



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

De.mem Announces Strategic Acquisition in Victoria

22 March 2022: Australian-Singaporean water and waste-water treatment company De.mem Ltd (ASX:DEM) ("De.mem" or "the Company") is pleased to announce that it has signed a binding agreement to acquire 100% in the shares of Stevco Seals & Pumps Victoria Pty Ltd, Epping, Victoria, Australia ("Stevco").

Key Highlights

- De.mem Ltd to acquire 100% in the shares of Stevco
- Consideration will be \$1.25 million in cash and \$250,000 in DEM shares, plus an additional \$180,000 in cash and \$30,000 in shares for Stevco's inventory;
- Priced at approx. 4.5x normalized EBITDA (excluding the payment for Stevco's inventory and potential milestone payments)
- Strong strategic rationale
 - Stevco brings an extensive, well-established industrial customer base in Victoria into De.mem group
 - Substantial opportunity to cross-sell De.mem's wide product range and advanced membrane technology
 - Strong operational synergies with De.mem-Pumptech business in Tasmania
 - Completion of De.mem group's Australian-wide footprint with nationwide service & support capability
 - Recurring revenue focus as large part of revenues generated from operations & maintenance services
 - Profitable business with approx. \$330,000 in normalized EBITDA per annum generated
 - Accretive and well-priced acquisition
- Stevco founders will join De.mem management team
- Integration of Stevco will add further to De.mem's move towards EBITDA break even

Stevco – Business Overview

Established in and operating since 2004, Stevco is a well-known supplier of pumps, small water treatment equipment and related operations & maintenance services to industrial and municipal clients in Victoria. Stevco has a reputation of supplying highest quality products and services.

Stevco's long-term customer base includes leading industrial players from the food & beverage, agricultural and heavy industrial sectors, as well as a number of municipalities in Victoria.

The company generated approx. \$2.3 million in annual revenues during the past 3 business years (on average) prior to the transaction. It generated approx. \$330,000 in normalized EBITDA (adjusted for one-off items). Revenues are largely recurring and a significant percentage is generated from the rendering of operations & maintenance services.

Stevco is based and operates out of their workshop in Epping/Melbourne, Victoria, which will continue to serve as the base for De.mem's operations in Victoria.

Transaction Summary

De.mem values Stevco at approx. 4.5x normalized EBITDA (excluding the payment for Stevco's inventory and the potential milestone payments).

The consideration is as follows:

- \$1.25 million in cash plus \$250,000 in DEM shares (based on the weighted average share price during the 20 trading days prior to the agreement date) upfront as "base consideration"; plus



- \$180,000 in cash plus \$30,000 in DEM shares (based on the weighted average share price during the 20 trading days prior to the agreement date) upfront for Stevco's inventory; plus
- \$50,000 in cash plus \$50,000 in DEM shares (based on the weighted average share price during the 20 trading days prior to end of year 1 after the completion of the transaction), if Stevco achieves at least \$3 million in revenues in year 1 after the completion of the transaction; plus
- \$50,000 in cash plus \$50,000 in DEM shares (based on the weighted average share price during the 20 trading days prior to end of year 2 after the completion of the transaction), if Stevco achieves at least \$4 million in revenues in year 2 after the completion of the transaction.

The two owners/sellers and directors of Stevco, Mr. Steve Russell and Mr. James Blannin, will retain their roles post-transaction.

The transaction is expected to complete (become legally effective) in April 2022, subject to the finalization of due diligence and payment of the purchase price by De.mem.

Transaction Rationale

There is strong strategic rationale for the transaction, which is summarized as follows:

- **Long-term customer base in Victoria:** Stevco has a stable, long-term customer base of approx. 80 recurring clients in Victoria, which has been built since Stevco started operations in 2004. The customers are mainly from key industrial sectors such as food & beverage, agriculture and industrials/manufacturing, which is well aligned with De.mem's strategic focus of providing one-stop-shop water treatment solutions to an industrial customer base.
- **Substantial cross-selling potential:** Stevco's long term customer base traditionally also requires larger water treatment equipment, services and chemicals. This creates substantial potential for cross-selling of De.mem's advanced membrane-based water treatment solutions and its specialty chemicals range.
- **Strong operational synergies with the De.mem-Pumptech business in Tasmania:** The Stevco business model of selling and servicing pumps and small water treatment equipment is perfectly compatible with De.mem's activities in Tasmania, through its De.mem-Pumptech subsidiary. There are clear economies of scale, operational synergies and potential cost savings from the combination of the activities.
- **National footprint and service capability in Australia completed:** With the transaction, through Stevco, De.mem gains access to a workshop and service capability in Melbourne, Victoria. This completes the nationwide set up in Australia together with the existing facilities in Brisbane/Queensland, Launceston/Tasmania and Perth/Western Australia.
- **Recurring Revenue Focus:** Stevco's revenues are largely recurring with a significant percentage generated from high-margin service & maintenance work. Hence, the transaction fits well into De.mem's strategy of building its recurring revenue segments.
- **Earnings Accretive and Well Priced:** Stevco has been operating at approx. 40% gross margin (calculated as revenues less cost of goods sold, divided by revenues) and has consistently been generating positive EBITDA of approx. \$330,000 per annum (normalized for one-off factors). The integration of Stevco will accelerate De.mem's move towards sustainable, positive EBITDA. At approx. 4.5x EBITDA, the acquisition is well priced.

Key Step in De.mem's Move towards Sustainable EBITDA Positive

As previously reported, De.mem recorded a substantially reduced Adjusted EBITDA loss of \$-2.2 million in CY 2021, from \$-3.1 million in CY 2020 (please see further details in the Company's Annual Report dated 28 February 2022).

With the acquisition, De.mem adds a profitable business to the group, which opens up additional growth potential. The EBITDA and growth from Stevco will contribute significantly to the Company's objective of achieving sustainable EBITDA and operating cash flow break even for the group.



Based on the new company structure, De.mem expects to achieve EBITDA break even at approx. \$26 million in annual revenues (prior to the acquisition: \$25 million).

Strong Acquisition Value-Add Track Record

The Stevco acquisition adds to De.mem's outstanding acquisition value-add track record.

The Company acquired three businesses since 2019 – De.mem-Capic, Perth, Western Australia (acquired in April 2021), De.mem-Pumptech, Launceston, Tasmania (August 2019), and De.mem-Geutec GmbH, Velbert, Germany (October 2019). All three businesses achieved significant growth since their acquisition, despite the challenging business environment due to Covid-19.

This growth was driven in particular by the introduction of De.mem's wider "one-stop shop" product range around its advanced membrane technology to the acquired companies' customers and new sales team investment generating substantial cross-sell and up-sell growth.

The individual entities performed as follows:

- De.mem-Capic generated approx. \$3.5 million in revenue during the 9-month period since the acquisition on 1 April 2021 (average annual revenue pre-acquisition, over 12 months: \$3.3 million);
- De.mem-Pumptech Pty Ltd (formerly known as Pumptech Tasmania Pty Ltd) recorded approx. \$3.7 million in revenue during 2021 (annual revenue pre-acquisition: \$2.5 million);
- De.mem-Geutec GmbH recorded revenues of approx. \$3.2 million in 2021 (annual revenue pre-acquisition: \$1.8 million).

Management Commentary

De.mem Chief Executive Officer Andreas Kroell said:

"The acquisition of Stevco Seals & Pumps Victoria Pty Ltd is another important milestone and completes our nationwide coverage of Australia through strategic locations in Brisbane, Perth, Launceston and now, Melbourne, as well as our nationwide service support capability.

Stevco brings a well-established client base in key target sectors such as the food & beverage segment to De.mem and opens up substantial opportunities for further cross-selling of our advanced product range, with our membranes and specialty chemicals in the focus.

De.mem has built a track record of three highly successful, bolt-on acquisitions since 2019. All have achieved substantial growth. We believe that we are in an excellent position to make this transaction another great success, and look forward to working with the Stevco team, to take their business jointly to the next level.

With the enlarged group, our focus will now shift towards near-term, sustainable EBITDA break even."

Stevco Director Steve Russell said:

"We are delighted to conclude the transaction with De.mem. The combination of our offering and customer base with De.mem's wider product range around their innovative membrane technologies and specialty chemicals opens up substantial growth potential for our business.

De.mem is a perfect partner for our company and the transaction provides us with the opportunity to take our business to the next level.

We look forward to jointly expanding the combined business within Victoria and across Australia."



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

-ENDS-

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De.mem Limited (ASX:DEM) is a 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 is headquartered in Australia and has international locations in Singapore, Germany and Vietnam. It is commercialising 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 uniquely offered by De.mem 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.