

JUNE 2020 QUARTERLY ACTIVITIES REPORT: Record cash receipts, on track for record annual revenues, driven by growing recurring revenues

Key Highlights

- **Record quarterly cash receipts of \$3.42m**
- **On track for record annual revenues**, with total 1H 2020 customer cash receipts of ~A\$6.7 million, 34% above 1H2019
- **Continued strong recurring revenue growth**, comprising 67% or \$2.3m of total 2Q 2020 \$3.42m cash receipts
- **Strong performance of acquired businesses**, with De.mem-Pumptech (Tasmania) demonstrating substantial growth
- **On track to achieve guidance for annual revenues / cash receipts in CY 2020 of A\$14-18m**, subject to any unexpected adverse COVID-19 impacts
- **Visible path to sustainable operating cash positive**
- **Strong balance sheet**, with A\$6.2 million cash as of 30 June 2020

29 July 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 June Quarter 2020, demonstrating the resilience of the Company's growing recurring revenues and high quality, stable customer base, despite the COVID-19 pandemic.

Financial Overview

De.mem has achieved record quarterly operating cashflow of \$3.42m in June Quarter 2020, up 4% vs March Quarter 2020 and up 14% vs prior corresponding period ("pcp") of June Quarter 2019.

Total customer cash receipts during H1 CY 2020 were \$6.7m, ~34% growth over pcp.

Continued trend to positive operating cash flows. Operating cash outflows during June Quarter 2020 were A\$-668k, down from A\$-743k in 1Q2020 and A\$-998k in 4Q2019. During the June Quarter 2020, the Company repaid an overdraft facility by \$112k, which was treated as an operating cash outflow for accounting purposes. Adding back this amount results in adjusted operating cash outflows for June Quarter 2020 of A\$-556k, an improvement of ~25% on March Quarter 2020.

The Company is on track to achieve record annual cash receipts / revenues. The Company's cashflows are historically heavily weighted to the second half. In 2019, the Company received ~60% of its revenues in the second half of the calendar year. If this historical seasonality applies in 2020, then De.mem will be well placed to achieve its full-year revenue guidance.

De.mem has invested in growing its sales team around Australia, with a physical presence now in Queensland, Victoria, Tasmania and South Australia. The Company believes this growth investment provides a robust foundation for strong organic sales growth in future periods.

Growing Recurring Revenue Contribution

The Company's resilient revenue growth is underpinned by continued growth in recurring revenues.

Approx. ~67% or \$2.3m of total June Quarter 2020 cash receipts of \$3.4m were recurring revenues, consistent with March Quarter 2020. See Tables 1 and 2.

Recurring revenues comprise the following segments:

- De.mem Equipment Leasing – Build, Own, Operate water treatment facilities on behalf of customers.
- De.mem Services - Operations & Maintenance of water treatment facilities.
- Sales of pumps & hydraulic components through De.mem-Pumptech 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.

In line with the previous March Quarter 2020, cash receipts from recurring revenue segments comprised approx. 67% of total group cash receipts in the June Quarter 2020, up from 54% in FY19 and 38% in FY18. See Table 1 below for further details.

TABLE 1: GROWING RECURRING CASH RECEIPTS CONTRIBUTION (%)

| % total cash receipts | % FY18A | % FY19A | Mar Qtr 2020 | June Qtr 2020 |
|-----------------------|-------------|-------------|-----------------|------------------|
| Recurring | 38% | 54% | 67% | 67% |
| Projects | 62% | 46% | 33% | 33% |
| Total Revenue | 100% | 100% | 100% | 100% |

TABLE 2: DEM – COMPOSITION OF TOTAL CASH RECEIPTS (A\$M)

| A\$M | FY18A | FY19 | Mar Qtr 2020 | June Qtr 2020 |
|----------------------------|-------------|-------------|-----------------|------------------|
| Recurring | 3.9 | 6.3 | 2.2 | 2.3 |
| Projects | 6.3 | 5.4 | 1.1 | 1.1 |
| Total cash receipts | 10.2 | 11.7 | 3.3 | 3.4 |

Strong Performance of Recently Acquired Businesses

De.mem-Pumptech (Tasmania)

The Company is pleased to report on the strong growth of wholly-owned subsidiary De.mem-Pumptech Pty Ltd (formerly: Pumptech Tasmania Pty Ltd) during the June 2020 Quarter. This continues Pumptech's substantial growth since its acquisition by De.mem in August 2019 (see ASX release, "De.mem completes acquisition of Pumptech Tasmania", 7 August 2020).

Pumptech reported customer cash receipts of ~A\$930k during June Quarter 2020, up +33% vs March Quarter 2020 of A\$700k. 1H20 Pumptech cash receipts of \$1.63m is \$3.26m annualised, a 36% increase on A\$2.4m revenues in CY19.

Since De.mem's acquisition, Pumptech's outperformance has been driven by:

- Robust demand from its core Food & Beverage customer base; and
- Cross-selling initiatives.

Pumptech's outlook remains strong, driven by:

- A new ~A\$250k order during the June Quarter 2020, from a large multinational Food & Beverage corporation with multiple operations in Australia. This will add to cash receipts/revenues in the September and December 2020 Quarters.
- Continued cross-selling initiatives. De.mem's "one-stop shop" diversified product and services offerings has been well received by Pumptech's long-standing customers, who particularly appreciate access to world-leading, membrane-based water treatment equipment.

De.mem-Geutec (Germany)

De.mem is pleased that its German subsidiary, De.mem-Geotec GmbH, Essen, has maintained stable customer cash receipts through the peak period of the COVID-19 pandemic in Europe. Geotec was acquired by De.mem in October 2019 (see ASX release, "*De.mem acquires German industrial wastewater treatment company*", dated 17 October 2019).

Geotec reported ~\$550k cash receipts during the June Quarter 2020, in line with its average quarterly revenue of ~A\$550k during CY 2019 (annual CY19 revenues of A\$2.2m). Geotec's performance was driven mainly by orders from new customers within the heavy industrials, plating and automotive segments, located in the Western part of Germany.

De.mem remains confident about Geotec's outlook for H2 CY 2020 as German/European industrial activity is improving.

Covid-19 Update

Despite the Covid-19 pandemic, De.mem's performance was robust during the June Quarter 2020, with some new opportunities created by the pandemic.

Covid-19 has provided an opportunity for the Company to deepen its existing customer relationships by providing more flexible professional staff servicing arrangements for customers who may otherwise be dealing with their own staffing constraints.

De.mem has implemented detailed policies and procedures to mitigate Covid-19 risks and continues to actively respond to domestic and global developments to effectively manage any potential commercial impacts.

The Company is pleased to re-affirm:

- All major existing service (Operations & Maintenance / O&M) contracts and projects remain in full effect.
- 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.
- Continued organic growth in De.mem-Pumptech.
- Robust development of De.mem-Geotec.
- Revenue growth opportunities are being actively pursued across the business.

Outlook

Reaffirms Guidance

De.mem reaffirms its full-year cash receipts/revenue guidance range of A\$14-18m, which would be a record revenue year for the Company. This guidance is based on:

- Strong 1H performance
- Seasonality
- Contracted 2H revenues
- New project commissioning
- Recurring revenues, and
- Strong pipeline.

Guidance assumes no further COVID-19 deterioration, which could adversely impact the Company.

Seasonality

If the historical weighting of ~60% of cashflows being received in the second half of the calendar year is maintained in 2020, then De.mem appears well placed to achieve its full-year revenue guidance.

Contracted 2H cash receipts

Customer payments of ~\$800k are contractually due in Q3 2020, related to one of the major project awards received in the previous calendar year, reinforcing the Company's strong cashflow outlook for Q3 and Q4 of CY 2020.

New project commissioning

The Company expects additional revenues from Givaudan from the Build, Own, Operate agreement signed in November 2019 (see ASX release, "*De.mem signs \$1.7 million build, own, operate contract*", dated 25 November 2019), beginning from the December Quarter 2020.

Givaudan (GIVN:SW) was founded in 1929, generated CHF 6.2 billion (USD\$6.7 bn) revenue in 2019 and is listed on the Swiss Exchange with a US\$35 billion market capitalisation. It is the global leader in the creation of flavours and fragrances, headquartered in Switzerland, and with ~15,000 employees worldwide and a local presence in almost 150 locations.

The commissioning of the waste-water treatment plant, to be deployed at one of the customer's Singapore factories, is now scheduled for the end of Q3 CY 2020 and De.mem expects first revenues from the contract beginning from the December Quarter 2020. The slight delay in commencement of this contract is due to Covid-19 transport & logistics complications. The contracted minimum term of 6 years from the commissioning of the plant remains unaffected. De.mem has already incurred a substantial part of the required investment for this project during the June Quarter 2020, reflected in cash flows for investments into property, plant & equipment.

Strong pipeline

The Company reaffirms it retains a strong project pipeline and has observed growing customer intent to commission new projects, as projects previously paused due to Covid-19 are now coming on-stream.

Visible path to operating cash positive

The Company reiterates that it sees a visible path to sustainable operating cash positive in the near-term.

Whilst quarterly operating cashflow results may vary depending on the timing of cash receipts and expenses incurred in relation to specific projects, as overall revenues grow to an annual revenue range of \$18-20m, based on the current strategy and cost structure, the Company expects to achieve sustainable positive operating cashflows on an annualised quarterly basis.

On current budgets, with \$6.2m cash on balance sheet as of 30 June 2020, the Company is well funded to achieve operating cash positive. However, given the uncertainties of Covid-19, the precise timing of achieving sustainable quarterly operating cash positive is unclear.

CEO Commentary

De.mem Chief Executive Officer Andreas Kroell said: "We are delighted with De.mem's performance, particularly given the very challenging macroeconomic environment.

We look forward to achieving our three main priorities for 2020 – improving revenue quality, revenue growth and moving to sustainable operating cash flow positive. To this end, we are pleased with the 1H results and look forward to the second half, which is typically a stronger period for De.mem, particularly now that we are seeing signs that previously paused projects are now likely to be commissioned in the second half.

We are particularly pleased that the recently acquired businesses Pumptech Tasmania and Geutec have both performed well and continue to provide multiple organic growth opportunities, particularly cross-selling of our unique "one-stop shop" offering for industrial water treatment customers.

The current situation represents some challenges to the Australian water industry. We believe that our balance sheet strength, strong investor support, recurring revenues, stable and resilient customer base and one-stop shop offering positions De.mem to emerge as a market leader in industrial water treatment.

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

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.

This release was authorized by the Company's CEO, 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.

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")

30 June 2020

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|------------------------------------|--|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | 3,420 | 6,708 |
| 1.2 Payments for | | |
| (a) research and development | - | - |
| (b) product manufacturing and operating costs | (2,518) | (5,070) |
| (c) advertising and marketing | - | - |
| (d) leased assets | (14) | (22) |
| (e) staff costs | (1,024) | (2,054) |
| (f) administration and corporate costs | (658) | (1,201) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 8 | 12 |
| 1.5 Interest and other costs of finance paid | (8) | (18) |
| 1.6 Income taxes paid | (53) | (60) |
| 1.7 Government grants and tax incentives | - | - |
| 1.8 Other (provide details if material) | 179 | 294 |
| 1.9 Net cash from / (used in) operating activities | (668) | (1,411) |
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) entities | - | - |
| (b) businesses | - | - |
| (c) property, plant and equipment | (391) | (393) |
| (d) investments | (9) | (111) |
| (e) intellectual property | - | - |
| (f) other non-current assets | - | - |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (6 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 | (400) | (504) |

| | | | |
|-------------|---|-------------|-------------|
| 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) |
| 3.5 | Proceeds from borrowings | 20 | 75 |
| 3.6 | Repayment of borrowings | (49) | (74) |
| 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 | (29) | (19) |

| | | | |
|-----------|--|-------|---------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 7,392 | 8,179 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (668) | (1,411) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (400) | (504) |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|--------------------------------------|--|----------------------------|------------------------------------|
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | (29) | (19) |
| 4.5 | Effect of movement in exchange rates on cash held | (40) | 10 |
| 4.6 | Cash and cash equivalents at end of period | 6,255 | 6,255 |

| 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 | 2,128 | 6,465 |
| 5.2 | Call deposits | 4,127 | 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) | 6,255 | 7,392 |

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

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.

7.1 Loan facilities

7.2 Credit standby arrangements

7.3 Other (please specify)

7.4 **Total financing facilities**

| Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|--|-------------------------------------|
| 500 | 287 |
| - | - |
| - | - |
| 500 | 287 |

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

213

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)

(668)

8.2 Cash and cash equivalents at quarter end (Item 4.6)

6,255

8.3 Unused finance facilities available at quarter end (Item 7.5)

213

8.4 Total available funding (Item 8.2 + Item 8.3)

6,468

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:

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: 29 July 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.