



ASX/MEDIA ANNOUNCEMENT

ASX: YPB | 22nd October 2018

Further operational streamlining boosts cash and cost efficiency

- **Cash operating costs to fall 23%**
- **Significantly lower cash cost of Board and senior management**
- **Enhanced sales capacity through resource reallocations**

Anti-Counterfeit and Customer Engagement solutions provider YPB Group Ltd (ASX: YPB) has taken a further step in the operational restructure commenced in July 2017 when Executive Chair John Houston resumed the operational helm as CEO. Refinement of strategic focus, optimisation of the operating model and better alignment of resource with opportunity will result in a lower cost base and greater cash use efficiency. Simultaneously, administrative efficiencies will allow a reallocation of resources into increased and improved sales capacity.

Total non-COGS cash operating overhead will fall 23% from \$6.5m annualised to \$5.0m in 2019. Of this \$1.5m reduction, circa \$1.0m is from lower staff cash costs from reduced headcount, staff reallocation into sales roles with greater variable remuneration and the substitution of equity rights for cash compensation for much of the senior management team. The additional balance of \$0.5m per annum comes from lower professional costs from complete internalisation of the finance function, lower travel costs (a further benefit of a stronger internal finance function), lower rent and miscellaneous other costs.

To further align the interests of the executive with shareholders, cash compensation will be substituted with equity in the form of performance rights for most of the senior team. The cash costs of the board, including the Executive Chair and consulting functions of non-executive directors, will fall 45%. Senior management team cash costs will fall by 35%. As part of this initiative the COO function is being replaced by a Chief Commercial Officer role at a reduced cost to YPB of over 40% but with enhanced functional effectiveness.

The drive to reduce fixed overhead and improve new revenue generation capacity is reflected in a leaner administrative structure but increased sales capacity. The clear intent of these changes is to drive YPB to profitability in 2019.

The potential benefits of these actions is best illustrated by YPB's China operations. China has been YPB's biggest operating cost centre since formation of the company but revenue success had been limited and patchy. In 2019, new sales staff and existing China management signed new channel partners and achieved significant contract wins with globally renowned companies. This will result in a sharp revenue increase in China, albeit still well short of its potential and ambition. Simultaneously, certain functions were identified as unproductive and have been eliminated with China's cost base to fall 34% in 2019 with no loss of sales power. Together, higher revenue and a lower cost base will see China transform in 2019 from a major loss centre to being within sight of profitability should volume growth with existing customers or further contract wins be achieved.



Most of the cost changes took effect from October 1st, 2018, and will be in full effect by February 2019. The cash costs of restructuring payments will total \$0.12m and will be felt November through January 2019.

YPB Executive Chairman John Houston said: "Our drive to a leaner, more efficient organisation is progressing well. Our sales execution has improved as reflected in recent important contract wins and the quality of our new channel partners in key operating arenas. Our technology base is stronger with Motif Micro's major breakthrough in smartphone readability of a forensic anti-counterfeit mark at the same time as our commercial effectiveness is lifting. This further restructuring will hasten our drive toward profitability in 2019."

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About YPB:

YPB Group Ltd (ASX:YPB) lives by three words - certainty of authenticity. We deliver on this through our experience in creating revolutionary, patented anti-counterfeit and customer engagement solutions. Solutions that detect and prove certainty of authenticity and connect brands directly to their customers, empowering them to engage one-on-one. In an evolving marketplace and with the rapid growth of cross border commerce, our expertise presently focuses on the rapidly growing markets of Australia, South East Asia and China.

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