

ASX ANNOUNCEMENT

ASX:YPB | 28 April 2023

A further record low in quarterly cash use

- **Q1 2023 operating cash consumption lowest in company's history**
- **Cash receipts of \$450k following legal settlement**
- **Vivid demonstration of potential to reach profitability with revenue growth**
- **Remain optimistic re valuable new business with pipeline advancing**

Authentication and consumer engagement solutions creator **YPB Group Limited (ASX: YPB)** presents highlights of activities for the quarter ended 31 March 2023 (Q1 2023).

Operating cash consumption in Q1 2023 at only \$124k approached break-even for the first time in the company's history and was only one quarter of that of the previous most frugal quarter, Q4 2022.

This result benefitted, however, from the previously announced legal settlement achieved during the quarter which saw \$250k in settlement payment and a further \$200k in restricted cash returned to YPB.

While the prima facie Q1 2023 cashflow flattered the operating reality, as the legal payments will not recur, it demonstrates a vital point: namely, the company's inherent leverage to increased revenues. Given tightly controlled, predominantly fixed costs, higher revenues would be transformative of the company's financial position.

In that light, the goal for 2023 remains to capitalise on the momentum built in 2022 with compelling products and greater sales effectiveness to drive revenues well above costs.

Q1 2023 cash consumption well controlled in difficult revenue environment

Overall, the Q1 2023 ex legal settlement operating result demonstrated cost control benefits in an environment where revenues remained heavily covid constrained. Pleasingly, net operating cash use was 15% below that of the 2022 quarterly average despite a seasonal uptick in administration costs.

Revenues have been damaged by covid complications both directly and indirectly for at least two years, with greater covid restraints in China particularly detrimental in H2 2022. China's 2023 re-opening did not benefit Q1 revenues with YPB's customers still finding their feet after the severe interruptions of the prolonged lockdowns. On present indications, YPB China should post stronger revenues in the current quarter. Receipts in Q1 2023 were predominantly recurring orders from existing customers.

Cash gross margin remained very high in Q1 2023 at 97%, again demonstrating the 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.

There was little movement in specific cash cost items between Q4 2022 and Q1 2023 apart from:

- staff costs which fell a further \$38k (-12%) v. Q4 2022 with additional benefit from the cost initiatives of 2022; and
- admin and corporate costs that rose \$138k v. Q4 with Q1 seeing typical seasonality from audit, ASX, insurance and other general costs being paid in the quarter.

Overall, the cost base remains tightly controlled and key in restraining cash consumption, particularly while revenues continue to suffer lingering covid effects.

USA instant lottery entry, Valuable AI relationship established

Although announceable new business developments did not advance at the pace hoped, Q1 2023 achieved a potentially profoundly important contract. Under a 3-year Master Services Agreement for the pull tab/instant lottery market in USA, YPB's anti-counterfeit IP is being used for the first time to prevent the fraudulent double redemption of winning instant lotteries tickets.

The USA instant lotteries market was valued at US\$65 billion in 2021, accounting for 62% of all USA lottery sales in 2021. The EU instant lotteries market was an almost identical size in 2021. Both markets grew at circa 10% per annum compound over the 20 years to 2021 and are expected to maintain rapid growth. (Source: Public Gaming International, March-April 2022).

The opportunity was created by YPB's hand-held scanner (used to confirm the presence of YPB Tracer) being successfully adapted into an OEM module for automated lottery ticket vending/payout machines. Invisible YPB Tracer on tickets and scanner modules fitted to vending/payout machines will see machines payout only on tracer-scanner authenticated winning tickets.

Following a successful in-market proof-of-concept phase which may run for up to a year, it is intended to roll-out to further States and a wider machine portfolio. The initial phase of the rollout is progressing well.

Notably, this contract not only opens a door to the North American lotteries market, but also establishes potential entry to vendors of lottery technologies in North America, China and Europe as possible additional routes to market.

It is worth reiterating, as in prior announcements, that this extension of YPB Tracer's relevance presents a potential step-change in its realisable value due to the global scale of the pulltab/instant lotteries market and the possibility of extension of the concept to other important ticket vending markets.

The other key operational development in Q1 2023 was securing a 10-year licence from NVISO SA of Switzerland to initially speed the development of MotifMicro, YPB's revolutionary smartphone-based authentication technology, and potentially to extend YPB's solutions to determining the authenticity of video, other media, and of course people.

NVISO's Artificial Intelligence (AI) applications have been in development for nearly a decade and NVISO has world-class skills in AI applications that detect human behaviour and interface with next generation autonomous vehicles, companion robots and ChatGPT applications.

When developed, YPB's AI-driven authentication solutions are planned to be marketed and distributed online, and revenues are expected to be on a pay-per-authentication basis.

Elsewhere, the opportunity pipeline that has grown in the past year is still progressing and valuable contracts are expected to yield new revenues this year.

Corporate

In March 2023, the company undertook a successful placement to raise \$2m in two stages. The first raised approximately \$900k with the cash received in March. The second, for the balance of \$1.1m, is subject to shareholder approval with both approval and cash expected to be received in May 2023. The Executive Chairman, John Houston, will participate in stage 2 for \$500k subject to shareholder approval.

As of 31 March 2023, the Company held \$1,049k in cash and cash equivalents, up from \$641k as at 31 December 2022.

During the quarter the Company made payments of \$63k 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: *"While we were pleased to reach settlement with the non-paying user of our IP in the quarter, the exciting thing about that large cash receipt was how clearly it demonstrated the path to profitability for the company. As we succeed in monetising our IP, increased revenues can move us to profitability with surprising speed.*

While China has been challenging for a few years, there are finally some signs of revival and business development is now proceeding and we are hopeful of increased revenues in 2023.

The global lotteries market offers a very tangible opportunity and the partnership with NVISO multiplies our existing AI skills to propel product enhancement and new product development. We have exciting pipeline opportunities with major partners where we remain optimistic of successful conclusion, but as always timing is the great unknowable.

Our team is excited by our achievements of the past year, which have seen product quality and sales effectiveness leap ahead, and we look forward to reporting wins as we execute our plan to create major value for shareholders.

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

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")

31 March 2023

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	329	329
1.2	Payments for		
	(a) research and development	(108)	(108)
	(b) product manufacturing and operating costs	(2)	(2)
	(c) advertising and marketing	(15)	(15)
	(d) leased assets	(32)	(32)
	(e) staff costs	(262)	(262)
	(f) administration and corporate costs	(248)	(248)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	4	4
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)	200	200
1.10	Other (GST/VAT refund)	10	10
1.11	Net cash from / (used in) operating activities	(124)	(124)
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 (3 months) \$A'000
	(c) property, plant and equipment	2	2
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	(50)	(50)
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	(48)	(48)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	900	900
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	-	-
3.5	Proceeds from borrowings	(82)	(82)
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (Corporate Advisory, Research, investor relations, etc.)	(239)	(239)
3.10	Net cash from / (used in) financing activities	579	579

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 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	641	641
4.2	Net cash from / (used in) operating activities (item 1.11 above)	(125)	(125)
4.3	Net cash from / (used in) investing activities (item 2.7 above)	(47)	(47)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	579	579
4.5	Effect of movement in exchange rates on cash held	1	1
4.6	Cash and cash equivalents at end of period	1,049	1,049

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	1,049	641
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,049	641

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	63
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	Capital raise	1,100	1,100
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	1,100	1,100
7.5	Unused financing facilities available at quarter end		1,100
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: On 21 March 2023, the Company received commitments to raise \$2,000,000 from professional and sophisticated investors. By 31 March 2023, the Company received cash and issued \$900,000 of equity. Post quarter-end, the Company will issue the remaining \$1,100,000 of equity as per Item 7.5 above subject to shareholder approval.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.11)	(124)
8.2	Cash and cash equivalents at quarter end (item 4.6)	1,049
8.3	Unused finance facilities available at quarter end (item 7.5)	1,100
8.4	Total available funding (item 8.2 + item 8.3)	2,149
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	17.3
	<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>	
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: N/A	
	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: N/A	

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: 28 April 2023

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.