



## **SMS Completes a Further Milestone Transaction Expected to Generate Significant and Sustained Valuation Upside**

### **Summary of Key Highlights:**

- SMS, via its wholly owned subsidiary AEM, purchases key avionics division, Eagle Audio, from Eagle Copters Ltd., Calgary
- Purchase price of \$C4.281 million (with \$C360k of the purchase price to be held in Escrow for one year).
- SMS Group gains annual top-line sales increase of ~\$A3.500 million and *exceptional*, baseline EBITDA addition of circa-\$A2.200 million per annum (*per last 3-year actual averages*)
- Entire transaction internally funded through cash and use of existing, low-cost debt facilities
- Price includes approx. \$C1.0 million in tangible assets (inventories and plant/equipment) plus IP and STC certifications (through established USA subsidiary) and related process manufacturing/engineering documentation
- AEM now controls stable, minimum normalised EBITDA of circa-\$A5.500-6.000 million per annum
- Purchase price of Audio division is barely 2x long-term, stable normalised-EBITDA
- Audio business is a simple “plug and play” proposition – AEM’s existing platform scale, efficiency and capabilities expected to materially increase top-line, and net, performance metrics with effectively zero required overhead addition
- Per AEM platform’s performance, Eagle Audio sales were stable/non-impacted through COVID
- SMS Group long-term valuation proposition and operational integrity now fully secured
- Expected Group future revenue upside is significant – due to CVM™ commercialisation and anticipated strong platform growth and AEM-IP/high-margin sales development within AEM

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2<sup>nd</sup> September 2021

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Structural Monitoring Systems Plc ("**SMS**" or "**the Company**") (ASX: **SMN**) is pleased to provide the following updated information in relation to this groundbreaking transaction, whereby SMS has purchased the Audio products business division from Eagle Copters Ltd., Calgary, Canada ("**Eagle**").

### Transaction Background:

Several accretive and complementary transactions have been under consideration since the Company's acquisition of the entire AEM business in Q4-2017, and until now, these opportunities were all selectively passed over for various reasons.

In light of the Eagle Audio transaction, it is regarded – simply, and easily – as *"the best add-on opportunity we have found since acquiring AEM in late-2017 – a deal that will provide major value upside for the Company, and sits right in our wheelhouse. Post the close of this transaction we will continue to aggressively search for, identify and execute further add-on acquisitions that are able to further leverage the rapidly evolving capability and capacity of our existing platform - in addition to supporting the near-term exciting CVM™ rollout"* – Will Rouse, SMS Group Chairman.

### Recap of Key Transaction Metrics

- Target acquisition was a division of Eagle Copters Ltd <https://www.eaglecopters.com/> (existing AEM customer, with long-term strong and non-competitive relationship).
- Purchase price \$C4.281 million, with annual top-line sales circa-\$A3.500 million, minimum normalised EBITDA circa-\$A2.200 million. To date, Eagle Audio's business net performance, and total top-line sales, have exhibited robustness and stability through the entire COVID pandemic.
- Key customer segments: rotary and fixed-wing aircraft (OEM's, law enforcement, EMS, Coast Guard, military, forestry, firefighting etc.).
- Purchase price includes approx. \$C1.000 million in tangible assets - plus IP/supplemental type certificate ("**STC**") certifications (through wholly-owned US-subsiidiary, domiciled in Washington state) and related process manufacturing/engineering documentation.
- The Audio business represents a straightforward and direct merge into AEM's existing platform in Kelowna, with zero to negligible additional overhead requirement, and full transitional support, as/if required, available from Eagle.
- Transaction Purchase Agreement ("**PA**") has been fully executed and is legally binding on both Parties. The transaction will close on the 10<sup>th</sup> September 2021.
- ASX has confirmed that Listing Rules 11.1.2 and 11.1.3 do not apply to the Transaction and therefore no shareholder approval is required.

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2<sup>nd</sup> September 2021

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### Recap of Tangible and Intangible Strategic Benefits

Immediate, baseline annual normalised-EBITDA add-on for SMS Group is circa-\$A2.200 million. Post-close AEM's annual normalised-EBITDA is expected to be floored at circa-\$A5.500-6.000 million.

- Simultaneously accelerates, and complements, AEM's current, and substantial, audio R&D effort (which includes "next-gen" products now partly developed, and advancing to full commercialisation) providing additional growth momentum to annual EBITDA
- Provides clear, new R&D pathways into related product areas.
- Provides AEM platform access to Eagle's broad customer base, strategic relationships and suppliers. Conversely, the transaction will enable AEM to leverage Eagle's products into AEM's existing customer base - particularly fixed-wing OEMs and operators.
- Further cements the existing and ongoing AEM/Eagle relationship – Eagle is, and will remain, a key AEM customer.
- Materially broadens the scale and depth of AEM's avionics product offering – which in turn will enhance AEM's market position and reputation.
- Provides a positive effect on AEM staff (circa-100 employees) and opportunities for personal career development and growth.
- The transaction requires no necessity to manage a remote operation (which would otherwise have required additional AEM management bandwidth). The Eagle Audio division will be brought entirely "in-house" at AEM's new, state-of-the art Kelowna, BC facility, while AEM has the full option to hire/onboard specific talented and experienced R&D engineers from Eagle.

### Deal Funding Metrics

To recap, the full acquisition cost to purchase the Eagle Audio business is \$C4.281m. The cost of debt for the proportion of the acquisition that the Company will debt fund via its existing credit facility with HSBC Bank Canada is circa-3.5% per annum (this is the Canadian Prime Rate *plus* 1% margin).

The current, and historically verified, annual EBITDA addition to the Group's bottom-line net performance is circa-\$A2.200 million - this results in an extremely attractive net return on investment ("ROI") of circa 43%.

A condition precedent to the HSBC credit facility is evidence of raising a minimum of \$C1.000 million. This will be satisfied by SMS director Stephen Forman's agreement to provide an unsecured, short-term loan to AEM of \$US800,000 on commercial terms for a 12 month period. Interest payable under the loan is at 6% per annum.

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2<sup>nd</sup> September 2021

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When combined with the Q4-2017 full purchase of AEM by SMS (total investment of \$C10 million to purchase the AEM business in full), the fully-loaded cost of the combined acquisitions i.e. \$C14.281million) will produce ongoing, *floored* normalised EBITDA of circa \$A5.500-6.000 million per annum.

*This equates to a realised annual ROI to the SMS Group of 39– 42% - with potentially significant further earnings upside to flow from near-term AEM/IP product development and launches, material platform efficiencies and economies of scale and the ability to generate outsized “in-house” innovation premia across the AEM platform’s production output and final sales.*

In summarising the Eagle transaction, Toby Chandler, SMS Group CEO, stated:

*“Less than four years ago, SMS purchased 100% of AEM, for \$C10 million. To date, this has been an overwhelmingly positive and value-accretive transaction for the Company, and all stakeholders. With the addition of the Eagle Audio business, and potential further acquisitions that will be considered over the coming quarters, today the value of the AEM platform is multiples of the purchase price SMS historically paid.*

*Additionally, we now look forward to the forthcoming, and very exciting, commercialisation of the Company’s unique and disruptive CVM™ technology suite. We have navigated a long road to get here, and as a result, have secured a highly protected and world-leading ability to introduce CVM™ to the world’s civilian and military global fixed-wing and rotorcraft industries.*

*Beyond a successful commercial execution in the aerospace arena, the Company also has the enviable position to identify and exploit the multiple opportunities that exist for CVM™ in many global industries - fully separate to aerospace.”*

### **CVM™ Final Commercialisation Milestone – End Note**

As explicitly referenced in recent ASX Releases, SMS has achieved some significant milestones related to the full development of, and final global commercialisation hurdles for, the Company’s CVM™ technology suite of products. *In this regard, SMS is expecting to be dedicating a separate and complete explanatory Announcement in the near-term to fully update investors with respect to pivotal final CVM™ STC developments, and the sequenced outreach and commercialisation strategies to be undertaken immediately thereafter. The timing expectation for this Release, at the current juncture, is early-Q4CY2021.*

Leading the Eagle Audio transaction for SMS were Toby Chandler and Will Rouse, together with Brian Wall (Chief Executive Officer, AEM) and Tony Weller (Director of Sales & Marketing, AEM).

***This announcement is authorised by the Board.***

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