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ASX ANNOUNCEMENT

ASX:YPB | 29 October 2020

Important business advances in Q3 despite COVID-19

- **Critical technical milestone of MotifMicro Android functionality achieved**
- **Important generational upgrades of MM app and Connect platform**
- **Channel partner strategy advanced in China, India and Thailand**
- **Cash use increased with receipts COVID-19 impacted while cash costs normalised**

Product authentication and consumer engagement solutions provider **YPB Group Limited (ASX:YPB)** presents highlights of activities for the quarter ended 30 September 2020 (Q3 2020).

Q3 was a quarter of significant business achievement with important technical and commercial advances made despite ongoing impediments from COVID-19 restrictions serving to slow cash receipts and extend ordering timeframes.

Cash use in the business increased as customer ordering patterns remained disrupted by COVID-19 whereas cash costs normalised while various deferred payments negotiated during peak uncertainty of COVID-19 were satisfied.

Important technical progress

Despite COVID-19 continuing to limit office attendance, our Bangkok technical team achieved important milestones in Q3.

i. **ANDROID capability:** The first was unaided Android phone detection of MotifMicro forensic authentication particles in real world conditions (announced July 2020). This was a major achievement in the application of Artificial Intelligence and machine learning and demonstrates YPB's inhouse capabilities in a field where talent is in high demand and scarce.

   Android capability was a critical commercial requirement for partners PanPass in China and OPP Gravure Printing in Thailand to begin selling MotifMicro to their clients. Unfortunately, despite the milestone achievement, it is now likely that first revenues from MotifMicro which had been anticipated in H2 2020 are likely to be delayed until H1 2021 due mainly to ongoing COVID-19 impacts.

   In the meantime, investment in MotifMicro will increase modestly and in Q4 focus on broadening the range of phones able to detect MotifMicro's presence on both iOS and Android platforms which will continue solidifying its commercial scope and readiness.

ii. **2nd generation MotifMicro APP:** The second technical advance was the initial release of the 2nd generation of the MotifMicro app in late July. The 2nd generation app is a user friendly, stable application able to work anywhere globally, including behind China's great firewall.

investors@ypbsystems.com
YPB Group Limited
Suite 1, 295 Rokeby Road Subiaco, Western Australia
6008, AUSTRALIA
ypb.io

iii. **COVID-19 contact tracing capability:** The third technical advance in Q3 was the development of COVID-19 contact tracing capability on YPB's Connect customer engagement and serialised product authentication platform.

Important commercial progress developing PanAsian distribution capability

Over the past year, the company has focused on advancing its channel partner strategy. Channel partners, typically suppliers of packaging or printed materials to major consumer goods companies, offer access to very high-volume customers in very large markets creating a highly scalable, low-cost, faster route to market.

New partners were achieved in China, India and Thailand during the quarter, building out a low-cost PanAsian distribution network for the company, and included:

i. Suzhou-Haishun Packaging - a leading packaging supplier to Chinese pharma manufacturers. S-HP will be taking an advanced, anti-counterfeit foil product jointly developed with YPB to its customers.
ii. Beijing Haihu Printing (BHP) - a major anti-counterfeit label printer in China. BHP will offer YPB's T2 tracer-scanner technology to its clients.
iii. Entry into India with Optimum Interface Consulting, a provider of investigative and risk mitigation solutions, including anti-counterfeit technology solutions. A prior entry into India in 2016 was unsuccessful but yielded valuable lessons now able to be applied by the company's new partner.
iv. Two recently announced partners in Thailand, providing access to the tobacco sector and a broad number of consumer goods manufacturers.

Cash consumption in Q3 increased primarily due to COVID-19 driven delays

Cash use increased in Q3 with receipts lower and outflows higher.

An anticipated improvement in cash receipts after COVID-19 interruptions in Q2 did not occur and cash receipts were below expectations as sub-normal customer demand persisted due to ongoing COVID-19 impacts on customers' businesses which have extended lead times. Cash receipts were 55% below Q2. Given an increase in orders received late in Q3, cash receipts should show clear improvement in Q4.

On top of the soft cash receipts, cash costs normalised after being suppressed by COVID 19 emergency measures in Q2.

- Staff pay cuts of 50% in Q2 ended with normal salaries resumed. Although 29% higher than Q2, Q3 staff costs remained 16% below Q1 2020. Directors' fees remain at zero until 2021.
- R&D rose in percentage terms in Q3 from Q2, as deferred important work resumed but was only an additional $30k and produced tangible results in the period.
- Admin and corporate costs rose as numerous, uncontrollable, annual costs fell in the period.

Cash spend is likely to increase somewhat in Q4 with further investment in product development and market development if tangible results are visible, but cost controls remain extremely tight and a key focus.

Government COVID-19 relief measures provided minor benefit in the period.

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Funding

As of 30 September 2020, the Company held $300,000 in cash and cash equivalents.

During the quarter the Company raised $800,000 gross before fees, in two placements of $150,000 and $650,000.

The Company also issued new shares to an entity associated with Chairman John Houston, as approved by shareholders at the Annual General Meeting, in relief of a $600,000 unsecured loan provided at the onset of the COVID-19 crisis. A further $600,000 unsecured short-term loan from Mr. Houston remains outstanding and interest bearing at 8% p.a. as previously advised.

Post quarter end, the company raised $3.6m gross before fees in new equity under the specific approval from shareholders at the AGM and the company's placement capacity.

Corporate

The Company held its annual general meeting during the quarter. In the same period, the Company made payments of $55,000 to related parties and their associates. These payments relate to an existing remuneration agreement for the CEO/Chairman of the Company.

YPB Group CEO John Houston said: *"Q3 2020 was bitter-sweet for YPB. Cash receipts were disappointing due primarily to ongoing COVID-19 impediments, however the significant technical progress that was made was purely in expectation of revenue growth. While we presently expect a better Q4 cash result, conditions make forecasting difficult.*

The very pleasing aspects of Q3 were the critical technical advances that further enhance the commerciality of our solution suite and the addition of further quality channel partners. We are building an increasingly powerful array of alliances to facilitate and speed the monetisation of our increasingly relevant and valuable technologies."

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 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

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