Seeing Machines Limited - Half-year financial report
ABN 34 093 877 331

Seeing Machines Limited
("Seeing Machines", the "Company" or the "Group")

Half Year Results to 31 December 2016

16 March 2017

Seeing Machines (AIM: SEE), the AIM listed technology company with a focus on operator monitoring and intervention sensing technologies and services is pleased to announce its unaudited financial results for the six months to 31 December 2016.

2016 was a transitional year for Seeing Machines, with the business moving from a direct-to-market model in mining to a royalty arrangement with Caterpillar, allowing the Company to refocus its efforts toward the Automotive, Fleet, Aviation and Rail markets and technologies.

Operational

- *Automotive*: Pipeline of automotive opportunities has strengthened, in addition to the previously announced major US automotive OEM customer orders. Applications expanding from dealing with drowsiness/distraction issues, to enabling semi/fully autonomous and next generation displays
- *Automotive*: Company remains on track with its US OEM customer for first semi-autonomous vehicle with integrated Fovio Driver Monitoring System ("DMS") to be launched in 2017
- *Automotive*: Expanded DMS research platform to additional leading OEMs and automotive research bodies
- *Automotive:* Leveraging work from globally recognised funded research program to design our next generation driver state monitoring systems
- *Fleet:* Development of sales channels including a global distribution partnership signed with MiX Telematics
- *Fleet:* Global pipeline continues to build and new assessments engaged. There are currently over 60 assessments in progress including significant and prominent global freight brands
- *Mining:* Post period end, appointment of Tim Crane, General Manager Caterpillar Services to Seeing Machines Limited Board, to drive safety related revenues for both companies
- *All markets:* System in Package ("SiP") to provide cost effective validated solution capable of powering the majority of our applications, and providing a scalable DMS solution

Financial

- *Fleet:* 134% increase in Fleet revenue to A$1.6m
- *Fleet*: Total value of contracts signed (to be recognised over the term of the contracts) with new Guardian customers in the first half was A$6.9m – equal to the total value of contracts signed in FY15 and FY16 combined. However, this has not translated to sales revenue as quickly as expected, as customer fleet managers continue to implement the equipment roll out, managing their fleet utilisation and down time
- *Fleet*: Reduced expectations for full year revenues due to the above mentioned roll out timeframes and near term sales expectations
- *Mining:* Despite the current state of the resources sector, high margin royalties of A$789,000 received from Caterpillar
- *Group:* Loss before tax of A$14.1m (H1FY16: profit before tax of A$11.3m) reflecting investment in the Group including core technology platform, and expected R&D refundable tax offset (other income) and one off CAT license revenue in H1FY16
- *Group:* £16.4m fund raise closed post period end and therefore not included in the period end balance sheet. Full ownership retained of the Automotive business ensuring all intellectual property including data, SiP DMS chip and all key staff will remain available to all Seeing Machines' target markets

Ken Kroeger, CEO of the Company said:

"We continue to grow our business in the Automotive, Fleet, Aviation, Mining and Rail markets and technologies with strong support from our shareholders. Revenue in our Fleet business has more than doubled, with long-term contracted business and a stronger pipeline developed across a number of regions and channels worldwide. The nature of the revenue is also evolving from one-off hardware sales to a longer-term predictable subscription based revenue stream.

Our progress on the development of the Fovio vision processor and SiP platform will not only enable scalability within the Automotive business, but will also be leveraged across most of Seeing Machines' segments and broader artificial intelligence applications. Retaining Automotive within Seeing Machines is already benefiting the broader business and our progress with automotive OEM opportunities is very pleasing. The recent announcement that Intel Corp will buy Mobileye for US$15 billion indicates the very strong interest in the market for advanced automotive vision technologies.

Our reputation is growing from that of driver monitoring system pioneer to the industry benchmark and we will continue to leverage this across all areas of the business to continue our growth and penetration. Overall, I am pleased with the progress towards the achievement of our long-term goals as our multi-sector strategy continues to gain momentum."

The financial report for the half year ended 31 December 2016 is available for download from the Company's website: www.seeingmachines.com

The information communicated in this announcement is inside information for the purposes of Article 7 of Regulation 596/2014.

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About Seeing Machines

Seeing Machines, (AIM: SEE) is focused on operator monitoring and intervention sensing technologies and services. With more than 15 years of experience, Seeing Machines uses advanced detection and prevention safety assistance technologies to track eye and facial movement in order to monitor fatigue, drowsiness and distraction events, such as microsleeps, texting and cell phone use as they occur, while providing for a real-time intervention strategy, which improves operator, driver and environmental safety, preserves assets, and reduces risk. Seeing Machines' technology is used worldwide across the automotive, mining, transport and aviation industries; as well as many of the leading academic research groups and transportation authorities. Seeing Machines is headquartered in Australia and has offices in Tucson, Arizona and Mountain View, California. The Company counts Caterpillar, Electro Motive Diesel, Progress Rail, Boeing, Takata, SEMCo, and Eye Tracking Inc among its partners.

Directors' report

Financial Results

- Total value of contracts signed with new Guardian customers in the first half was A$6.9m – equal to the total value of contracts signed in FY15 and FY16 combined. However, this has not translated to sales revenue as quickly as expected due to a longer than anticipated time lag between Guardian customer orders being signed and the units being delivered and installed in customer fleets. The half year's customer wins reflect a significant volume of forward booked fleet contracts in place (with 36 to 60 month terms), securing long term predictable revenue with significant potential for additional growth.
- Sales revenue in the half year ended 31 December 2016 was A$3,620,748 (2016: A$29,320,940). Prior year revenue included direct sales of DSS mining products and services of A$5,765,019 and a one-off license fee of A$21,850,452 following a global product development, licensing and distribution agreement with Caterpillar Inc.
- Revenue from the Guardian division increased by 134% to A$1,637,875 (2016: A$699,968). See division highlights below.
- Revenue from the Automotive division was in line with expectations and the prior period and totalled A$992,934.
- Revenue from other sources includes the Aviation business which was mainly secured through funded R&D programs with Aviation OEMs, carriers and major industry integrators. Other income totalled A$1,162,838 (2016: A$2,363,323).
- The Company made a net loss of A$14,138,699 for the period, compared with a net profit of A$11,174,353 for the period to 31 December 2015. Main reasons for drop in profitability include:
  - FY16 profit included one-off Caterpillar license revenue of A$21.85m
  - Increased investment in Research & Development (R&D) in 2017 (see Automotive division highlights below)
  - R&D refundable tax offset is included in the prior period but not this period – a similar value refund is anticipated in the second half of FY17 subject to a successful claim

Revenue for the half year for the Automotive, DSS, and Fleet product lines, the Caterpillar license fee, and Other Income compared to the same period last year is shown in the following table:

	Segment Revenue		Segment Profit	
FOR THE HALF YEAR ENDED 31 DECEMBER	**Dec-16 A$**	**Dec-15 A$**	**Dec-16 A$**	**Dec-15 A$**
Revenue				
Automotive	992,934	978,970	(2,672,072)	(2,812,458)
DSS mining/ Caterpillar license fees & royalties	789,939	27,642,002	(1,043,951)	26,126,013
Fleet /(Guardian)	1,637,875	699,968	(10,870,924)	(11,295,716)
Other revenue sources	200,000	(0)	(714,590)	(3,206,809)
Total for continuing operations	3,620,748	29,320,940	(15,301,537)	8,811,030
Total other income	1,162,838	2,363,323	1,162,838	2,363,323
Total Consolidated Revenue/(Loss)/Profit	4,783,586	31,684,263	(14,138,699)	11,174,353

Cash as at 31 December 2016 has decreased compared to 30 June 2016 due to the half year loss, offset in part by the monetisation of most of the amounts owed by Caterpillar for the one-off license fee. This cash balance does not include the proceeds from the recent capital raise totalling GBP16.4m (A$27m) which was received in January 2017. Trade and other receivables have decreased due to the monetisation of most of the amounts owed by Caterpillar for the one-off license fee. Increase in the intangibles balance is due to the capitalisation of development costs consistent with prior year.

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Highlights Summary:

- With the transition from a direct-to-market mining business to a royalty arrangement with Caterpillar, the Company has refocussed its efforts toward the Automotive, Fleet, Aerospace and Rail markets and technologies.
- The Company is building a strong pipeline of Fleet sales across several regions, driven by several assessments and opportunities as outlined in our recent quarterly Fleet update (published in December 2016, and available at https://www.seeingmachines.com/investors/announcements/). We are also confident of increased activity and sales through Caterpillar across their broad target markets of construction, cement and quarry, forestry, and mining as this market recovers from an extended period of low ore prices.
- The Company has cemented itself as the market pioneer and leader of driver monitoring system (DMS) technology by securing a follow-on order from a major US automotive OEM, and has received strong levels of interest for developing programs with several major European automotive OEMs as they seek to adopt DMS for their ADAS and semi-autonomous capable vehicles.
- A pivotal achievement for Seeing Machines has been the development of its System in Package (SiP) - essentially a very cost-effective chipset that runs Seeing Machines' core algorithms, capable of powering all our applications.

Operational Highlights – Fleet (Guardian)

- In December 2016, the Company announced a global distribution partnership with MiX Telematics (JSE: MIX, NYSE: MIXT), a leading global provider of fleet and mobile asset management solutions. Formalising this Agreement represents a significant step forward for the Guardian brand. Mix is a credible player in the fleet management space and have recognised the value that partnering with Guardian brings.
- During the half year two additional distributor agreements were signed in Asia Pacific - Kiatana (Thailand) and Autosense (NZ). Both distributors purchased inventory as part of these deals and have signed up multiple customers under assessment.
- The global pipeline continues to build and new assessments engaged. There are currently over 60 assessments in progress including significant and prominent global freight brands. Advancements in the US have been particularly pleasing with assessments now being converted to contracts.
- Total Lifetime Contracted Value as at 31 December 2016 is A$13.9m, of which A$6.9m new contract value was derived in the half year, and in total A$7.5m of this A$13.9m has been recognised as revenue in this and prior financial reporting periods. As noted above, this contracted value has not translated to sales revenue as quickly as originally anticipated. Our sales revenue is recognised when a unit is shipped to a customer and monitoring revenue is first recognised once the unit is installed and monitoring services are being delivered. As these large customer deals have been negotiated, customer preferences are emerging such that units are shipped over time to align with how quickly a customer is prepared to make its fleet available for installation of units. This creates a time lag between signing up a customer and being able to recognise sales revenue.

Operational Highlights – Mining

- Despite the current state of the resources sector and Caterpillar's (CAT) slower than anticipated growth of the business, royalties of A$789,000 represents material revenue for the Company.
- The gradual turnaround in the resources sector translates to a strengthened sales pipeline for CAT and they anticipate signing up another new global mining customer during 2017.
- Delivery of the Seeing Machines engineered, next generation DSS Mining product remains on track for the second half of the financial year.
- Strengthened relationship with CAT as evidenced by:
  - their agreement to accelerate most of their payments to the Company with no discount in return for the delivery of certain agreed engineering services
  - the appointment of Mr Tim Crane, General Manager - Cat Services, Marketing & Digital Division to Seeing Machines' Board of Directors

Operational Highlights – Automotive (Fovio)

- The Company has decided to keep Fovio within the Group rather than spinning it out into a separately funded entity. This decision is in the best interests of shareholders given synergies with other parts of the Group. As a result, we proceeded with a capital raise which was concluded in January successfully raising GBP16.4m to fund Fovio within the Group.
- During the half-year, we have completed key hires of CEO and other senior management personnel and grown the automotive engineering and sales teams significantly. These resources were deployed on OEM program delivery, on-going Fovio chip automotive qualification, customer prototyping, and OEM/Tier 1 PC-DMS R&D programs.

- Fovio has successfully passed every major delivery milestone for its major OEM customer whose first semi-autonomous vehicle with integrated DMS is expected to be launched in 2017.
- Strong progress was made on the business development pipeline for other OEM opportunities as the automotive industry rapidly converges on the understanding of how critical DMS technology is for both mitigating drowsiness and distraction issues, and as a critical part of the technology stack for semi/fully-autonomous driving and next generation display systems. A sample of Fovio's technology engagements was on show at the CAR-ELE JAPAN show as well as CES 2017 which generated a high level of interest from industry leaders.
- The Company has made tremendous strides on the development of the Fovio vision processor and System in Chip (SiP) platform. The first processors are in automotive qualification. This platform will provide the Company with a market leading DMS performance platform, in a simple to integrate product for OEM/Tier1 customers which will be key to enabling a rapidly scalable business for Fovio as well as for use across most product segments such as Guardian and other new applications/markets being researched.

Operational Highlights – Aviation

- The first half has seen significant progress for Aviation with the following funded strategic and exploratory engagements:
    - Installation and data collection within a pilot and crew training facility with globally recognised carriers
    - Installation and data collection with a leading global OEM in an operational aircraft to capture and interpret pilot fatigue and alertness data
    - Initial engagement with a Tier 1 Avionics provider to understand pilot and crew fatigue status in a simulated environment
    - Joint study with an OEM and Air Navigation service provider to support more effective training and assessment in air traffic control
    - Global first data collection of helicopter pilot scan patterns and situational awareness in critical scenarios with a major player in helicopter operations.
- These engagements are the foundation of our developing product roadmap leveraging core capability for both aftermarket product and service and ultimately a production line product solution, with a key focus on:
    - Pilot and crew training and assessment
    - Pilot and crew operational monitoring
    - Air Traffic Control and Console Operator monitoring

Operational Highlights – Rail

- Rail – the Company is in final negotiation stage for a global agreement with Progress Rail. We expect an agreement to be in place during 2017.

Summary

The Board expects the Company's revenue sources to continue to evolve with the recent change of DSS business revenue to a Caterpillar royalty fee for DSS and the increase in our Fleet direct to market business. As our Fleet business matures we expect direct sales to be less dominant with growth over time in non-direct sales channels. Other revenue streams include engineering services in the automotive space in the short term but this will also move to an annuity stream from the sale of our technology into newly manufactured passenger vehicles.

The Directors remain committed to delivering significant growth in shareholder value and we look forward to reporting on our continued progress during this year.

Terry Winters
Chairman

16 March 2017

Ken Kroeger
Managing Director & CEO

16 March 2017

Interim Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2016	31 DEC 2016 A$	30 JUN 2016 A$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	11,603,910	16,948,300
Trade and other receivables	3,597,270	6,786,046
Inventories	6,901,966	8,420,350
Current financial assets	241,159	241,159
Deferred Taxation	-	85,581
Other current assets	1,439,056	663,615
TOTAL CURRENT ASSETS	23,783,361	33,145,051
NON-CURRENT ASSETS		
Property, plant and equipment	527,090	691,961
Intangible assets	5,130,872	4,404,268
Non-current financial assets	140,191	140,191
Trade and other receivables	1,797,236	6,284,468
TOTAL NON-CURRENT ASSETS	7,595,389	11,520,888
TOTAL ASSETS	31,378,750	44,665,939
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	1,142,538	1,801,771
Provisions	1,677,764	1,591,987
Deferred revenue	1,987,951	728,959
Income tax payable	-	85,581
TOTAL CURRENT LIABILITIES	4,808,253	4,208,298
NON-CURRENT LIABILITIES		
Provisions	44,689	33,324
TOTAL NON-CURRENT LIABILITIES	44,689	33,324
TOTAL LIABILITIES	4,852,942	4,241,622
NET ASSETS	26,525,808	40,424,317
EQUITY		
Contributed equity	70,806,624	70,592,134
Treasury shares	(1,191,078)	(1,226,938)
Accumulated losses	(43,875,933)	(29,737,234)
Other reserves	786,195	796,355
Equity attributable to the owners of the parent	26,525,808	40,424,317
Non-controlling interest	-	-
TOTAL EQUITY	26,525,808	40,424,317

Interim Consolidated Statement of Comprehensive Income

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016	2016 A$	2015 A$
Continuing operations		
Sale of goods and license fees	1,669,995	27,558,018
Rendering of services	1,950,753	1,762,922
Revenue	3,620,748	29,320,940
Cost of sales	(4,093,322)	(4,238,008)
Gross (loss)/profit	(472,574)	25,082,932
Other income	1,162,838	2,363,323
Expenses		
Research and development expenses	(6,275,599)	(4,218,989)
Customer support and marketing expenses	(4,355,506)	(3,891,880)
Occupancy and facilities expenses	(1,094,867)	(891,894)
Corporate services expenses	(3,102,957)	(2,935,867)
Other expenses	(34)	(4,241,864)
(Loss) / profit before income tax from continuing operations	(14,138,699)	11,265,761
Income tax expense	-	(47,501)
(Loss) / profit from continuing operations after income tax	(14,138,699)	11,218,260
(Loss) from discontinued operations after income tax	-	(43,907)
(Loss) / profit for the period	(14,138,699)	11,174,353
Attributable to:		
Equity holders of parent	(14,138,699)	11,194,111
Non-controlling interests	-	(19,758)
	(14,138,699)	11,174,353
Other comprehensive (loss) / income to be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	(55,470)	(317,689)
Other comprehensive income net of tax	(55,470)	(317,689)
Total comprehensive (loss) / income	(14,194,169)	10,856,664
Total comprehensive income attributable to:		
Equity holders of parent	(14,194,169)	10,854,032
Non-controlling interests	-	2,632
Total comprehensive (loss) / income for the year	(14,194,169)	10,856,664
Earnings per share for (loss) / profit attributable to the ordinary equity holders of the company:		
· Basic earnings per share	(0.01316)	0.01215
· Diluted earnings per share	(0.01316)	0.01181

Interim Consolidated Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016	Contributed Equity A$	Treasury Shares A$	Accumulated Losses A$	Foreign Currency Translation Reserve A$	Employee Equity Benefits & Other Reserve A$	Total A$	Non-Controlling Interest A$	Total Equity A$
At 1 July 2015	57,490,870	(1,301,823)	(27,997,987)	(544,438)	1,312,148	28,958,770	1,175,516	30,134,286
Profit/(loss) for the half-year			11,194,111	-	-	11,194,111	(19,758)	11,174,353
Other comprehensive income			-	(340,259)	-	(340,259)	22,390	(317,869)
Total comprehensive income	-		11,194,111	(340,259)	-	10,853,852	2,632	10,856,484
Transaction with owner in their capacity as owner								
Shares issued	297,759	-	-	-	-	297,759	-	297,759
Employee Share Loan Plan					176,577	176,577		176,577
At 31 December 2015	57,788,629	(1,301,823)	(16,803,876)	(884,697)	1,488,725	40,286,958	1,178,148	41,465,106
At 1 July 2016	70,592,134	(1,226,938)	(29,737,234)	(764,810)	1,561,165	40,424,317	-	40,424,317
(Loss) for the half-year	-	-	(14,138,699)	-	-	(14,138,699)	-	(14,138,699)
other comprehensive income	-	-	-	(55,470)	-	(55,470)	-	(55,470)
Total comprehensive income	-	-	(14,138,699)	(55,470)	-	(14,194,169)	-	(14,194,169)
Transaction with owner in their capacity as owner								
Shares issued	214,490	-	-	-	-	214,490	-	214,490
Treasury Shares	-	35,860	-	-	-	35,860	-	35,860
Employee Share Loan Plan	-	-		-	45,310	45,310	-	45,310
At 31 December 2016	70,806,624	(1,191,078)	(43,875,933)	(820,280)	1,606,475	26,525,808	-	26,525,808

Interim Consolidated Statement of Cash Flows

	Consolidated	
	2016	**2015**
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016	**A$**	**A$**
Operating activities		
Receipts from customers (inclusive of GST)	13,470,938	19,604,534
Payments to suppliers and employees (inclusive of GST)	(17,835,288)	(20,427,209)
Government Grants	103,125	-
Interest received	1,087	20,019
Net cash flows used in operating activities	(4,260,138)	(802,656)
Investing activities		
Purchase of plant and equipment	(141,724)	(295,706)
Payments for intangible assets	(889,105)	(951,325)
Net cash flows used in investing activities	(1,030,829)	(1,247,031)
Financing activities		
Proceeds from issue of shares	-	-
Cost of capital raising	-	-
Repayment of borrowings	-	-
Net cash flows from financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	(5,290,967)	(2,049,687)
Net foreign exchange differences	(53,423)	176,506
Cash and cash equivalents at 1 July	16,948,300	12,035,741
Cash and cash equivalents at 31 December	11,603,910	10,162,560