

ASX ANNOUNCEMENT

ASX: YPB | 26 October 2021

QUARTERLY ACTIVITIES REPORT – Q3 2021

Q3 2021 achieves best ever cash efficiency

- **Cash receipts up 73% on prior quarter**
- **Trend of improved operational efficiency continuing**
- **Recurring revenue base building**
- **98% gross margins sustained**
- **Good business and tech progress despite major COVID-19 headwinds**

Anti-counterfeit and consumer engagement solutions provider **YPB Group Limited (ASX: YPB)** presents highlights of activities for the quarter ended 30 September 2021 (Q3 2021).

Q3 2021 continued the trend of improvement in cash use efficiency while simultaneously product R&D and new business development efforts maintained full pace.

Best ever operating cashflow result (excluding extraordinary COVID-19 quarter)

Q3 2021 saw the lowest quarterly cash consumption in the company's history, excepting the abnormal Q2 2020 when emergency cash preservation measures were implemented during peak COVID-19 uncertainty.

The Q3 2021 result is particularly encouraging given significant COVID-19 impediments limited revenue generation in all of the company's jurisdictions. As COVID-19 management shifts from pandemic to endemic and normal commercial life and mobility resumes, a raft of opportunities that have been in development over the past 18 months are expected to contribute to rising revenues and cash receipts over time.

The improved cash use efficiency of the business in Q3 2021 was the product of higher cash receipts and lower cash costs.

Cash receipts of \$207k were up 73% on the prior quarter and were the highest of any quarter in 2020 or 2021 (post completion of a business rationalisation program). They were driven almost entirely by re-orders from existing customers.

This is notable as securing repeat orders and ongoing revenues from existing customers had been a weakness of YPB historically and Q3 demonstrates that the account management disciplines instituted in the past two years are bearing fruit. This bodes well for future revenue stability and growth.

Operating cash gross margin in Q2 remained a feature at 98%, in line with the prior two quarters of 2021, and reflective of the proprietary IP content of the company's products. The gross margin highlights the opportunity for revenue growth to quickly change the company's financial results with

each extra dollar being almost entirely profit. The leverage inherent in revenue growth from such high gross margins is the key plank in the company's drive to profitability.

Gross operating cash costs in Q3 2021 were down 11% on Q2 to \$857k. This was achieved despite a 5% increase in staff cash costs, the company's biggest expense, due simply to the timing of certain payments. Other notable cost movements were:

- Administration and corporate down 20% - with a significant contribution from lower premises lease costs from an office relocation in Thailand;
- Advertising and marketing down 65% - normalising after an abnormally high Q2 when MotifMicro's global marketing launch and more intensive investor relations activity inflated spend; and
- R&D down 38% reflecting further benefit of in-housing previously outsourced functions – man hours, effort and product results actually increased in the quarter.

First paid commercial trial for MotifMicro1

The key commercial event in the quarter, and a most significant one for the company, was the signing of the first paid commercial trial for MotifMicro1. Paid trials of new products are rare and, because of that rarity, are difficult to achieve – major suppliers to FMCG producers are simply not attuned to paying when they test new products. But paid trials are foundational in YPB's MM1 commercialisation strategy as they achieve high customer buy-in, increasing the probability of successful outcomes, and they allow YPB to efficiently allocate resources to the highest probability opportunities.

The first trial partner for MM1 is Opal, ANZ's largest producer of recyclable cardboard packaging (ASX: 08/09/2021) with many prominent, high-volume FMCG customers. Opal is now owned by Nippon Paper following its sale by previous owner Orora (ASX: ORA). The pedigree and prestige of Opal and its now parent Nippon Paper testify as to the novelty and opportunity of the MM1 technology.

As noted above, COVID-19 significantly impeded the execution of the company's business development plan but efforts in the quarter resulted in three key events imminently post quarter-end:

- The *grant* by the US Patent Office of a critical patent over smartphone-based anti-counterfeit technology to YPB (ASX: 05/10/2021) confirming the company's leadership in valuable anti-counterfeit technologies;
- Major Malaysian printer Holographic signing for the second paid commercial trial (ASX: 07/10/2021) with relevance to its ultra-high-volume Government clients; and
- The release of MultiSec Shield a novel, forensically secure over-laminate product for government documents (ASX: 12/10/21).

Further opportunities flowing from the efforts of Q3 are expected to be realised in future.

Corporate

As at 30 June 2021, the Company held \$0.611m in cash and cash equivalents, down from \$1.347m as at 30 June 2021. However, post quarter-end, the company raised \$3m cash via new equity (ASX: 20/10/21).



During the quarter the Company made payments of \$48,873 to related parties and associates being payments under the CEO/Chairman's remuneration agreement with the Company.

YPB Group CEO John Houston said: *"I'm pleased to again demonstrate to shareholders the closely controlled, lean operations of the Company. I expect the improving trend of cash receipts to be sustained, subject to COVID-19 developments in China where impediments have been significant, and costs to be largely stable.*

It is also particularly pleasing to see repeat orders from long-standing customers building our recurring revenue base.

While COVID-19 frustrations are real, it is also a real achievement to now have two paid commercial trials on foot for our world-beating MotifMicro1. Ongoing discussions with other parties are encouraging and the value creation that can flow from moving into full commercial relationships with such high-volume players is significant.

YPB has a powerful, pertinent product suite and a range of suppliers to FMCG and Governments globally are recognising the relevance, ease and effectiveness of YPB's solutions to their clients' counterfeit problems. Given tight financial management and exceptional product margins, conversion of some of the opportunities at hand can transform our financial results.

This announcement has been authorised by the Board of YPB Group Limited.

Ends.

For further information please contact:

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About YPB Group

YPB Group Limited (ASX:YPB) is an Australia-based product authentication and consumer engagement solutions provider. YPB's proprietary smartphone enabled technology suite allows consumers to confirm product authenticity and, for brands, that triggers consumers' engagement.

The combination of YPB's smartphone authentication solutions and its SaaS Connect platform, creates 'smart' product packaging, opening cost-effective, digital and direct marketing channels between brands and their consumers. Connect gathers actionable data on consumer preferences. It can then host tailored marketing campaigns directly back to the scanning smartphone.

YPB is currently focused on the rapidly growing Australian, South East Asian, and Chinese markets. Its focus is dairy, cannabis, alcohol and cosmetics where the viral growth of fake products, particularly in Asia, affects brand value and endangers consumers. To learn more please visit: ypbsystems.com

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

YPB Group Ltd

ABN

68 108 649 421

Quarter ended ("current quarter")

30 September 2021

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	208	523
1.2	Payments for		
	(a) research and development	(30)	(157)
	(b) product manufacturing and operating costs	(2)	(9)
	(c) advertising and marketing	(24)	(109)
	(d) leased assets	(54)	(164)
	(e) staff costs	(508)	(1,495)
	(f) administration and corporate costs	(238)	(826)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	1
1.5	Interest and other costs of finance paid	(39)	(141)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	3
1.8	Return of deposits from office rentals	-	-
1.9	Concession and rebates from financial support measures	2	2
1.10	Other (GST/VAT refund)	7	52
1.11	Net cash from / (used in) operating activities	(678)	(2,320)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(3)	(10)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	14	14
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Deposit into an escrow account	(70)	(70)
2.6 Net cash from / (used in) investing activities	(59)	(66)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	750
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	750
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	(56)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	1,444

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,347	1,559
4.2	Net cash from / (used in) operating activities (item 1.11 above)	(678)	(2,320)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(59)	(66)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	1,444
4.5	Effect of movement in exchange rates on cash held	1	(6)
4.6	Cash and cash equivalents at end of period	611	611

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	611	1,347
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	611	1,347

6. Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to related parties and their associates included in item 1	49
6.2 Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
N/A		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.11)	(678)
8.2 Cash and cash equivalents at quarter end (item 4.6)	611
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	611
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: Yes	

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: Yes - On 20 October 2021, YPB announced a capital raise of \$3 million. Adding the amount raised to the cash at end of quarter results in an increased estimate of quarters of funding available.

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Yes, in view of the answer to 8.6.2.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 25/10/2021

Authorised by: by the board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – e.g., Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.