

YPB China progresses toward improved result in 2020

- **YPB China sales up almost 2x YTD 2019 to \$233k**
- **2 new high volume multi-national customers gained in Q4 2019**
- **Further Motif/Micro commercial print trials pre-Xmas planned with PanPass**
- **Higher revenue and lower costs to improve YPB China's 2020 result**

Product authentication and consumer engagement solutions provider YPB Group Limited (ASX:YPB) is pleased to advise of progress by YPB China likely to benefit YPB's 2020 financial results following last week's operational review and client visits in Beijing.

YPB China is the group's largest operational cost centre due to the size of the infrastructure needed to pursue the Chinese market, proprietary tracer production and maintenance of YPB's AQSIG production licence being based in Beijing. Due to this cost burden, an improvement in YPB China's result would benefit YPB Group results.

Refined sales strategy almost doubles China revenues in 2019

YPB revised its group sales strategy in H2 2018 to more emphatically leverage channel partners, typically prominent suppliers to consumer goods brands. In addition, key verticals were emphasised, primarily wine, dairy, pharma and health and beauty.

In Q3 and Q4 2018, YPB China's adoption of this strategy secured 3 new channel partners with 4 new clients – each partner being a supplier to, or assembler for, global major clients in auto components, lubricants and consumer electronics. YPB's T2 tracer is used by the channel partners to mark critical components to ensure the authenticity of components in the brands' products.

These new channel partners have led to YPB China's revenue almost doubling in 2019 (to end October) over the prior period from A\$118k to A\$233k.

Further penetration of partners' customers to continue growth in 2020

Each of the China channel partners is having success in encouraging wider adoption of YPB's original authentication solutions amongst both existing and new customers. Two new prominent, recently secured, high volume end uses will be:

- Marking swing tags on toys of a global household-name entertainment group; and
- Marking infant formula tins for one of China's largest dairy companies.

Such applications are expected to drive further volume growth in 2020.

In addition, PanPass Inc, China's largest security label producer, has this week agreed to expand commercial trials of Motif/Micro on security labels. The first commercial print run was successfully achieved on flexo printing (announced 21 November 2019). A second commercial print run on an offset printing line is planned prior to Christmas. YPB still expects revenues in Q1 2020 to follow the successful conclusion of these trials.

Together, the momentum with the existing channel partners and the intent being demonstrated by PanPass is likely to result in further revenue growth in China in 2020.



Further 20% cost cut in China by end Q1 2020

The success of the China channel partner strategy will allow a further 20% overhead reduction in YPB China (annualised). First reductions are imminent with the programme expected to be fully implemented by end March 2020. YPB China's non-cogs operating cost base of \$1.26m in 2018 is expected to fall 22% in 2019 and further 20% in 2020 to \$0.78m.

A reduced loss in China would benefit YPB Group results

Due to the expected continued revenue growth in China together with a lower operational cost base, YPB China is well placed to reduce its cash and profit drag in 2020. Its operating loss in 2018 of \$1.13m is expected to roughly halve in 2019 and be less than \$0.10m in 2020. If the 2020 budget is achieved, breakeven will be achieved at some point during the year but please note the primary driver of the improvement will be revenue growth and the revenue budget is less certain than the cost budget.

The size of YPB China's operating loss means that successful execution of its just confirmed 2020 budget for a meaningful reduction in its annual loss, if achieved, would clearly enhance YPB Group's financial results.

YPB Group CEO John Houston said: "China has proven an extremely difficult nut to crack for YPB but the channel partner and client meetings during my just concluded operational review in Beijing are encouraging. Revenues in China are far below where they should be but the progress in 2019, flowing from our focussed, partner-led strategy, is bearing fruit as demonstrated by the near doubling of 2019 revenue to end October and a key channel partner just signing two new high profile, high volume users of YPB's T2 authentication solution. In reality, YPB China should be able to accelerate its successes as we and our partners work more closely and effectively to protect brands from the counterfeit pandemic in China. Our financial results are leveraged to further progress in China and I'm optimistic the momentum we are building there can contribute to improved YPB Group results in 2020."

Authorised by John Houston, Executive Chairman YPB Group Limited.

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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'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