

ASX ANNOUNCEMENT

ASX: SMN

24th March 2020

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FAA Issue Paper Stage II Release Clears Major Milestone to Global Commercialization of CVM™

Highlights

- SMS now has received the long anticipated Stage II FAA Issue Paper (“IP”), with critical attainment of Supplemental Type Certificate (“STC”) designation expected soon thereafter
- Final three sign-offs, for a total of nine, now in-hand from the relevant FAA signatories
- FAA Stage IV Issue Paper fully expected by end-Q2, as previously forecast
- STC Approval for WiFi Antenna structure inspections expected during Q3-2020
- Initial CVM™ commercialization steps expected to be crystallized in Q4-2020
- AEM operations continue to perform very strongly, and well above all budgeted forecasts
- SMS Board and senior staff agree to major compensation restructuring for the remainder of the year to ensure optimal ongoing liquidity management and cash preservation

Structural Monitoring Systems Plc (“SMS” or “the Company”) (ASX: SMN) is pleased to announce the attainment of this highly significant milestone, one which sees the previously expected progression to commercially-critical Supplemental Type Certificate (“STC”), as detailed below, still on-track for completion in Q3-2020, despite the recent, and expected ongoing, global events.

Issue Paper (Critical) Stage II Completed:

As referenced in the Company's recent December 2019 update – it was stated that...

“..with particular reference to the Company's pending near-term expected FAA-provided Issue Paper (“IP”) which would initiate the final commercialization requirement for the global use of CVM™ as an alternative compliance method to legacy inspection protocols on the world's largest narrow-body fleet aircraft type – the final stages to reach full commercial approval are expected to commence in the next few weeks, as we enter 2020.”

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With all required signatures from the relevant FAA Technical Standards Branch Managers obtained, SMS has clearly achieved this communicated milestone, and done so within the time parameters indicated previously.

As also detailed prior on several occasions, SMS – through its commercial partnerships with Delta Air Lines, Delta Engineering and Sandia Labs – has been continuously working towards the full commercial approval for CVM™ use as applicable to the inspections required for the radome installation related to Ku and 2Ku installed WiFi systems.

Further, SMS management advised that the completion of the IP would effectively pave the way to an all-important Supplemental Type Certificate ("**STC**") approval for on-aircraft use whereby CVM™ would significantly mitigate or replace the requirement for ground-based hangar inspections. Now that the FAA has released Stage II of the Issue Paper, the SMS technical team has far greater clarity regarding the final process requirements to achieve final STC certification. It is therefore expected that the culminating Stage III and IV milestones will present minimal challenges, and move much quicker to completion, relative to the receipt of the Stage II document.

With this critical Stage II milestone achieved, from hereon the Company expects the following progress:

Stage III: Delta Engineering, and SMS's Engineering team, will review and provide comments/questions to the FAA for the proposed certification requirements outlined by the FAA in the Stage II document.

Stage IV: Once our questions/comments are received by FAA, they will update the IP to include our comments and they will state the FAA position as a conclusion. Upon receiving the final conclusion from the FAA, Delta Engineering in conjunction with SMS will address the final certification requirements and will then proceed to final STC certification/approval of CVM™ for use on the WiFi Antenna structure inspections. The Company fully expects Stages III and IV to be completed by Q4, but this forecast will be more optimistic if the global situation improves in the ensuing months.

Post the FAA's issuance of the IP (Stage IV): the Company's marketing efforts for commercial sales will remain fully focused on the list of airlines previously provided in our December 2019 Company Update. Due to the industry awareness and excitement related to the current status of the FAA IP, SMS management has initiated key discussions with a major US airline (unrelated to Delta Air Lines) to identify additional structural inspections for future CVM™ technology use – beyond the scope related to WiFi inspections. Additional applications will target – initially - B737, B757 and A320 aircraft families, and Embraer E170 and E190 aircraft types.

ASX ANNOUNCEMENT

ASX: SMN

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With increasing production capabilities, SMS will further expand its efforts to offer CVM™ to all existing airlines who are utilizing the 2ku Wi-Fi system, as well as unrelated applications, as per above, SMS has already entertained various discussions and meetings with many such global airlines, noting that the pool of global operators utilizing relevant WiFi radome installations represents a very sizeable sample of the total global civil aviation industry.

AEM Operations Continue Strongly – Excellent Performance Achieved in Multiple Metrics:

AEM continues to track well ahead of budget, and last year, with sales for the 8 months to Feb-20 at \$A12.928 million, vs \$A9.556 million to Feb-19 **(+35.3% for the same period last year)**. Normalised EBITDA sits at circa-\$A2.800 million, vs circa-\$A1.200 million last year, to be 133% ahead of the same period last year. Looking forward, March deliveries will be close to budget and forward orders for the final (Jun-20) quarter are reasonably robust, despite the global situation at present. Thus, at this stage SMS management feels confident of maintaining the current trajectory, with the caveat below.

The potential for AEM business disruption related to Covid-19 is not immaterial, but at this stage has not impacted AEM's operations or platform. SMS Executive have regular discussions with AEM senior management concerning the potential for supply chain, production or customer disruption. We will continue to monitor the situation closely. It is worth noting that the end customer for the bulk of AEM's products are in the rotorcraft sectors, and specifically law enforcement, firefighting and military applications - and therefore are less likely to be commercially affected by civilian airline groundings or major travel-related issues. While it is not possible to provide clear guidance regarding AEM's operations beyond the Jun-30 current year cutoff, the Company aims to provide this as soon is reasonable and practical given the volatile and evolving global situation.

SMS Future Cashflow and Liquidity Measures:

The Company's Board and CEO have carefully reviewed the SMS Group's cashflow outlook for the remainder of the calendar year, in light of the timeframe remaining in 2020 to CVM™ commercialization and the currently evolving virus situation. As a matter of prudence, all SMS Board and Executive/senior staff have moved to an equity-only compensation structure, and have agreed to material compensation cuts that will remain in place - if necessary - for the remainder of the calendar year, to ensure that the cashburn at the corporate level is limited to essential outgoings only (ie regulatory related expenses, ASX and audit fees, patent maintenance, and so forth). With the proviso that there is limited disruption to AEM's business, as

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we currently expect, the Group will be able to self-fund throughout the calendar year, and into 2021.

This announcement is authorised by the Board.

Disclaimer

This announcement contains certain forward-looking statements with respect to the financial condition, operations and business of the Group and certain plans and objectives of the management of SMS. Forward-looking statements can be identified by the use of forward-looking terminology, including, without limitation, the terms "believes", "estimates", "anticipates", "expects", "predicts", "intends", "plans", "goals", "targets", "aims", "outlook", "guidance", "forecasts", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts.

Such forward looking statements involve known and unknown risks, uncertainties and other factors which because of their nature may cause the actual results or performance of the Group to be materially different from the results or performance expressed or implied by such forward looking statements. Such forward looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the political and economic environment in which the Group will operate in the future, which may not be reasonable, and are not guarantees or predictions of future performance. No representation is made that any of these statements or forecasts will come to pass or that any forecast result will be achieved, or that there is a reasonable basis for any of these statements or forecasts.

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Financial Information

Any pro forma and forecast financial information provided in this announcement is for illustrative purposes only and do not represent a forecast or expectation as to the Group's future financial condition and/or performance. This document has been prepared at a time where the review of financial information contained in this presentation has not been completed and accordingly, you should only rely on any forecast or expectation as to the Group's future financial condition and/or performance that is contained in a prospectus or other offering document which may be issued by SMS in connection with any offer of SMS securities.

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