

ASX Announcement

ASX: SMN

31 October 2024

Appendix 4C and Quarterly Update

September 2024 Appendix 4C and Quarterly Update

Highlights

- SMS (“the Group”) recorded another quarter of double-digit growth in gross revenue for Q1 FY25 up 14% v Q1 FY24 excluding foreign exchange movements. Gross revenue for the quarter exceeded \$6.64m.
- The Group recorded adjusted EBITDA of \$0.61m for the quarter, an increase of 74% on Q1 FY24. This can be attributed to the continued strong performance of the AEM Contract manufacturing business segment.
- The Group recorded a small loss before tax of \$0.28m for the quarter, a 22% improvement on Q1 FY24.
- SMS Group recorded a negative cashflow from operating activities of \$0.70m for the September quarter as a result of the increased production of higher margin Avionics products which have a longer build to cash cycle.
- AEM bankers, Royal Bank of Canada, have voluntarily increased the line of credit (LOC) facility limit from C\$4.75m to C\$6.00m during the quarter, providing additional working capital secured against inventory and receivables at a time when Canadian interest rates are trending downwards.

Note: all figures are as per management accounts which are unaudited and are stated in Australian dollars.

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 September 2024.

SMS Group – Summary of Financial Overview and Operational Highlights

Unaudited financial results for the September quarter are set out as follows:

Consolidated A\$000'	September quarter		
	FY25	FY24	Change %
Revenue	6,641	6,081	9%
Loss before tax	278	357	-22%
EBITDA	608	350	74%
Based on average exchange rate of A\$1.00:C\$0.91			

The Group opened the new financial year with a negative cash flow from operating activities of \$0.70m. The increase in outflow can be attributed to increased production of higher margin Avionics products which have a longer build to cash cycle. (Significant expenses such as depreciation, amortisation and share-based payments are non-cash, whilst repayment of right of use leases are classed as cashflows from financing activities).

(Adjusted EBITDA excludes non-cash share-based payments).

SMS concluded the testing requirements as set out by Boeing regarding its CVM™ sensor technology and currently awaits the final review and sign off by Boeing of that data ahead of submission to the Federal Aviation Administration (FAA) for sign off.

The Company continues to concurrently work with other high value airline customers across the United States ahead of anticipated FAA approval and also on the ongoing identification of the next generation of applications for both the A320 and B737 aircraft.

The integration of the SMS management team with the AEM business continues to yield benefits with both teams working closely together and aligned to achieve the outcomes as set out in the Board's Strategic Growth Plan.

This plan includes allows Chairman and CEO Ross Love to play a more integral, key operational role to ensure the business meets its objectives and delivers a positive return to shareholder

Report on AEM operational activities and achievements across business segments for the September 2024 Quarter

AEM Avionics update

During the September 2024 quarter, AEM was granted a new Transport Canada Supplemental Type Certificate (STC) for its modern MTP136D P25 service radio. The radio continues to be on track toward formal acceptance into the United States Fire Service (USFS) approved equipment list for all its aerial firefighting contractors which is expected to generate further growth for this in demand product.

AEM also released a minor update to their P139-HD Digital Audio System, by introducing a reduced depth version of the G13116 control panel.

This update also includes integrated Bluetooth® to enhance the overall system's audio capabilities and connectivity. The updated derivative will facilitate installation in compact areas of special mission aircraft and offer even greater flexibility for the most customizable digital audio system available on the market to meet customer demand.

The AEM sales and marketing team continued to solidify its position in targeted growth regions through international trade shows and industry events.

During the reporting period, the sales team attended the Airborne Public Safety Conference (APSCON) in Houston, USA, as well as the National Public Security and Civil Defence Aviation meeting in Brazil, and the African Aerospace and Defence Exposition in South Africa. The enthusiasm generated around AEM's offerings indicates strong market interest in these regions which will be actively pursued in 2025 and beyond.

AEM expects the sales pipeline to expand in the forthcoming quarters as North American operators have now returned aircraft from summer operations ready for maintenance and upgrades. Although slower-than-anticipated approval processes have affected this period, AEM anticipates that these delays will be offset by strong growth in future quarters once the approvals are received.

The Group's growing suite of avionics and audio products continues to expand and record positive growth momentum in the Special Mission Aviation sector which remains one of the Company's strongest performing sectors with identified growth targets.

AEM avionics recorded revenue of \$2.43m during the quarter, a reduction of 11% on Q1 FY24.

AEM Contract Manufacturing update

AEM continues to maintain its focus on high-value contract manufacturing projects by supporting a select group of customers to ensure the Company achieves the greatest rate of return.

The Company's contract manufacturing business remains a foundational segment for the group with ongoing focus on increasing returns and manufacturing efficiencies while maintaining lower inventory levels.

AEM contract manufacturing recorded gross revenue of \$4.21m during the quarter, an increase of 41% on Q1FY24.

AEM CVM™ Update

The AEM team announced via an ASX announcement on 5 August 2024 that it had finalised the testing requirements required for the certification of the Company's CVM™ Smart Sensors for the Aft Pressure Bulkhead (APB) inspection – Boeing Service Bulletin 737-53-1418.

The data remains with Boeing for final sign off ahead of submission to the FAA. As noted in previous announcements, the timeline for submission is beyond the Company's control and therefore at this point we are not in a position to provide the market with further information as to when that submission date will be, as it is reliant on the timeframes and management of external parties.

An updated general timeline is indicated below.

CVM™ anticipated timeline:

Complete

July 17 2024 –Cert Plan resubmitted to FAA (& send to EASA)

Aug 1 2024 - Boeing Structures Technical Design Review Meeting

Sept 2024 –Cert Plan Deliverables completed

Pending

Nov 2024 – FAA acceptance of Cert Plan

Dec 20, 2024 – CVM™ deliverables routed to Boeing ODA for approval / recommend approval

Timing TBD

Submission of CVM™ deliverables to FAA (Service Bulletins & Compliance Report)

FAA Approval of Deliverables

Service Bulletin Release with AMOC

As noted previously, the CVM™ business segment continues to be challenged by the complexities of the FAA Certification Plan approval process and external timelines despite the continual progress being made towards this goal. Delays within the FAA for acceptance of the Certification Plan do however necessarily impact the schedule.

Outside of the reporting period, AEM and Boeing have held recent weekly meetings with the FAA to familiarize them with the technology and the project status to facilitate the approval process with these meetings scheduled to continue in the short term.

While the submission process continues to play out, the Company is concurrently focused on commercial proposals to largely US based commercial airlines operating the B737 aircraft for which the CVM™ sensors are applicable and offer considerable time and cost savings as well as the refinement of the next set of applications currently being requested by our airline customers.

Corporate Update

Subsequent to the reporting period, on 18 October, Mr Miro Miletic tendered his resignation as a Non-executive Director due to the demands of his other business commitments in Australia.

We would like to take this opportunity to thank him for his guidance and expertise during his time on the board.

Mr Love and the board and management team would like to reinforce their commitment to ongoing and transparent communications with all shareholders via both formal ASX announcements and more informally via email with shareholders who have registered their email addresses with Computershare.

If you have not provided your email address previously and are currently not receiving those communications but would like to you can update your details by following this link:

<http://www.computershare.com.au/easyupdate/SMN>

Appendix 4C Details

SMS consolidated cash-at-bank as at 30 September was \$0.86m.

Payments for Product Manufacturing and Operating costs of \$3.11m represent wholly owned subsidiary AEM's expenditure allocated to productive manufacturing and general operating costs.

Payment for Staff Costs of \$2.58m represents salaries for manufacturing, administration, sales and general management activities and directors' fees.

Payments for Administration and Corporate Costs of \$0.50m 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 September quarter cash flows from operating activities was \$0.12m in respect to fees paid to directors.

As noted previously, with growing businesses, manufacturing costs are recorded before related revenues, inventory build occurs, and suitably qualified staff are hired and trained. SMS will continue to report a low ratio of available funding against cashflow from operating activities until efficiencies of scale are reached.

During the quarter, AEM bankers, Royal Bank of Canada executed a limit increase on the LOC facility from C\$4.75m to C\$6.00m. The Group is devoting significant time and resources to the management of cash and cashflows minimising any discretionary expenditure to preserve cash.

As stated above, the Group cash balance as at 30 September 2024 amounted to \$0.86m.

Please refer to 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.

Please contact:

Communications

Georgie Sweeting

Georgie.Sweeting@structuralmonitoring.systems

+61 417 179 024

Shareholder Enquiries

Ross Love

Ross.Love@structuralmonitoring.systems

+ 61 418 752 867

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 September 2024

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	5,967	5,967
1.2 Payments for		
(a) research and development	(67)	(67)
(b) product manufacturing and operating costs	(3,108)	(3,108)
(c) advertising and marketing	(204)	(204)
(d) leased assets	-	-
(e) staff costs	(2,575)	(2,575)
(f) administration and corporate costs	(501)	(501)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(211)	(211)
1.6 Income taxes received/(paid)	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other	-	-
1.9 Net cash used in operating activities	(699)	(699)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(38)	(38)
(d) investments	-	-
(e) intellectual property ⁽¹⁾	(229)	(229)
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
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)	-	-
2.6	Net cash used in investing activities	(267)	(267)
⁽¹⁾ Capitalised R&D expenditure			
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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	-	-
3.5	Proceeds from borrowings	1,036	1,036
3.6	Repayment of borrowings	(88)	(88)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (repayments of ROU leases)	(360)	(360)
3.10	Net cash provided by financing activities	588	588
4.	Net increase/(decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,260	1,260
4.2	Net cash used in operating activities (item 1.9 above)	(699)	(699)
4.3	Net cash used in investing activities (item 2.6 above)	(267)	(267)
4.4	Net cash provided by financing activities (item 3.10 above)	588	588

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(26)	(26)
4.6	Cash and cash equivalents at end of period	856	856

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	856	1,260
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	856	1,260

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	118
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 <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>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Line of credit	6,413	6,046
7.3i	Term loan	1,101	1,101
7.3ii	Other (equipment leases)	3,250	3,250
7.4	Total financing facilities	10,764	10,397
7.5	Unused financing facilities available at quarter end		367
7.6	<p>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> <p>Royal Bank of Canada (RBC) operating line of credit of C\$6.00 million (increased by C\$1.25m during the quarter) secured at 7.80% variable, no maturity date, reviewed annually.</p> <p>RBC 7 year term loan of C\$1.25 million secured at 6.78% fixed for 3 years.</p> <p>HSBC equipment lease facility of US\$2.20 million, 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> <p>RBC C\$500K equipment lease finance facility. A drawdown of C\$69,759 has been made to date. The term is 3 years at a fixed interest rate of 7.63%.</p>		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash used in operating activities (item 1.9)	(699)
8.2	Cash and cash equivalents at quarter end (item 4.6)	856
8.3	Unused finance facilities available at quarter end (item 7.5)	367
8.4	Total available funding (item 8.2 + item 8.3)	1,223
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.75
	<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	<p>If item 8.5 is less than 2 quarters, please provide answers to the following questions:</p> <p>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> <p>Answer: No. Discretionary expenditure has been reduced and sales within the avionics business are expected to increase in Q2 onwards as orders are filled.</p> <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?</p> <p>Answer: Yes. The Company is exploring a number of alternatives to strengthen its balance sheet and to support growth.</p>	

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 measures outlined in 8.6.1 and 8.6.2 above the entity expects to be able to continue its operations and meet its business objectives.

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 October 2024

Date:

By the Board

Authorised by:

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

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.