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

CEO Letter to Shareholders

Highlights:

- Record results, record balance sheet strength and record outlook.
- On track to achieve all our strategic objectives.
- Most exciting outlook in our operating history.

25 May 2021:

Dear Shareholders

I am pleased to provide this CEO Letter to Shareholders in the context of the De.mem Limited (ASX:DEM) ("De.mem" or "the Company") Annual General Meeting, being held on 25 May 2021, for the year ended 31 December 2020 ("CY 2020").

Since our last AGM, I am pleased to report significant progress. We are achieving significant milestones including record results and achieving our strategic objectives.

We currently enjoy the most exciting outlook in our operating history, with the recent acquisition of Capic completing our national rollout and creating significant revenue cross-sell growth opportunities.

Realising our vision of becoming Australia's leading industrial water treatment solutions provider

De.mem is uniquely positioned to realise our vision of becoming an Australian-based "international champion" providing the complete 'one-stop shop' of decentralised industrial water treatment solutions".

Disrupting de-centralised water treatment

De.mem provides "de-centralised" industrial water treatment solutions, providing packaged, modular and/or containerised water and waste water treatment systems and solutions including: potable water treatment; sewage treatment; water desalination; recycling solutions for factories, and industrial waste water treatment. We also provide "process water" for beverage manufacturing and potable water solutions for household consumption.

We focus on industrial customers across a range of high-growth industries, deploying our solutions directly on the customer's site. We treat the water directly at the source; making our approach very flexible, effective and cost-efficient.

De.mem is rapidly emerging as the Australian leader in a highly fragmented industry, characterized by many smaller local/regional players.

We believe there is a unique opportunity in de-centralized water treatment and we are in an excellent position to capitalize upon it.

"One stop shop" of proprietary and patented products and solutions

Our "one stop shop" provides almost everything the customer needs, including all types of membranes; all major types of water and waste water treatment equipment; operations & maintenance; Build, Own, Operate ("BOO") equipment leasing; and sales of ongoing consumables including water treatment chemicals, pumps, filters and other consumables required for water treatment plant operations.

Our systems include our world-class membrane technology developed and manufactured at our De.mem facility in Singapore. The membranes serve as the key component of our turn-key systems, to provide us with a "competitive edge".

Our Intellectual Property portfolio provides a unique value proposition to our client base.

Blue-chip customers

Our customer base includes market leaders and multinational corporations from a range of industries, including the mining & resources, municipal & infrastructure, food & beverage and heavy industrial sectors.

Our long-standing relationships with customers such as Rio Tinto (mining & resources) or Givaudan (flavours & fragrances / food & beverage) reinforce our recurring revenues.

Australia-wide, with international presence

We have an Australia-wide footprint, with locations and staff in Brisbane, Launceston, Melbourne, Perth and Adelaide.

Through our international locations in Singapore and Germany, our strategy is to grow globally as we support our clients' growth.

<u>Achieving significant milestones</u>

We have achieved significant milestones in CY2020 successfully working through the Covid-19 pandemic, achieving record results, record balance sheet strength, developing a strong track record and a record outlook.

Successful management of Covid-19 challenges

To date, we have been able to successfully navigate through the Covid-19 pandemic.

Due to our strict risk management and health & safety protocols, we have been able to keep all staff healthy and all locations avoiding major disruption throughout the year. Furthermore, our recurring revenue model helped minimize the impact of Covid-19.

Record results

In CY 2020, De.mem achieved record results. Some notable achievements include:

- **Record sales growth**. Revenues grew by 40% from \$10.1m in CY 2019 to \$14.2m in CY 2020; cash receipts grew by 41% from \$11.7 million in CY 2019 to \$16.5 million in CY 2020. The growth was driven by record orders, particularly in the second half of the year.
- **Recurring revenue growth.** Recurring revenues increased from ~38% in CY 2018 to ~58% in CY 2020.
- **Growing margins.** Gross margins increased from 26% to 31%, driven by rising volumes and our high-value add technology portfolio.
- **Sector diversification.** We diversified and grew into targeted industrial sectors, including food & beverage and power segments.
- **Inaugural cash positive quarter.** We achieved our inaugural cash positive quarter, with \$544k operating cash positive in December 2020 quarter (see ASX release, "Quarterly Activities Report", dated 20 January 2021).

Record balance sheet strength

The Company has a record balance sheet, which supports future Build, Own, Operate (ie. equipment leasing) and growth of the recently acquired Capic business.

As of 31 March 2021, De.mem had a record balance of cash plus term deposits of approx. \$11m.

During March and April 2021, we raised ~\$10.6m via a Share Placement of \$9m at 28 cents per share and Share Purchase Plan of \$1.61m at 28 cents per share.

I would like to thank our investors for their ongoing support, particularly new and follow-on investment by institutional investors, including Perennial Value Management; water-focused fund Pathfinder Asset Management from New Zealand, Inspire Australia Equities Fund and the New Horizons Fund.

De.mem's record balance sheet enables the Company to provide larger BOO contracts to its enterprise level clients. BOO services require some upfront capital to finance equipment leasing, with recurring revenues generated over the customer contract period.

We have historically provided BOO services to blue-chip clients such as a \$1.7m BOO contract with Givaudan, the global leader in the creation of flavours and fragrances with sales.

Our strengthened balance sheet allows more and larger BOO services to be provided.

Strong track record of organic growth

De.mem delivered strong top-line growth of +41% during the year, with cash receipts up from $11.7m in CY 2019 to $16.5m in CY2020. The Company has now reported 8 consecutive quarters of growth in cash receipts vs. prior corresponding period.

Strong acquisition value-add track record

De.mem has a strong track record of adding value to strategic acquisitions.

Both businesses acquired in 2019, De.mem-Pumptech, Launceston, Tasmania ("Pumptech"), and De.mem-Geutec, Essen, Germany ("Geutec"), showed substantial growth and contributed to the overall organic growth of our group.

De.mem has grown the Pumptech business by ~60% since its acquisition in July 2019 to ~$4.0m in CY 2020 (see ASX release, "*De.mem announces strategic acquisition in Tasmania*", dated 29 July 2019).

German subsidiary Geutec, although substantially more exposed to Covid-19, increased revenues by approx. 10% to $2.4m in CY 2020. Geutec achieved a very successful March 2021 quarter, during which cash receipts grew to approx. $1m, representing ~90% growth over prior corresponding period March 2020 quarter.

Acquisition outperformance has been driven by successful integration into De.mem Group's sales & marketing organization and access to De.mem's "one stop shop", particularly De.mem's sophisticated, membrane-based water treatment solutions.

We are optimistic that we can also add value to our recent acquisition, Capic.

<u>Achieving strategic objectives</u>

We have achieved our CY 2020 Strategic Objectives of (i) revenue quality enhancement; (ii) consistent recurring cash receipts growth and (iii) achieving inaugural operating cash flow positive (see March 2021 Quarterly Activities Report, dated 30 April 2021). I discuss each of these Strategic Objectives below.

Revenue quality enhancement

We are improving revenue quality through growing recurring revenues and diversification of customers, customer industry, geography and product range.

We are diversifying into high growth segments such as food & beverage and the power sector.

Our Capic acquisition diversifies De.mem by geography, product and customers and brings substantial "cross sell" potential.

Capic expands De.mem into the strategic, high growth segment of Western Australian mining clients, with combined cross-sell potential across Australia. See ASX releases, "*De.mem Announces Strategic Acquisition in Western Australia*", and "*Investor Presentation*", dated 16 March 2021.

Capic provides high value-add specialty chemicals including anti-scalants, membrane cleaners, process additives such as dewatering aids, defoamers and a whole range of cooling tower water treatment products.

Capic's customer base includes blue chip mining clients such as BHP Billiton, Northern Star or Pilbara Minerals.

Recurring cash receipts growth

The Company is pleased to report continued growth in recurring cash receipts in the March 2021 quarter.

Recurring cash receipts (receipts from BOOs/operations & maintenance contracts, sale of consumables, pumps and chemicals) are ~67% of total, up from 38% in CY2018.

On track to sustainable operating cash flow break even

We achieved our inaugural cash positive quarter, with $544k operating cash positive in December 2020 quarter (see ASX release, "Quarterly Activities Report", dated 20 January 2021).

De.mem recorded substantially reduced net operating cash outflows of approximately -A$1.1m, compared to -A$1.7m in the prior year. In the 2nd half of the year, the company's net operating outflows reduced to ~-A$0.2m.

The operating cash outflow mainly reflects the ongoing investment into De.mem's Singapore operations. In Singapore, De.mem manufactures it membrane technologies and performs research & development efforts, which have resulted in a comprehensive portfolio of membrane technology and IP suited for a wide range of applications.

<u>Record Outlook</u>

We are pleased to report a record outlook.

We have reiterated guidance of "significant" CY2021 growth expected relative to CY 2020 revenues of $14.2m and cash receipts of $16.5m. As at today, we have visibility of ~$15m CY2021 cash receipts, comprising ~$10m recurring and ~$5m from contracts (excluding the impact from any potential additional project awards, organic growth, Capic historical cash receipts and cross-sell potential).

Record March 2021 Quarter results provide a base for a record full-year, with March Quarter typically providing only 15-20% of annual cash receipts.

Other factors supporting our record outlook include:

- Our new Australian sales team is now well ready to manage our growing pipeline across Australia.
- The recent Capic acquisition completes our national footprint in Australia, and brings substantial cross-sell potential into the group.

- Increasing customer focus on buying from Australian suppliers to avoid global supply chain risks.
- Re-commissioning of projects previously paused due to Covid-19.

Summary

I would like to thank our employees for their strong commitment during the past year, and would like to thank our shareholders for their ongoing trust and support.

We look forward to commencing the cross-sell sales process across both the Capic and De.mem businesses. With our world-leading, innovative membrane technology, expanded product range, including Capic's speciality chemicals, and our proven capability to operate and maintain water treatment plants, De.mem is uniquely positioned to realise our vision of becoming ***the Australian "international champion" providing the complete 'one-stop shop' of decentralised industrial water treatment solutions".***

I am confident that De.mem will deliver further good news to its shareholders and look forward to updating you further during CY 2021.

Andreas Kroell
CEO

This release was authorized by the Company's Chief Executive Officer, Mr. Andreas Kroell.

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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.