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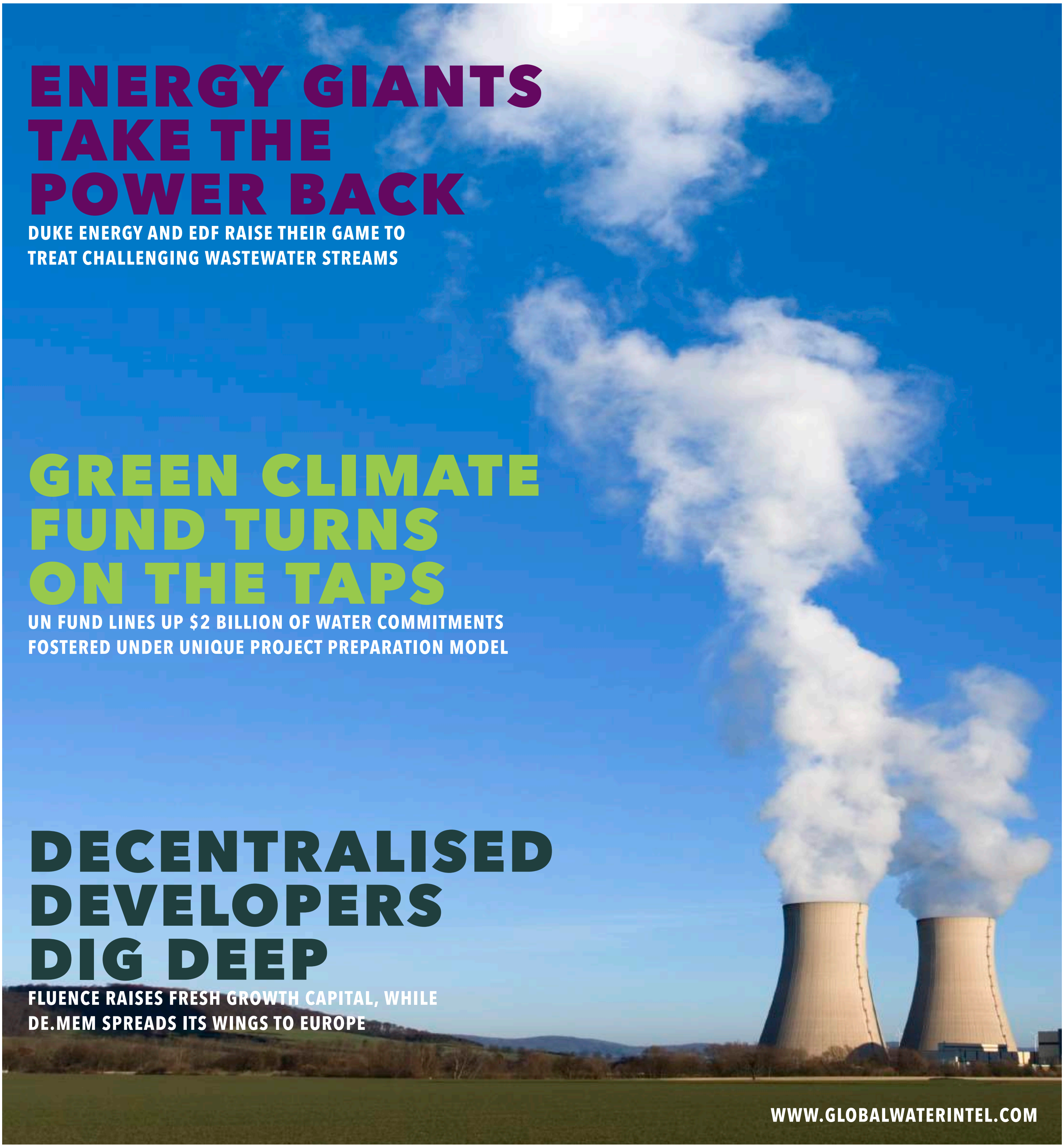

ENERGY GIANTS TAKE THE POWER BACK

DUKE ENERGY AND EDF RAISE THEIR GAME TO TREAT CHALLENGING WASTEWATER STREAMS

GREEN CLIMATE FUND TURNS ON THE TAPS

UN FUND LINES UP $2 BILLION OF WATER COMMITMENTS FOSTERED UNDER UNIQUE PROJECT PREPARATION MODEL

DECENTRALISED DEVELOPERS DIG DEEP

FLUENCE RAISES FRESH GROWTH CAPITAL, WHILE DE.MEM SPREADS ITS WINGS TO EUROPE

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PROJECT FINANCE

New debt deal takes Fluence to the next level

A partnership with Generate Capital will allow the project developer to accelerate its decentralised infrastructure funding model.

ASX-listed water treatment systems supplier Fluence Corporation has complemented its recent A$33.1 million (US$23.9 million) equity issue by negotiating a US$50 million non-recourse debt facility for BOOT projects with sustainable infrastructure investment house Generate Capital.

Together, the two deals provide a significant runway for Fluence to fast-track its project development ambitions in the decentralised treatment plant market.

The global debt facility gives Generate the right of first refusal on all new privately financed water, wastewater and desalination projects originated by Fluence, and – perhaps surprisingly given Fluence's penchant for doing deals in challenging jurisdictions – it comes with no geographical restrictions.

"The agreement is that we have $50 million available for the next three years. The expectation is that we will use all or most of it within this timeframe, but there are no other conditions or contractual conditions," explained Fluence's CFO Francesco Fragasso. "This is a capital-intensive business model, so we expect to see a significant increase in BOOT contracts now that we can count on financing," he told GWI.

With the notable exception of the San Quintín desalination project in Mexico, Fluence has, to date, typically financed BOOT projects entirely off its own balance sheet.

"Having the financing lined up for future projects gives us a clear advantage, and I think it's an incredible accelerator," said Fluence CEO Henry Charrabé. "Our interest is to deploy as much capital as possible, and with the announcement of the debt facility, we hope that that more and more clients will see us as a good alternative. We can vastly reduce the typical construction period, because we have smart packaged systems in place, and that's obviously a great advantage from the lender's point of view," he commented to GWI.

While the nature of Fluence's partnership model for the sale of MABR (membrane aerated biofilm reactor) systems on a turnkey basis into China effectively precludes the possibility of private finance in that particular segment, the smart packaged desalination plants that it is developing for a resort in the Bahamas and for an industrial client in Peru are likely to be among the first to benefit from Generate Capital's "permanent balance sheet" approach to infrastructure lending (*see GWI November 2017, p42*).

RE-JIGGING THE CAPITAL

As president of Generate Capital, Jigar Shah is used to providing funding to accelerate smaller projects employing cutting-edge technologies.

Source: Generate Capital

"The challenge that Fluence has is that they are working in multiple countries, so they don't really have critical mass in one country. They also have small projects on an average basis, so we wanted to create a customised solution to meet their needs," explained Jigar Shah, co-founder and president of Generate Capital.

"In the long term, Fluence will be able to get scale in certain markets, and they will be able to raise low-cost multilateral debt that is senior to our position. We want to encourage them to do that," he told GWI. "We certainly don't want to be the capital that provides for the very first roll-out of a technology, but, once it's been proven, we certainly are happy to look at being number two, three, four and five. They are taking the technology risk, but we are really stepping in and providing capital before they have full acceptance within the broader community."

The deal is likely to mean the end of 100% equity-financed projects for Fluence for the next three years at least, Charrabé explained, adding that there is potential to refinance brownfield projects by inserting non-recourse debt into an existing capital structure. Charrabé is also motivated at the prospect of upselling to clients such as resort managers, who may require not only fresh water through desalination, but also low-cost wastewater treatment, where Fluence's MABR technology can be brought to bear.

Stepping up the pace of project development will also enable Fluence to boost its recurring revenue base ahead of a proposed New York listing (*see box below*). ■

DUAL LISTING

Fluence eyes decentralised funding

A proposed US share listing will hinge on a number of milestones being reached.

New York-based Fluence Corp. is in the early stages of planning a dual listing in the US to complement its existing presence on Australia's ASX.

Although the business turned EBITDA-positive in Q3 2018, this will need to be sustained in order for it to seriously consider approaching a US exchange.

"It depends on a number of major items. One is hitting our 2018 targets, making sure that we have a project finance line in place [*see main story*], building recurring revenues, and making progress on a very large contract in Africa that we're negotiating," Fluence CEO Henry Charrabé told GWI. "All these will give strong visibility on profitability for 2019 and beyond.

"Today, our recurring revenues are in the very low single digits as a percentage of annual revenue, mainly from operation and maintenance contracts in Latin America. With the San Quintín project, the Bahamas project, and now the financing line, we have an aspirational goal to get that to about 30% over the next four years or so," Charrabé concluded. ■