19 September 2018

Seeing Machines Limited

Year end results

Seeing Machines Limited (AIM: SEE, "Seeing Machines" or the "Group"), the advanced computer vision technology company that designs AI-powered operator monitoring systems to improve transport safety, has published its audited results for the year to 30 June 2018.

Operational highlights

- Secured production awards in the year to 30 June 2018 with two premium German automotive OEMs and one global US-based OEM for multiple vehicle models launching in 2019 to 2022 timeframe
    - Five program awards now under contract with global OEMs to be delivered through multiple Tier 1 automotive suppliers
- FOVIO Chip agreement signed for US automotive OEM Driver Monitoring System (DMS) program
- Fleet Guardian DMS now connected to over 10,000 vehicles across 20 countries

Financial highlights

- Revenue up 117% to A$30.7 million (2017: A$14.2 million)
    - Fleet revenue up 89% to A$17 million (2017: A$9 million)
    - Automotive revenue increased five-fold to A$8 million (2017: A$1.6 million)
- Total cumulative contracted Fleet (Guardian) revenue of A$82 million as at 30 June 2018. A$50 million revenue yet to be recognised over a three-year period
- To date, the Group's total projected revenue for the Automotive business to be recognised from 2019 to 2026 is in the range of A$138 million (US$100 million) based on contracted minimum lifetime OEM volumes
- £37.4 million gross (A$68.4 million) fundraise completed in January 2018
- Cash at 30 June 2018 of A$42.8 million gross (A$18.0 million at 31 December 2017)

Strategic highlights and outlook

- Automotive platform technology validated through significant design wins with global OEMs and Tier 1 partners and strong pipeline of opportunities
- Safety and transport regulations accelerating demand across range of road transport sectors in Europe and North America
- Unrivalled quantity and quality of real-world on-road driving data, with over 1.3 billion kilometres of data captured and 10,000 vehicles currently connected, data from which is used to enhance algorithms of tracking technology
- FOVIO Chip enables scalable delivery of automotive DMS technology across wide range of transportation sectors
- Fleet business to be transitioned to a monthly unit revenue model

- o Retaining management of 24/7 monitoring centre and data collection, critical to preserving the leadership position of the Group's software and products

- Current expectation for FY2019 revenue approximately in line with FY2018, reflecting transition in Fleet business model and the growth expected in Automotive and other divisions

Ken Kroeger, CEO, commented:

"A move to mandatory safety regulation across all transport sectors around the world is gaining strong momentum - this provides us with extensive opportunities to supply DMS to global OEMs and Tier 1 partners across all vehicle classes.

"Our considerable investment over the last decade has enabled us to collect a huge amount of real-world data, which validates our technology. We are now the leading provider of DMS technology to the transport sector, with a market leading offering and an unparalleled dataset in terms of quality and quantity.

"As a result of our internal review, we are transforming the business model of our Fleet business to improve the deployment of capital and resources across the Group. At the same time, we are seeing substantial and growing demand from the global automotive sector for our DMS technology, which recognises the key role it is playing in transport, as autonomy and safety continue to drive the global agenda."

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This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain

Seeing Machines has also published its Director's Report on its website. See here: https://www.seeingmachines.com/investors/financial-reports/

About Seeing Machines - www.seeingmachines.com

Seeing Machines (LSE: SEE), a global company headquartered in Australia, is an industry leader in computer vision technologies which enable machines to see, understand and assist people. The Company's machine learning vision platform has the know-how to deliver real-time identification and understanding of drivers through Artificial Intelligence (AI) analysis of heads, faces and eyes. This insight enables Driver Monitoring Systems (DMS), which monitor driver/operator identification and attention and can detect drowsiness and distraction across multiple transport sectors.

Seeing Machines develops DMS for the Automotive, Commercial Fleet, Aviation, Rail and Off-Road markets. The Company has offices in Australia, USA, Europe and Asia, and delivers multi-platform solutions to industry leaders in each vertical.

DMS is becoming a core safety technology integrated into ADAS offerings for the automotive industry, particularly with the development of semi-autonomous and self-driving cars. DMS is also increasingly seen to be an integral safety feature across the Commercial Transport & Logistics industry globally.

Strategic overview

Over the last two decades, Seeing Machines has invested extensively in developing the world-leading driver monitoring technology that uses Artificial Intelligence (AI) and Machine Learning, to see, understand and assist people. Combined with the vast collection, and exploitation of real-world data – the Group has over 1.3 billion kilometres of unparalleled naturalistic data collected from over 10,000 connected vehicles – this investment has enabled it to significantly improve its technology and enhance its software algorithms.

Seeing Machines has also invested more than A$100 million in R&D and the development of Intellectual Property (IP) over this time, building a strong IP portfolio of over 20 registered patents and 30 trademarks, with many more in progress. As a result the Group's software solution has been validated as industry leading, as demonstrated by the number of automotive OEM and Tier 1 supplier agreements recently signed.

There is a rapid increase in safety and regulatory drivers across all transport sectors around the world. For example Euro NCAP, The European Commission and National Transport Safety Board in the US, are all developing protocols and timeframes in which to mandate a range of safety technologies, one of which is camera-based DMS. With its world-leading technology, Seeing Machines is extremely well placed to benefit from this significant increase in demand for DMS across all classes of car-makers and the accelerated timeframe within which they need to deploy.

Seeing Machines' core Automotive business is, in common with Aviation, Mining and Rail, based on a unit revenue model, enabling it to deploy its technology efficiently and at scale. For example, the FOVIO DMS is able to be implemented rapidly and at high gross margins, via a third party manufactured chip, to accommodate accelerated timeframes faced by OEMs.

Seeing Machines recently initiated a comprehensive business review in order to align its operating model across its business units, and to facilitate its transition to a pure OEM supplier with high-margin services to provide revenue across multiple transport sectors. Going forward, the Group will focus on ongoing development of DMS technology, while partnering with distributors in the fleet business and others in order to reduce direct cost in the business.

This strategic shift will require transformation of the Fleet business, in order to focus resources and leverage the investment and development undertaken to date.

Automotive

Automotive opportunities dominate the Group's pipeline and the realignment of key resources will support efforts to secure maximum potential market share within this unique window of opportunity.

Seeing Machines is now engaged on five OEM programs to deliver its FOVIO DMS via a growing number of Tier 1 suppliers. To date, the Group's total booked revenue for the Automotive business to be recognised from 2019 to 2026 is in the range of A$138 million (US$100 million) based on contracted minimum lifetime OEM volumes.

Fleet business

The evolution of the Fleet business has already begun with the reduction of costs associated with manufacture and management of the Guardian product inventory, sales strategy and ongoing support. Guardian will be delivered through key distributors globally, with limited direct sales undertaken.

Importantly, Seeing Machines will retain management of a 24/7 monitoring centre which collects and analyses data from all vehicles with Guardian installed. Maintaining access to this data is critical to preserving the leadership position of the Group's software and products. In this way, the Group will continue to generate monthly recurring services revenue over contracts averaging between 36 and 60 months, while collecting valuable driver data.

The Fleet business transition includes cost reduction, re-deployment of core engineering resources and a transition of customers to distributors.

Other markets

Aviation is in the early stages of commercialisation and relies on the FOVIO DMS technology to deliver its solutions to aircraft and simulator OEMs and air traffic management console operators. The Group continues to engage with some of the world's leading brands, such as Emirates, FedEx Express and Qantas, to develop the training and fatigue management solutions relevant to specific industry needs.

In the Mining and Rail businesses, the Group distributes its technology under exclusive agreements with minimum agreed revenue via Caterpillar Inc. and Progress Rail respectively.

Board and management

Jack Boyer OBE, who was recently appointed Chairman-designate in July 2018, will take up the role of Non-Executive Chairman with immediate effect. This will allow CEO Ken Kroeger to focus on the operational transition across the business and the exploitation of the considerable opportunities in the automotive sector. The Board, in time, will also be further strengthened to align with strategic priorities.

The Group has also made a number of senior management changes across the business to align the management with relevant industry experience and expertise. Ryan Murphy, former Thales Australia head of Cyber Security has been appointed as the Group's Chief Operating Officer with effect from 15 October 2018.

Financial

Total sales revenue was A$30.7 million (2017: A$14.2 million), up 117% with revenue momentum accelerated through the year. The net loss from continuing operations was A$36.0 million (2017: loss A$29.7 million).

In January 2018, Seeing Machines completed a £37.4 million gross (A$68.4 million) fundraise to accelerate its investment in its AI platform and product development, as well as to scale its infrastructure and global footprint in order to meet expanding customer demand for its leading DMS technology.

Current trading and outlook

Current expectation for FY2019 revenue approximately in line with FY2018, reflecting transition in Fleet business model and the growth expected in Automotive and other divisions.

Continued investment in engineering resources to support the Automotive opportunity will be balanced by the reshaped Fleet business, which is already underway.

Operating review

Automotive

This past 12 months has been pivotal for the Automotive industry with the evolution of automated vehicle technology and with global regulatory bodies such as Euro NCAP, The European Commission and US National Transport and Safety Board, all moving to mandate technology which improves safety across the world. These developments are now impacting the speed at which auto-makers are moving to embrace and deploy these technologies.

The European Commission recommendation released in May 2018, *"Europe on the Move: Commission completes its agenda for safe, clean and connected mobility*" calls for all new cars, vans, trucks and buses sold in Europe, to be fitted as standard with drowsiness and distraction monitoring.

Seeing Machines is extremely well placed to support the technology revolution in automotive with safety technology that forms a key part of the Advanced Driver Assistance System (ADAS), via its FOVIO DMS.

In FY2018, the Group secured three production awards with two premium German automotive OEMs and one global US-based automotive OEM. A further production award with a Chinese OEM was confirmed in July 2018, taking the total number of awarded programs to five, with numerous new vehicle models expected to be launched in the 2019-2022 timeframe. Two of these awarded programs were secured with the FOVIO Chip.

In addition to OEM engagements, Seeing Machines is now actively engaged with over six globally recognised Tier 1 automotive suppliers as the Group continues to bid on upcoming programs with a multitude of suppliers.

The ability to deliver the DMS technology on the FOVIO Chip broadens Seeing Machines' addressable market considerably, particularly given the tight timeframes in which OEMs are implementing semi-automated driving technology as well as incorporating DMS to enhance safety and meet pending regulatory guidance globally.

The upgradable FOVIO Chip will also be leveraged to provide the Seeing Machines DMS platform across multiple transport sectors and represents an efficient way to deliver additional performance capability to defend and grow average revenue per vehicle.

Seeing Machines has established offices in two additional important automotive markets, Germany and Japan, where its local people are supporting the growing DMS requirements of existing and potential automotive Tier 1 customers.

Fleet

By the end of June 2018, the Fleet business had over 10,000 connected Guardian units across 20 countries. Since its launch in 2016, the Fleet business now has total contracted value of over A$82 million through engagements with large transport and logistics companies in Asia Pacific, Europe, UK, the Middle East, Africa and North America, and a growing market of distributors globally. A$50 million of this contracted revenue will be recognised over a three-year period.

Guardian Gen 2, the second-generation Fleet product, was launched in June 2018. Despite initial manufacturing delays, over 5,500 units have now been shipped to distribution partners. These units are being installed into customer vehicles as stocks of Guardian Gen 1 are depleted.

As the business model evolves, it is expected that manufacture and inventory management of Guardian hardware will be outsourced to strategic partners. The Group will continue to work with distributors, telematics companies, insurers, truck OEMs and other potential partners globally, to develop and leverage opportunities to deploy the Seeing Machines DMS via the FOVIO Chip, which will generate per vehicle payments.

Direct customers will be transitioned to third party distributors for ongoing service and support and the inventory will be managed to meet FY2019 demand while a manufacturing partner is secured to manage ongoing supplies and distribution of Guardian hardware.

Importantly, the Guardian 24/7 monitoring centre will remain with the Group. This will enable Seeing Machines to continue to access and exploit the data which will support the ongoing development of the Group's software and products. Seeing Machines will continue to generate monthly recurring services revenue over contracts averaging 36 months.

Aviation

The Aviation business is developing steadily as the Group continues to work with significant industry brands to shape tailored solutions to enhance safety with eye-tracking systems for evidence based pilot training, support systems in managing pilot fatigue and air traffic controller alertness systems. Each of these areas has achieved significant momentum as Seeing Machines works with key stakeholders to shape the market for its FOVIO DMS technology.

Product development work with multiple major commercial airlines across UAE, US, and Asia Pacific has led to initial contracted engagements with two simulator OEMs. The key focus for these engagements are on optimizing civilian and military flight training process and data in response to the broadly recognised global pilot shortage.

The Group is moving toward contractual engagements with military, a global freight carrier and multiple Tier 1 avionics providers for aircraft installations in support of pilot/crew fatigue and reduced crew operations.

The Group is seeing strong support and initial engagement contracts with two nations' air navigation service providers to develop the current air traffic control environment to support increased air traffic and increased automation of air traffic management.

Mining

Despite delays with the launch of Caterpillar's own Driver Safety System (DSS) Mining product, revenue was broadly in line with management expectations.

Upward performance in the global mining industry was positive and Caterpillar has added significant new customers during the year with notable growth in South East Asia, Russia, North, South and Central America as well as on the African continent. Mining also saw growth in key non-mining verticals such as Quarries, Aggregate and Construction.

The migration of over 800 systems from locally hosted environments to Caterpillar's hosted service was successful and provides additional services revenue to both Caterpillar and Seeing Machines. The growth achieved in FY2018 has positioned CAT well with a strong pipeline of opportunities moving into FY2019.

Rail

The rollout of Guardian to Croydon Trams in the UK has created strong interest from other tram and light rail and public bus and coach operators globally. Class 1 rail operators in North America continue to assess the product. The data captured during these assessments supports the anecdotal evidence that fatigue continues to be a major issue in the rail industry.

Progress with tram operators in other parts of the world, and Class 1 rail assessments support the achievement of short and medium-term revenue targets in Rail.

Financial review

Total revenue was A$30.7 million, an increase of 117% year-on-year (2017: A$14.2 million).

The key driver for the rapid revenue growth last year was the Fleet business, with sales more than 89% up in that division. Given the transition of the Fleet business model, it is expected that sales revenue in this division in FY2019 will remain in line with that reported for FY2018.

Automotive sales was the other major contributor with a five-fold increase in sales on the prior year (2017: A$1.6 million), with expectations that Automotive sales revenue will become a significant part of the Group's revenue over the next two to three years.

Fleet margin also improved year-on-year due to the high-margin fleet monitoring Monthly Recurring Revenue ("MRR") from its growing connected customer base. Overall gross margin was impacted by the previously-announced delays to shipments of, and higher-than expected final hardware costs associated with, Fleet Guardian Gen 2.

Revenue from Scientific Advances in FY2018 totalled A$1.5 million (2017: A$0.6m) and represented revenue from research project grants funded by the Australian Government, including the Advanced Safe Truck Concept ("ASTC") program in collaboration with leading fleet operators and OEMs and the CAN-Drive semi-autonomous driving program. In prior periods this revenue was reported in 'Other income'.

Gross margin for the Group this year was 25% (2017: 5%) with gross profit totalling A$7.6 million (2017: A$0.7 million) principally attributable to a greater proportion of the revenue coming from the high-margin Automotive, Mining and Rail markets.

Indirect operating expenses rose from A$37.2 million to A$46.6 million due to increased investment in the Group's capability and resources to develop and commercialise its technology in its global target industries: fleet, automotive, mining, rail and aviation. This resulted in increased R&D (mainly staff costs) marketing, facility and corporate services costs.

Finance income in FY2018 was in line with the prior year as expected.

Net loss from continuing operations of A$36.0 million (2017: loss A$29.7 million).

In January 2018, Seeing Machines completed a £37.4 million gross (A$68.4 million) fundraise to accelerate its investment in its AI platform and product development, as well as to scale its infrastructure and global footprint in order to meet expanding customer demand for its leading DMS technology.

Statement of Financial Position

AS AT 30 June 2018	Note	Consolidated 2018 A$	2017 A$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	14	42,786,447	21,438,025
Trade and other receivables	15	19,757,648	7,581,367
Inventories	16	4,300,895	702,212
Other financial assets	20	578,575	574,793
R&D refundable tax offset receivable		-	4,700,825
Other current assets	17	876,131	3,565,033
TOTAL CURRENT ASSETS		68,299,696	38,562,255
NON-CURRENT ASSETS			
Property, plant and equipment	18	3,659,310	959,040
Intangible assets	19	3,529,297	5,218,589
Other financial assets	20	-	140,191
Trade and other receivables	15	-	1,828,627
TOTAL NON-CURRENT ASSETS		7,188,607	8,146,447
TOTAL ASSETS		75,488,303	46,708,702
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	21	6,300,402	5,611,096
Provisions	22	2,644,173	2,012,383
Deferred revenue	24	873,735	1,467,967
Borrowings	25	387,590	-
Other liabilities	26	152,830	-
TOTAL CURRENT LIABILITIES		10,358,730	9,091,446
NON-CURRENT LIABILITIES			
Provisions	22	29,864	44,372
Borrowings	25	575,964	-
Other liabilities	26	1,197,170	-
TOTAL NON-CURRENT LIABILITIES		1,802,998	44,372
TOTAL LIABILITIES		12,161,728	9,135,818
NET ASSETS		63,326,575	37,572,884
EQUITY			
Contributed equity	27	158,031,370	96,482,665
Treasury shares	27	(1,108,511)	(1,191,078)
Accumulated losses		(95,439,981)	(59,426,120)
Other reserves		1,843,697	1,707,417
Equity attributable to the owners of the parent		63,326,575	37,572,884
TOTAL EQUITY		63,326,575	37,572,884

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 June 2018	Note	Consolidated 2018 A$	2017 A$
Sale of goods and licence fees		19,428,991	10,426,879
Rendering of services		9,787,378	3,135,810
Research revenue		1,500,000	616,809
Revenue		30,716,369	14,179,498
Cost of Sales		(23,089,204)	(13,478,086)
Gross Profit		7,627,165	701,412
Other income	8	242,986	8,592,185
Net gain/(loss) on foreign exchange	9	2,477,518	(1,124,338)
Finance income		456,051	470,351
Loss on write down of investment		(140,191)	-
Expenses			
Research and development expenses		(20,220,605)	(15,930,287)
Customer support and marketing expenses		(9,851,247)	(11,431,082)
Occupancy and facilities expenses		(6,438,393)	(3,204,981)
Corporate services expenses		(10,024,977)	(6,571,088)
Finance costs		(109,339)	-
Other expenses	9	(4,425)	(48,624)
Loss before income tax		(35,985,457)	(28,546,452)
Income tax expense	10	(28,404)	(1,142,433)
Loss after income tax		(36,013,861)	(29,688,885)
Loss for the year attributable to:			
Equity holders of parent		(36,013,861)	(29,688,885)
Non-controlling interests		-	-
		(36,013,861)	(29,688,885)
Other comprehensive income – to be reclassified to profit and loss in subsequent periods			
Exchange differences on translation of foreign operations		(381,147)	(244)
Other comprehensive income net of tax		(381,147)	(244)
Total comprehensive income for the year		(36,395,008)	(29,689,129)
Total comprehensive income for the year attributable to:			
Equity holders of parent		(36,395,008)	(29,689,129)
Non-controlling interests		-	-
Total comprehensive income for the year		(36,395,008)	(29,689,129)
Earnings per share for loss attributable to the ordinary equity holders of the parent:	12		

· Basic earnings per share	(0.0221)	(0.0235)
· Diluted earnings per share	(0.0221)	(0.0235)

Statement of Changes in Equity

FOR THE YEAR ENDED 30 June 2018	Contributed Equity A$	Treasury Shares A$	Accumulated Losses A$	Foreign Currency Translation Reserve A$	Employee Equity Benefits Reserve A$	Total Equity A$
At 1 July 2016	70,592,134	(1,226,938)	(29,737,235)	(764,810)	1,561,166	40,424,317
Profit/(Loss) for the year	-	-	(29,688,885)	-	-	(29,688,885)
Other comprehensive income	-	-	-	(244)	-	(244)
Total comprehensive income	-	-	(29,688,885)	(244)	-	(29,689,129)
Transactions with owners in their capacity as owners						
Shares issued	27,144,440	-	-	-	-	27,144,440
Capital raising costs	(1,253,909)	-	-	-	-	(1,253,909)
Treasury Shares	-	35,860	-	-	-	35,860
Employee shares held in trust	-	-	-	-	911,305	911,305
At 30 June 2017	96,482,665	(1,191,078)	(59,426,120)	(765,054)	2,472,471	37,572,884
At 1 July 2017	96,482,665	(1,191,078)	(59,426,120)	(765,054)	2,472,471	37,572,884
Loss for the year	-	-	(36,013,861)	-	-	(36,013,861)
Other comprehensive income	-	-	-	(381,147)	-	(381,147)
Total comprehensive income	-	-	(36,013,861)	(381,147)	-	(36,395,008)
Transactions with owners in their capacity as owners						
Shares issued	64,627,100	-	-	-	-	64,627,100
Capital raising costs	(3,078,395)	-	-	-	-	(3,078,395)
Treasury Shares	-	82,567	-	-	-	82,567
Employee shares held in trust	-	-	-	-	517,427	517,427
At 30 June 2018	158,031,370	(1,108,511)	(95,439,981)	(1,146,201)	2,989,898	63,326,575

Statement of Cash Flows

FOR THE YEAR ENDED 30 June 2018	Note	Consolidated 2018 A$	Consolidated 2017 A$
Operating activities			
Receipts from customers		24,388,913	19,621,179
Payments to suppliers and employees		(66,733,811)	(40,085,855)
Interest received		148,597	142,231
Interest paid		(109,339)	-
Income tax paid		(28,404)	(1,142,433)
Payments received for research and development costs		4,700,825	3,830,614
Net cash flows used in operating activities	29	(37,633,219)	(17,634,264)
Investing activities			
Purchase of plant and equipment		(3,864,280)	(788,947)
Purchase of held-to-maturity financial assets		(3,782)	(333,634)
Payments for intangible assets		(299,253)	(1,450,621)
Net cash flows used in investing activities		(4,167,315)	(2,573,202)
Financing activities			
Proceeds from issue of shares		64,627,100	27,144,440
Proceeds from sale of treasury shares		-	35,860
Costs of capital raising		(3,078,395)	(1,253,909)
Proceeds from borrowings		3,208,348	-
Repayments of borrowings		(2,272,561)	-
Net cash flows from financing activities		62,484,492	25,926,391
Net increase in cash and cash equivalents		20,683,958	5,718,925
Net foreign exchange differences		664,464	(1,229,200)
Cash and cash equivalents at beginning of period		21,438,025	16,948,300
Cash and cash equivalents at end of period	14	42,786,447	21,438,025