



SMS Appendix 4C - December Quarter 2019

Structural Monitoring Systems Plc (**ASX: SMN**) is pleased to present its Appendix 4C Quarterly Report for the period ended 31st December 2019.

Operating Performance:

Structural Monitoring Systems Plc ("**SMS**" or "**the Company**") is pleased to report another positive operating quarter. Due primarily to the excellent performance of the Company's wholly-owned subsidiary, Anodyne Electronics Manufacturing Corp ("**AEM**") during the quarter, and material savings with senior staffing costs through the issue of performance rights in lieu of cash fees, the SMS Group was able to generate a small positive operating cashflow for the period.

AEM again posted a material quarterly profit, while senior SMS staff voluntarily elected to receive Performance Rights in lieu of the almost \$A250k in cash fees owing to preserve the Company's cash reserves.

AEM's platform performance continues to impress, with top-line revenue for the first 6 months of the current fiscal year at \$A8.910 million v \$A7.480 million (+20%) for the same period in the prior year. Normalised EBITDA for the first 6 months was ~\$A1.760 million v \$A0.880 million for the same period in the previous year. Budgeted revenue for the second half of the current year is \$A10.56 million (vs \$A9.90 million in the prior year) – which would produce a full-year revenue result of circa-\$A19.470 million – materially up from any prior year's performance in AEM's operating history. Early indications are that the growth experienced in the first fiscal half of this year will continue in the second half, and given the performance to date, and outlook, the Board is confident of a demonstrably strong full year revenue and EBITDA result.

FAA/IP Approval Progress:

SMS and our industry partners continue to work diligently with the Federal Aviation Administration ("**FAA**") to receive formal Regulator approval for commercial CVM™ technology installations related to current B737-NG WiFi inspection protocols. As previously communicated with shareholders in the December 10th Update, SMS is awaiting release of an Issue Paper ("**IP**") - an FAA-generated industry guidance document. The IP will officially communicate the FAA protocols and recommendations to achieve approvals for CVM™ technology.

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As communicated directly from the Company's industry partners – who are collectively in direct communication with the FAA - this initial IP document has now been created for internal FAA use *and only three of the approximate nine required signatures remain to be executed by FAA management.* Given this information, the final release of the IP is now imminent.

Once released, there will be a brief industry review period, during which time SMS will provide feedback and/or comments (if any) to the FAA – this will likely be completed within a week of the IP release. Post this review and comment period, the FAA will issue its final version of the IP. Once received, Delta Engineering (“**DE**”) and Sandia Laboratories (“**Sandia**”) will formally establish a testing protocol regime in order to satisfy any validation and verification requirements communicated in the final IP.

SMS has been informed that this DE and Sandia testing phase *will be completed within 45 days of its commencement.* The resulting data package will then be sent to the FAA for review. SMS has already provided the CVM™ sensor kits and equipment required for this testing phase to both DE and Sandia in order to materially expedite the brevity of the timeline for this testing.

*As at today, given feedback from both DE and Sandia, the Company now anticipates that the full and final approval of an FAA-issued Supplemental Type Certificate (“**STC**”) for the B737-800 WiFi application should be received and in-hand in late-Q2/early-Q3.* This timeline takes into account likely foreseeable FAA response times which adhere to the previous norms established for similar industry approvals.

Commercial Activities and Business Development:

Immediately upon STC approval – SMS will rapidly engage commercially with several airline operators to both schedule and actively install CVM™ equipment on operating fleet aircraft. Delta Air Lines (“**Delta**”) has requested, and SMS has already provided, preliminary kit pricing for the B737-NG WiFi application for Delta's engineering and budgetary review and approval. Once approved by Delta, SMS expects installs on the Delta B737-800 fleet.

As stated above, the FAA IP is the critical regulatory step permitting SMS to move forward with clear certainty in the effort to commercialise the Company's CVM™ technology in the global airline industry. SMS executives continue to maintain a close and continuous outreach and contact protocol with multiple major airlines in the United States and Europe. These activities naturally include regular updates to the airlines on the status of the FAA IP. The Company continues to receive a high level of interest and support from all engagement airlines, and the constant communication in this regard is that they are willing to move the current engagement meaningfully further once the first STC approval is granted.

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In summary, the level of enthusiasm from the airline industry is high, and SMS management remain confident that major airlines will execute CVM™ orders soon after the first FAA approval is granted. Further, at the time of this approval, SMS will *immediately* begin the process of obtaining multiple in-series, and parallel, approvals for additional STC's on B737-NG and other aircraft types. This will also involve direct and ongoing engagement with *both* the FAA, and the European Aviation Safety Agency ("**EASA**") in the months ahead.

For further information, please contact:

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+Rule 4.7B

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Structural Monitoring Systems plc

ARBN

106 307 322

Quarter ended ("current quarter")

31 December 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	4,792	9,401
1.2 Payments for		
(a) research and development	(106)	(203)
(b) product manufacturing and operating costs	(2,828)	(6,356)
(c) advertising and marketing	(183)	(358)
(d) leased assets	-	-
(e) staff costs	(1,181)	(2,561)
(f) administration and corporate costs	(391)	(774)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2	2
1.5 Interest and other costs of finance paid	(17)	(51)
1.6 Income taxes paid	(81)	(162)
1.7 Government grants and tax incentives	-	1
1.8 Other	-	-
1.9 Net cash used in operating activities	7	(1,061)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(44)	(72)
(b) businesses (see item 10)	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other	-	-
2.6 Net cash used in investing activities	(44)	(72)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	354	531
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (lease principal repayments)	(89)	(165)
3.10 Net cash from financing activities	265	366

4. Net increase/(decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	584	1,562
4.2 Net cash used in operating activities (item 1.9 above)	7	(1,061)
4.3 Net cash used in investing activities (item 2.6 above)	(44)	(72)
4.4 Net cash from financing activities (item 3.10 above)	265	366

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(11)	6
4.6	Cash and cash equivalents at end of quarter	801	801

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	1,569	1,030
5.2	Call deposits	-	-
5.3	Bank overdrafts	(768)	(446)
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	801	584

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
-
-

At the AGM held on 12 December 2019 shareholders approved the issue of performance rights to Directors in lieu of fees for the December quarter as well as for the 6 months to 30 June 2020.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000
-
-

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	2,187	768
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

HSBC Operating loan, secured at 4.95%

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	111
9.2 Product manufacturing and operating costs	2,485
9.3 Advertising and marketing	323
9.4 Leased assets	-
9.5 Staff costs	993
9.6 Administration and corporate costs	310
9.7 Other	-
9.8 Total estimated cash outflows	4,222

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

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.

Sign here: 
(Company Secretary)

30 January 2020
Date:

Sam Wright
Print name:

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.