

# YPB Group

## Upgrading on guidance

Earnings upgrade

**YPB Group (YPB) combines patented anti-counterfeiting technology with security packaging solutions, consulting and forensic services to help businesses protect their brands from the risks of counterfeiting and product diversion. The company recently completed a A\$4.54m share placement and provided guidance to the market for FY17 profit before tax of A\$5m. We have incorporated this guidance and the effect of the share placement into our forecasts, resulting in a 24% upgrade to our FY17e PBT to A\$5.4m. Our DCF valuation is A\$0.43/share (A\$0.44 previously) following the upgrade and after incorporating the additional 18.91m shares in issue.**

Year end	Revenue (A\$m)	PBT* (A\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/14	0.1	(1.9)	(1.8)	0.0	N/A	N/A
12/15	1.7	(5.7)	(4.5)	0.0	N/A	N/A
12/16e	10.8	(2.1)	(1.1)	0.0	N/A	N/A
12/17e	26.9	5.4	2.6	0.0	9.2	N/A

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## FY17 guidance for A\$5m PBT

YPB announced on 19 May that it expects to reach cash flow break-even by end Q117 and deliver profit before tax of A\$5m for the year ending 31 December 2017. This is the first time the company has given guidance for FY17 and follows a spate of successful contracts for the group, the latest being a memorandum of understanding to supply its technology to global packaging group Orora, a A\$1.2m three-year supply contract to Comtech Solutions for New Zealand exports to China and the fourth Mexican contract through its Affyrmx JV. YPB noted that its forecast was achievable across a range of revenue outcomes due to the flexibility of its costs base. A key assumption of the profit guidance is that the company would have sufficient access to capital until it reaches break-even and is self-sustainable.

## Share placement raises A\$4.54m

The company has bolstered its cash position with an 18.91m share placement at A\$0.24/share to raise A\$4.54m (before expenses) to accelerate conversion of its business opportunity pipeline into recurring revenues, expand into new markets and enhance its solutions suite through R&D investment. The A\$4.54m share placement, announced on 24 May, was oversubscribed, we understand, by at least A\$500,000, and was supported by both existing and new shareholders, including six new institutional investors.

## Valuation: DCF valuation of A\$0.43/share

Our DCF valuation is A\$0.43/share (previously A\$0.44/share) after incorporating the profit upgrade and the impact of shares issued. On the same basis, and after including the future value of in-the-money options, YPB is trading on FY16e EV/sales of c 2.7x (or 3.4x excluding the value of options) and FY17e EV/sales of c 1.1x (1.4x), which compares to the 12-month forward EV/sales multiple of 2.9x of its listed peers.

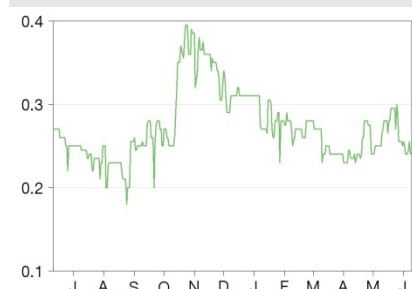
### Industrial support services

10 June 2016

**Price** **A\$0.24**  
**Market cap** **A\$46m**

Net debt (A\$m) at 31 March 2016 (excludes Lanstead receivable)	1.8
Shares in issue	191.9m
Free float	65%
Code	YPB
Primary exchange	ASX
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	2.0	(3.8)	(3.8)
Rel (local)	0.5	(8.0)	(2.6)
52-week high/low	A\$0.40	A\$0.18	

### Business description

YPB Group has developed a three-pronged strategy designed to detect and protect brands from counterfeiters. The company owns four Chinese patents over invisible tracers and has secured several contracts for its technology.

### Next events

Interim results	July 2016
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## Earnings adjustments

We have adjusted our forecasts to take into account the company's guidance for A\$5.0m profit before tax in FY17. YPB has highlighted in its release to the market on 19 May that business from existing clients and advanced opportunities could potentially convert into FY17 revenue of A\$37.8m. However, it noted that its profit forecast was achievable across a range of revenue outcomes.

We have assumed that YPB adds another A\$2.3m to its forecast FY16 revenue base and A\$4.7m to its forecast FY17 revenue base, which in turn is expected to convert to PBT of A\$5.4m, a little ahead of the company's guidance. We believe the contract momentum being demonstrated by the company will enable it to beat its FY17 guidance.

Our EPS forecasts have also been adjusted to take into account the increased shares in issue as a result of the share placement. Exhibit 1 details our earnings adjustments.

<b>Exhibit 1: Earnings adjustments to FY16 and FY17</b>						
	FY16e new	FY16e old	% chg	FY17e new	FY17e old	% chg
Revenue (A\$m)	10.8	8.5	27.9	26.9	22.2	21.3
Gross profit (A\$m)	5.7	4.7	22.0	14.3	12.2	16.9
EBITDA (A\$m)	(1.9)	(2.5)	(24.1)	5.5	4.5	22.0
PBT normalised (A\$m)	(2.1)	(2.7)	(23.0)	5.4	4.3	24.4
NPAT normalised (A\$m)	(2.1)	(2.7)	(23.0)	5.4	4.3	24.4
EPS normalised (c)	(1.1)	(1.6)	(31.0)	2.6	2.0	28.5
Average number shares (m)	191.3	171.4	11.6	204.6	185.0	10.6

Source: Edison Investment Research

## Valuation

We use the DCF methodology to value YPB Group, arriving at A\$0.43/share based on a WACC of 12.6% and a terminal growth rate of 2%. We also dilute for 40.1m in-the-money options, which have a conversion price of A\$0.20/share and expire on 31 October 2017. Our FY17 forecasts incorporate the cash due from these options. Exhibit 2 sets out our valuation.

<b>Exhibit 2: DCF valuation</b>	
Present value of cash flows (A\$m)	43.5
Terminal value (A\$m)	38.9
Net cash* (A\$m)	9.3
PV of cash from 31 October 2017 options (A\$m)	7.1
Net equity value (A\$m)	98.8
Fully diluted shares in issue (m)	231.3
Net equity value per share (A\$)	0.43

Source: Edison Investment Research. Note: \*Includes the \$5m in staggered payments from Lanstead Capital for its shareholding and the A\$4.54m raised in the share placement. Net debt at 31 December was A\$0.2m.

## Peer comparison

YTB's peer group, which predominantly comprises large corporations, is trading on a 12-month forward EV/sales multiple of 2.9x. By comparison, YPB (adjusted for the shares issued, the in-the-money options and the Lanstead receipts) is trading on an FY16e EV/sales multiple of c 2.7x and an FY17e EV/sales multiple of c 1.1x. Exhibit 3 highlights the peer group. If we exclude the A\$7.1m future value we place on the in-the-money-options, YPB is trading on an FY16 EV/Sales multiple of 3.4x and FY17 EV/Sales multiple of 1.4x.

**Exhibit 3: Peer comparison on 12-month forward earnings**

Company	Country	Currency	Price	Market cap m (local)	Market cap (US\$m)	P/E (x)	EV/sales (x)	EV/ EBITDA (x)	EBITDA margin	Operating margin
3M CO	US	US\$	169.99	103,101	103,101	19.6	3.7	12.6	29.4%	24.6%
AMCOR LIMITED	Australia	A\$	16.35	18,936	13,564	28.7	2.3	15.8	14.8%	11.2%
APPLIED DNA SCIENCES INC	US	US\$	2.95	71	71	N/A	4.9	N/A	0.0%	N/A
AVERY DENNISON CORP	US	US\$	74.91	6,680	6,680	18.3	1.3	9.9	12.7%	9.7%
CATALENT INC	US	US\$	29.06	3,623	3,623	23.4	2.9	12.9	22.4%	12.7%
DIGIMARC CORP	US	US\$	27.17	247	247	N/A	8.2	N/A	N/A	N/A
DUPONT FABROS TECHNOLOGY	US	US\$	42.12	3,135	3,135	25.4	7.8	12.6	61.7%	41.1%
ESSENTA PLC	UK	£	8.36	2,196	3,211	15.0	2.0	10.4	18.9%	13.9%
HONEYWELL INTERNATIONAL INC	US	US\$	114.72	87,430	87,430	16.3	2.2	10.4	21.5%	18.9%
INTEL CORP	US	US\$	31.39	148,224	148,224	12.5	2.6	6.8	39.0%	26.1%
THERMO FISHER SCIENTIFIC INC	US	US\$	151.16	59,483	59,483	17.5	3.8	14.9	25.6%	23.5%
THIN FILM ELECTRONICS ASA	Norway	NOK	4.91	3,339	400	N/A	14.0	N/A	N/A	N/A
ZEBRA TECHNOLOGIES CORP-CLA	US	US\$	51.76	2,704	2,704	8.9	1.4	8.0	17.6%	15.5%
Anti-counterfeit companies		Median			<b>431,872</b>	<b>16.9</b>	<b>2.9</b>	<b>11.5</b>	<b>18.9%</b>	<b>13.9%</b>

Source: Bloomberg. Note: Prices as at 26 May 2016.

**Exhibit 4: Financial summary**

	A\$000s	2014	2015	2016e	2017e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		85	1,637	10,829	26,937
Cost of Sales		0	0	(5,107)	(12,660)
Gross Profit		85	1,637	5,723	14,277
EBITDA		(1,776)	(5,458)	(1,934)	5,501
Operating Profit (before amort. and except.)		(1,785)	(5,533)	(1,961)	5,427
Intangible Amortisation		(306)	(827)	(1,727)	(1,526)
Exceptionals		(2,206)	0	0	0
Share based payments		(113)	(282)	(374)	(393)
Other		0	0	0	0
Operating Profit		(4,410)	(6,642)	(4,062)	3,508
Net Interest		(68)	(120)	(147)	(68)
Profit Before Tax (norm)		(1,853)	(5,653)	(2,108)	5,359
Profit Before Tax (FRS 3)		(4,478)	(6,762)	(4,209)	3,440
Tax		0	0	0	0
Profit After Tax (norm)		(1,853)	(5,653)	(2,108)	5,359
Profit After Tax (FRS 3)		(4,478)	(6,762)	(4,209)	3,440
Average Number of Shares Outstanding (m)		103.7	124.3	191.3	204.6
EPS - normalised (c)		(1.8)	(4.5)	(1.1)	2.6
EPS - (IFRS) (c)		(4.3)	(5.4)	(2.2)	1.7
Dividend per share (c)		0.0	0.0	0.0	0.0
Gross Margin (%)		100.0	100.0	52.8	53.0
EBITDA Margin (%)		N/A	N/A	N/A	20.4
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	20.1
<b>BALANCE SHEET</b>					
Fixed Assets		11,122	18,142	17,351	15,097
Intangible Assets		11,096	16,176	14,449	12,923
Tangible Assets		26	313	1,249	2,174
Receivable from Lanstead for shares		0	1,653	1,653	0
Current Assets		2,715	7,624	9,886	27,232
Stocks		136	179	389	678
Debtors		174	1,221	1,820	4,527
Cash		2,405	2,877	7,206	22,027
Lanstead receivable for shares		0	3,347	472	0
Current Liabilities		(364)	(1,418)	(2,184)	(5,432)
Creditors		(364)	(1,418)	(2,184)	(5,432)
Short term borrowings		0	0	0	0
Long Term Liabilities		(2,748)	(3,104)	(3,104)	(3,104)
Long term borrowings		(2,748)	(3,104)	(3,104)	(3,104)
Other long term liabilities		0	0	0	0
Net Assets		10,725	21,244	21,949	33,793
<b>CASH FLOW</b>					
Operating Cash Flow		(2,075)	(5,767)	(1,977)	5,753
Net Interest		10	76	(147)	(68)
Tax		0	0	0	0
Capex		(161)	(299)	(962)	(999)
Acquisitions/disposals		0	(462)	0	0
Financing		4,900	7,145	4,540	8,011
Dividends		0	0	0	0
Other*		0	(221)	2,875	2,125
Net Cash Flow		2,674	472	4,329	14,822
Opening net debt/(cash)		125	343	227	(4,102)
HP finance leases initiated		0	0	0	0
Other		(2,456)	(356)	0	0
Closing net debt/(cash)		343	227	(4,102)	(18,923)

Source: YPB Group accounts, Edison Investment Research. Note: 2017 forecast assumes exercise of 40m in-the-money options. \*In FY16 and FY17, YPB will receive a total payment of \$5m for shares issued to Lanstead Capital. This is reflected in the 'Other' line.

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