

ASX ANNOUNCEMENT

ASX:YPB | 29 July 2022

A quarter of restructuring to drive revenue growth

- Q2 saw temporary cash consumption increase from restructuring
- Q3 expected to improve notably with lower costs and higher revenue
- Optimistic of impactful new business before year end

Anti-counterfeit and consumer engagement solutions provider **YPB Group Limited (ASX: YPB)** presents highlights of activities for the quarter ended 30 June 2022 (Q2 2022).

Q2 2022 saw cash consumed by the business temporarily increase, following the company's best-ever result in Q1. This was due to a once-off jump in staff costs from reconfiguring finance to fund increased sales and marketing power. Staff cash costs are forecast to fall in Q3 and subsequent periods.

New business development has progressed well, albeit the pace remains well sub-target due to rolling Covid disruptions of plans and timelines almost everywhere. Nevertheless, securing new customers capable of meaningful financial impact is still a sound prospect over the balance of 2022.

Progress in both anti-counterfeit and consumer engagement technologies was excellent, and development has been in close co-operation with existing and potential customers highlighting the commercial relevance of YPB's solutions.

Q3 should see an improved cash performance as cash receipts rise from a more normal China, and temporary costs fall away.

Temporary quarterly cash consumption increase

Q2 2022 saw net operating cash consumption increase by \$375k driven by a \$318k rise in staff costs. This arose primarily from the restructuring of the finance function and will not recur. The permanent cost base of finance will be lower, and the funds freed are being used to drive revenue through greater sales and marketing spend aimed at greatly lifting inbound lead generation. The jump in staff costs in Q2 will be non-recurring and will fall substantially in Q3 and subsequent quarters on current staffing levels.

Receipts from customers in Q2 were relatively flat, up 6.8%, which was an acceptable, although below plan, result given the impact of severe, rolling Covid restrictions throughout China. Whole supply chains and end consumption across many sectors were effectively closed impacting both orders and the ability to ship product. Conditions are easing in China and revenue is expected to improve solidly in Q3.

Again, virtually all receipts were repeat orders from existing customers and demonstrate a base of stable and reliable revenue from which to build new business.

Cash gross margin in the half was 99%, similar to Q1, again demonstrating the cash generative nature of incremental revenue. This high profitability will be a key driver of rapid improvement in financial performance as revenue grows.

Other cost item movements of note were:

- a fall in R&D due to the reclassification of certain product development staff costs to marketing – the investment in R&D was maintained and is bearing fruit.
- A rise in marketing spend, in addition to the reclassified staff, with a concerted effort to drive inbound sales lead generation.
- A rise in administration and corporate costs from an abnormally low Q1, but that remained well below the 2021 quarterly average as foreshadowed in YPB's last quarterly report.

Commercial wins expand YPB's playing field

Two notable commercial wins were achieved in Q2:

- The first was the fourth paid commercial trial for MotifMicro1, YPB's revolutionary forensic anti-counterfeit solution readable by an unmodified smartphone. The customer, Manipal Technologies Limited, is an Indian multinational supplying secure document solutions to government and banks throughout India, Africa and Europe.
- The second was Scranton, a distributor to a diverse industrial customer base in South Korea. Scranton was the first customer of ProtectCode Plus, launched in Q2.

ProtectCode Plus is an innovative extension of the ProtectCode family of products generated by YPB's Connect platform, with an enhanced layer of digital security that is mathematically and physically virtually impossible to replicate. ProtectCode Plus is highly scalable and easily distributable.

Covid is proving an ongoing headwind to commercial progress in all jurisdictions but particularly in China. The YPB team has, nevertheless, doggedly pursued opportunities and progress is being made.

Major technical progress toward broad release of MM1

Collaboration with customers in the MM1 paid trial process continues to direct the development of the software, driving the MM1 detection app and the process to automate the expansion of the usable phone portfolio. Go-to-market plans anticipated with clients in Q2 have been slightly delayed into Q3 but a robust, reliably usable product in hitherto difficult environmental conditions is well progressed.

The Connect platform continues to develop, particularly in response to customers' needs for features.

Compulsorily converting notes raise \$1.5m

Convertible note funds were raised and part repaid in the quarter for a net fund raise of \$970k.

Corporate

As of 30 June 2022, the Company held \$666k in cash and cash equivalents, up from \$629k as at 31 March 2022.

During the quarter the Company made payments of \$57,105 to related parties and their associates. This comprises of payments related to the CEO/Chairman's existing remuneration agreement of the Company.



Consolidation of the share base on a 25-for-1 basis was approved at the AGM and executed in the quarter.

YPB Group CEO John Houston said: *"Q2 2022 was a frustrating period with sales and business development activities still being severely hampered by Covid. Despite this, the whole team did an excellent job in maintaining momentum in product development, new business development and sales.*

Our China team expects a bounce in sales as extreme restrictions are lifted, even if normality is not resumed. We have worked hard to expand the range of salable products in China and have expanded the opportunity set there.

We have developed close relationships with potential partners with very large customer bases in a range of geographies, some with global reach, that we are hopeful will turn into lucrative commercial relationships prior to year-end.

Our technical team is firing, solving problems and delivering on customer requests, resulting in a strong, viable and ever-improving product suite.

With our cost control tight and prospects strong, our goal remains quickly moving the company toward profitability and into a new phase of creating substantial shareholder wealth as our revenue base grows."

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

Ends.

For further information please contact:

YPB investor enquiries
investors@ypbsystems.com

Ben Jarvis
0413 150 448
Ben.jarvis@sdir.com.au
Six Degrees Investor Relations

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 June 2022

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	160	310
1.2	Payments for		
	(a) research and development	(68)	(154)
	(b) product manufacturing and operating costs	(2)	(4)
	(c) advertising and marketing	(81)	(120)
	(d) leased assets	(26)	(57)
	(e) staff costs	(645)	(972)
	(f) administration and corporate costs	(242)	(445)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Return of deposits from office rentals	-	-
1.9	Concession and rebates from financial support measures	-	-
1.10	Other (GST/VAT refund)	(12)	82
1.11	Net cash from / (used in) operating activities	(916)	(1,360)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 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)	(3)
	(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	-	-
	(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	-	-
2.6	Net cash from / (used in) investing activities	(3)	(3)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	1,632	2,174
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(530)	(530)
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 (6 months) \$A'000
3.9	Other (Corporate Advisory, Research, investor relations, etc.)	(132)	(132)
3.10	Net cash from / (used in) financing activities	970	1,512

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	629	531
4.2	Net cash from / (used in) operating activities (item 1.11 above)	(916)	(1,360)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(3)	(3)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	970	1,512
4.5	Effect of movement in exchange rates on cash held	(14)	(14)
4.6	Cash and cash equivalents at end of period	666	666

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	666	629
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)	666	629

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	57
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>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.</i>		

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	500	174
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	500	174
7.5	Unused financing facilities available at quarter end		326
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.		
	On 27 June 2022, the Company received commitments to raise \$500,000 of convertible notes from professional and sophisticated investors. By 30 June 2022, the Company collected \$174,000. Post quarter-ended, the Company collected the remaining \$326,000 as per Item 7.5 above. These notes were issued with an interest rate of 10% per annum and were repayable within six months from the issue date but compulsorily converted to equity immediately upon approval by shareholders of their conversion at the AGM on 30 May 2022. All notes have fully converted to equity and none remain outstanding.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.11)	(916)
8.2	Cash and cash equivalents at quarter end (item 4.6)	666
8.3	Unused finance facilities available at quarter end (item 7.5)	326
8.4	Total available funding (item 8.2 + item 8.3)	992
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. We believe that the previous 6-month cash flows are more reflective of ongoing cash usage as Q2 had exceptional items of Corporate cost due to share consolidation and convertible note and an exceptional item of final payment for departed CFO.

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. YPB is prepared to raise funds if and when necessary. At the AGM on 30 May 2022, the Company has obtained shareholder approval to issue Company securities, the proceeds \$4 million of which are expected to allow the advancement of the Company's activities. YPB has an existing mandate with a Sydney based AFSL holder who has successfully raised capital for the Company previously. The Company will update the market in this respect and in accordance with its continuous disclosure obligations as necessary.

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: 29 July 2022

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.