30 April 2024

# Fluence Corporation Quarterly Activities Report

Fluence Corporation Limited (ASX:FLC; "Fluence" or the "Company") presents its Quarterly Activities Report and accompanying ASX Appendix 4C (the "Quarterly Cashflow Report") for the quarter ended 31 March 2024 ("Q1 2024"). All financial numbers contained herein are in US dollars and are unaudited.

## Q1 2024 Highlights

The Company is reporting the following highlights for Q1 2024:

- **Q1 2024 SPS and Recurring Revenue of $6.6M and $3.1M,** respectively, representing 50% and 82% growth over Q1 2023 in our core product lines.
- **Total Revenue of $10.1M** in Q1 2024 was 29% lower than Q1 2023 due to delays in commencing work on the Ivory Coast Addendum as compared to $8.0M of revenue in Q1 2023 from the Ivory Coast Main Works.
- **Gross margins of 33.9%** in Q1 2024, an increase of 14.1% over Q1 2023.
- **Trailing Twelve Month ("TTM") EBITDA[1] of $1.2M** as at Q1 2024, an increase of $1.0M over FY2023. Quarterly EBITDA loss of $1.6M, an improvement of $1.0M over Q1 2023.
- **Backlog currently at $91.4M**, an increase of 124% from Q1 2023. $56.3M of Q1 revenue plus 2024 backlog forecasted to be recognized during Q2 through Q4 2024.
- **SG&A and R&D savings of $1.0M in Q1 2024** compared to Q1 2023 (including Aeromix), representing a reduction of 17%.
- **Cash balance of $16.8M plus $7.7M in security deposits as at 31 March 2024**. Expected negative cash flow in Q1 2024, however, underperformed expectations due to the delayed start of the Ivory Coast Addendum project and certain large collections expected to be received in Q1. Part of the cash outflows included the repayment of $1.3M of debt.
- **Maintaining guidance for FY 2024 of $90-100M of revenue and EBITDA of $3.5-4.0M**.

## Financial and Operating Update

During Q1 2024, Fluence continued to execute it's renewed strategy of shifting focus to high-margin SPS and Recurring Revenue through its realigned and product-focused business units while transitioning away from low-margin CES projects. Revenue in Q1 2024 of $10.1M was $4.1M lower than Q1 2023, however, when removing the impact of Ivory Coast, revenue in the core business grew by 59%. The first quarter has historically been seasonally slower for the Company with Q3 and Q4 typically being the strongest. It is expected that revenue

[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.

will increase significantly on a quarterly basis in Q2 through Q4.

The shift in focus toward our SPS and Recurring Revenue products and services is having the desired effect of improving gross margins, which saw an increase to 33.9% (up 14.1% versus Q1 2023). These improved gross margins were also higher than Q4 2023 margins of 30.6%, which were higher than any other point in FY2023.

SG&A and R&D costs also continued to improve. With the full benefit of the FY2023 reorganization combined with the sale of the Aeration & Mixing assets ("Aeration Assets"), the Company realized $1.0M (17%) in savings in Q1 2024 as compared to Q1 2023 and $0.8M in savings as compared to Q4 2023 (14%).

As a result of the increase in SPS and Recurring Revenue, higher gross margins and lower SG&A and R&D, Fluence is reporting an EBITDA[1] loss of $1.6M, which is an improvement of $1.0M relative to Q1 2023. As a result, TTM EBITDA[1] increased to $1.2M after finishing FY2023 at $0.2M. As the first quarter is historically the slowest in the Company's fiscal year, an EBITDA[1] loss was anticipated.

Fluence is maintaining its FY2024 revenue guidance of $90-100M and EBITDA[1] of $3.5-4.0M.

As a reminder, the Company realigned its business in 2023 to enable the more effective and efficient sale of products in applicable global markets. The Company reorganised around product lines with the following principal areas of focus:

- Municipal Water and Wastewater ("MWW") treatment includes MABR (Aspiral, SUBRE and Nitro) and Nirobox products (formerly Decentralized Municipal Water & Wastewater or DMWW);
- Industrial Wastewater & Biogas ("IWB"), provides 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 ("IWR") 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 ("SEA & China"), with a particular focus on efforts in countries such as Taiwan, Vietnam, Cambodia and South Korea to strengthen and diversify its sales pipeline;
- Recurring Revenue, including Build-Own-Operate ("BOO") projects and Operations & Maintenance ("O&M") contracts for equipment sales; and
- The Ivory Coast Main Works and Addendum projects.

[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.

**Table1: Segmented Financial Results**

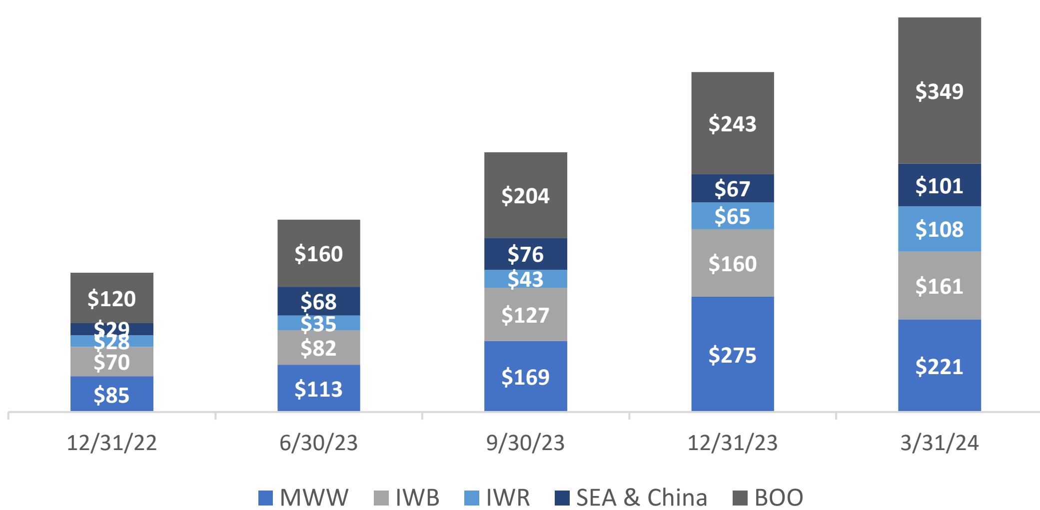
| (US$ millions) | Q1 2023 (2) | | Q1 2024 (2) | | *YTD Variance* | |
|---|---|---|---|---|---|---|
| | Revenue | EBITDA | Revenue | EBITDA | *Revenue* | *EBITDA* |
| Municipal Water & Wastewater | $1.0 | ($0.6) | $1.7 | $0.2 | *$0.7* | *$0.8* |
| Industrial Wastewater & Biogas | $1.9 | - | $0.7 | ($0.4) | *($1.2)* | *($0.4)* |
| Industrial Water & Reuse | $1.8 | ($0.5) | $4.6 | $0.8 | *$2.8* | *$1.3* |
| SEA & China | $1.2 | ($0.7) | $2.2 | - | *$1.0* | *$0.7* |
| BOO | $0.6 | $0.1 | $0.7 | $0.1 | *$0.1* | - |
| IVC | $8.0 | $1.1 | $0.3 | ($0.1) | *($7.7)* | *($1.2)* |
| Corporate (3) | ($0.3) | ($2.0) | ($0.1) | ($2.2) | *$0.2* | *($0.2)* |

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

(3) Includes all intercompany eliminations and unallocated expenses

Revenue and EBITDA[1] in Q1 2024 increased across all businesses other than IWB and the Ivory Coast. IWB experienced project delays due to permitting issues across several projects but should be able to capitalize on their recent order success and strong backlog to deliver significant growth in FY2024 and meet their growth objectives. Ivory Coast also experienced delays, primarily related to the closing of financing of the Addendum. The financing is expected to close in Q2 2024 allowing the project to commence shortly thereafter. MWW, IWR, and SEA & China all showed material quarter-over-quarter growth and all were profitable on a stand-alone basis.

**Chart 1: Fluence Sales Pipeline[4]**




(4) Excludes Ivory Coast O&M.

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Fluence signed $9.9M in new order bookings during Q1 2024, which represented growth of 19% over Q1 2023. Most notably, IWB booked $4.3M in new orders ($3.2M more than in Q1 2023) and its resulting backlog is over $13M. MWW booked $3.5M in North America, already surpassing their order total in FY2023. As a result, backlog as of Q1 2024 sits at $91.4M, an increase of 124% over Q1 2023 and flat compared to Q4 2023. Of the $91.4M of backlog, $45.5M is forecasted to be recognized in Q2-Q4 2024.

The pipeline remains strong and continued to grow in Q1 2024. Our overall sales pipeline has grown from $332M as at January 1, 2023 to $940M, representing growth of 183%. Moreover, since June 30, 2023, the pipeline has more than doubled. The only exception was the reduction in pipeline in MWW due to the elimination of commercial operations in Israel. Additionally, Fluence expects to book several significant orders in Q2 2024.

## Corporate Update

Consistent with the Company's focus on streamlining operations to enhance profitability, Fluence executed the following actions in Q1 2024:

1. **Divested Aeration Assets**: Fluence closed the sale of Aeration Assets owned by its subsidiary Fluence USA (f/k/a Aeromix Systems Incorporated) to Newterra Inc. for $2M in an all-cash deal, less certain closing costs. Aeromix was founded in 1987 and acquired by Fluence in 2011. Aeromix specializes in designing, manufacturing, installing and servicing mechanical aeration equipment for the municipal and industrial markets, which provide supplemental oxygen to aid in the biological treatment of wastewater, for algae control, and in the removal of unwanted contaminants. The portfolio sold includes brands like Tornado, Hurricane, Twister, Typhoon, Monsoon, Zephyr, Breeze and Riptide. The Aeration Assets and operations were determined by management to be non-core. The transaction improves Fluence's liquidity and enhances profitability in the Company's MWW business in North America.

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 supported the MWW 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 over the course of 2024. This is expected to lead to significant cost savings. Israel will remain an important hub for R&D and engineering at Fluence.

Fluence management continues to evaluate all global operations to maximize efficiency and ensure sustainable, profitable growth.

## FY2024 Guidance

The Company is forecasting FY2024:

- Revenue of $90-100M, representing 29-43% growth over FY2023 including forecasted order bookings of $40-50M in H1 2024; and
- EBITDA[1] of $3.5-4.0M

[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.

## Key Recent Wins

The Company secured several notable new orders YTD 2024, including:

- Cartiere di Trevi paper mill WWTP – Trevi, Italy ($2.3M);
- International Fish Processor Phase 2 WWTP – Mazatlan, Mexico ($0.8M)
- Needmore WWTP – Indiana, USA ($0.5M);
- Sagepoint WWTP – Colorado, USA ($0.6M);
- Xingyang City Highway System WWTP – Henan Province, China ($0.5M);
- Fiddlesticks, FL Country Club Tipton WWTP ($1,525,000);
- Verona, Italy (confidential client) chicken slaughterhouse WWTP Phase 3 ($1.4M);
- 1st Municipal O&M Agreement - Red Bluff, TX Dam; and
- Cabot St. Lucia Nirobox Pretreatment ($0.5M).

## Q1 2024 Cash Flows

The Appendix 4C quarterly cashflow report for Q1 2024 is attached.

As at March 31, 2024, Cash and Cash Equivalents were $16.8M. In addition, the Company held $7.7M in short and long-term deposits, of which $6.7M are held as collateral for bank guarantees for the Ivory Coast Project. Operating cash flow used in Q1 2024 was $7.3M.

While it was expected that that the Company would generate negative operating cash flow in the quarter, it was higher than forecast due to the delay of commencement of the Ivory Coast Addendum and the first milestone payment as well as delays in collections on several large projects in Egypt. Fluence expects that operating cash flow will be positive for the balance of FY2024 and make up for the losses in Q1 2024.

Fluence generated $1.3M in investing cash flows, primarily due to the sale of the Aeration Assets less closing costs and typical escrow amounts held back. The Company also invested $0.4M in capital expenditures in the quarter.

The Company also repaid $1.3M in debt in Q1 2024, as noted in the cash flows from financing activities. Fluence is currently repaying $0.4M per month of term loan debt issued by Upwell Water LLC.

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## Ivory Coast Progress

In Q1 2024, Fluence commenced pre-commissioning of the Main Works and expects commissioning to be completed in Q2 2024.

Also during the quarter, Fluence continued to advance the financing of the Addendum contract toward closing. While the Company had anticipated that closing would occur in Q1 2024, unfortunately there were delays that impacted the startup of the project. All issues have been resolved and we are only awaiting final signatures, which are expected imminently. Thus, we anticipate that the Addendum project will commence in Q2 2024. As noted in prior updates, these works are a critical step to connect the Main Works water treatment plant 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 to complete and a significant amount of the revenue is forecasted to be recognized in 2024 with the balance in 2025. Fluence is actively seeking to secure an O&M contract for the plant from the customer. The start of the long-term O&M contract requires the work being undertaken pursuant to the Addendum to be completed, however, there may be an interim O&M contract awarded which Fluence is well-positioned to receive. Operating the plant on an interim basis would also position the Company well for the long-term O&M contract.

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 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 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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