Structural Monitoring Systems plc
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Structural Monitoring Systems Plc
ARBN:	106 307 322
Reporting period:	For the year ended 30 June 2019
Previous period:	For the year ended 30 June 2018

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	up	120%	to	16,380
Loss from ordinary activities after tax attributable to the owners of Structural Monitoring Systems plc	up	3%	to	(4,027)
Loss for the year attributable to the owners of Structural Monitoring Systems plc	up	3%	to	(4,027)

Dividends
It is not proposed to pay dividends.

Comments
The loss for the consolidated entity after providing for income tax amounted to $4,027,298 (30 June 2018: $3,894,697).

For further details refer to the financial statements and the review of operations that follow in this report.

Review of operations

Structural Monitoring Systems Plc ("SMS"), via historically strong sales contributions from its wholly-owned Canadian subsidiary, Anodyne Electronics Manufacturing Corp ("AEM"), materially exceeded top-line revenue expectations for the financial year. In this, the first full year of operations since AEM was acquired in December 2017, the SMS Group generated revenue of A$16.380m. Further, revenues from AEM are budgeted to increase by 8–10% in the next financial year. Highlighting this optimistic outlook, through July - the first month of the new financial year - AEM shipped circa-C$1.152 million of orders, 135% above budget.

Of note, AEM has incurred approximately A$780k of operating expenses in the past 12 months related directly to the SMS vertical – which now includes a dedicated operational headcount of 12 employees, in addition to multiple "crossover" staff, at the Company's Kelowna, British Columbia facility. This figure does not include other significant investments in SMS equipment and other CAPEX, clean room expansion programs and both finished and unfinished inventory. AEM staff continue to prepare for the commercial production requirements of SMS in order to meet expected sales in 2020, pending the receipt of all final approvals that are currently in-progress at Boeing and the FAA. The top priorities include the broad automation of sensor design and production (targeted for Q4-2019), further expansion of the sensor production clean room (targeted completion H1-2020) and capital expenditures required for new and improved laser-cutting machines (target Q1-2020), workstations and other personnel and equipment necessary for production and quality assurance functions (anticipated to be fully completed in H1-2020).

As previously stated, the lift in revenue at AEM and longer lead times from third party suppliers, together with SMS-related inventory build, has resulted in higher overall working capital levels, up A$1.45m year-on-year. This has been the primary consumer of free cashflow at AEM over the last 12 months. Moving forward, it is expected that AEM inventory levels, as they relate to the historical business, will stabilise.

Review of operations (continued)

To date, forty six Company employees have subscribed for SMS shares via the Employee Incentive Plan ("EIP") which was approved by shareholders at last year's AGM, contributing circa-A$384k before issue costs. The EIP is available periodically to all employees (SMS and AEM - full and part-time).

At this juncture, It is envisaged that cash generated from current revenue producing operations, together with bank finance facilities already established, should be sufficient to fund SMS Group operations in advance of the onset of realised commercial benefits expected subsequent to the pending OEM/FAA approvals for the 737-NG Aft-Pressure Bulkhead ("APB") programme and the multi-aircraft type Wi-Fi applications.

SMS Programme Update:

B737-NG APB Implementation Stage Programme

Delta Air Lines ("DAL") and SMS agreed to initiate a new programme to install CVM™ kits on twenty (20) B737-NG aircraft related to APB Service Bulletins ("SB"). The first installs were completed in April and will continue through to the end of 2019. To date, Delta has now successfully completed a total *of ten (10) B737-800 aircraft* at MRO facilities located in El Salvador and Mexico. This represents a significant progression for the technology, and a major new milestone for the Company and DAL – and further represents around half of the total 737-800 aircraft operated by DAL that will receive this CVM™ installation in calendar-year 2019.

This Implementation Stage programme marks yet another key installation of CVM™ sensors on-board civil aircraft (noting that CVM™ still remains the *only* SHM technology that has ever been so installed on any commercial aircraft type). The programme sends a clear message to the industry that CVM™ has matured even further to a true, stand-alone commercial status, and the only SHM technology at NASA Technology Readiness Level ("TRL") 9. Importantly, DAL has agreed to initiate the installations *prior* to formal OEM approval, reflecting DAL's confidence in the technology, as well as the ability of SMS and DAL, working in close partnership, to achieve the appropriate OEM certification for the technology in an expedited timeframe. SMS and DAL, with valuable assistance from the FAA Airworthiness and Assurance Center (overseen by Dr. Dennis Roach at Sandia Labs), will continue to work diligently to achieve the requisite approvals for the APB SBs, and other applications currently under consideration, with OEMs and global Regulators.

Pivotal CVM™ 2KU Wi-Fi Programme

Delta Engineering ("DE") and SMS have completed the preliminary engineering and design work in order to seek the pivotal issuance of an STC from the FAA. Currently the FAA is in the final review stage and will submit a formal Issue Paper ("IP") to both DE and SMS in the very near term. This IP will provide specific guidance for structural health monitoring requirements and the final certification requirements, including any additional testing of the Wi-Fi radome related structure, if required. Once received, the IP will provide full clarity on any possible near-term additional gap testing requirements to achieve full CVM™ STC certification.

Revised SLA with The Boeing Company

SMS and Boeing executed a revised and updated SLA agreement in Q2-2019, as previously communicated. This document was executed in parallel with the progression of the aft-pressure bulkhead ("APB") inspection approval process within Boeing. This milestone leaves SMS with one final document, a Technical Consulting Agreement ("TCA"), to be executed with Boeing in relation to the current 737-NG APB project. The TCA will identify in detail the engineering data support and analysis required from the OEM and the pricing associated with providing such support.

Review of operations (continued)

SMS anticipates the finalisation of this document in the very near term. The TCA will pave the way for how the Company will address all future CVM™ approvals which may also require Boeing engineering input and technical analysis. The associated costs for all Boeing work required to approve SMS CVM™ Kits for all future Service Bulletin, Airworthiness Directive and maintenance tasks on behalf of our global operators will be covered under individual TCA's. Significant work has been completed on the TCA, by both Boeing and SMS personnel, and the Company expects to have an executed TCA in the near future. As such, at this juncture the Company has maintained the timing for approval of the Service Bulletin by Boeing will be obtained in Q4-2019 or Q1-2020.

Analysis Using Key Financial Performance Indicators and Milestones

At 30 June 2019, the Group had approximately $1.56m cash at bank, net of borrowings (2018: $3,25m).

In this, the first full year of operations since the acquisition of AEM was completed in December 2017, the Group recorded a loss for the financial year of $4,027,298 (2018: $3,894,697). The increase in loss was incurred due in part to share-based payment expenses of $2,031,385 (2018: $1,825,996). The Group also recorded revenue during the year of $16,380,037 (2018: $7,436,679). Other key expenses during the year were consumables and raw materials used of $9,351,125 (2018: $4,623,425) and employee costs of $4,058,379 (2018: $1,507,392).

The Group EBITDA* for the financial year was ($2,827,370) (2018: ($3,651,023)). EBITDA from AEM was $1,667,512 (2018: $161,443). Normalised EBITDA for AEM (excluding SMS operations) for the year ended 30 June 2019 was approximately $2.4m (2018: $1.8m).

Loss per share for the financial year was 3.51 cents per share (2018: Loss per share 3.55 cents).

At the reporting date the Group had net assets of $12,378,360 (2018: $13,477,443). The Group has trade receivables of $3,333,770, inventory of $6,159,874 and intangible assets of $3,684,593, including goodwill of $1,474,949. The key movements during the year were an increase in inventory of $1.45m, together with an increase in trade receivables of $0.46m, a decrease in cash of $1.7m and an increase in trade and other payables of $1.1m as a build in inventory levels was realised to meet order demand in 2020.

*EBITDA, which is inclusive of FX gains/losses, is calculated by adding back interest costs, depreciation and amortisation expenses and deducting income tax benefit and interest revenue from loss after tax for the year of $4,027.298 (2018: $3,894,697).

Statement of comprehensive income
For the year ended 30 June 2019

	Consolidated		Parent	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Continuing operations				
Revenue				
Sales	16,380,037	7,436,679	95,119	-
Cost of sales	(9,999,317)	(5,082,018)	(90,635)	-
Gross profit	6,380,720	2,354,661	4,484	-
Other income	31,772	144,383	-	-
Depreciation and amortisation	(661,572)	(314,682)	-	-
Employee expenses	(4,058,379)	(1,507,392)	(900,309)	-
Impairment charges	-	-	(125,132)	(3,795,458)
Occupancy expenses	(83,093)	(6,739)	(83,093)	-
Research and development expenses	(417,295)	(163,141)	(155,686)	-
Sales and marketing	(692,311)	(98,572)	(690,617)	-
Share-based payment expense	(2,031,385)	(1,825,996)	(2,031,385)	-
Administrative expenses	(1,940,220)	(2,288,395)	(478,797)	(235,976)
Operating loss before exceptional items	(3,471,763)	(3,705,873)	(4,460,535)	(4,031,434)
Exceptional items				
Legal and professional fees	-	(302,592)	-	-
Share-based payment	-	(146,900)	-	-
	-	(449,492)	-	-
Operating loss before finance costs and tax	(3,471,763)	(4,155,365)	(4,460,535)	(4,031,434)
Finance costs	(137,829)	(2,943)	-	-
Foreign exchange (losses)/gains	(17,179)	189,660	-	-
Income tax (expense)/benefit	(400,527)	73,951	-	-
Loss after finance costs and tax from continuing operations	(4,027,298)	(3,894,697)	(4,460,535)	(4,031,434)
Loss attributable to members of the parent	(4,027,298)	(3,894,697)	(4,460,535)	(4,031,434)
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation	704,484	(136,737)	-	-
Total comprehensive income/(loss) for the year	704,484	(136,737)	-	-
Loss for the year attributable to owners of Structural Monitoring Systems plc	(3,322,814)	(4,031,434)	(4,460,535)	(4,031,434)
Loss per share (cents per share)				
Basic for loss from continuing operations	(3.51)	(3.55)		
Diluted for loss from continuing operations	(3.51)	(3.55)		

Statement of financial position
As at 30 June 2019

	Consolidated		Parent	
	2019	2018	2019	2018
	$	$	$	$
Assets				
Non-current assets				
Loans to subsidiaries	-	-	11,819,387	13,525,041
Plant and equipment	539,747	536,830	-	-
Intangible assets and goodwill	3,684,593	3,853,276	-	-
Deferred tax	-	107,061	-	-
Total non-current assets	4,224,340	4,497,167	11,819,387	13,525,041
Current assets				
Trade receivables	3,333,770	2,867,156	-	-
Other receivables	361,073	285,371	16,951	-
Inventory	6,159,874	4,709,788	-	-
Cash and cash equivalents	2,291,208	3,390,236	-	-
Total current assets	12,145,925	11,252,551	16,951	-
Total assets	16,370,265	15,749,718	11,836,338	13,525,041
Liabilities				
Current liabilities				
Trade and other payables	2,583,277	1,462,776	290,894	47,598
Borrowings	729,359	139,646	-	-
Loans from subsidiaries	-	-	304,803	-
Provisions	229,719	133,045	-	-
Total current liabilities	3,542,355	1,735,467	595,697	47,598
Non-current liabilities				
Deferred tax	449,548	536,808	-	-
Total non-current liabilities	449,548	536,808	-	-
Total liabilities	3,991,903	2,272,275	595,697	47,598
Net assets	12,378,362	13,477,443	11,240,641	13,477,443
Equity				
Equity attributable to equity holders of the parent				
Issued capital	31,915,681	31,926,515	31,915,681	31,926,515
Share premium reserve	34,919,253	34,919,253	34,919,253	34,919,253
Accumulated losses	(54,339,809)	(51,473,583)	(54,909,783)	(51,610,320)
Other reserves	(116,763)	(1,894,742)	(684,510)	(1,758,005)
Total equity	12,378,362	13,477,443	11,240,641	13,477,443

Statement of cash flows
For the year ended 30 June 2019

	Consolidated		Parent	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Cashflows from operating activities				
Receipts from customers	15,913,423	7,571,649	95,119	-
Payments to suppliers and employees	(17,581,309)	(8,522,362)	(2,172,792)	(202,753)
Interest received	9,842	1,782	-	-
Interest paid	(147,671)	(4,725)	-	-
Net cash used in operating activities before tax paid	(1,805,715)	(953,656)	(2,077,673)	(202,753)
Income tax paid	(150,939)	(246,552)	-	-
Net cash used in operating activities	(1,956,654)	(1,200,208)	(2,077,673)	(202,753)
Cashflows from investing activities				
Payments for plant and equipment	(229,991)	(217,079)	-	-
Net cash paid on acquisition of subsidiary	-	(10,998,750)	-	(10,998,750)
Net cash used in investing activities	(229,991)	(11,215,829)	-	(10,998,750)
Cashflows from financing activities				
Proceeds from issue of shares	209,000	13,000,000	209,000	13,000,000
Issue costs	(16,652)	(231,625)	(16,652)	(231,625)
Loans from/(to) subsidiaries	-	-	1,885,325	(1,566,872)
Net cash provided by financing activities	192,348	12,768,375	2,077,673	11,201,503
Net increase/(decrease) in cash held	(1,994,297)	352,338	-	-
Cash and cash equivalents at beginning of year	3,250,590	2,943,623	-	-
Effect of foreign exchange on balances	305,556	(45,371)	-	-
Net cash and cash equivalents at end of year	1,561,849	3,250,590	-	-

Statement of changes in equity
For the year ended 30 June 2019

Consolidated	**Issued capital $**	**Accumulated losses $**	**Share premium reserve $**	**Share-based payments reserve $**	**Foreign currency translation reserve $**	**Total $**
At 1 July 2017	31,867,455	(49,033,286)	22,069,759	-	(2,271,001)	2,632,927
Loss for the year	-	(3,894,697)	-	-	-	(3,894,697)
Foreign currency translation	-	-	-	-	(136,737)	(136,737)
Total comprehensive loss for the year	-	(3,894,697)	-	-	(136,737)	(4,031,434)
Transactions with owners:						
Issue of performance rights	-	-	-	1,380,096	-	1,380,096
Conversion of performance rights	3,250	863,850	-	(867,100)	-	-
Issue of shares	3,810	590,550	433,119	-	-	1,027,479
Placement	52,000	-	12,948,000	-	-	13,000,000
Share issue costs	-	-	(531,625)	-	-	(531,625)
Total transactions with owners	59,060	1,454,400	12,849,494	512,996	-	14,875,950
At 30 June 2018	31,926,515	(51,473,583)	34,919,253	512,996	(2,407,738)	13,477,443
At 1 July 2018	31,926,515	(51,473,583)	34,919,253	512,996	(2,407,738)	13,477,443
Loss for the year	-	(4,027,298)	-	-	-	(4,027,298)
Foreign currency translation	-	-	-	-	704,484	704,484
Total comprehensive loss for the year	-	(4,027,298)	-	-	704,484	(3,322,814)
Transactions with owners:						
Share based payments	-	957,890	-	1,073,495	-	2,031,385
Issue of shares for cash	5,818	203,182	-	-	-	209,000
Share issue costs	(16,652)	-	-	-	-	(16,652)
Total transactions with owners	(10,834)	1,161,072	-	1,073,495	-	2,223,733
At 30 June 2019	31,915,681	(54,339,809)	34,919,253	1,586,490	(1,703,254)	12,378,362

Statement of changes in equity (continued)
For the year ended 30 June 2019

Parent	Issued capital $	Accumulated losses $	Share premium reserve $	Share-based payments reserve $	Foreign currency translation reserve $	Total $
At 1 July 2017	31,867,455	(48,994,046)	22,069,759	-	(2,310,241)	2,632,927
Loss for the year	-	(4,031,434)	-	-	-	(4,031,434)
Total comprehensive loss for the year	-	(4,031,434)	-	-	-	(4,031,434)
Transactions with owners:						
Issue of performance rights	-	-	-	1,380,096	-	1,380,096
Conversion of performance rights	3,250	863,850	-	(867,100)	-	-
Issue of shares	3,810	590,550	433,119	-	-	1,027,479
Placement	52,000	-	12,948,000	-	-	13,000,000
Share issue costs	-	-	(531,625)	-	-	(531,625)
Transfer of reserve to accumulated losses	-	(39,240)	-	-	39,240	-
Total transactions with owners	59,060	1,415,160	12,849,494	512,996	39,240	14,875,950
At 30 June 2018	31,926,515	(51,610,320)	34,919,253	512,996	(2,271,001)	13,477,443
At 1 July 2018	31,926,515	(51,610,320)	34,919,253	512,996	(2,271,001)	13,477,443
Loss for the year	-	(4,460,535)	-	-	-	(4,460,535)
Total comprehensive loss for the year	-	(4,460,535)	-	-	-	(4,460,535)
Transactions with owners:						
Share based payments	-	957,890	-	1,073,495	-	2,031,385
Issue of shares for cash	5,818	203,182	-	-	-	209,000
Share issue costs	(16,652)	-	-	-	-	(16,652)
Total transactions with owners	(10,834)	1,161,072	-	1,073,495	-	2,223,733
At 30 June 2019	31,915,681	(54,909,783)	34,919,253	1,586,491	(2,271,001)	11,240,641

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	7.53	8.41

4. Control gained over entities

Name of entity	n/a
Date control gained	n/a

	$'000
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)	-
Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) for the whole of the previous period (where material)	-

7. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements are in the process of being audited.

The results for the year have been prepared using the recognition and measurement principles of international financial reporting standards as adopted by the EU. Whilst the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), as adopted for use in the EU, this announcement does not itself contain sufficient information to comply with IFRSs.

The audited financial information for the year ended 30 June 2018 is based on the statutory accounts for the financial year ended 30 June 2018 that has been filed with the Registrar of Companies. The auditor reported on those accounts: their report was (i) unqualified, (ii) did not include references to any matters to which the auditor drew attention by way of emphasis without qualifying the reports and (iii) did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The statutory accounts for the year ended 30 June 2019 are expected to be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and signed following approval by the Board of Directors.

The financial information contained in this announcement does not constitute statutory accounts for the year ended 30 June 2019 or 2018 as defined by Section 434 of the Companies Act 2006.

8. Attachments

Details of attachments (if any):

n/a

9. Signed

Signed ______________________ Date: 30th August 2019

R. Michael Reveley
Director