

YPB Group

Connecting to protect and detect

Acquisition update

Tech equipment & hardware

YPB Group has completed the acquisition of privately-held proximity marketing company nTouch for A\$4.5m in shares at 35c/share. The acquisition extends its anti-counterfeiting expertise in B2C and positions it as one of the only companies globally to offer end-to-end counterfeit protection solutions. We have incorporated nTouch into our forecasts and included some recent contract wins. This has resulted in both an upgrade to our CY15e and CY16e forecasts and an increase in our DCF valuation to A\$0.50/share from A\$0.37/share previously.

Year end	Revenue (A\$m)	PBT* (A\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/14	0.1	(2.3)	(2.2)	0.0	N/A	N/A
12/15e	3.3	(3.3)	(3.2)	0.0	N/A	N/A
12/16e	8.5	(1.1)	(1.7)	0.0	N/A	N/A
12/17e	22.2	4.8	2.4	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

nTouch acquisition

YPB has now completed its acquisition of proximity marketing company nTouch, which closes the circle on the company's ambitions to provide an end-to-end counterfeit protection solution. nTouch delivers smartphone software that uses proximity marketing to gather and develop big data, having developed a platform that can be used with most proximity marketing technologies. The acquisition extends YPB's reach into the B2C market and complements its Brand Reporter platform. We have incorporated nTouch into our forecasts, which show it contributing ~30% to the group's gross profit by CY17e. It has lifted our DCF valuation by A\$0.10/share.

Additional contracts and proposed capital raise

Since our July 2015 [initiation report](#), the company has secured several additional contracts for its tracers and scanners, including contracts from two national Chinese banks and a Chinese salt packaging company. As a consequence, we have incorporated these contracts into our forecasts, which have lifted our valuation by A\$0.03/share. YPB has announced it will hold a general meeting of shareholders on 10 December to ratify the share issues it has made in acquiring nTouch and Continuous Forms Control, and in employing its new COO and CMO. YPB will also seek approval to issue up to 10m new shares to raise new capital.

Valuation: Upgraded to A\$0.50/share

Our DCF valuation has been upgraded to A\$0.50/share from A\$0.37/share previously after incorporating the nTouch acquisition, making some minor adjustments following the company's interim results and incorporating two additional ink contracts into our forecasts. The nTouch acquisition has had the greatest impact on the valuation uplift. While we continue to see CY15e and CY16e as company-building years, we anticipate that the net losses will be smaller than previously forecast.

12 November 2015

Price **A\$0.36**
Market cap **A\$50m**

Net cash (A\$m) at 30 September 2015	2.4
Shares in issue	137.6m
Free float	27%
Code	YPB
Primary exchange	ASX
Secondary exchange	N/A

Share price performance



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 event

FY15 results February 2016

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Acquisition update

nTouch delivers proximity marketing

YPB has acquired privately-held proximity marketing company nTouch for A\$4.5m in an all-scrip purchase priced at \$0.35/share; the transaction completed on 30 October. nTouch unifies multiple proximity marketing technologies including Beacons, QR codes, NFC (near field communication) and image recognition into a single platform from which its clients create and deploy proximity marketing campaigns to smartphone devices.

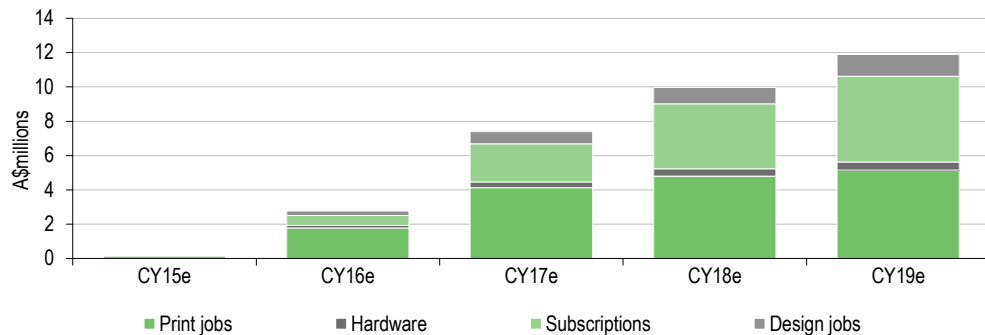
YPB plans to integrate its existing B2C platform, Brand Reporter, with nTouch to provide improved consumer engagement, protection and data analytics for Brand companies. There are also immediate potential applications in products using nTouch's proximity marketing technology for YPB's patented anti-counterfeit tracer and scanner.

nTouch generates its revenues from hardware integration, content creation and management and analytics. Over time, most of its revenues will be derived from subscription revenues as it sells access to its data analytics to customers. It also derives revenue from hardware sales, such as beacons and apps, and from sales of both digital and offset printing services and its design services.

Given the early-stage of the business, we have chosen to apply a ~50% discount to nTouch's revenue and earnings forecasts. While the company has strong sales backing from key shareholders, printing group Selby and former Australian cricket captain Steve Waugh (now YPB shareholders), its business model is still in trial mode and has not been fully tested.

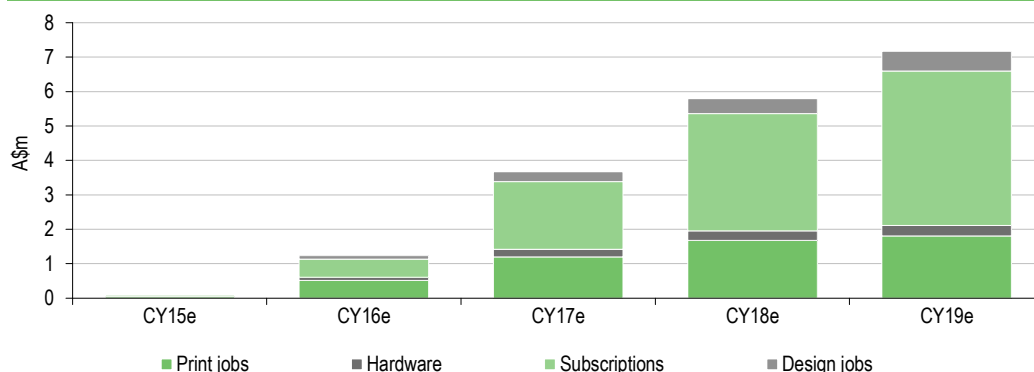
Even so, as Exhibit 1 highlights, the revenue growth across all divisions is expected to be strong over the next five years with print jobs and subscriptions the key drivers.

Exhibit 1: nTouch revenue forecasts



Source: Edison Investment Research

Similarly, gross profit is forecast to increase markedly from CY17e, with print and subscriptions the key drivers, as Exhibit 2 demonstrates.

Exhibit 2: nTouch gross profit forecasts by division


Source: Edison Investment Research

We are forecasting nTouch to generate gross profit margins of 60% by FY19e (compared with company's forecasts for ~75%). As Exhibit 3 shows, gross profit margin is forecast to rise from 45% in CY15e to 60% in CY19e.

Exhibit 3: nTouch forecasts (included in our model)

(A\$m)	2015e	2016e	2017e	2018e	2019e
Revenue	0.07	2.76	7.39	9.97	11.88
COGS	0.04	1.53	3.72	4.17	4.71
Gross profit	0.03	1.24	3.67	5.80	7.17
Gross profit margin (%)	45	45	50	58	60

Source: Edison Investment Research

Capital raising

YPB has announced it will seek shareholder approval at a general meeting on 10 December to issue an additional 10m shares to raise capital. Shareholders will also be asked to ratify the shares issued by the company to acquire nTouch (12.857m shares) and Continuous Forms Control (1.095m shares), and shares issued to two new executives, COO Jens Michel (0.4m) and CMO Richard Raju (0.4m) as part of their employment package.

We have not factored the capital raise into our forecasts but note that it is likely to support additional acquisitions and help manage the company's capital requirements until it becomes cash generative in CY17e.

H115 results

YPB delivered better than forecast interim results in late August. We had forecast an operating loss of A\$2.51m but the company delivered an operating loss of A\$2.37m. This better than anticipated result has flowed through to our FY15e upgrade.

Exhibit 4: YPB H115 vs Edison forecasts

(A\$m)	H115e	H115
Revenue	0.09	0.78
EBITDA	(1.95)	(1.84)
PBT	(2.51)	(2.37)
NPAT	(2.51)	(2.37)
EPS	(0.02)	(0.02)

Source: Company data, Edison Investment Research

Earnings adjustments

We have updated our forecasts for the nTouch acquisition, the recent interim results and two additional printing contracts in China. As a consequence, we are now forecasting reduced losses in CY15e and CY16e, as Exhibit 5 demonstrates.

Exhibit 5: Earnings adjustments									
	EPS (c)			PBT (A\$m)			EBITDA (A\$m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2015e	(3.4)	(3.2)	6.3	(2.8)	(3.3)	(15.2)	(2.8)	(2.7)	3.6
2016e	(2.0)	(1.7)	15.0	(1.3)	(1.1)	14.0	(1.3)	(1.1)	14.1

Source: Edison Investment Research

Valuation: Increased to A\$0.50/share

We use the DCF methodology to value YPB Group and incorporate a WACC of 13% and terminal growth rate of 2%. Our DCF valuation has increased to A\$0.50 per share from A\$0.37 previously after incorporating nTouch and the additional Chinese contracts into our forecasts. Following the nTouch acquisition, fully funded by scrip, YPB's shares in issue increased by 12.9m to 137.6m. Our forecasts include an assumption that 40.1m options will be exercised at A\$0.20 per option on the expiry date of 31 October 2017, raising A\$8m and increasing shares in issue to 177.6m.

Exhibit 6: Valuation summary	
Valuation	
WACC	13%
Beta	1.5
Terminal Growth Rate	2%
Terminal Value Capitalisation Rate	31.0
Present value of cash flows	68.1
Net cash at 31 December 2015	0.5
Net value for shareholders	68.6
Number of shares on issue	137.6
Net Value Per Share	\$0.50

Source: Edison Investment Research

Exhibit 7: Financial summary

	A\$000s	2014	2015e	2016e	2017e	2018e
31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		85	3,335	8,464	22,207	31,889
Cost of Sales		0	(1,204)	(3,775)	(9,997)	(12,504)
Gross Profit		85	2,131	4,689	12,209	19,385
EBITDA		(1,889)	(2,728)	(1,091)	4,882	10,920
Operating Profit (before amort. and except.)		(2,204)	(3,156)	(1,118)	4,820	10,826
Intangible Amortisation		0	(688)	(1,255)	(1,109)	(980)
Exceptionals		(2,206)	0	0	0	0
Other		0	0	0	0	0
Operating Profit		(4,410)	(3,844)	(2,373)	3,711	9,846
Net Interest		(68)	(98)	0	0	0
Profit Before Tax (norm)		(2,272)	(3,254)	(1,118)	4,820	10,826
Profit Before Tax (FRS 3)		(4,478)	(3,942)	(2,373)	3,711	9,846
Tax		0	0	0	0	0
Profit After Tax (norm)		(2,272)	(3,942)	(2,373)	3,711	9,846
Profit After Tax (FRS 3)		(4,478)	(3,942)	(2,373)	3,711	9,846
Average Number of Shares Outstanding (m)		103.9	129.1	137.6	177.7	177.7
EPS - normalised (c)		(2.2)	(3.2)	(1.7)	2.4	5.5
EPS - normalised and fully diluted (c)		(2.2)	(3.2)	(1.7)	2.4	5.5
EPS - (IFRS) (c)		(4.3)	(3.1)	(1.7)	2.1	5.5
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		100.0	63.9	55.4	55.0	60.8
EBITDA Margin (%)		-2222.4	-81.8	-12.9	22.0	34.2
Operating Margin (before GW and except.) (%)		-2592.9	-94.6	-13.2	21.7	33.9
BALANCE SHEET						
Fixed Assets		11,122	16,323	15,745	15,305	15,008
Intangible Assets		11,096	15,934	14,678	13,569	12,589
Tangible Assets		26	390	1,066	1,736	2,418
Investments		0	0	0	0	0
Current Assets		2,715	4,166	3,406	18,342	30,437
Stocks		136	173	273	525	636
Debtors		174	560	1,422	3,732	5,359
Cash		2,405	3,433	1,711	14,085	24,442
Other		0	0	0	0	0
Current Liabilities		(364)	(673)	(1,707)	(4,478)	(6,431)
Creditors		(364)	(673)	(1,707)	(4,478)	(6,431)
Short term borrowings		0	0	0	0	0
Long Term Liabilities		(2,748)	(2,918)	(2,918)	(2,918)	(2,918)
Long term borrowings		(2,748)	(2,918)	(2,918)	(2,918)	(2,918)
Other long term liabilities		0	0	0	0	0
Net Assets		10,725	16,899	14,526	26,251	36,096
CASH FLOW						
Operating Cash Flow		(2,075)	(2,962)	(1,018)	5,092	11,134
Net Interest		10	18	0	0	0
Tax		0	0	0	0	0
Capex		(161)	(372)	(704)	(731)	(777)
Acquisitions/disposals		0	(4,735)	0	0	0
Financing		4,900	9,184	0	8,014	0
Dividends		0	0	0	0	0
Net Cash Flow		2,674	1,134	(1,722)	12,375	10,357
Opening net debt/(cash)		3,017	343	(515)	1,207	(11,167)
HP finance leases initiated		0	0	0	0	0
Other		0	(276)	0	0	0
Closing net debt/(cash)		343	(515)	1,207	(11,167)	(21,524)

Source: Company data, Edison Investment Research

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