ASX ANNOUNCEMENT

ASX: YPB | 28 February 2019

Significantly improved financial results

- **Reported net loss 64% improvement**
- **EBITDA loss 30% improvement**
- **Gross profit up 36%, operating costs down 24%**
- **Further 23% cash overhead reduction in 2019**
- **Operational revamp gaining traction, clear evidence H1 2019**
- **Breakeven target in 2019**

EBITDA improves 30% - gross margin up, costs down

2018 saw a significantly improved financial performance. The reported net loss fell 64% to $7.3m. This figure included impairments of intangibles of $2.4m in 2018 cf. $10.0m in 2017.

More meaningfully, the EBITDA loss of $6.0m for 2018 was 30% lower than that of 2017. This was confirmed by net cash used in operating activities of $5.8m which was 25% lower in 2018.

The improved result was driven by the combination of a higher gross margin from changed product mix against a lower cost base.

Revenue was flat in 2018 from 2017 at $2.0m. Retail solutions revenue unexpectedly fell 22% ($0.2m) with the balance made up by higher anti-counterfeit (AC) and customer engagement (CE) sales. This changed product mix saw gross margin lift 18 percentage points to 68% which in turn lifted the gross profit contribution by a meaningful 36% to $1.3m.

Clearly, both the level of profitability and profit leverage from selling high intellectual property products is significant and will be a key driver of the company's push toward profitability.

Operating overhead costs were down 24% to the targeted $6.5m, although reported overhead costs were down 16% to $7.1m. The difference is comprised of much higher legal fees (significant dealings with ASX, ASIC and funders re a number of issues), non-recurring restructuring costs, currency movements increasing AUD costs of international operations and increased regulatory fees.

As advised on 22 October 2018, additional cost reduction measures taken in Q4 2018 are expected to result in a further 23% reduction in cash overhead from $6.5m to $5.0m in 2019.

Revenue shortfall necessitated external funding

Although financial performance improved in 2018, it was well short of plan. The greatest frustration, particularly after major restructuring in 2017 and early 2018, was the inability to drive revenue growth through the inability to successfully conclude multiple, imminent opportunities. The individuals responsible have since left the company.

This significant revenue shortfall against budget meant the business continued to consume cash rather than becoming self-funding during the year as was planned. Even though the cost base was lower, the cost base had still been set for the much higher budgeted revenue which, if achieved, would have seen the company financially self-sufficient.

Consequently, the revenue shortfall drove reliance on external funding which, in a difficult capital raising market, saw unfortunate new stock issuance at lower share prices.

The board and all senior staff are extremely conscious of the cost to shareholders of new equity issuance to fund operations. The team is optimistic that the major operational improvements achieved in H2 2018 will translate into significant client wins and revenue growth as the year progresses.

A further call on funds in 2018 was the need to repay the Bracknor convertible equity facility. By January 2nd, 2019, A$1.9m had been repaid to Bracknor to eliminate any further call on the company.

Operational improvements not yet obvious but very real

While financials are yet to demonstrate a better operating performance through increased revenue, internal progress has been significant in H2 2018 in terms of team quality, match fitness and capacity to start kicking meaningful revenue goals.

With the wisdom of hindsight, the company's ambitions were too high - trying too hard in too many places with insufficiently skilled resources. Consequently, over the past 18 months:

- The focus has been narrowed to obvious sectors;
- In accessible geographies;
- Taking novel, market-ready, rapid-payback products to markets;
- With reinvigorated and new channel partners; and
- Executed by a refreshed team with vastly higher sales skills and refined go-to-market plans and tactics.

The team is executing well and evidence is expected to flow in coming months with new channel partners and prominent new clients.

Other key operational developments

Motif Micro - The completion of the acquisition of the global rights to the Motif Micro technology suite from a major educational institute in Boston, USA. Motif Micro is the most significant investment ever made by YPB in terms of its potential future value and MM is the heart of YPB's IP suite. MM is a completely novel technology that takes high security anti-counterfeit technology fully integrated with customer engagement capabilities to the mass market for the first time.

Smartphone breakthrough - In August 2018, a major advance with MM technology was announced with a world's first smartphone readability of a high security anti-counterfeit mark.

Accolade Wines – Global wine major Accolade to trial YPB technologies in the Grant Burge range of wines.

Cannabis Confirmed - Partnering with a major international e-commerce leader in cannabis, Canadian company Namaste Technologies, to create Cannabis Confirmed. This initiative aspires to become the trust and engagement standard for the global legal cannabis market.

Cannabis equipment vendors – Four signed under Namaste partnership.

China channel partners – Three new channel partners supplying product to global majors in oil, electronics and automotive, and a domestic FMCG producer.

YPB Token

Given the current lack of liquidity in the crypto market, and the emergence of new commercial opportunities for applied use cases, the go-to-market strategy for the YPB token is currently being reworked with the company's token facilitators FGF with a view to delivering the commercial outcomes previously anticipated. Subject to further discussions with external stakeholders, the new plans for the YPB Token are expected to be announced in the near term. As previously advised, the Company has obtained regulatory clearance (ASX, ASIC) in the form of 'no objections' and has AFSL coverage to facilitate the launch of the token.

Outlook.

As stated in the company's 4C commentary of February 1st, 2019, significant progress in client wins and new revenues is expected in coming months in

- Wine;
- Cannabis;
- Pharma;
- Health and beauty; and
- Retail Anti-Theft and Engagement.

These will be driven by a better team with better vertical targeting of standardised solutions into key sectors via active channel partners resulting in greater sales success with shorter sales cycles.

The key door opener for significant new business is the Motif Micro IP allowing smartphone readability to transform packaging into a smart, low cost, new customer engagement channel.

The primary financial goal for 2019 is to become self-funding as quickly as possible. Revenue growth will be the key driver and it in turn will be determined by the timing of new client wins and billings. Such timing cannot presently be determined but revenue growth is expected to accelerate through the year.

A more thorough review of strategy and developments will be detailed in the forthcoming Annual Report.

YPB Executive Chairman said: "2018 was an improvement on the prior year but fell well short of our objectives. The company's rebuild has been harder and longer than expected but I reiterate my confidence in 2019 proving transformational. We expect to win significant new clients capable of meaningfully lifting revenues. I expect YPB's potential will be clearly demonstrated in 2019 and the rebuilding of shareholder value advanced."

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For further information please contact investor@ypbsystems.com

About YPB
YPB Group Ltd (ASX:YPB) brings packaging to life through its proprietary technology suite that provides certainty of authenticity and connects brands directly to consumers enabling new levels of market intelligence and ROI data capture. In an evolving marketplace and with the rapid growth of cross border commerce, our expertise presently focuses on the rapidly growing consumer markets of Australia, South East Asia and China.

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