

ASX ANNOUNCEMENT

ASX:YPB | 31 August 2022

H1 progress advances H2 prospects

- **MotifMicro1 trial partners active in technical and business development**
- **Upgraded MM1 app release to promote deal execution in H2**
- **Digital marketing program expanding high value lead generation**
- **Innovations in core product range creating new opportunities**
- **Financial results broadly steady on pcp despite Covid obstructions**

Anti-counterfeit and consumer engagement technology creator **YPB Group Limited (ASX: YPB)** presents highlights of the half year ended 30 June 2022 (H1 2022).

The half year saw important technical and business development progress that, while not resulting in immediate financial benefit, achieved meaningful steps toward possible important commercial wins in H2. This is despite Covid restrictions continuing to seriously obstruct planned progress, as it has for over two years.

MM1 advances in H1 2022 position for valuable new business in H2 2021

MotifMicro1 (MM1), YPB's breakthrough forensic, smartphone-readable, anti-counterfeit technology for high volume markets, is spearheading considerable activity and interest in YPB's entire product suite. Due to the unquestioned appeal of smartphones as potential product authentication tools, the uniqueness of the MM1 technology, and the strength of YPB's patent portfolio, engagement with a range of multi-national channel partners is high.

Late in 2021 and in H1 2022, four major packaging and/or anti-counterfeit groups committed to paid commercial trials of MM1. Convincing partners to pay for trials was a novel achievement and a key part of the plan to ensure only committed parties were engaged. Collaboration with these partners has been excellent, and feedback has directed much of the development of the new generation MM1 app.

The MM1 app drives the authentication process, and its development is critical in ensuring a robust, reliably usable product for the real world, including in hitherto difficult environmental conditions. The app directs a smartphone's camera to interrogate a physical item to determine the presence or absence of MM1 microparticles, thereby confirming, or not, its authenticity.

The technical team also made significant breakthroughs in automating development processes within the app that result in coverage of iPhone X and Android 9.0 and above smartphones models being added to the portfolio of phones readable by the MM1 app almost seamlessly. This will streamline the process of further development with partners and extend MM1's potential coverage. The plethora of smartphone models and suppliers in the world, particularly in the most populous countries, is astonishing and this AI-based, automated development is a significant breakthrough.

This intense development phase of the MM1 app throughout H1 2022 culminating its release to app stores in September 2022, will now see trial partners conduct further production runs and advance discussions with their customers re adopting the technology. There is some optimism regarding being able to secure commercial outcomes in H2. The trial partners serve numerous ultra-high-volume customers especially in document security with pressing needs for increased security on government documents such as tax and excise stamps and commercial products.

Product extensions within existing product families creating new opportunities

The business development team's drive to maximise revenue from YPB's existing product suite resulted in a number of remarkable product innovation ideas that the technical team were able to execute and that have already been, or are likely to be, commercialised.

The first was the release of ProtectCode Plus, an extension of the ProtectCode family of digital anti-counterfeit codes generated by YPB's Connect platform. ProtectCode Plus adds an enhanced layer of digital security that is mathematically and physically virtually impossible to replicate. ProtectCode Plus is highly scalable and easily distributable. It secured its first customer, Scranton of South Korea, in H1 – a remarkably rapid journey from conception to first sale.

There has also been considerable work in China on adapting existing products at negligible cost to pursue new opportunities. The China business is built around YPB's original tracer-scanner solution where there is still significant new interest being unearthed by a more targeted and determined marketing and sales effort.

Product extensions that are creating further interest include visible tracers, taggants and inks, as well as further opportunities in invisible tracer markets that use OVI inks. Several prospects are also very interested in adopting unique signature tracers for specific customers. Again, these innovations all come at minimal incremental cost.

A clear plan for the China business to become profitable in 2022 has been upended by the rolling covid lockdowns there. Normal demand in the economy has been disrupted which has curtailed production by many of YPB's customers, crueing normal order flow. All business trips are still restricted. Communication with customers and prospects has been via tele-meeting, WeChat etc. It remains unclear when normal order patterns will resume, but the account management and business development work by the team invites optimism that a marked improvement in sales will occur as restrictions ease.

Global distributor and digital marketing strategy building opportunity pipeline

During H1 2022 a global distributor with an extensive network and experience in the security printing industry was appointed for YPB's entire product suite. Although new revenue has not been secured as yet, potentially high value deals are being advanced with key contacts, primarily in high population Asia jurisdictions with government document opportunities.

Also, during H1 2022, an in-house content and marketing team was established in YPB's Bangkok head office. It has significantly improved the quality, quantity, and relevance of marketing materials to a point far beyond anything YPB has had in the past. The team has also developed an elevated online presence and executed outbound, web-based marketing campaigns for the first time.

These campaigns have generated significant new leads, some of remarkably high quality, resulting in the best qualified prospect pipeline in the company's history. Some of this pipeline may convert to revenue in H2 2022.

A potentially extremely important achievement in the half was establishing a flourishing relationship with a globally recognised standards accreditation body. Discussions are ongoing as to how it might take YPB's products to market. While very slow moving, the successful conclusion of any such deal would be an extraordinary boon to YPB.

Financial results broadly steady on pcp

H1 2022 recorded an operating loss after tax of \$2.631m with net operating cash outflows of \$1.421m, the latter compares with cash outflows of \$1.608m in the pcp.

Revenue for the half was up 32% to \$342k. Although far below plan due to factors beyond the company's control, the increased orders were primarily from existing customers.

Gross margin remained extremely strong at 95%. The enviable gross margins YPB is now consistently achieving reflects the value of its intellectual property and are a key element in the plan to move quickly to profit as products gain traction and revenues grow. Each incremental revenue dollar is almost entirely pure profit.

Total operating costs rose 35% but this was due to increased consulting costs relating to capital raising and share-based retention incentives to key personnel. In reality, opex was tightly controlled and adjusting for these two items actually fell 11%, including restructuring payments to departing staff. The finance function was restructured in the half, and cost savings will in part be permanent and benefit the current half year, and in part fund greater sales and marketing.

A reallocation of R&D personnel into the R&D category from a general staff category to more truly reflect R&D investment resulted in a \$100k rise in R&D costs but was offset by a similar sized fall in staff costs. The R&D investment remains very significant and is bearing fruit in excellent products.

Net cash used in operations, possibly the most important indicator of business performance improved by 12% primarily due to cost control.

The company raised funds during the half via compulsorily converting convertible notes. These notes all converted to ordinary equity in the half.

Corporate

Following the advice of its key financial advisor and securing shareholder approval at the May AGM, the company conducted a 25 for 1 share consolidation.

YPB Group CEO John Houston said: *"H1 2022 was possibly the most testing period we have seen due to covid impacts blocking the execution of plans that would have achieved a clearly reduced loss. The modest cash use improvement and steady profit against pcp was frustrating but acceptable. Our cost control moved up a further notch and should benefit H2.*

H1 was marked by real creativity in product and business development. Problems were solved, products advanced, and opportunities created which should bear fruit in H2, although predicting potential client timelines is impossible. I commend our team for their resolve and initiative in turning adversity into advantage.

YPB has enormous opportunity to meet critical unmet needs in potentially vast markets. We are developing leveraged access via tier 1 channel partners. While financial progress to date has greatly



lagged our ambition, we are now ideally placed with great products and partners to unlock the considerable latent wealth of our technologies.”

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

Ends.

For further information please contact:

Investor enquiries

investors@ypbsystems.com

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