

ASX ANNOUNCEMENT

ASX: SMN

17 August 2017

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STRUCTURAL MONITORING SYSTEMS EXECUTES WORLD'S FIRST COMMERCIAL SUPPLY & MARKETING AGREEMENT WITH DELTA AIR LINES

HIGHLIGHTS:

- SMS executes pivotal Aircraft Component Purchase ("ACP") Agreement with Delta Air Lines, Inc.
- The Agreement is non-exclusive, and is for a 10-year term, with rolling 10-year extension provisions, as agreed at outset by both Parties
- Delta and SMS fully aligned to identify, and gain OEM/Regulator approval for, multiple applications on all aircraft types across the entire Delta fleet
- In-aircraft applications will be approved for CVM™ via OEM issued Service Bulletin ("SB") Revisions and/or Regulator mandated Airworthiness Directive ("AD") Global Alternative Means of Compliance ("AMOCs"). Thus, CVM™ to receive global installation approval - from both OEMs and Regulators - enabling unfettered adoption across all the world's commercial airline fleets
- Delta TechOps to evaluate the provision of CVM™ installations to its key airline carrier customers, namely Delta Complete Fleet™ Services customers. TechOps, based in Atlanta, GA, is the largest airline maintenance, repair and overhaul facility ("MRO") in North America, and third largest in the world

Structural Monitoring Systems plc ("SMS" or "the Company") (ASX: SMN) is extremely pleased to announce that it has executed the world's first commercial agreement related to the supply and permitted use of a structural health monitoring ("SHM") technology with a commercial airline operator.

SMS and **Delta Air Lines, Inc. ("Delta")**, have formalised a critical, strategic commercial relationship through the execution of an Aircraft Component Purchase ("ACP") Agreement ("the Agreement").

The Company is pleased to provide a brief summary of some of the key commercial terms, benefits and outcomes of this Agreement including, but not limited to, the following:

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- Delta will partner with SMS to identify multiple CVM applications. on multiple aircraft types, across Delta's entire mainline aircraft fleet
- The Agreement is non-exclusive, and is for a 10-year term, with rolling 10-year extension provisions, as agreed at outset by both Parties
- Delta permitted to purchase CVM™ sensors, hardware and related peripheral equipment at a discount to the SMS global catalogue list prices paid by Delta competitors
- Through the purchase of an initial threshold level of CVM™ equipment, Delta will earn the right to receive commissions on all SMS sales of CVM™ equipment, and technology license agreements, transacted with global airline operators. The approximate revenue value associated with these initial threshold sales of CVM™ equipment to Delta is expected to be in the vicinity of \$US6-7 million

A major global carrier's adoption and fleet-wide installation of CVM™ technology, would lead the global commercial aviation sector to full, widespread use of CVM™ products. Subsequent sales of CVM™-related equipment to the world's remaining airline carrier fleets would be expected to generate revenues that are many multiples higher than those revenues generated with Delta - and this excludes the per annum revenue value that would be derived from annual, continuously renewable CVM™ technology licensing agreements. The commercial value of technology license agreements will ultimately peak at approximately \$US10-15 million, on a per annum/per operator basis, for a typical Tier I airline operator.

As a direct result of the Agreement, SMS expects material revenue growth across its platform of products in the future. Importantly, due to the Company's extremely high operating leverage, SMS also similarly operates at an extremely high revenue margin. This is due to a number of contributing factors, including, but not limited to:

- Sensor production volume is highly scalable with the addition of low-cost/high-output, laser cutting machines
- Current production facilities have material, embedded excess capacity. Thus, significant output increases can be realised with negligible effect on direct operating costs and total overhead
- The likelihood of a third-party, high profile organisation completing on-site airline operator installations, training and support in the future - with limited input required from SMS and/or AEM personnel. SMS already has an MoU agreement in place with Testia, an Airbus Group Company -that is highly suited to performing such a role

ASX ANNOUNCEMENT

ASX: SMN

17 August 2017

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Commenting on the Agreement, SMS Chief Executive Officer, Toby Chandler, stated:

"We are extremely pleased to have now executed what is undoubtedly the world's most significant Agreement in the burgeoning field of Structural Health Monitoring with Delta Air Lines.

"We have worked with Delta for a long time to finally achieve this extremely important "company-making" milestone Agreement. As SMS has matured into a progressive and rapidly evolving technology company, we are extremely fortunate to have such a high-profile, commercially powerful and globally-recognised partner to accelerate CVM™ into the commercial realm.

"SMS has now well and truly "arrived", and the Company enjoys a very visible, and substantial, "first-mover" advantage coupled with a unique and highly disruptive technology; we intend to exploit these clear commercial advantages to their fullest.

"I would like to sincerely thank all of our team at SMS and AEM, and all related personnel from Delta, Sandia Labs, and other contributing organisations, for their focus and efforts. We now look forward to realising CVM™'s true commercial potential in the global civilian aerospace arena, and creating a demonstrably valuable business for SMS shareholders, and for our friends and colleagues at Delta, who join us as a highly regarded, and valued, strategic partner.

"Finally, I would like to thank our shareholders and supporters who have ridden out a complex and lengthy period of contractual development and negotiation."

On behalf of Delta Air Lines, David Piotrowski, Senior Engineer, Delta Tech Ops, further noted:

"Delta TechOps looks forward to incorporating the use of CVM™ technology across the Delta fleet to help us maintain our aircraft in a more cost-efficient, and time-efficient, manner. We firmly believe that SHM is the next level of non-destructive testing ("NDT"), and the commercial relationship we have cemented with this Agreement advances and elevates our investment in, and commitment to, SMS's CVM™ technology as the clear industry leader in this game-changing field. We look forward to a close and highly productive association for years to come".

Adding further input from SMS's key advisor, and long-term partner, Sandia Laboratories, Dr Dennis Roach, Head of the FAA Airworthiness and Assurance Centre, commented:

"We have been conducting laboratory and flight testing of CVM™ sensors for almost 15 years and with SMS's technology we have finally confirmed a performance benchmark that can meet

ASX ANNOUNCEMENT

ASX: SMN

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current crack detection requirements. In addition, the CVM™ monitoring hardware produces a turnkey system, and a holistic solution, that can be incorporated – with highly favorable results – into current aircraft maintenance environments. As a result, CVM™ is currently the most commercially-ready technology, and the only Structural Health Monitoring (“SHM”) solution that has a demonstrated, advanced Technology Readiness Level of 9, indicating it is industry-proven and ready for deployment.

“The CVM™ technology has moved through multiple review and approval processes and is the first SHM method to achieve approval for routine use on commercial aircraft. Critically, as multiple aircraft manufacturers move through their final stages of technology validation, CVM™ holds a significant “market leader” position, and embodies tremendous promise for in-situ monitoring of all aircraft types, as well as other structures in numerous industries beyond aerospace.

“With this Agreement, the next step toward global use of CVM™ systems - across multiple applications - is now well underway with a number of aerospace OEMs and airlines.”

All staff at SMS, and AEM, are looking forward to the months ahead as we work towards executing the multiple commercial platform opportunities provided through the new relationship with Delta – as well as those that will develop through the new strategic relationships that this alliance will foster. The Company also looks forward to the continued development and execution of all SMS's valuable legacy programmes in the civil aerospace, military and rotorcraft sectors.

The Company will host an investor conference call to be held Wednesday, August 23rd, 2017 at 11.00am AEST. Call details and format will be updated via separate forthcoming ASX announcement.

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For further details please contact:

Simon Hinsley
NWR Communications

Investor Relations

T: +61 401 809 653

E: simon@nwrcommunications.com.au

Sam Wright

Company Secretary

T: +61 8 9386 4787

E: sam@straightlines.net.au

W: www.smsystems.com.au

Toby Chandler

Chief Executive Officer

E: t.chandler@smsystems.com.au

Mike Reveley

Executive Director

E: m.reveley@smsystems.com.au

Andy Chilcott

Non-Executive Director

E: archilcott@optusnet.com.au

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