

A quarter of major technical and commercial achievement

-)] **MotifMicro1 tech proven under commercial production-line conditions**
-)] **Connect now production-line ready**
-)] **New channel partners drive new and existing client volumes**
-)] **Significant annual reduction in cash consumption with trend to continue**

Product authentication and consumer engagement solutions provider **YPB Group Limited (ASX:YPB)** presents highlights of activities for the quarter ended 31 December 2019 (Q4 2019).

Q4 2019 was one of major accomplishments that establish a firm foundation and clear path to substantial value creation for shareholders.

Mandatory milestones proving the commercial effectiveness and elegance of YPB's solutions were passed. These achievements were enthusiastically received by both channel partners and prospective clients. The company now has a suite of powerful proofs and tools with which to advance the penetration of its target markets.

The quarter saw:

-)] **Technical** - value-enhancing achievements with MotifMicro's commercial viability proven under commercial production-line conditions across a broad product range and with Connect made "production-line ready";
-)] **Commercial** - progress with new channel partners and clients, and high activity and growth with existing channel partners and clients;
-)] **Financial** - temporary deterioration in Q4 cashflow, distorted by the tail of the business refocus and major cost out program, but a major reduction in annual cash burn.

Technical

Q4 2019 saw major technical firsts for the unique MotifMicro technology and further development of Connect with important commercial implications. These included:

-)] **Print** - MotifMicro1 (MM1) forensic authentication markers were printed at standard commercial print runs volumes and speed by PanPass, China's largest security label printer, with no impact on product quality or plant speed. Smartphone authentication accuracy rates of the labels were high. The trials were a milestone toward PanPass adopting MM1 as the means of protecting its own and its customers' products from the rampant counterfeiting in China.

MotifMicro and Connect were demonstrated to seamlessly integrate into three of the most commonly used and highest volume product printing processes – Flexo, Gravura and Screen. Integration of MM1 particles and Connect serialisation with no impact on line speed or volume was a key requirement of high-volume print and packaging channel partners and all are pleased with the results.



- J **Wrap** - A world first plastic security wrap with forensic authentication capabilities was produced in volume by OPP Gravure Printing Co at its Bangkok plant. OPP is the second early adopter of MotifMicro technology;
- J **Closures** – MM1 smartphone-readable authentication markers were incorporated under production-line conditions into Stelvin closures (the primary wine bottle cap), security seals, security labels and pharmaceutical-grade pet closures. For the first time, YPB is able to demonstrate new-generation products to prospective customers across a broad range of packaging in all target verticals.
- J **Food safety** – MM1 was certified as food safe to FDA standards by SGS, the world's largest certification company, eliminating the possibility of food safety as a client concern.
- J **Patent extension** – the US Patent Office granted extended coverage of the MotifMicro family of patents.
- J **Software** - APIs for YPB's consumer engagement and digital authentication cloud solution, Connect, were built by YPB's Bangkok tech hub team and integrated seamlessly into existing production line marking equipment. Importantly, these developments were channel partner and client led.

Commercial

- J Nature One Dairy, a domestic, export and white label producer of nutritionally enhanced milk formulas, was YPB's first Connect win in the key dairy vertical.
- J A new channel partner - Australia's leading production line marking equipment supplier - worked with YPB to secure the first significant dairy sector client.
- J China channel partners signed in mid-2019 secured increased volumes of YPB product with multi-national clients as well as winning a household name entertainment company and China's largest dairy company as new customers in Q4.
- J Engagement with a number of potential enterprise-grade clients was initiated and progressed through the quarter.

Financial

Q4 2019 did not achieve the fall in cash burn flagged in the Q3 2019 quarterly commentary. This was primarily due to cash outflows temporarily remaining higher than expected but reduced cash receipts also contributed.

Cash outflows were up ~4% on Q3 due to the last of the refocus and cost out program washing through the quarter. All expense items clearly fell, with the exception of admin and corporate, which was up sharply due to a range of annual and non-recurring deferred payments e.g. the annual licence fees to MIT for MotifMicro.

Cash expenses are expected to fall sharply in Q1 2020 as admin and corporate costs normalise, despite further investment in MotifMicro and Connect.

Cash receipts fell in Q4 following the cessation of retail anti-theft operations, but also due to the slippage of expected orders, particularly in passports, into Q1 2020. Q4 2019 is likely to be the nadir for cash receipts. Lower revenues were planned following the re-orientation of the business toward high-value, sustainable activities with the offset being lower fixed costs and working capital drain.



Pleasingly, and more indicative of likely future trends, the 2019 annual operating cash result was a major improvement over 2018. Gross operating cash costs fell 33% from \$8.1m to \$5.4m and net operating cash consumption fell 34% from \$6.2m to \$4.1m despite a 32% fall in annual cash receipts. Following the substantial cleanup of 2019, 2020 starts with a much cleaner and lower cost base and further reduction in cash consumption is planned.

YPB Group CEO John Houston said: "The commercial significance of our technical achievements in Q3 and Q4 2019 with a smartphone-readable, forensic authentication marker in MM1 and demonstrating its commercial viability in full-speed production runs across a variety of products is profound, and our progress should not be under-estimated. Our original tracer solution proved to have limited commercial appeal but being able to deliver forensic quality authentication as a trigger to direct engagement with end consumers globally is generating keen interest from brands.

Further, our sales skills and partner and client management are sharp and now first rate. With strong tech and sales over a much tighter cost base, I anticipate improving financial results through 2020 as our greatly enhanced solution suite gains more traction in the sectors we are aggressively targeting."

Ends.

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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's technology is also trusted by the world's largest passport issuing nation to ensure the authenticity of its passports. 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: www.ypbsystems.com