

ASX ANNOUNCEMENT

ASX:YPB | 31 January 2023

Best-ever operating cashflow quarter

- **Q4 2022 operating cash consumption lowest in company's history**
- **Cash receipts up 20% on prior quarter**
- **Cash operating costs down 32% on prior quarter**
- **Net cash used in operations 36% less than prior quarter**
- **Remain optimistic re valuable new business with pipeline continuing to build**

Anti-counterfeit and consumer engagement solutions creator **YPB Group Limited (ASX: YPB)** presents highlights of activities for the quarter ended 31 December 2022 (Q4 2022).

Q4 2022 saw YPB's lowest-ever quarterly operating cash consumption. The twin drivers of the result were a modest lift in cash receipts and further benefit from ongoing tight cost control.

Excluding GST refunds, Q4 2022's cash consumption was 10% below that of the prior best quarter which was Q1 2022. The occurrence of the two lowest cash-use quarters in 2022 demonstrates the efficiency dividends that are being realised by strong resource stewardship.

New business development continues to progress very well, but previously anticipated deal closures slipped beyond quarter end. The prospect of closing new customers capable of transforming YPB's finances in 2023 and beyond is strong.

Technical progress in both anti-counterfeit and consumer engagement technologies was again excellent. A range of innovations concluded in the quarter have expanded the company's revenue opportunities via a broader product range and application to new markets, while lifting value to customers through greater data richness from product integration into the YPB Connect Global Dashboard.

The goal for 2023 is to capitalise on 2022's refinement of compelling products and greater sales effectiveness to drive revenues well above costs.

Q4 cash use 36% better than Q3 and 50% better than Q2

The big decline in cash consumed by the business in Q4 2022 was primarily the cumulative benefit of ongoing tight cost management and a modest lift in cash receipts with Covid sales impacts starting to ease.

Receipts from customers rose an impressive 20% in Q4 but from a depressed Q3 with the dollar increase only \$17,000. Q4 still suffered from Covid impacts in China with Q4 receipts nearly 40% below those of Q1 and Q2 2022. There are definite signs of improvement in China which are hoped to lift sales and receipts in Q1 2023 and beyond.

Cash gross margin was 99% in Q4, due primarily to the company having sufficient inventory on hand and not requiring any new production of physical goods (i.e. tracers, scanners etc.). This margin

highlights the value of the intellectual property content in the company's sales mix with most revenue streams not based on physical products. The cash gross margin may not be maintained at 99% in future quarters, but it will remain very high.

Gross cash operating costs fell 32% on Q3, with all line items lower and further benefits from the streamlined finance function apparent. The only exception was lease costs which saw the Covid rent holiday at the Thailand head office expire.

The big moving cost categories in dollar terms in Q4 from Q3 were;

- R&D costs down 38% as projects concluded and contractors retired. R&D costs are likely to remain around Q4 levels for the foreseeable future.
- Staff costs down 16% benefitting from further refinement of the operating structure. This should also remain relatively stable for some time.
- Admin and corporate down 58% due to the timing of lumpy items such as exchange fees, corporate advisors etc. This item will remain volatile from quarter to quarter and is likely to rise.

In 2023, costs are expected to remain largely stable through the year with some quarterly variation.

Technical refinements, enhancements and extensions

The technical achievements in Q4 fell into two categories:

- **Refinements:** - refining new products in beta testing. This primarily relates to MotifMicro (YPB's patented, forensic smartphone product authentication tool).
 - The MotifMicro app underwent numerous feature add-ins and usability upgrades following production-line testing and customer feedback following its release to app stores in Q3.
 - The self-discovery algorithm for adding new phones to MotifMicro's phone model coverage was further upgraded, increasing the automation of the process for adding phones and facilitating much greater scalability in high population markets where the range of phones and brands is mind boggling.
- **Enhancements and extensions:** - enhancing and extending the functionality of existing products to expand potential applications and value to customers and thereby revenue opportunities, at modest incremental cost. Examples include:
 - Tracer/scanner adding Bluetooth functionality, thereby allowing data capture from a previously offline scan.
 - Connect being upgraded to a Global Dashboard that will integrate the whole YPB product range, increasing the value of data being captured and allowing brands greater insight into consumer behaviour.
 - ProtectCode Plus becoming a self-service application that can make high-security digital anti-counterfeit tools available to smaller customers at negligible incremental cost to YPB.

Corporate

Shareholders approved all terms of the \$1m Convertible Note facility provided by Executive Chairman, John Houston, at General Meeting in December 2022. The facility was fully drawn at quarter end.



As of 31 December 2022, the Company held \$666k in cash and cash equivalents, up from \$541k as of 30 September 2022.

During the quarter the Company made payments of \$33k to related parties and their associates. This comprises of payments related to the CEO/Chairman's existing remuneration agreement of the Company.

YPB Executive Chairman and Group CEO John Houston said: *"Despite enormous frustration at ongoing Covid detriments to orders and new business, I'm delighted by the progress YPB has made over the past two years.*

Our product range is sharp, deep, broad and unique – we have more high-quality stand alone and fully integrated products than at any stage in our history. Our sales capability is significantly ahead of anything we have had hitherto and is generating real momentum. Our engagement and progress with key channel partners and potential end customers is highly encouraging.

My tight-knit, top-class team and I are excited about demonstrating the benefits of our enormous progress in the form of strong revenue growth and greatly enhanced financial performance over the course of 2023 and beyond.

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

Ends.

For further information please contact:

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Six Degrees Investor Relations

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")

31 December 2022

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	93	480
1.2	Payments for		
	(a) research and development	(110)	(440)
	(b) product manufacturing and operating costs	(1)	(12)
	(c) advertising and marketing	(13)	(163)
	(d) leased assets	(44)	(111)
	(e) staff costs	(300)	(1,630)
	(f) administration and corporate costs	(109)	(813)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	1	2
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)	20	137
1.11	Net cash from / (used in) operating activities	(463)	(2,550)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 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)
	(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.	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	-	2,500
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	500	1,000
3.6	Repayment of borrowings	-	(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 (12 months) \$A'000
3.9	Other (Corporate Advisory, Research, investor relations, etc.)	-	(308)
3.10	Net cash from / (used in) financing activities	500	2,662

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	586	531
4.2	Net cash from / (used in) operating activities (item 1.11 above)	(463)	(2,550)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(3)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	500	2,662
4.5	Effect of movement in exchange rates on cash held	18	1
4.6	Cash and cash equivalents at end of period	641	641

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	641	586
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)	641	586

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	33
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	1,000	1,000
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	1,000	1,000
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.		
	<p>Answer: As per the ASX announcement on 3rd October 2022, The Executive Chairman has provided A\$1m Convertible Loan Facility supported by a Loan Facility Agreement dated 30th September 2022. The Loan has a term of 12 months and shareholder approval has been obtained at an EGM dated 23rd December 2022. The Loan is convertible and secured. Interest is payable on amounts advanced under the facility at a reference NAB facility rate plus 9%. The loan and interest are repayable by YPB in 12 months, unless converted at Mr Houston's election or repaid earlier. A\$1m has already been advanced to the company to support current and future business opportunities.</p>		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.11)	(463)
8.2	Cash and cash equivalents at quarter end (item 4.6)	641
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	641
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.4
<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: No. The company continues to reduce its operating and staffing costs by means of cost-effective measures that are planned to further reduce its cash flow burn rate. It also believes that with a healthy list of sales opportunities in the pipeline it is the Company's intention to transition into positive cash flow within a realistic time frame.

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. YPB has an existing mandate with a Sydney based AFSL holder who has successfully raised capital for the Company previously. On December 23rd, 2022 the Company obtained shareholder approval to raise up to \$4m and 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: 31 January 2023

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.