

ASX ANNOUNCEMENT

ASX:YPB | 30 July 2024

YPB takes another step down in cash burn to a record low

- Q2 2024 operating cash burn down 31% on Q1 2024 and 2023 quarterly average
- Positive jaws trend increasingly evident as receipts jump while costs cut further
- *Digital-first Engagement-first* strategy to further accelerate revenue while holding costs in H2 2024
- *Digital-first Engagement-first* potentiates exceptional profit leverage to future revenue growth

Authentication and consumer engagement technology group **YPB Group Limited (ASX: YPB)** presents highlights of activities for the quarter ended 30 June 2024 (Q2 2024).

Net operating cash consumption in Q2 2024 of \$327k was a 31% improvement on Q1 2024 and the quarterly average of 2023 to achieve YPB's best-ever quarterly result. The improvement was driven by a near doubling in cash receipts and further cost reductions.

The Company's *Digital-first Engagement-first* strategy, with reduced emphasis on physical anti-counterfeit solutions, has been in development for some time and is now driving accelerating take-up of low-cost-to-serve, in-demand products. This strategy facilitates extraordinary profit leverage to revenue growth as self-service SaaS product marketing and easy customer access accelerate sales while cost increments are negligible.

On current indications, H2 2024 is likely to see further trend improvement toward profitability and capital self-sufficiency.

Best-ever quarterly result demonstrating benefits of digital and engagement strategy shift

Cash receipts in Q2 2024 of \$225k was an 89% improvement on the preceding quarter and a 95% improvement on the quarterly average of 2023 (excluding legal win cash received in Q1 2023). The strong lift was driven primarily by uptake of the broader range of digital consumer engagement, anti-counterfeit and track'n'trace products now on offer. The China operation had improved sales of tracer-based anti-counterfeit products following increased creativity in application.

Cash gross margin remained exceptional in Q2 at 99% due to the proprietary intellectual property inherent in the Company's products. The very high gross margin remains a key element in the Company's profit-leveraged path to profitability.



Operating cash costs fell 7.0% from Q1 into Q2 2024 and were 15% below the quarterly average of 2023. The key drivers were:

- R&D cash costs down 14.0% from Q1 with lower resourcing of MotifMicro development following the more immediate payoff of the *Digital-first* strategy;
- Staff cash costs down 16% with further consolidation of certain functions in Bangkok; but
- Offset to some degree by a 10% rise in administration and corporate cash costs due to third party service providers.

Over the balance of 2024 the trend in cash receipts is likely to be steady to up as digital products gain traction and costs are likely to be steady to down as more efficiencies are achieved in the R&D function.

Digital and engagement products strategy gathered momentum in Q2 2024

As previously advised, the launch of ConnectQR in Q1 2024 was perhaps the most important milestone in the company's history due to its financial potential arising from its global, self-serve SaaS market. Further product enhancements were released in Q2 with AI QR code functionality allowing tailored artwork on QR codes the most notable. The trend in ConnectQR engagement and uptake is largely on plan with a clear acceleration anticipated as 2024 progresses.

The other major commercial achievement in Q2 2024 was a 3-year Master Service Agreement (MSA) with Ecocan Recycling Company Limited of Kenya (ASX 17 April 2024) for a major beverage container recycling initiative, with the first order for 2 million codes received in the quarter. Under the Ecocan contract, YPB's ProtectCode™ will be used to prevent fraudulent value redemption of beverage containers in reverse vending machines.

The financial benefit of the Ecocan contract to YPB is potentially multiples of any prior single contract, with an annualised revenue above A\$800,000 per annum, should the full rollout anticipated be achieved ([see announcement here](#)).

A further important commercial advance in Q2 was ConnectQR's digital marketing strategy proving an effective magnet for interest in other key products, namely ProtectCode (serialised anti-counterfeit and consumer engagement) and Brand Reporter (supply chain track'n'trace). New generations of both products are seeing increased interest and the new business pipelines for both products have expanded with potential valuable wins possible in the current quarter.

Post quarter-end, two new applications of YPB anti-counterfeit technology with two new channel partners in China were announced. Both are conducting application trials and trial marketing aimed at high volume garment inclusion. If these applications advance they have significant revenue potential.

Corporate

Further loan funds of \$25k were made available by Executive Chairman John Houston under the terms and conditions announced to the market (ASX 02/04/2024) and an additional \$175k convertible note was issued to a third-party investor.



During the quarter the Company made payments of \$26k to related parties and their associates. This comprised payments related to the CEO/Chairman's existing remuneration agreement with the Company.

YPB Executive Chairman and Group CEO John Houston said: "Q2 2024 evidenced the profit leverage to revenue growth that I have been anticipating for some time, with cash burn falling sharply as receipts jumped and cash costs fell further. The quarter gave the first glimpse of the potential for revenue growth to markedly accelerate following the powerful products and marketing plan launched early in Q2 2024.

After a long period of frustratingly slow sales progress, I'm confident that our Digital-first Engagement-first strategy will build on the success we've been able to demonstrate in Q2 2024. If further progress is made as we anticipate, the company will move inexorably toward profitability as 2024 progresses."

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 utilise Bluetooth and/or smartphones to capture and analyse invaluable authentication data in our Connect™ global 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



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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 2024

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	225	344
1.2	Payments for		
	(a) research and development	(155)	(335)
	(b) product manufacturing and operating costs	(3)	(4)
	(c) advertising and marketing	(73)	(145)
	(d) leased assets	(42)	(85)
	(e) staff costs	(155)	(340)
	(f) administration and corporate costs	(124)	(237)
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	Other (Refund from legal deposit)	-	-
1.10	Other (GST/VAT refund)	(16)	16
1.11	Net cash from / (used in) operating activities	(342)	(784)
2.	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(c) property, plant and equipment	-	-
	(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	Other (provide details if material)	-	-
2.7	Net cash from / (used in) investing activities	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	33	33
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(11)	(11)
3.5	Proceeds from borrowings	200	450
3.6	Repayment of borrowings	(59)	(113)
3.7	Transaction costs related to loans and borrowings	-	(10)
3.8	Dividends paid	-	-
3.9	Other (Corporate Advisory, Research, investor relations, etc.)	(1)	(20)
3.10	Net cash from / (used in) financing activities	162	329

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	293	568
4.2	Net cash from / (used in) operating activities (item 1.11 above)	(342)	(784)
4.3	Net cash from / (used in) investing activities (item 2.7 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	162	329
4.5	Effect of movement in exchange rates on cash held	(4)	(4)
4.6	Cash and cash equivalents at end of period	109	109

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	109	43
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other - Undeposited	-	250
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	109	293

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	26
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	Capital raise	3,000	-
7.2	Loan facilities	45	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	3,045	-
7.5	Unused financing facilities available at quarter end	3,045	
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. <div style="border: 1px solid black; padding: 5px;"> Answer: On 5 July 2024, the Company received a firm commitment to raise \$1,500,000 and an additional private placement commitment for \$1,500,000 from professional and sophisticated investors on 7 July 2024. </div>		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.11)	(342)
8.2	Cash and cash equivalents at quarter end (item 4.6)	109
8.3	Unused finance facilities available at quarter end (item 7.5)	3,045
8.4	Total available funding (item 8.2 + item 8.3)	3,154
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1) <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>	9.22
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? <div style="border: 1px solid black; padding: 5px; min-height: 40px;"> Answer: N/A </div> 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? <div style="border: 1px solid black; padding: 5px; min-height: 40px;"> Answer: N/A </div>	

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: N/A

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: 30 July 2024

Authorised 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.