

ASX Announcement

ASX: SMN

31 January 2023

Appendix 4C and Quarterly Update

December 2023 Appendix 4C and Quarterly Update

Highlights

- SMS Group recorded positive operating cashflow of \$0.82m in the December quarter and \$0.97m in the year to date. The Group has now recorded positive cashflows from operating activities for two consecutive quarters with this trend forecast to continue and indeed accelerate in quarters ahead.
- The Group has also recorded positive EBITDA of \$0.35m during the December quarter and \$0.56m for the half-year to 31 December. This is a significant milestone for the Group and the accelerating performance of the AEM Avionics business is set to continue in quarters ahead ably supported by the Contract Manufacturing business.
- Wholly owned subsidiary, Anodyne Electronics Manufacturing Corp. (AEM), recorded gross revenue for the quarter of \$7.2m up 34% on the corresponding quarter in the year prior and up 18% on the quarter prior. Revenue for the year to date was \$13.29m, up 32% on the half-year prior. Both the AEM Avionics and Contract Manufacturing business units continue to perform strongly growing across all key metrics.
- Forward orders outlook continues to improve with the March 2024 quarter currently \$5.86m (March 2023 quarter \$5.20m).
- Increase of CAD\$1m in line of credit facility with AEM bank Royal Bank of Canada (RBC) plus CAD\$0.5m lease finance facility in a sign of continued engagement and confidence in the strong performance of AEM business units.
- The Company remains focused on its ongoing expansion into targeted, high value international markets with AEM announcing a new distributor appointed for the expanding Sub-Saharan African market, which is expected to drive sales and product support in the region.
- AEM and global non-destructive testing consultant and service provider, TESTIA, expanded the letter of intent between the two parties announced in the previous quarter regarding installation training for its CVM™ airframe crack detention compliance sensors to include the provision of business development and sales support services across Europe.

- The AEM team continues to positively progress the certification of the Company's CVM™ Smart Sensors for the Aft Pressure Bulkhead (APB) inspection – Boeing Service Bulletin 737-53A1248. Since the last quarterly update AEM has successfully satisfied two of the three technical issues and has provided Boeing Certification Engineers and Management with various proposals to satisfy this final requirement.
- AEM continues to grow its work force, making strategic employee hires based on unique role-specific skillsets and promote key staff within the company to support its ongoing growth strategy.
- Executive Chairman Ross Love will continue spending a significant percentage of his time in Canada and the United States and announced his resignation from other key leadership and board roles during the quarter in order to focus on the ongoing growth of AEM and the finalisation of the CVM™ approval process.

Structural Monitoring Systems Plc (“SMS” or “the Company”) (ASX: SMN) is pleased to provide the following Quarterly Update summarising group performance and prior releases lodged during the quarter ending 31 December 2023.

SMS Group – Summary of Financial Overview and Operational Highlights

Unaudited financial statements for the Group show a positive EBITDA for the quarter of \$0.35m and positive EBITDA for the year to date of \$0.97m (Half year to December 2023 negative EBITDA of \$0.39m)

This significant milestone can be attributed to the ongoing strong performance in sales and earnings in the AEM avionics and contract manufacturing businesses and the attainment of higher profit margins via updated agreements with a number of key clients as well as the renewed focus on improved manufacturing efficiencies, improvements and capabilities.

The Group continues to focus on the prudent management of cash reserves and announced in October 2023 that it had received binding commitments from institutional and sophisticated investors to raise approximately AUD \$1,000,000 (before issue costs) via a single tranche placement.

The placement saw the Company issue approximately 2.3m new CDIs at an issue price of AUD \$0.43 cents per CDI each with a 2.5:1 free attaching option exercisable at AUD \$1.20 and expiring on 6 April 2024.

The funds will be used to meet the Company's growth objectives and budget requirements in 2024 and is in addition to AEM announcing updated banking and credit facilities with the Royal Bank of Canada (RBC) early in 2023.

The Group will also benefit from an increase of CAD\$1.00m in the AEM operating line of credit facility and newly introduced CAD\$0.50m lease finance facility with RBC. The increase followed an operating review by the bank and confirms the continued engagement and support of the company by its bankers.

SMS continues to invest in its CVM™ business, improving testing efficiencies and capabilities at AEM's Kelowna based operations and in the ongoing identification of the next generation of applications for the A320 and B737 aircraft while final testing requirements are progressed and satisfied.

The ongoing integration of the Group's CVM™ business with its AEM business units remains a focus with the continued consolidation of skills and resources across both entities to drive efficiencies and results.

The Company will soon launch a new SMS website which reflects more accurately the ongoing integration of these entities, and which will include a much-improved investor centre and experience with automatic uploading of ASX announcements as they are lodged, a live share price graph and immediate communication of all announcements with shareholders.

The Board continues to draw on the respective skills sets of its highly qualified members and work collaboratively to ensure that the business remains focused on achieving its growth objectives and in identifying and targeting high value markets across the globe.

Report on AEM operational activities and achievements across business segments for the quarter

AEM Avionics Update

Anodyne Electronics Manufacturing Corp. (AEM) experienced another successful quarterly performance to close out 2023.

The Company's ongoing strong performance and growth was fuelled by early sales of its newest mission, panel mount radio, the MTP136D, launched in November 2023, and which promises to modernize tactical aerial firefighting communications.

The Company announced in November 2023 that it had secured Canadian based Yellowhead Helicopters as its official launch customer and that Yellowhead had made a commitment to update its entire fleet to the MTP136D beginning in early 2024.

The highly successful launch of the MTP136D is a key part of AEM's ongoing investment in a growing suite of avionics and audio products in the Special Missions Aviation sector and the ongoing growth of its existing lineup of products.

AEM has already recorded positive advance orders for this latest avionics product with expectations high for ongoing market penetration and success.

Designed to meet the US Forest Service requirements, the development of the special mission radio program is on schedule for completion by the end of February 2024 with the expectation that the product to start shipping to customers in early March of 2024.

As mentioned previously, AEM has also secured a new distributor for Sub-Saharan Africa, which is set to help drive sales and product support in this high growth region with the expectation that upgrade requirements for special mission and utility operators in Africa will drive growth throughout the continent.



The AEM sales team concluded a busy 2023 by showcasing its new radio and special mission products at two major industry trade shows – European Rotors in Madrid, Spain, and HAI Aerial Work Safety Conference in Boise, Idaho.

The team is now gearing up for a busy 2024 with a full roster of events, starting at the Singapore Airshow as part of a Canadian Government sponsored trade mission in February, as well attending the helicopter industry's annual flagship HAI HELI-EXPO in Anaheim, California in February 2024.

AEM Avionics recorded revenue of \$2.89m in the quarter, a decrease of 10% on the prior quarter. Revenue for the half-year was \$4.51m.

CVM™ Smart Sensor Solutions Update

The AEM team continues to positively progress the certification of the Company's CVM™ Smart Sensors for the Aft Pressure Bulkhead (APB) inspection – Boeing Service Bulletin 737-53A1248.

Since the last quarterly update in October 2023, which identified three remaining specific technical issues in relation to the certification of the CVM™ sensors, AEM has successfully satisfied two of those three technical issues as identified by Boeing's certification engineers, (and 31 out of 33 conditions specified by the FAA Issue Paper for this application.)

The additional round of POD testing was completed for both the CIC coating testing applied to the sensors on installation, as well as their performance ability during extremely hot and cold conditions.

Once again, at no stage during any of the testing – including in the additional testing required by Boeing – have the sensors failed to perform as expected and required.

The remaining issue ahead of certification involves testing of the sensors' performance at the lowest equivalent load as seen on the 737 APB and the ability for the CVM™ sensors to detect cracks that have formed under that low stress level.

The AEM team, led by Trevor Lynch-Staunton, Chief Technical Officer at AEM, has developed and presented a number of proposals to the Boeing Certification Engineers and Management with the intent of agreeing a course of action to satisfy this final requirement with Boeing as a matter of urgency.

However, until this is resolved, the Boeing project timeline released by the Company in early December will clearly have to be further updated; We will communicate this update with shareholders as soon as it the information is available.

Delta Air Lines continues the agreed installation of the CVM™ APB kits on its 737 fleet ahead of certification release with installation partner TESTIA participating in the next set of Delta installations at the end of the March quarter.

The Company also announced the amendment of the letter of intent signed with global non-destructive testing consultants and service provider, TESTIA, for training and installation support of its CVM™ sensor kits to allow for the provision of business development and sales support services across Europe.

The additional geographical collaboration between the two parties recognises TESTIA's reputation in Europe for providing innovative solutions to their customer base.



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The CVM™ sales team will once again attend the MRO Americas in April 2024 again to demonstrate the technology's performance and operation and highlight its benefits to airline operators, as well as aircraft maintenance, repair and overhaul service centres.

CVM™ recorded no revenue in the quarter. Revenue for the half-year was \$0.12m.

AEM Contract Manufacturing Update

AEM's ongoing focus on high-value contract manufacturing projects remains ongoing and continues to deliver solid results, with AEM management reporting recent positive discussions with two of its largest customers.

This strategy has enabled the planned AEM IP product line production and sales growth to be realized and has successfully opened up and accelerated manufacturing efficiencies, improvements and capabilities across AEM operations.

AEM continues to make strategic employee hires based on the identified requirement for unique role-specific skillsets in addition to the internal movement of existing AEM employees to key roles to facilitate the continued growth of its operations team.

Contract manufacturing recorded revenue of \$4.31m in the quarter, up 23% on the prior quarter. Revenue for the half-year was \$8.66m.

Corporate Update

The SMS Board continues to focus on the identification and engagement of key international markets and to consider further investment options to underwrite its growth strategy for both the Avionics and CVM segments.

The Company held its Annual General Meeting (AGM) in Melbourne on 8 December 2023 and shared the Company's new investor presentation outlining the Company's business structure and strategy.

Proposed resolutions 6, 7B, 7C, 8 and 9 were withdrawn ahead of the AGM with all other resolutions carried via a poll on the day.

Executive Chairman Ross Love released a statement to the ASX ahead of the AGM outlining the restructuring of the business around three distinct business segments, AEM Special Mission Avionics, AEM Contract Manufacturing and CVM™ Smart Sensor Solutions as reflected in this Quarterly Report structure.

He also laid out the proposed timeline regarding the CVM™ certification process and which will be revised pending further instruction from Boeing regarding final testing requirements.

As mentioned previously, the Company announced in October 2023 that it had received binding commitments from institutional and sophisticated investors to raise approximately \$1,000,000 (before costs) via a single tranche placement.



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Upon announcing the placement, Mr Love said that it demonstrated strong support for the Company and would allow it to meet its current growth and earning objectives.

Following its annual review with AEM bankers, Royal Bank of Canada (RBC), the Company will benefit from extended credit facilities comprising an increase of CAD\$1m in the LOC facility and a newly introduced CAD\$0.5m lease finance facility with immediate effect. This extension in credit facilities demonstrates a continued level of engagement and confidence in the AEM business model shown by RBC.

During the quarter the Company received a loan of US\$100,000 from Executive Chairman Ross Love to assist with short term cashflow within the Group. The loan, which is unsecured is at an interest rate of 5% fixed with no fixed term for repayment.

On a broader level, the Board will continue its focus on bringing corporate expenses down and towards achieving a sustainable financial position for the Company, satisfying the final testing requirements for its CVM™ smart sensors to Boeing's ultimate satisfaction ahead of submission to the Federal Aviation Administration (FAA) and overseeing the ongoing growth of AEM's special mission and contract manufacturing business entities.

Mr Love expects to spend longer periods of time in Canada and North America in 2024 and continue to lead the team as it increases the capacity and improves the performance of its current business, further develops its Avionics and CVM™ growth plans and builds its relationships with its key customers, partners and suppliers.

As reported previously Mr Love and the board encourage and remain committed to ongoing and open communication with all shareholders via ASX announcements and more informally via email communications with those shareholders who have registered their email addresses with Computershare.

Executive Chairman Ross Love commented:

"I appreciate the intense interest shareholders have in the CVM™ segment of our business, and the frustration we all share with the final steps in the approval process at Boeing.

"We are in their hands with respect to the specification of the final ultra-low load testing process and remain confident we will meet any feasible technical test as we have done throughout the entire testing process.

"I would also like to take the opportunity to draw shareholders' attention to the continued growth, and in this quarter the first positive EBITDA result, for the Avionics and Contract Manufacturing segments which the Board believes can equal the value potential of the CVM™ segment in the coming years and are now on a sound and sustainable financial footing.

If you have not provided your email address previously or wish to update your email address you can register your details by following this link: <http://www.computershare.com.au/easyupdate/SMN>.

The Company strongly encourages shareholders to register for electronic communications to save on cost and environmental wastage.



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Appendix 4C Details

SMS consolidated cash-at-bank as at December 31 was \$1.50m. Total available funding as at 31 December was \$1.59m.

Payments of \$2.84m represents expenditure allocated to product manufacturing and operating costs.

Payments for staff costs of \$2.67m represents salaries for manufacturing, administration, sales and general management activities.

Payments for administration and corporate costs of \$0.69m represent general costs associated with running the Company including ASX fees, legal fees, audit etc.

The aggregate amount of payments related to parties and their associates included in the December quarter cash flows from operating activities was \$0.09m in respect to fees paid to directors.

The continued achievement of positive cash flow from operating activities for the second consecutive quarter is a reflection of the ongoing commitment of staff and management at AEM to cost control and increasing efficiency across the Group.

SMS will continue to report a low ratio of available funding against cashflow until optimum operating efficiencies and economies of scale are reached.

As stated above, the Group cash balance as at December 31 2023 was \$1.50m.

Please refer to attached Appendix 4C for further details on cash flows for the quarter.

(All financials are in AUD unless otherwise stated)

This ASX release has been approved for release by Executive Chairman Ross Love on behalf of the Board of Directors.

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