

Watershed complete, growth strategy in play

Fluence Corporation (ASX:FLC) provides water and wastewater treatment, and reuse solutions, for the municipal, commercial, and industrial markets worldwide. The company has a proven suite of products and expertise, both proprietary and otherwise, which it has used to deliver more than 850 projects globally. After some historical missteps, FLC has now been completely rejuvenated through the appointment of a highly regarded and proven US-based management team and reinvigorated board. The company has since been recapitalised through a \$40.3m capital raise, resulting in debt reduction and material change in the shareholder register. The strategy has been refocused away from large construction engineering projects and towards high- growth, higher- margin proprietary product solutions and recurring revenue, the results of which are beginning to emerge. We see FLC as well positioned to capitalise on a significant and growing opportunity, particularly in the US, and we forecast EBITDA growth from US\$3.3m to US\$11.5m over the next three years. We initiate coverage with a DCF-based valuation of \$0.25/share, representing capital upside potential of ~50% on the current share price. We also view the company favourably from an ESG perspective.

Business model

Fluence is a diversified business, by product, customer profile and geography, and derives revenue from the design and sale of equipment solutions for water and wastewater treatment in municipal, industrial, and commercial settings. This is complemented by the ongoing provision of parts and service, and operation and maintenance contracts.

The pieces of the puzzle are now in place

The new team has driven change over the past 12 months and the business appears to us to be transitioning into a strong growth phase. We view Fluence as an opportunity to invest in a proven team and believe in its ability to execute, as it has done before. The likely resulting earnings growth should drive valuation, and any material success with higher margin products and recurring revenue in the US should make the company more visible in what has been a highly acquisitive industry. Execution risk remains but the market opportunity is large and growing. The emergence of a sizeable build-own-operate (BOO) pipeline provides material upside potential but is yet to be clarified, so is not included in our forecasts.

DCF valuation of \$0.25/share

We have undertaken a discounted cash-flow valuation and derived a value of A\$0.25/share. All forecasts and reported financials are in US\$, so we have adjusted the DCF valuation and all per-share metrics at an A\$/US\$ exchange rate of US\$0.65. The valuation represents ~50% upside potential from the current share price. As a cross-check, we have also undertaken a peer comparison with international and domestic peers on an EV/Sales basis which demonstrates that Fluence is trading at a significant (greater than 50%) discount to both groups. In our view, demonstration of continued profitability and margin expansion may well result in a rerating.

Historical earnings and RaaS estimates

Year end	Revenue (US\$m)	EBITDA adj. (US\$m)	NPAT adj. (US\$m)	EPS* (c)	P/E* (x)	EV/Sales* (x)
12/23a	69.3	0.1	(9.3)	(0.74)	n/a	0.9
12/24f	96.3	3.3	0.2	0.02	n/a	1.2
12/25f	114.6	7.8	4.0	0.57	28.9	1.0
12/26f	112.6	8.1	4.6	0.66	25.0	1.0
12/27f	132.4	11.5	7.2	1.03	16.0	0.7

Source: Company data, RaaS estimates for FY24f to FY27f *Adj for A\$

Industrials- Capital Goods

9 April 2024

Share Details

ASX code	FLC
Share price (8-Apr)	\$0.17
Market capitalisation	\$183.0M
Shares on issue	1,076M
Net cash (Dec 31 2023)	\$6.3M
Free float	~77%

Share Performance (12-months)



Upside Case

- New contracts win-rate ahead of our forecasts
- The securing of material significant contracts larger than we forecasts
- The emergence of a clear BOO model and pipeline conversion

Downside Case

- Failure or delays in conversion of pipeline
- Margin expansion story doesn't play out
- Lack of traction in the US market

Catalysts

- Conversion of contract pipeline
- Proof of further traction in the US
- Continued profitability and margin expansion

Board and Management

Doug Brown	Chair
Tom Pokorsky	CEO/Managing Director
Paul Donnelly	Non-Executive Director
Richard Irving	Non-Executive Director
Ross Haghghat	Non-Executive Director
Mel Ashton	Non-Executive Director
Melanie Leydin	Company Secretary
Ben Fash	Chief Financial Officer
Richard Cisterna	Chief Commercial Officer

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Fluence Corporation

After several challenging years in terms of bottom-line profitability, we believe Fluence is now positioned to execute on a clearly defined and simplified strategy focussed on higher-margin products and services, complemented by increased contribution from recurring revenue through operating and maintenance contracts and the potential for build-own-operate projects. The company says it will continue to operate internationally but the new US-based management team sees a clear growth opportunity in North America and has invested in the sales team accordingly. This is translating into a strong pipeline of secured and potential contracts delivering higher gross profit margins across the group. Post a capital raise in late 2023, the business now appears well capitalised to execute on its plans.

Investment Case

In our view, Fluence Corporation Limited can achieve success for the following reasons:

- A new management team and reinvigorated board with a proven track record of success in the water industry.
- The new team has now been together for more than 12 months and has successfully executed several key initiatives to drive change.
- A recapitalised balance sheet with renewed share register removes financial pressure and frees up the new team to direct the business forward.
- A change in product mix and business type shifts the company away from large engineering and construction projects to higher-margin specialised products and operational and maintenance contracts.
- The new strategy is beginning to show some success under a restructured business with simplified sales and reporting lines. The company says it is focussing on specific areas of growth, some of which have ESG, regulatory and government incentive tailwinds.
- Top-line growth should be complemented by both gross profit margin expansion and operating leverage as the business scales.
- Timing appears right as management executes on what seems to be a well-thought-out strategy and we are now at the starting line of the realisation phase. This is illustrated by a very strong fourth quarter 2023 and the growing pipeline of contracts and opportunities.

DCF Valuation

We have considered the following valuation methods:

- Discounted cash flow (DCF): \$0.25; and
- Relative forward EV/EBITDA and EV/Revenue multiple against domestic and offshore peers.

Exhibit 1: Base Case DCF valuation

DCF parameters and valuation	Outcome
Discount rate / WACC	10.6%
Beta (observed beta is 0.86)*	1.2
Terminal growth rate assumption	3.0%
Sum of Present Value (PV) (US\$M)	49.2
PV of terminal value (US\$M)	116.1
PV of enterprise (US\$M)	165.3
Net cash at 31 Dec 2023 (US\$M)	6.3
Net value – shareholder (US\$M)	171.6
No of shares on issue (M)	1,076.2
NPV per share	A\$0.25

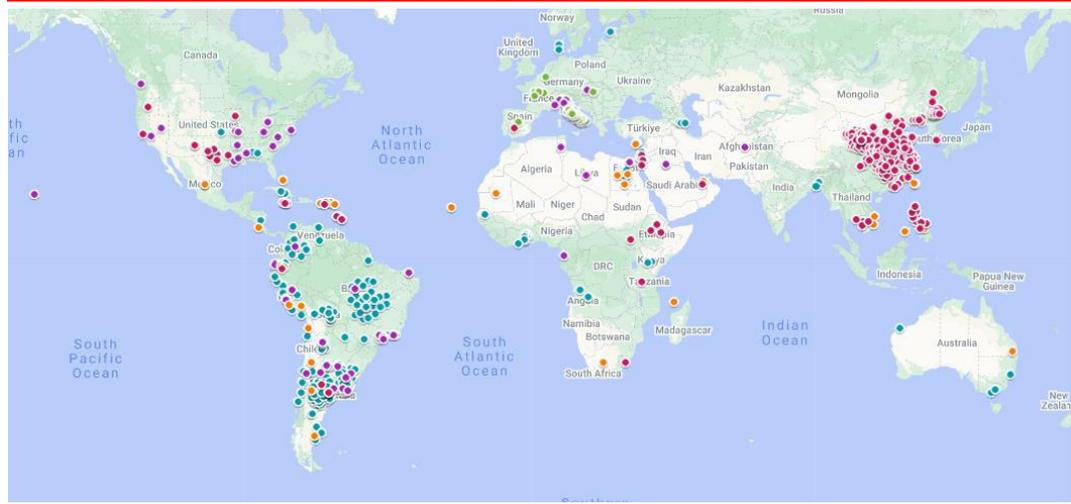
Source: RaaS estimates *LSEG five-year observed beta

Company Overview

Fluence Corporation provides smart decentralised water and wastewater treatment solutions in the areas of wastewater treatment and reuse, wastewater-to-energy, industrial and drinking water markets. It does so through the provision of its pre-engineered, standardised Smart Product Solutions (SPS) including Aspiral™, NIROBOX™, SUBRE™ and Nitro™, complemented by engineering, procurement, parts and service, and operating and maintenance services.

The company specialises in providing these plug-and-play, high-quality and cost-effective water and wastewater treatment solutions that can be quickly installed, automatically operated (in many cases) and easily maintained. Fluence has a proven technology and product suite with more than 850 installed plants around the world within various municipal, commercial and industrial markets. It is now headquartered in the US but has operations in regions around the globe with areas of focus including North America, the Caribbean, South-East Asia and China, South America, Europe, Africa and the Middle East. Deployed plants are illustrated in Exhibit 2. It is worth noting that these plants were designed and installed through a sales model, rather than remaining under the ownership of FLC (except for two relatively small build-own-operate sites).

Exhibit 2: Fluence Corporation's deployed plants



Source: Company AGM presentations May 2023

A great deal has changed within Fluence over the past two years. Its history is discussed in the next section, but in short, even though Fluence has proven technologies and a strong suite of products and solutions, previous commercial strategies and paths to market have failed to realise the full potential of the company. We believe this resulted in a business that was left with an overly complicated structure, lack of clarity in strategy and a debt-laden balance sheet.

This has now changed through the introduction of a new management team and injection of capital. The business has been simplified from 11 separate divisions and P&Ls (previously mainly by geography), down to four clear target industries, all of which offer opportunities for strong growth.

The four main operating divisions are outlined in Exhibit 3.

Exhibit 3: Fluence operation divisions

Division	Main Products	Main Growth Opportunity
Municipal Water and Wastewater (MWW)	SPS products - Aspiral, SUBRE, NIROBOX	US municipal market
	Parts and service	MABR technology solutions
	Operations and maintenance	
Industrial Wastewater and Biogas (IWB)	SPS products - various	US waste-to-energy market
	Waste-to-energy solutions	European waste-to-energy market
	Parts and service	Food processing, abattoirs, other industrial
	Operations & Maintenance	
Industrial Water and Reuse (IWR)	SPS products - various	South America remains strong
	Parts and service	Lithium mining space
	Operation and maintenance	Reuse applications in industrial processing
SE Asia and China (SEA&C)	SPS products - Aspiral, SUBRE, NIROBOX	Ex-China incl. Taiwan, Cambodia, Vietnam, Korea
	Operation and maintenance	

Source: Company presentations and RaaS analysis

Company Background

The company that has evolved into Fluence has an ASX-listed history dating back to 2016. Then known as Emefcy, the company listed in December 2016 with a suite of proprietary products focussing on the Membrane Aerated Biofilm Reactors (MABR) technology (to be discussed later in the report) and Microbial Fuel Cells (MFC) technology.

The business had a strong focus on engineering since its inception in 2008 but also enjoyed solid commercial success, listing with annualised revenue of ~US\$60m.

In 2017, with a market capitalisation around US\$300m, Emefcy looked to accelerate its commercial expansion by acquiring RWL Water for ~US\$70m. RWL Water was founded in 2010 by Ronald Lauder (of the Estee Lauder family) and operated as a global water treatment business providing a fully integrated service including engineering, manufacturing, financing, installation, operation and maintenance, and consulting.

RWL Water operated as a holding company for several regional organisations in USA, Argentina, Italy, Israel and the Middle East and provided Emefcy with an established commercial capability into which it could sell its own product range.

Upon merger the business was re-named Fluence Corporation in January 2018. The focus on geographical differentiation became the structure upon which the company operated going forward (although now changed).

Over the course of the next five years the business generated revenue of between US\$60m and US\$120m, but 2020 was the only profitable period at the operating level.

Looking back and with the benefit of hindsight, we believe the structure and strategy appeared overly complex and incohesive. The business had 11 or 12 separate P&Ls, each with a significant cost base. Revenue growth was targeted and delivered, but cost bases were not aligned, and projects were at times delivered at very low GP margins.

Fluence was operating in many regions and targeting projects of all sizes, from very small stand-alone facilities in China, to large engineering, procurement and construction projects. This was evidenced by the Ivory Coast project which was originally secured in 2019 when Fluence signed a €165m commercial agreement with the Federal Government of Ivory Coast for a turn-key supply of a 150,000m³/day surface-water treatment plant. This has represented a significant portion of FLC's revenue since the project began, and although the original

build is now largely complete, an addendum of €48m has been secured to complete the final stage, connecting the system to water distribution works.

In summary, the company had some obvious strengths in its suite of products, but the execution of the growth strategy was disjointed and required simplification and focus, in our view. It resulted in FLC carrying too high a cost base due to the complexity of the structure and operating in areas of the industry where margins were relatively low, and the projects offered no recurring income. This resulted in years of bottom-line losses and significant cash outflows and a balance sheet that was highly-gearred.

Reinvigoration Of The Company

What we see as the reinvigoration of the Fluence business began around two years ago with the appointment of proven water industry veterans Tom Pokorsky as CEO and Doug Brown as a strategic advisor to the board, and consequently Chairman. The team was then expanded with the appointment of CFO Ben Fash in January 2023 and new sales and operating executives. This team has extensive experience, not only in the successful operation of businesses within the water industry, but a proven track record of growing companies and taking them to an exit point through acquisition, as illustrated in Exhibit 4.

Exhibit 4: The new Fluence team

Name	Position	Background
Doug Brown	Chairman	Mr. Brown is one of only a handful of globally recognized senior executives to have led multiple successful billion dollar exits in the water space. He was the founder, Chairman and CEO of AquaVenture Holdings, which he led to a listing on the New York Stock Exchange ("NYSE") in 2016 and subsequently sold to Culligan Water for US\$1.2 billion in 2020 while he was serving as Chairman. Mr. Brown was also CEO of Seven Seas Water, an AquaVenture Holdings business. He was previously CEO of NYSE-listed Ionics, Inc., which was acquired by GE Water for US\$1.3 billion in 2005. Prior to Ionics, Mr. Brown was CEO of Advent International, a global private equity firm. Mr. Brown's experience spans the US, Europe, South America, the Middle East, the Caribbean, Africa and Southeast Asia.
Tom Pokorsky	CEO and Managing Director	Mr. Pokorsky has 35 years of successful water industry executive experience, including 15 years as CEO working in North America, with activity in Europe, China and Israel. Mr. Pokorsky has run public and private businesses, achieving returns of 5–10x with IRRs up to 50%. He founded and grew Nexom in the wastewater sector, delivering 25% annual revenue growth and 50% EBITDA growth, leading to its sale to KKR. At Water Pollution Control Corporation (later "Sanitaire"), Tom doubled revenue and profits, negotiated its sale to ITT Industries, and then grew its Advanced Water Treatment group (now part of Xylem) from \$60M to \$350M in four years, including \$100M in organic growth and five successful acquisitions on three continents.
Ben Fash	Chief Financial Officer	Mr. Fash has more than 10 years of strategic financial and operational leadership, mostly in the water treatment equipment and services industry, prior to which he spent 8 years in private equity and investment banking. His experience includes a unique combination of financial operating experience in addition to M&A execution, capital raising, company-building and strategic decision-making. Before joining Fluence, Mr. Fash was CFO of Dumas Mining, a niche underground services provider in the mining industry. Prior to Dumas, Mr. Fash was EVP & CFO of Newterra, a global leader in providing modular water and wastewater treatment equipment and services. Partnering with their private equity owners, Ben was part of the executive team that led Newterra to double the size of the business, all while increasing profitability and improving cash flow management in all segments of the business, which ultimately led to a successful exit in 2020.
Richard Cisterna	Chief Commercial Officer	Richard Cisterna serves as the Chief Commercial Officer of Fluence and is responsible for Fluence's corporate strategy, business and market development, partnerships, and acquisitions to drive business growth. Mr. Cisterna has 30 years of executive leadership and business development experience in the water and wastewater market and has led the development of over US\$1 billion of projects for municipal, industrial, and commercial clients. He is the Founder and President of Renewable Organics Infrastructure, a consulting and advisory company that focuses on sustainable infrastructure projects and technologies. Prior to ROI, Mr. Cisterna served as Executive Vice President of Business Development with Natural Systems Utilities and as part of the executive leadership team, where he led the firm's development of decentralized water infrastructure solutions. Previously he was a partner at Hazen and Sawyer, an international water and wastewater engineering consulting firm, where he led business development in several geographic regions and served on the corporate strategic planning committee.

Source: Company presentations

These appointments were the catalyst for a clear change in strategic direction and a subsequent restructure and recapitalisation of the business. The main points of which are outlined below:

- **Change in strategy:** Shifting focus to high-growth markets that they know well. This involves moving away from custom engineered solutions (CES) contracts such as the Ivory Coast project and focussing on higher-margin Smart Product Solutions (SPS) and recurring revenue. We discuss this in more detail in the Divisional Overview section of this report.
- **Simplification of the business units:** Reporting and operating divisions have been reduced from 11 to four, aligned largely on end use of product rather than geographical region.
- **Cost-out initiatives:** Other than the cost of time benefit of the simplified structure, the new team has also removed \$6.8m of fixed costs (-26%), \$4.2m on a sustainable basis, over the past 12 months.
- **Recapitalisation:** In November 2023 FLC undertook a capital raise of A\$40.3M and subsequent debt repayment, substantially reducing interest cost burden and providing headroom for future growth initiatives. The company is now net cash positive.
- **Reinvigorated and aligned shareholder base:** As part of the recapitalisation, the largest shareholder (Ronald Lauder) sold his position and no longer has an association with the company. The register sees significantly increased investments from some existing shareholders and meaningful new shareholders including:
 - **Doug Brown, Chairman (~14%)** – the Chairman now holds a significant personal investment in FLC totalling ~A\$25m.
 - **Nikolaus Oldendorff (~10%)** - a private investment from a member of a German shipping family.
 - **Regals Funds Management (~9%)** – invested in the placement and appears to us to have added since.
 - **Jagen Group (~5%)** – the Melbourne-based Lieberman family.

It appears to us the business now has the people, the strategy, the structure, the balance sheet and the supportive share register to grow strongly off the 2023 base. That said, execution risk remains, but we believe the new team has positioned the business well to capitalise on the opportunity.

Divisional And Product Overview

The divisional structure has been simplified by industry and customer type. Fluence describes its divisions as illustrated in Exhibit 5.

Exhibit 5: The new divisional structure

MUNICIPAL WATER & WASTEWATER	INDUSTRIAL WASTEWATER & BIOGAS	INDUSTRIAL WATER & REUSE	SEA ASIA & CHINA
<ul style="list-style-type: none"> Market-leading MABR technology Proven products for multiple use-cases: <ul style="list-style-type: none"> – Modular: Aspiral and Nirobox – Larger Greenfield & Retrofit: SUBRE Significant global installation base 	<ul style="list-style-type: none"> Process design more efficient than competition Technological expertise and robust installation base Deep knowledge of the food & beverage market including the production processes Turnkey system delivery (technology + equipment) Smaller footprint compared to competitors 	<ul style="list-style-type: none"> 30 years of experience in South America Extensive reference list in target market Deep and experienced Engineering Team 	<ul style="list-style-type: none"> Market Leader in MABR Large Installed Base Reference in High Concentration NH3 and TN Removal Presence across Asia 
OPERATIONS, MAINTENANCE, PARTS & SERVICE 			
BUILD, OWN & OPERATE (WATER-AS-A-SERVICE) 			

Source: Company presentation November 2023

Fluence has several key products, and technologies within those products, that are sold across more than one of the divisions. Before discussing each of the divisions, their business models and their relative revenue and earnings contributions, we provide a brief outline of the range of products and services that represent the bulk of the Fluence offering.

Product and solution overview

The company offers various solutions across a broad cross-section of the water and wastewater industries including:

- **Water treatment:** Proprietary technologies to provide decentralised, standard and custom-designed water treatment solutions that can reliably deliver safe drinking water to municipalities and government entities, and high-quality process water – including ultrapure water – to industries.
- **Desalination:** Proven experience in the financing, design, construction and operation of desalination plants -- including unique, Smart Packaged desalination solutions like NIROBOX™ and NIROFLEX — for municipal, commercial, and industrial clients.
- **Wastewater treatment:** FLC uses an array of products and solutions to treat wastewater across various industries including municipal wastewater to industrial effluent from businesses such as food processing plants, abattoirs, the oil and gas industry, and various simple sewage treatments.
- **Reuse:** The advanced treatment of wastewater to purity levels that allow its reuse for industrial, agricultural or municipal applications.
- **Waste-to-energy:** Various products and solutions to treat wastewater across various industries to produce energy to drive plant efficiency or for other economic benefits.

The markets in which these solutions are provided are divided into the following:

- **Municipal:** Large and small municipal clients, government entities, communities, emergency relief and private use.
- **Commercial:** Clients including hotels and resorts, golf courses, commercial buildings, shopping malls and campuses.
- **Industrial:** Industries including power, abattoirs, food and beverage, pharmaceutical, oil and gas upstream, petrochemicals, metals, mining, automotive, pulp and paper, textile, cosmetics, and military.

Exhibit 6 illustrates the products and use cases

Exhibit 6: Water product and solution by use case		
Product/solution	Description	Use case examples
NIROFLEX Desalination Building Blocks	Pre-engineered building blocks for the design of seawater desalination system. The NIROFLEX solution is explained in more detail here .	Delivery of safe drinking water government entities, municipalities, private companies, and high-quality process water to industrial operations.
NIROBOX™ Smart Packaged Plants	Small-footprint, containerised solutions to treat water from any source. The NIROBOX™ solution is explained in more detail here .	Municipalities and growing communities, housing developments, construction sites, commercial establishments, resorts, hotel, golf clubs, power plants, agriculture irrigation, mining camps.
Reverse Osmosis	Various solutions for desalination and other water purification processes, using a crossflow membrane separation process.	Seawater desalination, rejection of boron, elimination of bromides, reuse of effluent water.
Ultrafiltration	Removes suspended solid, endotoxins, bacteria, viruses, and other pathogens from feed water to produce high-purity water with a low silt density index (DSI)	Reverse osmosis pre-treatment, surface water clarification, seawater pre-treatment, arsenic removal, effluents treatment for reuse, bacteriological treatment.

Source: Company data and RaaS research

Exhibit 7: Wastewater products and solutions and their use cases

Product/solution	Description	Use case examples
Decentralised Water Treatment	Locating wastewater treatment plant(s) at the site of supply, demand, or both. Technologies/products used include: MABR explained here . Aspiral™ Smart Packaged Water Solutions explained here .	Small communities, school campuses, malls, resorts, golf courses, industrial plants, mining/oil/gas camps, constructions sites.
Dissolved Air Flotation	DAF is a wastewater clarification process for the separation of solids, grease and oils. The system helps concentrate sludge, removes a wide range of suspended solids (fats, oil and grease) in wastewater and reduces COD and BOD. The solution is explained in detail here .	Used for product recovery and reuse, pre-treatment to meet sewer discharge limits, to reduce loading on downstream biological systems, polishing of effluent, removal of silt and grease from industrial water. Used in industries including meat, poultry and fish processing, dairy, petrochemicals, pulp and paper, food, and beverage.
MABR Wastewater Treatment	Membrane aerated biofilm reactor (MABR) has taken years of research and has been applied to more than 200 commercial projects. This technology is used in the Fluence products Aspiral™ and SUBRE (both of which are explained in more detail below), but the underlying technology itself is explained in the short video here .	Underlying technology used in some of Fluence's flagship products across many industries and use types.
SUBRE Wastewater Treatment	Using MABR modules, SUBRE provides an upgrade solution to existing treatment facilities that, for example, may have reached their limit. The SUBRE towers are submerged into the existing chambers. Described here .	Existing treatment plants across various industries.
Smart Packaged Aspiral™	Aspiral™ uses MABR technology in modular containers for scalable wastewater solutions in a small pre-engineered package. Aspiral's efficiency makes it suitable for decentralised treatment off the grid since its low energy needs can be supplied by alternative sources. Described here .	A solution for small to medium- sized plants serving small towns, residential communities, resorts, hotels, commercial complexes.
Smart Packaged EcoBox™	The EcoBox™ solution can contain several the solutions already discussed such as DAF, ultrafiltration, and reverse osmosis in a plug-and-play containerised product to treat and reuse water that can be commissioned and produce clean water quickly and efficiently.	Applicable for uses including cities, small communities, food and beverage manufacturers, industrial operations, mining operations, power generators, agricultural operations, recreational facilities, hotels, and resorts.
Tipton Series Extended Aeration WWTPs	Prefabricated, packaged, compact and portable that are delivered to site but can be custom configured for each project. Explained here .	Applications include remote mine and construction sites, camp grounds and parks, rest areas and truck stops, hotel and resorts, apartment complexes, schools, small residential communities, and hospitals.

Source: Company data and RaaS research

Revenue mix and divisional overview

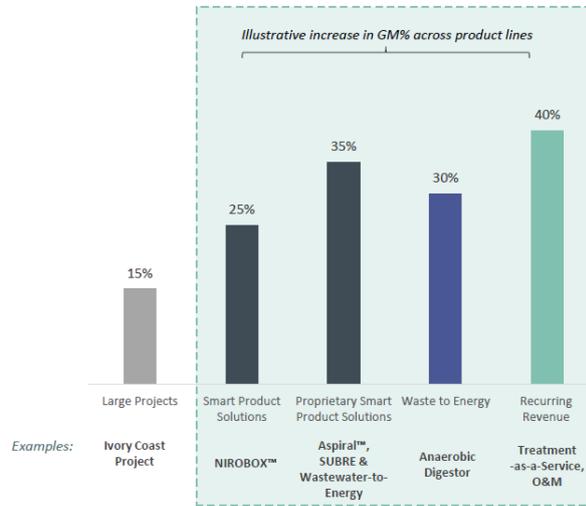
The technologies, products and solutions described have all been proven at commercial level, with a total of more than 850 projects delivered around the world. These plants are not owned by Fluence (with two exceptions discussed later in the report), but have been engineered, procured and installed by Fluence and operated by end-user customers (or in some cases Fluence) over many years.

In our view, the major challenge historically has been clarity around strategy and path to market, further complicated by the fact the company has also grown through acquisitions, that were never fully integrated. We believe the experience that lies within the new board and senior management team provides a pivotal change. The simplified structure and reduction in reporting divisions also makes the company easier to understand from an investment perspective.

The strategy is based around a transition towards higher-margin products, complemented by a recurring revenue model of O&M work and the potential for build-own-operate projects. This sees the business transition away from large engineering and construction projects such as the Ivory Coast contract. Exhibit 8 illustrates the difference in GP margin across product/service type.

Exhibit 8: Focused strategy transitioning to higher margins

TRANSITION TO HIGHER MARGIN SEGMENTS



Source: Company presentation November 2023

The product mix is diversified, both by division and geography. The three-year vision as communicated by the company is shown in Exhibit 9.

Exhibit 9: Three-year strategy

3-Year Vision

Focused on growing presence in North America and transitioning from CES revenue to SPS and Recurring Revenue segments

GEOGRAPHY

- Increasing share in North America, Caribbean and SEA



PRODUCTS

- Increasing higher margin SPS and Recurring Revenue



END MARKETS

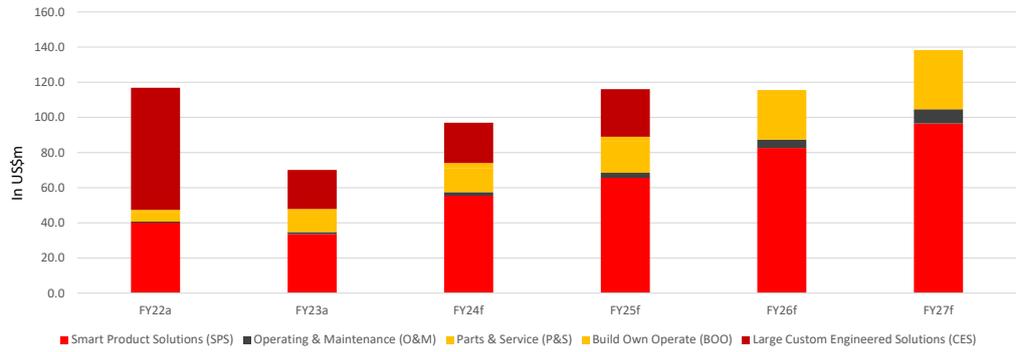
- De-risked business through broader end market mix



Source: Company presentation November 2023

Group revenue by type is illustrated in Exhibit 10. RaaS estimates include growth in SPS solutions, parts and service, and operating and maintenance revenue, more than offsetting the roll-off of the large CES contract (Ivory Coast construction phase). We haven't included any new build-own-operate projects in our forecasts, due to unknown timing and contract structure, but we believe the likelihood is that they will make a material contribution over the forecast period. We see this is upside potential.

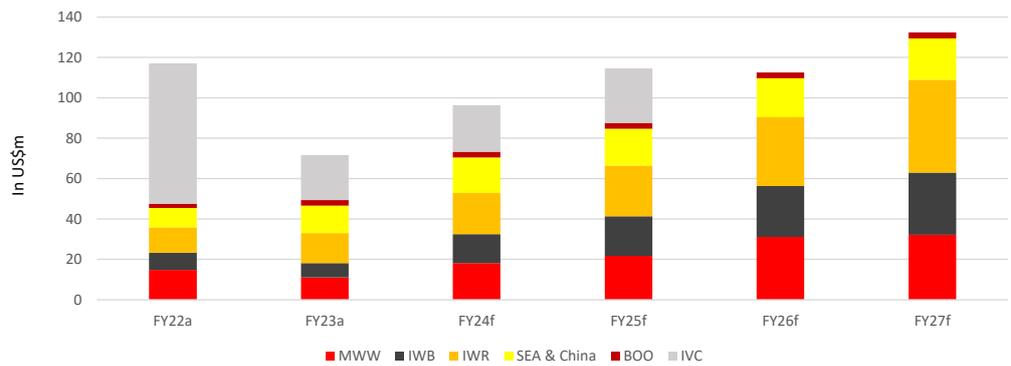
Exhibit 10: Group revenue composition by type



Source: Company data for historicals and RaaS estimates

This provides a basis of understanding to divisional specific forecasts and drivers. In Exhibit 11 we illustrate our forecast revenue contribution at the divisional level.

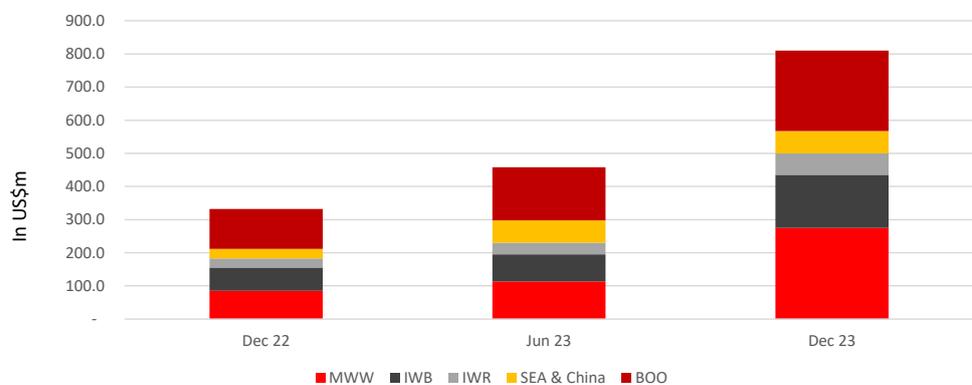
Exhibit 11: Revenue contribution by division



Source: Company data for historicals and RaaS estimates

In our forecasts the three main growth engines are the Municipal Wastewater, Industrial Wastewater and Biogas (incl. waste-to-energy), and Industrial Water Reuse divisions. The contract pipeline has grown strongly over the past year. This can be seen in Exhibit 12.

Exhibit 12: Contract pipeline



Source: Company data

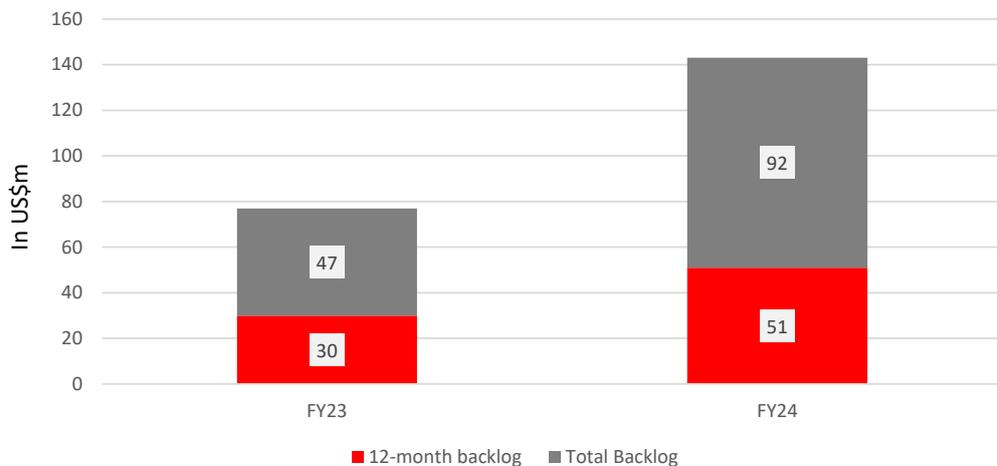
The obvious outlier is the fact that the BOO pipeline is material (US\$243m) and we have not included a contribution in our forecasts. We prefer to gain clarity on success rate, project structure and funding mechanisms before including in our estimates.

The company appears to be converting the December 2023 pipeline with a recent announcement regarding early order and market development success in 2024, including:

- \$2.3m Industrial Wastewater and Biogas (IWB) project for a paper mill in Italy.
- \$1.4m Industrial Wastewater and Biogas (IWB) project for a chicken slaughterhouse in Italy.
- \$3.3m in new orders for the Municipal Water and Wastewater group in North America, eclipsing 2023 order totals, including:
 - \$1.5m WWTP – Fiddlesticks, FL Country Club.
 - \$0.6m Aspiral MABR for Sagewood Point in Colorado.
 - \$0.5m Aspiral MABR for Needmore Elementary School in Indiana.
 - \$0.5m WTP for Cabot St. Lucia.
- In addition, Industrial Wastewater and Biogas has more than \$10.0m of potential future projects under Letter of Intent.

Exhibit 13 shows the backlog in December 2022 versus December 2023. The December 2023 backlog represents ~73% of total FY23 revenue and does not include any of the recently awarded contracts discussed above. It does include the Ivory Coast addendum, so is somewhat skewed.

Exhibit 13: Beginning backlog FY23-FY24



Source: Company data

Municipal Water and Wastewater (MWW)

We forecast the MWW division to represent 19% of revenue in FY24, at a GP margin of 34%.

Revenue is predominantly derived from the sale of Fluence’s MABR-based special product solutions (SPSs), but the company says there will be a continued drive to expand the O&M and P&S parts of the business (with the early “low-hanging-fruit” being the large global installed base and recently developed projects).

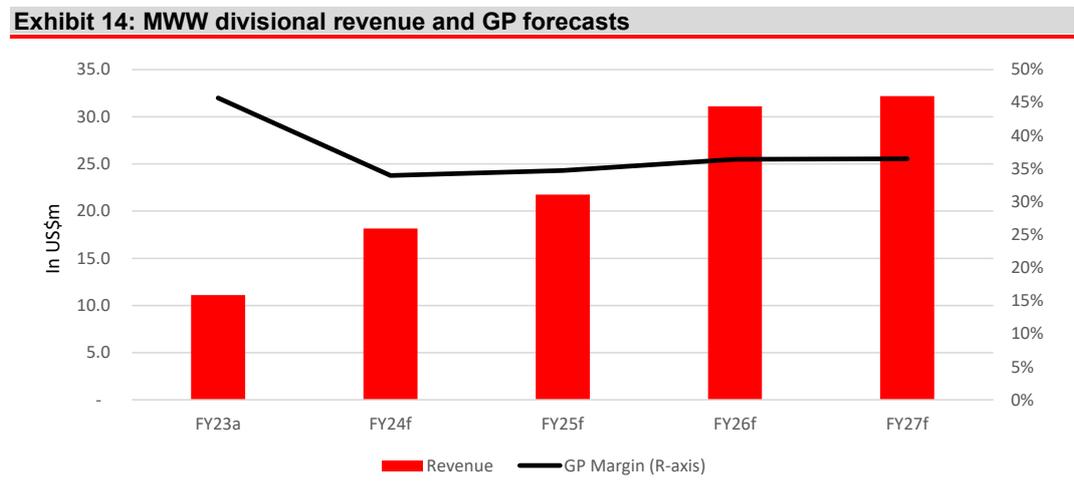
The key components of the SPS solutions are MABR products (Aspiral™, SUBRE™, Nitro™ and NIROBOX™). Average contact size varies by product, but as a guide, Aspiral™ solution ~US\$250,000, SUBRE ~US\$600,000 and NIROBOX ~US\$250,000.

The MWW division has a broad reach geographically with a significant global installation base, mostly because of the legacy sales strategy. The new strategy will continue to see FLC work internationally, but the main driver of growth will likely be North America, where the sales team has been expanded over the past 18 months.

The new management team knows the North American market well and believes the upside potential is material, particularly if MABR technology is widely accepted and adopted within the municipal part of the industry. We believe only a limited amount of competitors have genuine competing technologies like the MABR offering (for example, Suez and DuPoint) and FLC management believes it has the superior solution which is more cost effective and efficient. The FLC team also thinks its own MABR process is not only less expensive, but is more durable, uses fewer chemicals and consumes less energy than competitors.

As previously mentioned, the sales team has been expanded in the US. The sales cycle in the municipal part of the industry can be longer due to the nature and complexity of the client. Fluence continues to educate the market about its offering, from the asset owners, engineering firms, contractors and independent sales rep network.

There are clear early signs that the strategy to push more aggressively into North America is working. The pipeline for the whole MWW division has grown from \$85m to \$275m over the past 12 months, with North America being the predominant focus for sales growth. Recent contract wins include a \$1.5m WWTP contract in Florida and an O&M contract in Texas, which was a follow-up from a recent sale, providing early-stage validation of the strategy.



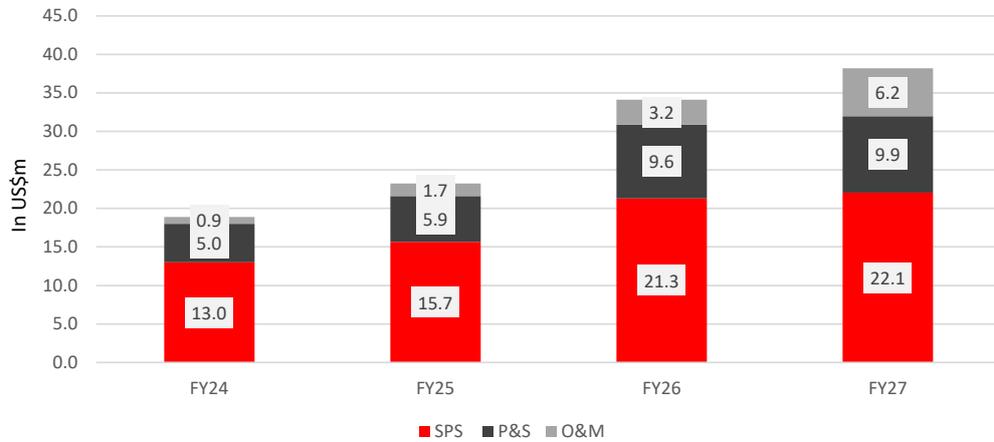
Source: Company data and RaaS forecasts

Exhibit 14 above shows RaaS estimates for revenue and GP margin in the MWW division. Key points of interest are:

- We believe our forecasts are conservative and see material upside potential if larger contracts are secured or the US market adopts the product suite more quickly than we estimated.
- The forecast revenue includes the inclusion of an O&M contract for the Ivory Coast project, on which construction should be completed in FY25. This contract is yet to be secured, but FLC designed and built the plant and appears well positioned and confident of securing the contract. We assume the contract ramps up from an FY25 revenue base of US\$1.5m p.a.
- We forecast management’s cost-out initiatives, product mix (in some cases proprietary) and focus on “high-growth markets that we know well” to result not only in revenue growth, but GP margin expansion into the 35%-37% range over time.

Exhibit 15 illustrates the revenue mix by type, with both SPS sales and O&M forecast to grow strongly. The changing mix drives the forecast GP margin expansion and subsequently EBITDA margin higher over time, as shown in Exhibit 16.

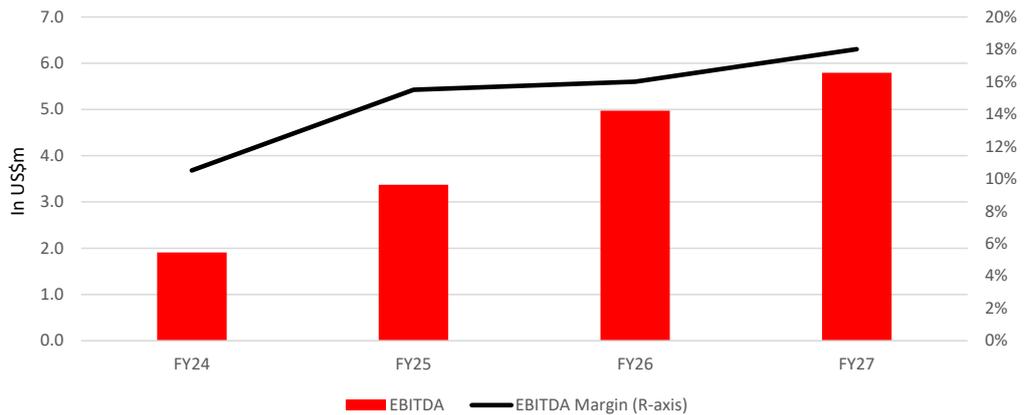
Exhibit 15: MWW revenue composition forecasts



Source: RaaS forecasts

Note: "P&S" represents "Parts & Services", "O&M" represents "Operations & Maintenance".

Exhibit 16: MWW EBITDA and EBITDA margin forecasts



Source: RaaS forecasts

Industrial Wastewater and Biogas (IWB)

We forecast the IWB division to represent 15% of revenue in FY24, at a GP margin of 30%.

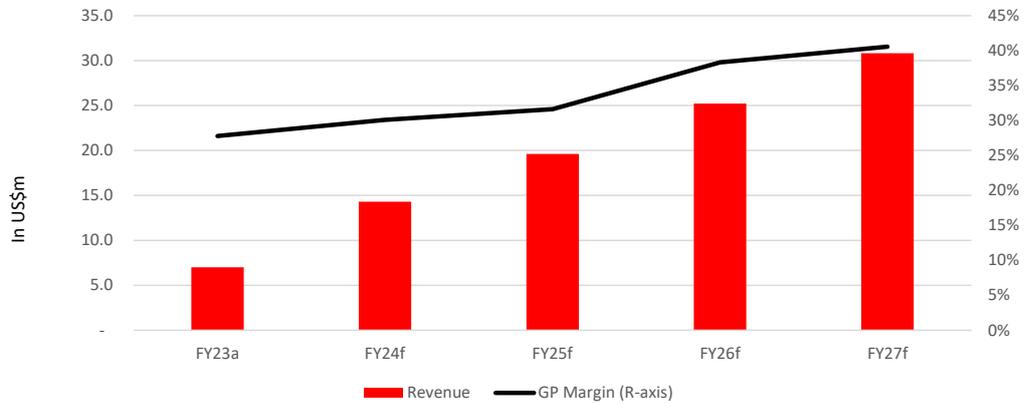
A portion of this business was borne out a legacy acquisition based in Italy, which at one point was apparently almost sold by previous management. However, the new team was attracted by the opportunity and early signs suggest it may offer strong growth potential. The division comprises operations in both Italy and a recently expanded presence in North America (from a sales and engineering perspective) and has an installed base of ~41 plants, so the product/technology itself appears proven.

Revenue is generated through sale of SPS and waste-to-energy products, complemented by some parts and service income. The contracts can be more engineering-based and often associated with brownfields sites. Generally, contracts are larger than the MWW division, so revenue can be lumpier, but offer material upside potential. Contracts generally range in size from US\$0.75m to US\$3.0m. Our forecasts assume an average size of US\$1.25m.

We expect Europe to deliver solid growth over the forecast period and, again, management sees a material opportunity in North America by providing solutions that support the shift to global decarbonisation, taking advantage of government incentives such as the Inflation Reduction Act in the US and the new nitrogen

removal laws in Mexico. FLC management says it sees opportunities in areas including food and beverage processing and abattoirs. The expanded sales team has grown the stated pipeline from \$70m to \$160m in 12 months, and we believe that other potential larger opportunities may be currently in the pipeline but are likely categorised under the BOO division.

Exhibit 17: IWB divisional revenue and GP forecasts



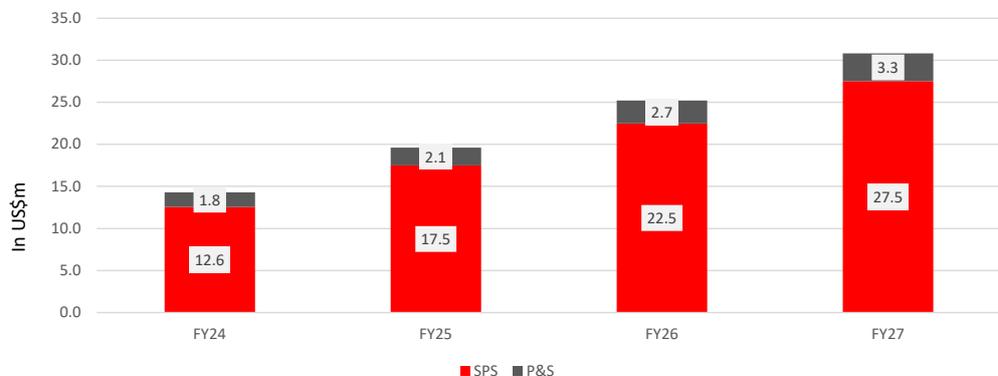
Source: Company data for historicals, RaaS forecasts

Exhibit 17 above shows RaaS estimates for revenue and GP margin in the IWB division. Key points of interest are:

- We assume growth out of both Europe and the US but believe any upside surprise would likely be derived from the US operations, where there appear to be material opportunities with individual contract size of up to ~\$10m with individual customers (potentially across numerous sites). That said, we don't include any large contracts exceeding US\$1.5m in value in our estimates.
- We forecast GP margin expansion into the mid to high 30% range over the next two to three years as the business grows in specific industries and likely delivers projects in a more focussed, replicable and efficient manner in markets and industries the company understands well.

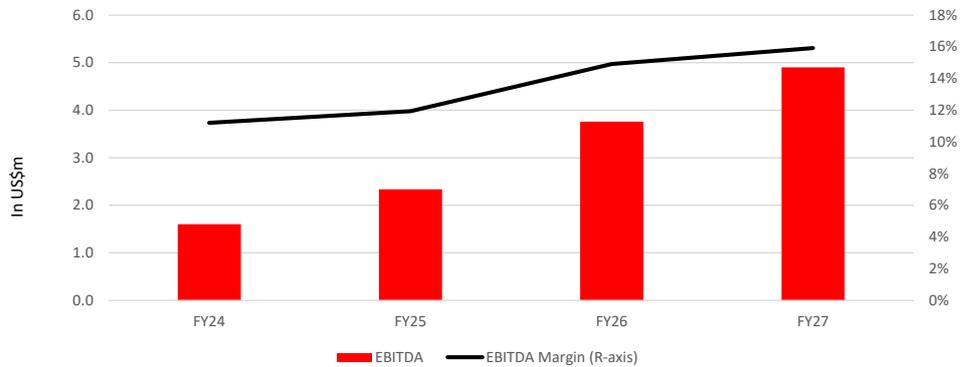
Exhibit 18 illustrates the revenue mix by type, dominated by SPS sales growth and complemented by the Parts and Service revenue stream. EBITDA margin forecast expansion is driven by efficiency gains in US onshoring and roll-out efficiency, as shown in Exhibit 19.

Exhibit 18: IWB revenue composition forecasts



Source: RaaS forecasts

Exhibit 19: IWB EBITDA and EBITDA margin forecasts



Source: RaaS forecasts

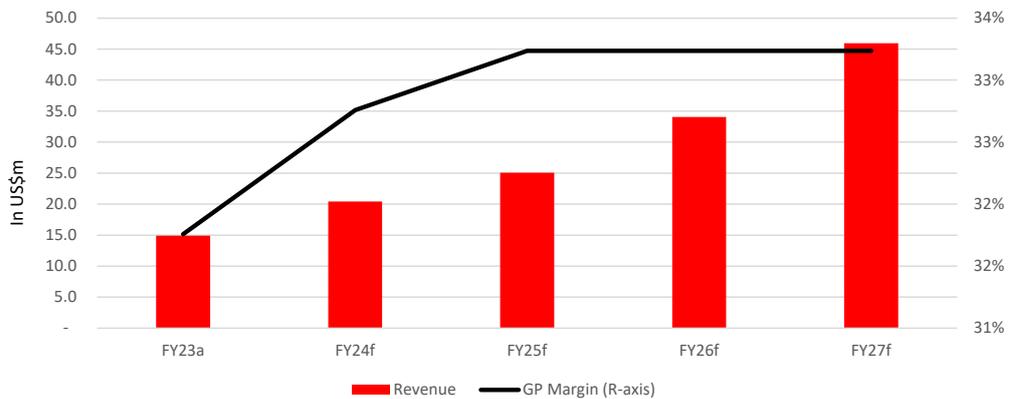
Industrial Water and Reuse (IWR)

We forecast the IWR division to represent 21% of revenue in FY24, at a GP margin of 28%.

The business unit is comprised of operations in South America and North America, with a focus on selling various SPS products, complemented by O&M contracts and Parts and Service revenue. Its areas of focus are broad, but FLC has enjoyed recent success in industries including food and beverage and lithium mining. The history of this division was Argentinian based, but the new team says it is again focussing on cross sharing the knowledge and capitalising on opportunities within North America.

The pipeline has grown strongly, from \$28m to \$65m over the past 12 months. Average contract size for the SPS products is ~\$135,000 with GP margins between 27% and 30% (we use 28% in our forecasts).

Exhibit 20: IWR divisional revenue and GP forecasts



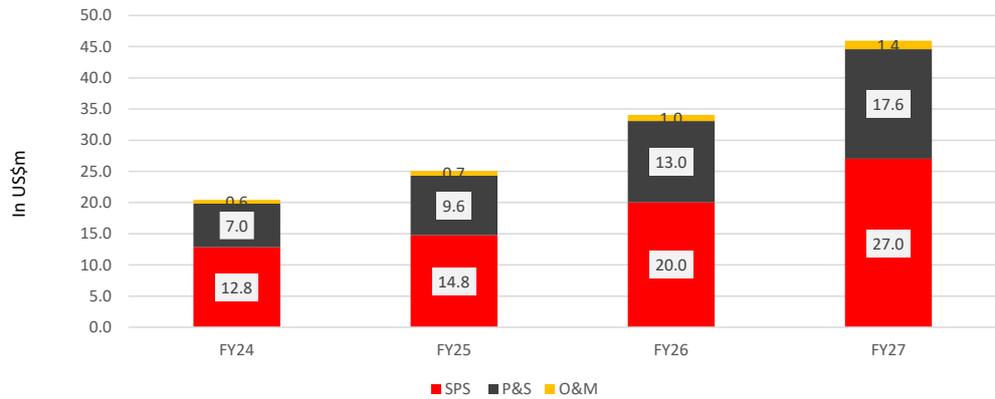
Source: Company data for historicals, RaaS forecasts

Exhibit 20 above shows RaaS estimates for revenue and GP margin in the IWR division. Key points of interest are:

- We assume growth out of South America, Europe and the US. A strong Parts and Service business should help drive GP margins higher.
- We forecast GP margin to expand as per company guidance.

In Exhibit 21 we illustrate the revenue mix by type, with both SPS sales, Parts and Service (P&S), and Operations and Maintenance (O&M) contributing to growth.

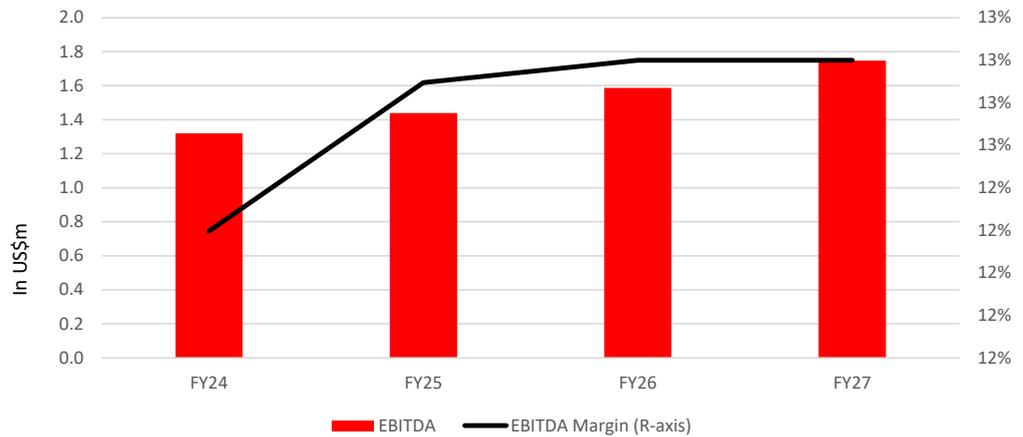
Exhibit 21: IWR revenue composition forecasts



Source: RaaS forecasts

IWR EBITDA contribution and associated margin forecasts are shown in Exhibit 22.

Exhibit 22: IWR EBITDA and EBITDA margin forecasts



Source: RaaS forecasts

SEA and China

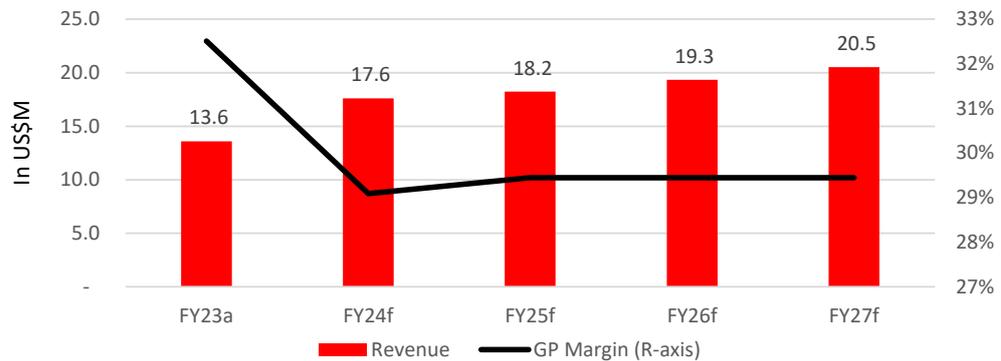
We forecast the South-East Asia and China division to represent 18% of revenue in FY24, at a GP margin of 29%.

FLC has had a presence in the region for some time, particularly in China, but the group has now expanded into other countries in the region including Singapore, the Philippines, Taiwan, Vietnam and Korea, to the point where the pipeline of opportunities in the other countries is now materially larger than in China. Although the breakdown by country is not specifically released, the overall Asian pipeline has grown from US\$29m to \$67m over the past 12 months.

Regarding China specifically, the company stated:

“There are a number of contracted projects in China that are on hold due to customer funding issues. The money for many of these projects flows from the central government to the local districts. That flow of money has been slow during the recovery from COVID.”

Exhibit 23: SEA and China divisional revenue and GP forecasts



Source: Company data for historicals, RaaS forecasts

The division was loss making in FY22 (EBITDA -\$1.4m) on a revenue base of \$9.6m. This improved to a break-even position in FY23 on a revenue base of \$13.6m. Revenue is generated through the sale of SPS products including Aspiral™, SUBRE and NIROBOX™, complemented by a small O&M presence.

We have taken a conservative position with our forecasts as most of the growth effort from the company appears to be directed towards North America, South America and Europe, but we see upside surprise potential if large projects are secured. The company has expanded its sales effort in the region, so this isn't beyond question.

Other divisions

The final two operating P&Ls have quite different profiles. The first is the Ivory Coast (IVC) which solely relates to the large construction project that has been in place for four years. The second is the build-own-operate project specific division, which is still in its infancy but is likely to offer material upside potential in the coming years (although not in our forecasts).

Ivory Coast (IVC)

The Ivory Coast project is a good example of the Fluence of the past, in the sense that it has been a large, multi-year custom engineering, procurement and construction (EPC) project. The contract was originally secured in 2019 when Fluence signed a €165m commercial agreement with the Federal Government of Ivory Coast for a turn-key supply of a 150,000m³/day surface-water treatment plant. The plant treats water from Lagune D'Aghien, the Ivory Coast's largest freshwater reserve, which is dense with algae and other contaminants, to help meet the fresh water needs of Abidjan, the country's largest city.

The contract has been protracted and extended but is due for final completion and commissioning in 2025. The last phase of the construction project relates to an addendum of €48m (at the request of the Federal Government of Ivory Coast) for the final stage of construction, commissioning, and civil and water distribution works. FLC says it has appointed the incumbent sub-contractor Lavisio to undertake part of the works.

The IVC contract has been by far the most material contributor to FLC revenue since 2020 (60% in 2022, 32% in 2023), but has been relatively low margin through the construction phase and apparently not in fitting with the new strategy of delivering SPS products using FLC technology and O&M contracts. That said, as IVC nears the end of the construction phase we believe there is a good possibility FLC will secure a material multi-year O&M contract for the plant. The IVC contribution to our forecasts is as follows.

Construction (to be reported as separate IVC division which will then be closed upon completion):

- H124e: \$7m revenue at 15% GP margin delivering \$0.3m EBITDA.
- H224e: \$16m revenue at 15% GP margin delivering \$1.8m EBITDA.
- H125e: \$27m revenue at 15% GP margin delivering \$3.7m EBITDA.

Operation and Maintenance (to be reported as part of the O&M work in the Municipal Water and Wastewater division):

- H224e: \$0.75m at 50% GP margin.
- H125e: \$0.75m at 50% GP margin.
- H225e: \$0.75m at 50% GP margin.
- H226e: \$1.5m at 50% GP margin.
- H226e: \$1.5m at 50% GP margin.

Once the final construction is complete, we view the IVC project as largely de-risked and offering a high-margin O&M income stream.

Build-own-operate (BOO)

The build-own-operate model is something that has been flagged by the new management team as a material opportunity. FLC currently only has two small BOO projects totalling ~\$2.8m in annual revenue.

Exhibits 24 and 25 illustrate how the FLC management team is thinking about this model going forward.

Exhibit 24: Case study of the BOO model

Case Study: Wastewater-to-Energy BOO Project: Confidential Client, USA



PROJECT ECONOMICS	
• CAPEX: \$10.1M	• Annual revenue: \$3.8M
• OPEX: \$1.9M/year	• EBITDA margin: up to 50%
• BOO Price: \$0.74/m³	• IRR*: 17%
• Biogas production and incentive: \$1.8M	• Payback period (Capex/EBITDA): 5.3 years
• Contract period: 15 years	• Potential Close: 2024



Source: Company presentations

Exhibit 25: The BOO model further explained

Proven Wastewater-to-Energy Products

Strongly positioned for rapidly growing market

Wastewater-to-Energy & Industrial Wastewater Products	Business Model														
<ul style="list-style-type: none"> • 41 plants serving meat, fish, dairy, candy processing • Generate 182 GWh/year clean energy from biomass • Mitigate 128,600 Tons CO₂ / year 	<table border="1"> <thead> <tr> <th>Equipment Sale</th> <th>Preferred model:</th> </tr> </thead> <tbody> <tr> <td>Price: \$3 – 10M</td> <td>Energy / Wastewater Recycling as a Service*</td> </tr> <tr> <td>GM: 30%</td> <td>Financed by Fluence, customer signs 15–20 year service contract</td> </tr> <tr> <td>O&M Value: 10% of price/annum</td> <td>Capex: \$2.7/\$1 TOP revenue</td> </tr> <tr> <td>O&M GM: 30-40%</td> <td>TOP revenue has 50% EBITDA margin</td> </tr> <tr> <td></td> <td>Unlevered IRR: 15 – 20%+</td> </tr> <tr> <td></td> <td>Payback: 5 years</td> </tr> </tbody> </table>	Equipment Sale	Preferred model:	Price: \$3 – 10M	Energy / Wastewater Recycling as a Service*	GM: 30%	Financed by Fluence, customer signs 15–20 year service contract	O&M Value: 10% of price/annum	Capex: \$2.7/\$1 TOP revenue	O&M GM: 30-40%	TOP revenue has 50% EBITDA margin		Unlevered IRR: 15 – 20%+		Payback: 5 years
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	Unlevered IRR: 15 – 20%+														
	Payback: 5 years														
<p>Key Advantages: Wastewater-to-Energy & Industrial Wastewater Products</p> <ul style="list-style-type: none"> • Standardized solution for hard-to-treat food & beverage wastewater: excellent references with leading players • Fast to deploy, fully automated • Substantially smaller footprint than competition • Strong recurring revenue potential via BOO, O&M contracts • Large US RNG market subsidized by Inflation Reduction Act 	<p>Recognised Industry Leader</p> <ul style="list-style-type: none"> • Fluence awarded the winner of the "Waste to Energy Solutions Provider 2023" by Energy Tech Review • Energy Tech Review is a leading technology magazine that is at the forefront of information about technology solutions and services 														

Source: Company presentations

The case studies and proposed business models suggested by management refer to wastewater-to-energy opportunities, so we assume this is the likely first target market. We believe the major focus will likely be the

US, in industries such as abattoirs (slaughterhouses), paper/pulp plants, and other food processing facilities. We think the scale of the opportunity is material, and with proven capability in turnkey solutions, Fluence appears to us well placed to capitalise on the opportunity. The US EPA is driving change, and government incentive programmes are helping create a more commercially viable outcome for the asset owners (discussed in the “Key Industry Considerations” section of this report).

From an investment perspective there are a few considerations with the BOO model:

- FLC retains ownership (or part ownership) of the plant.
- FLC derives defined long-term revenue for the provision of reuse water and energy.
- The upfront capital cost of the plant construction requires funding.
- BOO revenue is secure and recurring, repositioning FLC away from a “sales” model into a higher-margin recurring revenue model. Historically, these recurring revenue businesses have demanded higher revenue and earnings multiples in terms of valuation and in M&A transactions.

BOO plants will likely be an important part of FLC’s strategy going forward, but at this stage they are progressing through the turnaround and rebuild stage of the business and gaining acceptance, approval and traction in the US in both MABR and waste-to-energy products/solutions.

We have not included any new BOO projects in our forecasts as it’s difficult to predict size and timeliness of projects, and we prefer to wait for proof of model and understanding of the operating metrics in practice. That said, it’s worth noting that in the fourth quarter 2024 release there was \$243m of BOO pipeline projects noted. We believe if FLC was to be presented with a material opportunity it would have to consider some funding alternatives such as:

- **Corporate debt:** Mainstream banking (rather than private funding) would be the preferred and safest option, in our view, but FLC would need to be patient to improve its earnings base over the next 12 months to two years.
- **Equity:** Obviously an option but perhaps likely too dilutive and expensive for whole-of-project funding.
- **JV structures with customer:** Although it may be in the interest of the customer to adopt an opex rather than capex model, in some cases a hybrid whereby both parties provide upfront capital and share ownership could be considered.
- **Third-party partner:** FLC may consider a JV structure with a third party.

Key Industry Considerations

The global water and wastewater industry is substantial, encompassing a wide range of sectors including water treatment, wastewater treatment, distribution, and infrastructure development. It is also directly and indirectly affected by most industries and communities. Estimating the exact size of the industry can be challenging due to its diverse nature and the various segments it comprises. The industry’s size is best measured by revenue generated from equipment sales, services and related activities, which totals several hundred billion US dollars annually. This value has been driven by factors such as population growth, urbanisation, industrialisation, and increasing water scarcity and pollution, which have all contributed to the demand for water and wastewater management solutions.

Regarding Fluence and the areas of the water industry in which it operates, we see the following key issues relating to its success or otherwise:

Regulatory, political and social impacts driving industry growth: There are various drivers for the water industry in terms of ESG impacts, political initiatives, and regulatory and economic incentives. There are too many to provide a complete list, but for example:

- UN Sustainable Development Goals (SDGs): In 2015, the United Nations adopted 17 SDGs aimed at addressing a range of issues including environmental, social and equality-related concerns. These SDGs have been adopted by more than 190 countries to date. These directly and indirectly impact the water industry, and certainly provide focus and impact funding availability for various water initiatives. FLC says it commits to and delivers on 10 of 17 UN SDGs.

Exhibit 26: UN sustainable development goals are in focus

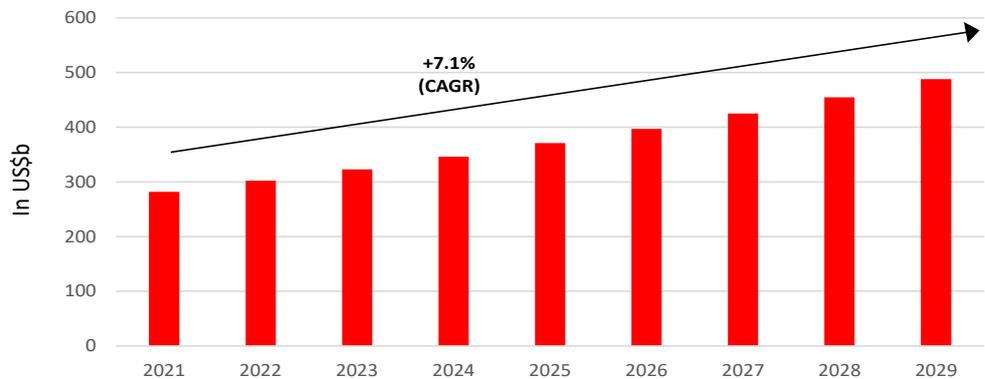


Source: Company presentations

- Many regions around the globe are changing laws based on environmental impact. For example, in the US the EPA is driving change for the treatment of wastewater and for the improvement in the quality of drinking water. For example, the 7th Drinking Water Infrastructure Needs Survey & Assessment (DWINSA) was completed by the EPA in 2023. The study focuses on the needs of the US, Colombia and Puerto Rico, and concludes that there is a 20- year capital improvement requirement of \$625bn in the region. This is forecast to include more than 100,000 individual planned municipal investments.
- Timeframes for change are often put in place, but businesses can be rewarded for implementing accelerated programmes more quickly due to government- led initiatives and incentive programmes. For example, in the US incentives including Investment Tax Credit (ITC), Production Tax Credit (PTC), New Markets Tax Credit (NMTC) and accelerated depreciation are all available in various forms and industries.

Growth in the sector: According to a research study done by The McLean Group in the US, the global water and wastewater treatment market is forecast to see strong growth in the coming years with a forecast 7.1% CAGR for the period of 2021-2029. Increasing regulation of wastewater discharge and water treatment services and technologies is the fastest growing segment.

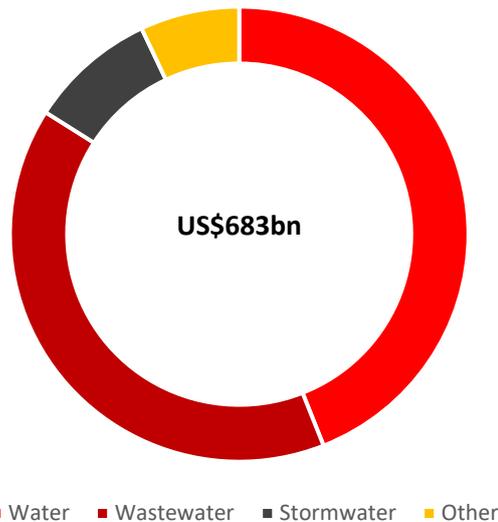
Exhibit 27: Water and wastewater market forecast growth



Source: The McLean Group "Water and Environmental Industry 2023 Review and 2024 Outlook" and RaaS

Other industry reports, including a 2022 report by Meticulous Research, support the conclusion of industry CAGRs of between 5%-8% until 2030. A report released by Bluefield Research in 2020 estimated a breakdown of forecast capex spending by the water industry in the US between 2018-2027 at US\$683b, broken down as follows:

Exhibit 28: Forecast capex 2018-2027 in the US



Source: The McLean Group "Water and Environmental Industry 2023 Review and 2024 Outlook" and RaaS

The municipal and industrial markets: The same study concluded that municipal wastewater applications will continue to dominate the market in emerging economies like India, China and Brazil due to the increasing urban populations and government policies supporting infrastructure development. Industrial applications are anticipated to experience faster growth, driven by more global manufacturing, new technologies requiring treated water, and rising environmental consciousness.

Emerging trends: The industry is experiencing the emergence of new themes such as Water as a Service (WaaS) and improved Resource Recovery solutions.

- WaaS: The McLean Report states, "the rate of regulatory change and the capital investment required to meet discharge limits has led many customers to outsource ownership of filtration equipment, paying for throughput on an as-needed basis...called Water as a Service".

- Resource recovery: Again, the McLean report states *“The influx of money to the municipal water industry and greater focus on resource recovery caused by heightened discharge regulations has led to a shift in the industry to capture the value of waste by recovering key nutrients and energy of water treatment by-products. The growing emphasis on circular economies creates a new revenue stream for municipal treatment facilities with onsite cogeneration while also offloading by-products to industrial partners.”*

Input Costs: As with many industries, the period between 2020 and 2023 saw significant rises in costs in the water sector. These were evident in the form of cost of materials and components for construction (which rose 30-40% on average), stainless steel (+45% at its peak in early 2022) and water treatment chemicals (+37% at their peak in 2022). This put margin pressure on all participants who were unable to pass on costs. In most cases, these increases materially outweighed the increase in water supply construction spending, but those trends have now reversed, in most cases significantly. Chemicals have displayed ongoing price strength but the increases have stabilised. We believe the consensus opinion is that demand will remain strong in the overall market and will continue to recover well from the COVID impacts of the early 2020s.

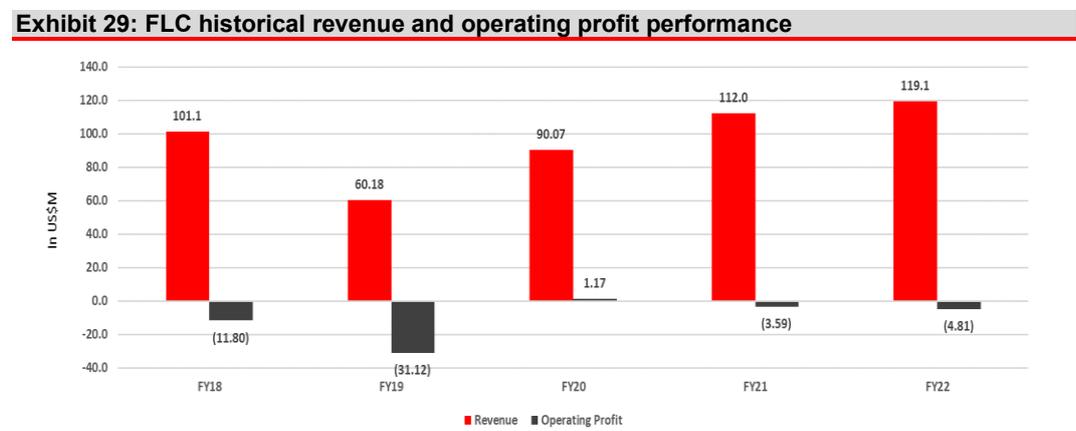
Competition: The competitive framework of the industry is vast, and in some cases, very specialised. That said, in the water and wastewater treatment sector there are a limited number of participants with truly unique solutions across a broad range of uses. There are many companies with diversified models including Du Pont, Veolia, Jacobs, Xylem and Newterra, but in terms of the technologies with which Fluence are competing (for example MABR) it is much more limited in the US target market. Fluence is a relatively small player in the US. We discuss the sector, pricing and recent M&A in our peer comparison section of the report.

Financials And Forecasts

Historical performance

Traditionally, the business has delivered solid revenue performance, albeit lumpy at times, due to reliance on large heavily engineering-based projects such as The Ivory Coast. Such projects have historically generated gross profit margins around 15%. As previously discussed, we believe the rest of the business had not been managed under a successful structure or strategy in the past, so at group level, even though a high volume of projects has been successfully completed, it has never delivered sustainable or consistent bottom-line profitability.

Exhibit 29 illustrates historical revenue and operating earnings performance.



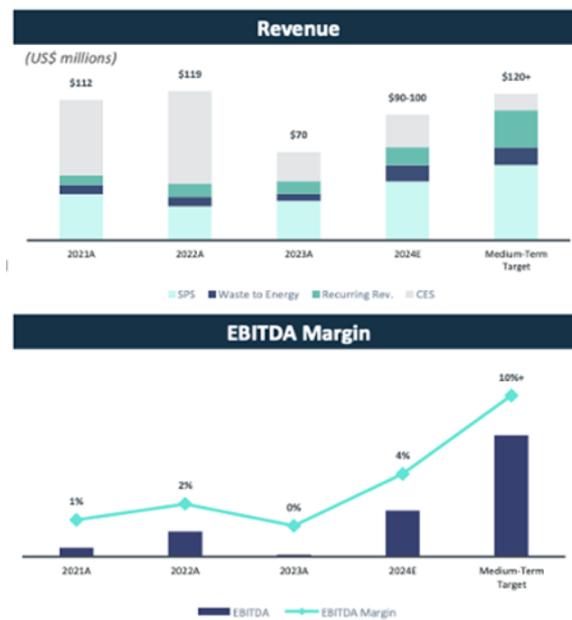
Source: Company reports, LSEG data, RaaS analysis

We believe the recently released FY23 result can be considered a transition year, but clearly illustrated the first impacts of the changed strategy. Overall revenue reduced by ~40% to \$70m due to a much lower contribution from The Ivory Coast project of \$22.3m compared to \$69.5m in FY22. The balance of the business was relatively stable across the full year to deliver a break-even result at the EBITDA line but showed clear improvement and momentum in the fourth quarter with EBITDA of \$2.9m (10.9% EBITDA margin). Note, this cannot be extrapolated across a full year in FY24 for various reasons, including seasonality.

Forecasts

The company has released guidance for FY24 and into the “medium term” (which has been described by the company as “two to three years”, so we assume FY26). This is illustrated in Exhibit 30:

Exhibit 30: Company revenue and EBITDA margin guidance



Source: Company presentation

RaaS forecasts sit roughly in-line with guidance in FY24, but we remain slightly more conservative beyond that and assume the “medium-term” guidance is delivered in FY27. As previously mentioned, we have not included any contribution from new BOO projects and believe there is a strong possibility that these may be secured and accelerate growth ahead of our forecasts.

P&L forecasts

RaaS earnings and P&L forecasts are shown in Exhibit 31:

Exhibit 31: P&L forecasts and earnings (in US\$M unless otherwise stated)

Year ending December 31	FY23a	FY24f	FY25f	FY26f	FY27f	FY28f	CAGR
Revenue	70.0	96.3	114.6	112.6	132.4	152.1	16.8
Gross Profit	18.4	27.0	33.1	39.1	46.6	53.5	23.8
GP %	26.3	28.0	28.8	34.7	35.2	35.2	6.0
EBITDA	0.2	3.2	7.8	8.1	11.5	15.1	144.4
EBIT	(1.4)	1.4	6.5	7.4	11.1	14.8	n/a
NPAT	(9.1)	0.1	4.0	4.6	7.2	9.8	n/a
EPS (adjusted to A\$)	(1.8)	0.0	0.6	0.7	1.0	1.4	n/a

Source: Company data for actual, RaaS estimates

The key elements to consider in our P&L forecasts are:

- **Revenue growth:** CAGR of 16.8% over the forecast period. This includes The Ivory Coast revenue (which totals \$72.3m from FY23 to FY25f). If we consider the FLC business excluding the IVC

construction contract, group revenue grows from \$49.4m to \$152.1m over the RaaS forecast period from the FY23 base, at a CAGR of 25.2%.

- **GP margin expansion:** The change in business mix drives GP margin expansion, as evidenced by the incremental progression to FY25f before a spike in FY26f as the IVC contract rolls off.
- **EBITDA growth:** Top-line growth and GP margin expansion drives growth in EBITDA from a break-even position in FY23. We forecast EBITDA margin to expand from 7% in FY24 to 10% in FY28 as operating leverage also emerges.
- **EPS growth:** All other forecasts are shown in US\$, but given FLC is listed in Australia, we calculate per-share metrics after adjustment to A\$ (assumed exchange rate of US\$0.65).

Balance sheet

Exhibit 32: Balance sheet reported and forecasts (in US\$M unless otherwise stated)					
Year ending December 31	FY22a	FY23a	FY24f	FY25f	FY26f
Cash	30.94	24.64	9.27	11.96	15.75
Accounts receivable	49.03	35.30	41.40	43.87	49.39
Inventory	9.29	5.69	8.28	9.04	10.58
Other current assets	10.59	8.27	8.68	8.68	8.68
Total current assets	99.84	74.30	67.63	73.54	84.40
PPE	9.66	8.15	7.92	6.79	6.17
Intangibles and Goodwill	1.34	1.14	1.23	1.31	1.40
Investments	0.35	0.33	0.33	0.33	0.33
Deposits & Concessions	12.15	7.11	7.11	7.11	7.11
Other non-current assets	0.28	2.10	2.58	4.29	5.43
Total non-current assets	23.78	18.83	19.17	19.83	20.45
Total Assets	123.62	93.13	86.80	93.38	104.85
Accounts payable	51.49	32.36	35.88	38.44	45.28
Short term debt	1.27	15.75	5.75	5.75	5.75
Other current liabilities (incl lease & contract)	32.37	29.44	29.44	29.44	29.44
Total current liabilities	85.13	77.55	71.07	73.63	80.47
Long term debt	32.94	2.58	2.58	2.58	2.58
Other non-current liabilities	2.64	0.78	0.78	0.78	0.78
Total long-term liabilities	35.58	3.36	3.36	3.36	3.36
Total Liabilities	120.70	80.91	74.43	76.99	83.83
Net Assets	2.92	12.22	12.37	16.39	21.02
Share capital	217.67	232.31	232.31	232.31	232.31
Accumulated profits/losses	(198.87)	(214.88)	(214.73)	(210.70)	(206.07)
Reserves	(13.90)	(3.25)	(3.25)	(3.25)	(3.25)
Minorities	(1.99)	(1.97)	(1.97)	(1.97)	(1.97)
Total Shareholder funds	2.92	12.22	12.36	16.39	21.02

Source: Company data for actual, RaaS estimates

Key balance sheet considerations include:

- **Debt reduction:** In July 2020, the company entered into a loan agreement with its lender (an affiliate of Upwell) to provide an initial US\$20 million finance facility. In December 2021 the facility was increased by US\$10.3 million. The facility was used to fund the BOO projects and the company's working capital. A portion of the US\$40.3m of funds raised in November 2023 was used to repay a significant amount of the Upwell term loan. The term loan was reduced from \$28m to \$14.9m in December 2023 with the balance to be repaid in full by July 2024. \$4.1m of project specific debt will remain, at which point the company should remain in a net cash position.
- **Working capital improvements:** Recently appointed CFO Ben Fash has focussed on the delivery of working capital improvements over the past 12 months, as evidenced in the FY23 result. Over the next 18 months this may be somewhat skewed by the completion of The Ivory Coast construction phase, but then normalises thereafter.
- **BOO may change the discussion:** FLC has serviceability to draw debt if required in the short term for early BOO projects. As it scales, other potential options will need to be examined, as have already been discussed in this report.

Cash flow

Exhibit 33: Cash flow reported and forecasts (in US\$M unless otherwise stated)					
Year ending December 31	FY22a	FY23a	FY24f	FY25f	FY26f
EBITDA	0.52	0.17	3.25	7.77	8.11
Interest	(3.87)	(5.70)	(1.20)	(0.75)	(0.75)
Tax	(0.11)	(0.25)	(0.56)	(1.73)	(1.99)
Working capital changes	(17.03)	(13.26)	(5.18)	(0.67)	(0.23)
Operating cash flow	(20.49)	(19.04)	(3.69)	4.62	5.15
Mtce capex	-	-	(1.97)	(1.72)	(1.14)
Free cash flow	(20.49)	(19.04)	(5.66)	2.90	4.01
Capex	(0.45)	(1.76)	(1.50)	-	-
Acquisitions/Disposals	0.25	0.05	2.00	-	-
Other	10.86	6.12	-	-	-
Cash flow pre financing	(9.82)	(14.62)	(5.16)	2.90	4.01
Equity	3.72	26.63	-	-	-
Debt	(0.37)	(13.41)	(10.00)	-	-
Dividends paid	-	-	-	-	-
Net cash flow for year	(6.47)	(1.41)	(15.16)	2.90	4.01

Source: Company data for actual, RaaS estimates

Key cash-flow considerations include:

- **Cash conversion:** As the business transitions to profitability we see cash conversion steadily improving, as evidenced in our FY25 and FY26 forecasts.
- **Asset sale in FY24:** In February 2024 the company sold its aeration and mixing assets, which it viewed as non-core and non-profitable, for an all-cash consideration of \$2m.
- **Debt repayment:** As discussed in the “Balance sheet” section and illustrated in the cash flow Exhibit 34, FLC will pay down the term debt in two tranches in FY23 and FY24.
- **Improved working capital:** Disciplined cost management should see ongoing improvement in working capital terms.

SWOT Analysis

Exhibit 34 contains our SWOT analysis.

Exhibit 34: Strengths, Weaknesses, Opportunities, Threats	
Strengths	Opportunities
Proven product suite and technology through installed project base	Large opportunity in various vehicles in the US
Proven management team with significant water industry experience	Large identified pipeline of opportunities
A clear strategy in a clearly identified market	WaaS through the BOO
Restructured balance sheet and aligned business	The acquisition of services businesses to scale up O&M work
Weaknesses	Threats
Yet to reach scale so may not have buying power of competitors or flexibility in pricing on competitive pressure	Competitive response as FLC enters the US in a meaningful way
Yet to reach maintained material profitability which may restrict funding models for the BOO opportunity	Lack of traction in the US on political and or/approval challenges

Source: RaaS analysis

Key Risks And Sensitivities

The key risks as we see them are:

- **Execution risk:** A significant part of the new strategy relies on a successful push into the US in both the municipal and industrial markets. Early signs suggest good progress is being made, but risks remain in gaining traction overall, but more likely in the timing of the success being delayed, in our view.
- **Competition:** A competitive response from a more entrenched competitor could emerge. FLC’s technology and efficiency gains could be eroded and its point of difference removed.

- **Key personnel:** A key driver of the growth story is the reinvigoration of the management team and the knowledge, experience and network that it brings. A change in key personnel could present a risk to strategy execution.
- **Economic conditions:** A general deterioration in economic conditions could delay or cancel proposed projects or impact funding options for future growth initiatives.
- **Contract risk:** FLC currently has a diversified revenue base, both geographically and by contract (particular as IVC nears the end of the construction phase). As the company develops its BOO portfolio it may change the profile of contract risk, particularly through the construction phase. It may also bring added financial risk if the balance sheet holds the asset and liability. Obviously it also derives annuity or recurring revenue, which will create a valuation premium. This is where the importance of the team and experience is paramount. This may become a key sensitivity moving forward.
- **Foreign exchange rate:** Revenue is written in many geographies, but foreign exchange risk at the project level is often minimised through a domiciled cost base. That said, the FX risk may be felt in cost of materials in company IP-based products manufactured in the US (or elsewhere), but most likely in translation risk of earnings back to A\$ in the reported entity.

Board And Management

Directors

Exhibit 35: Board of Directors

Name	Position	Background
Doug Brown	Chairman	Mr. Brown is one of only a handful of globally recognized senior executives to have led multiple successful billion dollar exits in the water space. He was the founder, Chairman and CEO of AquaVenture Holdings, which he led to a listing on the New York Stock Exchange ("NYSE") in 2016 and subsequently sold to Culligan Water for US\$1.2 billion in 2020 while he was serving as Chairman. Mr. Brown was also CEO of Seven Seas Water, an AquaVenture Holdings business. He was previously CEO of NYSE-listed Ionics, Inc., which was acquired by GE Water for US\$1.3 billion in 2005. Prior to Ionics, Mr. Brown was CEO of Advent International, a global private equity firm. Mr. Brown's experience spans the US, Europe, South America, the Middle East, the Caribbean, Africa and Southeast Asia.
Tom Pokorsky	CEO and Managing Director	Mr. Pokorsky has 35 years of successful water industry executive experience, including 15 years as CEO working in North America, with activity in Europe, China and Israel. Mr. Pokorsky has run public and private businesses, achieving returns of 5–10x with IRRs up to 50%. He founded and grew Nexom in the wastewater sector, delivering 25% annual revenue growth and 50% EBITDA growth, leading to its sale to KKR. At Water Pollution Control Corporation (later "Sanitaire"), Tom doubled revenue and profits, negotiated its sale to ITT Industries, and then grew its Advanced Water Treatment group (now part of Xylem) from \$60M to \$350M in four years, including \$100M in organic growth and five successful acquisitions on three continents.
Paul Donnelly	Non-Executive Director	Mr. Donnelly is an accomplished financial services executive with international experience across all aspects of capital markets. Mr. Donnelly is Chief Executive Officer of Flagstaff Partners, an independent corporate advisory firm.
Richard Irving	Non-Executive Director	Previously Mr. Irving served as Chairman and CEO, Chairman and Executive Chairman. Prior to Fluence Corporation Limited, Mr. Irving served as Executive Chairman and Chairman of Emefcy Group Limited from 2010. Based in Silicon Valley, Mr. Irving co-founded Pond Venture Partners in 1997 and brings over 30 years' experience in technology companies in senior operating roles, as an investor and Board member. Mr. Irving has helped generate over \$3 billion in shareholder value through IPOs, acquisitions, and private financings.
Ross Haghighat	Non-Executive Director	Ross Haghighat serves as a Non-Executive Director for Fluence Corporation. He has over 30 years' experience in the technology sector as founder or co-founder of half a dozen companies with a combined shareholder value exceeding With over 20 years in operating and strategic roles and a decade in the investment arena, he has helped to create a number of global enterprises in the private and public space in the US, China, Australia and Europe. Mr. Haghighat was Non-Executive Director of Emefcy Group Limited from 2015.
Mel Ashton	Non-Executive Director	Mr. Ashton is a chartered accountant, specializing in corporate finance and restructuring with over 40 years of varied experience. Mr. Ashton currently holds a number of non-executive director roles in different sectors. He serves as Chair of Quintis (Australia) Pty Ltd, Venture Minerals Ltd (ASX:VMS) and Bellavista Resources Ltd (ASX:BVR) and as a Director of Aurora Labs Ltd (ASX:A3D).
Melanie Leydin	Company Secretary	Melanie Leydin serves as Company Secretary at Fluence Corporation. A Chartered Accountant and Registered Company Auditor, Ms. Leydin has 25 years' experience in the accounting profession and 20 years' experience in company secretarial services. Ms. Leydin is the co-founder of Leydin Freyer, a leading outsourced accounting and company secretarial services firm based in Melbourne, Australia. Ms. Leydin earned a Bachelor of Business degree in Accounting and Corporate Law from Swinburne University. She is also a Fellow of the Governance Institute of Australia, an independent professional association for company secretaries, governance advisers, and risk managers in Australia, committed to promoting sound practice in governance and risk management.

Source: Company annual report

Management

Exhibit 36: Key management personnel

Name	Position	Background
Tom Pokorsky	CEO and Managing Director	Mr. Pokorsky has 35 years of successful water industry executive experience, including 15 years as CEO working in North America, with activity in Europe, China and Israel. Mr. Pokorsky has run public and private businesses, achieving returns of 5–10x with IRRs up to 50%. He founded and grew Nexom in the wastewater sector, delivering 25% annual revenue growth and 50% EBITDA growth, leading to its sale to KKR. At Water Pollution Control Corporation (later "Sanitaire"), Tom doubled revenue and profits, negotiated its sale to ITT Industries, and then grew its Advanced Water Treatment group (now part of Xylem) from \$60M to \$350M in four years, including \$100M in organic growth and five successful acquisitions on three continents.
Ben Fash	Chief Financial Officer	Mr. Fash has more than 10 years of strategic financial and operational leadership, mostly in the water treatment equipment and services industry, prior to which he spent 8 years in private equity and investment banking. His experience includes a unique combination of financial operating experience in addition to M&A execution, capital raising, company-building and strategic decision-making. Before joining Fluence, Mr. Fash was CFO of Dumas Mining, a niche underground services provider in the mining industry. Prior to Dumas, Mr. Fash was EVP & CFO of Newterra, a global leader in providing modular water and wastewater treatment equipment and services. Partnering with their private equity owners, Ben was part of the executive team that led Newterra to double the size of the business, all while increasing profitability and improving cash flow management in all segments of the business, which ultimately led to a successful exit in 2020.
Natalya Medinina	VP, Corporate Controller	Natalya Medinina serves as the VP, Corporate Controller of Fluence, where she is responsible for accounting operations, including financial reports, internal controls and budgeting. Ms. Medinina has 20 years of experience in US GAAP and IFRS reporting, technical accounting, internal controls and FP&A. Prior to joining Fluence, she was responsible for consolidation and internal reporting as a senior manager, accounting, at Sojitz Corporation of America, a US subsidiary of the Japanese integrated global trading company. Prior to that, Ms. Medinina worked as an internal audit manager and a consolidation and internal reporting manager for Quintiles Transnational Corporation (now iQVIA), an American multinational company serving the combined industries of health information technology and clinical research. Ms. Medinina began her career as a public accountant with KPMG.
Richard Cisterna	Chief Commercial Officer	Richard Cisterna serves as the Chief Commercial Officer of Fluence and is responsible for Fluence's corporate strategy, business and market development, partnerships, and acquisitions to drive business growth. Mr. Cisterna has 30 years of executive leadership and business development experience in the water and wastewater market and has led the development of over US\$1 billion of projects for municipal, industrial, and commercial clients. He is the Founder and President of Renewable Organics Infrastructure, a consulting and advisory company that focuses on sustainable infrastructure projects and technologies. Prior to ROI, Mr. Cisterna served as Executive Vice President of Business Development with Natural Systems Utilities and as part of the executive leadership team, where he led the firm's development of decentralized water infrastructure solutions. Previously he was a partner at Hazen and Sawyer, an international water and wastewater engineering consulting firm, where he led business development in several geographic regions and served on the corporate strategic planning committee.
Spencer D. Smith	Chief Legal Officer	Spencer D. Smith serves as the Chief Legal Officer of Fluence with responsibility for the legal affairs of the Company and providing counsel to the Board of Directors, the Chief Executive Officer and other members of senior management. Prior to Fluence, Mr. Smith served as the General Counsel for RWL Water. Prior to joining RWL Water in 2016, Mr. Smith practiced corporate law at Akin Gump Strauss Hauer & Feld LLP in New York where he served as the principal outside legal counsel to RWL Water. While at Akin Gump, Mr. Smith maintained a diverse and active corporate transactional practice focused on representing public and private companies, private equity firms, hedge funds and family offices in connection with significant corporate events, including mergers and acquisitions, divestitures, joint ventures, restructurings, distressed asset sales and commercial contracts.

Source: Company presentations

Shareholders

Exhibit 37: Top shareholders

Shareholder	# Of shares	% Shareholding
Mr Doug Brown (Chairman)	150,500,000	14.0%
Nikolaus Oldendorff	107,997,116	10.0%
Regal Partners	97,005,139	9.0%
Jagen Pty Ltd	53,519,393	5.0%

Source: LSEG as at 28 March 2024

Peer Comparison

Peer comparison for Fluence can be viewed in several ways. Actual like-for-like comparisons in the Australian listed space are difficult to find as there are no competitors listed here or even businesses that have the same exposures to FLC.

Broadly comparable companies have some cross-over in business model and industry exposure, but none are truly comparable, in our view. The 11 ASX-listed peers range in market cap from \$14m to \$400m. They are often technology-based engineering firms and only five of the companies are currently profitable. For that reason, we will use revenue multiples for comparison only, and although it does not help derive intrinsic value of the business, we believe it provides a reference for relative pricing and is often used as one of the metrics in M&A transactions, particularly in the US.

Exhibit 38: Peer comparison

Company	Code	Business model	Mkt Cap (\$m)	EV/Revenue (x)
Clean TeQ Water	CNQ	Metals recovery and water treatment	24	0.7
Duxton Water	D2O	Water portfolio and water supply solutions	228	16.8
De.Mem	DEM	Designs builds owns operates water treatment systems	26	1.2
Environmental Group	EGL	Engineering pollution management incl water	97	1.0
EVZ	EVZ	Aus/Asia engineering incl water	19	.01
GenusPlus Group	GNP	EPC and contracting in Infrastructure/Industrial	308	0.6
LGI	LGI	Carbon abatement and renewable energy solutions	233	7.0
Phoslock Env Technologies	PET	International EPS water solutions provider	16	2.9
Synertec Corporation	SOP	ANZ engineering/tech incl water	42	2.1
SRG Global	SRG	EPC and asset maintenance. Diversified	412	0.5
Mean				3.3
Fluence Corporation			178	1.2

Source: LSEG, RaaS analysis (prices at 8 April 2024)

Fluence is trading at a discount to ASX-listed peers on a relative EV/Revenue by a significant amount. That said, we attribute no value to this from a valuation perspective.

Comparable companies by industry exposure are available in US listings, albeit much larger companies and more mature in their growth lifecycle phase. We have chosen to look at the “systems solutions” providers within the water sector in the US, as illustrated in Exhibit 39.

Exhibit 39: US-listed compcos/peers

Company	Market Cap (US\$b)	EV (US\$b)	FY24 Revenue (US\$b)	FY24 EBITDA (US\$b)	EBITDA Margin (%)	EV/Revenue (x)	EV/EBITDA (x)
Danaher	254	195.4	24.1	7.9	33%	8.1	24.8
Dover	176	27.4	8.8	1.9	22%	3.1	14.2
IDEX	243	18.9	3.3	0.9	28%	5.7	20.3
Pentair	84	15.7	4.2	1.0	23%	3.7	15.8
Watts Water Technologies	210	6.8	2.2	0.4	20%	3.1	15.6
Xylem	129	32.1	8.4	1.7	20%	3.8	19.3
Mean	182.7	49.4	8.5	2.3	24%	4.6	18.3
Fluence Corporation						1.2	40.8

Source: LSEG, RaaS analysis (prices at 8 April 2024)

These large US-listed compcos are much more advanced than FLC, in our view, but some of the pricing is interesting. Fluence has stated its ambition to grow its EBITDA margin to ~20% over time, which is broadly in-line with the compcos in Exhibit 40. The revenue and EBITDA multiples are also noticeable healthy in the US. FLC trades at a discount on EV/Revenue but understandably at a premium on EV/EBITDA as it increases scale and transitions the business to profitability.

It appears to us the team at Fluence are looking to build a business that secures a strategic position in the US market, particularly in the municipal, waste-to-energy and industrial reuse markets. It is also focussed on high margins and recurring revenue. These are the types of business that demand pricing premium, in our view.

So, as Fluence builds its business to scale, we think it is also worth looking at recent M&A transactions in the space and some of the key criteria involved.

According to a December 2023 report released by US-based investment bank Raymond James, across 149 M&A transactions in the water industry internationally, 81% were transacted by strategic acquirers and 19% by private equity. This is broadly in line with the past two years.

Regarding 40 deals of notable size, the key metrics were:

- **By acquirer type:** EV/EBITDA multiples on average were 12.1x by strategics and 10.8x by private equity. Interestingly, strategics are willing to pay more than they have over the past two years (2021 at 11.8x and 2022 at 9.8x), whilst private equity acquisition multiples have eased (2021 at 13.6x and 2022 at 11.4x).
- **By acquisition size:** Less than US\$50m consideration EV/EBITDA multiple of 9.4x, \$50m-\$750m consideration EV/EBITDA multiple of 11.5x, and greater than \$750m EV/EBITDA multiple of 16.0x. Some 33% of deals were acquired at an EV/EBITDA of greater than 12.0x. Around 50% of the deals were greater than \$50m in size.

DCF Valuation

We derive our DCF-based valuation of \$0.25 on the following metrics.

Exhibit 40: Base Case DCF valuation	
Parameters	Outcome
Discount rate / WACC	10.6%
Beta (observed beta is 0.86)*	1.2
Terminal growth rate assumption	3.0%
Sum of Present Value (PV) (US\$M)	49.2
PV of terminal value (US\$M)	116.1
PV of enterprise (US\$M)	165.3
Net cash at 31 Dec 2023 (US\$M)	6.3
Net value – shareholder (US\$M)	171.6
No of shares on issue (M)	1,076.2
NPV per share	A\$0.25

Source: RaaS estimates .

Our model incorporates both an upside and downside case to reflect higher/lower growth forecasts. In the case of Cash Converters, we have adjusted it around assumptions specific to loan book growth and acquisition strategy. The three scenarios are:

Base Case: As per the forecasts in this report

Downside Case: New contract wins 50% below our base case and no GP margin expansion from the FY24 base.

Upside case: Contract growth 50% higher than our base case with GP margins in-line with the base case.

Exhibit 41: DCF scenario valuations			
Scenario	Base	Downside	Upside
DCF valuation/share	\$0.25	\$0.18	\$0.66
Premium to current share price	47%	6%	288%

Source: RaaS analysis

Exhibit 42: Financial Summary

Fluence Corporation	All financials in US\$ unless stated otherwise					Share price (8 April 2024)	All per share metrics in A\$						0.170
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 30 December	FY22A	FY23A	FY24F	FY25F	FY26F		1H23a	2H23a	1H24f	2H24f	1H25f	2H25f	
Sales Revenue	116.3	69.4	96.3	114.6	112.6	Revenue	31.7	37.6	41.1	55.2	69.3	45.2	
Gross Profit	26.8	18.4	27.0	33.1	39.1	EBITDA (adj)	(2.0)	2.6	0.0	3.2	5.6	2.2	
EBITDA underlying	0.5	0.2	3.2	7.8	8.1	EBIT (adj)	(3.0)	1.6	(0.8)	2.2	4.9	1.6	
Depn	(2.0)	(1.8)	(1.7)	(1.1)	(0.6)	NPAT (normalised)	(5.4)	(3.4)	(1.2)	1.3	3.2	0.9	
Amort	(0.3)	(0.2)	(0.1)	(0.1)	(0.1)	EPS (normalised/diluted)	(0.74)	(0.42)	(0.11)	0.12	0.29	0.08	
EBIT underlying	(1.7)	(1.4)	1.4	6.5	7.4	Dividend (cps)	-	-	-	-	-	-	
Interest	(4.0)	(5.7)	(1.2)	(0.7)	(0.7)	Imputation	-	-	-	-	-	-	
Tax	(1.0)	(0.7)	(0.1)	(1.7)	(2.0)	Operating cash flow	(12.9)	(0.4)	(2.0)	(1.7)	3.8	0.8	
Minorities	0.0	0.0	0.0	0.0	0.0								
Equity accounted assoc	(0.1)	0.0	0.0	0.0	0.0	Divisions	1H23a	2H23a	1H24f	2H24f	1H25f	2H25f	
NPAT pre significant items	(9.0)	(9.1)	0.1	4.0	4.6	MWW	6.2	4.9	8.2	10.0	9.9	11.8	
Significant & non-cash items	(9.8)	(8.8)	0.0	0.0	0.0	IWB	3.4	3.6	7.2	7.1	9.8	9.8	
NPAT (reported)	(18.8)	(18.0)	0.1	4.0	4.6	IWR	5.7	9.2	9.7	10.7	12.2	12.9	
						SEA & China	2.2	11.4	7.6	10.0	9.0	9.2	
Cash flow (A\$m)						BOO	1.1	1.0	1.4	1.4	1.4	1.4	
Y/E 30 December	FY22A	FY23A	FY24F	FY25F	FY26F	IVC	13.2	9.1	7.0	16.0	27.0	0.0	
EBITDA	0.5	0.2	3.2	7.8	8.1	Sales revenue	31.7	37.6	41.1	55.2	69.3	45.2	
Interest	(3.9)	(5.7)	(1.2)	(0.7)	(0.7)	COGS	(25.1)	(27.8)	(29.2)	(40.1)	(51.1)	(30.4)	
Tax	(0.1)	(0.2)	(0.6)	(1.7)	(2.0)	Gross Profit	6.7	9.8	11.9	15.1	18.2	14.8	
Working capital changes	(17.0)	(13.3)	(5.2)	(0.7)	(0.2)	GP Margin (%)	21%	26%	29%	27%	26%	33%	
Operating cash flow	(20.5)	(19.0)	(3.7)	4.6	5.2	EBITDA (normalised)	(2.0)	2.6	0.0	3.2	5.6	2.2	
Mtce capex	0.0	0.0	(2.0)	(1.7)	(1.1)								
Free cash flow	(20.5)	(19.0)	(5.7)	2.9	4.0	Margins, Leverage, Returns		FY22A	FY23A	FY24F	FY25F	FY26F	
Capex	(0.4)	(1.8)	(1.5)	0.0	0.0	EBITDA		0.4%	0.2%	3.4%	6.8%	7.2%	
Acquisitions/Disposals	0.3	0.1	2.0	0.0	0.0	EBIT		(1.5%)	(2.0%)	1.5%	5.7%	6.5%	
Other	10.9	6.1	0.0	0.0	0.0	NPAT pre significant items		(16.2%)	(25.9%)	0.2%	3.5%	4.1%	
Cash flow pre financing	(9.8)	(14.6)	(5.2)	2.9	4.0	Net Debt (Cash)			3.3	(6.3)	(0.9)	(3.6)	(7.4)
Equity	3.7	26.6	0.0	0.0	0.0	ND/ND+Equity (%)	(%)	933.1%	34.0%	7.0%	18.1%	26.1%	
Debt	(0.4)	(13.4)	(10.0)	0.0	0.0	EBIT interest cover (x)	(x)	n/a	n/a	1.2	8.7	9.8	
Dividends paid	0.0	0.0	0.0	0.0	0.0	ROA		n/a	n/a	1.6%	7.2%	7.4%	
Net cash flow for year	(6.5)	(1.4)	(15.2)	2.9	4.0	ROE		n/a	n/a	1.2%	28.0%	24.8%	
Balance sheet (A\$m)						ROIC		n/a	n/a	14.4%	62.1%	46.0%	
Y/E 30 December	FY22A	FY23A	FY24F	FY25F	FY26F								
Cash	30.9	24.6	9.3	12.0	15.7	Working capital		6.8	8.6	13.8	14.5	14.7	
Accounts receivable	49.0	35.3	41.4	43.9	49.4	WC/Sales (%)		5.9%	12.4%	14.3%	12.6%	13.1%	
Inventory	9.3	5.7	8.3	9.0	10.6	Revenue growth		6.3%	(40.3%)	38.8%	19.0%	(1.7%)	
Other current assets	10.6	8.3	8.7	8.7	8.7	EBITDA growth pa		n/a	n/a	1776%	139%	4%	
Total current assets	99.8	73.9	67.6	73.5	84.4	Pricing		FY22A	FY23A	FY24F	FY25F	FY26F	
PPE	9.7	8.1	7.9	6.8	6.2	No of shares (y/e)	(m)	651	1,076	1,076	1,076	1,076	
Intangibles and Goodwill	1.3	1.1	1.2	1.3	1.4	Weighted Av Dil Shares	(m)	710	791	1,163	1,163	1,163	
Investments	0.3	0.3	0.3	0.3	0.3	EPS Reported (A\$)	cps	(1.91)	(1.66)	0.02	0.58	0.66	
Deferred tax asset	0.0	2.0	2.5	2.5	2.5	EPS Normalised/Diluted (A\$)	cps	(0.82)	(0.75)	0.02	0.58	0.66	
Other non current assets	12.4	7.2	7.2	8.9	10.1	EPS growth (norm/dil)		n/a	n/a	n/a	2662%	15%	
Total non current assets	23.8	18.8	19.2	19.8	20.4	DPS	cps	-	-	-	-	-	
Total Assets	123.6	92.7	86.8	93.4	104.8	DPS Growth		n/a	n/a	n/a	n/a	n/a	
Accounts payable	51.5	32.4	35.9	38.4	45.3	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Short term debt	1.3	15.8	5.8	5.8	5.8	Dividend imputation		0	0	0	0	0	
Tax payable	0.1	0.7	0.7	0.7	0.7	PE (x)		n/a	n/a	815.4	29.5	25.7	
Other current liabilities	32.3	28.7	28.7	28.7	28.7	PE market		18.0	18.0	18.0	18.0	18.0	
Total current liabilities	85.1	77.6	71.1	73.6	80.5	Premium/(discount)		n/a	n/a	4430.2%	64.0%	42.6%	
Long term debt	32.9	2.6	2.6	2.6	2.6	EV/EBITDA		134.4	366.9	35.3	14.4	13.3	
Other non current liabs	2.6	0.8	0.8	0.8	0.8	EV/Revenue		0.6	0.9	1.2	1.0	1.0	
Total long term liabilities	35.6	3.4	3.4	3.4	3.4	FCF/Share (A\$)	cps	-4.8	-2.7	-0.8	0.4	0.6	
Total Liabilities	120.7	80.9	74.4	77.0	83.8	Price/FCF share	x	n/a	n/a	n/a	41.0	29.6	
Net Assets	2.9	11.8	12.4	16.4	21.0	Free Cash flow Yield		-28.5%	-16.0%	-4.8%	2.4%	3.4%	
Share capital	217.7	232.3	232.3	232.3	232.3								
Accumulated profits/losses	(198.9)	(214.9)	(214.7)	(210.7)	(206.1)								
Reserves	(13.9)	(3.3)	(3.3)	(3.3)	(3.3)								
Minorities	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)								
Total Shareholder funds	2.9	12.2	12.4	16.4	21.0								

Source: RaaS Research Group estimates, company data for actuals

FINANCIAL SERVICES GUIDE

RaaS Research Group Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number
1248415, of

BR SECURITIES AUSTRALIA PTY LTD; ABN 92 168 734 530; AFSL
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