

ASX ANNOUNCEMENT

ASX: SMN

8th November 2017

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STRUCTURAL MONITORING SYSTEMS EXECUTES LANDMARK TRANSACTION – PURCHASES 100% OF ANODYNE ELECTRONICS MANUFACTURING CORP

HIGHLIGHTS:

- SMS to purchase 100% of Anodyne Electronics Manufacturing Corporation (“AEM”) for C\$10 million – approx. 5x rolling five-year EBITDA of C\$2 million per annum
- AEM is SMS’s aerospace-certified contract manufacturer, and independently is a leading designer and manufacturer of a wide range of aerospace products including avionics, aircraft audio systems, intercoms, tactical FM radio systems, illuminated panels and display products, external PA systems, audio amplifiers, audio adapters and remote switch assemblies
- The acquisition will result in a fully integrated R&D and manufacturing platform for SMS’s CVM™ sensors and related equipment
- Based on the embedded total cost of producing CVM™ sensors and related peripheral equipment, and the commercial pricing structure SMS is establishing globally, SMS will generate, and fully control, very significant gross margins on all CVM™ sales post the acquisition of AEM
- The purchase of AEM allows SMS to fully oversee, control and vertically integrate the critical manufacturing, engineering and testing of the Company’s CVM™ technology platform – coinciding with the commencement of SMS’s full global commercial rollout of CVM™ to major aerospace OEMs and airlines. The AEM purchase fully de-risks SMS’s functional capacity to meet the requirements of this global commercial rollout
- SMS is buying AEM at an attractive earnings multiple with no current revenue contribution from SMS’s CVM™ technology platform, and AEM’s approx. C\$2 million per annum of EBITDA is generated after all SMS platform costs have been borne (approx. C\$400-500k per annum)
- There is considerable embedded-value and “optionality” in AEM’s legacy (non-SMS) business platform. SMS management is targeting an increase in legacy AEM EBITDA of 30-45% (approx. C\$2.7 to C\$3.3 million) over three years, and to grow the business valuation to, conservatively, an EBITDA multiple of 6-8x. This would result in a value range of C\$16.2 to C\$26.4 million for AEM’s legacy business. This excludes the significant positive future effect of SMS-related revenue that will be realised by AEM
- SMS will be appointing highly experienced banker and finance executive William Rouse to the SMS Board as an Executive Director, to oversee the acquisition and continued operations of AEM.

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Structural Monitoring Systems Plc ("SMS" or "the Company") (ASX: SMN) is extremely pleased to report that after a comprehensive due diligence process, SMS has executed a Share Sale Agreement ("SSA") with Anodyne Electronics Holding Corporation ("AEM"). A summary of the transaction, background information and other key information follows.

Benefits to SMS Shareholders:

Vertical integration of the Platform – SMS, by virtue of its broad technology development and maturity, and crucially due to the Company's commercial contract with Delta Airlines, is no longer operating as an "R&D focused IP silo".

The Company is now dealing at arms length, on a fully commercial basis, with some of the world's pre-eminent aerospace companies to fully integrate CVM™ into the global aerospace industry. The acquisition of AEM creates a turnkey, vertically integrated platform of 90+ personnel and 8 divisions – Sales, R&D, Finance, Human Resources, Quality Control, IT, Manufacturing and Maintenance/Repairs. Delta, and other large aerospace customers, expect SMS to either independently build a more robust platform or enter into a transaction of this nature. As such, SMS Management views this acquisition as strategically paramount.

Management Control – SMS Management will control all the critical decisions relating to engineering of sensors and equipment, R&D work, quality assurance and manufacturing. This will help safeguard a flawless execution at one of the most critical stages of the Company's growth.

Operational Efficiencies – SMS now has the ability to use AEM's sales team, back office, IT and order processing systems either tactically or on a permanent basis to streamline the global CVM™ platform business.

Free Cash Flow – AEM generates a consistent C\$13m in top line revenue and in excess of C\$2m in normalised-EBITDA annually. This free cash flow can be reinvested in SMS-related activities including marketing, R&D and capital equipment or be used to fund dividends and/or share buy backs. Further, SMS, via arms length transfer pricing mechanisms, can more efficiently use of the substantial net operating loss ("NOL") carry-forwards for the benefit of shareholders.

AEM Overview:

Anodyne Electronics Manufacturing Corp. designs and manufactures electronics for the aerospace industry. It serves customers across the Americas, and internationally, delivering an extensive range of products through contract manufacturing arrangements, also under its own proprietary designs and brand. Operating from its facility in Kelowna, BC, and employing over 90 staff, AEM has built a reputation for providing high quality products such as avionics, intercom systems, audio amplifiers, aircraft audio systems, tactical FM radio systems, illuminated panels and display products, remote switch assemblies, and external PA systems. It holds key certifications required by Canadian and international regulators,

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which permit it to supply products to the aerospace industry, and have allowed the Company to build an impressive customer roster that includes leading global aerospace OEMs and an extensive network of aircraft dealers. The Company also operates a repair and refurbishment segment, servicing the long-term needs of the aerospace industry to maintain aging aircraft with certified parts and components.

AEM commenced operations in 2009, after Northern Airborne Technology Ltd ("NAT") elected to discontinue the majority of its manufacturing operations in Canada. This provided the opportunity for Dave Veitch, AEM President and Founder, with a group of long-time, highly skilled NAT employees, to launch a vertically integrated business that would continue to manufacture select product lines for NAT and its parent companies, Cobham plc (the UK's 5th largest defence firm, and FTSE-250 constituent) and Chelton Avionics, Inc. ("Cobham"). AEM has successfully leveraged deep technical expertise, its relationship with Cobham, and a robust market for aerospace products to substantially diversify its revenue base and position itself for meaningful future growth.

SMS Related Activity:

In 2011, AEM partnered with SMS to design and manufacture CVM™ sensors and related equipment for the aerospace industry. AEM has contributed its expertise throughout the research and development phase, and is solely responsible for manufacturing all of SMS's CVM™ product lines. AEM has invested heavily in dedicated personnel, Capex and Opex to optimise and perfect SMS's CVM™ technology activities. This investment includes the hiring of dedicated engineering, R&D and manufacturing staff for SMS products, the full build-out and development of critical facilities including technology clean room, environmental testing, and the full array of manufacturing and testing equipment required for sensor manufacturing.

AEM Financial Highlights:

AEM earned approx. C\$13.0 million in revenue and C\$2.0 million in normalized EBITDA in FY2016. The Company's historical revenue and EBITDA consistency has been greatly supported by the continued strength of its key relationship with Cobham, and adjustment of its sales mix towards increasingly AEM-branded, higher value product lines. AEM leadership has built a platform for this trend to continue, as its new product lines ramp up and new customer relationships begin to yield added dividends, while direct Cobham sales are expected to also increase in absolute terms.

Cobham is a GBP3.25bn market cap company listed on the London Stock Exchange. AEM's relationship with Cobham has evolved since the Company's founding, and in 2015 a renewed set of 5-year continuation Agreements were signed. AEM's interactions with Cobham fall into three broad categories,

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which vary in terms of revenue model and responsibility, including:

Category 1A - Contract Manufacturing: Cobham markets and sells products, which are manufactured by AEM. The manufactured product is shipped and invoiced to Cobham, who maintains responsibility for customer service and R&D.

Category 1B - Contract Manufacturing with Customer Service and R&D: Cobham markets and sells products, which are manufactured by AEM. AEM delivers the product directly to the end customer, provides customer support, and supports R&D with design improvement and obsolescence solutions. This is considered Cobham-related revenue.

Category 1C - Licensed Manufacturing: AEM markets, manufactures, delivers and services products under a licensing agreement with Cobham for sale to third parties. As these sales are not directed by Cobham, they are considered part of the non-Cobham related revenue.

Key Industry Relationships:

AEM has built relationships with many OEMs, Tier 1 to Tier 3 suppliers, other manufacturers, as well as a global network of aircraft and component dealers, which has allowed it to diversify its revenue base and product and service offering. Becoming an OEM-certified manufacturer is definitively a long-term, time and cost intensive process. These relationships hold substantial value for the future of AEM's legacy businesses, given the buying power and broad influence that global OEMs represent.

Industry Position:

As a result of the unique aerospace industry structure, the ability to deliver value from the design stage (product development and advisory), to manufacturing (delivery of consistently high-quality products), through to fleet maintenance (repair, refurbishment and replacement) is a highly sought-after capability. AEM participates in OEM manufacturing programs as a Tier One, Two and Three supplier, depending upon the program and platform. AEM is well positioned to take advantage of the expanding global aircraft fleet, offering niche capabilities in the design and manufacturing of components for legacy platforms, repair and refurbishment services, and new, innovative products designed for inclusion in future aircraft.

AEM holds the certifications necessary to act as both product designers and system manufacturers allowing them to provide products to markets world wide.



Barriers to Entry:

AEM holds Canadian and international certifications that enable it to serve the highly regulated aerospace industry with manufacturing and repair services. These certifications provided a platform to grow and diversify its customer base, and represent a significant barrier to entry for new market participants. The Company encompasses technological and engineering know-how that outpaces the number of years it has been in operation; production of aerospace electronics requires a highly skilled workforce and deep technical expertise that can be challenging to find and develop.

AEM - Stable Platform and Management Team:

The average employee age is approximately 45.6 years, and the average tenure with AEM is 5.38 years. AEM was founded in 2009 with 47 employees, carrying an average tenure of 6.2 years with NAT into the newly formed business. Today 31 of the original 47 employees continue to work with AEM, contributing to the deeply skilled and experienced workforce that has enabled the Company's success.

AEM's leadership team has implemented a succession plan, to transfer day to day operational responsibility from Dave Veitch and Ray Lewis to the next generation of Company management. This has included: creation and filling of the VP Operations role in August, 2015 to transition operational responsibilities historically held by Dave Veitch; and creation and filling of the Sales Manager role in April, 2016 to begin to transition sales and marketing responsibilities of Ray Lewis, VP Business Development.

Importantly, to facilitate the smooth transition from AEM to SMS ownership, Dave Veitch has agreed to a 18-month professional services agreement to act as the "transitional" President of AEM. In addition, Ray Lewis, while stepping down from the SMS Board, will remain in his position as Head of Business Development for a period of at least one year, to be extended to 2 years as mutually agreed with SMS management.

Appointment of William Rouse to the SMS Board:

SMS is pleased to announce that Mr. William ("Will") Rouse will join the SMS Board as an Executive Director to oversee the acquisition and continued operations of AEM. Will is an experienced senior banker, finance executive and "serial entrepreneur" focused on the acquisition and optimised growth of specialised manufacturing-related businesses. In his last role, Will acquired Simcro Ltd ("Simcro") in 2007, a New Zealand-based export-manufacturer. Will sold his majority stake in Simcro in 2013 to The Riverside Company, a New York private equity group, retaining a 20% shareholding. Simcro then acquired two further operating businesses in NZ and Australia in 2015, with Will leading these acquisitions. Simcro was recently sold to a global multinational. Will is a Chartered Accountant and remains on the Board of Simcro.

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Due Diligence:

Advising SMS on this transaction were:

- Holding Redlich (Melbourne) and Fasken Martineau DuMoulin (Toronto) - Legal,
- RSM (Perth) and Grant Thornton (Vancouver) - Tax and Financial Due Diligence, and
- Grant Thornton (Sydney) – Independent Expert's Report

Final Steps:

- By virtue of ASX ruling 10.1, the Company will seek shareholder approval of the Transaction at the forthcoming AGM
- Grant Thornton (Sydney) will complete the required preparation of the Independent Expert's Report ("IER") to be inserted in the AGM Notice of Meeting, reviewing the transaction for the benefit of shareholders, Management and the Board.

Commenting on behalf of SMS, Mike Reveley, Executive Director, commented: "The AEM acquisition is a milestone next step for the Company. Negotiations with aerospace OEMs and operators are now centred around the ability of SMS to meet the unique challenges presented by aircraft fleets operating 24/7 around the globe. The ability to control all aspects of our operations from R&D to manufacturing to quality assurance and shipping is critical. The 90+ dedicated and professional staff at AEM, combined with the added strength of our consolidated financial position, satisfies all the necessary requirements to achieve our growth objectives."

David Veitch, President and Founder of AEM, further noted: "The forthcoming purchase of AEM by SMS has many positives for both companies. SMS will benefit from AEM's certifications to manufacture and repair aviation equipment and its strong administration. AEM will benefit by expanding its customer base as well as increased utilisation of its existing facility which will lower the cost base for all its manufacturing."

Trevor Lynch-Staunton, SMS Chief Technology Officer, added: "As SMS's technology leader, and a long-term member of the AEM team, I am genuinely pleased regarding the Company's acquisition of AEM. Over the past five years, I have enjoyed a very strong relationship with my colleagues at SMS, and all of our global aerospace counterparts. Without hesitation, I welcome the strategic bond, and the new commercial reality, that this acquisition will provide. Looking forward, the ability to grow SMS's technology footprint, AEM's legacy businesses, and the impact CVM™ will have in multiple structural health monitoring technology applications globally, is now stronger and unbridled. The extensive experience AEM has as an avionics specialist, tied in with SMS - a clear structural health monitoring world-leader, provides the necessary components and breadth required for this new group to truly flourish."

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