

## ASX ANNOUNCEMENT

ASX:YPB | 31 October 2022

### Operating cashflow improves 15% on preceding quarter

- Q3 cashflow improved 15% following lower costs
- Q4 expected to continue improved trend with higher cash receipts
- Remain optimistic of impactful new business before year end

Anti-counterfeit and consumer engagement solutions creator **YPB Group Limited (ASX: YPB) (YPB / Company)** presents highlights of activities for the quarter ended 30 September 2022 (Q3 2022).

Q3 2022 saw cash consumed by the business decrease as expected, due to tight cost control and non-recurrence of temporary outflows.

New business development progressed well but remained frustrated by Covid disruptions in China and the pace of partners' internal processes elsewhere. Nevertheless, securing new customers capable of meaningful financial impact remains a sound prospect over the balance of 2022.

Progress in both anti-counterfeit and consumer engagement technologies was again excellent with the MotifMicro1 app released to both Apple and Google Play stores.

Q4 could see a further reduction in cash consumed by the business, with a potential sharp recovery in cash receipts from a weak Q3 and largely steady costs.

### Cash consumption improved 15% in Q3 v. Q2 2022

Q3 2022 saw net operating cash consumption decrease 15%, primarily driven by a fall in staff costs due to prior cost cutting and settlement of all entitlements to the former CFO and the restructure of the Finance function.

Receipts from customers in Q3 fell sharply, down 52% driven by ongoing deferral (not loss) of business in China post Covid lockdowns, the China "Golden week" and the China CPC event which all together slowed business in China in addition to the timing of some payments. All segments of Chinese commerce are being heavily disrupted by the ongoing rolling Covid lockdowns and a previously expected improvement in Q3 did not materialise. While Chinese business is not expected to normalise in Q4, it is still expected to improve and lift YPB's cash receipts.

Cash gross margin fell in Q3 due to the timing of tracer/scanner production but remained exceptional at 90%. This high profitability will be a key driver of rapid improvement in financial performance as revenue grows.

Gross cash operating costs fell 21%, with a lower cost finance function and the non-recurring CFO departure payment accounting for 2/3rds of that figure. The balance is due to several factors, with lower marketing spend from less promotional activity being the most prominent. Notably, marketing spend has become much more efficient with lower costs yielding greater inbound enquiry.

The only other cost item of note was the rise in R&D expense which primarily reflected accounting reclassification of certain personnel into R&D from the more generalised staff costs category.

### **MotifMicro1 App release to app stores can accelerate commercial deployment**

Q3 2022 did not see any significant new commercial deals closed, with new deals that had been expected in China unable to be executed and the global distribution agreement struck in February 2022 lacking in delivery. Nevertheless, relationships across a range of opportunities were advanced (primarily from our internal marketing and commercial efforts) with existing tier 1 channel partners and several potentially exciting new relationships were initiated in the Quarter supported by our strong R&D capability.

The release of the MM1 App to app stores in Q3 was a major step forward commercially.

MotifMicro is YPB's revolutionary anti-counterfeit technology that makes forensic product authentication by unmodified smartphone possible in ultra-high-volume applications and mass markets.

The authentication process is driven by the MotifMicro1 (**MM1**) software app. A key development in Q3 was the release of the MM1 App to the Apple iOS and Google Play App Stores. This greatly enhanced accessibility to the App for paid trial partners and other potential B2B partners.

The launch of the App has accelerated the commercialisation path of MM1 with partners able to introduce and demonstrate MM1 at scale to their key customers, as is happening.

The App now supports Android V9 and iPhone X and later due to the development of a Camera calibration feature which makes very wide adoption possible (especially for Android). The App now also hosts a vastly improved user interface plus a significantly enhanced detection model based on AI/ML principles to allow detection of MotifMicro particles in challenging real-world conditions with an unmodified smartphone.

### **\$1m funding facility provided by Executive Chairman**

Due to the parlous state of equity capital markets in Q3, Executive Chairman and founder John Houston made a \$1m loan facility available to the Company. The facility has attaching conditions which will be put to shareholders at a General Meeting for approval. The facility was drawn to \$500k at end Q3.

### **Corporate**

As of 30 September 2022, the Company held \$586k in cash and cash equivalents.

During the quarter the Company made payments of \$47,000 to related parties and their associates. This comprises of payments related to the CEO/Chairman's existing remuneration agreement of the Company.

**YPB Group CEO John Houston said:** "Q3 2022 was another frustrating period for sales and business development with Covid restrictions still hampering our plans.

Nevertheless, our commercial team developed relationships with key partners that have the potential to open ultra-high volume, recurring revenue markets to YPB. We have also had excellent inbound enquiry from our upgraded marketing strategy that is already yielding potentially strong partners and customers, which being all internally generated reduces the reliance on third party distribution arrangements.



*We maintain a very close eye on costs and expect greater normality to yield improved revenues and cash receipts. My confidence in the future is demonstrated by the funding I have made available to the Company. The team and I remain intent on making YPB a great success.*

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

**Ends.**

**For further information please contact:**

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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 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: [ypbsystems.com](http://ypbsystems.com)

## 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 September 2022

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
<b>1.</b>	<b>Cash flows from operating activities</b>		
1.1	Receipts from customers	77	387
1.2	Payments for		
	(a) research and development	(178)	(332)
	(b) product manufacturing and operating costs	(7)	(11)
	(c) advertising and marketing	(30)	(150)
	(d) leased assets	(10)	(66)
	(e) staff costs	(359)	(1,330)
	(f) administration and corporate costs	(260)	(704)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	1	1
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	Concession and rebates from financial support measures	-	-
1.10	Other (GST/VAT refund)	35	117
<b>1.11</b>	<b>Net cash from / (used in) operating activities</b>	<b>(731)</b>	<b>(2,088)</b>

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	(3)
	(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	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	-	<b>(3)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	326	2,500
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	500	500
3.6	Repayment of borrowings	-	(530)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
3.9	Other (Corporate Advisory, Research, investor relations, etc.)	(176)	(308)
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>650</b>	<b>2,162</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	<b>666</b>	<b>531</b>
4.2	Net cash from / (used in) operating activities (item 1.11 above)	(731)	(2,088)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(3)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	650	2,162
4.5	Effect of movement in exchange rates on cash held	1	(16)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>586</b>	<b>586</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> 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	586	666
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>586</b>	<b>666</b>

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	47
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
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.		

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	Loan facilities	1,000	500
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	<b>Total financing facilities</b>	1,000	500
7.5	<b>Unused financing facilities available at quarter end</b>		500
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.		
	Answer: As per the ASX announcement on 3 <sup>rd</sup> October 2022, The Executive Chairman has provided A\$1m Convertible Loan Facility supported by a Loan Facility Agreement dated 30 <sup>th</sup> September 2022. The Loan has a term of 12 months and subject to shareholder approval, is convertible and secured. Interest is payable on amounts advanced under the facility at a reference NAB facility rate plus 9%. The loan and interest are repayable by YPB in 12 months, unless converted at Mr Houston's election or repaid earlier. A\$500,000 of the A\$1m facility has already been advanced to the company to support current and future business opportunities.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.11)	(731)
8.2	Cash and cash equivalents at quarter end (item 4.6)	586
8.3	Unused finance facilities available at quarter end (item 7.5)	500
8.4	Total available funding (item 8.2 + item 8.3)	1,086
8.5	<b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	1.5
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.		

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?

Answer: No. The company continues to reduce its operating and staffing costs by means of cost effective measures that are planned to further reduce its cash flow burn rate. It also believes that with a healthy list of sales opportunities in the pipeline it aims to transition into positive cash flow within a realistic time frame.

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?

Answer: Yes. YPB is prepared to raise funds if and when necessary. YPB has an existing mandate with a Sydney based AFSL holder who has successfully raised capital for the Company previously. The Company will update the market in this respect and in accordance with its continuous disclosure obligations as necessary.

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: Yes, in view of the answer to 8.6.2.

*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: 31 October 2022

Authorised by: 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.