RISK - SPECULATIVE

FLUENCE CORPORATION (FLC)

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2Q26 – Transition continues

RECOMMENDATION (prev. Speculative Hold)

SPECULATIVE BUY

*See key risks on Page 4.

PRICE

A$0.078

VALUATION

A$0.11 (unchanged)

Expected return	
Capital growth	**39.6%**
Dividend yield	**0.0%**
Total expected return	**39.6%**

Sector

Utilities

Capital structure & trading data	
Enterprise value	**A$103m**
Market cap	**A$89m**
Issued capital	**1,144m**
Free float	
Avg. daily val. (52wk)	**A$44.5k**
12 month price range	**A$0.04-0.15**

Margins continue to expand

Fluence has provided a strong 2Q26 result. FLC reported revenue up 24% yoy to US$20.4m which takes their 1H FY26 unaudited revenue to US$37.6m (BPe US$38.2m). Notably, the higher margin, non-legacy (CES) divisions grew 19% to US$12.5m for the quarter. The last remaining CES project, Ivory Coast (IVC) addendum, achieved US$8.4m in revenue with another ~US$7m to be earned in 4Q26. FLC benefited from US$3.5m in IVC O&M maintenance fees owing from CY25. Industrial Wastewater & Biogas (IWB) and Municipal Water and Wastewater (MWW) had strong quarters compared to the pcp. 1H Gross margins of 35.5% (26.8% pcp) continued the margin expansion story for FLC. Segment EBITDA for the half of US$3.4m was the strongest 1st half in more than 5 years. Typically, FLC sees a softer 1H due to slower starts to the year by customers. FLC has maintained FY26 expectations of double-digit revenue growth, and an expansion of gross and EBITDA margins. We note that this compares to FY26e BPe sales growth of 12%.

Turnaround in cash flow

2Q26 operating cashflow of US$1.8m was a positive turnaround from the US$8.2m outflow last quarter. FLC expect flat operating cash flow for the 2nd half of FY26. 2Q 2026 new orders were US$16.1m, up 54% yoy, noting a significant number of projects expected to be booked in Q1 were delayed. Management see further new order growth for 2nd half. As at 30 June 2026, FLC had available cash of US$10.9m (US$4.1m security deposits) and drawn debt of $US19.5m (prior quarter net debt of US$10.0m).

Ivory Coast contributed greater EBITDA than anticipated and we have reflected this in our changes: 46% FY26; 9% FY27; 1% FY28.

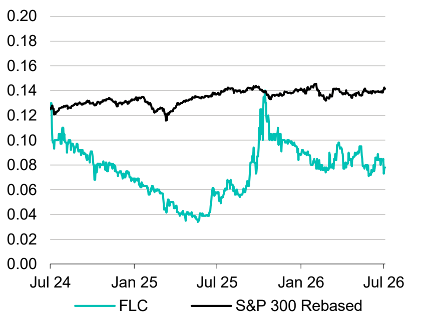
Investment thesis: Val $0.11 (Unchanged)

We see upside risk to our valuation on the potential award of the IVC O+M contract (expected Q3 2026), which we have chosen to leave out of our numbers. We believe the scope of this contract could be as large as €8m annually within 3 years and FLC is in the box seat to win it. Fluence has demonstrated an ability to sustainably grow its higher margin divisions which moves us to a Buy (Speculative) recommendation.

Price performance

	(1m)	(3m)	(12m)
Price (A$)	0.07	0.09	0.06
Absolute (%)	8.3	-8.2	34.5
Rel market (%)	6.3	-11.6	32.1

Share price (A$/sh) vs. XKO



Source: IRESS

Earnings estimates

Year ending 30 June	2025	2026e	2027e	2028e
Sales (US$m)	78.4	87.9	87.0	108.4
EBITDA (US$m)	2.5	5.2	5.0	9.5
NPAT (reported) (US$m)	(8.1)	1.4	1.4	4.7
NPAT (adjusted) (US$m)	(1.1)	1.4	1.4	4.7
EPS (adjusted) (US¢ps)	(0.1)	0.1	0.1	0.4
EPS growth (%)	nm	nm	1.5%	226.4%
P/E (x)	-54.4x	44.2x	43.6x	13.3x
FCF Yield (%)	14.3%	-9.4%	15.5%	3.6%
EV/EBITDA (x)	28.8x	13.8x	14.6x	7.6x
Dividend (A¢ps)	-	-	-	-
Yield (%)	-	-	-	-
Franking (%)	-	-	-	-

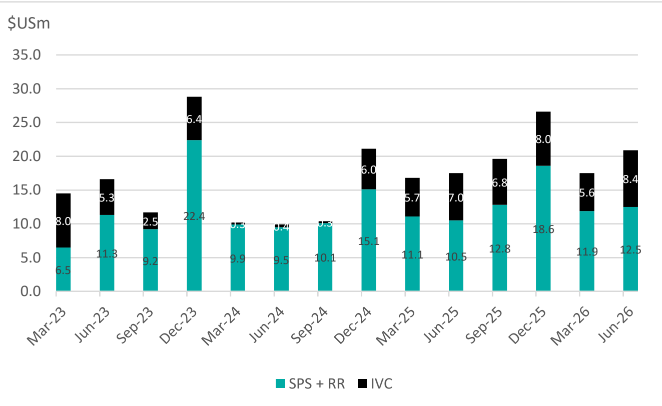
Source: Bell Potter Securities estimates

2Q26 - Transition continues

Financial highlights

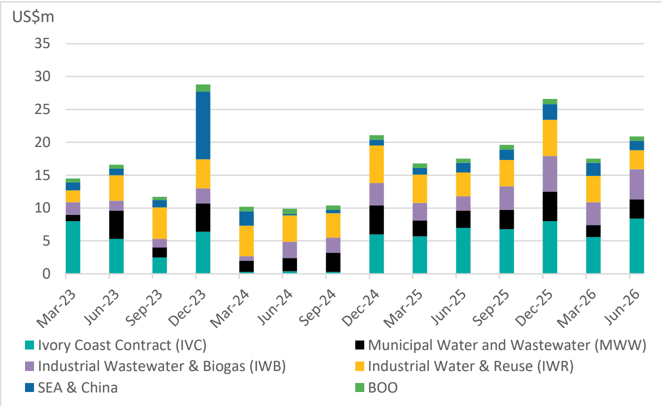
- 2Q26 SPS + RR revenues of US$12.5m, up +19% yoy. Industrial Wastewater & Biogas (IWB) and Municipal Water and Wastewater (MWW) had strong quarters compared to the pcp.
- 2Q26 Segment EBITDA of US$2.9m compared to flat in the pcp reflecting higher gross margins. Gross margins increased to 35.5% in the 1st half.
- Management continues to expect double-digit revenue growth, an expansion of gross margins and strong growth in EBITDA. We note that this compares to FY26e BPe sales growth of +12%.

Figure 1: Quarterly revenues



Source: Company data

Figure 2: Quarterly segmental revenue

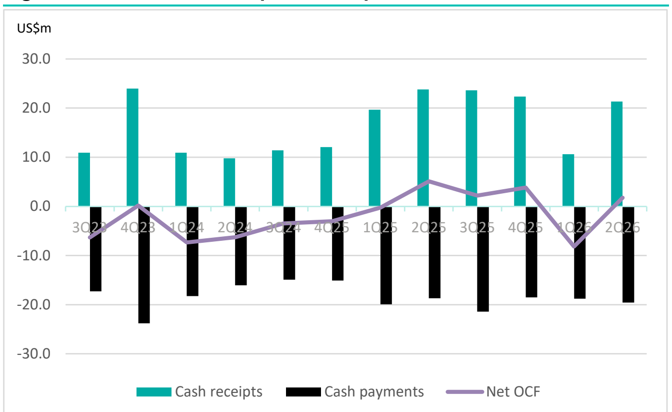


Source: Company data

CASHFLOW AND BALANCE SHEET

- Operating cash flow of US$1.8m was a positive turnaround from the US$8.2m outflow last quarter.
- Cash receipts of US$21.4m was down -10% yoy. IVC Addendum milestone 7 initially scheduled for Q1 was received in Q2 for €6.0m with a number of related vendor payments scheduled to be settled during Q3 2026.
- Management expect flat 2nd half 2026 operating cash flow.
- Post quarter, the company agreed to extend its existing revolving credit facility.

Figure 3: Cash flow trends quarter-on-quarter



Source: Company data

Figure 4: Quarterly backlog & new orders

Source: Company data

2Q26 - Transition continues

Figure 5: 1H26 unaudited overview

Period ending	Jun-25	Dec-25	Dec-25	Jun-26	Change	Jun-26	Actual
Half/Full year	**1H25a**	**2H25a**	**FY25a**	**1H26e**	**% pcp**	**1H(BPe)**	**vs. BPe %**
Municipal Water and Wastewater (MWW)	5.0	7.4	12.4	**4.7**	*-6%*	**5.0**	*-7%*
Industrial Wastewater & Biogas (IWB)	4.9	9.0	13.9	**8.1**	*66%*	**8.7**	*-7%*
Industrial Water & Reuse (IWR)	7.9	9.6	17.4	**6.9**	*-12%*	**8.6**	*-20%*
SEA & China	2.5	4.1	6.5	**3.4**	*39%*	**4.0**	*-14%*
Ivory Coast Contract (IVC)	12.7	14.8	27.5	**14.0**	*10%*	**11.3**	*24%*
BOO	1.3	1.5	2.8	**1.3**	*-3%*	**1.5**	*-13%*
Gross revenue	**34.3**	**46.3**	**80.5**	**38.4**		**39.0**	*-2%*
Corporate	-1.2	-0.9	-2.1	**-0.8**		**-0.8**	
Total Revenue	**33.1**	**45.4**	**78.4**	**37.6**	*14%*	**38.2**	*-2%*
Municipal Water and Wastewater (MWW)	0.2	1.7	1.9	**-0.2**	*-200%*	**0.9**	*-123%*
Industrial Wastewater & Biogas (IWB)	0.3	2.0	2.3	**1.2**	*301%*	**1.5**	*-21%*
Industrial Water & Reuse (IWR)	1.5	2.1	3.6	**0.5**	*-67%*	**1.6**	*-69%*
SEA & China	-0.3	0.0	-0.3	**0.1**	*-134%*	**0.0**	*-352%*
Ivory Coast Contract (IVC)	1.4	2.0	3.4	**5.0**	*254%*	**1.5**	*242%*
BOO	0.3	0.3	0.7	**0.4**	*21%*	**0.2**	*153%*
Segment EBITDA	**3.4**	**8.2**	**11.6**	**7.0**	***103%***	**5.6**	***25%***

Source: Company data & Bell Potter Securities estimates

Updates to forecast

We have reviewed our forecasts following the unaudited 1st half results. Ivory Coast contributed greater EBITDA than we had anticipated and the growing SPS + RR order book gives us further confidence in the margin expansion of the business going into FY27.

A summary of our key forecast changes are shown below:

Figure 6: Summary of changes

	Previous			New			Change		
Year ending 30 June	**FY26**	**FY27**	**FY28**	**FY26**	**FY27**	**FY28**	**FY26**	**FY27**	**FY28**
Revenue $m	85	90	112	87.9	87.0	108.4	3%	-3%	-3%
Gross Profit	25.5	29.9	38.9	31.0	31.6	39.4	21%	6%	1%
EBITDA (underlying) $m	3.6	4.5	9.4	5.2	5.0	9.5	46%	9%	1%
Valuation $/sh	0.11			0.11			1%		

Source: Bell Potter Securities estimates

Fluence Corporation (FLC)

BUSINESS OVERVIEW

Fluence Corporation (FLC) is a global supplier of decentralised water treatment solutions for plant asset operators in municipal, commercial, and industrial markets.

VALUATION METHOD

We utilise an equal weighted blend of our two valuation methodologies: DCF and EV/Sales to determine our 12-month valuation.

RISKS

Risks to an investment in FLC include but are not limited to:

Contract: Successful execution of contracts is imperative for the continued success of FLC. Most notably, the IVC project represents a significant share of FLC's current revenue and cashflow. 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. The award of new contracts is key to FLC's future growth.

Supply chain: Rising input costs and global supply chain constraints experienced over the past few years across industries 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.

Political and Regulatory: FLC is a global company and operates in numerous countries around the world. FLC must comply with a range of governance requirements which are conditions of its listing on ASX. New or evolving regulations as well as international standards are outside FLC's control and can often be complex and difficult to predict. The potential development of international opportunities can be jeopardised by changes to fiscal or regulatory regimes, adverse changes to tax laws, etc.

Intellectual property: FLC has executed international patents covering the biofilm delivery process and membrane design of its Aspiral and SUBRE products – both of which we understand are distinct from competitors. FLC will be required to maintain valid patent protection and there is a risk that competitors may create, or have already created, intellectual property rights that restrict FLC’s ability to exploit its own technology. There is also a risk that FLC will not be able to enforce its property rights or that employees, former employees or third parties will infringe or misappropriate intellectual property.

Competition: FLC’s competitors include large established and well-funded corporations which may be able to adopt aggressive R&D and marketing strategies to capture market share as well as aggressive, fast moving early-stage start-up companies.

Currency: FLC undertakes transactions denominated in non-USD currency and is exposed to foreign currency risk, the greatest of which include the Euro, Argentinian Peso, Egyptian Pound and the Brazilian Real.

RECOMMENDATION (prev. Speculative Hold)

Speculative Buy

PRICE

A$0.078

VALUATION

A$0.11 (unchanged)

Table 1: Financial summary

PROFIT AND LOSS						
Year ending 30 December	**Unit**	**2024a**	**2025a**	**2026e**	**2027e**	**2028e**
Revenue	**US$m**	**51.5**	**78.4**	**87.9**	**87.0**	**108.4**
Cost of goods sold	US$m	-36.3	-55.3	-56.9	-55.5	-69.0
Gross Profit	**US$m**	**15.2**	**23.1**	**31.0**	**31.6**	**39.4**
Underlying EBITDA	**US$m**	**-6.3**	**2.5**	**5.2**	**5.0**	**9.5**
Depreciation	US$m	-1.7	-1.5	-1.7	-1.6	-1.8
Amortisation	US$m	-0.2	-0.1	-0.1	-0.2	-0.2
Underlying EBIT	**US$m**	**-8.2**	**0.9**	**3.4**	**3.2**	**7.4**
Net interest expense	US$m	-2.8	-1.5	-1.4	-1.2	-0.7
Underlying profit before tax	**US$m**	**-11.0**	**-0.6**	**2.0**	**2.1**	**6.7**
Tax expense	US$m	0.2	-0.5	-0.6	-0.6	-2.0
Underlying NPAT	**US$m**	**-10.8**	**-1.1**	**1.4**	**1.4**	**4.7**
Adjustments (post-tax)	US$m	-10.9	-7.0	0.0	0.0	0.0
Reported NPAT	**US$m**	**-21.7**	**-8.1**	**1.4**	**1.4**	**4.7**

CASH FLOW STATEMENT						
Year ending 30 December	**Unit**	**2024a**	**2025a**	**2026e**	**2027e**	**2028e**
OPERATING CASH FLOW						
Receipts from customers	US$m	44.2	89.4	86.6	87.4	102.1
Payments to suppliers and employees	US$m	(61.2)	(78.0)	(89.8)	(73.0)	(94.8)
Tax paid	US$m	(0.8)	(0.3)	(0.6)	(0.6)	(2.0)
Net interest	US$m	(2.3)	(0.2)	(1.4)	(1.2)	(0.7)
Other	US$m	-	-	(0.0)	-	-
Operating cash flow	**US$m**	**(20.1)**	**10.9**	**(5.2)**	**12.6**	**4.5**
INVESTING CASH FLOW						
Capital expenditures	US$m	(1.7)	(1.2)	(1.4)	(1.4)	(1.8)
Payments for acquisitions	US$m	-	-	-	-	-
Disposal of assets	US$m	2.0	0.1	-	-	-
Other	US$m	3.8	0.2	(0.1)	(0.1)	(0.2)
Investing cash flow	**US$m**	**4.1**	**(1.0)**	**(1.5)**	**(1.5)**	**(2.0)**
Free cash flow	**US$m**	**(16.0)**	**9.9**	**(6.7)**	**11.1**	**2.5**
FINANCING CASH FLOW						
Proceeds from share issues (net)	US$m	(0.0)	-	-	-	-
Debt proceeds / (repayments)	US$m	2.3	(2.1)	5.0	(5.0)	(5.0)
Dividends paid	US$m	-	-	-	-	-
Other	US$m	(1.0)	(0.7)	(1.0)	(1.0)	(1.0)
Financing cash flow	**US$m**	**1.2**	**(2.8)**	**4.0**	**(6.0)**	**(6.0)**
Change in cash	**US$m**	**(14.8)**	**7.1**	**(2.7)**	**5.1**	**(3.5)**

BALANCE SHEET						
Year ending 30 December	**Unit**	**2024a**	**2025a**	**2026e**	**2027e**	**2028e**
ASSETS						
Cash	US$m	8.9	16.6	13.9	19.0	15.6
Receivables	US$m	13.8	16.0	15.1	14.9	18.5
Contract assets	US$m	25.1	8.8	11.1	10.9	13.6
Inventories	US$m	5.8	4.6	6.0	6.0	7.4
Capital assets	US$m	7.2	7.9	8.3	8.9	9.7
Intangibles	US$m	1.0	0.6	0.6	0.5	0.5
Long-term deposits	US$m	3.6	4.1	4.1	4.1	4.1
Other assets	US$m	8.7	8.6	8.9	9.0	9.0
Total assets	**US$m**	**74.1**	**67.3**	**68.0**	**73.3**	**78.5**
LIABILITIES						
Payables	US$m	16.4	16.7	9.5	18.7	22.6
Contract liabilities	US$m	21.5	7.0	8.6	8.4	10.1
Borrowings	US$m	20.7	18.2	23.2	18.2	13.2
Provisions	US$m	3.6	3.0	3.0	3.0	3.0
Leases	US$m	0.8	1.1	1.0	0.9	0.8
Accrued project expenses	US$m	18.4	16.2	16.2	16.2	16.2
Other liabilities	US$m	18.7	31.3	31.3	31.3	31.3
Total liabilities	**US$m**	**81.6**	**77.4**	**76.7**	**80.6**	**81.1**
NET ASSETS						
Share capital	US$m	232.6	234.8	234.8	234.8	234.8
Reserves	US$m	(1.6)	1.5	1.5	1.5	1.5
Retained earnings	US$m	(236.3)	(244.4)	(242.9)	(241.5)	(236.8)
Minorities	US$m	(2.2)	(2.1)	(2.1)	(2.1)	(2.1)
SHAREHOLDER EQUITY	**US$m**	**(7.5)**	**(10.1)**	**(8.7)**	**(7.2)**	**(2.5)**
Weighted average shares	m	1,079	1,092	1,142	1,142	1,142

FINANCIAL RATIOS						
Year ending 30 December	**Unit**	**2024a**	**2025a**	**2026e**	**2027e**	**2028e**
VALUATION						
EPS (underlying)	USc/sh	(0.9)	(0.1)	0.1	0.1	0.4
EPS growth	%	na	na	na	1.5%	226.4%
PER	x	-5.5x	-54.4x	44.2x	43.6x	13.3x
DPS	USc/sh	-	-	-	-	-
Franking	%	0.0%	0.0%	0.0%	0.0%	0.0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	USc/sh	(1.5)	0.9	(0.6)	1.0	0.2
FCF yield	%	-27.1%	16.5%	-10.7%	17.8%	4.1%
EV/EBITDA	x	-11.5x	28.8x	13.8x	14.6x	7.6x
NTA	US$/sh	0.0x	0.0x	0.0x	0.0x	0.0x
P/NTA	x	-9.9x	-8.0x	-9.6x	-11.5x	-29.0x
LIQUIDITY & LEVERAGE						
Net debt / (cash)	US$m	12.5	2.7	10.3	0.1	(1.6)
Net debt / Equity	%	-237%	-33%	-156%	-1%	340%
Net debt / Net debt + Equity	%	173%	-50%	278%	-1%	77%
Net debt / EBITDA	x	-2.0x	1.1x	2.0x	0.0x	-0.2x
EBITDA / net interest expense	x	-2.9x	0.6x	2.5x	2.8x	10.0x
PROFITABILITY RATIOS						
EBITDA margin	%	-12%	3%	6%	6%	9%
EBIT margin	%	-16%	1%	4%	4%	7%
Return on assets	%	-13%	-2%	2%	2%	6%
Return on equity	%	-243%	17%	-19%	-24%	-167%
Return on capital employed	%	-75%	15%	12%	14%	32%
Return on invested capital	%	-85%	71%	1201%	-168%	-262%

Segmental information						
Year ending 30 December	**Unit**	**2024a**	**2025a**	**2026e**	**2027e**	**2028e**
Municipal Water and Wastewater (MWW)	US$m	11.0	12.4	15.3	18.7	22.9
Industrial Wastewater & Biogas (WB)	US$m	8.9	13.9	21.1	27.9	38.4
Industrial Water & Reuse (WR)	US$m	18.0	17.4	19.9	23.3	27.3
SEA & China	US$m	3.8	6.5	9.4	13.1	18.5
BOO	US$m	2.9	2.8	3.0	3.0	3.0
Revenue excl. IVC	**US$m**	**44.6**	**53.1**	**68.7**	**86.1**	**110.1**
Ivory Coast Contract	US$m	7.0	27.5	20.9	2.6	0.0
Corporate	US$m	-0.1	-2.1	-1.7	-1.7	-1.7
Total Revenue	**US$m**	**51.5**	**78.4**	**87.9**	**87.0**	**108.4**
Municipal Water and Wastewater (MWW)	US$m	0.9	1.9	1.1	2.9	4.7
Industrial Wastewater & Biogas (WB)	US$m	0.6	2.3	3.6	4.8	6.9
Industrial Water & Reuse (WR)	US$m	3.1	3.6	1.4	3.3	4.6
SEA & China	US$m	-1.1	-0.3	0.8	1.3	1.8
BOO	US$m	0.5	0.7	0.9	0.9	0.9
Segment EBITDA excl. IVC	**US$m**	**4.0**	**8.2**	**7.9**	**13.2**	**19.0**
Ivory Coast Contract	US$m	0.2	3.4	6.5	1.0	0.0
Corporate	US$m	-8.2	-7.7	-7.7	-7.9	-8.0
Share-based payments	US$m	-2.3	-1.4	-1.4	-1.4	-1.4
Underlying EBITDA	**US$m**	**-6.3**	**2.5**	**5.2**	**5.0**	**9.5**

VALUATION SUMMARY		
12-month valuation		
Valuation method	**Weight (%)**	**Val. ($/sh)**
DCF	50%	0.05
EV/Revenue	50%	0.06
Blended equity valuation	**100%**	**0.11**
Current share price $/sh		0.08
Upside to current share price %		40%

Source: Bell Potter Securities estimates

RECOMMENDATION STRUCTURE

BUY	Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.
HOLD	Expect total return between -5% and 15% on a 12 month view.
SELL	Expect <-5% total return on a 12 month view.

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet. Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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