

ASX ANNOUNCEMENT

ASX: CDE | 30th August 2024

Codeifai achieves best-ever half year result

- Net operating loss improved 19% on pcip to \$1.175m a record low
- Net operating cash burn improved 37% on pcip to \$0.803m a record low
- Higher sales and tight cost control key drivers
- *Digital & Engagement First* pivot creating scalability with high profit leverage
- Opportunity pipeline expanding - release on Canva platform notable

Brand Solution technology group **Codeifai Limited (ASX: CDE)** is pleased to announce a further significant improvement in operating results for the half year to end June 2024.

H1 2024 continued the clear trend of declining losses and cash burn driven by improved revenues from an expanded next-generation product suite and relentless focus on retaining only productive costs.

The significant financial improvement in the half was achieved while increasing product development and marketing spend to launch the potentially most lucrative product in the company's history, ConnectQR.

The release of ConnectQR marked a profound strategy pivot from a legacy physical anti-counterfeit focus into a *Digital & Engagement First* focus with greater market opportunity, proven demand, and pronounced scalability.

Given the quality of products released and upgraded during the half, this strategy pivot creates the opportunity to accelerate revenue growth at low marginal cost resulting in high profit leverage potential.

The company is determinedly driving toward profitability.

Further significant operating improvement with smaller loss and cash burn

The net operating loss in H1 2024 of \$1,175k was a 19% improvement from \$1,445k in the pcip. This figure more accurately portrays true business performance than statutory profit. It is simply statutory profit before finance costs, share based payments, foreign exchange gains and losses, and revenue from the company's legal win in 2023.

The strongly improved operating P&L result is emphatically corroborated by a 37% improvement in net cash flows from operating activities, with receipts less payments (adjusted for cash received at the conclusion of legal action) down from a negative \$1,281k in H1 2023 to \$803k in H1 2024.



The statutory loss reported increased from \$813k to \$2,005k. This was due to substantial impact from all the non-operating costs and revenues noted above. It does not accurately portray the much improved operating performance of the business.

Revenue from product sales lagged plan but still showed a 33% lift on the prior year. Contributors were China, further range coverage with existing customers, and new customer wins. On current indications, revenue is expected to see further growth in H2 2024.

Gross margin (revenue less cost-of-goods) remained exceptional in Q2 at 98% due to proprietary intellectual property and the digital nature of the company's products. The very high gross margin remains a key element in the company's path to profitability.

Operating costs were essentially flat at \$1,691k in H1 2024 against \$1,667k in the pcp. There were significant movements in specific cost items however:

- R&D costs rose 22% on pcp with increased spend on new generation digital products. H2 should see flat to down R&D spend with resource redirected from MotifMicro to fast-payoff and lower risk product development.
- Marketing spend up five-fold on pcp to \$179k with accelerated investment in Search engine optimisation (SEO), Google and Meta digital marketing channels to support the launch of ConnectQR. Marketing spend is likely to rise further in H2 as it is central to driving customer growth in the *Digital & Engagement First* strategy. Given digital marketing's global reach, it is much more effective and cost efficient relative to the prior use of sales personnel. That means additional headcount to deal with the anticipated growth is unlikely, particularly given ConnectQR is a self-serve SaaS product.
- Employee costs up 27% in H1 on pcp with temporary project staff, but to fall in H2 with lower headcount.
- A range of other cost items were lower and aggregated to offset the above increases to keep operating cost flat overall.

For the balance of 2024, costs in aggregate are expected to remain largely stable. Together with anticipated revenue growth, H2 should see a further improvement in financial performance.

Valuable technical and commercial progress in H1 2024

The increased R&D spend undertaken in H1 advanced the company's digital product suite to the point where customer reception and market potential have increased. The technical team's achievements were outstanding, with best-in-class new products and features released in accord with a challenging product roadmap.

As previously noted by the company, the launch of ConnectQR, CDE's QR code generation and management platform in Q1 2024 was perhaps the most important milestone in the company's history due to its global, self-service SaaS model creating the potential for rapid, highly profitable growth. Further product enhancements were released in Q2 with AI QR code functionality allowing tailored artwork on QR codes the most notable.

Early in H2, ConnectQR was launched on the Canva App Marketplace, allowing native integration into any design created on the Canva platform. This opened a market opportunity never previously available to CDE given 180m active Canva users, and with each sale on that platform coming at



zero marginal cost. The trend in ConnectQR engagement and uptake is largely on plan with growth anticipated over the balance of the year.

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 soon after signing the MSA. 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 a potential 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 2024.

Post June 30, two new applications of YPB anti-counterfeit technology with two new channel partners in China were achieved. Both are conducting application trials and trial marketing aimed at high volume garment inclusion. If these applications advance, they have significant revenue potential

As noted in prior quarterly updates, resources have been diverted from the company's MotifMicro project to rapid payoff, more certain outcome digital projects. Investment in MotifMicro is anticipated to resume in 2025.

Corporate

Funding for the half year was \$200k in convertible notes and \$250k loan funds from the Executive Chairman.

The company's name change to Codeifai Limited was approved by shareholders at the Annual General Meeting on May 30th.

Codeifai Executive Chairman and Group CEO John Houston said: *"I'm delighted to report a further significant improvement in the company's financial performance for the half year, while simultaneously our team created and launched outstanding new product with greatly enhanced opportunity.*

As stated previously in H1 2024, ConnectQR is a game-changer for Codeifai due to its exceptional financial potential. It is a technically superior product with a greater value proposition and is attacking a ripe and rapidly growing self-service SaaS market as the direct consumer engagement power of QR codes is increasingly recognised. Each incremental revenue dollar from ConnectQR is effectively pure profit and can rapidly move the company to profitability should our sales growth expectations be met.

Further, ConnectQR's digital marketing execution is attracting demand for our higher priced, serialised ProtectCode and Brand Reporter products as we had hoped.



I am excited by the opportunity created by our Digital & Engagement First strategy to accelerate revenues while restraining costs. We have refined years of technical and market knowledge into a product suite and market access strategy that has great potential and we are intent on delivering significant value for shareholders."

This announcement has been authorised by the Board of Codeifai Limited.

Ends.

For further information please contact:

CDE investor enquiries
investors@codeifai.com

Ben Jarvis
0413 150 448
Ben.jarvis@sdir.com.au
Six Degrees Investor Relations

About Codeifai Limited

Codeifai Limited (ASX: CDE) is listed on the Australian Stock Exchange and has developed and sells of a suite of physical, digital and AI-based Brand Solutions with a vast range of applications. Our solutions allow Brands to Connect Deeper, Faster, Smarter with their consumers.

Codeifai's digital Brand Solutions provide a code for everybody and everything.

