

## **ASX Announcement**

ASX: SMN

31 October 2023

### **Appendix 4C and Quarterly Update**

September 2023 Appendix 4C and Quarterly Update

#### **Highlights**

- Wholly owned subsidiary Anodyne Electronics Manufacturing Corp (AEM) recorded gross revenue for the quarter of \$6.08m up 13% on the corresponding quarter in the prior year and up 2% on the quarter prior continuing an upward trajectory in revenue as the Company continues to capitalise on the positive investment in new generation avionics products and the ongoing solid performance of its contract manufacturing business.
- AEM EBITDA for the September quarter was \$0.60m, up 41% on the corresponding quarter in the prior year and up 6% on the quarter prior.
- SMS group recorded a positive operating cashflow of \$0.15m for the September quarter, despite increasing working capital requirements generated by growth, as corporate and other administration costs are contained and managed with efficiency.
- Forward orders for the December quarter are currently \$5.05m, comparing favorably at this stage with the \$5.36m revenue recorded at the end of the corresponding quarter last year.
- The Company continues to expand into new high value international markets and is planning to establish a United States based operation to facilitate access to key US based customers and beyond in 2024.
- AEM and global non-destructive testing consultants and service provider, TESTIA, signed a letter of intent in September provide commercial airline operators and MROs installation training of its Comparative Vacuum Monitoring (CVM™) airframe crack detection compliance sensors.
- The Company's CVM™ technology was recognised by U.S. airline industry organisation, Airlines for America (A4A), for being the first regulatory approved application of structural health monitoring by the Federal Aviation Administration (FAA).
- The Company signed a Non-Disclosure Agreement with a major US airline to explore a range of additional potential applications for its A320 fleet.

- Executive Chairman Ross Love continues to spend a significant amount of time in North America, initially in Canada at AEM's Kelowna based headquarters to drive efficiencies, and ahead of the planned move to the US market in 2024.

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 2023.

### **SMS Group – Summary of Financial Overview and Operational Highlights**

Unaudited financial statements for the Group show an increase of 41% in EBITDA and an increase of 13% in gross revenue for the quarter compared to the corresponding quarter in the year prior.

This can be attributed to the ongoing increase in sales and earnings in the underlying AEM avionics business benefitting from higher profit margins.

The Group continues to prudently manage cash reserves and achieved positive cashflows from operating activities of \$0.15m during the September quarter, despite the increasing requirements for working capital associated with its growth.

SMS continues to invest in its CVM™ technology business, particularly in increasing its testing capacity and in identifying the next generation of applications for A320 and B737 aircraft.

The integration of the Group's CVM™ business with its AEM business continues to yield benefits.

### **Report on AEM operational activities and achievements across business segments for the quarter**

#### **AEM Contract Manufacturing update**

AEM's contract manufacturing business continues to be a key foundation for the group and the management team is focused on increasing returns from this part of the business through updated pricing, increased manufacturing efficiency and lower inventory levels.

We have collaborated with our main contracting customers to achieve fairer market pricing which will provide improved profitability to AEM. We continue to work with our Contract Manufacturing partners, who in many cases are both suppliers and customers, to ensure we meet their future requirements.

AEM contract manufacturing recorded gross revenue of \$3.11m and EBITDA\* of \$0.41m during the quarter.

### **AEM Avionics update**

The Group's growing suite of avionics/ audio products continue to record positive growth momentum in the Special Mission Aviation sector.

The company is committed to facilitating continued growth in the lucrative Japanese market, further penetration into the Brazilian and South American market, securing new institutional customers in the US, and appointing new sales representatives in Turkey and Africa.

A significant new product launch is anticipated in the coming weeks and in addition the group is planning further product developments in 2024, which will provide the basis for the next generation of products for this demanding sector.

AEM avionics recorded revenue of \$2.86m and EBITDA\* of \$0.41m during the quarter.

### **CVM™ update**

The Company's CVM™ technology was recognised in September this year by U.S. airline industry organisation, Airlines for America (A4A), for being the first regulatory approved application of structural health monitoring by the Federal Aviation Administration (FAA).

During the reporting period, AEM and global non-destructive testing consultants and service provider, TESTIA, signed a letter of intent for CVM™ installations around the world, and ultimately to support further distribution of the group's Smart Sensor Solutions.

Holger Speckmann, Managing Director of TESTIA GmbH, who was present for the signing of the letter of intent in Denver Colorado in September commented: "Supporting AEM by providing training and installation services around the CVM™ technology, and being a reliable partner, fits into the future strategy of TESTIA as an end-to-end provider of Structural Health Monitoring solutions."

In relation to the progress of the certification of the Company's CVM™ Smart Sensors for the Aft Pressure Bulkhead (APB) inspection – Boeing Service Bulletin 737-53A1248, Mr Love released a statement on October 12 updating shareholders and the market on that process which is currently in its final stages ahead of submission to the Federal Aviation Administration (FAA), emphasising also the Board's continued confidence in securing a positive outcome.

His statement outlined three specific technical issues on which the Boeing certification engineer needed to be satisfied ahead of submission. These are outlined in detail in that announcement but related to the potential effect of a CIC coating applied to the sensors on installation in terms of successful crack detection, the ability of our sensors to detect cracks on the lowest equivalent load and the other related to freezing condensation, including high and low temperature extended envelopes. Boeing provided the revised memo detailing these requirements this week.

The compression testing at the Boeing laboratory in Tukwila Washington was completed successfully this week, along with three more coupons being tested at AEM for the POD study.

The additional testing requirements are expected to be completed in the next three weeks, paving the way for Boeing's final approval of its submission to the FAA to complete the data package Boeing requires in order to present the findings to three internal Boeing Committees for approval ahead of subsequent submission to the FAA.

As noted in the announcement, at no stage during any of the testing – including in the additional testing required by Boeing – have the sensors failed to perform as expected and required.

Subsequent to the quarter, a Structures Task Group meeting was held by Boeing last week, with manufacturers, operators, and certifying agencies in attendance. Further applications for CVM™ were discussed for 2024 development with United Airlines, Qantas, and Sun Country Airlines. AEM also held a meeting with the Boeing flammability group to discuss the certification basis and have reviewed the available data and agreed to AEM providing an analysis of the 12 second vertical burn test that will form the basis for Boeing ODA acceptance.

With the APB testing and submission process wrapping up, the Company is focusing on a series of commercial proposals to airlines operating the B737 aircraft for which the CVM™ sensors offer the highest commercial value, as well as initiating design and testing of the next set of applications being requested by our airline customers, including a major US Airline with whom the Group has recently concluded a Non-Disclosure Agreement for further development.

CVM™ recorded revenue of \$0.12m and EBITDA\* of (\$0.40m) during the quarter.

\*EBITDA includes allocation of SMS corporate overheads of \$0.18m for the quarter across the respective business segments.

## Corporate Update

The board continues to focus on building SMS's global scale and reach and as previously advised continues to consider options for the new investment required to accelerate this process with the intention of appointing a corporate adviser (or advisers) to guide and assist the Company as it makes this important transition.

Mr Love and the board remain committed to ongoing and open communication with shareholders via ASX announcements and more informal communications 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 \$0.35m. Total available funding at 30 September was \$0.50m.

Payments for Product Manufacturing and Operating costs of \$1.85m represent wholly owned subsidiary AEM's expenditure allocated to productive manufacturing and general operating costs.

Payment for Staff Costs of \$2.47m represents salaries for manufacturing, administration, sales and general management activities and directors' fees.

Payments for Administration and Corporate Costs of \$0.37m 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 \$101,376 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. With the considerable effort and application of all staff and management of AEM, assisted with careful cost control and efficiency across the Group, a positive cashflow from operating activities was achieved during the quarter. SMS will continue to report a low ratio of available funding against cashflow from operating activities until efficiencies of scale are reached.

As stated above, the Group cash balance as at 30 September 2023 amounted to \$0.35m.

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:**

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## 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 2023

| <b>Consolidated statement of cash flows</b>              | <b>Current quarter<br/>\$A'000</b> | <b>Year to date<br/>(3 months)<br/>\$A'000</b> |
|--|------------------------------------|--|
| <b>1. Cash flows from operating activities</b>           |                                    |  |
| 1.1 Receipts from customers                              | 5,336                              | 5,336  |
| 1.2 Payments for   |                                    |  |
| (a) research and development                             | (66)                               | (66)   |
| (b) product manufacturing and operating costs            | (1,854)                            | (1,854)  |
| (c) advertising and marketing                            | (232)                              | (232)  |
| (d) leased assets  | -                                  | -  |
| (e) staff costs  | (2,468)                            | (2,468)  |
| (f) administration and corporate costs                   | (371)                              | (371)  |
| 1.3 Dividends received (see note 3)                      | -                                  | -  |
| 1.4 Interest received                                    | -                                  | -  |
| 1.5 Interest and other costs of finance paid             | (193)                              | (193)  |
| 1.6 Income taxes received/(paid)                         | -                                  | -  |
| 1.7 Government grants and tax incentives                 | -                                  | -  |
| 1.8 Other (Royalty fee and arbitration costs settlement) | -                                  | -  |
| <b>1.9 Net cash from operating activities</b>            | <b>152</b>                         | <b>152</b>                                     |
| <b>2. Cash flows from investing activities</b>           |                                    |  |
| 2.1 Payments to acquire or for:                          |                                    |  |
| (a) entities   | -                                  | -  |
| (b) businesses   | -                                  | -  |
| (c) property, plant and equipment                        | (30)                               | (30)   |
| (d) investments  | -                                  | -  |
| (e) intellectual property <sup>(1)</sup>                 | (275)                              | (275)  |
| (f) other non-current assets                             | -                                  | -  |

| Consolidated statement of cash flows       |   | Current quarter<br>\$A'000 | Year to date<br>(3 months)<br>\$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)   | -                          | -                                     |
| <b>2.6</b>                                 | <b>Net cash used in investing activities</b>  | <b>(305)</b>               | <b>(305)</b>                          |
| <sup>(1)</sup> Capitalised R&D expenditure |   |                            |                                       |
| <b>3.</b>                                  | <b>Cash flows from financing activities</b>   |                            |                                       |
| 3.1  | Proceeds from issues of equity securities<br>(excluding convertible debt securities)          | -                          | -                                     |
| 3.2  | Proceeds from issue of convertible debt<br>securities   | -                          | -                                     |
| 3.3  | Proceeds from exercise of options   | -                          | -                                     |
| 3.4  | Transaction costs related to issues of<br>equity securities or convertible debt<br>securities | -                          | -                                     |
| 3.5  | Proceeds from borrowings  | -                          | -                                     |
| 3.6  | Repayment of borrowings   | (150)                      | (150)                                 |
| 3.7  | Transaction costs related to loans and<br>borrowings  | -                          | -                                     |
| 3.8  | Dividends paid  | -                          | -                                     |
| 3.9  | Other (repayments of ROU leases)  | (310)                      | (310)                                 |
| <b>3.10</b>                                | <b>Net cash used in financing activities</b>  | <b>(460)</b>               | <b>(460)</b>                          |
| <b>4.</b>                                  | <b>Net decrease in cash and cash<br/>equivalents for the period</b>                           |                            |                                       |
| 4.1  | Cash and cash equivalents at beginning of<br>period   | 961                        | 961                                   |
| 4.2  | Net cash from operating activities (item 1.9<br>above)  | 152                        | 152                                   |
| 4.3  | Net cash used in investing activities<br>(item 2.6 above)                                     | (305)                      | (305)                                 |
| 4.4  | Net cash used in financing activities<br>(item 3.10 above)                                    | (460)                      | (460)                                 |

| Consolidated statement of cash flows |   | Current quarter<br>\$A'000 | Year to date<br>(3 months)<br>\$A'000 |
|--------------------------------------|---|----------------------------|---------------------------------------|
| 4.5                                  | Effect of movement in exchange rates on cash held | (2)                        | (2)                                   |
| 4.6                                  | <b>Cash and cash equivalents at end of period</b> | <b>346</b>                 | <b>346</b>                            |

| 5.  | Reconciliation of cash and cash equivalents<br>at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter<br>\$A'000 | Previous quarter<br>\$A'000 |
|-----|--|----------------------------|-----------------------------|
| 5.1 | Bank balances  | 346                        | 1,003                       |
| 5.2 | Call deposits  | -                          | -                           |
| 5.3 | Bank overdrafts  | -                          | (42)                        |
| 5.4 | Other  | -                          | -                           |
| 5.5 | <b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>   | <b>346</b>                 | <b>961</b>                  |

| 6.  | Payments to related parties of the entity and their associates                          | Current quarter<br>\$A'000 |
|---|---|----------------------------|
| 6.1   | Aggregate amount of payments to related parties and their associates included in item 1 | 101                        |
| 6.2   | Aggregate amount of payments to related parties and their associates included in item 2 | -                          |
| <i>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.</i> |   |                            |



|   |   |   |   |
|---|---|---|---|
| <b>7.</b>   | <b>Financing facilities</b><br><i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i><br><i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>  | <b>Total facility<br/>amount at quarter<br/>end<br/>\$A'000</b> | <b>Amount drawn at<br/>quarter end<br/><br/>\$A'000</b> |
| 7.1   | Line of credit  | 4,310   | 4,161   |
| 7.3i  | Term loan   | 1,356   | 1,356   |
| 7.3ii   | Other (equipment leases)  | 3,414   | 3,414   |
| 7.4   | <b>Total financing facilities</b>   | 9,080   | 8,931   |
| 7.5   | <b>Unused financing facilities available at quarter end</b>   |   | 149   |
| 7.6   | 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. |   |   |
| Royal Bank of Canada operating line of credit of C\$3.75million secured at 8.05% variable, no maturity date, reviewed annually.<br>Royal Bank of Canada 7 year term loan of C\$1.25million secured at 6.78% fixed for 3 years.<br>HSBC equipment lease facility of US\$2.20million, 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. |   |   |   |

|  |  |                |
|--|--|----------------|
| <b>8.</b>  | <b>Estimated cash available for future operating activities</b>  | <b>\$A'000</b> |
| 8.1  | Net cash from operating activities (item 1.9)  | 152            |
| 8.2  | Cash and cash equivalents at quarter end (item 4.6)  | 346            |
| 8.3  | Unused finance facilities available at quarter end (item 7.5)  | 149            |
| 8.4  | Total available funding (item 8.2 + item 8.3)  | 495            |
| 8.5  | <b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>  | N/A            |
| <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  | If item 8.5 is less than 2 quarters, please provide answers to the following questions:  |                |
| 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?  |                |
| Answer: n/a  |  |                |
| 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? |                |
| Answer: n/a  |  |                |

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: n/a

*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.

Date: ....31 October 2023.....

Authorised by: ....The Board.....

(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.