Q1 2020 net operating cash use improves by 48%

- **Q1 2020 net operating cash use 48% lower than Q4 2019**
- **Cash receipts up 55% on Q4 2019 from new and recurring customers**
- **Gross margin of 95%**
- **Gross operating costs down 38% on Q4 2019**
- **Client wins and new orders despite COVID-19**

Product authentication and consumer engagement solutions provider YPB Group Limited (ASX:YPB) presents highlights of activities for the quarter ended 31 March 2020 (Q1 2020).

Q1 2020 benefitted significantly from YPB's ongoing cost reduction program. Net operating cash burn of $0.703m nearly halved from that of Q4 2019 – a $0.642m improvement in the quarter.

Significant Financial Improvement

Cash receipts rose 55% on Q4 2019 to $0.208m due to a new customer in China and stricter payment terms there with 50% cash paid upfront with each new order. A further important contributor was recurring orders of ProtectCodes from a major Asian client.

Gross margin for the quarter was 95%. Tracer-laced authentication products have modest input costs and ProtectCodes have no direct costs. The achieved gross margin confirms the exit of Retail Anti-Theft as the correct strategic move. As Connect scales with the implementation and growth of new customers such as Nature One Dairy and Nature's Care, the direct profit contribution of incremental revenue will be substantial. This profit leverage to revenue growth is a key plank in the company eventually achieving profitability.

Q1 2020 gross operating costs were 38% or $0.568m lower than Q4 2019 and that fall was the primary contributor to the lower cash use in the business. The key drivers were a 22% fall in staff costs and a 55% fall in overheads which benefitted to some degree from COVID-19 restrictions reducing travel, marketing and logistics costs. Importantly, further aggressive cost reduction initiatives taken in March and April will see costs fall further in Q2 2020 even with the resumption of a more active and normal business development program. The company has also taken advantage of government COVID-19 business support measures wherever possible which will further reduce cash use.

To ensure the Company was sufficiently capitalised during the dislocations of COVID-19, the Executive Chairman provided short term funding totaling $600,000 for working capital support.

Commercial progress made in difficult circumstance

As recently reported, COVID-19 hampered business development due to precautionary corporate actions and official restrictions in all geographies. Despite this, the revamped business development strategy was able to secure two important customers in Q1 2020.

In Australia, Nature's Care, one of the largest natural wellness and beauty products manufacturers and brand owners, adopted Connect as part of its direct consumer engagement plan. The contract provides for an initial 2 stock keeping unit (skus) progressively rolling out to 75 skus.

In China, the company's intensified sales efforts resulted in an important new customer despite the very tight COVID-19 lockdown restrictions prevailing through much of Q1 2020. YPB now supplies Tengfei Pigeon Foot Ring with its tracer-scanner authentication technology to be used in individual identification tags on racing pigeons, a sizeable industry in China. This application highlights the flexibility and scope of application of YPB's authentication solution suite.

Commercial print trials scheduled for early Q1 2020 with PanPass Inc, China's largest security label printer, were deferred until April as previously advised to the market.

Corporate update

During the quarter the Company released the 2019 Annual Report including the Full Year Statutory Accounts for the period ended 31 December 2019.

As of 31 March 2020, the Company held $491,000 in cash and cash equivalents. As noted above, during the quarter the Company was provided with a $600,000 loan from an entity associated with Mr. John Houston. The loan is unsecured and bears an interest rate of 8% per annum and is repayable 120 days from the drawdown date.

During the quarter the Company made payments of $20,000 to related parties and their associates. These payments relate to an existing remuneration agreement for the CEO/Chairman of the Group.

Comment

YPB Group Executive Chairman John Houston said: "Despite the obstacles of COVID-19, sound progress was made in Q1 2020. New customer wins in difficult circumstances and their contribution to revenues was the most pleasing aspect, as new business is the key to YPB achieving its potential. The contribution of the ongoing cost-out drive was also very important and as previously advised to the market, costs are likely to fall further this quarter.

We are operating more efficiently and effectively than ever and have expanded our opportunity set as evidenced by sales of stand-alone product authentication and consumer engagement solutions in the quarter. We are optimistic of both stand-alone and fully integrated solutions continuing to find new opportunities. Working closely with energised channel partners, we anticipate further new business wins over time and, coupled with ongoing tight cost control, progressing toward becoming a self-funded growth company."

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'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