

# Fluence Corporation Ltd

## Tapping the growing demand for clean water

Fluence Corporation Ltd specializes in providing decentralized and pre-engineered water, wastewater treatment, and reuse solutions for both municipal and industrial applications operating on a global scale with an established business presence in North America, South America, the Middle East, Europe and China. Fluence is the exclusive developer and owner of its unique wastewater treatment MABR system called **Aspiral™** and desalination systems called **Nirobox™**. The company was formed in 2017 following the predominantly scrip-based merger of Australian listed Emefcy Ltd and US group RWL Water. Fluence has subsequently raised an additional ~\$60m in private and institutional placements and share purchase plans, with the last raise, in October 2019, done at \$0.44/share to raise A\$38.3m. In 2020, Fluence delivered positive EBITDA in Q1 and both positive EBITDA and cashflows in Q2 on the back of revenues more than doubling to US\$57.4m. EBITDA for H1 CY20 was \$6.2m. The company has provided, and subsequently in late July, reaffirmed guidance for positive EBITDA in CYFY20, US\$32m in Smart Products Solutions revenue and US\$9m in recurring revenue.

### Business model

Fluence supplies a range of technology solutions for decentralised water and wastewater to governments and corporates across the globe. The company has several proprietary pre-engineering, standardised Smart Products Solutions including **Aspiral™**, **NIROBOX™** and **SUBRE**. Fluence's strategy is to become a global leader in decentralised Smart Product Solutions, generating recurring revenues from operations and maintenance and Build Own Operate Transfer (BOOT) solutions.

### Recent company commentary

Revenues for H1 CY20 rose 143% to US\$57.4m and EBITDA for the half was US\$6.2m. FLC posted its maiden profit of US\$1.74m, compared with a net loss of US\$17.5m in H1 CY19. Operating cash outflow for the half was US\$5.27m compared with operating cash outflow of US\$22.6m, with Q2 stemming the outflow with its positive cashflow contribution of US\$2.7m due to the company's continued focused on reducing costs and timely receipt collections. Operating costs in Q2 were lower than in Q1, resulting in operating costs falling 25% in H1 FY20, versus in H1 FY19. At 30 June, Fluence had cash of US\$20.15m and drawn debt facilities of US\$3.75m. Subsequent to its June 30 results, Fluence has secured a loan agreement with Upwell Water, providing additional US\$20m in working capital and project finance capacity. In releasing its results, company reaffirmed its guidance for positive EBITDA in CYFY20, US\$32m in Smart Products Solution sales and recurring revenue of US\$9m. Fluence however noted that continuing economic and travel restrictions due to COVID-19 could lead to delays in new deals and softer revenues leading in 2021.

### Trading at a significant discount to peers

We have identified Aeri Environmental and Clean Teq Holdings as peers to Fluence. Both companies are of a similar market capitalisation and both are delivering environmentally focused technology solutions. Aeri, like Fluence, has reported its first profitable half year. On its current share price, however, Fluence, is trading on just over 1.2 times EV/Revenue while Aeri is trading on almost 9.0x.

#### Historical earnings and ratios

Year end	Revenue (US\$m)	Gross Profit	EBITDA Adj.* (US\$m)	NPAT Adj.* (US\$m)	NPAT Rep. (US\$m)	EPS Adj.*(c)	EPS Rep. (c)	EV/Sales^ (x)
12/16a	0.8	(1.5)	(8.8)	(9.1)	(9.1)	(4.3)	(4.2)	nm
12/17a	33.2	6.0	(23.6)	(22.4)	(23.6)	(7.0)	(3.4)	2.5
12/18a	101.1	34.6	(8.5)	(11.1)	(62.8)	(2.5)	(14.3)	0.9
12/19a	61.3	9.8	(27.8)	(32.0)	(30.6)	(5.8)	(5.5)	2.8

Source: Company data \*EBITDA and NPAT adj for one-time, non-cash items ^based on the EV at each year end

## Environmental services/solutions

4 September 2020

### Share details

ASX Code	FLC
Share price (3-Sep)	\$0.21
Market Capitalisation	\$131.2M
Shares on issue	624.9M
Net cash at 30/06/2020	US\$16.4M
Free float	45.6%

### Share performance (12 months)



### Upside Case

- Cashflow, EBITDA & NPAT positive for H1 FY20
- Revenue backlog of US\$234.0m
- Growing revenues from SPS & recurring revenues

### Downside Case

- COVID-19 delaying project starts and decisions
- Project revenue tends to be lumpy
- Long lead times from tenders to project commencement

### Catalysts/upcoming events

- Delivering on 2020 guidance
- Confirmation that the Ivory Coast project has met all conditions precedent and delivering cash payments

### Comparable companies (Aust/NZ)

Aeri Environmental (ASX:AER) Clean Teq Holdings (ASX:CLQ)

### Top 5 shareholders

RSL Investments Corporation	26.47%
Watermark Services LLC	8.46%
Richard Irving	5.96%
Employee Equity Administration	2.27%
Plan B Ventures LLC	1.94%

### Company contacts

Ronn Bechler (IR) +61 400 009 774  
ronn.bechler@marketeye.com.au

### RaaS Advisory contacts

Finola Burke +61 414 354 712  
finola.burke@raasgroup.com



# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

**ABN 99 614 783 363**

**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

**Effective Date: 26<sup>th</sup> November 2018**



### **About Us**

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License ("AFSL") number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR.

This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS's services and includes such things as

- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

Contact Details, BR and RaaS

BR Head Office: Level 14, 344 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: [finola.burke@raasgroup.com](mailto:finola.burke@raasgroup.com)

RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

**What Financial Services are we authorised to provide?** RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
  - Securities
- deal on behalf of retail and wholesale clients in relation to
  - Securities

The distribution of this FSG by RaaS is authorized by BR.

### **Our general advice service**

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

### **Our dealing service**

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application form if needed.

### **How are we paid?**

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.

We may also receive a fee for our dealing service, from the company issuing the securities.

### **Associations and Relationships**

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS's representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

### **Complaints**

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](http://www.afca.org.au); Email: [info@afca.org.au](mailto:info@afca.org.au); Telephone: 1800931678 (free call)

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

### **Professional Indemnity Insurance**

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

#### DISCLAIMERS and DISCLOSURES

This report has been prepared and issued by RaaS Advisory Pty Ltd. This research is issued in Australia by RaaS Advisory and any access to it should be read in conjunction with the Financial Services Guide on the preceding two pages. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. Opinions contained in this report represent those of the principals of RaaS Advisory at the time of publication. RaaS Advisory provides this financial advice as an honest and reasonable opinion held at a point in time about an investment's risk profile and merit and the information is provided by the RaaS Advisory in good faith. The views of the adviser(s) do not necessarily reflect the views of the AFS Licensee. RaaS Advisory has no obligation to update the opinion unless RaaS Advisory is currently contracted to provide such an updated opinion. RaaS Advisory does not warrant the accuracy of any information it sources from others. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance. RaaS Advisory's principals, employees and associates may hold shares in companies that are covered and, if so, this will be clearly stated on the front page of each report.

Assessment of risk can be subjective. Portfolios of equity investments need to be well diversified and the risk appropriate for the investor. Equity investments in listed or unlisted companies yet to achieve a profit or with an equity value less than \$50 million should collectively be a small component of a balanced portfolio, with smaller individual investment sizes than otherwise. Investors are responsible for their own investment decisions, unless a contract stipulates otherwise. RaaS Advisory does not stand behind the capital value or performance of any investment. Subject to any terms implied by law and which cannot be excluded, RaaS Advisory shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information. If any law prohibits the exclusion of such liability, RaaS Advisory limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. Copyright 2020 RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363). All rights reserved.