

ASX/MEDIA ANNOUNCEMENT

ASX: YPB | 30th April 2018

REVIEW OF Q1 2018 ACTIVITIES

- Temporary increase in operating cash consumption in Q1 to reverse in Q2
- Recurring revenue improving and costs stable
- Highly significant strategic developments in Q1 with Motif Micro, AliHealth, Australian Made, proposed Blockchain Token Sale Event

Brand Protection and Consumer Connection solutions company YPB Group Ltd (ASX: YPB) presents a summary of activities for the quarter ended 31 March 2018.

The quarter saw a temporary reversal of the prior quarterly trend of lower cash burn due to lower receipts and higher outflows. The lower receipts in Q1 2018 v. Q4 2017 were due to lumpy receipts in Q4 normalising. Higher operating outflows in Q1 were due to the tail end of predominantly staff related but non-recurring restructuring payouts, timing of supplier invoicing and elevated legal and accounting costs abnormally incurred. Net operating cash outflows are expected to show a solid improvement in the current quarter and exceed the prior trend of improvement. In short YPB is on track for our reduction in overheads previously reported.

The fall in Q1 2018 cash receipts of \$165k was due to the receipt of unusually lumpy receipts in Q4 2017 from several clients. Actual Q1 2018 invoicing, and hence reported revenue, (cf. cash receipts) was higher than Q4 and the 2017 full year average quarterly revenue of \$0.5m. In other words, the sales performance of the business improved in Q1 2018 and further improvement is expected in the current and subsequent quarters. Large new contracts did not close as expected in Q1 but are still on foot and valuable new clients are expected in the current quarter.

Gross operating costs increased \$650k in Q1 but this was temporary and will see a large reversal in the current quarter. Staff costs rose \$350k in Q1 2018 v. Q4 2017 due to final staff restructuring payouts and unusual timing on contractor payments. Legal costs were also elevated due to an unprecedented ASX application of Listing Rules leading to unusually heavy reliance on legal advice. Accounting and audit fees were in line with pcg but rose on Q4 2017 due to the preparation of the annual accounts. In future, accounting costs will trend down permanently with greater efficiency and significant savings from improved in-house capabilities.

Operating costs ex cogs remain 40% below the cost base as at start 2017, running at \$6.5m per annum following the large cost-out drive of 2017. Increased sales resource to drive revenues is being funded internally and at lower fixed cost via greater pay-for-performance. The cost of the business is smarter and more productive. Clearly, the cost base is set for a much higher revenue base and if clearly defined sales targets are not achieved will be aggressively reviewed again.

Developments in Q1 2018

Highly significant corporate developments occurred in Q1:

1. **Motif Micro.** In January 2018, the acquisition of the global rights to the Motif Micro technology developed at MIT was completed. Motif Micro is the most significant development in Anti-Counterfeit technology in a generation. Its key value lies in being able to offer unfakeable, forensic level Anti-Counterfeit protection that is smartphone readable. That is, it provides a low-cost, easily deployed solution for mass market application with the highest level of counterfeit protection. Directors are strongly of the view that the value-creation capacity of Motif Micro will more than offset the dilution of the equity issuance to fund the acquisition. There are numerous routes to monetising Motif Micro with solid interesting in licencing the technology the most significant near term opportunity.
2. **Proposed Blockchain Token Sale Event.** Blockchain specialist, Enhanced Society, was appointed to explore the undertaking of a Token Sale Event (TSE) for YPB. While still under consideration, a successfully executed TSE would be highly value-creating for shareholders.
3. **AliHealth.** In March 2018, YPB China was appointed the first commercial distribution partner for the serialisation and customer connection platform of AliHealth, a subsidiary of Alibaba Group. YPB has struggled with sales traction in China despite the enormous counterfeit issues there. The AliHealth relationship is expected to open previously closed doors and provide a clear path to strong revenue growth and profitability of YPB's China business. Broader opportunities with AliHealth are possible in future.
4. **Australian Made.** In March 2018 an MOU was signed with the Australian Made Campaign to offer YPB's full PROTECT DETECT CONNECT product suite to Australian Made licensees. The collaboration has no fixed term and took immediate effect but will launch officially in May 2018. Under the agreement Australian Made commits to (amongst other things) recommend YPB's solutions to its 2700+ licensees. This relationship opens a significant opportunity for more rapid sales cycles to a broader market and to drive revenues of the Australian business.

Other comments on financial items

New equity of \$5.7m at \$0.035 per share was raised in the quarter.

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 2018 gross cash outflow is likely to be clearly lower than Q1 2018. Net cash outflow should also clearly improve as cash receipts are also expected to be rise.

YPB Executive Chairman John Houston said: "The first fruits of our strenuous restructuring efforts appeared in the strategic achievements of 2018 but not yet the financials which do not reflect the current state of the business. We have more opportunity and more prospect of converting that to revenue and shareholder wealth than ever. We now have a lower, far more productive cost base and a sharper more talented team. The payoff from our efforts will accelerate as 2018 progresses."



PROTECT | DETECT | CONNECT

For further information please contact;

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ABOUT YPB (ASX: YPB)

In a rapidly changing world, brands need to do more than make great products, they need to **PROTECT** their consumer by allowing them to verify that their purchase is real and as a result buy with confidence. This is a proven initiative to trigger the consumer to **CONNECT** with brands.

YPB provides real protection for quality brands with a focus on product authenticity. Simultaneously, we provide a gateway for brands to connect with their consumers and engender trust in authenticity by utilising the power of the smartphone.

In an evolving marketplace and with the rapid growth of cross border commerce, YPB leverages serialisation and patented authentication solutions so that insightful data can flow between brands and their consumers.

YPB is the obvious choice to **PROTECT**, **DETECT** and **CONNECT**.

+Rule 4.7B

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 2018

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	547	547
1.2 Payments for		
(a) research and development	(120)	(120)
(b) product manufacturing and operating costs	(218)	(218)
(c) advertising and marketing		
(d) leased assets	(48)	(48)
(e) staff costs	(1,424)	(1,424)
(f) administration and corporate costs	(673)	(673)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	7	7
1.5 Interest and other costs of finance paid	(33)	(33)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	90	90
1.8 Other (provide details if material)	48	48
1.9 Net cash from / (used in) operating activities	(1824)	(1824)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	
(b) businesses (see item 10)	(1,444)	(1,444)
(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	(1,444)	(1,444)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	5,745	5,745
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	(176)	(176)
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings	(1,205)	(1,205)
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	4,364	4,364

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	860	860
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,824)	(1,824)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,444)	(1,444)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4,364	4,364

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	20	(20)
4.6	Cash and cash equivalents at end of quarter	1,976	1,976

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	1,976	859
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)	1,976	859

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
210
-

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

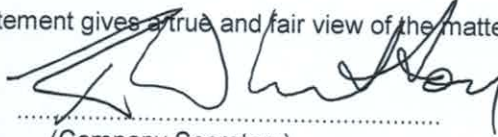
9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(20)
9.2 Product manufacturing and operating costs	(200)
9.3 Advertising and marketing	(20)
9.4 Leased assets	(40)
9.5 Staff costs	(1000)
9.6 Administration and corporate costs	(480)
9.7 Other (provide details if material)	
9.8 Total estimated cash outflows	(1,760)

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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(Company Secretary)

Date: 30 April 2018.

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.