

MARCH 2020 QUARTERLY ACTIVITIES REPORT:

On track for best ever annual revenues, driven by strong recurring revenues

Key Highlights

- **Strong quarter, generating approx. A\$3.3 million in cash receipts**, representing approx. 65% growth over prior corresponding period
- **March Quarter 2020 confirms the structural shift to recurring revenues**, with highest ever recurring revenue contribution to cashflow of 67% in March Quarter 2020
- **Strong underlying performance of acquired businesses**, with Pumptech Tasmania subsidiary achieving its best-ever March Quarter
- **All contracted projects proceeding as expected**
- **On track for best annual revenues on record**
- **Strong balance sheet**, with A\$7.3 million cash as at 31 March 2020
- **Company uniquely positioned to emerge as a market leader** within the Australian water treatment industry after the Covid-19 crisis.

30 April 2020: Water and wastewater treatment company De.mem Limited (ASX: DEM) (“De.mem” or “the Company”) is pleased to report its strong operating performance for the March Quarter 2020 (Q1 CY 2020).

Overview

De.mem achieved its best first quarter of a calendar year ever, with cash receipts from customers of \$3.3m during Q1 CY 2020, representing growth of approx. 65% over Q1 CY 2019 (prior corresponding period) cash receipts of A\$2.0 million. Adjusted for another approx. \$330k in cash receipts outstanding as of 31 March 2020 and largely received in April 2020, related to work completed (and cash costs incurred) during the quarter, adjusted March Quarter 2020 cash receipts amount to approx. \$3.6m, which is an approx. 80% increase over prior corresponding period.

The Company is on track to achieve record annual revenues. De.mem typically records approx. 20% of its full-year cash receipts in the March quarter due to Christmas-New Year break. For example, in 2019 De.mem recorded 17% (A\$2.0 million) of its A\$11.7 million annual cash receipts in the March Quarter. Assuming historical trends of a strong second calendar half-year than first half, the Company expects to achieve record full-year revenues in CY2020.

Recurring revenues are driving revenue growth. March Quarter 2020 results highlight the Company’s structural shift to recurring revenues. In 2018, only 38% of total revenues comprised recurring revenue. In March Quarter 2020, 67% or \$2.2m of total \$3.3m cash receipts were recurring revenues.

Declining net operating cash outflow. Operating cash outflows during Q1 CY 2020 were A\$ -743k, a reduction of approx. 25% in quarterly cash outflows compared to A\$ -998k in the December Quarter 2019. Adjusting for the \$330k cash payments outstanding as of 31 March 2020 (see above), adjusted operating cash outflow was A\$ -413k, an operating cashflow improvement of approx. 60% compared to December Quarter 2019.

Strong performance of acquired businesses. De.mem is pleased to report that in March Quarter 2020, its subsidiary Pumptech Tasmania Pty Ltd, Launceston (“Pumptech”) exceeded cash receipts for its prior corresponding period.

Strong cash balance. De.mem ends the quarter with a strong cash balance of A\$7.3 million as at 31 March 2020.

COVID-19. The Company continues to monitor domestic and global developments in relation to the COVID-19 pandemic in order to respond to any potential commercial impacts.

Growing Recurring Revenue Segments

March Quarter 2020 results evidence the Company's structural shift to recurring revenues.

De.mem's recurring revenue segments include the following:

- De.mem's Services (Build, Own, Operate and Operations & Maintenance) division;
- Sales of pumps & hydraulic components through Pumptech Tasmania Pty Ltd, Launceston, Tasmania;
- Sales of water treatment chemicals through De.mem-Geutec GmbH, Essen, Germany;
- Sales of consumables, membranes, spare parts etc. through the different group entities.

Recurring revenues comprised 67% of total Group revenues in March Quarter 2020, up from 54% in FY19 and 38% in FY18. Approx. A\$ 2.2 million was recurring revenue in March Quarter 2020, up from only A\$ 1.1 million in recurring cash receipts in the prior-year-period. See Table 1 below.

TABLE 1: GROWING RECURRING REVENUE CONTRIBUTION TO TOTAL REVENUES

A\$M	% FY18A	A\$M FY18A	% FY19A	A\$M FY19A	% Mar Qtr 2020	A\$M March Qtr 2020
Cash receipts from recurring revenue segments (% total cash receipts)	38%	3.9	54%	6.3	67%	2.2
Cash receipts from projects & equipment sales (% total cash receipts)	62%	6.3	46%	5.4	33%	1.1
Total cash receipts	100%	10.2	100%	11.7	100%	3.3

Strong Performance of Acquired Business

The Company is pleased to advise that its 100% owned subsidiary Pumptech Tasmania Pty Ltd, Launceston ("Pumptech"), has achieved its best-ever March Quarter.

Pumptech reported cash receipts of approx. A\$ 700k during the March Quarter 2020, compared to a total annual A\$ 2.2 million in revenues (or an average of approx. A\$ 550k per quarter) recorded by the entity during CY 2019.

Pumptech was acquired by De.mem in mid-2019. Pumptech's outperformance was driven by both a robust demand from the Food & Beverage segment, Pumptech's main target market in Tasmania, and cross-selling initiatives initiated by De.mem after the acquisition. Cross-selling has been well received by Pumptech's long-standing customers, who are welcoming the access to the Company's wider product offering. De.mem continues growing cross-sales across the customer base.

Ongoing Diversification of Revenues by Expansion into the Food & Beverage Segment

As announced in the Market Update released to the ASX on 26 March 2020, De.mem has received a first order of approx. \$140k from a leading Australian manufacturer of food products headquartered in Victoria.

Whilst the first order is not material for the overall revenues of the Company, it is significant because it highlights that, alongside the expansion of the Pumptech business in Tasmania, the Company is succeeding with its long-term objective of expansion into the high growth food & beverage segment.

Covid-19 Impact on Operations

In spite of the current Covid-19 pandemic, De.mem's operations during Q1 CY 2020 were robust.

On 26 March 2020, De.mem provided an update in relation to the impact of the Covid-19 pandemic. The Company is pleased to re-affirm the following key points:

- No reported incidence of Covid-19 among either staff or customers.
- Main workshop in Caboolture, Queensland, remains fully operational.
- Supply chain not materially affected.
- Manufacturing and delivery of new business is proceeding on schedule.
- Continued organic growth in Pumptech.
- Revenue growth opportunities are being actively pursued across the business.

In response to Covid-19, the Company has identified two key growth opportunities.

Firstly, De.mem identified an opportunity to adapt its unique water and chemical treatment skills to the creation of anti-microbial products such as hand sanitizers and other disinfectants. The Company has previously reported its achievement of first revenues for this product in Q1 CY 2020 (see ASX release dated 16 March 2020).

Secondly, the Company will seek to further promote its existing range of domestic water filtration systems. Given the Company's advanced membrane water treatment technology, De.mem's water filtration systems are very effective in removing viruses, bacteria and other contaminants from drinking water.

The Company is pleased to re-affirm that all major existing service (Operations & Maintenance / O&M) contracts and key projects remain in full effect and that Covid-19 has provided an opportunity for the Company to deepen its existing customer relationships by providing more flexible servicing arrangements for customers who may otherwise be dealing with their own staffing constraints.

Existing major contracts include:

- Operations & Maintenance contracts with Rio Tinto and Civeo for water treatment facilities at mining sites in Queensland.
- Build, Own, Operate (BOO) agreement with Givaudan under which De.mem is treating the waste water generated by one of the customer's factories in Singapore.
- New BOO agreement with Givaudan for another site of the customer in Singapore (see ASX release dated 25 November 2019).
- The delivery of a membrane-based water treatment plant to Acciona (see ASX release dated 10 September 2019), which is expected to be dispatched during Q2 CY 2020. The main cash receipts / revenue contribution of this project are scheduled for Q2 and Q3 of CY 2020.

2020 Strategy and Outlook

The Company defined three main priorities for FY20:

- Enhancing revenue quality
- Revenue growth
- Achieving sustainable operating cash flow positive.

Enhancing revenue quality

De.mem aims to further enhance revenue quality through growing recurring revenues and improving revenue diversification.

Revenue diversification is backed by the ongoing expansion into the Food & Beverage industry, driven by the strong performance of Pumptech Tasmania Pty Ltd subsidiary in Q1 CY 2020.

The Company sees itself well on track to achieve strong growth for its recurring revenue segments in CY 2020, with recurring revenues continuing to contribute a large and growing proportion of overall Group revenues.

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Revenue growth outlook

For the full CY 2019, De.mem recorded A\$ 11.7 million cash receipts which is equivalent to an increase of approx. 15% over CY 2018 cash receipts of A\$10.2 million.

The outlook for CY 2020 revenue growth remains strong, given the following:

- Historical seasonality indicates stronger 2H revenues, given that Q1 typically accounts for approx. 20% of yearly cash receipts / revenues. Q1 CY 2020 cash receipts of A\$ 3.3 million provide a strong foundation for full CY 2020 revenues.
- Contracted revenues carried over from FY19. Major projects such as the A\$1.7 million BOO contract signed with Givaudan, Singapore (see ASX release 25 November 2019), as well as the project award from Acciona (see ASX release 10 September 2019) had minor impacts on CY 2019 cash receipts only and are expected to positively impact CY 2020 cash receipts. The main cash receipts / revenue contribution of the Acciona project are expected for Q2 and Q3 of CY 2020.
- The strong momentum of the Pumptech business, including strong cross-sell activity and performance of its food & beverage customer base.

Notwithstanding strong operating fundamentals, the Board recognises the macroeconomic uncertainties created by the Covid-19 pandemic. While the existing business of the Company is currently largely unaffected, if Government-mandated “lockdown” responses continue for an extended period, this may impact the ability of the Company to win and execute new business and project awards in a timely manner. Hence, the Board considers it prudent to revise the Company’s previously issued guidance of A\$16-20 million in revenues / cash receipts (as released to the ASX on 30 January 2020) to A\$14-18 million in revenues / cash receipts for the full CY 2020.

Achieving sustainable operating cash flow positive

The Company reiterates that it sees a visible path to sustainable operating cash positive.

De.mem is working towards achieving operating break even in the near-term. On current budgets, with \$7.3m cash on balance sheet as at March 2020, the Company is well funded to achieve operating cash positive within its existing funding base. However, given the uncertainties of Covid-19, the precise timing of achieving sustainable quarterly operating cash positive is unclear.

Whilst quarterly results will vary depending on the timing of cash receipts and expenses incurred in relation to specific projects, as overall revenues grow to annual revenue range of \$18-20m, the Company expects to consistently achieve sustainable positive operational cashflows on a quarterly basis.

Comment

De.mem Chief Executive Officer Andreas Kroell said: “We are very pleased with De.mem’s performance during the first quarter of CY 2020, despite the very challenging macroeconomic environment. Our business is well placed to navigate these complex macroeconomic conditions because we have a strong recurring revenue base, a very strong balance sheet with \$7.3m cash and zero debt, a unique water membrane technology portfolio and long-standing, repeat customers.

The current situation represents some challenges to the Australian water industry. We believe that De.mem is well positioned to overcome those challenges and emerge as one of the market leaders in Australia after the crisis.

We look forward to achieving our three main priorities for 2020 – improving revenue quality, revenue growth and achieving sustainable operating cash flow positive.”

Payments to related parties included in Appendix 4C

The payments to related parties of De.mem disclosed in item 6.1 of the Appendix 4C for the quarter, accompanying this quarterly activities report, were payments of directors’ fees and salaries, and amounts paid to Ventnor Capital, a company associated with the Director Stuart Carmichael, for accounting services on arms’ length rates.

The release of this announcement was authorized by the Company's Chief Executive Officer, Mr. Andreas Kroell, on behalf of the board.

-ENDS-

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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.

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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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

De.mem Limited

ABN

12 614 756 642

Quarter ended ("current quarter")

31 March 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	3,288	3,288
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(2,552)	(2,552)
(c) advertising and marketing	-	-
(d) leased assets	(8)	(8)
(e) staff costs	(1,030)	(1,030)
(f) administration and corporate costs	(543)	(543)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4	4
1.5 Interest and other costs of finance paid	(10)	(10)
1.6 Income taxes paid	(7)	(7)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	115	115
1.9 Net cash from / (used in) operating activities	(743)	(743)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(2)	(2)
(d) investments	(102)	(102)
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) 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)	-	-
2.6	Net cash from / (used in) investing activities	(104)	(104)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(20)	(20)
3.5	Proceeds from borrowings	55	55
3.6	Repayment of borrowings	(25)	(25)
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	10	10

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	8,179	8,179
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(743)	(743)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(104)	(104)

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Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	10	10
4.5	Effect of movement in exchange rates on cash held	50	50
4.6	Cash and cash equivalents at end of period	7,392	7,392

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	6,465	7,252
5.2	Call deposits	927	927
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)	7,392	8,179

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

105

-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

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7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	500	440
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	500	440

7.5 **Unused financing facilities available at quarter end** 60

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

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

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	-743
8.2 Cash and cash equivalents at quarter end (Item 4.6)	7,392
8.3 Unused finance facilities available at quarter end (Item 7.5)	60
8.4 Total available funding (Item 8.2 + Item 8.3)	7,452
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	10

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

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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.

Date: 30 April 2020

Authorised by: Board of Directors
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.