

ASX ANNOUNCEMENT

ASX:YPB | 29 January 2021

Major advances in cash use efficiency, technology and market access over 2020

- 20% improvement in 2020 operating cash consumption over prior year
- 130% bounce in Q4 cash receipts over prior quarter
- Q4 R&D investment increased operating cash consumption versus Q3
- Important advances in products and market access achieved

Product authentication and consumer engagement solutions provider **YPB Group Limited (ASX:YPB)** presents highlights of activities for the quarter ended 31 December 2020 (Q4 2020).

Over 2020, the flow of customer orders and new business development was crimped by COVID-19 which also increased the volatility of quarterly cashflows. Consequently, the trends in the business are best understood by considering 2020 in its entirety against the prior year.

2020 saw YPB realise further benefits of the refocus and reform drive of recent years with 20% less operating cash consumed versus 2019, while at the same time major advances in products and market access were achieved. Key line items in 2020 against 2019 were:

- Cash receipts down 55% or \$700k following the closure of the Retail Anti-Theft (RAT) business. This pain was deliberately taken to focus exclusively on high margin, high IP, in-house products with margins around 94%.
- Total operating cash costs down 28% or \$1.5m comprised of:
 - Cost-of-goods-sold down 92% saving \$250k. This was also RAT-driven highlighting its working capital intensity as well as it being a low margin activity.
 - R&D expense down 58% saving \$200k from in-housing key development activities. This not only cut costs but gave YPB greater control over its technology portfolio, development pathways and customer responsiveness.
 - Lease costs down 36% saving \$145k, primarily from office closures and downsizing.
 - Staff costs down 33% saving nearly \$1m, driven by pruning less productive headcount, voluntary pay cuts of senior staff and zero Directors' fees for the nine months to end December.
 - Administration and corporate costs were the one significant category to defy the improved trend rising 4%. This was due to elevated legal, advisory and capital raising costs in Q3 and Q4.

In Q4 2020 the highlights of cashflows were:

- A 130% bounce versus Q3 in cash receipts from customers. Due to YPB's customers' own businesses being disrupted by COVID-19 during 2020, order flows were erratic. Some semblance of normality resumed in Q4 and a recovery in orders accounted for the 130% jump. Future quarters are expected to hold at or above the Q4 level of cash receipts, absent any significant further COVID-19 disruptions.

- R&D spend was up 93% in Q4 versus Q3, the highest quarterly R&D spend of the year, with a concerted drive to make MotifMicro launch-ready and to complete Connect 2.0 including migrating customers to the new platform.
- Advertising and marketing fell 79% off a very elevated spend in Q3 back to more normal levels.
- Staff costs rose 29% due to the hiring of technical staff, further demonstrating the R&D commitment in Q4.
- Administration and corporate costs rose 36% driven by legal, advisory and capital raising fees in the quarter. This expense should moderate in future.

Important technical progress in Q4

i) Motif Micro

During Q2 and Q3 MotifMicro achieved highly reliable recognition of the novel MM1 forensic authentication particles by both iOS and Android smartphones under 'real world' conditions. An important reality, however, is that each model of smartphone has its own camera quirks and must be fine-tuned to reliably identify the presence of MM1.

In Q4, YPB's in-house Artificial Intelligence lab expanded MotifMicro's capability to a solid portfolio of the most popular iOS and Android smartphones. This was an important step in maximising MotifMicro's practical commercial appeal and is now able to onboard new phone models and customers.

The other focus in Q4, and which is expected to complete in Q1 or early Q2, is ensuring the MotifMicro app is highly user friendly and essentially foolproof. Amongst other things, the app will guide a consumer authenticating a product through the scanning and confirmation process using object recognition protocols. The purpose is to ensure a good user experience and minimise operator error and maximise the rate of successfully completed scans. Successful scans maximise the path to MotifMicro's commercial success.

The development of the B2C app is well progressed and YPB has product mock-ups of commercial samples presently being demonstrated to channel partners and clients. It is being enthusiastically received.

ii) Connect

The Connect 2.0 Customer Engagement SaaS platform was completed to commercial readiness in Q3. In Q4, the bulk of Connect clients were migrated from 1.0 to 2.0. This was a significant exercise which has been successfully completed.

A major benefit of Connect 2.0 is greatly increased scalability and efficiency of resource use. YPB can now host new customers at negligible incremental cost, ensuring a very high profit contribution from the incremental revenue. At the same time, Connect 2.0 now only uses hosting resources on demand and is much lower cost compared with an 'always on' service.

Connect 2.0 has been well received by YPB's customers, particularly its self-serve consumer data analytics capabilities. In fact, numerous requests for further product enhancements have been enacted and the product development roadmap is being heavily customer-led.

Connect 2.0 also added contact tracing capabilities as a target market in Q4. More imminently, Connect's contact tracing capabilities are effectively product track and trace capabilities and are generating early commercial interest with existing YPB customers and channel partners.

Solid commercial advances in Q4 despite COVID-19

Signing new customers has been very difficult due to COVID-19. Customers are more reluctant to spend and the ability to close deals with limited in-person demonstration opportunities has been severely hampered.

Nevertheless, YPB has been using the time to further strengthen channel partner relationships particularly in Australia and China. Business development programmes and product innovation ideas have been advanced.

The commercial progress in China continues to be particularly pleasing and a number of opportunities are in train there. The strategy of far better account management of existing clients is bearing fruit and is building the recurring revenue base of YPB China.

During Q4, two new channel partners were added in Thailand (where YPB's head office and R&D team is located). These partners provide access to end customers in tobacco, tax stamps and a range of consumer goods. Interest in Thailand is solid although no new end customers have been signed to date.

Funding

As of 31 December 2020, the Company held \$1.559m in cash and cash equivalents.

During the quarter the Company raised \$3.6m gross before fees.

The Company repaid in cash a \$0.6m unsecured loan to an entity associated with Chairman John Houston, fully extinguishing the interest-bearing debt owed to Mr Houston.

Corporate

The Company held a general meeting during the quarter to ratify the prior issue of shares and the issue of shares to an advisor in-lieu of cash fees. In the same period, the Company made payments of \$86,000 to related parties and their associates. This comprises of payments related to the CEO/Chairman's existing remuneration agreement of the Company and accrued interest on settling the unsecured loan.

YPB Group CEO John Houston said: *"It was pleasing to see cash receipts recover significantly in Q4 2020 as our customers saw some reprieve from COVID-19 impacts. While Q4 net cash use did increase somewhat it was primarily driven by R&D investment in our flagship products MotifMicro and Connect 2.0. Customer appreciation of the products' advances has been terrific and is very encouraging for future market acceptance.*

Our commercial progress has been markedly impeded by COVID-19 but there has been substantial progress in building stronger foundations to advance new business in 2021. The relevance and commercial appeal of our products is now greater than ever and we have channel partners keen to promote our solutions, especially MotifMicro1.

I'm hopeful of a somewhat more normal environment in 2021 allowing us to drive revenues while holding costs largely steady. We remain intensely focused on making YPB self-sufficient and monetising the significant latent value in our market-leading technology suite. The need for our authentication and engagement solutions has never been greater.

This announcement has been authorised by the Board of YPB Group Limited.

Ends.



For further information please contact:

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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 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: ypb.io