

ASX/MEDIA ANNOUNCEMENT

ASX: YPB | 28th April 2017

YPB PROVIDES REVIEW OF Q1 2017 ACTIVITIES

- **Cash generation and costs largely in line with preceding quarter**
- **Breakeven by end June and \$5m pre-tax profit for 2017 still expected**
- **Financial transformation is imminent as contract closures progress**

Brand Protection and Customer Engagement solutions company YPB Group Ltd (ASX: YPB) is pleased to provide a summary of activities for the quarter ended 31 March 2017.

The quarter showed similar financial operating results to the preceding quarter. Cash receipts were down slightly as were costs.

Net cash used in operating activities fell slightly primarily due to lower cost-of-goods-sold.

The cost out programme is on track with annual overhead expected to fall from \$11.1m as at end 2016 to \$6.5m (annualised) by end June. The cash benefit of the cost out will not be apparent until Q3 2017 as the cash impact of restructuring is felt in both Q1 and in Q2. In terms of this cost out programme it is noteworthy that 41% of the cost reduction is headcount related. In addition, the cash costs of the Board will fall by 46% and total Board costs will fall by 57%. The Executive Chairman has voluntarily reduced his salary by 33%.

Contract closures in the quarter lagged original expectations, with delays being mainly procedural or clients adjusting their preferred solutions as contract negotiations progressed.

Achieving breakeven by end June and \$5m pre-tax profit for 2017 (pre-restructuring charges) remains our current expectation and the highest probability case. It is, however, dependant on contract closures meeting the present timetable with a number of significant closures due prior to end June.

Even though it is *not* our present expectation, further slippage in contract closures is possible. Should timing slip again then breakeven will extend beyond June but the profit target will remain achievable due to the size of a number of key contracts. All effort is presently devoted to converting pipeline into revenue. The focus is not on growing the pipeline, which remains at \$110m of potential annual revenues.

The most salient point that should be emphasised is not expectations for 2017. It is that if a number of major contracts can be closed, as is the present expectation, then the company will rapidly become profitable. There is intense effort to ensure this occurs and present indications are that we are on the cusp of a profound financial transformation. Contract delivery is the key.

Key achievements for the quarter included:

- The award of Board of Investment Status by the Government of Thailand which provides the company substantial tax and other cost advantages.
- Supply of forensic technical equipment to the Bank of Thailand (Thailand's Central Bank).
- Signing Le Mac as a channel partner for the PROTECT range of products. Le Mac is the market leader in Australia in shrink sleeve technology for product protection producing hundreds of millions of shrink sleeves per annum.
- Publication by the US Patent Office of a patent granted in China for "On the Go" wireless connectivity for YPB's scanners.
- Signing Guanzhou Panyu MCP Industries as a channel partner for the full YPB solution suite. Guanzhou Panyu is a division of CPMC Holdings the largest manufacturer of metal packaging products in China and one of the core business divisions of Chinese State Owned Enterprise and Fortune 500 Company COFCO.

FINANCIAL SUMMARY

Q1 2017 cash flows were below expectations due to the slower contract closure noted above. Cash receipts for Q1 were \$0.770m, largely in line with the average of 2016 but down from \$0.930m in Q4. Cash receipts in Q2 are likely to fall a little more but then clearly improve in Q3.

Business operating cash outflows were approximately \$0.088m lower than Q4. Net operating cash outflow was \$0.353m higher due to lower revenue and a \$0.183m R&D tax rebate not recurring in the current quarter.

R&D spend remained elevated as expected as the upgraded CONNECT platform was completed. R&D spend will reduce in the current quarter and fall further in Q3.

Staff costs rose in Q1 due to termination payments. This will again be a factor in Q2 but cash spend on staff costs should fall sharply in Q3. COGS fell due to lower shipments of Retail Anti-Theft products during the quarter.

Cash at end Q1 was \$0.680m down from \$2.752m at end Q4.

Please note that the Appendix 4C includes "estimated cash outflows for next quarter" at item 9. Please be aware that this is a *gross* cash outflows forecast and should not be compared to the *net* cash flow figure in item 1 of the Appendix 4C. Q2 2017 gross cash outflows are likely to be down approximately 10% on Q1 2017 and gross cash outflows are likely to fall a further 20% in Q3 2017.

YPB Executive Chairman John Houston said: "While Q1 2017 frustratingly showed minimal financial improvement with delayed contract closures, the company is in the strongest operating position it has ever been in. Financial success is imminent if important contract can be successfully concluded as we presently expect".



PROTECT | DETECT | CONNECT

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ABOUT YPB

YPB Group (ASX: YPB) is a pioneer in advanced brand protection solutions. Listed on the Australian Securities Exchange, YPB is expanding its global footprint with an established presence in Australia, China, Thailand, USA, Mexico and India.

YPB's patented Anti-Counterfeit technology combined with its Security Packaging and Anti-Theft solutions, Consulting Services and YPB's proprietary CONNECT platform enables clients to PROTECT their high value brands from the risks of counterfeit, product diversion and theft while providing the tools to CONNECT directly with their customers.

PROTECT

Smart Security Packaging and labeling for Brands

YPB offers a wide range of Smart Security Packaging and Labeling solutions that can be incorporated into almost any material and offer cost effective strategies to PROTECT the integrity and value of products and brands in high-risk markets.

Government Vital Documents

YPB offers solutions to Governments to PROTECT their Vital Documents that include ID cards, Visas, Passports, Vehicle Labels and many other applications.

Retail Anti-theft

YPB offers clients the latest technology in Retail Anti-Theft and Labeling solutions effective for mainstream retailers, boutiques and exporters to PROTECT against theft.

IP solutions & forensic services

YPB's IP solution specialists work with quality brands and Governments, to develop bespoke brand protection strategies and solutions that will deliver real protection and safety for brands, products and consumers.

Secure Supply Chain

YPB offers secure supply chain solutions to Governments, banks and companies wanting to ensure the integrity of their supply chain using a combination of YPB's authentication technology and secure track and trace solutions, delivering real protection for high value documents, brands, products and consumers.

DETECT

Scanner and Tracer protection solutions

YPB's patent protected state-of-the art Tracer technology is invisible, cannot be copied or destroyed.

Brand owners who include YPB's tracers in their packaging can use YPB's scanners to verify their product's authenticity. If a counterfeit is detected YPB's forensic services can consult with a brand owner to develop strategic, tailored solutions to protect the brand against counterfeiting and product diversion.



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CONNECT

Smartphone applications to Detect and Connect

YPB's sophisticated, user friendly and powerful smartphone applications allow brand owners and consumers to identify and report suspected counterfeit or diverted products. They also allow brands to connect and engage directly with their customers via QR codes, Near Field Communication, secure track and trace and product scanning. The YPB CONNECT platform delivers brand owners valuable and actionable intelligence about their products and customers to measure, tailor and individualise direct marketing campaigns through a 'big data' analytics capability.

www.ypbsystems.com

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Name of entity

YPB Group Limited

ABN

68 108 649 421

Quarter ended ("current quarter")

March 2017

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		770	770
1.2 Payments for			
(a) research and development		(573)	(573)
(b) product manufacturing and operating costs		(299)	(299)
(c) advertising and marketing		(79)	(79)
(d) leased assets		(89)	(89)
(e) staff costs		(1,406)	(1,406)
(f) administration and corporate costs		(670)	(670)
1.3 Dividends received (see note3)		-	-
1.4 Interest received		3	3
1.5 Interest and other costs of finance paid		(49)	(49)
1.6 Income taxes paid		-	-
1.7 Government grants and tax incentives		-	-
1.8 Other (provide details if material)		45	45
1.9 Net cash from / (used in) operating activities		(2,347)	(2,347)

2. Cash flows from investing activities			
2.1 Payments to acquire:			
(a) property, plant and equipment		(49)	(49)
(b) businesses (see item 10)			
(c) investments			

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(49)	(49)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	422	422
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(67)	(67)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	355	355

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	2,752	2,752
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,347)	(2,347)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(49)	(49)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	355	355

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(31)	(31)
4.6	Cash and cash equivalents at end of quarter	680	680

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	680	2,752
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)	680	2,752

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A'000**

236

-

N/A

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$A'000**

-

-

N/A

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

N/A

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(379)
9.2 Product manufacturing and operating costs	(377)
9.3 Advertising and marketing	(60)
9.4 Leased assets	(77)
9.5 Staff costs	(1,255)
9.6 Administration and corporate costs	(648)
9.7 Other (provide details if material)	120
9.8 Total estimated cash outflows	(2,677)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity		
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

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.

Sign here: 
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(Director/Company secretary)

Date: 28 April 2017

Print name: Robert Whitton

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.