

ASX ANNOUNCEMENT

ASX:YPB | 31 August 2023

YPB tracks toward profitability

- **H1 2023 smallest half-year loss in company's history**
- **Loss reduced 69% on pcp**
- **Cash used in operations reduced 36% on pcp**
- **Cumulative cost control key driver**
- **Innovations from existing IP portfolio creating new opportunities**

Authentication and consumer engagement solutions creator **YPB Group Limited (ASX: YPB)** presents financial highlights for the half year to 30 June 2023.

YPB's trend toward profitability over the past three years accelerated in H1 2023 as the company recorded its smallest ever half-year loss, and by a considerable margin.

The loss attributable to shareholders of \$813k was 69% lower than H1 2022's \$2,632k. Net cash used in operations of \$913k was 36% lower than H1 2022's \$1,421k. These significant improvements primarily reflected the cumulative benefit of determined cost control.

Despite some potentially company-changing deals in the half, new business wins were slower than planned. Nevertheless, the business development and R&D teams worked closely with clients during the half to craft existing YPB technologies into new solutions to solve specific problems. Should some of the opportunities arising from these collaborations close in H2 2023, further progress toward a profitable, self-sustaining company would be made.

H1 2023 benefitted from cumulative cost cutting

The 69% fall in loss attributable to shareholders was in part due to higher revenue, but the primary contributor was a full-period benefit of the intense cost drive of the past three years.

H1 2023 revenue improved 32% on pcp but, as noted in prior releases, this result was flattered by a \$250k legal settlement for use of the company's IP by a third party. Adjusting for that non-operating item, revenue fell \$114k primarily due to Australian revenue falling \$82k partly due to softer orders by customers using up inventory purchased in prior periods. YPB China's revenues also fell but were down only \$33k, a pleasing outcome given the mercurial Chinese policies of the past two years.

The revenue change, however, was dominated by a 57% fall in total costs. Operating costs, excluding share-based payments and foreign exchange fluctuation, fell 30% or \$734k. The two prime contributors to the fall, split largely evenly, were lower consulting costs (capital raising related) and lower staff costs as the finance function centralised in Bangkok and the non-performing global distributor was terminated.

Even taking the most conservative construction of profit by eliminating all non-recurring revenue and non-operating costs, operating profit saw a 30% improvement in H1 2023 over the pcp to a record low loss. This is confirmed by the 36% fall in cash used in operations.

Gross margin (revenue less cost-of-goods sold) remained a feature at 98%. This high gross margin reflects the intellectual property strength of YPB's products and is central to achieving profitability with each incremental sales dollar contributing almost entirely to profit.

In non-operating items, share-based payments fell significantly with a larger cohort of key personnel benefitting in the prior year, and a significant exchange gain was recorded from a loss in the prior year.

Proceeds from the issue of shares was \$1,346k in the half with Executive Chairman John Houston participating for \$500k. Cash as at June 30 was \$1,036k.

The company's mandate with Everblu Corporate Capital Pty Ltd lapsed on August 2nd 2023 and has not been renewed.

Operational achievements

The company's operational effort in H1 2023 further progressed the strategy detailed in the company's annual report to:

- grow the company's revenue potential,
- at minimal incremental cost and risk of non-completion,
- by adapting existing technologies to solve specific challenges as identified by partners and clients,
- and thereby maximise the value of the existing IP portfolio.

The two key commercial results in the half were:

- a. **USA instant lotteries market entry** whereby invisible YPB Tracer technology was successfully adapted into an OEM module for automated lottery ticket vending/payout machines to prevent fraudulent ticket redemption. The modules currently are in regulatory tests. The USA instant lotteries market was valued at US\$65 billion in 2021, accounting for 62% of all USA lottery sales in 2021. The EU instant lotteries market was an almost identical size in 2021. Both markets grew at circa 10% per annum compound over the 20 years to 2021 and are expected to maintain rapid growth. (Source: Public Gaming International, March-April 2022).
- b. **Heavy machinery maintenance market entry** via supporting RimLock Innovations' wheel change safety invention which is initially being adopted by a super-major resource company in its QLD coal operations. YPB's solutions will allow Rim-Lock® as it develops resources and OEM equipment customers to:
 - Ensure the supply chain integrity of its product.
 - Authenticate new and in-use parts of its product as genuine.
 - Enable automated maintenance logging for service schedule compliance.

Both these contracts demonstrate YPB advancing the monetisation of its increasingly capable and mature intellectual property portfolio by combing blocks of its IP library to rapidly enter tangential but large markets with scalable, innovative solutions. Although presently modest contributors, both market opportunities are significant and our partners are ambitious and excited by the prospects of YPB's solutions to pressing problems.

The functionality of both the lottery and heavy machinery adaptations was enabled by four key innovations concluded in the half:

- Bluetooth connectivity being added to YPB Scanners (that are used to detect invisible YPB Tracer). This allows the capture of valuable data from scans for compliance, supply chain and marketing uses, massively expanding the potential applications of the technology and its value.
- The release of the YPB UnifAI APP to app stores providing wireless connectivity between the scanning device and YPB Connect, allowing the permanent capture and analysis of scan data. Originally developed as the MotifMicro app, YPB UnifAI has been extended to now be an all-in-1 app powering smartphone access to both MotifMicro and Tracer authentication technologies.
- YPB Brand Reporter being revitalised by merger with a more recently developed track-and-trace solution allowing tracking from manufacture through end consumer with the distinct benefit of a
- Completion of upgrades to YPB Connect making it a Global Dashboard and the hub for access and management of YPB's families of authentication solutions - YPB Tracer, ProtectCode, BrandReporter and MotifMicro.

The lottery and resources deals concluded in the half demonstrate the potential value realisable from a now rapid innovation capability and support the prospect of additional novel solutions for large markets at minimal cost.

In fact, a range of further opportunities are in development. Some have the potential to be concluded in H2 2023 and, if so, have the potential to lift revenue and drive the company closer to profitability. Unfortunately, the timing of deal conclusion is always at the client's pleasure and is thus unpredictable.

MotifMicro

YPB's revolutionary smartphone-based forensic authentication solution made only modest progress in H1 2023. Valuable field data was gathered from trials with channel partners but scan accuracy in bright light environments is not yet at target levels. Nevertheless, more significant progress is expected in H2 2023 as an experienced AI engineer was hired in late and June is progressing the project well. Various solutions are being trialled and a successful conclusion of the project is anticipated.

NVISO license – Artificial Intelligence and authentication

In mid-March 2023, YPB signed a 10-year license with NVISO SA of Switzerland to develop solutions to offer a simple, accurate means of determining the authenticity of digital media.

NVISO is an AI pioneer, and its Artificial Intelligence (AI) applications algorithmically detect human behavior as applied to next generation human machine interfaces. Following further due diligence, the initial projects YPB envisaged with NVISO have been deferred well into 2024.

Subsequent to June 30, however, YPB's focus with NVISO shifted to the application of leading-edge AI to YPB's existing product domains. Consequently, YPB upgraded its initial license with Nviso SA to an exclusive 10-year license with NVISO Group Limited, providing YPB exclusivity in YPB's core domains of consumer engagement, brand protection, and authentication utilising NVISO's AI solutions. The prior agreement with NVISO SA was dated 15 March 2023 and that previous agreement was terminated contemporaneously with the signing of the new exclusive agreement.

As part of its AI authentication plans, YPB developed the website DeepVerif.ai. In late August 2023, the company received notice from IP Australia that its Trademark application for DeepVerif.ai had been accepted following examination and now proceeds to a 2 month notification period.



YPB Executive Chairman and Group CEO John Houston said: "I'm delighted to be able to demonstrate to shareholders real progress toward our target of profitability. We will keep costs tightly controlled while driving new business revenue as rapidly as possible. The capability, flexibility and connectivity of our entire product suite is now first class. The creativity of both our technical and commercial teams in crafting novel solutions for real problems in big, new markets with blocks of our existing IP has been exceptional. I am firmly of the view that we have assembled the product suite and technical and commercial nous to achieve our goal of strong profitability. Timing is always the unknowable variable but am hopeful of demonstrating further major progress in H2 2023."

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

Ends.

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About YPB Group

YPB Group Limited (ASX: YPB) is listed on the Australian Stock Exchange and has developed and sells of a suite of physical, digital, and AI-based authentication technologies with a vast range of applications. Our solutions can easily authenticate a myriad of items, such as FMCG (fast-moving consumer goods) products, official identification documents, pharmaceuticals, nutraceuticals, dairy products, tax stamps, transactions - and even people.

Our solutions trigger engagement with consumers in a consented, cost-effective, and direct manner. Our proprietary technologies utilize Bluetooth and/or smartphones to capture and analyse invaluable authentication data in our Connect™ global intelligence platform, providing real-time, first-party, and worldwide market intelligence data. This actionable data enables brands to establish digital and direct marketing channels with their customers.

The markets YPB is targeting comprise many billions of items, and this number is growing rapidly, providing YPB with significant growth opportunities for its authentication and consumer engagement. To learn more please visit: ypbsystems.com