

Record revenues and balance sheet strength, structural shift to recurring revenues, with strong CY 2020 outlook

2 March 2020: Water and wastewater services and technology company De.mem Limited (ASX:DEM) (the “Company”) is pleased to report its financial and operational performance for Calendar Year 2019. Full details of the Company’s financial performance can be found in the Appendix 4E – Preliminary Final report for the Year Ended 31 December 2019.

Highlights

- “One-stop shop” business model completed, with 2 acquisitions and launch of new internally-developed products
- Record orders, with blue-chip clients
- Record cash receipts / revenues
- Record balance sheet strength
- Strong CY20 outlook, with structural shift to recurring revenues providing basis for inaugural cash receipts/ revenue guidance of A\$ 16-20 million
- Re-affirms visible path to operating cash positive

“One-stop shop” business model

During the year, De.mem completed its transition to becoming a complete “one-stop shop” offering of patented and proprietary products and services for decentralized industrial water treatment. This transition involved two acquisitions and the launch of new, internally developed technologies. The Company’s product range now includes patented water membrane technology, consumables (pumps, hydraulics, small water treatment systems, filters) and waste water treatment chemicals. Uniquely within the industry, De.mem’s strong balance sheet and strong investor support means it is able to offer clients either equipment sales or equipment leasing, which further expands the “one-stop shop” offering.

Completed acquisitions

In the 2nd half of CY 2019, De.mem completed the strategic acquisitions of Pumptech Tasmania Pty Ltd, Launceston (“Pumptech”), and Geutec Industrie-und Abwassertechnik GmbH, Essen, Germany (“Geutec”). Both companies generate stable, recurring revenue streams and have long histories of profitability prior to the acquisition.

Pumptech is an established supplier of pumps, hydraulics, small water treatment systems, filters and consumables to customers in Tasmania, primarily from the food & beverage sector.

Geutec has an innovative product portfolio and strong intellectual property around water and waste water treatment chemicals and supplies into a long-term customer base from the heavy industrials segment.

Expanded membrane Intellectual Property portfolio as core of De.mem’s solutions

Furthermore, De.mem expanded its product suite through its own internal research and development, with key milestones including:

- First commercial order for Domestic Water Filters in Singapore (see ASX release dated 26 February 2019). The Company intends to broaden sales channels through more distribution partnerships in the Asia-Pacific region.

- First revenues from commercialisation of new Hollow Fibre Forward Osmosis technology (see ASX release dated 18 June 2019). The addressable market for this technology is approx. A\$400m in industrial waste water treatment and US\$5.8 billion in the food & beverage sector (US\$3bn in the Asia-Pacific region alone) (source: ForwardOsmosis Tech, BCC Research).
- Launch of new Microfiltration membrane (see ASX release dated 12 September 2019), which has specific applications for food & beverage clients in the processing of wine, beer and dairy as well as potable and waste water treatment.

Record orders, with blue-chip clients

During CY19, the company achieved record orders, with three new, major contracts signed worth more than A\$6 million revenue in total, including:

- The delivery of a desalination plant to Mulpha, an international infrastructure investor (see ASX release dated 10 April 2019). The plant supplies potable water to a luxury resort in Australia.
- The delivery of a membrane-based water treatment system to Acciona, a leading international group involved in the development and management of infrastructure and renewable energy (see ASX release dated 10 September 2019).
- The signing of a new A\$1.7m Build, Own, Operate (“BOO”) agreement with Givaudan, the global leader in flavours & fragrances, for the waste water treatment at one of the client’s factories in Singapore.

Furthermore, the Company obtained extensions of its two largest existing service contracts with Rio Tinto and Civeo. Under the contracts, De.mem operates water and waste water treatment facilities at mining sites in Australia. The contract extensions have a total value of approx. A\$ 1.9 million in revenues.

Record cash receipts and revenues

During CY 2019, the Company achieved record customer cash receipts of A\$11.7m, up +15% from A\$10.2m in CY18. Importantly, the Company experienced significant operating cashflow momentum for the last 6 months of CY19, with customer cash receipts of A\$6.7m for the most recent 6 month period (A\$3.3m in December quarter 2019 and A\$3.4m in September quarter 2019), corresponding to A\$13.4m in annualized customer cash receipts.

During CY19, the Company also achieved record total income of A\$10.8m, up from A\$10.6m in CY18. Adjusted CY19 income would have been A\$12.2m (up +15% vs CY18), including approx. A\$1.4m in revenue for projects, mainly the order from Acciona, for which engineering work had been largely completed in CY19 but is yet to be recorded as accounting revenues in CY20 (mainly due to an extension of the delivery schedule for the project at the request of the client).

Record balance sheet

De.mem ends the year with a strong balance sheet comprising a cash balance of approximately A\$8.2 million as of 31 December 2019, which gives the company sufficient funding to execute on its ambitious growth plans and, based on current projections, to achieve operating break even.

Strong FY20 Outlook

De.mem has its strongest operating outlook since it listed on the ASX on 7 April 2017:

- Balance sheet strength provides for more equipment financing opportunities;
- Two completed acquisitions provide for multiple cross-selling opportunities;
- The structural shift to recurring revenues provides the basis for providing cash receipts / revenue guidance for CY 2020; and
- Ongoing revenue growth momentum continues the visible path to achieving operating cash positive.



Through the strategic acquisitions completed during the year, the Company is now uniquely positioned as a one stop shop provider for water treatment solutions and services in Australia, South East Asia and Germany/Europe. The extended product offering provides multiple cross-selling opportunities into key growth areas such as South East Australia, New Zealand, South East Asia and Germany, which is a key focus for CY20.

CY20 cash receipts / revenue guidance

De.mem's total group revenue comprises the sum of its recurring revenues (BOO, O&M, consumables sales) and non-recurring revenues (equipment sales, which often lead to recurring revenues through the signing of service contracts or consumables sales following the delivery of the equipment).

The Company sees itself well-positioned for strong revenue growth in CY 2020 with a forecast of approx. A\$10 million for its recurring revenue segments plus the A\$1.4m in CY19 / CY20 roll-over contracts (already contracted revenues from equipment sales/projects contracted in CY19 but with revenue to be recorded in CY20) as at the date of this release.

Total group cash receipts / revenue for CY 2020, including equipment sales/projects, are forecast to be in the range from A\$16-20 million.

Visible path to operating cash positive

Operating cash outflow reduced by approx. 30% over the year, from A\$1.6m in CY18 to a moderate adjusted CY19 operating cash outflow of A\$1.1m (adjusted for delayed payment on work completed in Dec 2019, see the Quarterly Activities Report & Appendix 4C dated 30 January 2019 for more details).

Operating cash outflow largely reflects the Company's investment into the development of its membrane technology portfolio and scale up of production in Singapore.

De.mem is working towards operating break even in the near term. On current budgets, with A\$8.2m cash on balance sheet as at December 2019, the Company is well funded to achieve operating cash positive within its existing funding base and, assuming immaterial cost increases, at an annual revenue level of approx. A\$18-20m.

CEO Commentary

De.mem CEO Andreas Kroell said: "CY 2019 has been a fantastic year for us. We are in the strongest position we have been since listing on the ASX.

We added new global blue chip customers to our already excellent client base. We had a record year in terms of material contracts, with three lighthouse contracts signed during the year, each worth more than A\$1 million in revenues, plus two key service contract extensions.

This has been a strong year which has set the foundations for future growth. We achieved multiple milestones, including balance sheet recapitalization; business model diversification; revenue diversification by geography; product and customer and shift to a recurring revenue model. Given this shift to recurring revenues, we now have the confidence to provide revenue guidance.

We remain focused on growing our recurring and our total revenues, by offering our clients our unique combination of patented and proprietary water membrane technology and bespoke, de-centralised water treatment solutions."

The release of this announcement was authorised by the Chief Executive Officer, Mr Andreas Kroell, on behalf of the Board.

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De.mem Limited (ASX:DEM) is a decentralised water and wastewater treatment business that designs, builds, owns and operates turnkey water and wastewater treatment systems for some of the world's largest companies in the mining, electronics, chemical, oil & gas, and food & beverage industries. Its systems also provide municipalities, residential developments and hotels/resorts across the Asia Pacific with a reliable supply of clean drinking water.

De.mem's technology to treat water and wastewater is among the most advanced globally. The Company is headquartered in Australia and has international locations in Singapore, Germany and Vietnam. It is commercialising an array of innovative proprietary technologies from its research and development partner, Nanyang Technological University (NTU) in Singapore, a world leader in membrane and water research. Technologies uniquely offered by De.mem include a revolutionary low-pressure hollow fibre nanofiltration membrane that uses less electricity and is cheaper to operate than conventional systems, as well as a new Forward Osmosis membrane deployed in de-watering applications or the concentration of liquids.

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.