Colts

A research initiative by Canaccord Genuity

Fluence Corporation

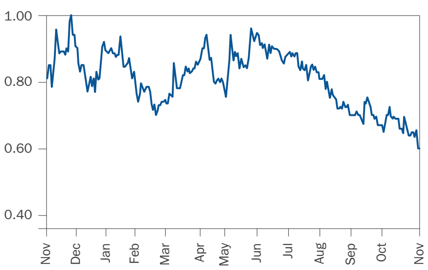
Clean water thematic is attractive

Key Facts	
Company Code	FLC
Closing Price (3/11/17)	$0.65
Date of Report	6/11/17
Company Website	fluencecorp.com
Analyst	Johan Hedstrom

Company Statistics	
12-Month Range (A$)	$0.64-$1.06
Market Cap (A$Mil)	$270
Issued Shares (Mil)	415
Issued Options (Mil)	46
Cash (A$Mil)	58

Major Shareholders	%
RSL Investments	33%
Pond Ventures Nominees	7.7%

Share Price Performance



Canaccord Colts provide research coverage on a select group of early-stage ASX-listed microcap companies that our institutional research team believes have strong development trajectories.

If you have received this indirectly, please click **here** to receive future research on FLC and other Colt companies.

Fluence offers growth through new water technology

Fluence Corporation (ASX: FLC) is a water treatment company with an exciting suite of new technologies, offering strong growth prospects. The company is the result of a July 2017 merger between the ASX listed Emefcy Ltd (EMC) and US private group RWL Water Corporation. The merger has improved the outlook for both companies, with RWL Water's operations providing a strong base business, while Emefcy's innovative products provides exciting upside potential. We initiate research coverage with a Buy recommendation and a DCF based Target Price of $1.34/share, although investors should review our sensitivity analysis as a range of scenarios are plausible.

The only water company listed on the ASX

Fluence is the only ASX listed company with a focus on water treatment, as far as we are aware. The company offers exposure to the fastest growing part of the water industry, namely small to medium sized, decentralized water treatment plants. The company's MABR product is ideal for such wastewater treatments, with a particular focus on China where the current Five Year Plan aims to clean up water in 100,000 rural communities. The company's desalination technology Nirobox is also offering attractive growth prospects, as water scarcity increases around the globe due to economic development and population growth.

Positive EBITDA expected in 2019

The company is investing in sales and marketing as well as manufacturing capacity to meet the growing demand for water treatments. With total staff numbers around 330 and offices across the world, the shift to higher margin products and services is not expected to generate positive EBITDA until 2019. The balance sheet is cashed up at US$45m (A$58m) which appears to be enough to fund the company until then.

There is considerable upside from specific projects announced by the the company, which we have not yet included, such as the US$100m African project recently announced, accelerated SUBRE installations, or the next generation of MABR and Nirobox technologies.

Strategically placed to grow

Fluence is an attractive growth company in our view. The industry is needing to invest significant amounts of capital to maintain and improve water quality, and the low cost, smart packaged technologies offered by Fluence are very well placed to meet the demand. A strong management team, and a well funded business should lead to attractive rewards for investors willing to take a longer term view.

Fluence Corporation
Financial Summary

PROFIT AND LOSS US$						
Year ending December	**Unit**	**2016A**	**2017E**	**2018E**	**2019E**	**2020E**
Revenue	$m	60.9	77.0	125.0	165.0	279.7
Operating Expenses	$m	(49.3)	(61.3)	(95.7)	(124.1)	(204.9)
Admin and Other Expenses	$m	(28.7)	(30.0)	(30.8)	(31.5)	(32.3)
EBITDA	**$m**	**(17.1)**	**(14.3)**	**(1.4)**	**9.4**	**42.5**
Depreciation	$m	(1.6)	(2.5)	(3.7)	(4.6)	(6.4)
EBIT	$m	(18.8)	(16.8)	(5.1)	4.9	36.2
Net interest (expense)	$m	6.5	0.2	0.4	0.0	(0.2)
PBT	**$m**	**(12.3)**	**(16.6)**	**(4.7)**	**4.9**	**35.9**
Tax expense	$m	(2.8)	-	1.2	(1.2)	(9.0)
NPAT (pre-abnormal)	**$m**	**(14.9)**	**(16.6)**	**(3.6)**	**3.7**	**27.0**
Abnormal items	$m	-	-	-	-	-
NPAT (reported)	**$m**	**(14.9)**	**(16.6)**	**(3.6)**	**3.7**	**27.0**

CASH FLOW US$						
Year ending December	**Unit**	**2016A**	**2017E**	**2018E**	**2019E**	**2020E**
OPERATING CASHFLOW						
NPAT	$m	(14.9)	(16.6)	(3.6)	3.7	27.0
Add: non-cash items	$m	1.6	2.5	3.7	4.6	6.4
Change in working capital	$m	(7.3)	(8.8)	(7.2)	(6.0)	(17.2)
Operating cash flow	**$m**	**(20.6)**	**(23.0)**	**(7.1)**	**2.3**	**16.1**
INVESTING CASHFLOW						
Net PP&E	$m	(0.4)	(3.0)	(2.5)	(5.0)	(4.0)
Evaluation	$m	(0.2)	-	-	-	-
Other	$m	(3.8)	-	-	-	-
Investing cash flow	**$m**	**(4.4)**	**(3.0)**	**(2.5)**	**(5.0)**	**(4.0)**
FINANCING CASHFLOW						
Share capital	$m	3.3	36.0	-	-	-
Interest bearing debt	$m	4.3	-	4.0	6.8	(0.7)
Financing cash flow	**$m**	**7.7**	**36.0**	**4.0**	**6.8**	**(0.7)**
Change in cash	$m	(17.3)	10.0	(5.5)	4.0	11.5

BALANCE SHEET US$						
Year ending December	**Unit**	**2016A**	**2017E**	**2018E**	**2019E**	**2020E**
ASSETS						
Cash	$m	8.0	18.0	12.5	16.5	28.0
Accounts receivable	$m	3.1	19.3	31.3	41.3	69.9
Property Plant & Equipment	$m	0.6	1.1	(0.1)	0.4	(2.0)
Inventory	$m	-	-	-	-	-
Other	$m	3.8	3.8	3.8	3.8	3.8
Total assets	**$m**	**15.5**	**42.2**	**47.5**	**61.9**	**99.7**
LIABILITIES						
Accounts payable	$m	0.4	7.7	12.5	16.5	28.0
Deferred tax liablities	$m	-	-	-	-	-
Borrowings	$m	3.4	3.4	7.4	14.2	13.5
Provisions	$m	4.2	4.2	4.2	4.2	4.2
Total liabilities	$m	8.0	15.3	24.2	34.9	45.7
SHAREHOLDER'S EQUITY						
Share capital	$m	15.8	51.8	51.8	51.8	51.8
Retained earnings	$m	(10.5)	(27.1)	(30.7)	(27.0)	(0.0)
Reserves & outside equity	$m	2.2	2.2	2.2	2.2	2.2
Total equity	**$m**	**7.5**	**26.9**	**23.3**	**27.0**	**54.0**
Weighted average NoSh	m	228.6	336.1	415.1	415.1	415.1

FINANCIAL RATIOS						
Year ending December	**Unit**	**2016A**	**2017E**	**2018E**	**2019E**	**2020E**
VALUATION						
NPAT (adjusted)	$m	(14.9)	(16.6)	(3.6)	3.7	27.0
EPS (adjusted)	c/sh	(6.5)	(5.0)	(0.9)	0.9	6.5
EPS growth	%		-24%	-83%	-204%	631%
PER	x	-10.0x	-13.1x	-75.9x	73.2x	10.0x
DPS	c/sh	-	-	-	-	-
Yield	%					
EV/EBITDA	x	-15.5x	-17.8x	-189.1x	28.4x	6.0x
PROFITABILITY RATIOS						
Gross margin	%			31%	33%	37%
EBITDA margin	%			-1%	6%	15%
Return on assets	%	-52%	-58%	-8%	7%	33%
Return on equity	%	-86%	-97%	-14%	15%	67%
LIQUIDITY & LEVERAGE						
(Net debt) / cash	$m	5	15	5	2	14
ND / E	%	45%	13%	32%	52%	25%
ND / (ND + E)	%	31%	11%	24%	34%	20%

ASSUMPTIONS						
Year ending December	**Unit**	**2016A**	**2017E**	**2018E**	**2019E**	**2020E**
PRICES						
MABR modules	#	100	200	2,000	4,000	10,000
Nirobox units	#	10	40	80	110	200
Custom Revenue growth	%	8%	2%	10%	5%	5%
RaaS agreements	#	-	-	5	5	10

MARGINS		**2016A**	**2017E**	**2018E**	**2019E**	**2020E**
MABR	%	35%	35%	35%	35%	35%
Nirobox	%	20%	20%	20%	20%	20%
Custom Projects	%	19%	20%	20%	20%	20%
RaaS	%	-	-	50%	50%	50%

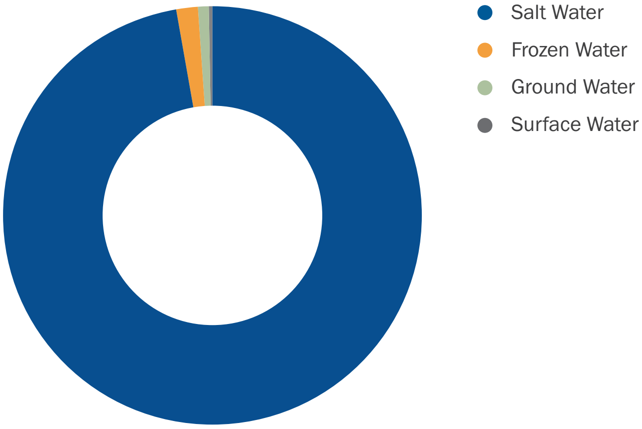
CURRENCY					
USD/AUD	0.75	0.78	0.76	0.75	0.74

A$ SOTP VALUATION AT WACC					
11.1%	**Risked**			**Unrisked**	
	NPV ($m)	**A$/sh**	**Risking**	**NPV ($m)**	**A$/sh**
MABR	325	0.78	100%	325	0.78
Nirobox	143	0.34	100%	143	0.34
Custom Projects	96	0.23	100%	96	0.23
RaaS	50	0.12	100%	50	0.12
Net asset value	**615**	**1.48**		**615**	**1.48**
Corporate overheads	(64)	(0.15)		(64)	(0.15)
(Net debt) / cash	6			6	0.01
Equity value	556			**556**	
# Shares	415			415	
Value per share ($/sh)	**1.34**			**1.34**	

Water scarcity is a growing problem – and what an opportunity!

One striking fact about the water industry is the scarcity of fresh water. As shown in the chart below, 97% of the earth's water resources are salt water, and of the fresh water, 70% is frozen, 29% is found in groundwater and only 1% is found as surface water (lakes, dams and rivers).

Fig 1. Earth's water resources



Source: Company Reports

> "In China, the problem has been recognized, as environmental degradation and health issues become more evident."

While it's not that surprising that the world's oceans dominate, the fact that most freshwater is locked up in the polar regions and that so little is available as surface water is a powerful reminder that this is a valuable resource. Add to this the fact that most of the water used around the globe is not treated after it has been used. At the moment, over 80% of wastewater generated globally flows back into the ecosystem without being treated or re-used. Most of the problem lies in the developing world, as the OECD treats +80% of all its water, compared to 10% or less in the rest of the world.

The UN and the World Bank has set out ambitious targets to improve the situation by 2030, with two principal Sustainable Development Goals:

- Universal access to safe and affordable drinking water for all.
- Access to adequate and equitable sanitation and hygiene for all.

The World Bank estimates that the costs to achieve a basic service would cost US$47B/year and that a safe service would cost US$123B/year until 2030.

In China, the problem has been recognized, as environmental degradation and health issues become more evident. Only half the major rivers and less than a quarter of the major lakes and reservoirs in China are suitable for drinking water (Environmental Health, 6 March 2014). The Government estimates that every year, 190m people fall ill and 60,000 people die due to poor water quality.

The 13th Five Year Plan (13FYP) (2016-2021) is seeking to address the issues, with a major initiative to increase the proportion of rural villages with wastewater treatment from 10% to 70%. This represents more than 100,000 villages with a population of 440m and a potential revenue opportunity of US$15B.

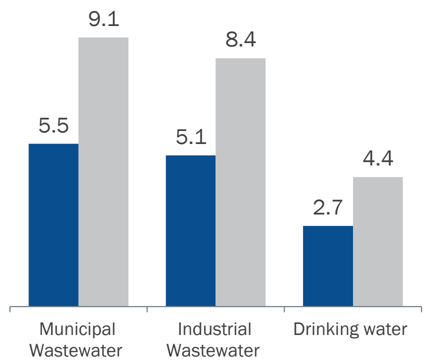
Fluence has identified China as an ideal market for its smart packaged MABR units, and has established an impressive launch pad in the country:

- Nine commercial distribution partners signed up, covering close to 80% of the target rural market. Six more partnerships are under discussion.
- Manufacturing plant built and commissioned in Changzhou, near Shanghai, with enough land to add another three manufacturing lines.
- 6 MABR plants installed and operating in China.
- Certification from Wuxi Design Institute.
- China team established, in 3 locations with more to come.

The company's products are not just suited to China, and Fluence's target markets are growing strongly across the world. The following graphic illustrates the expected increases in global capex.

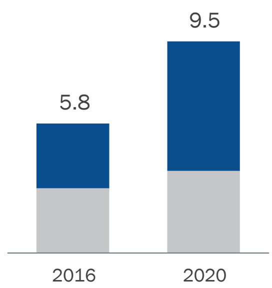
Fig. 2. The market is growing strongly

A. Smart Packaged Plants
Global market size grows from US$13.3B in 2016 to US$21.8B in 2021 (US$ Billions)



● 2016 ● 2021

B. New capex
On desalination and reuse equipment (US$ Billions)



● Wastewater reuse ● Desalination

> “There is a strong trend to more de-centralized, smaller plants in evidence across the world, as this has lower capex, shorter lead times, and is operationally more flexible.”

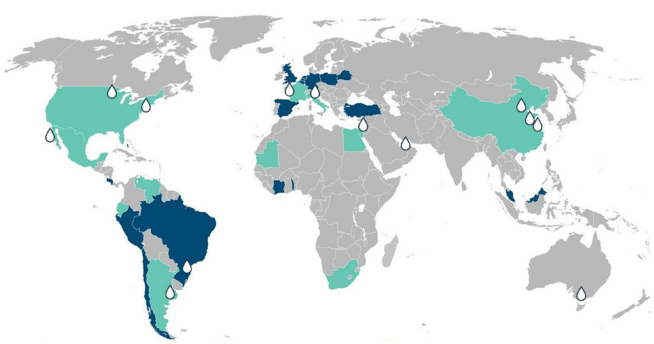
C. Cumulative new capex On desalination and reuse plants, 2017-22

- China & Taiwan US$29.9B (36%)
- Middle East & Africa US$28.6B (34%)
- USA US$15.6B (19%)
- EU/ C Asia US9.1B (11%)

Source: Company Reports

Historically, water treatment plants have tended to be large centralized facilities, run by Government owned utilities, with extensive pipeline networks to supply drinking water, while wastewater is transferred back for treatment. There is a strong trend to more de-centralized, smaller plants in evidence across the world, as this has lower capex, shorter lead times, and is operationally more flexible. Fluence's smart packaged solutions for wastewater (MABR) and desalination (Nirobox) are ideally suited for this market trend.

Fig 3. Fluence is a global operator



- Offices / Manufacturing Sites
- Projects Executed in 2017
- Current Projects / Active Prospects

- Sales reach in US, China, Latin America, Africa, Europe
- Diversifies revenuesources while increasing opportunities
- Global operations, including manufacturing in Israel, Argentina, USA, Italy and China

Source: Company Reports

Business Units

MABR

The Membrane Aerated Biofilm Reactors (MABR) is the company's flagship product, developed in Israel by the founders of Emefcy.

MABR is a water treatment unit with the following key attributes:

- 90% lower energy consumption than conventional units.
- Simultaneous nitrification and de-nitrification, reducing biological treatment costs by 90%.
- Significant reduction in waste (sludge).
- Overall opex reductions of 50-65%.
- 60% lower capex cost than a comparable plant.
- Modular in construction, easily scalable.
- Small footprint, usually packaged in a container.
- Odorless and low noise, very neighborhood friendly.

Fig 4. A cost comparison of Fluence's MABR technology vs a conventional MBR plant

Metrics (US$)1	MBR (per 100 m3/d)	Emefcy – MABR (per 100 m3/d)
Plant Capital Cost	663,000	277,000
O&M Cost (per annum)	13,807	4,937
Biological Treatment cost (per annum)	3,468	427

Note: Actual numbers depend on exact plant design, local operating costs and regulations

Source: Company Reports

"The technology has obvious worldwide application, with installations in Africa, China and North America already undertaken, supplied from the Israeli manufacturing plant."

The application of MABR is ideally suited for small to medium sized wastewater plants with flow rates of 50-5,000m3 per day (1m3 = 1,000 liters). The end markets are typically rural villages, smaller municipalities, new property developments, island communities, hotels, resorts etc.

China is the biggest growth opportunity due to the massive investments outlined in the current FYP, and where the company will concentrate its efforts. It has recently commissioned the first manufacturing plant in Changzhou, just 50km from Shanghai. The company has acquired land big enough to accommodate 4 plants at this location, as demand ramps up. The plant can produce 600 MABR units per month, and at US$10,000 per unit, this equals a revenue opportunity of US$72m, or almost A$100m per annum. The manufacturing plant is very low cost to establish (~US$1.5m) and only takes 6 months to construct.

The technology has obvious worldwide application, with installations in Africa, China and North America already undertaken, supplied from the Israeli manufacturing plant. Other plants are to be expected, as demand unfolds. Essentially, the MABR business opportunity is supply constrained, rather than demand constrained.

Based on the MABR technology, Fluence is developing the next generation water treatment unit called SUBRE, which also addresses nitrogen pollution, and is expected to target larger municipal treatment plants. SUBRE can be retrofitted to existing plants that require upgrades, as often happens when regulation changes.

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Fig 5. MABR forecast summary

MABR Summary		2016A	2017E	2018E	2019E	2020E	2021E
Growth	%		100%	900%	100%	150%	50%
Units pa	#	100	200	2,000	4,000	10,000	15,000
Revenue per unit	$m	0.01	0.01	0.01	0.01	0.01	0.01
Revenues	$m	1.0	2.0	20.0	40.0	100.0	150.0
EBITDA	$m	0.4	0.7	7.0	14.0	35.0	52.5
Margin	%	35%	35%	35%	35%	35%	35%
DD&A	$m	-	-	(0.6)	(0.7)	(1.1)	(1.1)
EBIT	$m	0.4	0.7	6.4	13.3	33.9	51.4
Total capex	$m	-	4.0	1.0	3.0	1.0	3.0

Source: Canaccord Genuity estimates

"Only 10% of China's 100,000 rural villages had any form of water treatment in 2015, and the plan wants this to reach 70% by 2021."

Our forecasts for the ramp-up of MABR production is based on reaching 10,000 units by 2020. This is not to be taken as an accurate prediction, but to reflect our assessment of the company's realistic potential in China. The company is hopeful of reaching this target sooner, which is based on the nine partnerships they have already signed, and thanks to China's current FYP. Only 10% of China's 100,000 rural villages had any form of water treatment in 2015, and the plan wants this to reach 70% by 2021. This is a US$15B revenue opportunity, so our forecast that Fluence can reach US$150m by 2021 is only 1% of that total expenditure. In other words, this could be much too conservative, if the MABR offering is indeed cheaper and better than the competition. On the other hand, the product is relatively new, and the company is small, which may restrict growth if buyers prefer to deal with larger companies offering a proven product.

Sensitivity scenarios

We have run the numbers on Fluence's growth profile by varying the output by +/- 20% relative to our base case, as well as a margin difference of +/- 10%.

In reality, if MABR becomes the success that the company believes it will be, then the volumes could be much higher. On the other hand, if the competition is much tougher than expected, the growth could also be significantly lower than our base case. Likewise, the margin assumptions are indicative, and are likely to differ somewhat from our estimates. To be conservative, we have used base case margin assumptions below the company's guidance. While this suggests that the risk is more biased to the upside, we think it's important to understand the downside risks.

As seen in the Sensitivity table below, the DCF valuation would range from a low of $0.83/share to $1.96/share on these scenarios. The sensitivity is a bit lower on annual earnings and cash flow, as the DCF reflects a longer period of sales volumes and margins. We note that all the valuation scenarios are above the current share price.

We have also looked at how hard do we have to cut our assumptions to match the current share price. For volumes, the answer is by 60%, or 4,000 MABR units sold in 2020 or a 20% reduction in margins. While these are possible scenarios, they would be very disappointing outcomes for Fluence. Or putting it another way, this is what the market appears to be pricing in at present, leaving significant upside potential in the share price to our base case, and even more so on the more positive scenario.

Continued Over Page

Fig 6. Sensitivity scenarios

Base case				20% higher volume case			20% lower volume case		
Year ending Dec.	**2018E**	**2019E**	**2020E**	**2018E**	**2019E**	**2020E**	**2018E**	**2019E**	**2020E**
Revenue	125	165	280	137	187	326	113	145	237
EBITDA	(1)	9	43	2	15	55	(4)	4	31
EBIT	(7)	3	34	(4)	8	46	(10)	(2)	23
PBT	(6)	3	33	(4)	8	45	(9)	(2)	22
Tax expense	2	(1)	(8)	1	(2)	(11)	2	1	(6)
NPAT	(5)	2	25	(3)	6	34	(7)	(2)	17
Operating cash flow	(7)	3	16	(6)	5	22	(7)	(0)	11
Investing cash flow	(5)	(8)	(7)	(5)	(8)	(7)	(5)	(8)	(7)
Financing cash flow	9	9	2	10	7	(2)	8	11	5
Net cash flow	(3)	4	11	(2)	5	14	(4)	3	9
Cash	13	17	28	14	19	33	11	14	24
Total Assets	49	65	103	54	72	118	45	58	88
Borrowings	12	21	23	13	20	19	12	22	27
Total Liabilities	29	42	55	31	43	55	27	41	55
Shareholders equity	21	23	48	23	29	63	18	17	33
DCF Valuation		$1.34			$1.69			$1.02	

Base case				10% higher margins			10% lower margins		
Year ending Dec.	**2018E**	**2019E**	**2020E**	**2018E**	**2019E**	**2020E**	**2018E**	**2018E**	**2018E**
Revenue	125	165	280	125	165	280	125	165	280
EBITDA	(1)	9	43	11	26	71	(12)	(4)	20
EBIT	(7)	3	34	6	19	62	(17)	(11)	11
PBT	(6)	3	33	6	20	63	(17)	(12)	9
Tax expense	2	(1)	(8)	(2)	(5)	(16)	4	3	(2)
NPAT	(5)	2	25	5	15	47	(13)	(9)	7
Operating cash flow	(7)	3	16	3	15	38	(15)	(8)	(2)
Investing cash flow	(5)	(8)	(7)	(5)	(8)	(7)	(5)	(8)	(7)
Financing cash flow	9	9	2	-	-	-	24	20	20
Net cash flow	(3)	4	11	(2)	8	32	4	4	11
Cash	13	17	28	21	29	60	13	17	28
Total Assets	49	65	103	58	77	135	49	65	103
Borrowings	12	21	23	3	3	3	27	47	67
Total Liabilities	29	42	55	20	24	36	44	68	99
Shareholders equity	21	23	48	38	53	99	6	(3)	4
DCF Valuation	$1.34				$1.96			$0.83	

Source: Company Reports / Canaccord Genuity Estimates

"As fresh, clean water becomes increasingly scarce, while demand continues to grow due to economic development and population trends, there will be an increasing need to desalinate seawater, or brackish water."

Desalination and Nirobox

As fresh, clean water becomes increasingly scarce, while demand continues to grow due to economic development and population trends, there will be an increasing need to desalinate seawater, or brackish water. Fluence has many years of experience building desalination plants, and is well positioned to service this segment of the market.

From the company's experience in desalination and the innovation from MABR, Fluence has developed a containerised desalination plant called Nirobox, producing drinking water of up to 1,500m3 per day from seawater. The process is about 25% more energy efficient than comparable products on the market, has 30-40% lower capex, and can be installed in a third of the time (6 months) compared to a conventional plant. The competitive edge appears strong.

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The concept of Nirobox is also being applied to MABR as a containerised package and has been manufactured in Israel. However, manufacturing capability can also be established in other locations, as demand develops. Installations have so far taken place in South Africa, Mauritania, Mexico and the island of Mayotte in the Indian Ocean, and the company has a pipeline of Nirobox opportunities, said to be "growing fast". Fluence is confident that sales of Nirobox in 2017 will reach US$28m, a greater than 4x increase on the US$6m achieved in 2016. We take this as a very good sign that the company is getting market traction with the Nirobox offering.

Fig 7. Nirobox forecasts

Nirobox Summary		2016A	2017E	2018E	2019E	2020E	2021E
Growth	%		300%	100%	38%	82%	25%
Units pa	#	10	40	80	110	200	250
Revenue per unit	$m	0.5	0.5	0.5	0.5	0.5	0.5
Revenues	$m	5.0	20.0	40.0	55.0	100.0	125.0
EBITDA	$m	1.0	4.0	8.0	11.0	20.0	25.0
Margin	%	20%	20%	20%	20%	20%	20%
DD&A	$m	-	-	(0.8)	(1.1)	(2.0)	(2.5)
EBIT	$m	1.0	4.0	7.2	9.9	18.0	22.5
Total capex	$m	-	7.0	2.0	2.0	2.0	2.0

Source: Canaccord Genuity Estimates

"A track record of 7,000 jobs completed in 70 countries, gives Fluence an excellent knowledge and customer base from which to grow."

Our forecasts of Nirobox sales are more moderate than for MABR, despite the fact that sales are showing such good growth in 2017. We consider the market opportunity less dynamic as Nirobox does not benefit from the Chinese investment drive, and the cost of the typical unit at $0.5m makes it a bigger investment for buyers.

Custom projects

The company has an extensive base business of various water treatment products and services, which reflects the history of RWL Water. This business generated US$56m of revenues in 2016, which is expected to be flat in 2017, as a US$14m contract is not likely to be recognised until early 2018. A track record of 7,000 jobs completed in 70 countries, gives Fluence an excellent knowledge and customer base from which to grow. Many of these clients may not need or want smart packaged MABR or Nirobox solutions, but they represent a rich source of ongoing business, as well as offering the potential for "up-selling" the new innovations offered by the company. Custom projects include a wide range of products and services, such as wastewater treatment, desalination, waste-to-energy, water re-use. The client base is diverse, operating across industrial, municipal, mining, oil & gas, power and the food & beverage sectors. The company appears to be doing particularly well in the latter sector, with a strong 70% market share of the Italian poultry market, and a growing number of contract wins in the fish processing industry in South America. Such a diversification adds a defensive quality to the company's operations and earnings.

Fig 8. Custom projects forecasts

Custom Projects Summary		2016A	2017E	2018E	2019E	2020E	2021E
Growth	%	8%	2%	10%	5%	5%	5%
Revenues	$m	54.0	55.0	60.5	63.5	66.7	70.0
EBITDA	$m	10.3	11.0	12.1	12.7	13.3	14.0
Margin	%	19%	20%	20%	20%	20%	20%
DD&A	$m	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)
EBIT	$m	6.3	7.0	8.1	8.7	9.3	10.0
Total capex	$m	4.0	4.0	4.0	4.0	4.0	4.0

Source: Canaccord Genuity Estimates

Our forecasts for the legacy business show a relatively low growth trajectory of 5% pa for a couple of reasons. The focus of the company is shifting to the new products in MABR and Nirobox, and there may also be some cannibalization of this business by virtue of the new product offerings. We don't expect the business to experience negative growth as it has a strong and diversified customer base, but it seems reasonable to assume a lower growth rate, compared to the recent past.

BOT and RaaS

Fluence is seeking to increase its recurring revenues by entering into "Build-Own/ Operate-Transfer" (BOT) or "Re-use as a Service" (RaaS) agreements with customers. The smart packaging of MABR and Nirobox both lend themselves to such an offering, where customers can get a state of the art water treatment system for little or no initial outlay, and an ongoing operating and maintenance contract, which from the customers point of view is essentially "set and forget".

BOT or RaaS would typically be 10-20+ years of income streams for new projects, through financing, operating and maintenance agreements. At present, there are some O&M agreements within the legacy business, but they represent an insignificant percentage of revenues. However, Fluence hopes to gradually lift this to 10-20% of overall revenues, and as a high margin business, this would be more significant for the bottom line. The quality of this earnings stream would also be highly valued by the market as it represents a reliable, "sticky" component of the company's earnings and cash flow.

There are many situations where BOT or RaaS offers advantages to customers, by reducing/removing the need for up-front capex, and locking in the provider for a guaranteed service over the long term. Fluence has identified a range of targets, such as when regulatory changes force upgrades and asset owners do not have the capital to undertake the work, or island resorts etc, a market segment where the company has already had some success in the Carribean.

"There are many situations where BOT or RaaS offers advantages to customers, by reducing/removing the need for up-front capex, and locking in the provider for a guaranteed service over the long term."

Fig 9. Forecasts for RaaS and BOT

BOT / RaaS Summary		2016A	2017E	2018E	2019E	2020E	2021E
Agreements (cumulative)	#	0	0	5	10	20	30
Revenues	$m	-	-	4.5	6.5	13.0	17.0
EBITDA	$m	-	-	2.3	3.3	6.5	8.5
Margin	%	-	-	50%	50%	50%	50%
DD&A	$m	-	-	-	(0.8)	(1.4)	(2.8)
EBIT	$m	-	-	2.3	2.5	5.1	5.7
Total capex	$m	-	-	0.5	1.0	2.0	3.0

Source: Canaccord Genuity Estimates

Balance sheet

Fluence has a good balance sheet, with only US$1.2m of debt, and over US$45m in cash. The cash position was boosted in July by a US$20m placement at A$0.85/share to entities associated with Ronald S Lauder, the principal owner of RWL Water, and now major shareholder of Fluence at 34%. These shares are escrowed until July 2019, as per the merger agreement.

On our forecast, cash flow will remain negative in 2017 and 2018, turning positive from 2019. This is in line with the company's guidance of positive EBITDA in 2019. We forecast the low point in cash at US$20m in 2018, so there appears to be no need for an equity issue in order to fund operations.

Continued Over Page

Valuation

We value Fluence on a DCF basis, as the company's value is best captured through the longer term cash flows anticipated from its water businesses. The base case valuation is $1.34/share.

The company is currently loss making, due to the investment in new technologies and the establishment of a global footprint for sales and marketing. This makes any multiple of near term earnings or cash flow unattractive and misleading from a valuation perspective. As stated earlier, while the outlook for growth is good, we need to consider a variety of scenarios for future cash flows.

The following range of values show the combined effect of differing volume growth and margins to our assumptions, the two principal sensitivities in our view. The upside case of $2.46/share is strong, and we note that all scenarios except the 20% lower margin assumption generate DCF values above the current share price. In our view, this points to more upside risks, rather than downside risks for investors.

> "On our forecast, cash flow will remain negative in 2017 and 2018, turning positive from 2019. This is in line with the company's guidance of positive EBITDA in 2019."

Fig 10. Valuation sensitivities

		Volume			
-20%	-10%	0%	+10%	+20%	**Margin**
$1.70	$1.95	$2.19	$2.33	$2.46	+20%
$1.36	$1.56	$1.96	$1.92	$2.08	+10%
$1.02	$1.18	**$1.34**	$1.52	$1.69	0%
$0.63	$0.82	$0.83	$1.03	$1.14	-10%
$0.40	$0.45	$0.50	$0.55	$0.59	-20%

Source: Canaccord Genuity Estimates

Board and Management

Richard Irving is the Executive Chairman of Fluence, having held the same position at Emefcy since 2010. Based in Silicon Valley, Mr Irving co-founded Pond Venture Partners in 1997 and brings over 30 years' experience in venture capital, business management, marketing and engineering in technology.

Henry Charrabé serves as the Managing Director and Chief Executive Officer of Fluence. He brings more than a decade of experience in developing water management and investment solutions to his role at the Company. Prior to the establishment of Fluence, Mr Charrabé served as President and Chief Executive Officer of RWL Water since its inception in 2010. During his tenure, Mr. Charrabé was instrumental in establishing RWL Water as a global player through strategic acquisitions and significant organic growth.

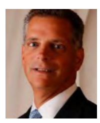
Dr Rengarajan Ramesh represents major shareholder Mr Lauder's interests on the Board, and he has a background from GE Water, a global leader in water management.

Fig 11. Leadership team and Board composition

Leadership Team

Henry J. Charrabé
Managing Director & CEO
- Former CEO RWL Water

Huillippe Laval
COO
- Former CEO RWL Water
- 27 years environmental operating experience



Bob Wowk
CFO
- 25 years financial experience

Ronen Schechter
CTO
- Co-Founder Emefcy

Board of Directors

Richard Irving
Executive Chairman
- 30 yrs tech/VC exp
- US$3B value created

Henry J. Charrabé
Managing Director & CEO

Dr. Rengarajan Ramesh
Non-Executive Director
- Former CTO GE Water

Ross Haghighat
Non-Executive Director
- 30 yrs tech/VC exp
- US$4B value created

Peter Marks
Non-Executive Director
- 30+ yrs capital markets exp

Robert Wale
Non-Executive Director
- 30+ yrs water industry exp

Arnon Goldfarb
Non-Executive Director
- 30+ yrs water industrial exp

Source: Company Reports

Competition

Fluence is an unusual combination of a small company operating globally with an increasingly hi-tech product range. Most companies in the water industry are either small local players with no technology edge or very large corporations focused on large-scale water treatment facilities.

The company's small, but scalable, low cost but efficient water solutions, makes it somewhat unique within the industry. Some of the larger companies within the sector offer similar water treatment technologies, but these tend to be more expensive, and are not seen as the primary focus within their operations.

At this stage, Fluence is probably too small to be noticed or taken seriously by the larger players in the industry. However, assuming that Fluence is reasonably successful in growing its business over the next few years, one would expect a competitive response, and/or a rising likelihood of being taken over by one of the larger industry participants.

"Fluence is an unusual combination of a small company operating globally with an increasingly hi-tech product range."

Risks

The two main uncertainties, and therefore risks of the Fluence business are, in our view, the difficulty in predicting product sales, and at what margins these products will be sold. The company is undoubtedly poised to grow product sales strongly, but it is difficult to predict the outlook accurately. Investors need to consider our base case outlook, and the sensitivity scenarios we have described, and make an assessment whether these are reasonable, or not. We believe that our scenarios are within a reasonable range, but acknowledge that the actual results may in fact be much higher or much lower.

Investors need to take into account that different sales and/or margins could lead to significantly different share price values.

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