



**STRUCTURAL
MONITORING
SYSTEMS** plc

ASX Announcement

ASX: SMN
31 July 2023

Appendix 4C and Quarterly Update

June 2023 Appendix 4C and Quarterly Update

Highlights

- Wholly owned subsidiary Anodyne Electronics Manufacturing Corp (AEM) recorded its highest ever annual gross revenue of \$22.21 million, up 41% on the prior year and 15% higher than pre-pandemic levels in the 2020 financial year, as the Company begins to reap the benefits of its intellectual property developing high margin, new generation avionics products.
- AEM recorded a continued exceptional financial performance for the June quarter with gross revenue of \$5.94 million versus \$5.86 million in the previous quarter up 2% and 60% higher than the June quarter the year prior.
- Forward orders for the September quarter are currently sitting at \$4.71 million, up from \$3.35 million in the corresponding period in the prior year.
- AEM normalised EBITDA for the June quarter is \$1.01 million up 24% on the March quarter and up 60% on the June quarter in the prior year.
- AEM normalised EBITDA for the year is \$3.68 million up 62% on the prior year.
- Expansion of overseas operations planned for 2024 with the establishment of facilities in the US.
- Executive Chairman Ross Love expected to relocate to the US to focus on furthering key relationships and discussions with northern hemisphere customer base.

Note: all figures are as per management accounts which are in the process of being audited and are stated in Australian dollars. AEM Normalised EBITDA excludes SMS CVM™ costs.

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 30 June 2023.



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SMS Group – Summary of Financial Overview and Operational Highlights

Unaudited financial statements for the Group reveal a marked improvement of 58% in EBITDA for the year ended 30 June 2023 (loss of \$0.94 million), compared to the prior year, (loss of \$2.27 million).

This is due to wholly owned subsidiary AEM recording an outstanding positive EBITDA of \$3.68 million for the year compared to \$2.27 million in the prior year, an increase of 62%.

The Group has recorded a small reduction in loss for the year - down from \$4.31 million in 2022 to \$4million in 2023 – including its first ever revenues for CVM sales.

With increasing sales and earnings in the underlying AEM business, increased sales, and for the first time positive earnings, in CVM, the Group is forecasting a positive EBITDA in the 2023/24 financial year.

SMS has increased its investment in its CVM™ technology business with the hire of additional sales and marketing staff and engineers as part of the ongoing commercialisation process.

The Company's audited financial results are scheduled for release 31 August 2023 and the Annual Report is scheduled for release on 30 September 2023.

The integration of the SMS board and management team with the AEM leadership and operational team in Kelowna, British Columbia continues to be a priority for the Company with SMS Executive Chairman Ross Love spending considerable time on the ground in Canada during the past three months.

The SMS board, with the exception of Melbourne based director Miro Miletic, who joined the meeting virtually, met at AEM's Kelowna headquarters on June 12 and spent a number of productive sessions with AEM's management team to refine and continue the implementation of the Company's CVM™ commercialisation strategy and to ensure sufficiently qualified staff are recruited and identified to enable the Company to achieve these articulated commercial goals.

The Board also signed off on the budget for FY2024 which continues the strong trajectory of profitable growth underpinned by sustainable cash balances without additional capital.

AEM has renewed the annual agreement with its largest contract manufacturing client with terms that will improve margins and maintain sales levels. While the company expects modest growth in the AEM contract manufacturing business, which currently accounts for approximately half of the Company's revenues, the Board has committed to focusing the company's growth efforts on the higher margin AEM IP and CVM™ business lines.

As outlined in our July 7 announcement, the Company's ongoing financial stability enables us to review our future capital requirements during the next three months with any future capital raised invested directly in growing those two most profitable business lines to generate stronger shareholder value.

SMS is set to continue its global focus and positioning with the majority of targeted customers for the Company's CVM™ technology based in the United States, Europe, Asia and India and recruitment currently underway to ensure that the company is sufficiently represented in those markets.

To that end, Mr Love is expected to relocate to North America during the 2024 calendar year and to spend a significant proportion of his time at AEM's Kelowna base as well as in the US in closer proximity to customers and other key staff engaged in progressing the company's commercialisation strategy.



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The Company announced in June that Gerald Edelman LLP had been appointed auditor and that this appointment would continue until the next annual general meeting, where it would be proposed that they continue as auditors of the Company thereafter.

As reported previously, the Company has now transferred management of its digital presence and capabilities to the AEM internal team with a brand refresh and new website currently under development and expected to launch by September 2023.

Update on general operational activities and achievements for the quarter

AEM update

Wholly owned subsidiary Anodyne Electronics Manufacturing Corp. (AEM) recorded record-breaking gross revenue for the 2023 financial year.

AEM closed the financial year with gross revenue of \$22.21 million representing an increase of 41% on the prior year. Normalised EBITDA was \$3.68 million, an increase of 62% on the prior year.

The company's digital audio, avionics consoles, loudspeaker and audio accessories product lines are currently all outpacing the performance of the previous calendar year in terms of incoming new orders, indicating the expectation of favourable results in 1Q24.

A continued focus on high-value contract manufacturing projects has enabled planned AEM IP product line production and sales growth to be realised and has successfully opened up and accelerated AEM's manufacturing capabilities to support new product launch requirements, including CVM™ sensor output forecasts.

AEM's Research & Development team is leading the initiative by providing accelerated strategic new product development as its top priority.

The success of existing new product lines has created the foundation for a robust derivative product development roadmap heading into FY24, and beyond laying solid foundations for future growth.

The AEM sales team had a busy (northern hemisphere) spring and early summer travel season, attending two landmark avionics industry events. The annual Aircraft Electronics Association (AEA 2023) conference and trade show in Orlando, FL, and the Police Aviation Conference Europe (PAvCon 2023) in Bilbao, Spain, were both successful in strengthening relationships and showcasing new and trusted AEM IP products.

The company's recent business development trip to Japan saw the team meet with its exclusive Japanese distributor, as well as several commercial airline operators to introduce key executives and decision makers to CVM™ and highlight its overall value and benefits recording a positive reception with discussions productive and ongoing.

CVM™ update

As reported previously, we continue to work productively with our commercial partners Delta TechOps, to progress the further commercial development of the CVM™ technology in relation to the Aft Pressure Bulkhead (APB) application on an identified set of Boeing 737 aircraft.

The Company has provided a number of updates to the market over the reporting period regarding the additional testing that has been requested in relation to the APB application by the Federal Aviation Administration (FAA) towards certification of the draft Boeing service bulletin, which remains a key priority.

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As reported on 1 May 2023 additional testing was required in relation to the performance of the Corrosion Inhibiting Compound (CIC) applied to the CVM™ sensors.

As indicated previously, while this is a source of frustration for all involved including our shareholders, it is not material to the ongoing progression of sales of CVM™ sensor kits with potential end users of this application currently well underway and continuing.

Our target of 75-80% of the relevant identified fleets remains consistent and is expected to equate to approximately 500 installations at a rate of 100 installations per year at full scale.

As reported previously, we have significantly increased our own testing capacity and have been able to quickly evaluate testing requests from Boeing.

We continue to work with other airlines, with both Boeing and Airbus aircraft, on the next set of applications for our sensors. The anticipated certification of the APB application will pave the way for accelerated approvals for these new identified applications.

In anticipation of the FAA certification, the team has developed a 'go to market' road map which identifies key airline operators globally with fleets suitable for the CVM™ application with constructive and ongoing discussions currently underway with several US-based airlines.

In terms of the ongoing CVM™ installation process, Delta is now flying more than 25 aircraft with the CVM™ APB kits, with Delta remaining committed to complete the installation for their entire fleet of 71 737s which meet the suitability requirements for the application.

These installations were also attended by engineering representatives from United, American and Southwest Airlines which provides a solid indication of the appetite for our technology once certification is confirmed. To that end, Airbus confirmed during recent presentations in Tokyo that is the only SHM technology for surface crack detection on metallic structures it considers as applicable in short notice, having a low complexity for entry into service.

SMS Chief Technical Officer Trevor Lynch-Staunton P.Eng said ongoing testing has made favourable progress on the CIC issue with Boeing. The targeted solution requires no sensor system changes, only some minor changes to the Service Bulletin ahead of the anticipated FAA certification.

Corporate Update

As reported previously, as part of the ongoing refinement of SMS corporate, Executive Chairman Ross Love and the management team remain committed to ongoing engagement with shareholders, to meeting all of the regulatory obligations associated with its operations in Australia, the UK and Canada and the Company's capital requirements moving forward.

The suitably qualified and diverse board composition continues to benefit the Company's growth objectives with extremely productive and regular meetings with board members located across the globe and who bring a range of applicable skills including extensive aviation experience and networks to the table.

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Appendix 4C Details

SMS consolidated cash-at-bank as at 30 June 2023 was \$0.96 million.

Payments for Product Manufacturing and Operating costs of \$3.30 million represent wholly owned subsidiary AEM's expenditure allocated to product manufacturing and operating costs.

Payment for Staff Costs of \$2.82 million represent salaries for manufacturing, administration, sales and general management activities and directors' fees.

Payments for Administration and Corporate Costs of \$0.56 million represent general costs associated with running the Company including ASX fees, legal fees, audit etc.

The aggregate amount of payments to related parties and their associates included in the June quarter cash flows from operating activities was \$283,712 in respect to fees paid to directors.

As with any growing business, where manufacturing costs are recorded before related revenues, inventory build occurs and staff are hired and trained, SMS will continue to report a low ratio of available funding against cashflow from operating activities. In this Appendix 4C report that ratio is 1.10 quarters of net operating cashflows based on the June 2023 quarter.

This matter is addressed in section 8.6 of the Appendix 4C as required. Given the ongoing growth in revenues within the Group and the alternative options available for funding and control of expenditures as outlined in section 8.6.2, the Board is comfortable with that position and that the Company will continue to maintain a cash position sufficient to meet its ongoing operational requirements throughout the next financial year.

As stated above, the Group cash balance as at 30 June 2023 amounted to \$0.96 million. Please refer to the attached Appendix 4C for further details on cash flows for the quarter.

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

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Structural Monitoring Systems Plc

ARBN

106 307 322

Quarter ended ("current quarter")

30 June 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12.months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	6,392	23,369
1.2 Payments for		
(a) research and development	(19)	(246)
(b) product manufacturing and operating costs	(3,298)	(10,452)
(c) advertising and marketing	(413)	(973)
(d) leased assets	-	-
(e) staff costs	(2,819)	(9,777)
(f) administration and corporate costs	(563)	(2,110)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(181)	(762)
1.6 Income taxes received/(paid)	-	-
1.7 Government grants and tax incentives	-	241
1.8 Other (Royalty fee and arbitration costs settlement)	-	(642)
1.9 Net cash from/(used in) operating activities	(901)	(1,352)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(116)	(314)
(d) investments	-	-
(e) intellectual property ⁽¹⁾	(319)	(1,124)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12.months) \$A'000
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(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 (repayment of term deposit)	-	1,107
2.6 Net cash from/(used in) investing activities	(435)	(331)

(1) Capitalised R&D expenditure

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	1,925
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	(1)	(154)
3.5 Proceeds from borrowings	-	1,182
3.6 Repayment of borrowings	(42)	(676)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (repayments of ROU leases)	(254)	(962)
3.10 Net cash from/(used in) financing activities	(297)	1,315

4. Net increase in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	2,545	1,262
4.2 Net cash from/(used in) operating activities (item 1.9 above)	(901)	(1,352)
4.3 Net cash from/(used in) in investing activities (item 2.6 above)	(435)	(331)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12.months) \$A'000
4.4	Net cash from/(used in) financing activities (item 3.10 above)	(297)	1,315
4.5	Effect of movement in exchange rates on cash held	49	67
4.6	Cash and cash equivalents at end of period	961	961

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	1,003	2,545
5.2	Call deposits	-	-
5.3	Bank overdrafts	(42)	-
5.4	Other	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	961	2,545

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	284
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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.

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	5,667	5,639
7.3i Other (equipment lease finance)	3,366	3,366
7.3ii Other	-	-
7.4 Total financing facilities	9,033	9,005
7.5 Unused financing facilities available at quarter end		28
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.		
<p>Royal Bank of Canada operating line of credit of C\$3.75million secured at 7.80% variable, no maturity date, reviewed annually.</p> <p>Royal Bank of Canada 8 year term loan of C\$1.25million secured at 6.78% fixed for 3 years.</p> <p>HSBC equipment lease facility of US\$2.2million, secured at various rates of between 2.61% and 4.41% fixed with a term of between 3-5 years according to the type of equipment financed.</p>		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from operating activities (item 1.9)	(901)
8.2 Cash and cash equivalents at quarter end (item 4.6)	961
8.3 Unused finance facilities available at quarter end (item 7.5)	28
8.4 Total available funding (item 8.2 + item 8.3)	989
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.10
<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?	
<p>Answer: No. Operating cashflow is forecast to improve in future quarters in the 2024 financial year resulting from increased sales of higher margin products developed internally as the Group pursues profitable strategic business growth initiatives.</p>	

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?

Answer: Yes. Further commercial exploitation of the Company's technologies and products at amounts sufficient to meet proposed expenditure commitments:

the entity is scheduled to hold its annual review during September with its bankers, Royal Bank of Canada and as a result of higher value attributed to inventory held, it is expected that funds available under the operating loan facility will increase significantly;

the entity has the ability to raise capital in accordance with the Corporations Act 2001; and

the entity can defer management salaries/directors fees or issue equity in lieu to reduce operating cash outflows.

the Directors and management are confident that any one of, or a combination of any of the above steps, if required, would be successful in raising further cash to fund its operations.

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?

Answer: Yes, on the basis of reasons outlined in 8.6.1 and 8.6.2.

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.

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.

31 July 2023

Date:

The Board

Authorised by:
(Name of body or officer authorising release – see note 4)

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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.