



## **Fluence meets EBITDA guidance with positive EBITDA of \$1.4m** **Year over Year Revenue Grows 58% to \$96.5m**

*New York, Melbourne, 29 January 2020*

Fluence Corporation Limited (ASX: FLC) presents its Quarterly Activities Report and accompanying ASX Appendix 4C (Quarterly Cashflow Report) for the quarter ended 31 December 2020 (Q4 2020). (Financial numbers are in US\$ and subject to audit finalization.)

### **Q4 2020 and FY 2020 Summary**

#### **FY2020 Financial Results**

- Underlying EBITDA<sup>1</sup> positive \$1.4 million in FY 2020 versus an EBITDA loss of (\$23.6M) in FY 2019
- Revenue of \$96.5 million in FY 2020, up 58% from \$61.0 million in FY 2019
- Continued reduction in operating expenses in FY 2020 to \$29 million, down 28% from \$40.1 million in FY 2019
- Positive operating cash flow of \$33.4 million for Q4 and cash balance of \$31.0 million as at 31 December 2020, up from \$21.9 million as at 31 December 2019
- Q4 2020 revenue of \$23.5 million, equaling Q4 2019 and up 51% from \$15.6 million in Q3 2020

#### **Ivory Coast Progress**

- Receipt of advanced payment and first two milestone payments totaling €49.4 million (approx. US\$60 million) on schedule, confirming completion of the preliminary engineering design phase of the Ivory Coast water treatment plant.

#### **Smart Products Solutions (SPS) and Business Development**

- Strong sales growth and partner engagement in China and Southeast Asia with continued partner development in the Middle East
- 2020 SPS sales of \$32.4 million exceeded guidance; recurring revenue sales of \$8.1M below guidance of \$9 million mainly due to delays in the Peru project

#### **Strategic Focus**

- Change in leadership and strategic repositioning underway to focus on profitable growth in three (3) key segments:
  - o MABR wastewater solutions in China and Southeast Asia
  - o NIROBOX™ desalination solutions in the Middle East and Southeast Asia
  - o The Ivory Coast water treatment project

#### **FY2021 Outlook**

- Strongly positioned for growth with guidance for SPS sales in the range of \$35 – 50M and positive EBITDA for the full year of 2021

1 = Underlying EBITDA excludes any significant one-off items including write off of San Quintin related assets as outlined below

## Q4 2020 Commentary

**Reflecting on Q4, the 2020 financial year and the outlook for FY 2021, Fluence Chairman and Chief Executive Officer Richard Irving, said:**

“This final quarter of our 2020 financial year has been significant for the group. Despite some ongoing COVID-19 related headwinds, we continue to see momentum in China, Southeast Asia and the Middle East with our MABR and NIROBOX solutions, and to execute on our Ivory Coast water treatment project for which construction is now underway. During the December 2020 quarter we made some important strategic decisions, transitioned the CEO role and set the business focus on selling MABR in China and SE Asia and NIROBOX in the Middle East and SE Asia. Core research and development for SPS products remains in Israel. Our activities in other geographies continue to secure profitable orders as we explore partnerships, both to grow sales and potentially offload business costs.

Importantly, we continue to review all current and prospective projects to ensure they meet our return on investment targets, consistent with our objective of profitable growth. With that in mind, we have decided not to proceed with the San Quintin desalination project as a number of local changes have resulted in projected returns below an acceptable threshold. We anticipate this will have a positive impact on our cash balance.

Post completion of the Ivory Coast project in two years, we are positioning Fluence to be a SPS based business with targeted gross margins of approximately 35%, operating expense to revenues ratios of approximately 20% and EBITDA margins in the 15% range. The Ivory Coast project provides a valuable reference for complex water treatment and is an important source of profit and cash flow. However, its lower margin will impact our overall reported gross margin until 2023, so we do not anticipate achieving these targets until at least 2023.

We anticipate some SPS sales will be on a recurring revenue or BOOT (Build Own Operate Transfer) basis where we sell wastewater treatment or fresh water by volume instead of equipment. BOOT projects and other sources of recurring revenue such as operations and maintenance contracts remain very appealing to us on the right terms. Finally, we project falling operating expenses when selling SPS as these are pre-engineered, significantly lowering the cost of sales as a percentage of revenue.”

## Q4 2020 Business Update - Detail

### ***Smart Product Solutions (SPS) – MABR and NIROBOX***

FY 2020 SPS sales of \$32.4 million exceeded guidance of \$32 million. Excluding Ivory Coast revenues, SPS sales in 2020 accounted for more than 50% of total group revenues. MABR revenues grew 38% from 2019. With 235 MABR plants sold, Fluence is recognised as a market leader with this technology. Importantly, the Company has built a substantial database of MABR operating results in a wide variety of climates, geographies, flow rates and wastewater types. This allows the Company to offer unique operational and maintenance services, enabling recurring revenue from MABR plants in China and globally.

The highest growth MABR markets in the near-term continue to be China and Southeast Asia, with potential emerging in the USA.

## **China**

Despite various COVID-19 lockdowns significantly slowing new orders, 2020 revenues in China still grew by 38%, primarily from orders from our three (3) volume partners. Cost reduction efforts during 2020 resulted in a significant increase in gross margin. The Company successfully closed and executed initial paid projects for both Three Gorges Group for the Great Protection of Yangtze River (Three Gorges) and Beijing China Railway Science New Technology Co. Ltd. (China Rail). Both Three Gorges and China Rail are state owned enterprises (SOEs) with national scope. Discussions including potential volume partnerships continue with both of these SOEs. Existing and prospective China partners are key to our future growth.

COVID-19 lockdowns are expected to continue in China significantly slowing the timing of new orders. However, to our knowledge we have not lost business due to COVID-19 nor has partner demand diminished from earlier projected levels. Based on initial sales estimates when the three volume partnership MOUs were initially signed and the progress to date, the Company remains confident that there are substantial opportunities in the pipeline remaining to be fulfilled for these partners. Fluence anticipates continued MABR sales growth in China in 2021.

## **Southeast Asia**

Fluence now has 10 plants operating or being deployed in the Philippines, comprised of eight (8) MABR plants and two (2) desalination plants, in a wide variety of settings. Two (2) contracts were secured in Q4 2020. Excellent operating results from existing plants coupled with strong and significant local relationships are anticipated to lead to new business.

Fluence's MABR plant in Cambodia, the first wastewater treatment plant of any kind in the country, is now under construction. Fluence also has desalination plants operating successfully in Vietnam.

Given these successful deployments and strong local relationships, Fluence anticipates continued business growth in these and other Southeast Asian countries, driven both by enforcement of stricter wastewater treatment standards and steadily worsening water scarcity as local economies develop.

## **Middle East**

NIROBOX and related desalination products are also well established with 115 units sold to date. As in other geographies, Fluence is looking to develop strong partnerships to accelerate sales and several such discussions are underway. The Company has now completed three (3) NIROBOX projects in Egypt and has completed more than half of its scope of work on the New Mansoura project in Egypt. Five (5) other projects in the Middle East are executing well and there are several large projects in the pipeline.

## **Ivory Coast**

In Q4 2020 Fluence received payments totalling €49.4 million (approx. US\$60 million) from the Ivory Coast water treatment plant project (the IC Project). This included €31 million in respect of two milestone payments for the completion of the preliminary engineering design phase with the balance as a contractual advance payment following commencement of construction.

With a contract value of €165 million, the IC Project is designed to treat water from Lagune Aghien to help supply the fresh water needs of the country's largest city, Abidjan. Lagune Aghien is Ivory Coast's largest freshwater reserve near Abidjan and is dense with algae and other contaminants. Commissioning of the 150,000 m<sup>3</sup>/day surface water treatment plant is anticipated in early 2023. Fluence's focus is to deliver the project on time and on budget.

As with all such large projects, cash flows will fluctuate quarter by quarter. With the significant payments received in Q4 2020, we anticipate the project to remain cash flow positive going forward.

### **San Quintin, Mexico**

During the quarter, Fluence and the State Water Commission of Baja California (CEA) continued to actively discuss a mutually acceptable path forward for the San Quintin water treatment project. As foreshadowed in the September 2020 Quarterly Activities Report, the proposed project economics are no longer expected to meet the Company's targeted return on capital. Discussions are taking place on parallel paths, focusing on the terms of either a sale of the project to a third party or, alternatively, a termination by mutual agreement.

Under either scenario it is expected that the Company will not recover all of the costs which have been capitalized to date. Accordingly, the Company has adopted a conservative position to write down the carrying value of the San Quintin related assets by \$11.8 million as at 31 December 2020.

The decision to not proceed with the project is expected to be cash flow positive for the Company due to the anticipated repayment to Fluence of approximately \$3 million of security deposit.

### **Sustainability**

Fluence's innovative solutions contribute to resource conservation, energy savings, making energy from waste and enabling water reuse.

Fluence's MABR and NIROBOX installations around the world collectively save an estimated 25 GWh of energy (17,900 tons of CO<sup>2</sup>) annually compared to conventional technologies. Treated wastewater from Fluence's MABR installations collectively removes 1,050 tons of nutrients which would otherwise damage the environment.

Fluence's Waste to Energy solutions treat wastewater and produce energy on-site by converting biomass to biogas which generates 147 GWh in energy savings (103,500 tons of CO<sup>2</sup>) annually compared to fossil fuels.

### **Q4 2020 Cash Flows**

The Appendix 4C quarterly cashflow report for Q4 2020 is attached.

Cash and Cash Equivalents were US\$31.0 million as at 31 December 2020. In addition, the Company held \$32.9 million in short and long-term deposits, of which US\$27.0 million is applied as collateral for bank guarantees for the Ivory Coast Project which will be released over the following 18 months. Net Cash from Operating Activities in Q4 2020 was US\$33.4 million, revenue in Q4 was US\$23.5 million, of which US\$14.2 million was SPS. Operating expenses in Q4 2020 were 28% lower than Q4 2019.

During the quarter US\$60.0 million of the US\$75.3 million cash receipts was related to the Ivory Coast Project. Of that amount, US\$37.0 million was payment for the first two (2) milestones and the balance was in respect of the advance payment. For the same project, Fluence made payments to suppliers and subcontractors of US\$18.6 million in 2020 and expects to make further payments of US\$12.3 million in Q1 2021.

## Positive Outlook for FY 2021

Fluence 2021 guidance is summarised as follows:

- SPS sales range US\$35 million to US\$50 million
- EBITDA positive on an annual basis

SPS sales for FY 2020 grew by 23% to US\$32.4 million, including MABR sales growth of 38% to US\$18.9 million, despite COVID-19 headwinds significantly impacting the timing of sales.

Fluence is not aware of any changes to the estimated total value of contracts and expects continuing new orders from each of its three (3) strategic partners in China. There is uncertainty on timing and whether the contemplated size of each partners' demand will be revised; however, Fluence anticipates continued MABR sales growth in 2021.

As evidenced by FY 2020 sales, other SPS products have seen strong interest in SE Asia, the Middle East and elsewhere. Given the outlook on continuing volume partnerships and reflecting COVID-19 uncertainty, Fluence has provided a wide **guidance range for 2021 SPS revenues of US\$35 - 50 million**, with much of the growth coming from MABR sales. The guidance range will be refined during the year.

Operating expenses in FY 2019 were US\$40.1 million, or 66% of revenues. In FY 2020 operating expenses were reduced to US\$29.0 million or 30% of revenues. As noted above, this continued improvement is due in part to the strong focus on MABR and other Smart Products which require much less engineering cost in the sales process. The improvement is also due to a focus on spending less in non-core areas. For these reasons, we anticipate further improvements in operating efficiency in FY 2021 excluding any one-time costs.

Given the ongoing negotiations regarding San Quintin, and the review of additional projects to ensure they will achieve minimum acceptable investment returns, Fluence is not providing guidance on recurring revenue at this time. This remains, however, an important aspect of our business by virtue of both operations and maintenance contracts and BOOT projects.

Fluence is guiding to **Underlying EBITDA positive for 2021 on a full year basis**, with the focus on maximising profitable growth of MABR and other SPS products.

Richard Irving said: "COVID-19 travel restrictions have significantly slowed down the timing of new orders and signing new partnerships. However, we believe in the current environment that the FY2020 results are excellent. We will continue to face COVID-19 headwinds in 2021, but we are confident of continuing to profitably grow SPS revenues, improving operating efficiencies and maintaining positive EBITDA, net of one-time costs."

## **Quarterly Update – Conference Call**

Richard Irving (Chairman & CEO) and Francesco Fragasso (CFO) will host an investor conference call regarding the Company's quarterly update on Friday, January 29<sup>th</sup> at 9:30 am Australia AEST / Thursday, January 28<sup>th</sup> at 5:30 pm US EDT. Call details below:

For those wishing to dial into the call, please register for the call through the following link:

<https://s1.c-conf.com/diamondpass/10011733-4ujeXe.html>

Alternatively, at the time of the call, dial your respective local number below and provide the conference ID **10011733** to the operator:

AUSTRALIA TOLL/INTERNATIONAL	+61 2 9007 4041
AUSTRALIA TOLL-FREE	1 800 173 224
US TOLL-FREE	(855) 336 4664
US TOLL	(208) 758 0667

A link to the live webcast will be accessible on the Company's "Investor Relations" page at <https://www.fluencecorp.com/investor-news/>. Questions will need to be submitted electronically through the webcast interface.

For those wishing to access the webcast please register in advance: <https://s1.c-conf.com/diamondpass/10011733-4ujeXe.html>

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This announcement is authorised for lodgement on ASX by Richard Irving, Chairman & CEO, Fluence Corporation Limited.

**About Fluence Corporation Limited (ASX: FLC)**

Fluence is a leader in the decentralised water, wastewater and reuse treatment markets, with its pre-engineered, standardised Smart Products Solutions, including Aspiral™, NIROBOX™ and SUBRE. Fluence offers an integrated range of services across the complete water cycle, from early stage evaluation, through design and delivery to ongoing support and optimisation of water related assets, as well as Build Own Operate Transfer (BOOT) and other recurring revenue solutions. With established operations in North America, South America, the Middle East, Europe and China, Fluence has experience operating in over 70 countries worldwide and enables businesses and communities worldwide to maximise their water resources.

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.