A quarter delivering on product investment and further sales success

- **Major technical breakthrough for Motif Micro made with immediate commercial payoff**
- **Important client successes delivered – additional opportunities**
- **Temporary increase in cash consumption to normalise in Q4**

31 October 2019 **–** Product authentication and consumer engagement solutions provider YPB Group Limited (ASX:YPB) presents highlights of activities for the quarter ended 30 September 2019 (Q3 2019).

Q3 2019 marked a period of considerable progress for YPB. This was evident in a major technical leap with its Motif Micro solution, potentially a world first, and the signing of the first client for the adoption of that technology. Pleasingly, both achievements met the company's commitment to shareholders that Motif Micro's smartphone readability would reach version1 practical completion and that its first client would be signed prior to end 2019.

These developments resulted in an increased R&D spend for the period. This expenditure, coupled with lower than expected receipts and temporary increases from redundancies and annual imposts increased cash consumption. This increase is temporary, however, with a reversal in Q4 back to the strongly improving trend seen over 2018 and H1 2019.

Major technical breakthrough with transformative commercial potential

YPB achieved what is believed to be a world first in Q3 2019 – smartphone readability of an unfakeable authentication mark under "real world" conditions. The key technical advances made were:

- Confirmation of the presence of a proprietary high security marker by unmodified smartphone;
- When scanned at a distance;
- Under normal artificial lighting; and
- When applied on curved surfaces.

The commercial possibilities of this achievement are profound and were demonstrated by the signing of China's leading security label supplier PanPass Inc as YPB's first initial adopter channel partner for the Motif Micro solution (see ASX announcement 16 September 2019). China is experiencing the proliferation of fake QR codes in addition to consumers battling the ongoing profusion of counterfeit products.

YPB believes smartphone readability has two major commercial payoffs:

1. Ballooning of the addressable market for its solutions to mass-market consumer brands generally; and
2. Likely greater and quicker sales success with the solution's value proposition now emphasising consumer engagement but driven by assured product authenticity.

These expected improved sales outcomes derive from brands:

- o highly valuing direct consumer engagement;
- o understanding the brand halo benefits of assured authenticity and caring for consumers' welfare (ensuring they aren't harmed by fakes); and
- o recognising that an existing investment in packaging can be transformed by YPB's solutions at minimal cost into a powerful digital marketing channel, directly under the brand's control, via the ubiquity of the smartphone.

As advised, the level of engagement with prominent consumer goods brands has increased since the Motif Micro breakthrough. Progress is being made with a number of potential clients and the market will be advised should any be brought to conclusion.

Sales and other successes in Q3 2019

The most notable commercial achievements in Q3 2019 were:

- The first commercial initial adopter client for Motif Micro version 1, PanPass Inc, China's leading security label supplier (as noted above).
- Signing a Master Services Agreement with our major Indonesian pharmaceutical client for a further three years and likely expansion of the current product coverage from one to multiple SKUs over coming quarters.
- Signing a legal cannabis producer Halo Labs Inc, headquartered in Canada, for an integrated product authentication and consumer engagement solution. Halo is YPB's first client in the high volume cannabis consumables (cf. hardware) sector which industry authorities forecast will grow to tens of billions of dollars over the next five years.
- Passing the major milestone of 100 million ProtectCode™ issued by YPB Connect.

Temporary deterioration in operating cashflow in Q3

The reducing cash consumption trajectory of 2018 and H1 2019 reversed in Q3 2019 but Q4 2019 is expected to return to the previous trend. Lower receipts, additional R&D spend and higher non-recurring or annual imposts drove the result. The major drivers of operating cashflows in Q3 were:

- Receipts fell 13% to $300k. This resulted from the closure of the low margin, poorly performed Retail Anti-Theft (RAT) business. Offsetting was a $94k fall in cash spend on RAT inventory with no further purchases of same.
- Gross margin of 91% in Q3, in contrast to the 65% of Q2, reflects the closure of RAT and demonstrates the benefit of selling own-IP products.
- R&D spend rose $113k, allowing the company to achieve the Motif Micro breakthrough. It was pleasing to witness the immediate payoff from this spend both technically and commercially. It is expected that further technical milestones will be achieved on time and budget with rapid commercial payback. R&D spend is expected to remain consistent in Q4.
- Staff cash payments increased $127k due to redundancy payouts and outstanding claims being settled. Pleasingly, Q4 is expected to see the lowest quarterly staff costs of 2019 following the benefits of further cost cutting undertaken in Q3.

- Admin and corporate cash costs increased $186k due to the incidence of annual imposts such as regulatory listing fees and insurance, and payment of audit, registry and miscellaneous other expenses. This item should fall substantially in Q4.

YPB Group CEO John Houston said: "Q3 2019 was a watershed period for YPB in achieving our goal of smartphone readability of an unfakeable authentication mark which gives us a major strategic market advantage. We have been working toward this for some time. This breakthrough, together with a much lower cost base and sharper sales team and process, can rapidly change our financial fortunes. The key is winning customers and I'm optimistic of signing further brands over the coming quarters".

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's technology is also trusted by the world's largest passport issuing nation to ensure the authenticity of its passports. 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: www.ypbsystems.com