

ASX ANNOUNCEMENT

ASX:YPB | 29 April 2022

QUARTERLY ACTIVITIES REPORT – Q1 2022

Cost control drives best-ever cash performance

- **Q1 2022 saw lowest quarterly cash consumption in the company's history**
- **New business and technical progress significant**
- **Optimistic of impactful new business**

Anti-counterfeit and consumer engagement solutions provider **YPB Group Limited (ASX: YPB)** presents highlights of activities for the quarter ended 31 March 2022 (Q1 2022).

Q1 2022 saw a best-ever financial performance and considerable behind-the-scenes progress in business and technical development.

The scope and pace of new business development has been such that there are solid grounds for anticipating valuable new customers being signed over the balance of 2022.

Overall, the company is utilising resources more efficiently while advancing the value of the business to customers and ultimately shareholders.

Lowest quarterly cash consumption in company's history

Q1 2022 saw the lowest quarterly operating cash consumption in the company's history at \$537k. This was even lower than the peak COVID uncertainty quarter of Q2 2020 which saw significant salary deferrals and no-fee work by senior staff and the board. Significantly lower costs were the main driver of the Q1 2022 improvement, and the net result was achieved despite lower cash receipts in the quarter.

Receipts were down roughly \$53k on the preceding quarter due to seasonality (with Q4 typically a stronger quarter for repeat orders) and ongoing severe disruptions from COVID in China. Pleasingly, virtually all receipts were repeat orders from existing customers and demonstrate a base of stable and reliable revenue from which to build new business.

Cash gross margin in the half was 98.5% demonstrating the cash generative nature of incremental revenue. This high profitability will be a key driver of rapid improvement in financial performance as revenues grow.

Q1 operating cash costs were down 32% on Q4 2021, confirming the reversal anticipated in YPB's last 4C report, but, significantly, Q1 costs were also the lowest in the company's history. The key movements in cost lines were:



- R&D costs up \$39k or 83% due to reclassification of technical staff to provide a more accurate view of the magnitude of product development investment (which is, conservatively, fully expensed as incurred).
- Staff costs down 30% (\$142k) due to lower headcount, part permanent and part temporary, and partly due to the accounting reallocation to R&D. Adjusting for the latter, staff costs were down 22%. Staff costs are likely to rise in Q2 as some vacancies are filled but 2022's quarterly average is likely to be below the average of 2021.
- Administration and corporate costs fell 50% (\$200k) on Q4 2021 partly due to timing and deferral of professional fees. Admin and corporate costs will rise in subsequent but should also remain below the quarterly average of 2021.

Commercial progress not publicly visible but significant

MotifMicro1 (MM1) paid trials and new partner development are progressing steadily and pleasingly. COVID has undoubtedly slowed the progress of the trials but partner engagement is high. Iterative development is occurring with partners, and engagement with potential end-customers is anticipated over coming months.

In early February, a third paid commercial trial was announced with Israel-based Latent Image Technology, an established supplier of overt and covert authentication and anti-counterfeit solutions to Government, pharma, document security, fashion and automotive customers in numerous geographies.

Further paid trial partner signings are anticipated in coming months.

Importantly, the quality of present and potential partners is high, and their customer lists are such that the impact on YPB should successful commercial deals be concluded would be significant. The industry, geographic and volume opportunity has expanded significantly over late 2021 and into 2022.

COVID was, and remains, a real headwind to progress in all jurisdictions but particularly in China. Repeat orders from customers are being hampered as their businesses are impacted by restrictions and numerous new business opportunities are being inhibited by the inability to meet in person. Nevertheless, the team is creatively advancing new opportunities however possible.

Major technical progress toward broad release of MM1

The MM1 paid trial process has allowed better understanding of the increasing variety of smartphones (especially Android) in the global market with cameras becoming more complex and diverse. This has historically presented calibration challenges for MM1 but, pleasingly in Q1 2022, our tech team developed an ingenious process that allows previously unknown phones to automatically include themselves into the universe of phones able to use MM1. Finishing touches to this AI-driven protocol will be made in Q2 2022 at which point go-to-market activities with partners into ultra-high-volume prospects are planned to accelerate.

Compulsorily converting notes raise \$1.5m

A convertible note raise for \$1.5m was conducted in March. The notes carry a 10% per annum coupon and compulsorily convert to equity upon shareholder approval of the issuance of new equity at the AGM to be held on 30 May 2022. Please note the Appendix 4C shows cash of \$542k received from this issue prior to quarter end. The balance of \$958k fell into Q2 and was received in early April.



Corporate

As at 31 March 2022, the Company held \$629k in cash and cash equivalents.

During the quarter the Company made payments of \$33k to related parties and associates being payments under the CEO/Chairman's remuneration agreement with the Company.

After feedback from shareholders and advisors, the board has concluded that the timing is now right to consolidate the share base in the best interest of shareholders. This will be put to shareholders at the upcoming AGM.

YPB Group CEO John Houston said: "Q1 2022 was a testament to our tight ship with our best-ever quarterly cash performance. While certain vacant positions will be filled in Q2, we aim to strictly manage salary overheads through 2022. We anticipate increased marketing and travel costs but our plan for 2022 is to maintain a lower cost base than 2021.

While I'd hoped to have been able to have reported more new business advances during the quarter, vital progress with potentially highly valuable partners and end customers is being made and will be further advanced as the ability to travel to security conferences and customers opens up and production lines improve for the first time in nearly 2 years. I expect this to translate into new business in coming quarters, although the unusually turbulent environment makes accurately foreseeing timing impossible.

Given the high profitability of our own intellectual property, the keen interest from potential partners demonstrating the uniqueness of our solutions, and our tight cost control, closing new business can quickly move the company toward profitability and into a new phase of creating substantial shareholder wealth."

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

Ends.

For further information please contact:

YPB Investor enquiries
investors@ypbsystems.com

Ben Jarvis
0413 150 448
Ben.jarvis@sdir.com.au
Six Degrees Investor Relations

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: ypbsystems.com

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

YPB Group Ltd

ABN

68 108 649 421

Quarter ended ("current quarter")

31 March 2022

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	150	150
1.2	Payments for		
	(a) research and development	(86)	(86)
	(b) product manufacturing and operating costs	(2)	(2)
	(c) advertising and marketing	(39)	(39)
	(d) leased assets	(31)	(31)
	(e) staff costs	(327)	(327)
	(f) administration and corporate costs	(203)	(203)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Return of deposits from office rentals	-	-
1.9	Concession and rebates from financial support measures	-	-
1.10	Other (GST/VAT refund)	94	94
1.11	Net cash from / (used in) operating activities	(444)	(444)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Deposit into an escrow account	-	-
2.6 Net cash from / (used in) investing activities	-	-

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2 Proceeds from issue of convertible debt securities	542	542
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
3.9	Other (Corporate Advisory, Research, investor relations, etc.)	-	-
3.10	Net cash from / (used in) financing activities	542	542

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	531	531
4.2	Net cash from / (used in) operating activities (item 1.11 above)	(444)	(444)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	542	542
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	629	629

5.	Reconciliation of cash and cash equivalents	Current quarter \$A'000	Previous quarter \$A'000
	at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		
5.1	Bank balances	629	531
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	629	531

6. Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to related parties and their associates included in item 1	33
6.2 Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	1,500	542
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	1,500	542
7.5 Unused financing facilities available at quarter end		958
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
<p>On 28 March 2022, the Company received commitments to raise \$1,500,000 from professional and sophisticated investors whereby. By 31 March 2022, the Company collected and issued \$542,000 of Convertible Notes. Post quarter-ended, the Company collected and issued the remaining \$958,000 of Convertible Notes as per Item 7.5 above. These notes have an interest rate of 10% per annum and repayable within six months from the issue date but compulsorily convert to equity immediately upon approval by shareholders of their conversion.</p>		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.11)	(444)
8.2 Cash and cash equivalents at quarter end (item 4.6)	629
8.3 Unused finance facilities available at quarter end (item 7.5)	958
8.4 Total available funding (item 8.2 + item 8.3)	1,143
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.6

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

N/A

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

N/A

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

N/A

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 29 April 2022

Authorised by: by the board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 107: *Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – e.g., Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".

5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.