



## **An update from the Executive Chairman**

**Structural Monitoring Systems Plc (“SMS” or “the Company”) (ASX: SMN)** wishes to provide the following update from Executive Chairman Ross Love regarding a number of developments as the Company progresses the commercialisation strategy of our CVM™ technology and our underlying AEM business.

### **Executive Chairman Ross Love commented:**

During the month I participated in some very productive meetings with the senior executive team at Delta Tech Ops in Atlanta, with the senior aircraft procurement and engineering team at United Airways and with our own CVM and AEM management teams in Kelowna.

### **Delta**

As previously disclosed, Delta Tech Ops are our commercial partners in the development of the application of our CVM™ technology, as a much more efficient means of complying with crack detection requirements for the Aft Pressure Bulkhead, on a specific set of Boeing 737 aircraft.

Delta Air Lines have had 21 aircraft fitted with our sensors, at our expense, for over 12 months now and they have performed very well, as expected. As we announced on 9 November 2022, this gave Delta Air Lines the confidence to place the first commercial orders for the next four aircraft in their fleet of 71 Boeing 737NG aircraft in the relevant fleet. I am delighted to let you know that we received the first payment under this purchase order in the last week – effectively our first commercial sale.

The success of the Delta trial has also enabled the active engagement of Boeing in developing a new service bulletin which will be submitted this coming month (March) to the FAA for formal certification. Our team at SMS, together with the engineers at Delta and Boeing, are working closely with the FAA in the lead up to that application being submitted in order to take maximum advantage of the existing Wi-Fi antenna certification (refer ASX announcement 7 March 2022) and to expedite the approval process for this new application. We continue to be advised that that approval can be expected in the April-June quarter this year.

That approval will establish CVM™ as an approved alternative to the current testing regime for all US operators of the relevant aircraft and is expected to be recognised by other regulatory authorities around the world for the same purpose. We estimate there are over 712 of these aircraft in the top 10 fleets (of which 75% are in the US) and our team is in active conversations with each of these carriers in anticipation of the regulatory approval.

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The next installation of our sensor kit takes place at Delta in their facility in Oklahoma City this month and a significant contingent of the relevant folks from the FAA will be present to witness the installation ahead of their consideration of the Boeing service bulletin.

We continue to refine our understanding of the commercial benefits of our sensors - which we are now describing as “smart sensor solutions for meeting crack detection requirements” to airline operators – not only in reducing the cost and complexity of their maintenance programs but also in delivering additional revenue flying days to the network managers. Delta, for example, calculates that the application of our sensors, once approved by the FAA as a certified alternative to the current testing process, will deliver 111 days of additional revenue flying days across the fleet of 71 aircraft – every year! This is on top of the actual engineering cost savings.

We continue to develop our commercial arrangements with Delta Tech Ops, based on our already very strong technical and engineering relationship, which we are confident will greatly accelerate the commercialisation of our CVM™ solutions, initially to the other relevant Boeing 737 fleets for the Aft Pressure Bulkhead (APB), but also to a substantial increase in the number of components across almost all fleet types for which our solution represents a step change – not only in the industry’s approach to “condition based maintenance” but also of course to securing the commercial benefits that result from this new approach.

Next steps with Delta will include collaborating on identifying the next set of opportunities, particularly in the large single aisle short haul Boeing 737 and Airbus 320 fleets – initially at Delta and then globally. The reason these short haul fleets are the primary targets is that they tend to operate at much higher cycles (flights per year) and so trigger the relevant testing requirements, and therefore the commercial benefits, of our technology more frequently.

### **United Airlines**

The strong commercial business case for our technology being developed and confirmed at Delta is attracting some long overdue attention from other carriers, particularly at this time with United. United operates the second largest fleet of 737s for which the APB application is relevant – 146 aircraft. Even more importantly they have announced their intention to purchase 700 new aircraft over the coming years.

I was fortunate this month to have the opportunity to meet with the senior engineering and maintenance team at United, including Chief Growth Officer at United Greg Hart (to whom this team reports) who are familiar with the technology thanks to the great work of our team over the last 12 months and who are now engaged in fully understanding the commercial as well as the engineering benefits to them, not only for their 737 fleet but also potentially for their new aircraft orders.

As with Delta we will be working with this team to identify the next set of applications across their current and future narrow-body fleets.



### **Other operators, and OEMs**

The other operators with large fleets of 737 aircraft for which the Aft Pressure Bulkhead solution is relevant include Southwest (255 aircraft,) American (75), Alaska (29), Qantas (28) and Westjet (27.) We are in active discussions with each of them.

There are other operators with smaller fleets of these particular aircraft, but which operate very large fleets of other aircraft which may be part of our next target set – AirFrance/KLM for example – and we will be engaging with them on the value of considering the APB solution as an entry product.

We are coming to understand much better the way we need to describe and quantify the commercial benefits of our technology, and how to engage the disparate elements within our customer environment in that analysis. While this is not terribly surprising in the commercialisation of an innovative solution, it does require a somewhat non-traditional sales process. We need to create demand by identifying the benefits quite specifically, before we can expect to engaging in more traditional sales fulfilment activities.

You will soon see us relaunch our online presence, including with a benefit calculator, which will allow different groups within our target customer base to understand the benefits specific to their area (whether it is maintenance facility management, maintenance program planning, safety, compliance and quality assurance, engineering R&D, network management, new fleet specification and procurement, sales and overall airline finance activities) while at the same time giving an estimate of the benefit to all of the other benefit areas.

Ultimately our aim is to establish our technology as a standard feature in all new build aircraft. For this reason our growing relationship with Boeing on the 737 program and soon with Airbus on their A-320 program. In this way we are seeking to emulate the successful introduction of winglets – developed by a start-up in Seattle – to almost all new aircraft over the past several years.

### **Anondyne Electrics Manufacturing Corporation (AEM)**

AEM, as you know, is our wholly owned operating subsidiary based in Kelowna, British Columbia. I am pleased to report some very positive developments in relation to AEM.

You will have seen, and will continue to see, in our financial reporting the consistent revenue and margin growth in AEM's "special mission avionic communications" business driven principally by two developments – the transition at AEM from contract manufacturing to branded product manufacturing and sales, based on AEM owned IP. The acquisition of Eagle Radio has been part of this strategy and is performing very well – even beyond expectations. Secondly the market sector in for which these products are relevant is experiencing a significant transition from analogue to digital

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solutions (which AEM is ideally placed to provide) leading to both new fleet and current fleet replacement opportunities.

In addition to these positive developments, we are continuing to better integrate the CVM™ product line into the AEM business.

I spent several days with the AEM executive, and CVM commercialisation teams in Kelowna this month and was delighted by both the progress we are making together on our strategy, but also by the level of engagement, energy and collaboration that is emerging.

We will share with you a more detailed view of that strategy in the coming weeks, but in the meantime, I want to highlight our three key, and equal, strategic priorities:

- To significantly increase our production capacity for avionic products
- At the same time, to significantly increase our global sales as a proportion of all avionics sales, and
- To significantly increase the rate of commercialisation of our CVM product line, particularly of the anticipated regulatory approval of the aft pressure bulkhead application

In addition, and already announced, we have concluded our new debt financing arrangements with the Royal Bank of Canada which will ensure that AEM has suitable financing options in place to meet the ongoing growth objectives of the Company as described in this update.

### **SMS Corporate**

As part of the process of better integrating our CVM business into the AEM entity, we are also refining the critical role of SMS corporate – which is to focus on our relations with you, our shareholders, our various regulatory obligations in Australia, the UK and Canada, and our capital requirements, including capital allocation.

I am pleased to confirm that the new Board is operating well, and we are particularly grateful for the expertise that our new directors Miro Miletic and Heinrich Loechteken are bringing to the business, alongside the continuing strong and differentiated contributions of Sam Wright and Brian Wall.

### **In summary**

I think February has been a very productive month for SMS. At the same time I am well aware there are some significant milestones we need to achieve in the coming months – especially the anticipated regulatory approval of the Aft Pressure Bulkhead application. But I want to assure you that the entire team is working very hard to achieve this and subsequent commercial milestones.

I also appreciate that all of this background is yet to convert into the sort of high confidence financial forecasts I am aiming for, particularly on the CVM business line, in coming months. And it will also, I

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am sure, raise many other good questions, and recommendations from those of you who are actively engaged in our journey.

Within the constraints of my obligations to provide the same material information to all shareholders simultaneously I will continue to do my best to keep you all informed of progress and to take on board your views.

In April, I will be joining many in our team at the Maintenance and Repair Organisation industry conference in Atlanta. A great many of our most important current commercial partner and target customer executives will be there for up to three days and we will take full opportunity to participate, including a slot to present our progress to the entire conference.

### **A final note on our audit announcement today**

You will have seen our earlier announcement today regarding our inability to file the necessary Interim Report for December 2022 with the ASX by today's deadline. You will have read that this is because our UK audit partner very recently resigned from the restructured audit firm that was contracted to do this work for us. We were only informed of this development last night, too late for our contracted auditor or ourselves to put an alternative in place.

I greatly regret, and like I am sure you are, am entirely unimpressed with this development – one over which we had not control and virtually no notice. But I do want to reassure you that this in no way reflects any concern with the accounts subject to the audit. Obviously you can't ultimately rely simply on my word here since that is the point of audited accounts. We are working as quickly as we can to get those to you.

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

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