Fluence Corporation Ltd

Q1 FY25 Update

Business re-based and set for growth

Water Utilities

9 May 2025

Fluence Corporation (ASX:FLC) specialises in the delivery of water and wastewater solutions in industrial, municipal and commercial industries across the globe. The company has released its quarterly 4C cash-flow statement and a Q1FY25 financial and operating update (December year-end). The Q1 result showed a continuation of momentum from Q4FY24 and sets the company up for the remainder of the year. FY25 guidance was maintained at revenue of $80-95m and EDITDA (adj.) of $3-5m. Q1 revenue grew 64.5% over the pcp, assisted by the commencement of the IVC addendum project which contributed $5.7m. Smart Product Solutions (SPS) revenue grew 13.4%, or 31.2% ex SEA and China. Improved revenue was complemented by a cost base reduction of $0.8m, resulting in a marginally positive EBITDA result. It's worth noting that all divisions delivered EBITDA breakeven or better, validation for the work of the new management team over the past 18 months. The company believes an operating cash outflow of $0.2m will reverse and strengthen in H2 FY25. In the quarter, new orders grew 21.8% over the pcp to $12.1m, resulting in an order backlog of $83.5m, of which $49.4m is expected to be recognised in the balance of FY25. When combined with Q1 revenue, this represents 75% of forecast revenue at the guidance mid-point. This provides a level of comfort given Q1 is historically light, as supported by the company statement of that "Q2-Q4 is expected to show growth relative to Q1 2025". Our FY25 forecasts remain unchanged, in line with the mid-point of the guidance range with revenue at US$87.4m and EBITDA at US$4.1m. We retain our DCF valuation of A$0.18 per share, representing potential upside of 339% from the current share price.

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 business is stabilised and positioned to grow

The IVC addendum project delay materially affected performance through FY24, but management stated it is now "progressing well through Q1 2025 and revenue is slightly ahead of forecast". The proposed project timeline has been confirmed as 18 months as per our existing forecasts. The first milestone payment of $8.5m was paid in the quarter with two more payments totalling $10m+ expected in Q2 and Q3. In total, the addendum project is forecast to generate ~$45m over the 18-month period. Management is also hopeful of securing an O&M contract, both in the interim and upon project completion and stated it has "received positive feedback from the client in this regard". Management also commented on US tariffs stating the impact is "expected to be minor and limited to US SPS revenue whereby the manufacturing origin is outside of the US". This is likely to represent less than 10% of FY25 forecast revenue. The mid-term tariff impact should be mitigated by an accelerated progression of the already-planned US membrane manufacturing facility, which is forecast to cost ~$1.0m-$1.5m, the impact of which is already in our FY25 forecasts.

DCF valuation unchanged at $0.18/share

We retain our forecasts and our DCF valuation remains unchanged at A$0.18 per share. Execution risks remain, but in our view, FLC presents a risk-adjusted opportunity for long-term capital growth in a business that will continue to transition towards higher-quality, lower-risk earnings in FY25 and beyond. The business appears fully funded to execute its near-term growth strategy.

Historical earnings and RaaS' forecasts (in $US unless otherwise stated)

Year end	Revenue	Gross profit	EBITDA adj.*	NPAT adj.	EPS (c)	EV/Sales (x)	EV/EBITDA (x)	PER (x)
12/23a	68.8	17.8	0.2	(9.2)	(1.8)	0.2	61.3	n.m.
12/24a	51.2	17.3	(4.4)	(9.0)	(1.2)	0.8	n.m.	n.m.
12/25f	87.4	24.0	4.1	0.3	0.0	0.4	8.5	105.9
12/26f	92.4	29.1	6.5	1.6	0.2	0.3	5.0	19.3
12/27f	95.4	30.0	10.8	4.9	0.7	0.3	2.6	6.1

Source: Company data, RaaS estimates for FY25f-FY27f; Adjusted for one-time and non-cash items

Share Details

ASX code	FLC
Share price (8-May)	$0.04
Market capitalisation	$43.2M
Shares on issue	1,080M
Net debt at 31-Dec-2024	$11.7M

Share Performance (12 months)

Upside Case

- New contract win-rate ahead of forecasts
- The emergence of a clear BOO model backed by contract wins
- M&A opportunities

Downside Case

- Failure or delays in conversion of pipeline
- Margin expansion story doesn't play out
- Further problems in the Ivory Coast project

Catalysts

- Strong pipeline conversion
- Proof in delivering IVC profitably
- Evidence of maintainable margin expansion

Board of Directors

Doug Brown	Chair
Tom Pokorsky	CEO/Managing Director
Paul Donnelly	Non-Executive Director
Mel Ashton	Non-Executive Director
Nikolaus Oldendorff	Non-Executive Director

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Q1 FY25 Results Discussion

Q1 FY25 was a solid turnaround when compared to the previous corresponding period (pcp). Exhibit 1 illustrates the divisional contributions. Please note all references to Fluence's earnings in the body of this document are in US$ unless otherwise stated.

Exhibit 1: Q1FY25 divisional contribution versus Q1FY24 (US$m)

	YTD Q1 2024		YTD Q1 2025		Variance
	Revenue	EBITDA	Revenue	EBITDA	Revenue
Municipal Water & Wastewater (MWW)	1.7	0.2	2.4	0.1	+0.7
Industrial Water & Biogas (IWB)	0.7	(0.4)	2.7	0.3	+2.0
Industrial Water & Reuse (IWR)	4.6	0.8	4.3	0.6	-0.3
SEA & China	2.2	0.0	1.0	0.0	-1.1
BOO	0.7	0.1	0.7	0.2	0.0
IVC	0.3	(0.1)	5.7	0.6	+5.4
Corporate	(0.1)	(2.2)	(0.1)	(1.8)	0.0
Total	10.1	(1.6)	16.6	0.1	+6.5
Total SPS and Recurring (ex IVC and SEA China)	7.7	0.7	10.1	1.2	+2.4

Source: Company data and RaaS analysis

The key discussion points regarding the recent release are outlined below. Note the release contained the 4C cashflow statement and associated commentary, rather than full financial results.

- **Group revenue and EBITDA performance solid -** The March quarter delivered revenue of $16.6m, up $6.5m over the pcp (+64.5%). Both the top line and EBITDA performance was stronger than each of the first three quarters of last year, partially assisted by the commencement of the IVC addendum project, which contributed $5.4m more in revenue than Q1 FY24. Notably, this result represents the first time over the past 12 months that each of the divisions delivered a break-even or profitable result. The positive EBITDA result represents a turnaround of $1.7m over Q1 FY24, with the IVC project only representing $0.7m of that, so other divisional performance improved as a group, complemented by a reduced cost base to the tune of $0.4m at the corporate line, and further assisted by reduced R&D spend.
- **The key SPS focus areas of MMW, IWB and IWR divisions are growing as a collective -** The divisions which represent the future strategic focus of the business are those containing the SPS, as opposed to large construction projects such as IVC. As evidenced in Exhibit 1, the total SPS and recurring revenue divisions grew revenue 31.2% to $10.1m, and EBITDA 71.4% to $1.2m. We include the BOO (Build-Own-Operate) projects in this due to the recurring revenue model. We exclude China and South East Asia as we believe it faces its own set of circumstances and question if it is a strategic fit on an ongoing basis for the management team. This is discussed below.
- **The South East Asian and China division remains challenging -** The company has previously commented on an ongoing slowdown in China, and although this is partly offset by other Asian regions, the result was still soft, with management citing "lacklustre orders in Q4 FY24". It also stated "the outlook for SEA and China is for significant growth over FY2024 [which was a very poor year for the division], however, elevated risks remain in this region and the company continues to evaluate this business unit.

- **Gross margins reduced by 8.4% to 26.2% when compared to the pcp** due to the increased contribution from the lower margin IVC addendum project**.** This was expected as large engineering projects deliver gross margin in the vicinity of 15%, whereby the SPS and recurring revenue operations deliver gross margins of 25%-40%.

- **Operating cash flow number broadly in line with EBITDA.** We were marginally disappointed at the operating cash-flow line, particularly considering the receipt of the first IVC addendum milestone payment in the quarter which resulted in customer receipts ~$3m higher than revenue. However, management said it expects the business to be cashflow positive as the year progresses, the timing of which will partly depend on milestone payments 2 and 3 of the IVC project , so we expect an acceleration over the full year and maintain our OCF forecasts.

- **Cash balance and debt facility are broadly in line with 31 December 2024.** FLC repaid the existing debt facilities ($14.3m) in the September quarter of 2024 and replaced them with a new US$15m revolving loan facility provided by the company's two largest shareholders in Doug Brown (Chairman and 15% shareholder) and Niko Oldendorff (Director and 11% shareholder). The facility was increased by a further $5m on 30 October 2024 to provide working capital headroom due to the IVC project delays. Given the data points in the 4C, we assume the debt balance remains broadly unchanged. Cash has reduced from $8.9m to $8.5m, but security deposits relating largely to the IVC project total a further $3.7m. Given the likely cash inflow from the IVC project we would expect to see some light debt reduction in the coming months, but more importantly we have increased confidence that the business is now funded and will deliver a profitable result in CY2025.

Outlook

The company has maintained its FY25 guidance (December year-end) with forecast revenue in a range of $80m-$95m and EBITDA $3.0m-$5.0m. This is set to be driven by:

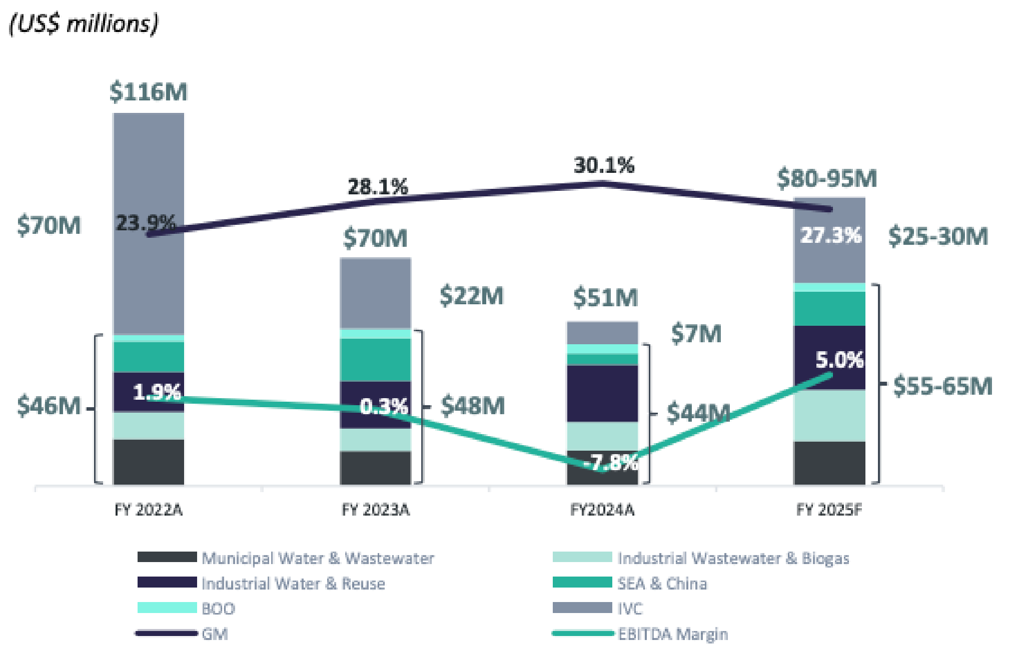
- **The IVC addendum project building momentum:** The revenue guidance includes a material contribution from the IVC addendum project. Our forecasts assume $25m in revenue recognised by 31 December 2025. The balance of the project should be delivered in FY26.

- **Order backlog:** The order backlog sits at $83.5m as at the end of Q1FY25 after FLC generated new orders of $12.1m through the quarter. $49.4m of the backlog is expected to be recognised in the remainder of FY25, which when combined with Q1 revenue of $16.6m, represents 75% of revenue guidance at the mid-point. Further, the company says, the IWR and IWB divisions have an additional $8m in verbal orders that are expected to be booked in the coming weeks. It is worth noting that the backlog only contains orders that have been approved and with notices to proceed, derisking the book from material administrative delays that have impacted in the recent past. That said, there is always execution timing risk in the order book.

- **Further pipeline conversion:** The balance of the revenue is expected to be converted from the group sales pipeline, which remains strong at $1.1b. Circa $480m falls into the BOO vertical, which is potentially challenging given the FLC balance sheet, but the MWW, IWB and IWR divisions all have a healthy pipeline exceeding $100m each. The sales cycle for the municipal business (MWW) is longer and more protracted, so we would look for a healthy flow of contracts in the IWR and IWB divisions. To reach mid-point of the guidance range FLC needs to secure and deliver a further $21.5m of new work (N.B we have not assumed any of the $8m verbal orders are secured in this calculation). We view this as very achievable.

FLC has provided a financial summary of revenue contribution from FY22 to the current forecast year, as illustrated in Exhibit 2.

Exhibit 2: Fluence financial summary (FY22-FY25)

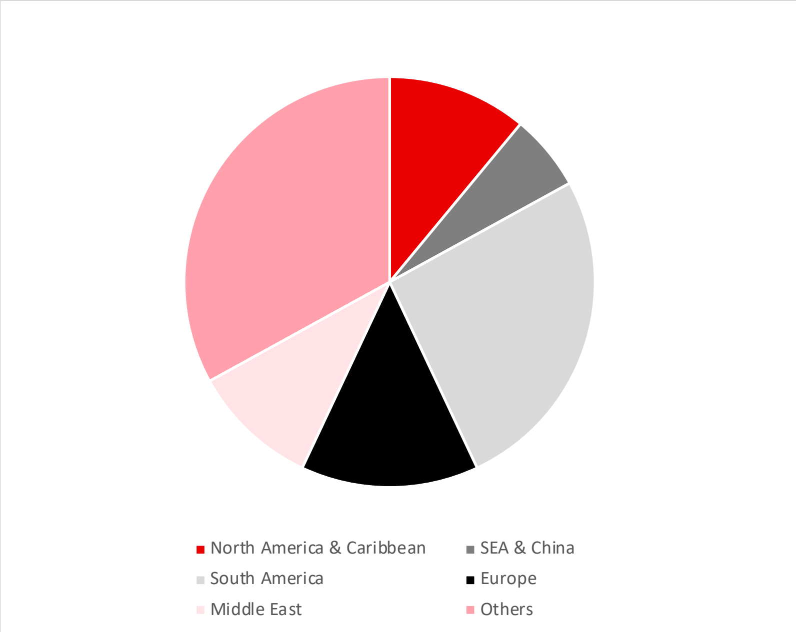


Source: Company reports

The Risk Around US Tariffs

The US tariff situation is likely to have an impact on the Fluence business, but management has stated that it is 'expected to be minor and limited to US SPS revenue whereby the manufacturing origin is outside of the US'. Exhibit 3 illustrates the geographic segmentation of revenue of Fluence for Q1 FY25, whereby North America and Caribbean represented 11% of group revenue. Management forecasts total FY25 US revenue from MWW and IWB to be only $8m or less than 10% of budgeted revenue. That said, the business has ambitions to grow its US presence and has invested in teams accordingly, which have in turn developed strong contract pipelines in the region. The company was already in the process of setting up manufacturing on MABR membranes (an important proprietary component of several FLC's SPS solutions). It has already moved a plant from Israel, but the remainder of the process may now be accelerated to deliver US-based projects in in response to trade disputes. We assume capital costs of ~$1.5m for the set-up of a US membrane manufacturing facility across the balance of FY25.

Exhibit 3: Fluence Q1 FY25 geographic segmentation



Source: Company reports

Forecasts Unchanged

We remain optimistic about the outlook for the business and the capability of the management team to drive the new strategy, however the market will likely require proof of execution in 2025 to drive material share price strength. The company has made significant strides toward the turnaround, particularly in the three key divisions of MWW, IWB and IWR. Our forecasts for FY25, FY26 and FY27 remain unchanged as follows.

Exhibit 4: Revised forecasts (in US$m unless otherwise stated)

	FY25	FY26	FY27
Revenue	87.4	92.4	95.3
EBITDA	4.1	6.5	10.7
NPAT (adj)	0.3	1.6	4.9

Source: RaaS forecasts

DCF Valuation

In our view, given the early-stage of the turnaround for the Fluence business, the discounted cash-flow methodology is the most appropriate method for valuing the company. We use a weighted average cost of capital of 11.3% (risk free rate 4.0% and equity risk premium 6.0%). We use a beta of 1.2 (observed Beta is 0.86). This gives us a base-case valuation of A$0.18/share fully diluted which is unchanged.

Exhibit 5: DCF valuation

DCF valuation	Parameters
Discount rate / WACC	11.2%
Beta*	1.2
Terminal growth rate	3.0%
Sum of PV (US$m)	29.1
PV of terminal value (US$m)	89.1
PV of enterprise (US$m)	118.2
Net debt 30 Dec US($m)	10.7
Net value – shareholder (US$m)	128.9
No. of shares on issue (in millions and fully diluted)	1,080
NPV in US$	**$0.12**
NPV in A$ (ER 0.65)	**$0.18**

Source: RaaS analysis *LSEG observed beta is 0.86

Exhibit 6: Financial Summary

Fluence Corporation	All financials in US$ unless stated otherwise				
Profit and Loss (A$m)					
Y/E 30 December	**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
Sales Revenue	68.8	51.5	87.4	92.4	95.4
Gross Profit	17.8	15.2	24.0	29.1	30.0
EBITDA underlying	0.2	(4.0)	4.1	6.5	10.8
Depn	(1.8)	(1.6)	(1.8)	(1.8)	(1.9)
Amort	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
EBIT underlying	(1.4)	(5.9)	2.0	4.4	8.7
Interest	(5.7)	(2.8)	(1.6)	(1.6)	(1.6)
Tax	(0.7)	(0.3)	(0.2)	(1.2)	(2.2)
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0
NPAT pre significant items	(9.2)	(9.0)	0.3	1.6	4.9
Significant & non-cash items	(8.8)	(13.0)	0.0	0.0	0.0
NPAT (reported)	**(18.1)**	**(22.0)**	**0.3**	**1.6**	**4.9**
Cash flow (A$m)					
Y/E 30 December	**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
EBITDA	0.2	(4.0)	4.1	6.5	10.8
Interest	(5.7)	(2.3)	(1.6)	(1.6)	(1.6)
Tax	(0.2)	(0.8)	(0.2)	(1.2)	(2.2)
Working capital & other	(13.3)	(13.0)	5.3	1.4	(0.6)
Operating cash flow	(19.0)	(20.1)	7.6	5.0	6.4
Mtce capex	0.0	0.0	(0.4)	(0.4)	(0.4)
Free cash flow	(19.0)	(20.1)	7.2	4.6	6.0
Capex	(1.8)	0.0	(2.0)	(2.0)	(2.0)
Acquisitions/Disposals	0.1	2.0	0.0	0.0	0.0
Other	6.1	(1.0)	(0.2)	(0.2)	0.8
Cash flow pre financing	(14.6)	(19.1)	5.0	2.4	4.8
Equity	26.6	0.0	0.0	0.0	0.0
Debt	(13.4)	2.3	(3.2)	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Net cash flow for year	(1.4)	(16.9)	1.9	2.4	4.8
Balance sheet (A$m)					
Y/E 30 December	**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
Cash	24.6	8.9	10.8	13.2	17.0
Accounts receivable	35.3	38.9	41.2	40.3	44.2
Inventory	5.7	5.8	6.3	6.2	6.8
Other current assets	8.7	3.2	6.3	6.3	6.3
Total current assets	74.3	56.8	64.6	66.0	74.3
PPE	8.1	8.0	8.2	8.4	8.5
Intangibles and Goodwill	1.1	1.0	1.2	1.3	1.4
Investments	0.3	0.3	0.2	0.2	0.2
Deferred tax asset	2.0	1.9	1.1	1.1	1.1
Other non current assets	7.2	6.1	7.0	7.0	7.0
Total non current assets	18.8	17.3	17.7	18.0	18.2
Total Assets	93.1	74.1	82.3	83.9	92.5
Accounts payable	32.4	34.8	41.2	40.3	44.2
Short term debt	15.8	3.2	0.0	0.0	0.0
Tax payable	0.7	0.1	0.0	0.0	0.0
Other current liabilities	28.7	25.1	30.9	31.9	32.0
Total current liabilities	77.6	63.2	72.1	72.2	76.2
Long term debt	2.6	17.5	17.5	17.5	17.5
Other non current liabs	0.8	1.0	1.0	1.0	0.7
Total long term liabilities	*3.4*	*18.5*	*18.5*	*18.5*	*18.2*
Total Liabilities	80.9	81.6	90.7	90.8	94.4
Net Assets	**12.2**	**(7.5)**	**(8.4)**	**(6.8)**	**(1.9)**
Share capital	232.3	232.6	232.6	232.6	232.6
Accumulated profits/losses	(214.9)	(236.3)	(236.0)	(234.4)	(229.5)
Reserves	(3.3)	(1.6)	(3.1)	(3.1)	(3.1)
Minorities	(2.0)	(2.2)	(1.9)	(1.9)	(1.9)
Total Shareholder funds	**12.2**	**(7.5)**	**(8.4)**	**(6.8)**	**(1.9)**

Share price (8 May 2025)		All per share metrics in A$				$	0.040
Interim (A$m)							
		1H23A	**2H23A**	**1H24A**	**2H24A**	**1H25F**	**2H25F**
Revenue		30.4	38.4	20.1	30.7	39.0	48.4
EBITDA (adj)		(1.6)	2.2	(3.5)	(0.5)	2.2	1.9
EBIT (adj)		(2.6)	1.2	(4.4)	(1.3)	1.2	0.9
NPAT (normalised)		(5.1)	(3.8)	(5.9)	(2.0)	0.3	0.1
EPS (normalised/diluted)		(0.69)	(0.48)	(0.55)	(0.18)	0.03	0.01
Divisions		**1H23A**	**2H23A**	**1H24A**	**2H24A**	**1H25F**	**2H25F**
MWW		5.3	5.8	3.7	7.4	7.6	8.0
IWB		3.4	3.6	3.2	5.7	5.5	9.8
IWR		5.7	9.2	8.7	9.3	9.6	10.3
SEA & China		2.2	11.4	2.4	1.4	3.5	3.5
BOO		1.2	0.9	1.5	1.4	1.8	1.8
IVC		13.2	9.1	0.7	7.0	11.0	15.0
Sales revenue		**30.4**	**38.4**	**20.2**	**30.7**	**39.0**	**48.4**
EBITDA (normalised)		(1.6)	2.2	(3.5)	(0.5)	2.2	1.9
Margins, Leverage, Returns			**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
Gross Profit Margin			25.9%	29.4%	27.5%	31.5%	31.5%
EBITDA			0.3%	(7.8%)	4.7%	7.0%	11.3%
EBIT			(2.1%)	(11.4%)	2.3%	4.8%	9.1%
NPAT pre significant items			(26.3%)	(42.7%)	0.3%	1.7%	5.2%
Net Debt (Cash)			(6.3)	11.7	6.7	4.3	0.5
ND/ND+Equity (%)	(%)		34.0%	61.0%	44.5%	38.9%	22.1%
EBIT interest cover (x)	(x)	-	0.3 -	2.1	1.3	2.8	5.5
ROA			n/a	(7.0%)	2.6%	5.3%	9.8%
ROE			n/a	(929.8%)	(3.6%)	(20.6%)	(113.4%)
ROIC			n/a	91.0%	(15.3%)	(49.2%)	(256.9%)
Working capital			8.6	9.9	6.3	6.2	6.8
WC/Sales (%)			12.5%	19.2%	7.2%	6.7%	7.1%
Revenue growth			(40.9%)	(25.1%)	69.7%	5.7%	3.2%
EBITDA growth			(65.4%)	(2415.6%)	-202%	58%	67%
Pricing			**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
No of shares (y/e)	(m)		1,076	1,076	1,076	1,076	1,076
Weighted Av Dil Shares	(m)		791	1,163	1,163	1,163	1,163
EPS Reported (A$)	cps		(3.51)	(2.91)	0.04	0.21	0.65
EPS Normalised/Diluted (/	cps		(1.79)	(1.19)	0.04	0.21	0.65
EPS growth (norm/dil)			n/a	n/a	n/a	448%	215%
DPS	cps		-	-	-	-	-
DPS Growth			n/a	n/a	n/a	n/a	n/a
Dividend yield			0.0%	0.0%	0.0%	0.0%	0.0%
Dividend imputation			0	0	0	0	0
PE (x)			n/a	n/a	105.9	19.3	6.1
PE market			18.0	18.0	18.0	18.0	18.0
Premium/(discount)			n/a	n/a	488.1%	7.4%	(65.9%)
EV/EBITDA			61.3	n/a	8.5	5.0	2.6
EV/Revenue			0.2	0.8	0.4	0.3	0.3
FCF/Share (A$)	cps		-2.7	-2.9	1.0	0.7	0.9
Price/FCF share	x		n/a	n/a	3.9	6.1	4.6
Free Cash flow Yield			-68.0%	-71.9%	25.8%	16.4%	21.6%

Source: RaaS estimates, Company data for actuals

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If you have a complaint about our service, you should contact your representative and tell them about your complaint. The representative will follow BR's internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren't satisfied with an outcome, you may contact AFCA, see below.

BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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