

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 2021
Previous period: For the year ended 30 June 2020

2. Results for announcement to the market

				\$'000
Revenues from ordinary activities	down	20%	to	15,340
Loss from ordinary activities after tax attributable to the owners of Structural Monitoring Systems plc	down	23%	to	(1,959)
Loss for the year attributable to the owners of Structural Monitoring Systems plc	down	23%	to	(1,959)
Dividends				
It is not proposed to pay dividends.				

Comments

The loss for the consolidated entity after providing for income tax amounted to \$1.959m (30 June 2020: \$2.549m).

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"), recorded a solid result for 2021 in spite of unprecedented economic conditions brought about by the Covid pandemic. Its Canadian-based wholly-owned subsidiary Anodyne Electronics Manufacturing Corp ("AEM"), logged total sales for the 2021 financial year of \$15.340m (excluding intercompany sales), a decrease of 20% over the prior year.

Cash generation through the year was very strong with a total year-end Group cash balance of \$2.381 million, net of borrowings (2020: \$2.065 million), an increase of 15% year on year.

For a second consecutive year the Group achieved a positive cashflow from operating activities. As a result, the Group has been able to devote resources to research and development, invest in new manufacturing equipment and will relocate to a new purpose-built manufacturing facility all of which will increase product lines, manufacturing efficiency, profit margins and enhance shareholder value in the years ahead. This has been achieved without resorting to capital markets and a dilution of shareholder value.

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 pandemic. For the first half of the financial year all SMS Board and Executive/senior staff remained on an equity-only remuneration structure and an agreed material reduction in levels of remuneration. From January 2021 the same staff have reverted to normal cash-based levels of remuneration, and these were paid subsequent to the reporting date.

During the year SMS appointed Sam Wright as a Non-Executive Director. Mr Wright brings significant experience and expertise in corporate governance, financial reporting and investor relations to the Group and will remain in the role of Company Secretary. Mr Wright replaces Terry Walsh who remains in the role of Head of Legal and Corporate Affairs.

Anodyne Electronics Manufacturing Corporation (“AEM”)

Wholly-owned SMS subsidiary, Anodyne Electronics Manufacturing Corp (“AEM”), recorded \$15.619m in revenue and normalised EBITDA** for the year to 30 June 2021 of \$3.363m (inc. intercompany sales on an arms-length basis). This was a particularly impressive result given the significant impact of the Covid pandemic that affected both sales and production at the platform level, while concurrent supply chain difficulties encountered at multiple times during the year compounded the overall business impact.

This full year result, exceeding budget, is a tribute to the excellent team the Company has assembled in Kelowna, operating in extremely challenging conditions. Through tight expense control, and the higher margins achieved from stronger sales of AEM developed products, the Group was able to offset the effects of softer sales in contract manufactured products.

Looking ahead to the next financial year, SMS will continue to increase investment in R&D and sales team expansion which will result in a continuation of the transition to sales of higher margin, AEM developed products. The move to a new, vastly improved purpose-built facility in the December quarter, with the associated investment in the latest manufacturing equipment is expected to yield significant productivity improvements. Further, the new facility will provide the capacity to manufacture both the expected increased production volumes stemming directly from these R&D and sales investments, and also cater to the expected commercialisation and production ramp up of SMS’s CVM™ technology suite of products. Major equipment, inventory and staff transfer to the new facility will begin in October, and the facility is expected to be at, or close to, fully operational in late November/early December.

Directors and Management are constantly monitoring the Covid pandemic and are not in a position at this stage to provide firm forecasts on the effects it may have on operations for FY2022. Current visibility and realised activity levels, however, indicate that at this stage – in a similar vein to what transpired through H2-2021 – that core operations will be impacted by ongoing developments related to Covid. The SMS Board and management will continue to monitor the evolving global situation closely and regularly.

CVM™ Commercialisation Update and Outlook

2ku Wi-Fi & APB Programmes

The Federal Aviation Administration (“FAA”) has responded with questions to clarify some of the interpretive items in the data package for the Intelsat (GoGo) B737-800 2ku WiFi program and has established weekly conference calls with Delta Engineering (“DE”) to expedite the process.

SMS has now received routine addressable questions and comments from the FAA via DE in regard to the Supplemental Type Certificate (“STC”) application, Alternative Methods of Compliance (“AMOC”) application and probability of detection (“POD”) test report. The majority of the comments were directed towards the NDT Manual that details how to perform the CVM™ inspection, as well as the Test Report. Revisions of these documents clarifying the points in question have now been submitted to the FAA. In turn, the FAA has asked the DE ODA to submit the Statement of Compliance. At the current juncture, SMS is not aware of any additional required information necessary for the FAA to formally issue the AMOC and STC. At time of writing, the Company expects the full STC approval to be granted well before the end of calendar year 2021. Such an outcome will enable all expected commercialisation activities related to the Company’s CVM™ technology suite to begin in earnest, with an immediate global focus on the civil and military aviation sectors – encompassing both fixed-wing aircraft and rotorcraft.

Further, the Boeing Company (“Boeing”) continues to develop and proceed along the CVM™ certification process path for the B737 aft-pressure bulkhead (“APB”) application affecting a very large number of the world’s B737-NG fleet – this is fully independent to the process that has been underway for some time in relation to the Company’s STC approval steps under the authority of the FAA. Formative meetings with Boeing specialists and certification authorities, along with key FAA officials, have been held in the past month. Additionally, follow-up calls to discuss the test plan for supplementary POD data capture have been held, and the formal documentation is being drafted - following a similar process to the WiFi STC. Thus, progress to a final commercial outcome is now well advanced.

CVM™: Post-FAA Approval Marketing and Outreach

The largest and most important marketing initiative to date has been to support the DE-led initiative to achieve the first FAA-approved application for CVM™. The formal approval to use CVM™ as an alternative means of inspection from the largest aerospace regulator in the world will provide the necessary “blue sky” for the rest of the industry to adopt CVM™ for use on their respective fleets.

Upon formal approval, Rich Poutier, SMS Head of Global Business Development, will be in a position to:

- drive sales of CVM™ kits for those airlines that utilize *all* WiFi (not just GoGo) systems installed under STC and
- work with all major carriers to identify further use cases for CVM™ - more so given that the optimal path for regulatory approval process will be fully enacted and understood - by both SMS and the global civil aerospace industry.

More than 2,594 aircraft currently in service globally are fitted with the GoGo WiFi system, 1,600 of which are based in the USA. Rich Poutier, along with key members of the SMS Board and Management team, have met on multiple occasions with executives from a significant number of the global airlines that have the GoGo system installed, and continue to keep their respective management teams up to speed on the timelines expected for formal CVM™ approval.

In other activity, Delta Air Lines (“Delta”) continues to press Boeing and the FAA for additional use cases for CVM™ for the Delta fleet. The next sequential approval will very likely be for the APB structural inspection on Delta’s B737-NG fleet. To date, SMS and Delta have outfitted twenty (20) B737-NG individual aircraft with CVM™ kits and are now collecting data to support the current AMOC-approval process within Boeing. Further, Delta Tech Ops – Delta’s key technical and R&D arm – have now formally requested a quotation from SMS to outfit an additional seven (7) aircraft with APB CVM™ kits that will be included in Delta’s 2022 provisional budget.

In summary, as noted on multiple occasions, the upcoming FAA approval marks the pivotal commercial inflection point whereby SMS can directly identify the global total addressable market for the CVM™ sensor technology. The next phase of marketing will be to fully engage with the largest global airlines to drive sales in 2021/22, and beyond. The priority will be for applications under the purview of the FAA and/or Boeing. However, given the extensive and ground-breaking work that has been completed to date with the world’s major regulators and OEMs – including EASA and Airbus, amongst others - SMS will be pursuing all commercial routes to fully open up multiple global markets for CVM™.

Analysis Using Key Financial Performance Indicators and Milestones

As at 30 June 2021, the Group had approximately \$2.381m cash at bank, net of borrowings (2020: \$2.065m).

In this third full year of operations since the acquisition of AEM was completed in December 2017, the Group recorded a loss for the financial year of \$1.959m (2020: \$2.549m). The decrease in loss was incurred due in part to lower share-based payment expenses of \$1.116m (2020: \$1.952m). The Group also recorded revenue during the year of \$15.340m (2020: \$19.095m), a decrease of 20% year on year. Other key expenses during the year were consumables and raw materials used of \$8.258m (2020: \$10.204m) and employee costs of \$5.212m (2020: \$5.277m). Revenue has reduced as a result of supply chain constraints in the second half of the year brought about by chip shortages and the Covid pandemic. In accordance with IAS 38 *Intangible assets* the Group has capitalised development expenses of \$0.877m (2020: \$nil) incurred in the internal development of products at the commercialisation stage of development.

The Group EBITDA* for the financial year was (\$0.478m) (2020: (\$0.862m)). Normalised EBITDA** for AEM for the year ended 30 June 2020 was \$3.363m, inclusive of intercompany sales on an arms-length basis (2020: \$4.178m).

Loss per share for the financial year was 1.64 cents per share (2020: Loss per share 2.19 cents).

Net tangible assets at the reporting date were 8.81 cents per ordinary security (2020: 8.62 cents).

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At the reporting date the Group had net assets of \$14.414m (2020: \$13.401m). The Group had trade and other receivables of \$2.427m, inventory of \$7.088m and intangible assets of \$3.718m, including goodwill of \$1.454m. The key movements during the year were a decrease in borrowings of \$0.480m as cash balances net of borrowings increased by 15% during the year, ROU assets increased by \$0.210m due to investment in new plant and equipment under lease. ROU lease liabilities similarly increased by \$0.076m. Tax payable at year end decreased by \$0.640m as a result of decreased gross profit and increased lease payments recorded by AEM for the year. Deferred tax liabilities decreased by \$0.259m during 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 first half of 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 \$1.959m (2020: \$2.549m).

**Normalised EBITDA is calculated by adding back to EBITDA, SMS costs of \$0.728m borne by AEM.

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Consolidated statement of comprehensive income
For the year ended 30 June 2021

	Consolidated		Parent	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Continuing operations				
Revenue				
Sales	15,340	19,095	-	12
Cost of sales	(8,258)	(10,204)	-	-
Gross profit	7,082	8,891	-	12
Other income	664	73	337	73
Depreciation and amortisation	(967)	(1,052)	(2)	(39)
Employee expenses	(5,212)	(5,277)	(1,070)	(1,075)
Impairment charges	-	-	(387)	(446)
Loss on debt for equity swap	(52)	(127)	(52)	(127)
Occupancy expenses	(61)	(62)	(61)	(62)
Research and development expenses	(181)	(345)	(41)	-
Sales and marketing expenses	(284)	(738)	(340)	(585)
Share-based payments expenses	(1,116)	(1,952)	(1,116)	(1,952)
Administrative expenses	(1,114)	(1,604)	(382)	(472)
Operating loss before finance costs and tax	(1,241)	(2,193)	(3,114)	(4,673)
Finance income	1	3	-	-
Finance costs	(19)	(32)	(3)	(9)
Foreign exchange gains/(losses)	(204)	150	-	(1)
Income tax expense	(496)	(477)	-	-
Loss after finance costs and tax from continuing operations	(1,959)	(2,549)	(3,117)	(4,683)
Loss attributable to members of the parent	(1,959)	(2,549)	(3,117)	(4,683)
Other comprehensive income/(loss)				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Foreign currency translation	500	(273)	19	-
Total comprehensive income/(loss) for the year	500	(273)	19	-
Loss for the year attributable to owners of Structural Monitoring Systems plc	(1,459)	(2,822)	(3,098)	(4,683)
Loss per share (cents per share)				
Basic for loss from continuing operations	(1.64)	(2.19)		
Diluted for loss from continuing operations	(1.64)	(2.19)		

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Consolidated statement of financial position
As at 30 June 2021

	Consolidated		Parent	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Assets				
Non-current assets				
Loans to subsidiaries	-	-	11,162	11,397
Plant and equipment	444	342	3	5
Right-of-use assets	373	163	-	-
Intangible assets and goodwill	3,718	3,201	-	-
Total non-current assets	4,535	3,706	11,165	11,402
Current assets				
Trade receivables	2,427	2,991	86	3
Other receivables	511	363	22	116
Inventory	7,088	7,122	136	184
Cash and cash equivalents	2,381	2,545	-	-
Total current assets	12,407	13,021	244	303
Total assets	16,942	16,727	11,409	11,705
Liabilities				
Current liabilities				
Trade and other payables	1,926	1,504	434	245
Borrowings	-	480	-	-
Deposits	-	43	-	43
Lease liabilities	268	208	-	75
Tax payable	-	640	-	-
Provisions	126	-	-	-
Total current liabilities	2,320	2,875	434	363
Non-current liabilities				
Loans from subsidiaries	-	-	1,199	921
Lease liabilities	70	54	-	19
Deferred tax	138	397	-	-
Total non-current liabilities	208	451	1,199	940
Total liabilities	2,528	3,326	1,633	1,303
Net assets	14,414	13,401	9,776	10,402
Equity				
Equity attributable to equity holders of the parent				
Issued capital	31,949	31,946	31,949	31,946
Share premium reserve	36,492	35,967	36,492	35,967
Accumulated losses	(53,194)	(56,028)	(57,056)	(58,732)
Other reserves	(833)	1,516	(1,609)	1,221
Total equity	14,414	13,401	9,776	10,402

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Consolidated statement of cash flows
For the year ended 30 June 2021

	Consolidated		Parent	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Cashflows from operating activities				
Receipts from customers	16,569	19,499	254	82
Payments to suppliers and employees	(14,853)	(19,041)	(880)	(1,507)
Interest received	1	3	-	-
Interest paid	(19)	(119)	(3)	(10)
Net cash provided by/(used in) operating activities before tax paid	1,698	342	(629)	(1,435)
Income tax paid	(407)	(119)	-	-
Net cash provided by/(used in) operating activities	1,291	223	(629)	(1,435)
Cashflows from investing activities				
Payments for development expenses capitalised	(877)	-	-	-
Payments for plant and equipment	(287)	(78)	-	-
Net cash used in investing activities	(1,164)	(78)	-	-
Cashflows from financing activities				
Proceeds from issue of shares	503	887	503	887
Proceeds pending issue of shares	-	43	-	43
Issue costs	(18)	(12)	(18)	(12)
Repayment of lease liabilities	(410)	(386)	-	(75)
Loans from subsidiaries	-	-	144	592
Net cash provided by financing activities	75	532	629	1,435
Net increase in cash held	202	677	-	-
Cash and cash equivalents at beginning of year	2,065	1,562	-	-
Effect of foreign exchange on balances	114	(174)	-	-
Net cash and cash equivalents at end of year	2,381	2,065	-	-
Cash and cash equivalents	2,381	2,545	-	-
Borrowings	-	(480)	-	-
Net cash and cash equivalents at end of year	2,381	2,065	-	-

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Consolidated statement of changes in equity
For the year ended 30 June 2021

	Issued capital \$'000	Accumulated losses \$'000	Share premium reserve \$'000	Share-based payments reserve \$'000	Foreign currency translation reserve \$'000	Total \$'000
Consolidated						
At 1 July 2019	31,932	(54,543)	35,106	1,586	(1,703)	12,378
Loss for the year	-	(2,549)	-	-	-	(2,549)
Foreign currency translation	-	-	-	-	(273)	(273)
Total comprehensive loss for the year	-	(2,549)	-	-	(273)	(2,822)
Transactions with owners:						
Issue of performance rights to directors and staff/consultants	-	-	-	2,459	-	2,459
Issue of shares to directors and staff/consultants	10	515	873	-	-	1,398
Conversion of performance rights to shares	4	549	-	(553)	-	-
Share issue costs	-	-	(12)	-	-	(12)
Total transactions with owners	14	1,064	861	1,906	-	3,845
At 30 June 2020	31,946	(56,028)	35,967	3,492	(1,976)	13,401
At 1 July 2020	31,946	(56,028)	35,967	3,492	(1,976)	13,401
Loss for the year	-	(1,959)	-	-	-	(1,959)
Foreign currency translation	-	-	-	-	500	500
Total comprehensive loss for the year	-	(1,959)	-	-	500	(1,459)
Transactions with owners:						
Issue of performance rights to directors and staff/consultants	-	-	-	1,467	-	1,467
Issue of shares to directors and staff/consultants	2	-	543	478	-	1,023
Conversion of performance rights to shares	1	815	-	(816)	-	-
Expiry of performance rights	-	3,978	-	(3,978)	-	-
Share issue costs	-	-	(18)	-	-	(18)
Total transactions with owners	3	4,793	525	(2,849)	-	2,472
At 30 June 2021	31,949	(53,194)	36,492	643	(1,476)	14,414

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Consolidated statement of changes in equity (continued)
For the year ended 30 June 2021

	Issued capital	Accumulated losses	Share premium reserve	Share-based payments reserve	Foreign currency translation reserve	Total
	\$	\$	\$	\$	\$	\$
Parent						
At 1 July 2019	31,932	(55,113)	35,106	1,586	(2,271)	11,240
Loss for the year	-	(4,683)	-	-	-	(4,683)
Total comprehensive loss for the year	-	(4,683)	-	-	-	(4,683)
Transactions with owners:						
Issue of performance rights to directors and staff/consultants	-	-	-	2,459	-	2,459
Issue of shares to directors and staff/consultants	10	515	873	-	-	1,398
Conversion of performance rights to shares	4	549	-	(553)	-	-
Share issue costs	-	-	(12)	-	-	(12)
Total transactions with owners	14	1,064	861	1,906	-	3,845
At 30 June 2020	31,946	(58,732)	35,967	3,492	(2,271)	10,402
At 1 July 2020	31,946	(58,732)	35,967	3,492	(2,271)	10,402
Loss for the year	-	(3,117)	-	-	-	(3,117)
Foreign currency translation	-	-	-	-	19	19
Total comprehensive loss for the year	-	(3,117)	-	-	19	(3,098)
Transactions with owners:						
Issue of performance rights to directors and staff/consultants	-	-	-	1,467	-	1,467
Issue of shares to directors and staff/consultants	2	-	543	478	-	1,023
Conversion of performance rights to shares	1	815	-	(816)	-	-
Expiry of performance rights	-	3,978	-	(3,978)	-	-
Share issue costs	-	-	(18)	-	-	(18)
Total transactions with owners	3	4,833	525	(2,849)	-	2,472
At 30 June 2021	31,949	(57,056)	36,492	643	(2,252)	9,776

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3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>8.81</u>	<u>8.62</u>

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 2020 is based on the statutory accounts for the financial year ended 30 June 2020 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 2021 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 2021 or 2020 as defined by Section 434 of the Companies Act 2006.

8. Attachments

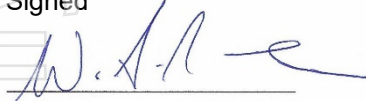
Details of attachments (if any):

n/a

9. Signed

Signed

Date: 31st August 2021

A handwritten signature in blue ink, appearing to read 'W. Rouse', is written over a horizontal line.

W. Rouse
Chairman

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