

30 SEPTEMBER 2024 QUARTERLY ACTIVITIES REPORT: RECORD CASH RECEIPTS, POSITIVE OPERATING CASH FLOW

22 October 2024: Industrial water and wastewater treatment company De.mem Limited (ASX: DEM) (“De.mem” or “the Company”) is pleased to report record September Quarter 2024 results.

KEY HIGHLIGHTS

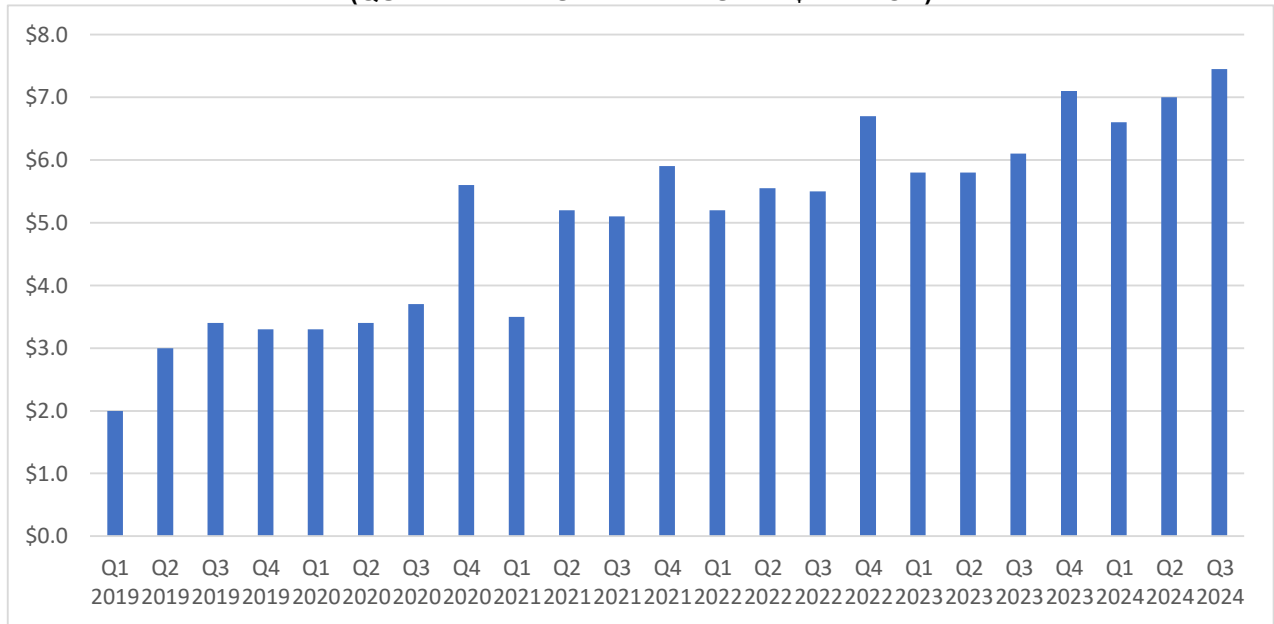
- **Highest quarterly cash receipts ever recorded** of approximately \$7.44 million.
- **Continued double digit organic growth.**
- **Continued and stable growth momentum**, 22 successive quarters of cash receipts growth versus prior corresponding period (pcp).
- **Positive quarterly operating cash flows** of \$82,000.
- **Two recent acquisitions successfully integrated**, now contributing to cash receipts and margins.
- **On track for record full-year results.**

Record quarterly results

De.mem is delighted to report the following record results for the September Quarter 2024:

- Cash receipts of approximately \$7.44m are the highest quarterly cash receipts ever recorded in the Company’s history.
- Cash receipts growth of 23% compared to prior corresponding period (“pcp”), the September Quarter 2023.
- Continued double digit organic cash receipts growth of approximately 15% in the 9 months ended 30 September 2024 (year-to-date), compared to the 9 months ended 30 September 2023. This outperforms by more than 4x the average annual revenue growth rate of 3.5% for the industry as measured by the Baird water technology index, which combines 12 large water focused manufacturers that are representative of the broader water sector (source: Baird, Global Water Sector Update, Q1 2024).
- Strong and continued growth momentum, with 22 consecutive quarters of cash receipts growth vs pcp, despite the Covid-19 pandemic in CY2020-21 and slowing global growth in CY2022-23.

**CHART 1: RECORD 22 QUARTERS OF CASH RECEIPTS GROWTH VS. PCP
(QUARTERLY CASH RECEIPTS IN A\$ MILLION)**



Positive net operating cash flows

De.mem is pleased to report positive net operating cash flows as follows:

- For the September Quarter 2024, positive net operating cashflows of \$82,000.
- For the 6 months to September 2024, positive net operating cashflows of \$39,000 (including the net operating cash outflow of \$43,000 for the June Quarter 2024).

De.mem advises that the payments to acquire businesses as per line 2.1a of the attached Appendix 4C relate entirely to the payment of the initial tranche of the purchase price for Auswater (\$1.38m) and related business acquisition cost.

Please see the Appendix 4C attached to this release for further details regarding the incoming and outgoing payments.

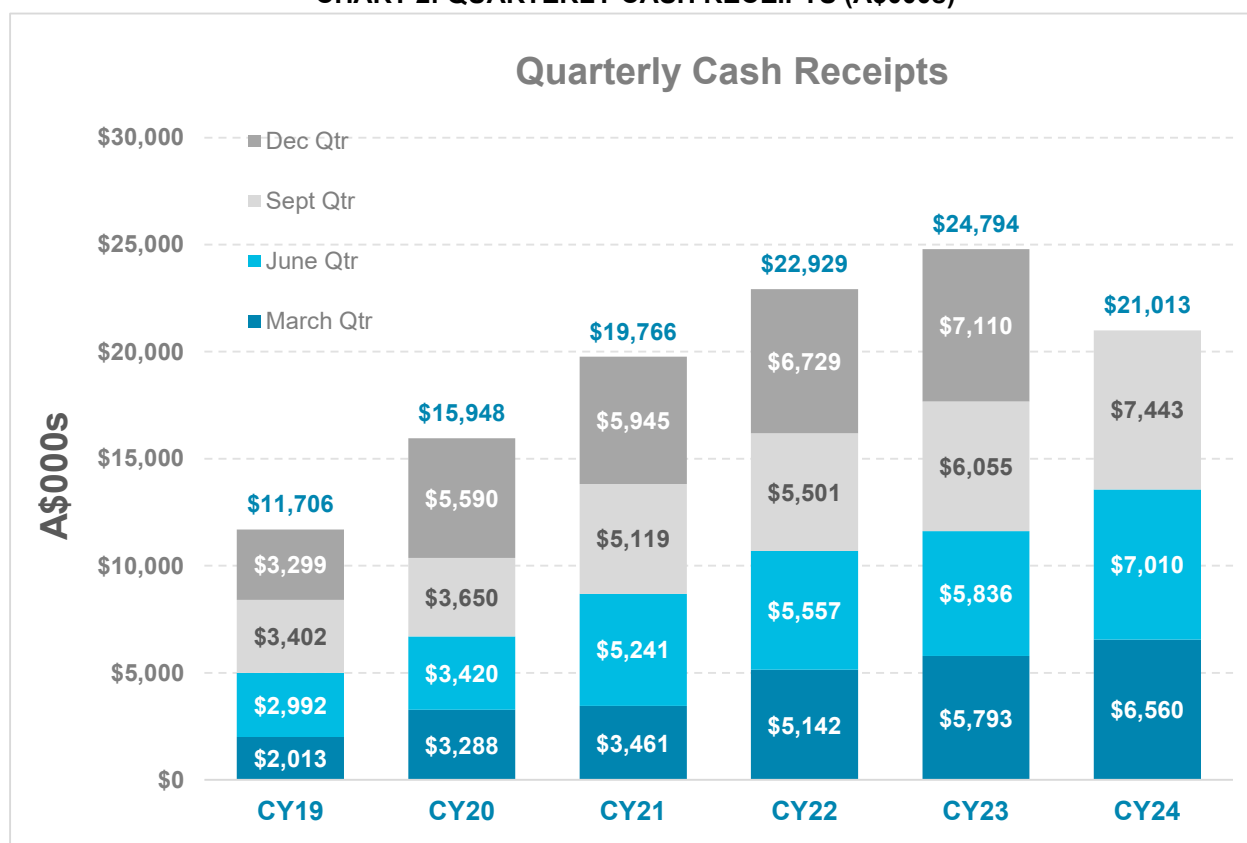
On track for record full-year results

De.mem is delighted to reiterate that it remains on track for record CY 2024 cash receipts, underpinned by the following factors:

- Record March, June and September Quarter 2024 results.
- Approx. 90% of cash receipts being recurring, providing cashflow visibility.
- Continued double-digit percentage organic growth momentum.
- Further upside from the integration of the recent Border Pumpworks and Auswater Systems in the December Quarter 2024, noting that since 2019, Demem has successfully grown 4 bolt-on acquisitions by an average ~63% (see ASX investor presentation 3 June 2024, page 4).

- Expected contribution from entering the US market for domestic water filtration, with the Company expecting over \$1m revenue over 2 years from domestic water treatment applications in North America (see below for further commentary).
- The Company's second half has historically contributed an average of ~55% of full-year results (5-year average), as client chemicals & consumables purchases tend to be greater over this period.

CHART 2: QUARTERLY CASH RECEIPTS (A\$000s)



Recurring cash receipts underpin strong outlook

The Company's approximately 90% recurring cash receipts underpin its strong growth momentum and outlook.

September Quarter 2024 cash receipts were largely generated by De.mem's recurring business segments, which comprise the following:

- The provision of water and waste water treatment services i.e. through
 - Long term Build, Own, Operate ("BOO") and Operations & Maintenance ("O&M") contracts.
 - Regular maintenance work on water treatment equipment.
 - Sales and maintenance services of pumps.
- Specialty chemicals sales.
- Sales of small equipment and consumables.
- Membrane replacement sales into existing facilities.

Industrial customer and service / specialty chemicals focus drives margins

De.mem's business focuses on providing a high quality, "one stop shop" water and waste water treatment offering to multi-site industrial customers, including leading corporations such as Rio Tinto and South 32 from the mining sector and Givaudan from the food & beverage segment.

The Company's strategy and business focus, in particular the supply of water and waste water treatment services as well as specialty chemicals into long-term industrial customer relationships, results in a strong and increasing gross margin profile. De.mem's total business gross margins have increased from 18% in CY 2017 to 36% in CY 2023, and 40% in H1 CY 2024.

De.mem's gross margin of 40% in H1 2024 exceeds the average industry gross margin of 38.7% as measured by the Baird water technology index, which combines 12 representative large water-sector focused manufacturers (source: Baird, Global Water Sector Update, Q1 2024).

World leading membrane technology provides strong competitive advantage

De.mem has a strong competitive advantage of proprietary technologies, underpinning the Company's unique portfolio of hollow fibre Microfiltration, Ultrafiltration and Nanofiltration membranes. The Company commercializes its membranes as the key component of its integrated water and wastewater treatment systems or its Build, Own, Operate and service contracts, and in combination with the Company's wide range of specialty chemicals, pumps and consumables that are typically required by clients during operations of membrane-based water treatment plants.

On 7 September 2021, De.mem presented its "next-gen" membrane technology, based on Graphene Oxide enhanced polymer membranes, with substantially improved filtration characteristics such as up to 40% higher water flux (throughput), leading to significantly reduced operating cost for the water treatment process.

Domestic water filtration market entry in progress

On 9 May 2024, the Company announced its formal USA National Sanitation Foundation (NSF) certification under NSF Standard 53 for the Company's Graphene Oxide enhanced membrane technology (see ASX release "*Graphene Oxide enhanced membrane - NSF formal certification*", 9 May 2024).

Since then, De.mem has initiated the full commercial launch of its potable water applications into North America, providing premium water filtration solutions for domestic water treatment applications.

In North America, De.mem commercialises the new Graphene Oxide enhanced membranes through its sales distribution partnership with Purafty Clean Technologies, Kingston, Ontario, Canada ("Purafty") (see ASX release, "*De.mem signs technology commercialization partnership agreement*", 19 July 2022) whereby the Company provides the membranes to Purafty on a wholesale basis, with De.mem taking no retail sales risk and assuming no distribution costs.

The Company expects over \$1m revenues over 2 years from domestic water treatment applications in North America (see ASX release, "*De.mem passes NSF requirements*", 15 April 2024). De.mem had previously announced first revenues generated from the new product of \$55k (see ASX release, "*First order for Graphene Oxide enhanced cartridges*", 7 February 2024).

Further upside to the above revenue guidance may result from:

- Entering new geographies. The Company is currently discussing potential growth partnerships in South East Asia.
- Launching new products utilising the Graphene Oxide enhanced membranes. The Company is currently developing a range of new product applications.

The global domestic water filtration market is a large commercial market that was estimated at US\$12.1 billion in 2022 and is expected to grow by 10.5% per annum to US\$26.7 billion by 2030 (source: *Grand View Research, November 2022*). The Asia-Pacific region accounts for the largest share in the overall market for domestic water filters.

Continues strong acquisition value-add track record

De.mem successfully integrated its two recent acquisitions, Border Pumpworks and Auswater Systems, during the September Quarter. Combined, the two entities contributed approx. \$700,000 in quarterly cash receipts to the group. Historically, pre-acquisition, the two entities had been generating combined revenues of \$2.4m per annum and \$600,000 per quarter respectively.

The acquisition of Border Pumpworks, based in Wodonga/regional Victoria, was completed on 1 May 2024 (see ASX release dated 29 April 2024). Border Pumpworks has been operating since 1992, servicing and supplying pumps and small water treatment systems to mainly industrial customers in regional Victoria and New South Wales.

Auswater Systems, based in Perth, Western Australia, was completed on 1 July 2024 (see the ASX Investor Presentation dated 3 June 2024). Auswater Systems has an operating history of 29 years and services water and waste water treatment systems on behalf of more than 50 recurring clients, mainly from the Western Australian mining industry.

De.mem has a strong acquisition track record, reporting 63% revenue growth across 4 acquisitions since 2019 (excluding the two above; see the ASX Investor Presentation dated 3 June 2024, page 4).

The Company operates in a highly fragmented sector, with several niche, local operators (see the ASX Investor Presentation dated 3 June 2024, page 11). These smaller operators are unable to compete with De.mem's national reach, proprietary technologies, technical capabilities and "one stop shop" offering (including pumps, chemicals, proprietary membranes, and filters).

De.mem seeks to acquire businesses that meet the following criteria (see *ASX Investor Presentation* dated 3 June 2024, page 5):

- Long-standing customers.
- Recurring revenues.
- High margins.
- Track record of profitability.
- Diversification (by customer, customer industry, geography, and/or product).
- Attractive acquisition multiples (target less than 1x revenue and 5x EBITDA).

The positive operating cashflow reported for the quarter (see above) is an important milestone as it helps to position De.mem to potentially access debt finance, which would enable a higher return on equity in any potential future acquisitions.

CEO Commentary

De.mem Chief Executive Officer Andreas Kroell said:

"I am pleased to report another record quarter with the highest cash receipts ever recorded in company history and continued double-digit organic growth of our business, while generating positive net operating cash flows."

We are looking forward to concluding a record Calendar Year 2024, based on our high recurring cash receipts, exceptional margin profile and the contributions from the recent Border Pumpworks and Auswater Systems acquisitions and ongoing market launch for our Graphene Oxide enhanced membrane for domestic water treatment applications".

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.

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 headquartered, international decentralized 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 offers a "one-stop-shop" of equipment, services, chemicals and consumables to its clients, for the ongoing operations of their water and wastewater treatment plants.

De.mem's technology to treat water and wastewater is among the most advanced globally. The Company commercialises an array of innovative proprietary hollow-fibre membrane technologies. De.mem has been partnering with Nanyang Technological University (NTU) in Singapore, a world leader in membrane and water research.

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	Quarter ended ("current quarter")
12 614 756 642	30 Sep 2024

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	7,443	21,013
1.2 Payments for		
(a) research and development	(0)	(8)
(b) product manufacturing and operating costs	(4,400)	(13,410)
(c) advertising and marketing	(44)	(90)
(d) leased assets	(0)	(17)
(e) staff costs	(2,299)	(6,315)
(f) administration and corporate costs	(607)	(1,613)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	24	46
1.5 Interest and other costs of finance paid	(20)	(65)
1.6 Income taxes paid	(17)	(36)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	2	13
1.9 Net cash from / (used in) operating activities	82	(482)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) businesses	(1,384)	(1,793)
(b) property, plant and equipment	(34)	(171)
(c) investments	0	0
(d) intellectual property	(22)	(27)
(e) other non-current assets	0	0

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	11
	(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)	17	17
2.6	Net cash from / (used in) investing activities	(1,423)	(1,963)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	4,294
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	(56)	(397)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(5)	(5)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	(5)	(5)
3.9	Other (lease liabilities)	(168)	(528)
3.10	Net cash from / (used in) financing activities	(234)	3,359

4.	Net increase / (decrease) in cash and cash equivalents for the period		
	Net Cash and equivalents at beginning of quarter/year to date.	4,925	2,442
4.2	Net cash from / (used in) operating activities (item 1.9 above)	82	(482)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,423)	(1,963)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(234)	3,359
4.5	Effect of movement in exchange rates on cash held	3	(3)
4.6	Cash and cash equivalents at end of period	3,353	3,353

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	2,542	3,814
5.2	Call deposits	811	1,111
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)	3,353	4,925

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	116
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>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.</i>		

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify) Bank overdraft	-	-
7.4 Total financing facilities	-	
7.5 Unused financing facilities available at quarter end		-
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.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	82
8.2 Cash and cash equivalents at quarter end (item 4.6)	3,353
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	3,353
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	N/A
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 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?	
8.6.2 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?	
8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

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: 22 October 2024

Authorised by: Andreas Kroell
Chief Executive Officer

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.