

# Structural Monitoring Systems

## 80% of low-end revenue guidance covered

Structural Monitoring Systems (ASX:SMN) is a vertically-integrated designer, developer, manufacturer and marketer of niche products and solutions for the aviation industry. SMN has provided an update to guidance provided for FY25 on November 1, where revenue was guided to \$30m-\$34m, +14% at the midpoint on FY24, and for EBITDA of between \$7.6m and \$9.1m, +300% at the midpoint on FY24. The update suggests 80% or \$24m of the \$30m low-end revenue guidance is now contracted following a successful year-end sales campaign for the new Forest Radio product. Additional contracted sales and CVM™ certification by the US Federal Aviation Authority (FAA) in H2 FY25 are the key variables in hitting the top-end of revenue guidance. FAA certification triggers a ~US\$2m payment by Delta Airlines for the fit-out of 71 B737 aircraft, most of which drops to the bottom line. Management also noted C\$2.2m (\$2.4m) of annualised cost savings and a final capital raise amount of C\$6.2m (\$6.8m) after costs. Our numbers remain unchanged, with revenue forecasts at the top-end of guidance and EBITDA at the mid-point of guidance. Our DCF remains unchanged at \$0.78/share.

### Business model

SMN has three distinct business units that all have niche aviation applications at their core. AEM Avionics designs and manufactures products for special mission aviation industries. AEM Contract Manufacturing manufactures products for a select group of third-party aviation players. CVM™ Smart Sensors is in the process of commercialising a crack detection monitoring solution initially designed for use in Boeing 737 aircraft with wider applications medium term. We believe the keys to profitability for this business are the efficient utilisation of manufacturing capacity, new product development including securing key certifications and customer relationships.

### Guidance supported by contracted revenues and cost outs

SMN delivered a maiden profit at the EBITDA line in FY24 (\$2.4m) and management has forecast an acceleration over FY25 with guidance of \$7.6m to \$9.1m (RaaS \$8.5m) on higher revenues as key new products are brought to market. In Avionics, the new Aerial Firefighting or Forest Radio has seen significant orders in December 2024 and H2 FY25 aided by new certifications. \$24m or 80% of the low-end of revenue guidance is now contracted for FY25. Hitting the top-end of guidance now comes down to final certification for the CVM™ crack detection solution, which will trigger contract payments with Delta Airlines (\$2.9m) and any additional orders across the portfolio. Annualised cost savings of \$2.4m and the higher-margin own brands replacing lower-margin contract manufacturing are key to delivering the EBITDA guidance.

### Valuation of \$0.78/share or \$118m market cap

There are a number of niche manufacturers listed on the ASX, but most are loss making and microcap in nature. The metrics of peers we have selected as somewhat comparable have limited application when valuing SMN due to a wide variation across key multiples. As a result, we use a DCF as our preferred valuation methodology and derive a valuation of \$0.78/share post the capital raise. Key assumptions include first CVM sales in H2 FY25, medium-term penetration rates for new products and a medium-term growth rate of 10%.

#### Historical earnings and RaaS' estimates (in A\$m unless otherwise stated)

Year end	Revenue	Adj. EBITDA	Adj. NPAT	Adj. EPS	EV/EBITDA (x)	EV/Rev (x)	PER (x)
06/23a	22.4	(0.3)	(3.3)	(0.02)	nm	5.9	nm
06/24a	27.9	2.4	(0.7)	0.00	29.1	4.8	nm
06/25f	34.2	8.5	3.7	0.03	7.9	3.4	15.3
06/26f	40.4	11.3	5.7	0.044	5.8	2.8	10.8

Source: FY23 and FY24 actual, RaaS estimates FY25f and FY26f

Technology hardware & equipment

20 December 2024

#### Share Details

ASX code	SMN
Share price (19-Nov)	\$0.46
Market capitalisation	\$70.0M
Shares on issue	151.2M
Net Debt at 30 Sep-24*	\$2.8M
Free float	~68%

\*Pro-forma Post Raise

#### Share Performance (12 Months)



#### Upside Case

- Full CVM certification
- New product launches
- New industry use cases

#### Downside Case

- Further delays in CVM certification
- Increased competition
- Ability to fund growth

#### Catalysts

- CVM certification
- Demonstration of sustained earnings
- Access funding to accelerate growth

#### Board of Directors & Management

Ross Love	Executive Chair/CEO
Gary Elwell	CFO
Brian Wall	Non-Executive Director
Sam Wright	Director & Co. Secretary
Heinrich Loechteken	Non-Executive Director

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## Updates to November Guidance

Management has provided an update to FY25 financial guidance given on November 1, with key points including:

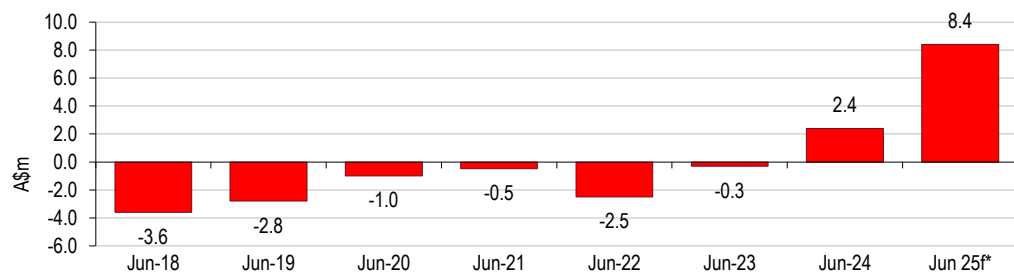
- **80% (or \$24m) of the low-end of revenue guidance (\$30m-\$34m)** is now contracted following a successful December sales campaign for the new Forest Radio, on-top of orders already received for delivery H2 FY25.
- **Annualised cost savings of C\$2.2m (\$2.4m) achieved, which helps support the adjusted EBITDA guidance of \$7.6m-\$9.1m** (midpoint \$8.4m and RaaS estimate of \$8.5m), up from the \$2.4m reported in FY24.
- **Forecast for positive operating cashflows for the balance of FY25** following the payment of restructuring costs and outstanding payable obligations.
- **A successful capital raise with C\$6.2m (\$6.8m) raised after fees**, in-line with forecast. This now provides the group ~\$5.5m for product development across a number of potential projects.

FAA certification of the CVM™ Aft Bulkhead Pressure (ABP) solution in H2 FY25 and further orders across the portfolio are now key to hitting the top-end of revenue guidance, and therefore EBITDA guidance. FAA certification triggers the final ~US\$2.0m (\$2.9m) contractual payment with Delta Airlines.

Forest Radio and CVM™ revenues are forecast by management to be at a higher gross margin than the contract manufacturing business, aiding EBITDA.

FY24 delivered the first positive EBITDA since the acquisition of AEM in 2017, and as Exhibit 1 shows management guidance implies an acceleration of this growth into FY25.

**Exhibit 1: SMN EBITDA history – FY18-FY25f (A\$m)**



Source: Company data \* Midpoint of management guidance for FY25

## Valuation

Given a lack of meaningful industry peer metrics, we revert to a DCF as our primary valuation methodology. We have constructed a DCF valuation based on our earnings estimates out to FY28 and modest medium-term growth assumptions thereafter. The result is our valuation of \$0.78/share.

We would highlight the following as being key drivers/assumptions of this valuation:

- 10.9% discount rate incorporating a beta of 1.1x, RFR 4.0% and equity risk premium of 6.5%;
- Medium-term growth beyond the forecast period of 10.0%;
- Perpetuity growth rate of 2.2%;
- 63% penetration of the aerial firefighting radio market and 40% penetration of the B737 fleet by FY28, with no further applications assumed; and
- No acquisitions.

**Exhibit 2: SMN base-case DCF valuation (in A\$m unless otherwise stated)**

Parameters	Outcome
Discount rate /WACC	11.2%
Beta	1.1x
Terminal growth rate assumption	2.2%
Sum of PV (\$m)	40.2
PV of terminal value (\$m)	75.7
PV of enterprise (\$m)	115.9
Debt (cash) @ June 2025 (\$m)	-1.1
Net value – shareholder (\$m)	117.1
No. of diluted shares on issue (m)	151.2
NPV (\$/share)	<b>\$0.78</b>

Source: RaaS estimates

## Investment Case Revisited

We detail our short- and medium-term investment case for SMN below:

**Profitable at the EBITDA line.** SMN finished FY24 with a first time RaaS adjusted EBITDA profit of \$2.4m, and we forecast an acceleration in EBITDA for FY25 with adjusted EBITDA guidance of \$7.6m to \$9.1m.

- **Two fundamental drivers of growth into FY25 and beyond.** The entry of AEM’s modern Aerial Firefighting Radio solution for mission-critical applications is likely to have an addressable market of 3,000 aircraft or an estimated market opportunity of US\$45m, with RaaS estimates calling for ~65% penetration by FY28.

After ~15 years in development the Aft Pressure Bulkhead (APB) test solution CVM™ is nearing certification. The initial target of this product is Boeing 737 aircraft, of which management estimates there are 711 in the sky currently. This implies a near-term market opportunity for SMN of US\$45m on RaaS estimates. We note further applications exist across other Boeing models, other OEM models and applications outside airlines that are not incorporated in our estimates.

- **The gross margin mix is set to improve,** with existing lower margin contract manufacturing capacity to be replaced over time by the higher margin internal IP products such as CVM and the Aerial Firefighting Radio. We forecast gross margin to grow from the 52.4% reported in FY24, to closer to 65% by FY28, which also feeds into improved working capital ratios, particularly inventory.
- **Many of SMN’s products have a barrier to entry** given the certification process across a range of aviation authorities and special mission authorities. To aid this process a number of products are designed in conjunction with these authorities and users in mind.
- **Options to accelerate growth.** SMN has a number of potential projects for new product development and ~\$5.5m in funds post the recent capital raise to explore such opportunities .
- **Valuation.** There are a number of niche manufacturers listed on the ASX, but our selected comparables have limited application due to significant variation across key multiples. As a result, we defer to a DCF valuation and arrive at \$0.78/share.

**Exhibit 3: SMN Financial Summary**

Structural Monitoring Systems (SMN.ASX)						Share price (19 December 2024)						A\$	0.460				
Profit and Loss (A\$m)						Interim (A\$m)						H123	H223	H124	H224	H125F	H225F
Y/E 30 June	FY22A	FY23A	FY24A	FY25F	FY26F	Revenue	10.1	12.3	13.3	14.6	15.8	18.4					
<b>Revenue</b>	15.7	22.4	27.9	34.2	40.4	EBITDA	(0.2)	(0.1)	0.7	1.7	2.4	6.1					
Gross Profit	8.0	11.6	14.6	21.0	25.0	EBIT	(1.5)	(1.2)	(0.5)	0.6	1.3	4.9					
Operating costs	10.5	11.9	12.2	12.5	13.8	NPAT (adjusted)	(1.8)	(1.6)	(0.8)	0.1	0.5	3.2					
<b>Underlying EBITDA</b>	<b>(2.5)</b>	<b>(0.3)</b>	<b>2.4</b>	<b>8.5</b>	<b>11.3</b>	Adjustments	0.5	(0.5)	(0.9)	0.5	0.0	0.0					
Depn	(0.6)	(1.6)	(1.5)	(1.6)	(1.6)	NPAT (reported)	(1.3)	(2.0)	(1.7)	0.6	0.5	3.2					
Amort	(1.0)	(0.7)	(0.7)	(0.7)	(0.7)	EPS (normalised)	(0.010)	(0.015)	(0.013)	0.005	0.004	0.024					
<b>EBIT</b>	<b>(4.1)</b>	<b>(2.6)</b>	<b>0.1</b>	<b>6.2</b>	<b>8.9</b>	EPS (reported)	(0.010)	(0.010)	0.005	0.005	0.004	0.024					
Interest	0.0	(0.7)	(0.7)	(0.9)	(0.8)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000					
Tax	0.0	0.0	(0.1)	(1.6)	(2.4)	Operating cash flow	(1.2)	(0.3)	0.8	0.2	na	na					
<b>Adj. NPAT</b>	<b>(4.1)</b>	<b>(3.3)</b>	<b>(0.7)</b>	<b>3.7</b>	<b>5.7</b>	<b>Divisionals</b>	<b>H123</b>	<b>H223</b>	<b>H124</b>	<b>H224</b>	<b>H125F</b>	<b>H225F</b>					
Adjustments	0.4	(0.0)	(0.3)	0.0	0.0	<b>Revenue</b>	<b>10.1</b>	<b>12.3</b>	<b>13.3</b>	<b>14.6</b>	<b>15.8</b>	<b>18.4</b>					
<b>Adjusted NPAT</b>	<b>(3.6)</b>	<b>(3.3)</b>	<b>(1.0)</b>	<b>3.7</b>	<b>5.7</b>	Avionics	4.6	4.8	4.5	6.6	6.8	9.0					
Minorities	0.0	0.0	0.0	0.0	0.0	Contract Manufacturing	5.3	7.3	8.7	8.0	8.8	6.4					
<b>NPAT (reported)</b>	<b>(3.6)</b>	<b>(3.3)</b>	<b>(1.0)</b>	<b>3.7</b>	<b>5.7</b>	CVM	0.2	0.2	0.1	0.0	0.1	3.0					
<b>Cash flow (A\$m)</b>						<b>Operating Costs</b>											
Y/E 30 June	FY22A	FY23A	FY24A	FY25F	FY26F	COGS	5.3	5.6	7.4	5.9	7.3	5.9					
EBITDA (inc cash rent)	(2.9)	(1.5)	1.2	7.3	10.1	Employee (ex SBP)	3.7	4.6	3.5	5.2	4.0	4.5					
Interest	0.0	(0.7)	(0.7)	(0.9)	(0.8)	Sales & Marketing	0.4	0.7	1.0	0.1	1.1	0.1					
Tax	0.7	0.2	0.2	(1.6)	(2.4)	R&D	0.1	0.5	0.1	0.8	0.2	0.8					
Working capital/Other	(1.9)	0.0	(0.2)	(3.2)	(1.2)	General & Admin	0.9	1.0	0.7	1.0	0.8	1.1					
<b>Operating cash flow</b>	<b>(4.1)</b>	<b>(2.0)</b>	<b>0.5</b>	<b>1.6</b>	<b>5.6</b>	<b>Total costs</b>	<b>10.3</b>	<b>12.3</b>	<b>12.6</b>	<b>12.9</b>	<b>13.4</b>	<b>12.3</b>					
Capitalised IT spend	(0.6)	(1.1)	(1.2)	(1.0)	(1.1)	EBITDA	(0.2)	(0.1)	0.7	1.7	2.4	6.1					
Capex	(0.3)	(0.3)	(0.2)	(1.2)	(1.3)	EBITDA margin	(2.3%)	(0.5%)	5.1%	11.7%	15.2%	33.0%					
<b>Free cash flow</b>	<b>(5.1)</b>	<b>(3.4)</b>	<b>(0.9)</b>	<b>(0.6)</b>	<b>3.3</b>	D&A	-1.2	-1.1	-1.1	-1.2	-1.2	-1.1					
Acquisitions/Disposals	(4.4)	0.0	0.0	0.0	0.0	EBIT	-1.5	-1.2	-0.5	0.6	1.3	4.9					
Other	(1.2)	1.2	0.0	(0.4)	0.0	Margins, Leverage, Returns			<b>FY22A</b>	<b>FY23A</b>	<b>FY24A</b>	<b>FY25F</b>	<b>FY26F</b>				
<b>Cash flow pre financing</b>	<b>(10.6)</b>	<b>(2.3)</b>	<b>(0.9)</b>	<b>(1.0)</b>	<b>3.3</b>	EBITDA margin %		-15.8%	-1.3%	8.5%	24.8%	27.9%					
Equity Issues	4.8	1.8	0.9	7.2	0.0	EBIT margin %		-26.3%	-11.8%	0.4%	18.1%	22.1%					
Debt	(5.5)	0.0	(0.2)	1.0	(1.0)	NPAT margin (pre significant items)		-23.2%	-15.0%	-3.7%	10.8%	14.2%					
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)		3.7	4.5	5.1	-1.1	-4.4					
<b>Change in cash</b>	<b>(11.2)</b>	<b>(0.4)</b>	<b>(0.2)</b>	<b>7.2</b>	<b>2.3</b>	Net debt/EBITDA (x)	(x)	-1.5 x	-15.3 x	2.1 x	-0.1 x	-0.4 x					
<b>Balance sheet (A\$m)</b>						ND/ND+Equity (%)	(%)	(29.6%)	(42.7%)	(53.1%)	4.3%	12.3%					
Y/E 30 June	FY22A	FY23A	FY24A	FY25F	FY26F	EBIT interest cover (x)	(x)	n/a	n/a	7.3x	0.1x	0.1x					
Cash	1.8	1.0	1.3	8.5	10.7	ROA		nm	nm	0.3%	15.8%	18.4%					
Accounts receivable	3.0	2.0	2.6	3.2	3.7	ROE		nm	nm	(1.8%)	4.6%	5.0%					
Inventory	11.3	13.5	14.0	17.9	19.8	ROIC		nm	nm	nm	nm	nm					
Other current assets	1.7	0.6	0.6	0.6	0.6	NTA (per share)		0.06	0.06	0.06	0.14	0.18					
<b>Total current assets</b>	<b>17.8</b>	<b>17.0</b>	<b>18.4</b>	<b>30.1</b>	<b>34.8</b>	<b>Working capital</b>		10.7	11.6	12.8	16.4	18.0					
Plant & Equipment	1.7	1.6	1.3	2.1	3.0	WC/Sales (%)		67.9%	51.6%	45.7%	47.9%	44.7%					
RoU assets	8.8	7.6	6.4	5.2	4.0	<b>Revenue growth</b>		2.4%	42.5%	24.7%	22.5%	17.9%					
Intangibles	7.1	7.4	6.8	7.0	7.3	<b>EBIT growth pa</b>		n/a	n/a	(103.9%)	5978.7%	43.8%					
Other	0.0	0.0	0.0	1.2	2.0	<b>Pricing</b>		<b>FY22A</b>	<b>FY23A</b>	<b>FY24A</b>	<b>FY25F</b>	<b>FY26F</b>					
<b>Total non current assets</b>	<b>17.7</b>	<b>16.6</b>	<b>14.4</b>	<b>15.5</b>	<b>16.4</b>	No of shares (y/e)	(m)	123.7	132.8	136.8	144.6	151.2					
<b>Total Assets</b>	<b>35.5</b>	<b>33.7</b>	<b>32.8</b>	<b>45.6</b>	<b>51.2</b>	Weighted Av Dil Shares	(m)	123.7	132.8	136.8	144.6	151.2					
Accounts payable	3.7	3.9	3.8	4.6	5.5	EPS Reported	cps	(0.029)	(0.025)	(0.008)	0.026	0.038					
Borrowings	5.5	4.2	5.3	6.3	5.3	<b>EPS Adjusted</b>	<b>cps</b>	<b>(0.025)</b>	<b>(0.019)</b>	<b>0.000</b>	<b>0.031</b>	<b>0.043</b>					
Lease liabilities	1.2	1.2	1.3	1.3	1.3	EPS growth (norm/dil)		n/a	n/a	-101%	19933%	39%					
Other	0.1	0.1	0.1	0.1	0.1	DPS	cps	0.000	0.000	0.000	0.000	0.000					
<b>Total current liabilities</b>	<b>10.5</b>	<b>9.4</b>	<b>10.6</b>	<b>12.5</b>	<b>12.3</b>	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Borrowings	0.0	1.2	1.0	1.0	1.0	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Lease liabilities	8.7	7.8	6.1	6.1	6.1	Dividend imputation		0	0	0	0	0					
Other	0.3	0.4	0.5	0.5	0.5	PE (x)		-18.5	-23.6	2996.6	15.0	10.8					
<b>Total long term liabilities</b>	<b>9.0</b>	<b>9.4</b>	<b>7.6</b>	<b>7.6</b>	<b>7.6</b>	PE market		18.0	18.0	18.0	18.0	18.0					
<b>Total Liabilities</b>	<b>19.5</b>	<b>18.7</b>	<b>18.2</b>	<b>20.1</b>	<b>19.9</b>	Premium/(discount)		nm	nm	nm	(16.9%)	(40.2%)					
<b>Net Assets</b>	<b>16.0</b>	<b>14.9</b>	<b>14.6</b>	<b>25.6</b>	<b>31.3</b>	EV/EBITDA		(24.4)	(225.3)	28.5	7.7	5.8					
Share capital	32.0	32.0	32.0	39.2	39.2	FCF/Share	cps	-4.10	-2.57	-0.66	-0.40	2.15					
Reserves	41.3	43.2	44.6	44.6	44.6	Price/FCF share		-11.22	-17.90	-69.23	-113.98	21.38					
Retained Earnings	(57.3)	(60.3)	(62.0)	(58.2)	(52.5)	Free Cash flow Yield		(9.0%)	(3.2%)	(1.3%)	(0.8%)	4.7%					
Minorities	0.0	0.0	0.0	0.0	0.0												
<b>Total Shareholder funds</b>	<b>16.0</b>	<b>14.9</b>	<b>14.6</b>	<b>25.5</b>	<b>31.3</b>												

Source: Company data for actuals, RaaS estimates (FY25F-FY26F)

# FINANCIAL SERVICES GUIDE

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Corporate Authorised Representative, number 1248415, of

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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