

DECEMBER 2019 QUARTERLY ACTIVITIES REPORT:
Third-best operating quarter in company history
Strong recurring revenue base for FY20

Key Highlights

- **Strong operating quarter** with A\$3.3 million in cash receipts, representing 69% growth over prior corresponding period – the third-best quarter in the Company’s operating history. Adjusted December Quarter cash receipts of A\$4.2m (including cash for work completed and invoiced but cash not yet received) are up +24% on September Quarter 2019, representing a record quarter for the Company
- **Strong recurring revenue base**, commencing FY20F with outlook for a minimum A\$10m of recurring revenue (comprising services, BOO and chemicals/consumables sales)
- **Strong FY20F outlook**, comprising recurring revenue and equipment sales plus approx. A\$1.0-1.5 million in contracted project revenues carried over from FY19
- **Strong balance sheet**, with cash balance of A\$8.2 million as at 31 December 2019
- **Strong Build, Own, Operate segment momentum**, with contract signed with a multinational corporate customer in Singapore during the quarter which will contribute to further revenue growth in CY 2020
- **Strategic bolt-on acquisition**, with smooth integration of Geutec Industrie- und Abwassertechnik GmbH acquisition, marking the Company’s entry into the German industrial waste water treatment market, expanding the Company’s product range, presenting multiple cross-sell opportunities and providing a base for wider European market entry.
- **Company uniquely positioned** to capitalize on the industrial water and waste water treatment market opportunity through its integrated product and services offering, comprising its innovative portfolio of patented water treatment membrane technology, chemicals, consumables, services and BOO offering

30 January 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 December Quarter 2019, combined with milestone contract awards such as the Build, Own, Operate contract with Swiss multinational Givaudan in Singapore, and its successful strategic expansion and market entry into Europe through the acquisition of Geutec Industrie- und Abwassertechnik GmbH, Germany (“Geutec”).

Overview

The Company reported its third-best quarter in its history, with cash receipts of A\$3.3 million received during the December 2019 Quarter, an increase of 69% compared to Q4 2018 cash receipts of A\$ 1.9 million.

Adjusted December Quarter 2019 cash receipts are \$4.2m, which includes A\$908k in deferred cash receipts for work completed and expensed during the quarter, but with delayed cash receipt. The delayed cash receipts are expected to be received from three large multinational corporate clients for work completed by the Company prior to year-end, with the majority of the corresponding cost incurred in the December Quarter 2019. Payments were delayed due to the disruption of the Christmas-New Year holiday period and the Company expects full cash receipts in the near-term.

Adjusted December Quarter 2019 cash receipts of \$4.2m are a +24% increase on Q3 2019 cash receipts of A\$3.4 million.

Reported operating cash outflows during Q4 were A\$ -998k vs. A\$ -30k in Q3 2019 (A\$ -741k in Q4 2018). Adjusted for A\$908k in delayed payments (and net of \$336k of the delayed payments being received through a working capital facility in the December quarter), adjusted operating cash outflow during the quarter would have been A\$ -426k.

For personal use only

The cash balance of A\$8.2 million as at 31 December 2019 incorporates:

- A\$2.95 million placement to leading institutional investors (see ASX release dated 4 October 2019);
- A\$5 million placement to a strategic water fund and other institutional investors (see ASX release dated 5 December 2019 and below); and
- Cash payments made during the quarter of A\$970k related to the Geutec acquisition (including transaction costs).

The capital raisings have been undertaken in order to fund the expansion of the Company's Build, Own, Operate segment and pursue other strategic growth initiatives, including strategic bolt-on acquisitions.

Key Customer Orders Received

On 25 November 2020, the Company announced a significant Build, Own, Operate ("BOO") agreement in Singapore with Givaudan, a world-leading flavours & fragrances corporation, headquartered in Switzerland.

Under the agreement, De.mem will treat the customer's factory waste water to Singaporean legal discharge standards. This contract is the second BOO agreement of De.mem with the same customer in Singapore.

The customer operates numerous similar facilities world-wide.

Consumer water filtration systems opportunity

The Company's first revenues from a new product in the consumer water filtration segment marks a significant milestone, highlighting a material potential growth opportunity.

On 11 November 2019, De.mem announced first revenues from the Company's new 5-Stage domestic water filtration system.

The new system combines De.mem's innovative ultrafiltration technology with other water treatment processes into a high-end domestic water filtration system which provides healthy, alkaline water. The Company reported an initial A\$55,000 purchase order from its Singaporean distribution partner for the new product.

De.mem intends to broaden its consumer product sales channels by forming additional distribution partnerships throughout the Asia-Pacific region, resulting in a lean expansion model for De.mem which is transferring sales & marketing overheads to the distribution partners. A number of partnerships are currently being aggressively pursued.

The global market for domestic "point of use" water filters was estimated at US\$ 19.9 billion in 2018, with the Asia-Pacific region being the largest regional segment (source: Markets & Markets).

Geutec Acquisition – Strategic Entry Into Europe and Addition of Waste Water Treatment Chemicals Portfolio

On 17 October 2019, De.mem announced the acquisition of a 75% stake in Geutec, providing a strategic entry into Europe, a stable revenue base and product range extension into waste water treatment chemicals. In the 12 months ended 31 December 2018, Geutec reported approx. A\$1.8 million in revenues and A\$ 245,000 in pre-tax profits.

Geutec is a well-established industrial waste water treatment company with three decades of operating history. It 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 are 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.

During the December Quarter 2019, the Company paid approx. A\$970,000 cash consideration for the 75% stake (including transaction costs), approx. ~5x normalized earnings before taxes.

Strong Institutional Investor Support

De.mem is delighted to have strong, ongoing institutional investor support to grow its core business. Access to institutional capital and networks has been a significant driver of De.mem's continued BOO segment growth and the strategic expansion of its product and services offering to create a complete "one-stop shop" customer solution.

On 4 October 2019, the Company finalised a A\$2.95 million placement which welcomed follow-on investment from leading Australian institutional investor Perennial Value (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 funds were deployed for the acquisition of Geutec and the funding of the Givaudan BOO project award (see above).

On 5 December 2019, the Company finalised a A\$5 million placement which welcomed ethical, institutional investor Pathfinder Asset Management ("Pathfinder") as a cornerstone shareholder. Established in 2009, Pathfinder is a specialist ethical (Environment, Social, Governance) funds manager based in Auckland, New Zealand. Pathfinder's Global Water Fund focuses on companies involved in trying to solve the global water crisis, and recently won the Good Returns/Research IP Alternatives Fund of the Year Award for 2019. With the proceeds from this placement, De.mem intends to further strengthen its BOO offering to industrial customers.

2020 Strategy and Outlook

The Company has three main priorities for FY20:

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

Enhancing revenue quality

The Company aims to further enhance revenue quality through (i) growing recurring revenues; and (ii) improving revenue diversification.

Recurring revenues comprise:

- Operations & Maintenance (O&M),
- Build, Own, Operate (BOO), and
- Chemicals and consumables products sales.

In CY 2018, De.mem generated approx. A\$3.5m in recurring revenues.

In CY 2019, the Company grew recurring revenues by ~71% to approx. A\$6m.

For CY 2020, De.mem expects a minimum of A\$10 million of recurring revenues, equivalent to approx. 67% growth over CY 2019, driven by a combination of:

- Recent acquisitions of Pumpteck Tasmania Pty Ltd and Geutec, which both generate strong recurring revenues through repeat sales to long-standing customers;
- Already announced BOO and O&M contract awards;
- Expected additional organic growth of the Company's existing sales pipeline; and
- Multiple cross-selling initiatives, initiated in CY 2019, across the De.mem, Pumpteck and Geutec businesses.

Improving revenue diversification

The Company intends to diversify by geography (domestically and internationally), customer industry segment, product and service.

In FY18, approx. 90% of the Company's revenues were generated in Queensland, Australia with clients in the mining and resources sector.

In FY19, approx. 60% of the Company's revenues were generated in Queensland. De.mem's business in Queensland comprises major service contracts such as the one with Rio Tinto for the water treatment

facilities at Rio's Amrun mine near Weipa. Furthermore, De.mem completed a A\$3 million project with Mulpha for the supply of a desalination plant to an island off the Great Barrier Reef.

During FY19, De.mem successfully expanded into new locations beyond Queensland. For example, the Company received purchase orders for first projects in Western Australia and the Pacific Islands region. Through the acquisition of Pumptech Tasmania Pty Ltd, De.mem gained access to a strong platform for further expansion into the Tasmanian and South East Australian markets, targeting in particular customers from the food & beverage segment. The expansion is backed by De.mem's broad product offering and unique positioning within this segment, for example through its hollow fibre Forward Osmosis membrane technology which has applications in beverage production such as the concentration of milk, orange juice and other beverages and liquids. The lighthouse BOO contract with Givaudan in Singapore, which was signed during the quarter (see above), will add to the revenues generated from the food & beverage segment from CY 2020 onwards.

Internationally, the Company diversified into Europe through the Geutec acquisition. Also, the Company is targeting expansion into New Zealand, with the support of its strategic NZ investors, where the NZ Government's 25-year National Policy Statement for Freshwater Management provides a sector tailwind.

Revenue growth

For the full CY 2019, De.mem recorded A\$ 11.7 million cash receipts, or A\$ 12.6 million adjusted cash receipts (including the 908k in deferred cash receipts for work completed and expensed during the quarter), which is an increase of approx. 17% over CY 2018 cash receipts of A\$10.8 million. Note that 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 major project award from Acciona (see ASX release 10 September 2019) had minor impact on CY 2019 cash receipts only and are expected to positively impact CY 2020 cash receipts.

The outlook for CY 2020 revenue growth remains strong, driven by both recurring revenues and equipment sales. De.mem has built an extensive sales pipeline in Australia and Asia. In addition to the recurring revenue segments, it expects further awards for projects and equipment sales which are expected to lead to continued overall sales growth for CY 2020.

De.mem carries over a balance of approx. A\$1.0-1.5 million in contracted, but not yet recorded revenues from project sales into CY 2020. This adds up to a total of approx. A\$11.0-11.5 million in already contracted and recurring revenues for CY 2020 as of January 2020.

Achieving sustainable operating cash flow positive

The Company reiterates that it sees a visible path to sustainable operating cash positive. Whilst quarterly results vary depending on the timing of cash receipts and expenses incurred in relation to specific projects, as overall revenues grow, the Company expects sustainable positive operational cashflows.

Comment

De.mem Chief Executive Officer Andreas Kroell said: "We are delighted with De.mem's performance during 2019.

We look forward to achieving our three main priorities for 2020 – improving revenue quality, revenue growth and achieving sustainable operating cash flow positive. To this end, we are commencing 2020 with a strong base of at least A\$10m of recurring revenue.

Our revenue growth is driven by our complete one stop shop offering, including a unique portfolio of water treatment membrane technology, consumables sales and services. Our balance sheet strength allows us to offer customers a flexible proposition which includes equipment sales or leasing.

We are excited by the cross-sell opportunities as we can roll out our core offering to our recently acquired Pumptech and Geutec businesses and also diversify revenues geographically.

We look forward to delivering for our customers and shareholders in 2020."

This document has been authorised for release to the ASX by Andreas Kroell, Chief Executive Officer of the Company.

-ENDS-

For further information, please contact:

Andreas Kroell
CEO
De.mem Limited
investor@demem.com.sg

George Gabriel, CFA
Managing Director
BLETCHLEY Park Capital
+61 3 8686 9144
investors@bletchleyparkcapital.com.au

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.

For personal use only

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")

31 December 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	3,299	11,706
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(2,177)	(6,460)
(c) staff costs	(1,083)	(4,233)
(d) advertising and marketing	(6)	(33)
(e) administration and corporate costs	(1,283)	(3,044)
(f) leased assets	(9)	(72)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	13
1.5 Interest and other costs of finance paid	(7)	(22)
1.6 Income taxes paid	(71)	(116)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	336	430
1.9 Net cash from / (used in) operating activities	(998)	(1,831)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(181)	(200)
(b) businesses (see item 10)	(969)	(1,429)
(c) investments	(21)	(208)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 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 Cash balances brought in from acquisition of businesses (see item 10)	137	119
2.6 Net cash from / (used in) investing activities	(1,034)	(1,821)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	8,041	11,160
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	(610)	(962)
3.5 Proceeds from borrowings	26	121
3.6 Repayment of borrowings	(35)	(150)
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	7,422	10,169

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	2,818	1,680
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(998)	(1,831)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(1,034)	(1,821)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	7,422	10,169

For personal use only

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(29)	(18)
4.6	Cash and cash equivalents at end of quarter*	8,179	8,179

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	7,252	1,891
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)*	8,179	2,818

*It is noted that the company received A\$ 336,000 through a short term working capital facility during the quarter. The corresponding liability is not included in the cash & cash equivalents as stated above but has been classified as a short term liability.

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**

119

-

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**

-

-

For personal use only

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	336
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.		

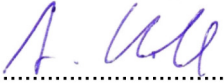
Via its subsidiary De.mem-Akwa Pty Ltd, the Company has access to a short term working capital facility of up to A\$ 500,000 provided by National Australia Bank (NAB). The facility is secured by a cash deposit.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	30
9.2 Product manufacturing and operating costs	3,027
9.3 Advertising and marketing	46
9.4 Administration and corporate costs	630
9.8 Total estimated cash outflows	3,733

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	Geutec Industrie- und Abwassertechnik GmbH	-
10.2 Place of incorporation or registration	Germany	-
10.3 Consideration for acquisition or disposal	\$968,702 in cash	-
10.4 Total net assets	\$156,155	-
10.5 Nature of business	Sale of water of waste water treatment chemicals	-

Compliance statement

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

Sign here: 
(Executive Director)

Date: 30 January 2020

Print name: Mr Andreas Kroell

For personal use only

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.

For personal use only