

Record quarterly revenues for September quarter 2019, underlying operating cashflow near break-even and FY19 on track to exceed FY18

Highlights

- **Company approaches operating cash break-even in Q319, with operating cash outflow of \$30k**
- **Highest ever quarterly cash receipts, with \$3.4 million cash received from customers in Q3**
- **FY19 on track to exceed FY18, with secured revenues (including contracted revenues not yet received) of ~A\$10.5 million for the nine months to 30 September 2019 being in line with \$10.5m full-year revenues in CY2018**
- **Significant orders received during Q3 CY 2019 include the sale of water treatment equipment, a containerized, membrane-based water treatment plant and the 2-year extension of a key Operations & Maintenance contract**
- **Growing recurring revenues with increased Build, Own, Operate and consumables sales revenues**
- **Cash balance of A\$2.8m as at 30 September 2019 (including short term deposits) excludes the \$2.95m placement completed in October 2019**
- **Strategic acquisition of German industrial waste water treatment chemicals supplier Geutec announced after the end of the quarter, providing significant cross-sell opportunities and recurring revenues**

31 October 2019: Water and wastewater treatment company De.mem Limited (ASX: DEM) (“De.mem” or “the Company”) is pleased to report strong underlying operating performance for the September Quarter 2019, with the highest cash receipts and best operating performance ever reported in a single quarter. The outstanding financial performance coincides with contract awards from blue chip customers and the achievement of several significant strategic milestones, including revenue diversification by product, customer industry and geography.

Overview

The Company reports continued growth in customer cash receipts, with Q3 customer cash receipts of A\$3.4 million, up +14% on Q2 2019 cash receipts of A\$3.0 million (Q1 2019: A\$2.0m).

Furthermore, the Company continues its trend towards achieving operating cash positive with Q3 operating cash outflow of A\$-30k (Q2 2019: A\$-212k; Q1 2019: A\$-600k).

On 12 September 2019, the Company presented a new in-house developed Microfiltration (MF) membrane to the market. The new membrane has applications in potable water and industrial waste water treatment, as well as in beverage filtration. The product complements De.mem’s proprietary membrane technology portfolio, which now comprises hollow fibre microfiltration, ultrafiltration and nanofiltration membranes as well as a hollow fibre Forward Osmosis (FO) membrane. The membranes are being manufactured in De.mem’s factory in Singapore. The global market for Microfiltration membranes and systems is forecast to be US\$6.9 billion by 2026, growing at a compound annual growth rate of 7.1% from 2019-2026 (source: Acumen Research and Consulting).

The cash balance of A\$2.8 million as at 30 September 2019 (including short term deposits) reflects a payment of A\$450,000 for the acquisition of Pumptech Tasmania Pty Ltd (“Pumptech”) but excludes the net proceeds of the A\$2.95 million placement completed on 4 October 2019. As part of this placement, the Company welcomed follow-on investment from its leading Australian institutional investor Perennial Value Microcap Opportunities Trust (Money Management’s *2019 Fund Manager of the Year* in the Australian Small Cap Category) and also welcomed other high-quality investment institutions onto its share register.

The Company recently completed two strategic acquisitions – Pumptech on 7 August 2019 and Geutec Industrie-und Abwassertechnik GmbH (“Geutec”) on 23 October 2019. Whilst the purchase price of both acquisitions in total is less than 5% of the total market capitalisation of the Company, the strategic value of both these acquisitions is significant, with increased recurring revenues, significant cross-sell opportunities and increased diversification of the business by revenue, product range and geography. Further details are below.

De.mem announced several key contracts during the quarter, with further details outlined below.

Key Contract Awards during the Quarter

Operationally, De.mem performed well in the quarter. The Company secured new contracts, progressed technology deployments and strengthened its tendering pipeline and order book.

Key highlights include:

- On 10 September 2019, the award of a significant contract (amount undisclosed) from ACCIONA for the delivery of a containerized, membrane-based water treatment plant. ACCIONA (US\$5 billion market capitalisation, Bolsa de Madrid-listed) is a global developer and service provider of solutions in renewable energy, large civil infrastructure and water treatment and reverse osmosis desalination.
- On 28 August 2019, new Purchase Orders (POs) from customers in new, strategic growth target markets. The two orders include the delivery of a water treatment system for the upgrade of an existing vehicle washing facility to a Western Australian government organization and the delivery of a containerized waste water treatment plant to a multinational corporation from the Food & Beverage sector in the Pacific Islands region. These POs are significant because the Company is expanding into both the West Australian mining & resources and the Food & Beverage sector off a low base, with significant growth potential in each vertical and geography.
- On 30 September 2019, the extension of a key service contract at a Queensland mining site for an additional 24 months for a minimum of \$1.1m revenues. The contract is for the provision of Operations & Maintenance (“O&M”) services for water treatment facilities and adds to the Company’s recurring revenue stream.

Strategic Acquisitions

Pumptech - Tasmanian water and waste water treatment systems business

On 29 July 2019, De.mem announced the signing of a binding share purchase agreement to acquire 100% of Pumptech, a leading Tasmanian water and waste water treatment systems business. There is strong strategic rationale for the acquisition including further geographic expansion into South East Australia, rapid penetration of the strategic food & beverage customer segment, product portfolio expansion, cross-sell opportunities, economies of scale, cost synergies and earnings accretion.

The consideration is A\$1.05 million, comprising A\$900,000 in cash with A\$450,000 already paid during the September Quarter 2019, followed by three deferred cash payments over 36 months plus A\$150,000 in DEM shares (subject to 12-months escrow). These 906,582 DEM shares were issued to Pumptech on 7 August 2019.

Geutec - industrial waste water treatment company

After the end of the reporting period, De.mem announced the acquisition of a 75% stake in Geutec, a well-established industrial waste water treatment company. Geutec develops, manufactures and sells innovative chemicals-based products and solutions for industrial waste water treatment to customers across Germany and Europe. Its strategic know-how and product range is highly complementary to De.mem’s innovative membrane solutions. The range of water treatment chemicals supplied by Geutec includes coagulants, cleaners and anti-scalants, which are often sold in conjunction with membranes.

De.mem’s existing customer base, particularly clients from the mining and resources sector, has expressed strong demand for products typically sold by Geutec. Furthermore, Geutec brings a strong, long-term customer base into the De.mem group as a platform for expansion into the European waste water treatment market.

Consideration for the 75% stake is approx. A\$915,000 in cash, or ~5x normalized earnings before taxes.

2019/20 Strategy and Outlook

The Company continues to prioritise the following objectives.

- **Continued revenue growth.** Based on record bidding activity, De.mem has built an extensive sales pipeline in Australia and Asia, and expects continued sales growth for the remainder of CY 2019 and the upcoming CY 2020.
- **Growing recurring revenues.** Recurring revenues comprise Operations & Maintenance, Build, Own, Operate and consumables products sales. While De.mem already has a substantial recurring revenue base around its service (Operations & Maintenance and Build, Own, Operate) business, which accounted for approx. 1/3 or A\$ 3.5 of the total revenues of A\$ 10.5 million in CY 2018, the Company intends to further build this revenue segment. Furthermore, the recent acquisitions of Pumptech and Geutech significantly expand the Company's consumables sales revenues and provide a significant platform for revenue cross-sell and growth.
- **Revenue diversification by customer segment; geography and product.** While the vast majority of CY 2018 revenues were generated from the mining/resources and infrastructure segments in Queensland, Australia, the revenue mix for CY 2019 includes some contributions from projects in the food & beverage sector and increased revenues from outside Queensland. A key pillar of the expansion strategy for 2019 is to aggressively target the high growth food & beverage and agricultural sectors across Australia. De.mem intends to broaden its presence in these markets based on an expanded product offering beyond its proprietary membrane technologies including the hollow fibre Forward Osmosis membrane which has applications in beverage production such as the concentration of milk, orange juice and other beverages and liquids. The acquisition of Pumptech provides an additional platform for the accelerated roll out of the Company's innovative membrane technologies into this important target segment.

Comment

De.mem Chief Executive Officer Andreas Kroell said: "We are delighted to report our highest ever cash revenues in a single quarter since we commenced our operations in 2015 and to be very close to achieving operating cash positive. Furthermore, this quarter marks significant progress in several of our strategic objectives, including diversification by geography, product and customer industry and growing recurring revenues with ongoing engagement from blue-chip customers. We look forward to continuing to grow De.mem and servicing more customers with our decentralised, one-stop shop water treatment solutions offering".

Please refer to the attached Appendix 4C Filing for further details on the results for the quarter.

-ENDS-

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About De.mem Limited

De.mem Limited (ASX:DEM) is a Singaporean-Australian decentralised water and waste water treatment business that designs, builds, owns and operates turn-key water and waste water treatment systems for its clients. The Company operates in the industrial segment providing systems and solutions to customers from

the mining, electronics, chemicals, oil & gas and the food & beverage industries and in the municipal and residential segments. De.mem makes use of a portfolio of proprietary hollow fibre membrane technologies, which are commercialized as a key component within the Company's water and waste water treatment systems. Some of the technologies were originally developed by the De.mem's partner in research & development, Singapore's Nanyang Technological University (NTU), and exclusively licensed to the Company. Those include a revolutionary low-pressure hollow fibre nanofiltration membrane and a hollow fibre forward osmosis membrane for de-watering or concentration of liquids. Through its wholly owned subsidiary De.mem-Akwa Pty Ltd (formerly: Akwa-Worx Pty Ltd), De.mem has a strong presence in Australia. De.mem-Akwa has a market reputation for building high quality Australian-made water and waste water treatment systems and has long-term customers in the Australian mining, infrastructure and food & beverage industries. To learn more please visit: www.demembranes.com

Forward Looking Statements

Statements contained in this release, particularly those regarding possible or assumed future performance, revenue, costs, dividends, production levels or rates, prices or potential growth of De.mem Limited, are, or may be, forward looking statements. Such statements relate to future events and expectations and, as such, involve known and unknown risks and uncertainties. Actual results and developments may differ materially from those expressed or implied by these forward-looking statements depending on a variety of factors.

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

De.mem Limited

ABN

12 614 756 642

Quarter ended ("current quarter")

30 September 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	3,402	8,407
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(1,311)	(4,338)
(c) staff costs	(1,054)	(3,150)
(d) advertising and marketing	(5)	(27)
(e) administration and corporate costs	(1,006)	(1,715)
(f) leased assets	(8)	(63)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	10
1.5 Interest and other costs of finance paid	(7)	(15)
1.6 Income taxes paid	(45)	(45)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	1	94
1.9 Net cash from / (used in) operating activities	(30)	(842)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(10)	(10)
(b) businesses (see item 10)	(460)	(460)
(c) investments	(21)	(187)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
(d) intellectual property	-	(103)
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	(18)	(18)
2.6 Net cash from / (used in) investing activities	(509)	(778)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	66	3,119
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	(212)	(352)
3.5 Proceeds from borrowings	-	95
3.6 Repayment of borrowings	(20)	(115)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	(166)	2,747

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	3,518	1,680
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(30)	(842)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(509)	(778)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(166)	2,747

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	5	11
4.6	Cash and cash equivalents at end of quarter	2,818	2,818

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,891	3,014
5.2	Call deposits	927	504
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,818	3,518

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
227
-

Comprises Director fees & salaries and amounts paid to Ventnor Capital, a company associated with the Director Stuart Carmichael, for Company secretarial and accounting services on arms length rates.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000
-
-

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	500	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

Via its subsidiary De.mem-Akwa Pty Ltd, the Company has access to an overdraft facility of up to A\$ 500,000 provided by National Australia Bank (NAB). The facility is secured by a cash deposit.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	54
9.2 Product manufacturing and operating costs	3,117
9.3 Advertising and marketing	30
9.4 Administration and corporate costs	760
9.8 Total estimated cash outflows*	3,961

*excludes receipts from sales

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	Pumptech Tasmania Pty Ltd	-
10.2 Place of incorporation or registration	Launceston, TAS, Australia	-
10.3 Consideration for acquisition or disposal	\$900,000 in cash, thereof \$450,000 paid during the reporting period, and \$150,000 in shares	-
10.4 Total net assets	Approx. \$350,000	-
10.5 Nature of business	Sale of water treatment and hydraulic equipment	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: 
(Company secretary)

Date: 31 October 2019

Print name: Deborah Ho

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.