



22 July 2020

**TO:** ASX Market Announcements  
**FROM:** Company Secretary  
**SUBJECT:** 2020 Annual General Meeting

Please find attached the Chairman's addresses to the 2020 Annual General Meeting held today.

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Company Secretary  
**YPB Group Limited**



## **Chairman's Address FY2019 – Operational matters**

I will now turn to our company's operations and outlook.

As I noted in the annual report, 2019 saw the greatest technical and operational advances in YPB's history. Substantial cost cutting continued, critical technical strides were made and important new channel partners and customers were won.

Although the past two years of restructuring have been difficult and costly, YPB is now in its best-ever position. Today I hope to convey four key ideas:

1. our clean-up is finished – we are operationally lean and focussed;
2. our revenue potential has ballooned – COVID-19 has actually improved the awareness and need for authenticity especially recently for face masks and testing kits – our product suite is proven and more relevant, and we believe that we are on the cusp of commercialising a revolutionary new product, Motif Micro, smartphone readable authentication technology;
3. our prospect of sales success is greater – we have top-tier sales talent, with powerful channel partners opening big doors; and
4. self-sustaining profitability is our goal – our low-cost base means our profits are leveraged to revenue growth.

I am excited that YPB is now poised to extract significant value from our unique intellectual property base which covers over 20 patents granted. Our products solve big problems for big companies in a changed world where COVID-19 has raised awareness of the need for authenticity (YPB's Tracer and Motif Micro) and serialisation (YPB's CONNECT QR technology). We have a great opportunity, and profitable execution of our clear strategy is the key to the company restoring and growing shareholder value.

## **The clean-up and 2019 results**

I will now briefly review YPB's restructuring.

Following my resumption of operational control, we undertook to:

- slash costs – with overhead down by > 50% from 2016 to 2019;
- prune deadwood – all senior management and under-productive staff removed;
- plant new talent – acquire and retain fewer, higher quality, more dedicated and culturally aligned staff;
- refocus on the core: -
  - products – close low margin, cutthroat activities, notably Retail Anti-Theft, emphasise high margin YPB's own intellectual property products;
  - geographies – pull back to the AUS, SE Asia, China corridor;
- ensure total product control – bring Connect software development in-house and secure key scientific collaborators;
- acquire – MotifMicro, the revolutionary product authentication solution;
- focus solely on markets and sectors with greatest potential payoff and greatest YPB competitive edge; and
- leverage market access – rekindle old, and cultivate new channel partners – key suppliers to major brands.



As you can see, we have taken many actions. We have effectively stripped YPB back to a bare chassis and rebuilt a lighter, faster, purpose-built vehicle. Our CFO has been critical in this process and I am extremely grateful for his skill, support and dedication.

Although the bulk of restructuring was in H2 2017 and 2018, its costs still dragged on our financial results in 2019 in three ways, including:

1. the final phases of terminations, the carry-over costs of prior actions and direct costs of Retail Anti-Theft (RAT) closure;
2. elevated external professional and legal fees; and
3. lower revenues – largely from the exit of RAT.

Despite the costs of restructuring and lower revenue, the all-important cash consumed by operations, the purest reflection of business performance, improved by 25% in 2019 from 2018.

The most bitter disappointment of the past 18 months has been the unavoidable necessity to issue new equity at low prices. Notwithstanding enormous effort seeking superior alternatives and pursuing various capital markets strategies, the board was repeatedly forced to make the least-worst decision – dilution or collapse. All the directors greatly regret the impact of dilution on shareholders and are more determined than ever that the business become entirely self-funding as quickly as possible.

I would also like to reiterate the view expressed in the Annual Report that despite the share price weakness, it is entirely arguable that the intrinsic value of YPB increased in 2019. Our product suite became broader and more commercial; our sales effectiveness, partners and progress improved significantly; and the gap between revenue and costs reduced and should fall further in 2020.

I should also note that as an expression of solidarity and in response to COVID-19, the board elected to take no directors fees for the rest of 2020 and no fees for any extra consulting work until at least Q4 2020. As a full-time executive, I continue to receive my salary but at 25% the contracted rate as has been the case for the past almost two years.

I will now turn to our strategies and plans to restore and grow shareholder value.

### **The year ahead – 2020 and into 2021**

While difficult, the pain of restructuring has been worth the gain. Our small team is excellent and passionate; our culture is strong, our products are proving themselves with high volume customers; our R&D is making great strides at lower cost and is in-housed; and our operational and financial control is tight.

With a low, tightly managed cost base the key to growing the company's value is growing revenues and becoming profitable. The keys to growing revenue are clear product and sales strategies together with effective, adaptive execution.



## 1. Product strategies – broader and complimentary novel products

Our product strategy is to have novel, low-cost, easily deployed products solving real problems in specific industries and geographies where competition is very limited. It is a horses-for-courses plan that, by having a suite of solutions for a variety of problems, increases our revenue potential and reduces risk of technical obsolescence or narrow client dependency.

In the past year, we have successfully expanded our product range from a single primary product group to now having three:

- T2 – the original YPB tracer/scanner solution that confirms whether a product is fake or real by the presence of YPB tracer, now in its second generation. There is also a range of subsidiary products in document security that flow from this.
- CONNECT – the smartphone and QR barcode engagement platform that offers digital product authentication by consumer smartphone thereby allowing brands to connect directly with end consumers and acquire valuable, actionable consumer insights.
- MotifMicro – the revolutionary, forensic-security authentication solution with confirmation by smartphone.

Our solutions can be sold individually or in some integrated combination. For example, a QR barcode generated by CONNECT can be infused with T2 tracer. This solution is marketed as ProtectCode. Obviously, being able to tailor security offers through technology combinations expands our revenue opportunities.

Our strategy in product development is to be:

- world leaders in authentication technologies;
- competent creators of smartphone-driven consumer engagement and analytics software; and
- simplifiers of complex problems via leveraging the combination of extant technologies with our proprietary innovations.

By combining world-leading, proprietary, forensic authentication technologies with powerful engagement software driven by smartphone we create valuable, easily implemented products at low cost. Being built around ubiquitous enabling technologies (e.g. QR barcodes, smartphone scanning) allows brands to rapidly penetrate mass consumer markets with negligible incremental cost and with high success due to the power of authentication to trigger engagement. We help brands engage with, know and protect their consumers and create volume-based, recurring revenues for YPB.

The jewel in our technology crown is undoubtedly MotifMicro. The first generation, known as MM1, detects the presence of forensic tracer with a smartphone. The next generation will offer the dual protection of *physical and digital* unique product identities ("packaging DNA") in a single, invisible, indestructible, uncopyable marker readable by smartphone. The revenue potential of such a product is only limited by imagination.



I cannot over-emphasise the importance of the technical progress made in the past year with the Connect engagement platform and MotifMicro. It means that we now have a greater number of robust, saleable products which have opened up much bigger market opportunities.

The fact that this progress has been achieved under severe, persistent funding constraints, and more recently during Bangkok COVID-19 lockdowns, is testament to the intellectual horsepower of our small tech team in Bangkok. They have built considerable prowess in Artificial Intelligence as smartphone recognition of forensic authentication marks is AI driven. AI resources are scarce and expensive, and I am very proud of the skills of our team led by our Head of Technology and supported by our Chief Technical Consultant and co-inventor of Motif Micro.

## **2. Sales strategies**

### **a) Refined offer – *authentication and engagement***

Our revamped sales and marketing approach has been led by our Group Commercial Director, who is an enormous contributor to the improved YPB and he now has our offer much more closely attuned to the needs and “hot buttons” of customers. We previously simply tried to sell anti-counterfeit solutions but fighting counterfeit has been a low order priority for most brands, except where there is a direct and obvious cost.

We now seek to tap into high value, customer acquisition and marketing budgets as much as possible – solving problems that executives are directly accountable for. Customer acquisition, retention and lifetime value growth is a prime focus for brands. So, our sales approach is now to:

- emphasise *product authenticity* rather than *anti-counterfeit*. The former is more aligned to the needs of end-consumers and the ambitions of brands, and avoids any taint of the word *counterfeit* which does not sit well with brands; and
- we tailor our message and offer to specific market needs:
  - in Australia, and where appropriate elsewhere, we emphasise *consumer engagement powered by authenticity*; but
  - in China, and where appropriate in SE Asia, we emphasise *ensuring product authenticity*.

Our bedrock commercial tenet is ‘*authenticity triggers engagement*’. That means a consumer will actively engage with packaging, and thereby a consumer goods brand, in order to confirm a product’s authenticity. A willingly engaged consumer is highly valuable to brands.

Our technologies allow brands to transform their packaging into powerful, direct-to-consumer, digital marketing channels that generate actionable consumer insights.



In China, where counterfeit products are rampant and can be deadly, buying only authentic products is a key end-user priority, and that means product authenticity is more relevant than consumer engagement. The scope of application of our solutions in China is also broader than just consumer goods. For example, we have new customers marking components used in the products of a global consumer electronics brand and marking racing pigeon identification rings both to provide assurance of authenticity.

### **b) Revamped market access – leverage channel partners**

Over the years, we have learnt that accessing brands directly is very difficult and costly. Consequently, our revamped market access plan is to focus almost exclusively on rekindling our channel partner strategy. Our channel partners are typically very big businesses supplying numerous brands and introducing YPB's solutions enhances their relationship with their end customers while creating income from a commission share of YPB's revenues. For YPB, we have in 2019 gained incomparable access to some of the world's leading brands.

I'm pleased to report solid progress in executing this plan over the past twelve months. In Australia, we are working closely with channel partners in taking solutions to specific customers and we have a powerful ally in Matthews Australia's leader in Intelligent Identification.

In Australia, our revamped sales strategy also has a much tighter industry focus emphasising: wine, dairy, natural wellness and beauty, pharmaceuticals, and legal cannabis. By specialising we can tailor solutions and understand production processes and the challenges of marking products in high speed production lines.

Over the past 18 months we have won important customers in Seppeltsfield in wine, Nature One Dairy in infant and nutritional formulas, and Nature's Care in natural wellness and beauty.

In China, we have had the greatest sales success since YPB's inception. We have developed new channel partners that have taken us into multi-nationals in oil and lubricants, consumer electronics, automotive and entertainment. Other partners are in development and, unlike our history, we expect recurring revenues from these sources through strong account management. We are also revisiting all previous partners and customers where relationships had languished and are making encouraging progress.

This achievement has been with a smaller, tighter sales team led by our China General Manager, and with a simplified and focussed product and channel partner plan.

In Thailand, we signed OPP Gravure Printing who has a range of local subsidiaries of multi-nationals as clients. With OPP, we plan to roll out a MotifMicro-based shrink wrap plastic for consumer goods products security.

### **3. Growing revenues in 2020 and 2021**

To recap, the YPB of today has a broader, stronger product range with a more appealing product pitch and with powerful partners taking us to market. Our planning is for revenue growth over the next 18 months from three very clear sources which I will now discuss.



## **i. T2 – China**

Our revitalised effort in China has made plain that it remains a prospective and large market for our T2 tracer/scanner product. All the customers announced in H2 2019 and thus far in 2020 have been for this product.

We have scoped meaningful new potential T2 business in China and expect it to be a solid source of revenue growth over the next 18 months.

While COVID-19 restrictions slowed new business development in China, it is possible that YPB may be a net beneficiary of COVID-19 as China has reportedly seen an upsurge in product authenticity concerns as a consequence of the pandemic.

We are also exploring T2 opportunities in SE Asia and have dedicated a new resource in Thailand to do so.

## **ii. CONNECT – Australia, SE Asia and beyond**

The awareness of QR codes and their power has never been stronger in the western world since the onset of COVID-19. We believe CONNECT revenues will grow in Australia and beyond as new customers won late in 2019 and early 2020 began applying YPB QR bar codes to their products in late H1 2020. These, and possibly other new customers, should lift revenues for CONNECT

In SE Asia, our largest and longest standing CONNECT customer, a pharma and wellness products company, should post meaningful volume and revenue growth over the coming year as the present single product line continues to grow and new products are brought under CONNECT's umbrella.

We have also recently recruited for CONNECT sales in Thailand.

## **MotifMicro – Australia, China, Thailand and USA**

As previously reported to the market, we are in advanced trials with PanPass, China's largest security label producer, to determine the viability of our MM1 solution in high volume production printing. While the timing of the trials has been delayed by COVID-19 "lockdowns" we are largely back on schedule. The results to date are excellent for a range of printing methods and print colours, meaning MM1 is a proven product in commercial volumes.

The next step toward MM1 generating first revenues is to complete the development of the MM1 smartphone app for Android – to date the focus has been solely on IOS. The Android solution is well advanced and, following its completion, we are optimistic of concluding commercial agreements with Companies who are excited about the prospects of MM1 for high volume customers such as PanPass who produce approximately 15 billion labels per annum.





In Thailand, we are hopeful of starting to commercialise the MM1 security shrink wrap product with OPP's customer base. In USA we have received interest in MM1 for several product lines.

In summary, we have three clear sources of potential revenue growth that can lift the company closer to profitability. All our sales are now of high gross margin products and each incremental revenue dollar has a high profit impact. Further, as the business grows, cost growth should be well behind revenue growth. Together, high margin revenues and the capacity of the existing cost base to handle a much bigger business means that our profit leverage to revenue growth is high. This is key to our view that the company can be become profitable and self-sustaining with relatively modest revenue growth.

I should also remind shareholders that our revenue model is all about recurring volume. We benefit from the recurring nature of consumer goods sales to effectively create high quality, annuity revenues leveraged to the volume performance of our customers – some of whom are very high-volume producers.

### **Our future is bright**

I hope I have painted a picture for you that the YPB of today has dramatically improved as a business in all aspects and that there is real substance in an optimistic view of YPB achieving its considerable potential.

My family's continued support of the company and commitment of a substantial part of our worth to YPB is the most transparent testament of my view of YPB's future. We now have more revenue opportunity with multiple, higher quality products; with greater prospect of sales success; and clear sources of new revenue, while keeping our costs low and tight.

Finally, I would like to record my appreciation for the dedication and commitment of all our staff through a testing two years, not made easier more recently by COVID-19. I am grateful for shareholders ongoing support and the board and I are one in our intention to restore YPB's good fortunes. I thank you for your attendance today.