadership roles with Xylem, including as the Director of Treatment in the Americas where he drove double digit EBITDA and 40% Revenue expansion within two years.

Fluence Sales Pipeline



These investments are bearing fruit as we have experienced significant growth in our pipeline of potential orders. Our overall sales pipeline has grown from \$332M as of January 1, 2023 to over \$800M as at December 31, 2023. The majority of this growth has come from North America and SEA outside of China, where the Company has placed the greatest emphasis.

Corporate Update

On November 1, 2023, Fluence announced an equity offering to raise A\$40.7M, which was successfully completed on December 5, 2023 (the “Capital Raise”). In parallel to the Capital Raise, Fluence negotiated an amendment to its credit facility with Upwell Water LLC (“Upwell”) to, among other things, repay approximately \$13M of debt using the Capital Raise proceeds and dramatically recapitalizing Fluence’s balance sheet in the process. The amendment and repayment of Upwell debt had a number of other benefits including: (1) significantly lower interest burden – we expect interest costs to drop by more than \$4M in 2024; (2) enhancing flexibility with an improved covenant package; and (3) providing enough liquidity to repay the Upwell term loan in full at maturity in July 2024 as needed. In addition to the benefits related to a significantly improved balance sheet, the shareholder register has been enhanced dramatically. First, Chairman Doug Brown has become Fluence’s largest shareholder, reflecting his steadfast support for, and belief in, the new strategy and direction of the Company. Fluence was also able to add several high-quality institutional investors. Lastly, the Company’s executive management team invested significantly and directly in the Capital Raise.

To ensure executive and Board retention, the Company is issuing 31.5M options to senior management, of which 15M are intended for the CEO, subject to shareholder approval. In addition, the Company is issuing 7.5M to non-executive Board members, also subject to shareholder approval. All options will vest over 4-years and are priced at A\$0.10/share, a 25% premium to the December placement and a 10% premium to both the 20 and 30-day VWAP on the date the Board moved to issue the options.

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Consistent with the Company's focus on streamlining operations to enhance profitability, we would like to announce two changes to Fluence's business that occurred in Q4 2023:

1. **Divesting Aeromix Product Line:** Fluence entered into a Letter of Intent with a strategic purchaser to acquire the assets of the Aeromix product line for undisclosed cash proceeds. The Aeromix product line and operations were deemed to be non-core and the transaction is expected to both improve liquidity and enhance profitability in Fluence's Municipal Water & Wastewater business in North America. The transaction is well-advanced and expected to close in mid Q1 2024.
2. **Eliminating Municipal Water & Wastewater commercial operations in Israel:** Fluence management made the difficult, but ultimately necessary, decision to eliminate commercial operations (including production) in Israel, which currently support the Municipal Water & Wastewater business unit. A lack of historical profitability combined with the focus on Municipal Water & Wastewater operations in North America were the primary drivers behind this decision which will result in headcount reductions and the elimination or reduction of two facilities in Israel. This is expected to lead to significant cost savings. Israel will remain an important hub for R&D and engineering at Fluence.

Fluence management will continue to evaluate all global operations in order to maximize efficiency and ensure sustainable, mid and long-term profitability.

FY2024 Guidance

- The Company is forecasting FY2024 revenue of \$90-100M, representing 29-43% growth over FY2022 including:
 - \$51M of backlog expected to be recognized in FY2024; and
 - Forecasted order bookings of \$40-50M in H1 2024
- EBITDA¹ of \$3.5-4.0M

Key Recent Wins

The Company secured \$6.9M in notable new wins in Q4 2023 and YTD 2024, including:

- Fiddlesticks, FL Country Club Tipton WWTP (\$1,525,000)
- 1st Municipal O&M Agreement – Red Bluff, TX Dam
- Cabot St. Lucia Nirobox Pretreatment (\$505,000)
- Itest Shuangliu+Shiey+Taiping+Songzi MABR WWTPs (\$1,270,000)
- Kehuan municipal upgrade and new build SUBRE (\$790,000)
- Verona, Italy (confidential client) chicken slaughterhouse WWTP Phase 3 (\$1,400,000)
- Coca Cola Femsal Alcorta RO and XO (\$949,000)
- Coca Cola Femsal Grande UF (\$376,000)

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Q4 2023 Cash Flows

The Appendix 4C quarterly cashflow report for Q4 2023 is attached.

As at 31 December 2023, Cash and Cash Equivalents were \$24.6M. In addition, the Company held \$7.9M in short and long-term deposits, of which \$6.9M are held as collateral for bank guarantees for the Ivory Coast Project. \$3.5M in guarantees were released in Q4 2024. Another \$2.7M is expected to be released after the 12-month warranty period on the Ivory Coast Main Works expires (expected in Q4 2024). There will likely be a requirement to deposit additional collateral in Q1 2024 in respect of the Ivory Coast Addendum.

Net cash flow in Q4 2023 from Operating Activities plus the release of security deposits was \$3.7M.

Ivory Coast Progress

In Q4 2023, Fluence continued to successfully execute the Ivory Coast water treatment project, including receiving payment of the final milestone of the Main Works as well as milestone 5 of the Additional Works. The Company was successful in receiving provisional acceptance from the customer in October 2023 and continues to work towards full commissioning in Q1 2024.

During Q4 2023, Fluence advanced the financing of the Addendum contract. Fluence has played a leading role in coordinating the project financing, led by Societe General and West African Development Bank ("BOAD"). The Company expects the financing to be finalized and signed imminently and the works to commence shortly thereafter. As noted in prior updates, 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 allowing delivery of the water produced by the plant to the people of Abidjan. The Addendum works are expected to take approximately 18 months and the majority of the revenue is forecasted to be recognized in 2024 with the balance in 2025. Fluence is actively seeking to secure an operations and maintenance contract for the plant from the customer. The start of the O&M contract requires the work being undertaken pursuant to the Addendum to be completed.

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 Aspira™, 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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