

ASX Announcement

EVS China Update

18 February 2020

Highlights

- **First sale in China**
- **Local operations established**
- **Strong sales pipeline for CY 2020**
- **Expanding opportunity with EMS and with Industrial Cities**

Environmental management technology company Envirosuite Limited (ASX:EVS) (“the Company”) is pleased to provide the market with its first update on its activities since establishing a China entity in October 2019.

Operations Established

Since entering into arrangements with ZZL Pty Ltd (announced to ASX on 6 September 2019) to launch and grow Envirosuite in China, the Company has rapidly established its operational base. The Company has registered a wholly foreign-owned holding entity in Beijing in October, and in December this entity wholly acquired a local operational company for handling customer contracts and employing the China-based team members.

This type of corporate structure with a newly registered holding company that then acquires a dormant though existing registered company with trading history is customary in China. The acquisition consideration value is immaterial and nominal and only involves the purchase of the registered entity and its remaining cash at bank (no other assets or liabilities) that is netted off against the consideration.

EVS China opened its office in November 2019 in the Beijing Economic-Technological Development Area. An experienced local General Manager was appointed followed by the progressive appointment of a sales and support team, and EVS China now numbers ten people. The Australian-based executive and Directors have travelled to and worked on rotation in Beijing with the new team members to accelerate integration into the global group.

Two strategic relationship agreements were signed as per announcements released 23 October and 29 October 2019 respectively with:

- BHZQ, a subsidiary of Beijing Enterprises Water Group Limited (BEGW, 0371.HK)
- Sailhero, Hebei Sailhero Environmental Protection Hi-tech., Ltd, a leading pioneer in the Chinese environmental monitoring industry (Listed on the Shenzhen stock market)

These relationships have already contributed substantially to building the sales pipeline with new sales expected in the coming months.



Members of the EVS China team at the new EVS Beijing office

Pipeline expansion and first contract win

In a short time since entity establishment, the China team has built an impressive gross pipeline of over 110m RMB (AUD 23m) to date across more than 30 potential contracts for the 2020 calendar year. The qualified portion of this pipeline is over \$12m AUD.

The Company is pleased to report the first win for the amount of 1.3m RMB (AUD 270K). The contract involves the provision of a wastewater solution to the Lioadong Bay wastewater plant in the city of Panjin. There are no other conditions that remain to be satisfied. This contract in isolation is not material to the Company's financial position however it is only for the first phase of what may lead to further contracts.

China business model

Currently most business opportunities in China are run along an EPC (project) model. This model normally sees an upfront capital expenditure, followed for 2 or 4 years of smaller yearly maintenance and software charges. A western-style SaaS concept is still a fairly new concept in China and EVS expects that this will remain the case for at least two or three years although there is some early market acceptance of the SaaS model. The EPC model is the same model that EVS uses for its larger Middle East projects.

After a few months of reviewing opportunities EVS predicts the major focus for the coming year will be:

- **Industrial Precincts.** The EVS Smart City solution is well suited to this type of opportunity. The market demand from government for grid-based monitoring and management platforms is strong, focused on the industrial park environment. It is usually an amalgamation of multiple heavy-industry companies located in one region, making identification of the source of an incident an important differentiator of the Envirosuite platform.
- **Waste and Wastewater.** The China market demands more of an end-to-end solution than the software solution that EVS provides, so for these opportunities EVS will sub-contract in equipment and service providers to supplement the software-based offering.
- **Dust Suppression.** For both Mines or Cities, this solution will involve the EVS dust management solution together with a sub-contractor providing dust-suppression services.
- **Sewer Network Management.** Once EVS commercialises the SeweX solution it will be used to comprehensively evaluate the existing pipeline network, and to propose solutions to extend the service life of the asset.

EMS in China

The proposed transaction to acquire EMS Bruel & Kjaer is also anticipated to open up material new sales opportunities in China and present a highly complementary widening of the Company's core offering. EMS currently has four contracts in China (including the Beijing airport, and Beijing Environmental Protection Board). The EVS China team will seek to leverage these existing contact networks together with their extensive market reach to expand the adoption of the EMS solutions in China. In addition to the more than 200 existing airports in China, there are over 40 new regional airports being planned for construction in the coming years, as well as multiple city Environmental Protection Boards going to market for noise solutions.

For the avoidance of doubt the Company confirms that the acquired revenues relating to existing EMS contracts in China will not count towards the achievement of the revenue hurdle milestone announced 6 September 2019 (\$10m in revenue by end 2021). However any new contracts that our Beijing team secures will count towards the milestone.

Envirosuite Chief Executive Officer Peter White said:

"We are very pleased with the progress to date since announcing the EVS launch into China. The emerging pipeline is particularly indicative of the future promise of our China team's results. We are working hard to keep in step with the pace of opportunity including localising our existing solutions and incorporating SeweX into our software framework. It is very pleasing to see the first contract win and with the building sales pipeline we anticipate a regular stream of new contracts commencing in the current Half Year.

We believe that the proposed EMS transaction will be significantly value accretive for our growth in China as it opens new opportunities in noise and vibration monitoring for China's more than 200 airports as well as city-wide environmental bureau contracts."

Coronavirus impact

The board and executive are following the news streams regarding the developing public health matter of the Coronavirus. The Company advises that all precautions are being taken and all public health directions and advices are being followed by team members. To this date, the Company has made enquiries and is not aware of any actual or potential material impacts on its current activities or prospects as a result of the evolving public health situation that it will continue to monitor.

Adam Gallagher

Director and Company Secretary

About Envirosuite

Envirosuite Limited is an environmental management technology company that has developed a leading Solution-as-a-Service offering which translates data into action in real-time.

Using proprietary algorithms built on more than 30 years of environmental consulting experience, the Envirosuite platform provides a range of environmental monitoring, management and investigative capabilities.

The Envirosuite platform is used worldwide by a range of clients in the mining, water and waste management, heavy industry, ports and agricultural industry sectors and as well by governments looking to regulate industry in accordance with community well-being.

To learn more, please visit: www.envirosuite.com