



ASX RELEASE | De.mem Limited (ASX:DEM)

Company achieves record cash receipts and balance sheet, structural shift to recurring revenues and best-ever revenue outlook for CY 2020

31 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 Annual Report for the Year Ended 31 December 2019.

Key Highlights

- Record orders
- “One-stop shop” business model completed
- Record cash receipts
- Record balance sheet
- Best-ever CY20 revenue outlook

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 supply 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 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 (see *ASX release dated 25 November 2019*).

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.

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“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 means it is able to offer clients either equipment sales or equipment leasing.

Completed acquisitions

During CY19, De.mem completed two strategic acquisitions. Both companies generate stable, recurring revenue streams and have long histories of profitability prior to the acquisition.

- Pumptech Tasmania Pty Ltd, Launceston (“Pumptech”), Tasmania. 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 Industrie-und Abwassertechnik GmbH, Essen, Germany (“Geutec”). 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. \$400m in industrial waste water treatment and \$5.8 billion in the food & beverage sector (\$3bn in the Asia-Pacific region alone) (source: BCC Research).



- Launch of a 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 cash receipts with strong growth over prior year

The Company's cash receipts from customers grew by 15% to A\$11.7m in CY19, from A\$10.2m in the previous CY18.

During CY 2019, the Company achieved total income of A\$10.3m (vs. A\$10.6m in CY18). Adjusted CY19 income would have been \$12.2m (up +15% vs CY18), including approx. \$1.9m in deferred revenue for projects, mainly the order from Acciona, for which design & engineering work had been largely completed in CY19 but which is yet to be recorded as accounting revenues in CY20 (mainly due to an extension of the project delivery schedule at the request of the client).

The Preliminary Final Report lodged on 2 March 2020 disclosed total income of A\$10.8m. The difference to the total income of A\$10.3 million (approx. -5% change) as per the Annual Report relates to an adjustment to the revenue recognition for one particular project, namely the project with Acciona. The difference will now be recognized as revenues in CY 2020. Accordingly, the adjustments are timing differences only and there will be no impact on the Company's overall results over time. The adjustment has had minor impact on net loss (A \$-3.5m as per the Annual Report vs. A\$-3.3m as per the Preliminary Final Report, or approx. -6%).

Record balance sheet

De.mem ends the year with a strong balance sheet comprising a cash balance (including term deposits) of approximately \$8.2 million as of 31 December 2019, which gives the company sufficient funding to execute 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 revenue guidance; 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

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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.

We have previously updated the market on the impact of Covid-19 (see *ASX release dated 26 March 2020*). At this stage, the Company remains well placed, though we continue to watch the rapidly evolving global macroeconomic outlook to identify any potential impacts and/or growth opportunities.

CY20 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
- A\$1.9m in CY19 / CY20 deferred revenue and roll-over contracts (ie. already contracted revenues from equipment sales/projects contracted in FY19 but with revenue to be recorded in CY20) as at the date of this release.

Total Group Revenue for CY 2020, including equipment sales/projects revenues, is forecast to be in the range from A\$16-20 million.

Visible path to operating cash positive

Operating cash outflow reduced by 20% over the year, from \$1.6m in FY18 to a moderate adjusted FY19 operating cash outflow of \$1.1m (adjusted for delayed payment on work completed in Dec 2019, see the Quarterly Activities Report & Appendix 4C dated 30 January 2020 for more details).

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

De.mem is working towards operating break even in the near term. On current budgets, with \$8.2m cash (including term deposits) 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. \$18-20m.

CEO Commentary

De.mem CEO Andreas Kroell said:



“CY 2019 has been a fantastic year for us with record operating cash receipts from customers, a very strong balance sheet and establishment of the foundations for future growth.

During the year, we achieved multiple milestones, including balance sheet recapitalization; business model diversification; revenue diversification and transition to a recurring revenue model.

Our CY 2020 outlook is the best it has ever been. Based on the shift towards recurring revenues, we issued revenue guidance. We will continue to watch the evolution of the Covid-19 pandemic and update the market accordingly as we identify any potential impacts and/or growth opportunities.

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 authorized by the Chief Executive Officer, Mr. Andreas Kroell, on behalf of the Board.

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De.mem Limited (ASX:DEM) is an Australian-Singaporean 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 has commercialised 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 exclusively licensed from NTU 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.

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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.

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