Structural Monitoring Systems plc
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Structural Monitoring Systems Plc
ARBN:	106 307 322
Reporting period:	For the year ended 30 June 2023
Previous period:	For the year ended 30 June 2022

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	up	43%	to	22,381
Loss from ordinary activities after tax attributable to the owners of Structural Monitoring Systems plc	down	19%	to	(3,136)
Loss for the year attributable to the owners of Structural Monitoring Systems plc	down	19%	to	(3,136)

Dividends
It is not proposed to pay dividends.

Comments
The loss for the consolidated entity after providing for income tax amounted to $3.14m (30 June 2022 (restated): $3.85m).

In the year ended 30 June 2022 and previous years a portion of manufacturing overheads which should have been capitalised to inventory were instead expensed. The cumulative adjustment has been recognised by restating the comparatives for the year ended 30 June 2022 as follows:

- increase the carrying value of inventory at 30 June 2022 by $0.44m;
- reduce the cost of goods sold in the year ended 30 June 2022 by $0.18m; and
- increase retained earnings by $0.26m

For further details refer to the financial statements and the review of operations that follow in this report.

Review of Operations

Structural Monitoring Systems Plc (“SMS," "the Company" or “the Group”) and its Canadian-based, wholly owned subsidiary, Anodyne Electronics Manufacturing Corp (“AEM”), recorded record total sales for the 2023 financial year of $22.38m, an increase of 43% on the prior year.

At the reporting date, the balance of Group cash and cash equivalents was $0.96m (2022: $1.80m). Borrowings as at 30 June 2023 amounted to $5.42m (2022: $5.46m). During the year the Group transferred its finance and banking facilities from HSBC Canada to Royal Bank of Canada (RBC). There was no change in the quantum amount of finance provided under the new facility, but the more favourable repayment profile enables AEM to continue to utilise all available finance available to fund the pursuit of business growth opportunities.

The Group recorded a loss after tax for the year of $3.14m (2022 (restated): $3.85m) a decrease of 19% on the year prior.

Anodyne Electronics Manufacturing Corp (AEM)

In the first full year operating out of its new 35,000 sq feet state of the art facility in British Columbia, Canada, wholly owned subsidiary AEM produced an exceptional performance for the financial year. The company recorded its highest ever revenues for the year of $22.12m (2022: $15.64m) excluding inter-company transactions, an increase of 41% on the prior year. Normalised EBITDA for the year was $4.38m (2022 (restated): $2.45m) an increase of 79% on the prior year. AEM reports on operations across its 3 business segments as follows:

AEM IP Products

As a result of extensive Research and Development and the acquisition of Eagle Audio in September 2021, AEM has developed a suite of avionics/audio products which are gaining extensive growth momentum in the Special Mission Aviation sector.

These products are high margin and highly regarded within the industry, positioning the Company for accelerated growth and profitability. AEM is well supported by our extended salesforce with highlights for FY23 including:

- continued growth in Japan
- the first sales of the digital audio system and console into Brazil
- the addition of new institutional customers in USA

This business segment recorded revenue for the year of $9.33m (2022: $5.75m) an increase of 62% on the prior year. Substantial R&D will continue as the Company prepares for further product launches in FY24 and beyond.

The Aerial Firefighting market will continue to grow as countries invest resources into more capable fleets to combat the increased frequency and severity of fire events. AEM's product mix and development roadmap are positioned well to grow accordingly in this segment.

The Avionics Consoles category is also poised for growth with a new campaign aimed at the main geographic concentrations of the AS350/H125 helicopter.

The addition of several new sales representatives will assist with Business Development activity in Turkey and Africa as they leverage their local networks and industry knowledge to grow sales in these regions.

Supply chain challenges are still seen as a risk item with variability in lead times and pricing. The Operations team continues to refine their processes and tools to mitigate this risk and meet our current and future delivery requirements.

Review of Operations (continued)

AEM Contract Manufacturing

The industry in which the Company originally established itself, contract manufacturing, has provided a solid foundation and cashflow for the Company to develop its own suite of products.

Revenue for the year was $12.69m (2022: $9.89m) an increase of 28% on the prior year.

AEM has recently renegotiated pricing with its largest contract manufacturing customer which will see a meaningful increase to new orders placed.

AEM expects its contract manufacturing business to continue to grow with mid-single figure percentage growth expected over the next number of years.

Comparative Vacuum Monitoring (CVM™)

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

Certification of the draft Boeing service bulletin in relation to the APB application by the Federal Aviation Administration (FAA) remains a key priority for the Company, and although this is taking longer than expected our level of confidence in a successful outcome remains high.

As reported in May 2023, additional testing was required in relation to the performance of the Corrosion Inhibiting Compound (CIC) which was applied to the CVM™ sensors. This additional testing is now complete, with a mitigation of the findings determined at the initially requested load factors. Additional testing is currently underway to confirm these results at the lowest likely load factors. These tests are expected to be successfully completed before scheduled conformation testing at Boeing's Seattle laboratories which is scheduled for September 25, 2023.

As we reported in June 2023, our team supervised the 23rd installation of our sensors on Delta aircraft. This concludes the training at the MRO facilities in Mexico and Oklahoma City, with both facilities having staff trained and self-sufficient for continued installations. The installation was overseen by engineers from United, American and Southwest Airlines which provides us with every confidence that further significant commercial sales can be expected from other major carriers post certification.

While we acknowledge that the additional testing requirements remain a source of frustration, it is important to note that identification of additional applications on different aircraft fleets and meaningful engagement with key airline operators, primarily in the United States, continues.

As reported in March 2023, Executive Chairman Ross Love met with United Airlines' Senior Maintenance and Engineering team in February who are familiar with the technology and fully cognisant of its favourable cost and time efficiencies. He and the team will continue to work with United to identify the next set of applications across their current and future narrow body fleets.

To this end and as reported in June 2023, Airbus confirmed during recent presentations of our CVM™ technology in Tokyo, that they believe technology is now ready for commercial deployment, subject of course to the design and certification of specific component applications.

The team has also recently completed a study of the most valuable applications for CVM™ sensor solutions across the A320 family of aircraft and has identified 14 priority applications which are now undergoing further technical and commercial analysis, including with our maintenance program partners at Seatec.

Review of Operations (continued)

We will now commence a similar study across the 737 family of aircraft in conjunction with our partners at Delta TechOps, and with United Airlines with whom we have recently signed a Non-Disclosure Agreement (NDA).

SMS Chief Technical Officer, Mr Trevor Lynch-Staunton, reported in the previous quarter that the team in Japan had held dedicated meetings at the Japan Airlines (JAL) and All Nippon Airways (ANA) facilities where the CVM™ technology was presented and demonstrations completed, with both parties now actively engaged in the process.

This followed the confirmation in Q3 of AEM's approval by the Japanese Civil Aviation Bureau (JCAB) following the successful development of its Safety Management System (SMS) which formalises the delivery and installation of repairs products into the lucrative Japanese market.

Meetings were also held with Kawasaki Heavy Industries (KHI) and Subaru regarding the application of the CVM™ technology and to discuss options for AEM's special mission communication products with all meetings supported by AEM's partner in Japan, Aero Facility.

Whilst in Japan, AEM also signed a Memorandum of Understanding (MOU) with Aero Facility to extend its existing agreement to provide support for CVM™-related activities in Japan.

Mr Love described the positive engagement with the Japanese market as extremely productive.

In anticipation of the APB certification, in which we continue to have a high degree of confidence, the Company continues to execute our 'go to market' plan with key airlines operating aircraft suitable for the application of our APB sensor solutions.

As indicated in the June 2023 quarterly report, Delta currently has 27 aircraft fitted with the CVM™ APB kits and is committed to installation across their entire fleet of 71 737s – a significant reinforcement of this technology's suitability and performance.

As indicated in May this year, our target is to penetrate 75-80% of the relevant fleets to engage with the program over a period of five years – equating to approximately 500 installations at a rate of 100 installations per year at full scale.

Mr Lynch-Staunton said the continued successful installations showcased the advancements the CVM™ design the team has made with the technology. This ongoing success reinforces that the technology and manufacturing are ready for the forecasted scale up.

During the past financial year, the Company transferred all digital functionalities regarding SMS and CVM™ to the AEM IT team to increase efficiencies, reduce duplication and facilitate the ongoing integration of all three entities.

During this time, the AEM IT and marketing team launched a new, separate digital presence for its CVM™ technology and applications (cvm.aero.com) to interact directly with its customer base and to streamline the customer identification and enquiry process.

CVM™ achieved its first commercial sales during the financial year with total revenue for the year of $0.36m (2022: $nil).

Review of Operations (continued)

Corporate

Board appointments

During the year, the Company held an Extraordinary General Meeting (EGM) at which Mr Heinrich Loechteken was appointed as a Non-Executive Director. Mr Loechteken has held a variety of roles in the aviation and corporate finance fields and has a deep understanding of aircraft leasing and a strong track record of financial and operational restructuring of companies ahead of sale or IPO. He is currently the CEO of a commercial aircraft leasing company managing more than 100 aircraft on lease to various airlines worldwide. Prior to taking on his current role, Heinrich held senior executive roles at MC Aviation Partners, International Lease Finance Corporation and AerCap.

At the Company's Annual General Meeting (AGM),held in Perth, Western Australia on 15 November 2022, Mr Miroljub (Miro) Miletic was appointed as a Non-Executive Director. Mr Miletic is the Managing Director and founder of MEMKO Pty Ltd and has an impressive track record of leadership and achievement in the Australian and international aerospace industries. His previous leadership positions include Director Engineering & Quality Assurance and Australia Manager Business Development and Planning at The Boeing Company Australia. His contribution to the fields of aviation and aerospace were recognised with an Honorary Doctorate in Engineering (Aerospace) by RMIT University in Melbourne in 2012.

During the year, Mr Bryant Mclarty and Mr Hendrik Deurloo resigned as Non-Executive Directors of the Company. The Board thanks them for their service and valuable contribution during their time with the Company and wishes them well in their future endeavours.

SMS Executive Chairman Mr Ross Love said he believed the Company now has a suitably qualified and diverse board in place with a range of applicable skill sets to capitalise on the milestones achieved to date and to take the Company forward in a meaningful way.

Capital raise

On 20 September 2022 the Company completed a successful single tranche placement raising $1.93m through the issue of 5.5 million CDIs at an issue price of $0.35 per CDI (placement shares) with a one for one free attaching option exercisable at $1.20 with an expiry date of 6 April 2024. Westar Capital Limited acted as Lead Manager for the Placement. The funds raised are to be directed towards funding the ongoing commercialisation of the Company's CVM™ technology.

Issue of options

Following approval by shareholders at the Annual General Meeting held on 15 November 2022 the Company issued 1,500,000 options to Executive Chairman, Ross Love as part of his remuneration package. The options which have a fair value of $185,095 are in 3 tranches of 500,000 each, exercisable at $0.593, $0.90 and $1.20 and have an expiry date of 14 December 2025.

Change of auditor

During the year the Company appointed Gerald Edelman LLP as auditor of the Company and this appointment will continue until the next AGM. At the Company's next AGM it will be proposed that Gerald Edelman LLP be appointed as auditors of the Company thereafter.

Projected Outlook

Looking ahead to the next financial year, SMS will continue to increase investment in R&D and sales team expansion which will result in a continuation of the transition to sales of higher margin, AEM developed products. The Company will also continue to pursue FAA certification of its APB application and commercialisation of its CVM™ technology.

Analysis Using Key Financial Performance Indicators and Milestones

As at 30 June 2023, the Group had approximately $0.96m cash at bank (2022: $1.80m).

The Group recorded a loss after tax for the financial year of $3.14m (2022 (restated): $3.85m). The decrease in loss was incurred due to depreciation and amortisation expenses of $2.35m (2022: $1.64m) arising from assets acquired in the move to AEM's new manufacturing facility and intangible assets acquired in the acquisition of Eagle Audio in the prior year, R&D expenses of $0.46m (2022: $0.64m) incurred by AEM as it continues to develop new products to meet customer demand and increased employee costs of $8.26m (2022: $6.86m) arising from the increase in staff count undertaken by AEM during the year. The Group also recorded revenue during the year of $22.38m (2022: $15.70m), an increase of 43% year on year. Other key expenses during the year were consumables and raw materials used of $10.82m (2022 (restated) : $7.70m) and sales and marketing expenses of $1.10m (2022: $0.53m). In accordance with IAS 38 *Intangible assets* the Group has capitalised development expenses of $1.12m (2022: $0.58m) incurred in the internal development of products at the commercialisation stage of development.

At the reporting date the Group had net assets of $15.21m (2022 (restated): $16.00m). The Group had trade and other receivables of $1.98m, inventory of $13.47m and intangible assets of $7.43m, including goodwill of $1.63m. The key movements during the year were the repayment of a term deposit of $1.15m held as security by HSBC for its line of credit facility which was transferred to Royal Bank of Canada during the year. Inventory increased by $2.14m as the Company tackled supply chain issues. Trade and other receivables decreased by $1.06m and long term lease liabilities decreased by $1.0m. Issued capital increased by $1.93m as a result of a share placement during the year which incurred issue costs of $0.15m.

The Group EBITDA* for the financial year was ($0.27m) (2022 (restated): ($2.10m)). Normalised EBITDA** for AEM for the year ended 30 June 2023 was $4.38m (2022 (restated): $2.45m).

Loss per share for the financial year was 2.36 cents per share (2022 (restated): Loss per share 3.11 cents).

Net tangible assets at the reporting date were 5.79 cents per ordinary security (2022 (restated): 6.90 cents).

Consolidated statement of comprehensive income
For the year ended 30 June 2023

	Consolidated		Parent	
	2023	**2022**	**2023**	**2022**
	$000'	**$000'**	**$000'**	**$000'**
Continuing operations				
Revenue				
Sales	22,381	15,701	262	66
Cost of sales	(10,820)	(7,699)	(92)	(39)
Gross profit	11,561	8,002	170	27
Other income	248	473	410	325
Depreciation and amortisation	(2,354)	(1,638)	(1)	(2)
Employee expenses	(8,260)	(6,863)	(1,523)	(1,249)
Impairment charges	-	-	(150)	(1,814)
Occupancy expenses	(12)	(16)	(12)	(16)
Research and development expenses	(465)	(643)	(217)	-
Royalty fees	(118)	(692)	-	-
Sales and marketing expenses	(1,095)	(531)	(337)	(189)
Share-based payments expenses	(514)	(37)	(514)	(37)
Administrative expenses	(1,728)	(1,926)	(891)	(783)
Operating loss before finance costs and tax	(2,737)	(3,871)	(3,065)	(3,738)
Finance costs	(703)	(400)	(2)	(5)
Foreign exchange gains/(losses)	109	137	(9)	4
Income tax benefit	195	283	-	-
Loss after finance costs and tax from continuing operations	(3,136)	(3,851)	(3,076)	(3,739)
Loss attributable to members of the parent	(3,136)	(3,851)	(3,076)	(3,739)
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation	58	633	-	-
Total comprehensive income for the year	58	633	-	-
Loss for the year attributable to owners of Structural Monitoring Systems Plc	(3,078)	(3,218)	(3,076)	(3,739)
Earnings per share (cents per share)				
Basic for loss from continuing operations	(2.36)	(3.11)		
Diluted for loss from continuing operations	(2.36)	(3.11)		

Consolidated statement of financial position
As at 30 June 2023

	Consolidated		Parent	
	2023	2022	2023	2022
	$000'	$000'	$000'	$000'
Assets				
Current assets				
Cash and cash equivalents	961	1,803	6	-
Trade receivables	1,981	3,042	-	5
Inventory	13,469	11,332	-	173
Financial assets	-	1,153	-	-
Prepayments and other receivables	463	505	133	72
Total current assets	16,874	17,835	139	250
Non-current assets				
Plant and equipment	1,627	1,733	-	1
Right-of-use assets	7,567	8,772	-	-
Intangible assets and goodwill	7,435	7,149	-	-
Loans to subsidiaries	-	-	10,662	11,464
Deferred tax asset	152	-	-	-
Total non-current assets	16,781	17,654	10,662	11,465
Total assets	32,542	35,489	10,801	11,715
Liabilities				
Current liabilities				
Trade and other payables	3,891	3,710	625	453
Borrowings	5,418	5,461	-	-
Lease liabilities	1,210	1,150	-	-
Provisions	86	132	-	-
Total current liabilities	10,605	10,453	625	453
Non-current liabilities				
Loans from subsidiaries	-	-	-	298
Lease liabilities	7,700	8,700	-	-
Deferred tax liability	142	338	-	-
Total non-current liabilities	7,842	9,038	-	298
Total liabilities	18,447	19,491	625	751
Net assets	**15,208**	**15,998**	**10,176**	**10,964**
Equity attributable to equity holders of the parent				
Issued capital	31,959	31,954	31,959	31,954
Share premium reserve	43,210	41,327	43,210	41,327
Accumulated losses	(59,775)	(56,789)	(63,721)	(60,795)
Other reserves	(186)	(494)	(1,272)	(1,522)
Total equity	**15,208**	**15,998**	**10,176**	**10,964**

Consolidated statement of cash flows
For the year ended 30 June 2023

	Consolidated		Parent	
	2023	**2022**	**2023**	**2022**
	$000'	**$000'**	**$000'**	**$000'**
Cashflows from operating activities				
Receipts from customers	23,442	15,007	671	391
Payments to suppliers and employees	(24,332)	(19,226)	(2,783)	(2,269)
Interest paid	(703)	(400)	(12)	(5)
Net cash used in operating activities before tax received	(1,593)	(4,619)	(2,124)	(1,883)
Income tax received	248	659	-	-
Net cash used in operating activities	(1,345)	(3,960)	(2,124)	(1,883)
Cashflows from investing activities				
Payments for development expenses capitalised	(1,123)	(584)	-	-
Repayment of financial asset	1,153	-	-	-
Payment for financial asset	-	(1,153)	-	-
Cash paid on acquisition of business	-	(4,404)	-	-
Payments for plant and equipment	(315)	(348)	-	-
Net cash used in investing activities	**(285)**	**(6,489)**	**-**	**-**
Cashflows from financing activities				
Proceeds from issue of shares	1,925	4,915	1,925	4,916
Issue costs	(150)	(76)	(150)	(76)
Proceeds from borrowings	-	5,461	-	-
Repayment of borrowings	(43)	-	-	-
Repayment of lease liabilities	(963)	(468)	-	-
Loans from subsidiaries	-	-	355	(2,957)
Net cash provided by financing activities	**769**	**9,832**	**2,130**	**1,883**
Net increase/(decrease) in cash held	(861)	(617)	6	-
Cash and cash equivalents at beginning of year	1,803	2,381	-	-
Effect of foreign exchange on balances	19	39	-	-
Cash and cash equivalents at end of year	961	1,803	6	-
Cash and cash equivalents	961	1,803	6	-
Borrowings	(5,418)	(5,461)	-	-
Cash and cash equivalents net of borrowings at end of year	**(4,457)**	**(3,658)**	**6**	**-**

Consolidated statement of changes in equity
For the year ended 30 June 2023

Consolidated	**Issued capital $000'**	**Accumulated losses $000'**	**Share premium reserve $000'**	**Share-based payments reserve $000'**	**Foreign currency translation reserve $000'**	**Total $000'**
At 1 July 2022	31,954	(56,789)	41,327	749	(1,243)	15,998
Loss for the year	-	(3,136)	-	-	-	(3,136)
Foreign currency translation	-	-	-	-	58	58
Total comprehensive loss for the year	-	(3,136)	-	-	58	(3,078)
Transactions with owners:						
Issue of CDIs for cash	5	-	1,920	-	-	1,925
Issued on conversion of performance rights	-	68	-	(68)	-	-
Share-based payments: performance rights	-	-	-	215	-	215
Share-based payments: options	-	-	-	185	-	185
Share-based payments: CDIs	-	-	113	-	-	113
Expiry of performance rights	-	82	-	(82)	-	-
Share issue costs	-	-	(150)	-	-	(150)
Total transactions with owners	5	150	1,883	250	-	2,288
At 30 June 2023	31,959	(59,775)	43,210	999	(1,185)	15,208
At 1 July 2021	31,949	(53,194)	36,492	643	(1,876)	14,014
Correction of misstatement	-	256	-	-	-	256
At 1 July 2021 - restated	31,949	(52,938)	36,492	643	(1,876)	14,270
Loss for the year	-	(3,851)	-	-	-	(3,851)
Foreign currency translation	-	-	-	-	633	633
Total comprehensive loss for the year	-	(3,851)	-	-	633	(3,218)
Transactions with owners:						
Issue of CDIs for cash	5	-	4,911	-	-	4,916
Share-based payments: performance rights	-	-	-	106	-	106
Share issue costs	-	-	(76)	-	-	(76)
Total transactions with owners	5	-	4,835	106	-	4,946
At 30 June 2022	31,954	(56,789)	41,327	749	(1,243)	15,998

Consolidated statement of changes in equity (continued)
For the year ended 30 June 2023

Parent	Issued capital $000'	Accumulated losses $000'	Share premium reserve $000'	Share-based payments reserve $000'	Foreign currency translation reserve $000'	Total $000'
At 1 July 2022	31,954	(60,795)	41,327	749	(2,271)	10,964
Loss for the year	-	(3,076)	-	-	-	(3,076)
Total comprehensive loss for the year	-	(3,076)	-	-	-	(3,076)
Transactions with owners:						
Issue of CDIs for cash	5	-	1,920	-	-	1,925
Issued on conversion of performance rights	-	68	-	(68)	-	-
Share-based payments: performance rights	-	-	-	215	-	215
Share-based payments: options	-	-	-	185	-	185
Share-based payments: CDIs	-	-	113	-	-	113
Expiry of performance rights	-	82	-	(82)	-	-
Share issue costs	-	-	(150)	-	-	(150)
Total transactions with owners	5	150	1,883	250	-	2,288
At 30 June 2023	31,959	(63,721)	43,210	999	(2,271)	10,176
At 1 July 2021	31,949	(57,056)	36,492	643	(2,271)	9,757
Loss for the year	-	(3,739)	-	-	-	(3,739)
Total comprehensive loss for the year	-	(3,739)	-	-	-	(3,739)
Transactions with owners:						
Issue of CDIs for cash	5	-	4,911	-	-	4,916
Share-based payments: performance rights	-	-	-	106	-	106
Share issue costs	-	-	(76)	-	-	(76)
Total transactions with owners	5	-	4,835	106	-	4,946
At 30 June 2022	31,954	(60,795)	41,327	749	(2,271)	10,964

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	5.79	6.90

4. Control gained over entities

Name of entity n/a

Date control gained n/a

	$'000
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)	-
Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) for the whole of the previous period (where material)	-

7. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements are in the process of being audited.

The results for the year have been prepared using the recognition and measurement principles of International Financial Reporting Standards as adopted by the UK. Whilst the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), as adopted for use in the UK, this announcement does not itself contain sufficient information to comply with IFRSs.

The audited financial information for the year ended 30 June 2022 is based on the statutory accounts for the financial year ended 30 June 2022 that has been filed with the Registrar of Companies. The auditor reported on those accounts: their report was (i) unqualified, (ii) did not include references to any matters to which the auditor drew attention by way of emphasis without qualifying the reports and (iii) did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The statutory accounts for the year ended 30 June 2023 are expected to be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and signed following approval by the Board of Directors.

The financial information contained in this announcement does not constitute statutory accounts for the year ended 30 June 2023 or 2022 as defined by Section 434 of the Companies Act 2006.

8. Attachments

Details of attachments (if any):

n/a

9. Signed

Signed Ross Love Date: 31st August 2023

R. Love
Chairman