



De.mem Limited (ASX:DEM)

Investor Presentation

Strategic Shift to Recurring Revenues Underpins Strong FY20 Outlook

2 March 2020



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De.mem is a “one-stop shop” provider of industrial water treatment solutions.

DEM combines its unique water treatment technology product portfolio with repeat sales of water treatment consumables (pumps, filters, membranes, chemicals) and its specialist water engineering & design skills.



What we do

De.mem designs, builds, operates, owns and services water treatment systems for de-centralized applications based on proprietary membrane technology.



Key Product Lines

- Water treatment equipment – membrane-based, chemical, biological
- Water treatment services - Build, Own, Operate (BOO), Operations & Maintenance (O&M)
- Water treatment chemicals - flocculants & coagulants, membrane cleaners, anti-scalants etc.
- Other consumables - membranes, filters, pumps, other



Key Target Markets

All major water treatment applications: Potable, sewage, industrial waste and process water. Key target growth segments: Food & Beverage, Agriculture.

The global market for packaged / decentralised water treatment systems was valued at USD 12 billion in 2015 and is projected to reach USD 21.8 billion by 2021 - a compounded growth of 10.4% per annum (Markets & Markets)



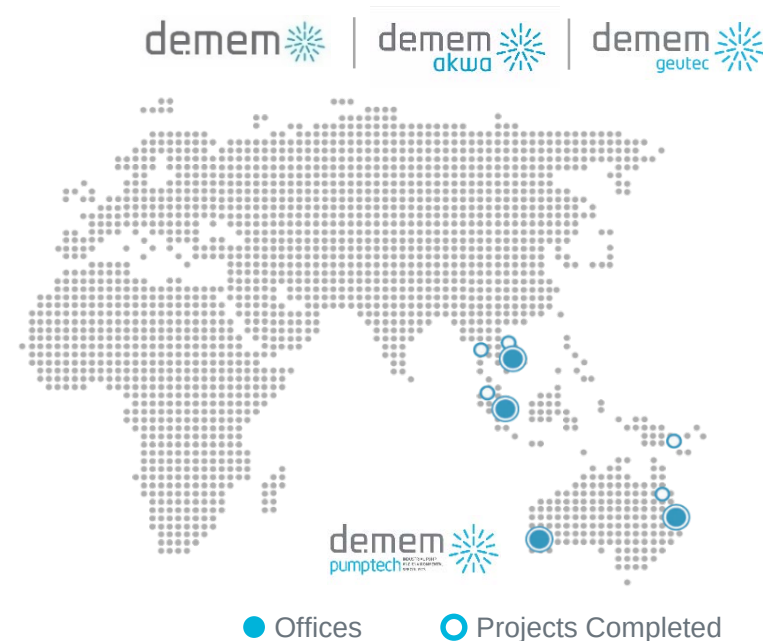
Locations

Brisbane, Adelaide, Melbourne, Perth, Singapore, Ho Chi Minh City / Vietnam, Essen / Germany



Employees

60 in total comprising - 45 Australia, 9 Singapore, 6 Germany



MARKET DATA

ASX code	DEM
Ordinary shares	175.4m
Market capitalisation	\$30m
Cash on hand (31.12.19)	\$8.2m
Listed on ASX	7 April 2017
Issue price	\$0.20
Last price (28.02.20)	\$0.17
52 week high	\$0.36
52 week low	\$0.09
Average daily volume	~252,000
GICS classification	Utilities

MAJOR SHAREHOLDERS

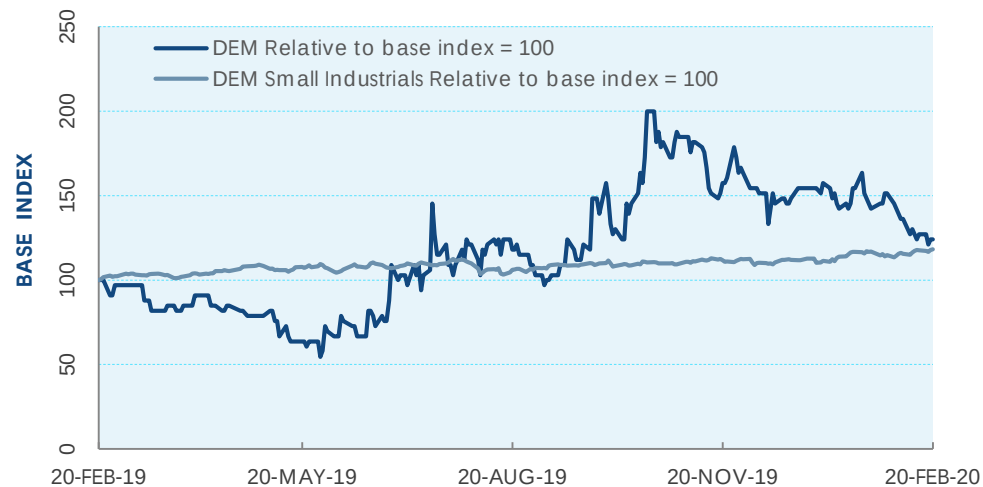
NA Singapore Early-Stage Venture Fund	24.0%
Perennial Value Microcap Opportunities Fund	14.2%
New Asia Investments Pte Ltd	6.8%
Mr Andreas Hendrik De Wit	5.5%
Pathfinder Fund	2.9%
Mr. Andreas Kroell	1.6%

SHARE PRICE PERFORMANCE

DEM Stock Price



DEM Relative to ASX Small Industrials



In FY19, DEM accelerated its transition to a recurring revenue business which provides a “complete one stop shop” for industrial water treatment solutions. DEM commences FY20F with visible revenues exceeding FY19 revenues.



“One-stop shop” supplier of decentralised industrial water treatment solutions – Supplies wide range of water treatment equipment including proprietary membrane technology, services, chemicals and consumables (pumps, filters, membranes)



Developed strong recurring revenue base for FY20 – Approx. \$10m recurring revenue base for FY20F comprising a mix of Build, Own, Operate (equipment leasing); Operations & Maintenance; chemicals; consumables sales (pumps, filters, membranes).



Maintains visible path to cash positive – Operating cash outflow reduced, record H2 CY 2020 customer cash receipts of ~\$6.7m (\$3.3m December quarter 2019 and \$3.4m September quarter 2019) corresponding to total annualized ~\$13.4m customer cash receipts



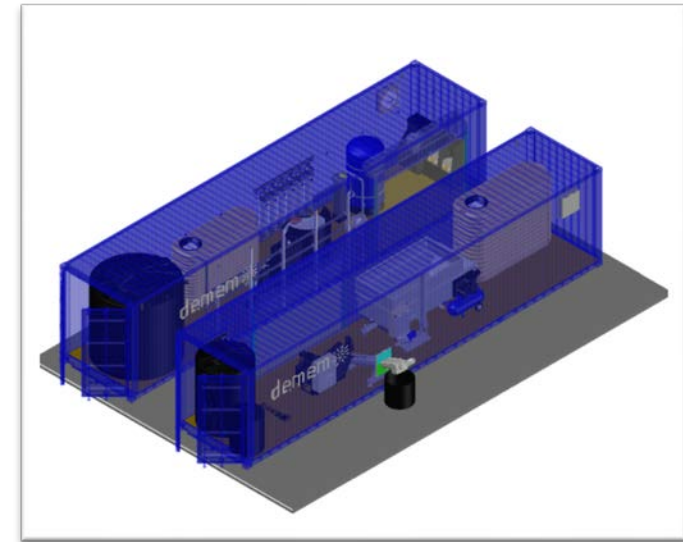
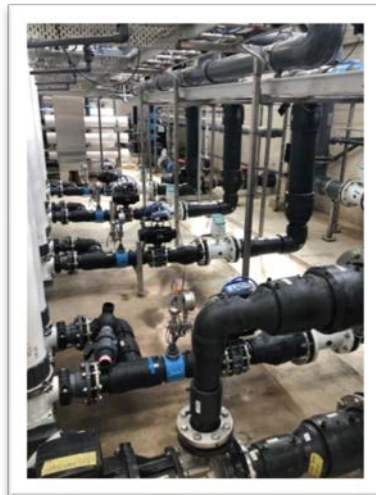
Strong balance sheet – \$8.2m cash as at 31 December 2019; company appears well-funded to achieve operating cash positive and grow Build, Own, Operate (equipment leasing) segment



Acquisition integration – Completed acquisition of Pumpteck (expanded the business into Tasmania and food & beverage segment) and Geutec (expanded the business into Germany and water treatment chemicals supply)

Breakthrough Project Awards in FY19 – providing a strong foundation for follow-on work

- Client is **Mulpha**, an international infrastructure investor with a number of assets in Australia
- Total value of project is approx. A\$3m
- Desalination plant based on a Sea Water Reverse Osmosis Process deploying innovative membrane technology
- Provides potable water to a luxury resort in Australia
- Completed by De.mem in 2019
- Strong reference for further work in hospitality / hotels & resorts sector and for technical excellence in desalination



- Client is **Givaudan**, worldwide leader in the creation of flavours & fragrances
- Build, Own, Operate project with a total value of approx. A\$1.7m over the initial term
- Industrial waste water treatment system integrating multiple treatment processes – using De.mem hollow fibre membranes as key treatment step
- Treats the waste water from a factory in Singapore to legal discharge standards
- Awarded to De.mem in November 2019 and currently under execution
- Strong reference for food & beverage clients

DEM increased cash receipts by 15% to \$11.7m in CY2019

DEM is growing its recurring revenue base and has a visible path to sustainable operating cash positive

At the current market capitalisation, it is trading at 1.3 x market cap / paid-in equity

A\$m (Dec yr end)	2016	2017	2018	2019
Cash receipts	0.8	2.6	10.2	11.7
Total income	0.3	3.0	10.6	10.8
COGS	0.4	2.4	7.9	7.5
Operating Profit	(-0.1)	0.6	2.7	3.3
Operating Margin (% of revenues)	Neg.	19%	25%	29%
Net Operating Cash Flows	(-1.2)	(-2.4)	(-1.6)	(-1.7)

HIGH AND GROWING OPERATING MARGIN

- From 19% in CY17 to 25% in CY18 to 29% in FY19
- High margin business relative to industry average

REPLACEMENT VALUE

Approx. \$24m replacement value, comprising:

- Cash balance \$8.2m as at 31 Dec 2019
- Total expenses since inception of approx. \$16m

STRONG CASHFLOWS

- Strong H2 operating cashflow momentum, with record H2 CY 2019 cash inflows of ~\$6.7m (\$3.3m Dec and \$3.4m in Sept quarter), for \$13.4m annualised
- Visible path to cash positive CY 18 operating cash outflow of \$1.6m reduced to \$1.1m in CY19 (adjusted for delayed customer payments – see Dec Quarter 2019 ASX release)

REVENUE GROWTH

- High revenue growth from \$10.6m 2018 to \$10.8m in FY19 (excluding FY19 contracted revenues carried over into FY20 of \$1.4m). Including \$1.4m FY19 carried over revenues, adjusted FY19 revenue would be \$12.2m, or growth of 15% vs FY18
- Growing recurring revenue from \$4.0m in FY18 to \$6.0m in FY19, with visible recurring revenues of \$10m in FY20F
- Improving revenue quality with growing recurring revenues and revenue diversification

CASH BALANCE

- Strong cash (including term deposits) balance \$8.2m as at 31 Dec 2019

Recurring revenues include BOO, O&M and Consumables Sales. Recurring revenues are increasing from 38% of total revenue in FY18 to 56% in FY19, with FY20 outlook for continued growth in recurring revenues.



Equipment Sales

- Sale of water and waste water treatment systems
- Providing a turn key solution to the customer
- Typically projects-based, with strong and stable repeat customer base



Build-Own-Operate or Build-Own-Transfer

- De.mem owns and rents out the equipment
- Long term contract with the customer
- Stable and recurring revenue stream
- High margin



Operations and Maintenance

- De.mem operates & maintains water treatment equipment owned by the client
- Long-term or revolving contract
- Stable and recurring revenue stream



Consumables Sales

- Includes the sale of
 - Chemicals
 - Filters
 - Membrane modules
 - Pumps
 - Other spare parts
- Stable and recurring revenue stream

EQUIPMENT SALES:

~62% of revenues (2018)
~44% of revenues (2019)

BOO & O&M:

~33% of revenues (2018)
~30% of revenues (2019)

CONSUMABLES SALES:

~5% of revenues (2018)
~26% of revenues (2019)

Recurring revenues are growing, from 38% of total revenue in FY18 to 56% in FY19.
The outlook is for continued growth in recurring revenues,
supporting FY20F total cash receipts/revenue guidance of \$16-20m.

- **Recurring revenue** increased from 38% of FY18 revenues to 56% of FY19
- **Recurring revenue expected** to generate an increasing % of total revenues in FY20

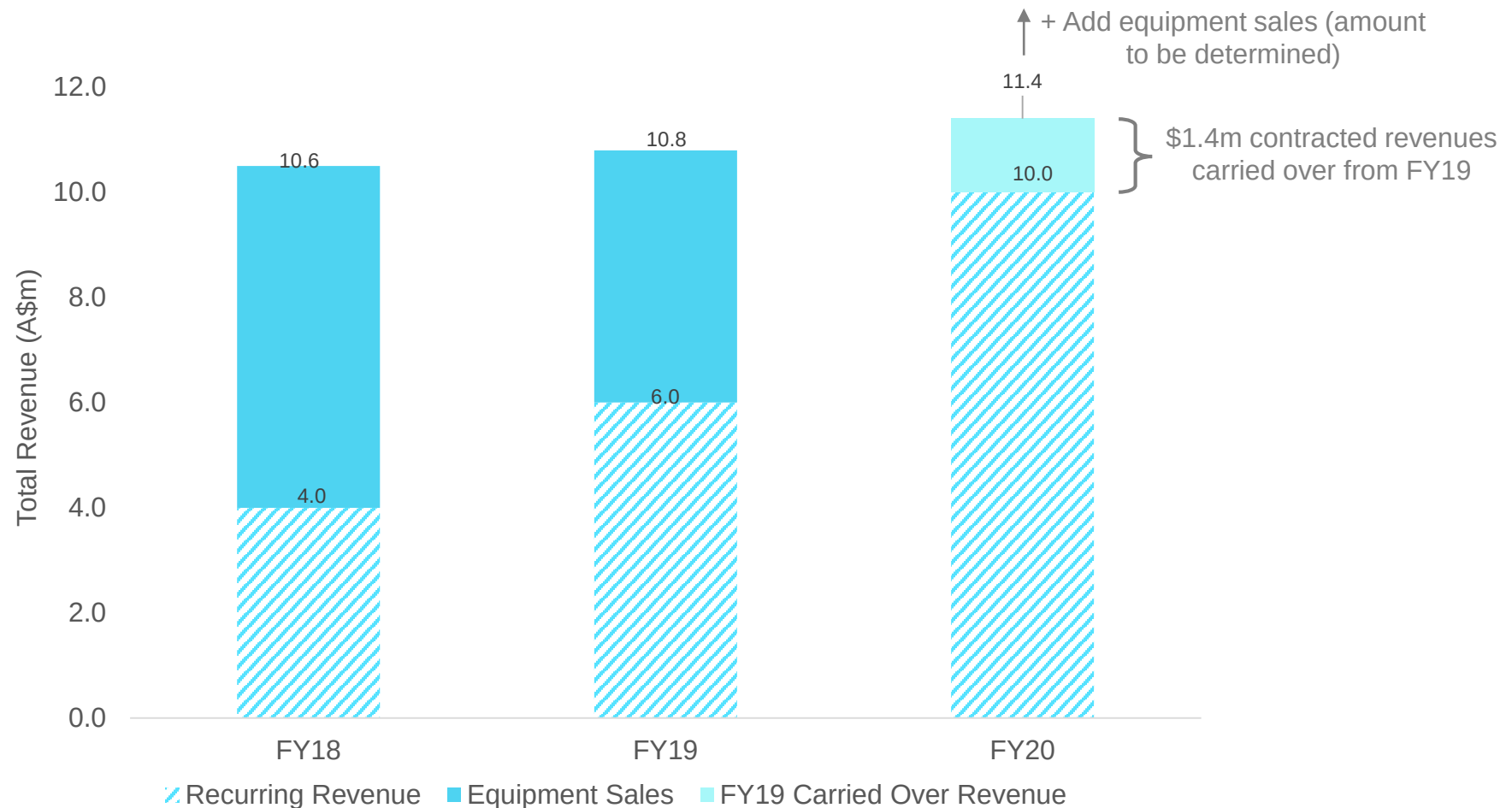
A\$M	% FY18A	FY18A	% FY19A	FY19A	FY20F
Subtotal - recurring revenue					
Recurring revenue (% total revenue)	38%	4.0	56%	6.0	10
FY19 contracted revenue					1.4
Subtotal - Equipment sales	62%	6.6	44%	4.8	TBD
Total Revenue	100%	10.6	100%	10.8	16-20

GROWING RECURRING REVENUES

FY20F has a minimum visible revenue base of \$11.4m, with equipment sales to further add to FY20F total revenue.

FY20F recurring revenue base is approx. \$10m with an additional \$1.4m contracted revenue carried over from FY19.

For context, equipment sales have historically ranged from \$5.2m (FY18) to \$6.6m to (FY19), though the business has grown since then.





Ongoing top line growth

- FY20F cash receipts/revenue guidance of \$16-\$20m, driven by \$10m of recurring revenues and \$1.4m FY19 contract rollover
- Visible path to sustainable operating cash positive with diminishing operating cash outflow



Contracts

Strong customer pipeline with ongoing new contract wins expected



Expansion into new geographies

Regional growth from strong client base in Queensland into South East and Western Australia, as well as internationally with a focus on the Asia Pacific region



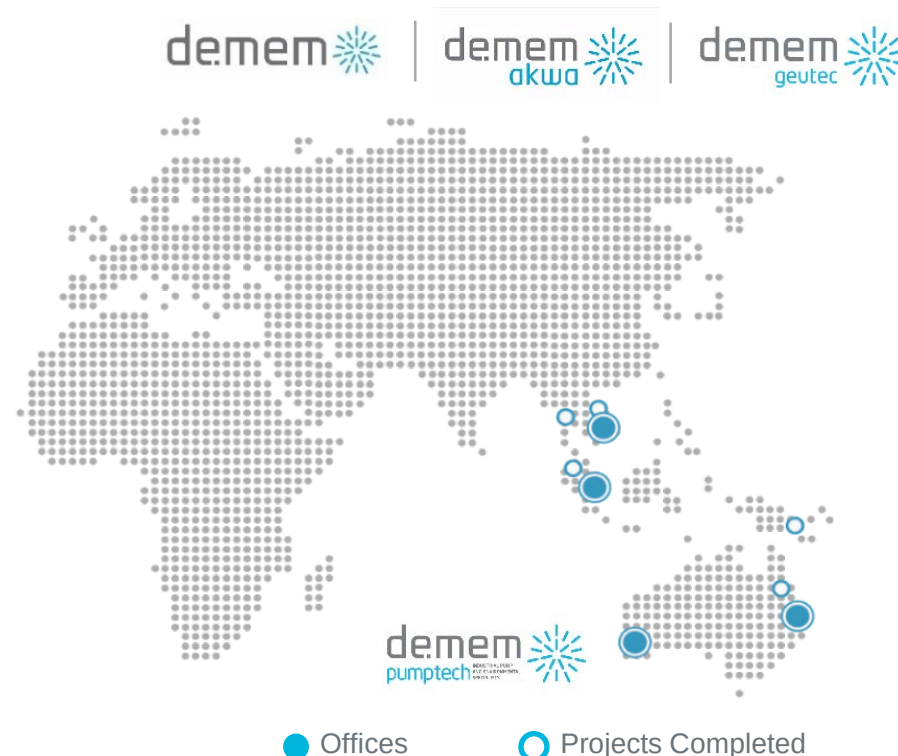
Cross-sell

De.mem, Geutec and Pumptech cross-sell is a key FY20 focus



Product enhancement

Access to new technology / expansion of intellectual property portfolio



Uniquely positioned to become the leading player in decentralized water treatment across APAC, providing a range of proven, world-class, highly scalable and potentially disruptive technologies to a large addressable market



Proprietary technology – De.mem has access to a range of proven, disruptive, easy-to-scale membrane technologies targeting a huge addressable market. Part of the IP is owned by De.mem, other has been licensed exclusively from Nanyang Technological University (NTU), Singapore – ranked no. 2 in membrane research worldwide by Lux Research (2013).



High growth market – The global water industry is estimated to reach US\$915bn by 2023 (*source: Global Water Intelligence*). The global market for packaged / decentralised water treatment systems was valued at USD 12 bn in 2015 and is projected to reach USD 21.8 billion by 2021 - a compounded growth of 10.4% per annum (*source: Markets & Markets*).



Blue chip customer base – Including: Rio Tinto, Monadelphous, Bechtel, Civeo, Ausco (mining/resources); St Hilliers, Mulpha, Acciona, JRK Group, Taswater (infrastructure/municipal); Givaudan (F&B), FMC Technip (industrial), with many repeat orders.



High top line growth – cash receipts from \$0.8m in 2016 to \$2.6m in 2017 to \$10.2m 2018 and \$11.7m in CY19 (unadjusted for customer payments of \$0.9m delayed into CY 2020). CY20F guidance of \$16-20m cash receipts/revenue, which is within the range of achieving sustainable operating cash positive.



Growing recurring revenues – Recurring revenues have increased from 38% of total revenue in FY18 to 56% in FY19, with guidance of \$10m recurring revenue base in FY20F (in addition to non-recurring equipment sales revenue)



Multiple growth drivers – high growth addressable market; growing product range; emerging new technologies; cross-sell opportunities; recent expansion into new geographies (Western Australia and Pacific Islands).



Visible path to cash positive – Net cash used in operating activities of \$1.6m in CY18 reduced to \$1.1m in CY19 (adjusted for delayed customer payments – see Dec Quarter 2019 ASX release). Reduced operating cash outflows in every single quarter relative to prior year period. Flexible revenue model, low cost base, services/consumables sales provide stable recurring revenues.



Valuation discounts

- DEM trades at 2.6x Market Capitalisation/Revenue (x) multiple, which is ~75% discount to its ASX-listed peer average
- Current market cap is close to replacement value of ~A\$24m (comprising \$8.2m cash and \$16m expenses incurred to date, not including the cost of Nanyang Technological University R&D spend on membrane technology)

DEM trades at 2.6x Market Capitalisation/Revenue (x) multiple, which is ~75% discount to its ASX-listed peer average

Company	Last 12 Months Customer Cash Receipts	Market Capitalisation (28 February 2020)	Market Capitalisation / Revenue	Technology	Market Focus
Phoslock Water Solutions ASX: PET	A\$28.1m 12 months to 31/12/19	A\$325m	11.5x	Chemicals to bind phosphorus	Prevention of algae growth
Fluence ASX: FLC	A\$93.2m 12 months to 31/12/19	A\$194m	2.1x	Aerobic waste water treatment (MABR)	Municipal waste water
Purifloh ASX: PO3	A\$0.0m 12 months to 31/12/19	A\$79m	NA	Free Radical Generation (FRG)	Water treatment, air, surface sterilisation
Scidev ASX: SDV	A\$5.4m 12 months to 31/12/19	A\$84m	15.8x	Chemicals	Coagulants and flocculants for wastewater treatment and sludge dewatering
Average			9.9x		
De.mem ASX: DEM	A\$11.7m 12 mths - FY19 (Dec year end)	A\$30m	2.6x	Membranes	Industrial water treatment solutions

DEM has large, blue-chip clients that often provide repeat orders across their global operations
Customers include global mining companies, large EPC contractors, municipalities, water utilities and multinational corporations

Mining	Municipal / Infrastructure	Food & Beverage	Other Industrial
- Potable/sewage treatment for mining camps - Waste water - Supply of water for mine operations	- Potable - Municipal sewage	- Key 2020 growth sector - Waste water - Process water - Recycling	- Industrial waste water - Process water - Recycling
      	      	 	   

De.mem proprietary product portfolio includes breakthrough membrane innovations

COMPLETED (2018 and 2019)

- **Nanofiltration membrane**
 - Superior filtration performance due to minimum pore size at low pressure / energy consumption
 - In-house developed and fully owned by De.mem
- **Ultrafiltration membrane**
 - Large applicable market, i.e. pre-filtration for Reverse Osmosis and potable water treatment
 - In-house developed and fully owned by De.mem
- **Forward Osmosis membrane**
 - De-watering of industrial waste water and liquid concentration in F&B (via Aromatec Pte Ltd)
 - Developed at and licensed from NTU
- **Microfiltration membrane**
 - Large applicable market, including process water applications in F&B; in-house development
- **Domestic “point of use” filter system**

PLANNED (2020 FF)

- **Membrane Bioreactor (MBR)**
 - Treatment of high organic load waste water
- **New membrane technologies**
 - Using new materials



De.mem as a Total Water Management Solutions Provider: A “One-stop-shop” for the customer

- De.mem supplies all major types of water and waste water treatment equipment
- Proven service (Operations & Maintenance) and after-sales capability and ability to supply all consumables required by the customer for the ongoing operations of the plant
- Unique Build, Own, Operate offering
- Deep technical know-how based on long term experience and strong team
- Access to proprietary products/components, deployed as part of the systems to provide a “competitive edge”
- Partnership in R&D with Nanyang Technological University, Singapore
- Strong know-how in automation and de.live remote monitoring platform
- Highest quality standards ensured through industry qualifications i.e. ISO 9001:2015
- “Made in Australia” products for Australian customers



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