

ASX/MEDIA ANNOUNCEMENT

ASX: YPB | 31st October 2017

REVIEW OF Q3 2017 ACTIVITIES

- **Q3 net cash outflow reduced 24% on Q2 and 33% on Q1**
- **Non-COGS costs falling in line with \$6.5m annualised target**
- **Financial benefits of 2017 progress to be first clearly evident in Q1 2018**

Brand Protection and Customer Connection solutions company YPB Group Ltd (ASX: YPB) is pleased to provide a summary of activities for the quarter ended 30 September 2017.

The quarter saw reduced cash burn but the business is still performing below its potential. The leadership change of July 2017 is expected to show clear benefits in deal flow prior to end 2017 but the impact on financial results will not be felt until Q1 2018

Q3 2017 did record improved financial results with net cash outflow down 24% on Q2 2017 and 34% on Q1 2017. Cash receipts fell but that fall was more than offset by a greater fall in cash payments. Receipts were below expectations in part due to slippage but in part due to slower than expected contract closure which is likely to improve in Q4.

The impact of the cost out programme was evident in quarterly non-COGS gross spend falling from \$2.8m in Q1 2017 to \$1.8m in Q3 2017 or \$4m annualised. The cost base reduction target of \$4.5m annualised was reached in Q3 with the full cash flow benefit to be felt in Q4 with gross cash spend to fall further.

Again, contract closures in the quarter were poorer than expected which resulted in cash receipts not lifting in Q3 as previously forecast. In fact, cash receipts fell 15% or \$0.082m, although that was in part due to slippage with cash due in Q3 received post quarter end. Q4 cash receipts should show clear improvement and a step change in performance by the business is likely in Q1 2018 if important contracts are closed prior to year-end as presently expected.

As previously noted, the resumption of operational leadership in early July 2017 by founder, major shareholder and Executive Chairman John Houston has clearly improved operational traction with a streamlined team and structure. There is greater prioritisation of closing higher value deals and that has reduced the pace of deal flow in the quarter. The closure of significant deals prior to year-end remains likely.

Despite deal closure lagging, a \$5m pre-tax profit in 2018 remains the company's firm expectation. There are more than sufficient projects in train to achieve that objective and the market for our solutions is growing apace. Successful execution is the key to success.

Developments in Q3 2017 included:

- Receipt of the first order for the National Mexican Lottery winning ticket register. This order is on hold pending a further review by the Government but the net financial impact is minimal as the contract profit margin is low;
- Protecting iconic Australian brand Lucas' Papaw Remedies against counterfeit in Asian markets;
- Conducting a comprehensive Retail Anti-Theft review for BWS in its liquor stores;
- Signing Alibaba Global Service Partner *iSynergy* as a channel partner for clients exporting from Australia on the Alibaba platforms;
- Winning a security paper supply deal for Thai passports; and
- Most importantly, securing the global rights to a generational leap in Anti-Counterfeit and Authentication Technology in Motif Micro. Final completion of the Motif Micro acquisition is due by end December.

FINANCIAL SUMMARY

Q3 2017 cash flows improved with net cash used in operating activities falling 24% (\$460k) on Q2 2017 despite lower cash receipts.

Cash receipts for Q3 were \$0.45m, down from \$0.53m in Q2. Clear improvement in cash receipts is likely in Q4 but the quantum will remain still modest.

Q3 2017 gross cash outflows were down approximately 21% on Q2 2017 including COGS and down circa 17% excluding COGS. The primary drivers were lower costs in R&D (due to much reduced software spend as forecast), staff (reduced headcount) and production (lower Retail Anti-Theft sales).

R&D spend fell \$0.32m in Q3 from Q2 due to the bulk of the CONNECT 2.0 software release being completed. The level of spend required in Q3 was lower than anticipated but is likely to rise somewhat in Q4 while remaining modest relative to prior quarters.

Staff costs fell 18% in Q3 from Q2 and will fall further in the current quarter due to full period benefits of the departure of some high cost staff. Corporate costs rose 10% but should fall somewhat in Q4.

Cash at end Q3 was \$1.653m up from \$0.557m at end Q1 2017 due to the \$3.33m equity raised in the period.

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. Q4 2017 gross cash outflows are likely to be down approximately 15% on Q3 2017. This should see a gross cash spend result in line with the \$6.5m non-COGS target as first announced in February 2017.

YPB Executive Chairman John Houston said: "While cash receipts have been disappointing our \$4.5m cost-out goals has been achieved on time and with minimal disruption. We have made clear progress operationally in Q3 with some subtle but important strategy realignments that we believe will bear fruit prior to Christmas. We then expect faster on-boarding and billing of clients than has been the case to date to benefit Q1 2018 cash flows."



For further information please contact;

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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.

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")

September 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	450	1,752
1.2 Payments for		
(a) research and development	(55)	(1,004)
(b) product manufacturing and operating costs	(205)	(870)
(c) advertising and marketing	(62)	(185)
(d) leased assets	(41)	(192)
(e) staff costs	(1,048)	(3,737)
(f) administration and corporate costs	(647)	(1,905)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	5
1.5 Interest and other costs of finance paid		(97)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	23	257
1.9 Net cash from / (used in) operating activities	(1,584)	(5,976)

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

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
(d) intellectual property	(1,016)	(1,016)
(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	(1,016)	(1,065)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	3,330	5,803
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	(50)	(238)
3.5 Proceeds from borrowings	402	402
3.6 Repayment of borrowings	(3)	(3)
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	3,679	5,964

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	557	2752
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,584)	(5,976)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(1,016)	(1,065)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	3,679	5,964

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(1)	(40)
4.6	Cash and cash equivalents at end of quarter	1,635	1,635

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	1,635	557
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)	1,635	557

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**

165

-

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

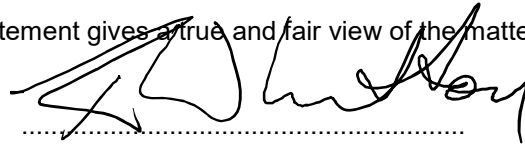
9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(80)
9.2 Product manufacturing and operating costs	(200)
9.3 Advertising and marketing	(50)
9.4 Leased assets	(40)
9.5 Staff costs	(900)
9.6 Administration and corporate costs	(580)
9.7 Other (provide details if material)	120
9.8 Total estimated cash outflows	(1,730)

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: 31 October 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.