RISK - SPECULATIVE

# FLUENCE CORPORATION (FLC)

## 3Q26 - Resilient

ANALYST
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RECOMMENDATION (unchanged)
**SPECULATIVE BUY**
*See key risks on Page 4.

PRICE
**A$0.058**

VALUATION
**A$0.100** (prev. A$0.11)

| Expected return | |
|---|---|
| Capital growth | **73.1%** |
| Dividend yield | **0.0%** |
| Total expected return | **73.1%** |

**Sector**
**Utilities**

| Capital structure & trading data | |
|---|---|
| Enterprise value | **A$80m** |
| Market cap | **A$66m** |
| Issued capital | **1,146m** |
| Free float | |
| Avg. daily val. (52wk) | **A$41.0k** |
| 12 month price range | **A$0.06-0.15** |

### Solid quarter against a tough backdrop

Fluence has provided its 3Q26 result. The company reported revenue up 6% yoy to US$20.4m. Notably, the higher margin, non-legacy (CES) divisions grew 32% to US$16.9m for the quarter. The last remaining CES project, Ivory Coast (IVC) addendum, achieved US$3.8m in revenue. Municipal Water and Wastewater (MWW), Industrial Water and Reuse (IWR) and South-East Asia & China led the growth. Year-to-date gross margins of 35.2% (29.0% pcp) continued the margin expansion story for FLC. Segment EBITDA was flat yoy at US$1.3m. Typically, FLC sees a stronger 2H 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%.

### Cashflow hurt by timing

3Q26 operating cashflow was -US$4.3m. Operating cash outflow was flagged at the last quarterly reflecting the timing of customer receipts and planned vendor payments during the quarter and management continue to expect a reversal in Q4 albeit less positive than originally forecast. 3Q26 new orders slowed to US$8.0m, down -53% yoy which was disappointing considering management expected further new order growth for the 2nd half. The slowdown was attributed to uncertainty around the Middle East conflict. The IVC O&M contract, which was expected to be signed in Q3, has been pushed back to late Q4 or early Q1 2027. As at 30 September 2026, FLC had available cash of US$6.7m (US$4.0m security deposits) and drawn debt of US$18.1m (prior quarter net debt of US$8.6m).

We make minor EBITDA changes on management commentary on divisional performance: 1% FY26e; 3% FY27e; nc FY28e.

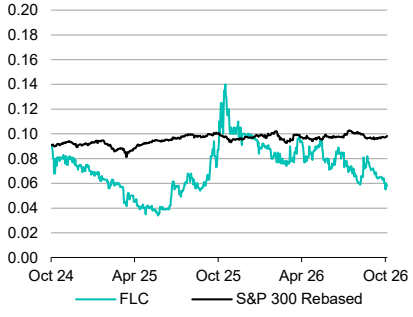
### Investment thesis: TP $0.10 (prev. $0.11)

We see upside risk to our valuation on the potential award of the IVC O&M contract (expected now Q1 2027), which is not currently reflected in our forecasts. 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 continues to demonstrate an ability to sustainably grow its higher margin divisions.

**Price performance**

| | (1m) | (3m) | (12m) |
|---|---|---|---|
| **Price (A$)** | 0.07 | 0.08 | 0.10 |
| **Absolute (%)** | -19.4 | -24.7 | -42.0 |
| **Rel market (%)** | -21.3 | -22.9 | -41.1 |

**Share price (A$/sh) vs. XKO**




Source: IRESS

## Earnings estimates

| Year ending 31 December | 2025 | 2026e | 2027e | 2028e |
|---|---|---|---|---|
| Sales (US$m) | 78.4 | 85.5 | 86.0 | 106.1 |
| EBITDA (US$m) | 2.5 | 5.3 | 5.1 | 9.5 |
| NPAT (reported) (US$m) | (8.1) | 1.6 | 1.8 | 4.6 |
| NPAT (adjusted) (US$m) | (1.1) | 0.9 | 1.8 | 4.6 |
| EPS (adjusted) (US¢ps) | (0.1) | 0.1 | 0.2 | 0.4 |
| EPS growth (%) | nm | nm | 86.6% | 164.2% |
| P/E (x) | nm | 49.6 | 26.6 | 10.1 |
| FCF Yield (%) | 19.3% | -6.5% | 6.4% | 3.8% |
| EV/EBITDA (x) | 22.5 | 10.6 | 11.1 | 6.0 |
| Dividend (A¢ps) | - | - | - | - |
| Yield (%) | - | - | - | - |
| Franking (%) | - | - | - | - |

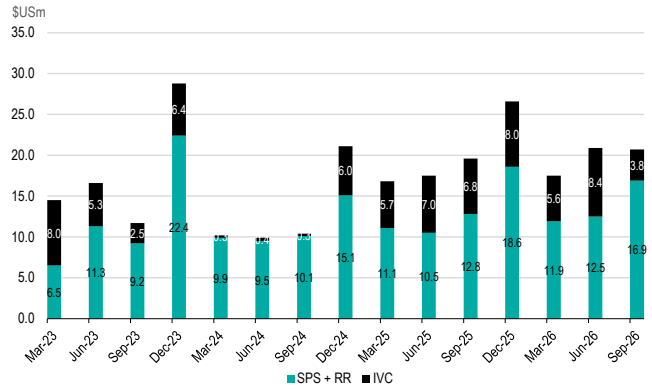
Source: Bell Potter Securities estimates

# 3Q26 - Resilient

## Financial highlights

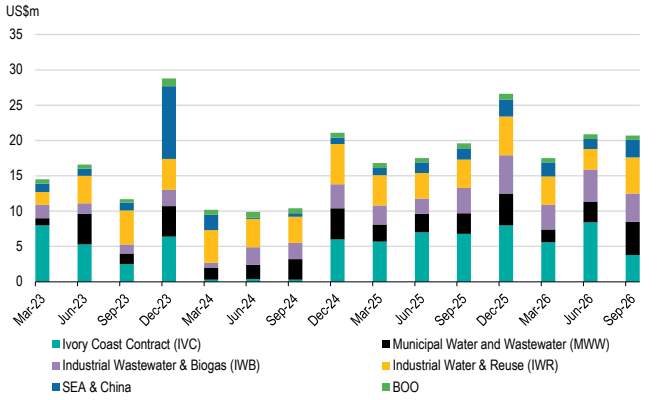
- 3Q26 SPS + RR revenues of US$16.9m, up +32% yoy. Municipal Water and Wastewater (MWW), Industrial Water and Reuse (IWR) and South-East Asia & China led the growth.
- 3Q26 Segment EBITDA of US$1.3m was flat yoy. YTD Gross margins increased to 35.2% in the 3Q from (29.0% pcp).
- Management continues to expect double-digit revenue growth, an expansion of gross margins and growth in EBITDA. We note that this compares to FY26e BPe sales growth of +9%.

**Figure 1: Quarterly revenues**




Source: Company data

**Figure 2: Quarterly segmental revenue**

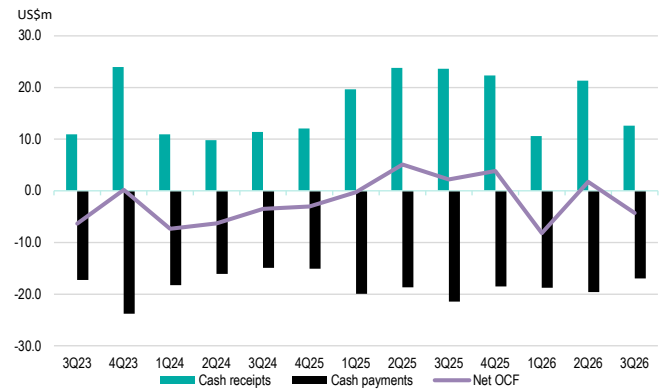



Source: Company data

## CASHFLOW AND BALANCE SHEET

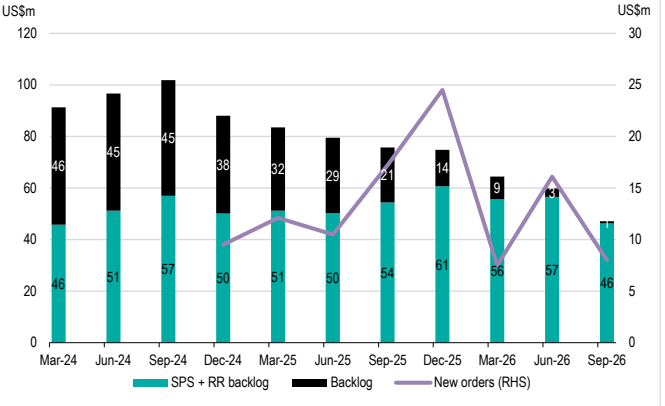
- Negative operating cash flow of -US$4.3m was flagged at the last quarterly reflecting the timing of customer receipts and planned vendor payments during the quarter. A reversal to positive operating cash flow is expected in the current quarter.
- Cash receipts of US$12.6m was down -46% yoy. No IVC Addendum milestone payments were received in Q3 with milestone 8 expected in Q4 and milestone 9 scheduled for Q1 2027.

**Figure 3: Cash flow trends quarter-on-quarter**




Source: Company data

**Figure 4: Quarterly backlog & new orders**




Source: Company data

# 3Q26 - Resilient

## Updates to forecast and valuation

We have reviewed our forecasts following the 3Q 2026 update. We make minor changes reflecting management commentary on divisional performance. Our risk-free rate increases to 4.75% from 4.50% and our valuation moves to $0.10 from $0.11.

A summary of our key forecast changes are shown below:

**Figure 5: Summary of changes**

| | Previous | | | New | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| Year ending 30 June | FY26 | FY27 | FY28 | FY26 | FY27 | FY28 | FY26 | FY27 | FY28 |
| Revenue $m | 87.9 | 87.0 | 108.4 | 85.5 | 86.0 | 106.1 | -3% | -1% | -2% |
| Gross Profit | 31.0 | 31.6 | 39.4 | 29.7 | 31.7 | 39.7 | -4% | 1% | 1% |
| EBITDA (underlying) $m | 5.2 | 5.0 | 9.5 | 5.3 | 5.1 | 9.5 | 1% | 3% | 0% |
| Valuation $/sh | 0.11 | | | 0.10 | | | -8% | | |

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 (unchanged) PRICE VALUATION

**Speculative Buy** **A$0.058** **A$0.100** (prev. A$0.110)

### Table 1: Financial summary

| PROFIT AND LOSS | | | | | | |
|---|---|---|---|---|---|---|
| **Year ending 30 December** | **Unit** | **2024a** | **2025a** | **2026e** | **2027e** | **2028e** |
| **Revenue** | **US$m** | **51.5** | **78.4** | **85.5** | **86.0** | **106.1** |
| Cost of goods sold | US$m | -36.3 | -55.3 | -55.8 | -54.3 | -66.4 |
| **Gross Profit** | **US$m** | **15.2** | **23.1** | **29.7** | **31.7** | **39.7** |
| **Underlying EBITDA** | **US$m** | **-6.3** | **2.5** | **5.3** | **5.1** | **9.5** |
| Depreciation | US$m | -1.7 | -1.5 | -0.9 | -1.4 | -1.8 |
| Amortisation | US$m | -0.2 | -0.1 | -0.1 | -0.2 | -0.3 |
| **Underlying EBIT** | **US$m** | **-8.2** | **0.9** | **4.3** | **3.5** | **7.3** |
| Net interest expense | US$m | -2.8 | -1.5 | -2.5 | -1.0 | -0.7 |
| **Underlying profit before tax** | **US$m** | **-11.0** | **-0.6** | **1.8** | **2.5** | **6.6** |
| Tax expense | US$m | 0.2 | -0.5 | -0.8 | -0.8 | -2.0 |
| **Underlying NPAT** | **US$m** | **-10.8** | **-1.1** | **0.9** | **1.8** | **4.6** |
| Adjustments (post-tax) | US$m | -10.9 | -7.0 | 0.7 | 0.0 | 0.0 |
| **Reported NPAT** | **US$m** | **-21.7** | **-8.1** | **1.6** | **1.8** | **4.6** |

| CASH FLOW STATEMENT | | | | | | |
|---|---|---|---|---|---|---|
| **Year ending 30 December** | **Unit** | **2024a** | **2025a** | **2026e** | **2027e** | **2028e** |
| **OPERATING CASH FLOW** | | | | | | |
| Receipts from customers | US$m | 44.2 | 89.4 | 82.4 | 85.3 | 99.0 |
| Payments to suppliers and employees | US$m | (61.2) | (78.0) | (80.6) | (78.8) | (92.6) |
| Tax paid | US$m | (0.8) | (0.3) | (1.3) | (0.8) | (2.0) |
| Net interest | US$m | (2.3) | (0.2) | (1.7) | (1.0) | (0.7) |
| Other | US$m | - | - | 0.0 | - | (0.0) |
| **Operating cash flow** | **US$m** | **(20.1)** | **10.9** | **(1.3)** | **4.8** | **3.7** |
| **INVESTING CASH FLOW** | | | | | | |
| Capital expenditures | US$m | (1.7) | (1.2) | (1.6) | (1.4) | (1.7) |
| Payments for acquisitions | US$m | - | - | - | - | - |
| Disposal of assets | US$m | 2.0 | 0.1 | 0.1 | - | - |
| Other | US$m | 3.8 | 0.2 | (0.2) | (0.4) | (0.2) |
| **Investing cash flow** | **US$m** | **4.1** | **(1.0)** | **(1.8)** | **(1.8)** | **(1.9)** |
| **Free cash flow** | **US$m** | **(16.0)** | **9.9** | **(3.1)** | **3.0** | **1.8** |
| **FINANCING CASH FLOW** | | | | | | |
| Proceeds from share issues (net) | US$m | (0.0) | - | (0.0) | - | - |
| Debt proceeds / (repayments) | US$m | 2.3 | (2.1) | 1.5 | (5.0) | (5.0) |
| Dividends paid | US$m | - | - | - | - | - |
| Other | US$m | (1.0) | (0.7) | (0.8) | (1.0) | (1.0) |
| **Financing cash flow** | **US$m** | **1.2** | **(2.8)** | **0.7** | **(6.0)** | **(6.0)** |
| **Change in cash** | **US$m** | **(14.8)** | **7.1** | **(2.4)** | **(3.0)** | **(4.2)** |

| BALANCE SHEET | | | | | | |
|---|---|---|---|---|---|---|
| **Year ending 30 December** | **Unit** | **2024a** | **2025a** | **2026e** | **2027e** | **2028e** |
| **ASSETS** | | | | | | |
| Cash | US$m | 8.9 | 16.6 | 14.2 | 11.1 | 6.9 |
| Receivables | US$m | 13.8 | 16.0 | 19.1 | 19.6 | 24.2 |
| Contract assets | US$m | 25.1 | 8.8 | 10.5 | 10.8 | 13.3 |
| Inventories | US$m | 5.8 | 4.6 | 5.7 | 5.9 | 7.3 |
| Capital assets | US$m | 7.2 | 7.9 | 9.8 | 10.3 | 10.8 |
| Intangibles | US$m | 1.0 | 0.6 | 0.7 | 0.9 | 0.8 |
| Long-term deposits | US$m | 3.6 | 4.1 | 4.0 | 4.0 | 4.0 |
| Other assets | US$m | 8.7 | 8.6 | 7.8 | 8.3 | 8.5 |
| **Total assets** | **US$m** | **74.1** | **67.3** | **71.9** | **70.8** | **75.7** |
| **LIABILITIES** | | | | | | |
| Payables | US$m | 16.4 | 16.7 | 16.9 | 18.4 | 22.0 |
| Contract liabilities | US$m | 21.5 | 7.0 | 8.5 | 9.2 | 11.0 |
| Borrowings | US$m | 20.7 | 18.2 | 20.5 | 15.5 | 10.5 |
| Provisions | US$m | 3.6 | 3.0 | 2.0 | 2.0 | 2.0 |
| Leases | US$m | 0.8 | 1.1 | 1.1 | 1.0 | 0.9 |
| Accrued project expenses | US$m | 18.4 | 16.2 | 14.7 | 14.7 | 14.7 |
| Other liabilities | US$m | 18.7 | 31.3 | 29.8 | 29.8 | 29.8 |
| **Total liabilities** | **US$m** | **81.6** | **77.4** | **78.9** | **76.0** | **76.3** |
| **NET ASSETS** | | | | | | |
| Share capital | US$m | 232.6 | 234.8 | 235.0 | 235.0 | 235.0 |
| Reserves | US$m | (1.6) | 1.5 | 2.9 | 2.9 | 2.9 |
| Retained earnings | US$m | (236.3) | (244.4) | (242.7) | (241.0) | (236.3) |
| Minorities | US$m | (2.2) | (2.1) | (2.1) | (2.1) | (2.1) |
| **SHAREHOLDER EQUITY** | **US$m** | **(7.5)** | **(10.1)** | **(6.9)** | **(5.2)** | **(0.6)** |
| 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 | 0.2 | 0.4 |
| EPS growth | % | na | na | na | 86.6% | 164.2% |
| PER | x | -4.1x | -40.6x | 49.7x | 26.7x | 10.1x |
| 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 | (0.3) | 0.3 | 0.2 |
| FCF yield | % | -36.3% | 22.1% | -6.5% | 6.4% | 3.8% |
| EV/EBITDA | x | -9.0x | 22.5x | 10.7x | 11.1x | 6.0x |
| NTA | US$/sh | 0.0x | 0.0x | 0.0x | 0.0x | 0.0x |
| P/NTA | x | -7.4x | -5.9x | -8.6x | -10.9x | -50.3x |
| **LIQUIDITY & LEVERAGE** | | | | | | |
| Net debt / (cash) | US$m | 12.5 | 2.7 | 7.4 | 5.3 | 4.5 |
| Net debt / Equity | % | -237% | -33% | -153% | -173% | 288% |
| Net debt / Net debt + Equity | % | 173% | -50% | 287% | 237% | 74% |
| Net debt / EBITDA | x | -2.0x | 1.1x | 1.4x | 1.0x | 0.5x |
| EBITDA / net interest expense | x | -2.9x | 0.6x | 1.7x | 3.6x | 10.7x |
| **PROFITABILITY RATIOS** | | | | | | |
| EBITDA margin | % | -12% | 3% | 6% | 6% | 9% |
| EBIT margin | % | -16% | 1% | 5% | 4% | 7% |
| Return on assets | % | -13% | -2% | 1% | 2% | 6% |
| Return on equity | % | -243% | 17% | -15% | -44% | -601% |
| Return on capital employed | % | -75% | 15% | 46% | 32% | 47% |
| Return on invested capital | % | -85% | 71% | 3264% | 164% | 161% |

| Segmental information | | | | | | |
|---|---|---|---|---|---|---|
| **Year ending 30 December** | **Unit** | **2024a** | **2025a** | **2026e** | **2027e** | **2028e** |
| Municipal Water and Wastewater (MWW) | US$m | 11.0 | 12.4 | 16.7 | 21.8 | 26.8 |
| Industrial Wastewater & Biogas (IWB) | US$m | 8.9 | 13.9 | 18.5 | 24.9 | 34.3 |
| Industrial Water & Reuse (IWR) | US$m | 18.0 | 17.4 | 17.2 | 20.5 | 24.0 |
| SEA & China | US$m | 3.8 | 6.5 | 10.1 | 14.1 | 19.9 |
| BOO | US$m | 2.9 | 2.8 | 2.8 | 2.8 | 2.8 |
| **Revenue excl. IVC** | **US$m** | **44.6** | **53.1** | **65.3** | **84.1** | **107.7** |
| Ivory Coast Contract | US$m | 7.0 | 27.5 | 21.8 | 3.5 | 0.0 |
| Corporate | US$m | -0.1 | -2.1 | -1.6 | -1.6 | -1.6 |
| **Total Revenue** | **US$m** | **51.5** | **78.4** | **85.5** | **86.0** | **106.1** |
| Municipal Water and Wastewater (MWW) | US$m | 0.9 | 1.9 | 1.6 | 3.0 | 5.1 |
| Industrial Wastewater & Biogas (IWB) | US$m | 0.6 | 2.3 | 2.5 | 4.3 | 6.2 |
| Industrial Water & Reuse (IWR) | US$m | 3.1 | 3.6 | 1.9 | 2.9 | 4.0 |
| SEA & China | US$m | -1.1 | -0.3 | 0.8 | 2.0 | 2.9 |
| BOO | US$m | 0.5 | 0.7 | 0.7 | 0.9 | 0.9 |
| **Segment EBITDA excl. IVC** | **US$m** | **4.0** | **8.2** | **7.5** | **13.0** | **19.0** |
| Ivory Coast Contract | US$m | 0.2 | 3.4 | 7.0 | 1.4 | 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** | **5.3** | **5.1** | **9.5** |

| VALUATION SUMMARY | | |
|---|---|---|
| **12-month valuation** | | |
| **Valuation method** | **Weight (%)** | **Val. ($/sh)** |
| DCF | 50% | 0.06 |
| EV/Revenue | 50% | 0.05 |
| **Blended equity valuation** | **100%** | **0.10** |
| Current share price $/sh | | 0.06 |
| Upside to current share price % | | 73% |

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.*

## RESEARCH TEAM

| STAFF MEMBER | TITLE/SECTOR | PHONE | @bellpotter.com.au |
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