

## **ASX Announcement**

ASX: SMN

8 December 2023

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

**Structural Monitoring Systems Plc (“SMS” or “the Company”) (ASX:SMN)** would like to provide the following update ahead of the Company’s Annual General Meeting (AGM).

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

“I wanted to share this update, including a new investor presentation which will be on the SMS website shortly, and which aims to bring together a current description of the business and the strategy we are pursuing – all consistent with the updates I have been sharing with you these past months.

“There have been some highs and lows since our last AGM as you will be well aware – but overall, the Board and I are comfortable with our position, our progress and excited for our future.

“We have restructured the business, and the way we manage and report on it, around three distinct business segments:

- AEM Special Mission Avionics - designing, developing, manufacturing and marketing avionics equipment for specialist rotary and fixed wing fleets such as aerial firefighting, law enforcement, search and rescue and airborne utility operators;
- AEM Contract Manufacturing – manufacturing avionics products for third parties;
- CVM™ Smart Sensor Solutions – designing, developing, manufacturing and marketing effective and efficient crack detection monitoring for commercial, military and cargo aircraft.

“By doing this we have enabled the right focus on the quite different opportunities and therefore requirements in each segment, while maintaining the critical mass benefits of a single design and manufacturing location.

“The Special Mission Avionics segment is showing great progress and is primed for significant growth – in fact we expect to exceed our current year revenue forecasts as we announced last month.

“Contract Manufacturing continues to make a solid contribution and we are beginning to achieve better pricing; inventory turns manufacturing efficiencies to further improve the returns. Our capabilities are highly regarded and there may be scope for more growth in this segment than we are currently planning.

“CVM™ continues to be highly prospective, but as I am sure I don’t need to remind you, the pathway to certification is tortuous and beyond our control. It is important though to remind ourselves that during the current independent (within Boeing) review of our Aft Pressure Bulkhead (APB) application have met all the testing requirements asked of us – and that the process, both within Boeing and between Boeing and the FAA continues with the active support of our foundation customer Delta and our own team. It with some irony that I can report to you that the Boeing Engineering team we are working with to finalise this certification won a Boeing improvement and Innovation award at an internal showcase event just last month.

“The current position is that some additional coupons are being tested this week to add to the statistical confidence in the already successfully completed tests, Boeing is finalising their approach to the nature of stencils that need to be applied to the installations, and the details of the certification plan, including the final version of the Service Bulletin are almost agreed between Boeing and the FAA. The Boeing certification engineer continues to ask questions about the performance of our sensors at extremely low load factors – lower frankly than we have been able to propagate cracks in order to prove that we can identify them, and that is despite some samples being subject to over 1,000,000 cycles in our test equipment (bearing in mind that the crack detection test we are aiming to meet requires operating aircraft to be tested every 1,200 cycles.)

“We have no choice but to respect the process here though and we do understand that the current context in which regulatory approvals being proposed by Boeing is subject to extraordinary conservatism, including within Boeing.

“The current milestone dates for the remaining tasks that has been issued to us by Boeing on Nov 30 are as follows:

Dec 18 – Resubmit Cert Plan to FAA

Jan 15 – Complete Cert Plan Deliverables

Jan 15 – FAA acceptance of Cert Plan

Jan 15 – Route CVM deliverables to ODA for approval/recommend approval

Mar 1 – Submit CVM deliverables to FAA (Service Bulletins and Compliance Report

May 15 – FAA Approval of Deliverables

June – SB Release with AMOC

“While we cannot guarantee that any of these dates won’t change again we are sharing them at this time to confirm our confidence that the formal approval process is well advanced and into its final stages, and our judgment (and that of others familiar with the Boeing/FAA certification process) is that this schedule, even if being constantly updated, is evidence of Boeing’s commitment to the success of the project and the FAA’s engagement at a detailed level.

“We also recognise, and want to be clear here, that no-one (and least of all us) can guarantee the timing or the outcome of Boeing’s final internal approval process, or that of the FAA. All we can do is report on the progress and confirm that we have successfully completed all of the testing required of us.

“Meanwhile, and as the final certification gets closer, other key potential customers are increasingly engaged – to the point of undertaking preparatory work (and spending money on it) in anticipation. And we are progressively identifying and commencing work on other applications – one in particular that will not require an OEM sponsored Service Bulletin for regulatory approval.

“We will continue to inform you of further developments as they are formalised in signed contracts.

“You will have seen that the FY2022/23 results showed a 40% revenue increase and a more than doubling of operating EBITDA (that is before corporate expenses) – and that we continue to be confident of achieving our forecast further 20% revenue increase in the current year.

“You will note in passing that we are working hard to bring our corporate expenses down over the current period and would have achieved this to a greater extent in FY22/23 had we not incurred some additional legal expenses around the time of last years AGM. I am pleased to report that the Board that emerged from that AGM is working well together and is generally being well supported by you as shareholders.

“One of the challenges of managing a growing manufacturing business is that our requirements for working capital continue to increase as manufacturing costs are incurred ahead of revenue. This challenge become acute in October when a couple of supplier issues took us closer to our minimum cash position than we as a Board were comfortable with. For that reason, as you know, we resorted to a small quick capital raise as well as taking other measures to conserve cash, including a freeze on all director and executive management salaries. We have weathered that storm and are seeing our cash balances recover to our forecast levels (and we are now monitoring that on a daily basis) and we continue to work well with our banking partner on extending our debt facility.

“We believe we have a sustainable position for the balance of this financial year, and our preliminary work on cashflow forecasts for FY2024/25 confirm that trend will continue. The constraint that comes on the business as a result of this conservative approach though is that we are effectively delaying opportunities for faster growth and so as we have indicated before we are considering our options for raising further capital in the latter part of this financial year. We need to do that in a way that is accretive to all shareholders both in terms of the timing and the accessibility to the process – and I acknowledge it was not possible to optimise either of these things in our last short sharp raise.

“In relation to today’s AGM there are four resolutions that have been withdrawn. Two of them relate to a proposal that I personally offered in in exchange for foregoing my current years fees and in exchange for USD100,000 which I lent to the company in the middle of our October cash crunch. Another related to a proposed award to Mr Brian Wall at the conclusion of his tenure as CEO of AEM (effective October) as part of his agreed transition package.

“The fourth resolution is in relation to refreshing the Board’s mandate to issue new shares in the event of the aforementioned capital raise later in this financial year.

“Finally, and on a personal note, I want to assure you that I continue to be highly energised by and optimistic about my role with your company. I am looking forward to spending longer periods of time based in North America next year – initially in Kelowna – and in doing so reducing the financial and other costs of my current monthly travel. I finally succumbed to some form of Covid after my last trip in November and I am not keen to repeat the experience!

“I think you should be encouraged though, as I am, about the quality of the management team in Kelowna, and the commitment of the entire team, as we begin to see the fruits of higher ambition, renewed clarity around the specific value drivers in the three segments and the growing recognition for our success. Including in Kelowna itself where we were awarded Business of the Year just last month.

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

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