

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 2020
Previous period:	For the year ended 30 June 2019

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	17% to	19,095
Loss from ordinary activities after tax attributable to the owners of Structural Monitoring Systems plc	down	40% to	(2,420)
Loss for the year attributable to the owners of Structural Monitoring Systems plc	down	19% to	(2,692)
Dividends			
It is not proposed to pay dividends.			

Comments

The loss for the consolidated entity after providing for income tax amounted to \$2.420m (30 June 2019: \$4.027m).

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", the "Group" or the "Company"), due to the outstanding performance of its Canadian-based wholly-owned subsidiary Anodyne Electronics Manufacturing Corp ("AEM"), logged another very solid year, recording total sales for the 2020 financial year of \$19.095m, an increase of 17% over the prior year.

Cash generation through the year was very strong with a total year-end Group cash balance of \$2.104 million, net of borrowings (2019: \$2.291 million).

For the first time since the acquisition of AEM in December 2017, the Group achieved a positive cashflow from operating activities for the year, a remarkable achievement in such a short time. As a result, the Group has been able to expand AEM operations and meet corporate overheads without resorting to equity markets.

The improvement in operating cashflows is due, in part, to the introduction of *IFRS 16 Leases*. From 1 July 2019 operating lease payments made during the year amounting to \$0.414m (2019: \$0.367m) are not included in cashflows from operating activities. Operating lease payments are now included in cashflows from financing activities.

The Group is adequately funded to continue its current operations during these uncertain times and will continue to demonstrate appropriate financial restraint. The Company's Board and CEO have carefully reviewed the Group's cashflow outlook, in light of the timeframe remaining to the CVM™ commercialisation, and with due regard to the constantly evolving COVID-19 situation. Commencing in the December 2019 quarter and throughout the remainder of the year, as a matter of prudence, all SMS Board and Executive/senior staff moved to an equity-only compensation structure and agreed to material compensation cuts. These will remain in place in the 2021 financial year, to ensure that the cash burn at the corporate level is limited to essential outgoings only (i.e. regulatory related expenses, ASX and audit fees, patent

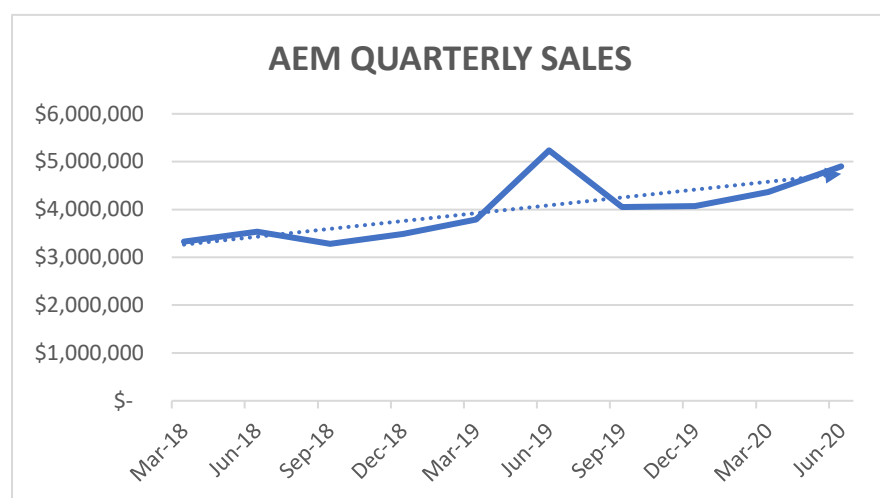
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maintenance, and so forth). With the proviso that there will be only limited disruption to AEM's ongoing business operations, the Group will continue to self-fund all core operational activities.

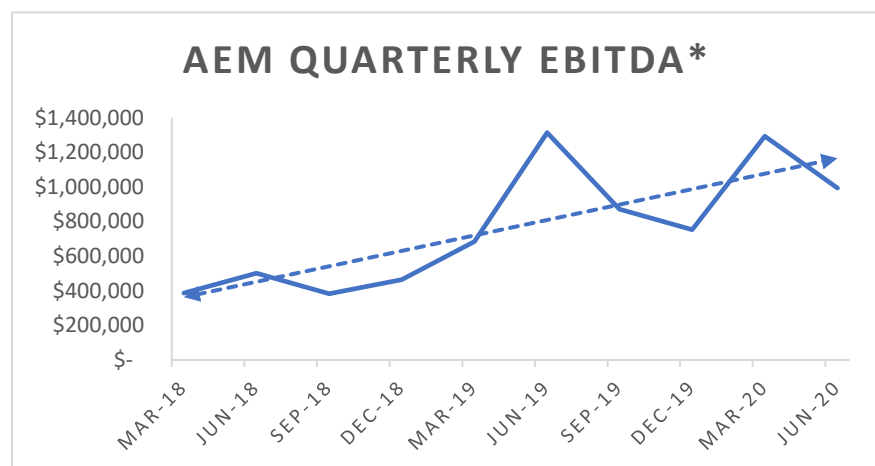
During the year SMS appointed Stephen Forman as a non-executive director. Mr Forman brings significant experience and expertise in capital markets to the Group and will be responsible for investor relations. A group financial controller has also been added to the senior management team during the year.

Anodyne Electronics Manufacturing Corporation ("AEM")

As can be seen below the combined dedicated efforts of AEM staff and SMS Board and management has significantly increased revenues, profitability and shareholder value in the two and a half years since acquisition.



AEM Sales by quarter since December 2017 denominated in Canadian dollars.



* AEM Normalised EBITDA by Quarter since December 2017 (normalised excludes non-AEM operations) denominated in Canadian dollars.

Following the onset of the COVID-19 global pandemic, AEM was classified an "essential business" for the purpose of continuing to support critical infrastructure in the aerospace industry, AEM management responded prudently by moving to a split shift system, observed social distancing and even transitioned platform capacity to produce important PPE to help supply critical shortages of face-shields for Canadian healthcare workers, hospitals and first responders. Importantly, with these actions, AEM was able to maintain near-peak capacity production and continues to do so today.

Looking forward, AEM will continue to focus on the development of new-generation product solutions, primarily focused on the global rotorcraft markets. R&D spend (currently circa-10% of sales) will thus rise to circa-13% of sales over the upcoming financial year, as AEM continues to add to its pipeline of new products under development targeting several of the largest global aerospace OEMs. The SMS Board and executive management continue to be optimistic in regard to the significant growth opportunities these new product solutions will provide, particularly given the scale of the addressable markets for these products globally. Directors and Management are constantly monitoring the COVID-19 situation and are not in a position at this stage to provide firm forecasts on the effects it may have on operations for FY2021. Current visibility and realised activity levels, however, indicate that at this stage – in a similar vein to what transpired through H1-2020 – that core operations will be only minimally impacted, if at all, by ongoing developments related to COVID-19. The SMS Board and management will continue to monitor the evolving global situation closely and regularly.

CVM™ Commercialisation Update and Outlook

2ku Wi-Fi Program Specifics:

The Federal Aviation Administration (“FAA”) has now provided Delta Engineering (“DE”) with their Stage III response to the issue paper, which sets the requirements for the final testing required for approval of the Supplemental Type Certificate (“STC”). DE and Sandia National Laboratories (“Sandia”) are reviewing the response from the FAA and do not see any major hurdles at this time. The FAA is currently reviewing the Test Plan to ensure it satisfies the IP. Assuming no changes or amendments to the FAA Stage III IP response are sought, and the FAA provides an approved Test Plan as expected shortly, SMS, DE and Sandia will begin the testing of CVM™ sensors in September.

Concurrently, the required pre-validation CVM™ installation on a Delta Air Lines (“Delta”) aircraft has been discussed in detail (a requirement for STC approval), and the necessary production of CVM™ installation kits have been completed and are ready to ship. SMS and Delta are working to determine an aircraft for the installation, and a final decision for the selected aircraft is expected in the near term.

All necessary work requirements to date have proceeded as planned along the STC approval path for the 2ku Wi-Fi system. Reiterating - the programme is on-schedule, and is currently well into Stage III, and Stage IV in parallel, while a good amount of the Stage IV effort has already been submitted to the FAA.

Despite the present and ongoing challenges of an unprecedented global operating environment presented by COVID-19, SMS and the Company's key strategic counterparties remain well on-track to deliver a highly significant commercial milestone within the time parameters that have been previously communicated, pending a reasonable (and expected) response time from the FAA. This Company remains committed to delivering a full STC-approval in Q4-2020.

Analysis Using Key Financial Performance Indicators and Milestones

At 30 June 2020, the Group had approximately \$2.104m cash at bank, net of borrowings (2019: \$1.562m).

In this second full year of operations since the acquisition of AEM was completed in December 2017, the Group recorded a loss for the financial year of \$2.420m (2019: \$4.027m). The decrease in loss was incurred due in part to share-based payment expenses of \$1.883m (2019: \$2.031m). The Group also recorded revenue during the year of \$19.095m (2019: \$16.380m), an increase of 17% year on year. Other key expenses during the year were consumables and raw materials used of \$10.204m (2019: \$9.999m) and employee costs of \$5.216m (2019: \$4.059m). As a result of *IFRS 16 Leases* operating lease payments of \$0.414m (2019: \$0.367m) are no longer classed as operating cash outflows improving EBITDA and operating cashflows as a result. Financial performance has improved as a result of increasing sales and production of products utilising AEM IP with increased profit margins.

The Group EBITDA* for the financial year was (\$0.862m) (2019: (\$2.827m)). Normalised EBITDA for AEM (excluding SMS operations) for the year ended 30 June 2020 was \$4.178m (2019: \$2.363m).

Loss per share for the financial year was 2.08 cents per share (2019: Loss per share 3.51 cents).

At the reporting date the Group had net assets of \$13.401m (2019: \$12.378m). The Group had trade receivables of \$2.991m, inventory of \$7.122m and intangible assets of \$3.201m, including goodwill of \$1.443m. The key movements during the year were an increase in inventory of \$0.962m to meet increased demand, together with a decrease in trade receivables of \$0.343m, an increase in cash of \$0.254m and a decrease in trade and other payables of \$1.040m as well as

a reduction in borrowings of \$0.288m as the Group built on strong sales, improved cashflow and the settlement of an outstanding legal claim during the year. Tax payable at year end increased by \$0.410m as a result of increased profits recorded by AEM for the year.

The only movements in equity during the year were due to Directors and senior management electing to receive compensation in the form of Performance Rights (PRs) for the year in order to preserve cash, other contractual share-based compensation and subscriptions to CDIs made by staff through the Company's Employee Incentive Plan.

*EBITDA, which is inclusive of FX gains/losses, is calculated by adding back interest costs, income tax, depreciation and amortisation expenses and deducting interest revenue from loss after tax for the year of \$2.420m (2019: \$4.027m).

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Consolidated statement of comprehensive income
For the year ended 30 June 2020

	Consolidated		Parent	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Continuing operations				
Revenue				
Sales	19,095	16,380	12	95
Cost of sales	(10,204)	(9,999)	-	(91)
Gross profit	8,891	6,381	12	4
Other income	73	32	73	-
Depreciation and amortisation	(1,052)	(662)	(39)	-
Employee expenses	(5,216)	(4,059)	(1,015)	(900)
Impairment charges	-	-	(446)	(125)
Loss on debt for equity swap	(127)	-	(127)	-
Occupancy expenses	(62)	(83)	(62)	(83)
Research and development expenses	(345)	(417)	-	(156)
Sales and marketing expenses	(738)	(693)	(584)	(691)
Share-based payments expenses	(1,883)	(2,031)	(1,883)	(2,031)
Administrative expenses	(1,605)	(1,940)	(472)	(479)
Operating loss before finance costs and tax	(2,064)	(3,472)	(4,543)	(4,461)
Finance income	3	10	-	-
Finance costs	(32)	(148)	(9)	-
Foreign exchange gains/(losses)	150	(17)	(1)	-
Income tax expense	(477)	(400)	-	-
Loss after finance costs and tax from continuing operations	(2,420)	(4,027)	(4,553)	(4,461)
Loss attributable to members of the parent	(2,420)	(4,027)	(4,553)	(4,461)
Other comprehensive income/(loss)				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Foreign currency translation	(272)	704	-	-
Total comprehensive income/(loss) for the year	(272)	704	-	-
Loss for the year attributable to owners of Structural Monitoring Systems plc	(2,692)	(3,323)	(4,553)	(4,461)
Loss per share (cents per share)				
Basic for loss from continuing operations	(2.08)	(3.51)		
Diluted for loss from continuing operations	(2.08)	(3.51)		

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Consolidated statement of financial position
As at 30 June 2020

	Consolidated		Parent	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Assets				
Non-current assets				
Loans to subsidiaries	-	-	11,397	11,819
Plant and equipment	342	540	5	-
Right-of-use assets	163	-	-	-
Intangible assets and goodwill	3,201	3,684	-	-
Total non-current assets	3,706	4,224	11,402	11,819
Current assets				
Trade receivables	2,991	3,334	3	-
Other receivables	363	361	116	17
Inventory	7,122	6,160	184	-
Cash and cash equivalents	2,545	2,291	-	-
Total current assets	13,021	12,146	303	17
Total assets	16,727	16,370	11,705	11,836
Liabilities				
Current liabilities				
Trade and other payables	1,543	2,583	245	291
Borrowings	441	729	-	-
Deposits	43	-	43	-
Lease liabilities	190	-	83	-
Tax payable	640	230	-	-
Total current liabilities	2,857	3,542	371	291
Non-current liabilities				
Loans from subsidiaries	-	-	921	305
Lease liabilities	72	-	11	-
Deferred tax	397	450	-	-
Total non-current liabilities	469	450	932	305
Total liabilities	3,326	3,992	1,303	596
Net assets	13,401	12,378	10,402	11,240
Equity				
Equity attributable to equity holders of the parent				
Issued capital	31,946	31,932	31,946	31,932
Share premium reserve	36,516	35,106	36,516	35,106
Accumulated losses	(56,517)	(54,543)	(59,220)	(55,113)
Other reserves	1,456	(117)	1,160	(685)
Total equity	13,401	12,378	10,402	11,240

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Consolidated statement of cash flows
For the year ended 30 June 2020

	Consolidated		Parent	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Cashflows from operating activities				
Receipts from customers	19,499	15,913	82	95
Payments to suppliers and employees	(19,003)	(17,581)	(1,507)	(2,173)
Interest received	3	10	-	-
Interest paid	(118)	(148)	(10)	-
Net cash provided by/(used in) operating activities before tax paid	381	(1,806)	(1,435)	(2,078)
Income tax paid	(119)	(151)	-	-
Net cash provided by/(used in) operating activities	262	(1,957)	(1,435)	(2,078)
Cashflows from investing activities				
Payments for plant and equipment	(78)	(230)	-	-
Net cash used in investing activities	(78)	(230)	-	-
Cashflows from financing activities				
Proceeds from issue of shares	887	209	887	209
Proceeds pending issue of shares	43	-	43	-
Issue costs	(12)	(17)	(12)	(17)
Repayment of lease liabilities	(386)	-	(75)	-
Loans from subsidiaries	-	-	592	1,886
Net cash provided by financing activities	532	192	1,435	2,078
Net increase/(decrease) in cash held	716	(1,995)	-	-
Cash and cash equivalents at beginning of year	1,562	3,251	-	-
Effect of foreign exchange on balances	(174)	306	-	-
Net cash and cash equivalents at end of year	2,104	1,562	-	-
Cash and cash equivalents	2,545	2,291	-	-
Borrowings	(441)	(729)	-	-
Net cash and cash equivalents at end of year	2,104	1,562	-	-

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Consolidated statement of changes in equity
For the year ended 30 June 2020

Consolidated	Issued capital \$'000	Accumulated losses \$'000	Share premium reserve \$'000	Share-based payments reserve \$'000	Foreign currency translation reserve \$'000	Total \$'000
At 1 July 2018	31,926	(51,474)	34,919	513	(2,407)	13,477
Loss for the year	-	(4,027)	-	-	-	(4,027)
Foreign currency translation	-	-	-	-	704	704
Total comprehensive loss for the year	-	(4,027)	-	-	704	(3,323)
Transactions with owners:						
Issue of performance rights to directors and staff/consultants	-	-	-	1,073	-	1,073
Issue of shares to directors and staff/consultants	6	958	203	-	-	1,167
Share issue costs	-	-	(16)	-	-	(16)
Total transactions with owners	6	958	187	1,073	-	2,224
At 30 June 2019	31,932	(54,543)	35,106	1,586	(1,703)	12,378
At 1 July 2019	31,932	(54,543)	35,106	1,586	(1,703)	12,378
Loss for the year	-	(2,420)	-	-	-	(2,420)
Foreign currency translation	-	-	-	-	(272)	(272)
Total comprehensive loss for the year	-	(2,420)	-	-	(272)	(2,692)
Transactions with owners:						
Issue of performance rights to directors and staff/consultants	-	-	-	2,398	-	2,398
Issue of shares to directors and staff/consultants	10	446	873	-	-	1,329
Conversion of performance rights to shares	4	-	549	(553)	-	-
Share issue costs	-	-	(12)	-	-	(12)
Total transactions with owners	14	446	1,410	1,845	-	3,715
At 30 June 2020	31,946	(56,517)	36,516	3,431	(1,975)	13,401

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Consolidated statement of changes in equity (continued)
For the year ended 30 June 2020

	Issued capital \$	Accumulated losses \$	Share premium reserve \$	Share-based payments reserve \$	Foreign currency translation reserve \$	Total \$
Parent						
At 1 July 2018	31,926	(51,610)	34,919	513	(2,271)	13,477
Loss for the year	-	(4,461)	-	-	-	(4,461)
Total comprehensive loss for the year	-	(4,461)	-	-	-	(4,461)
Transactions with owners:						
Issue of performance rights to directors and staff/consultants	-	-	-	1,073	-	1,073
Issue of shares to directors and staff/consultants	6	958	203	-	-	1,167
Share issue costs	-	-	(16)	-	-	(16)
Total transactions with owners	6	958	187	1,073	-	2,224
At 30 June 2019	31,932	(55,113)	35,106	1,586	(2,271)	11,240
At 1 July 2019	31,932	(55,113)	35,106	1,586	(2,271)	11,240
Loss for the year	-	(4,553)	-	-	-	(4,553)
Total comprehensive loss for the year	-	(4,553)	-	-	-	(4,553)
Transactions with owners:						
Issue of performance rights to directors and staff/consultants	-	-	-	2,398	-	2,398
Issue of shares to directors and staff/consultants	10	446	873	-	-	1,329
Conversion of performance rights to shares	4	-	549	(553)	-	-
Share issue costs	-	-	(12)	-	-	(12)
Total transactions with owners	14	446	1,410	1,845	-	3,715
At 30 June 2020	31,946	(59,220)	36,516	3,431	(2,271)	10,402

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	8.61	7.53

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 2019 is based on the statutory accounts for the financial year ended 30 June 2019 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 2020 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.

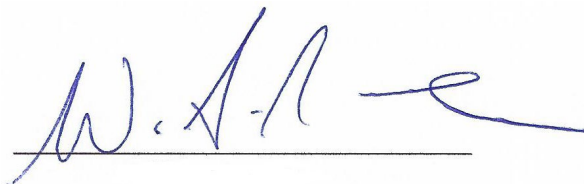
The financial information contained in this announcement does not constitute statutory accounts for the year ended 30 June 2020 or 2019 as defined by Section 434 of the Companies Act 2006.

8. Attachments

Details of attachments (if any):

n/a

9. Signed

Signed 

William Rouse
Executive Chairman

Date: 31st August 2020