Balance Sheet Ready for the Next Leg

Structural Monitoring Systems Plc

Structural Monitoring Systems Plc (ASX: SMN) has delivered a solid Q3 FY26 update that reinforces operational momentum and strengthens our conviction in the company's medium-term margin expansion profile. The update provides further evidence of sustained financial improvement and strengthening cash flow visibility. For the nine months to March 2026, SMN delivered r**evenue of approximately A$24.6 million** and **adjusted EBITDA of A$5.6 million**, reflecting continued growth and a material year-to-date improvement in profitability. On an annualised basis, this implies a revenue run-rate of ~A$33 million, supporting our FY26 revenue forecast of A$31.8 million as conservatively positioned and well underpinned by current trading performance. We maintain our Spec Buy recommendation and unchanged fair value of **A$0.64 per share**.

Growth remains driven by **Avionics (+43% YTD)**, supported by strong demand in special mission applications and a growing installed base, alongside recent product launches and expanded platform certifications. Contract Manufacturing declined in line with the shift toward margin over volume. The divergence between revenue and earnings highlights emerging operating leverage, as improved mix and scale drive higher margins.

Improving Revenue Quality

The shift toward proprietary avionics continues to enhance earnings quality, supported by certification barriers, a growing installed base and recurring aftermarket demand. Contract Manufacturing has been repositioned toward higher-margin programs, improving profitability despite lower volumes.

As the Avionics segment scales, operating leverage is becoming increasingly evident, with incremental revenue converting into earnings at a higher rate. CVM™ remains a longer-dated catalyst, with progress toward FAA certification, including recent resubmission of the Certification Plan, and potential for future airline deployment and broader OEM adoption.

Strengthened Balance Sheet

SMN continues to demonstrate strong cash generation, with approximately **A$4.9 million of free cash flow** generated year-to-date, reflecting high EBITDA conversion and improved working capital discipline. The balance sheet has strengthened materially following the repayment of the RBC term loan, leaving the company effectively debt-free and increasing financial flexibility.

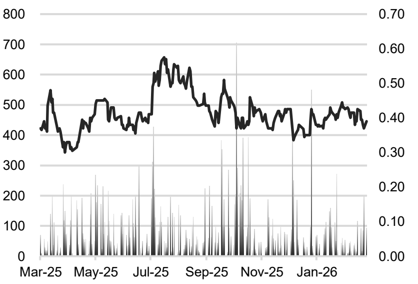
With improving financial performance, expanding margins and clear catalysts, including continued avionics growth and progress toward CVM™ certification, SMN offers exposure to a niche aerospace platform transitioning into a scalable, higher-margin avionics business. As execution continues, we see increasing scope for a re-rating.

Key Near-Term Catalysts	
Gross margin expansion from mix shift and manufacturing efficiencies	FY26
FAA certification progress for CVM™ enabling commercialisation	FY26-FY27
Launch of new avionics products under the 5-Year Plan	FY26-FY27

Recommendation	**Spec BUY**
Price Target	**$0.64**
Share Price	**$0.41**
TSR (12m)	**56%**

Company Profile	
Market Cap	$64m
Enterprise Value	$65m
EV/EBITDA	10.2
SOI	156m
Free Float	~65%
Cash	$4.7m
ADV (3-month)	$34k
52-Week Range	$0.305 - $0.575

Price Performance



Company Overview

Structural Monitoring Systems Plc (SMN) is an aerospace technology company focused on avionics and structural health monitoring for the aviation industry. Through its Canadian subsidiary Anodyne Electronics Manufacturing (AEM), the company designs and manufactures specialised avionics systems for special-mission and commercial aircraft, supported by contract electronics manufacturing. In addition, SMN develops CVM™ sensor technology used to monitor aircraft structures and detect fatigue and damage in service.

Analyst

Johanna Burkhardt jb@eveq.com

Industrials Analyst

SMN Coverage

Initiation 16 March 2026 Link

Risks

Customer Concentration Risk
The Group remains exposed to a concentrated customer base, with a single major customer accounting for a significant share of revenue. While supported by established supply relationships, any disruption, delay or renegotiation could materially impact revenue, earnings and cash flow.

CVM™ Certification and Commercialisation Risk
The commercialisation of CVM™ remains dependent on regulatory approvals, including FAA certification, and subsequent OEM adoption. Delays in certification timelines or slower-than-expected market uptake could defer anticipated revenue streams and limit long-term growth optionality.

Revenue Mix Transition Risk
SMN's strategic shift toward higher-margin proprietary avionics products introduces execution risk. While recent results highlight strong Avionics growth, any slowdown in this segment or sharper-than-expected declines in Contract Manufacturing could lead to earnings volatility during the transition phase.

Working Capital and Inventory Risk
The business continues to operate with elevated inventory levels, reflecting long aerospace supply chains and procurement lead times. While recent cash generation has improved, working capital intensity remains a structural feature and could pressure cash flow if demand softens or customer receipts are delayed.

Foreign Exchange Risk
With operations primarily in North America and reporting in Australian dollars, SMN remains exposed to CAD/USD and USD/AUD movements. Currency fluctuations may introduce earnings volatility despite partial hedging.

Dependence on Special Mission Avionics Markets
Growth in the Avionics segment is supported by demand in special mission aircraft. Changes in government budgets, procurement cycles or demand volatility in this niche market could impact growth momentum.

Execution Risk on Product Development and OEM Adoption
Ongoing investment in new avionics platforms introduces execution risk, including potential delays in development, certification or OEM adoption, which could affect expected returns and growth timelines.

Key Personnel Risk
The Group's performance depends on specialised aerospace expertise. The loss of key management or engineering personnel could impact execution, product development and customer relationships.

Litigation and Governance Risk
Legal proceedings involving a former director remain ongoing. While no provision has been recognised, potential legal costs and reputational considerations may create short-term uncertainty.

Capital Structure and Dilution Risk
Outstanding listed options may result in equity dilution if exercised. While this could strengthen the balance sheet, it may dilute existing shareholders depending on timing and share price performance.

Appendix

Financials

VALUATION DETAILS	
Share Price (A$)	$0.41
Market Cap (A$m)	63.80
Enterprise Value (A$m)	65.06
Fair Value/Share (A$)	$0.64

FINANCIAL STATEMENTS (A$m)	FY25	FY26E	FY27E	FY28E
Income Statement				
Revenue	28.06	31.75	35.59	41.68
EBITDA	3.89	6.38	8.89	12.47
EBIT	1.55	3.92	6.37	9.81
Net Income	0.17	2.24	4.07	6.59
Balance Sheet				
Cash & Cash Equivalents	2.13	1.70	2.44	4.91
Trade and other receivables	2.79	5.22	5.85	6.85
Inventories	14.89	13.56	14.28	16.16
Other Assets	14.87	15.47	17.40	19.69
Total Assets	34.69	35.94	39.98	47.61
Total Debt	7.51	5.93	5.35	4.82
Other Liabilities	3.65	4.24	4.79	6.35
Total Liabilities	11.16	10.17	10.14	11.17
Shareholders' Equity	23.53	25.77	29.84	36.44
Cash Flow Statement				
Net Income	0.73	3.14	5.65	9.16
Add: Depreciation & Amortisation	2.33	2.46	2.53	2.66
Less: Change in Net Working Capital/Other	-2.00	-1.71	-2.47	-4.00
Cash Flow from Operations	1.07	3.89	5.71	7.82
Cash Flow from Investing	-1.63	-1.77	-3.35	-3.83
Equity Raised (net)	8.13	0.00	0.00	0.00
Net Borrowings/Other	-6.68	-2.56	-1.62	-1.52
Cash Flow from Financing	1.45	-2.56	-1.62	-1.52
Unlevered Free Cash Flow	-0.56	2.12	2.37	3.98

PER SHARE DATA	FY25	FY26E	FY27E	FY28E
Shares Outstanding (m)	155.6	156.2	180.5	180.5
Normalised EPS (A$)	0.001	0.014	0.023	0.037
Dividends per Share (A$)	0.00	0.00	0.00	0.00
Payout	0%	0%	0%	0%
Franking	0%	0%	0%	0%

RATIOS	FY25	FY26E	FY27E	FY28E
Liquidity				
Current Ratio	4.19	4.12	4.21	4.13
Quick Ratio	3.75	3.79	3.77	3.42
Solvency				
Debt to Equity	0.32	0.23	0.18	0.13
Debt to Assets	0.22	0.16	0.13	0.10
LT Debt to Assets	0.17	0.13	0.10	0.08
Profitability				
Net Margin	0.6%	7.1%	11.4%	15.8%
EBITDA Margin	13.8%	20.1%	25.0%	29.9%
ROA	0.5%	6.2%	10.2%	13.9%
ROE	0.7%	8.7%	13.6%	18.1%
Growth				
Revenue	0.4%	13.2%	12.1%	17.1%
EBITDA	95.62%	64.11%	39.49%	40.22%
NPAT	-117%	1197%	81%	62%
Valuation				
P/E	n/a	28.4	15.7	9.7
P/B	2.7	2.5	2.1	1.8
EV/EBITDA	16.7	10.2	7.3	5.2
EV/Sales	2.3	2.0	1.8	1.6

Evolution Capital Ratings System

Recommendation Structure	• **Buy:** The stock is expected to generate a total return of >10% over a 12-month horizon. For stocks classified as 'Speculative', a total return of >30% is expected. • **Hold:** The stock is expected to generate a total return between -10% and +10% over a 12-month horizon. • **Sell:** The stock is expected to generate a total return of <-10% over a 12-month horizon.
Risk Qualifier	• **Speculative ('Spec'):** This qualifier is applied to stocks that bear significantly above-average risk. These can be pre-cash flow companies with nil or prospective operations, companies with only forecast cash flows, and/or those with a stressed balance sheet. Investments in these stocks may carry a high level of capital risk and the potential for material loss.
Other Ratings	• **Under Review (UR):** The rating and price target have been temporarily suppressed due to market events or other short-term reasons to allow the analyst to more fully consider their view. • **Suspended (S):** Coverage of the stock has been suspended due to market events or other reasons that make coverage impracticable. The previous rating and price target should no longer be relied upon. • **Not Covered (NC):** Evolution Capital does not cover this company and provides no investment view.

Expected total return represents the upside or downside differential between the current share price and the price target, plus the expected next 12-month dividend yield for the company. Price targets are based on a 12-month time frame.

Disclaimer & Disclosures

Evolution Capital Pty Ltd (ACN 652 397 263) is a corporate Authorised Representative (number 1293314) of Evolution Capital Securities Pty Ltd (ACN 669 773 979), the holder of Australian Financial Services Licence number 551094. The information contained in this report is only intended for the use of those persons who satisfy the Wholesale definition, pursuant to Section 761G and Section 761GA of the Corporations Act 2001 (Cth) ("the Act"). Persons accessing this information should consider whether they are wholesale clients in accordance with the Act before relying on any information contained. Any financial product advice provided in this report is general in nature. Any content in this report does not take into account the objectives, financial situation or needs of any person, or purport to be comprehensive or constitute investment advice and should not be relied upon as such. You should consult a professional adviser to help you form your own opinion of the information and on whether the information is suitable for your individual objectives and needs as an investor. It is important to note that Evolution Capital, or its agents or representatives, engaged and received a financial benefit by the company that is the subject of the research report. The financial benefit may have included a monetary payment or certain services including (but not limited to) corporate advisory, capital raising and underwriting. In addition, the agent or representative drafting the advice may have received certain assistance from the company in preparing the research report. Notwithstanding this arrangement, Evolution Capital confirms that the views, opinions and analysis are an accurate and truthful representation of its views on the subject matter covered. Evolution Capital has used its best endeavours to ensure that any remu™neration received by it, or by an agent or representative, has not impacted the views, opinions or recommendations set out in this research report. The content of this report does not constitute an offer by any representative of Evolution Capital to buy or sell any financial products or services. Accordingly, reliance should not be placed solely on the content of this report as the basis for making an investment, financial or other decision.

Recipients should not act on any report or recommendation issued by Evolution Capital without first consulting a professional advisor in order to ascertain whether the recommendation (if any) is appropriate, having regard to their investment objectives, financial situation and particular needs. Any opinions expressed are subject to change without notice and may not be updated by Evolution Capital. Evolution Capital believes the information contained in this report is correct. All information, opinions, conclusions and estimates that are provided are included with due care to their accuracy; however, no representation or warranty is made as to their accuracy, completeness, or reliability. Evolution Capital disclaims all liability and responsibility for any direct or indirect loss, or damage, which may be incurred by any recipient through any information, omission, error, or inaccuracy contained within this report. The views expressed in this report are those of the representative who wrote or authorised the report and no part of the compensation received by the representative is directly related to the inclusion of specific recommendations or opinions. Evolution Capital and / or its associates may hold interests in the entities mentioned in any posted report or recommendation. Evolution Capital, or its representatives, may have relationships with the companies mentioned in this report – for example, acting as corporate advisor, dealer, broker, or holder of principal positions. Evolution Capital and / or its representatives may also transact in those securities mentioned in the report, in a manner not consistent with recommendations made in the report. Any recommendations or opinions stated in this report are done so based on assumptions made by Evolution Capital. The information provided in this report and on which it is based may include projections and / or estimates which constitute forward-looking statements. These expressed beliefs of future performance, events, results, or returns may not eventuate and as such no guarantee of these future scenarios is given or implied by Evolution Capital. Any forward-looking statements are subject to uncertainties and risks that may mean those forecasts made by Evolution Capital are materially different to actual events. As such, past performance is not an indicator of future performance.

Evolution Capital Pty Ltd
Level 8, 143 Macquarie Street Sydney, NSW 2000
Tel: +61 (2) 8379 2960
www.eveq.com