

YPB Group

Detecting and protecting its future

Initiation of coverage

Tech hardware and equipment

15 July 2015

Price **A\$0.25**

Market cap **A\$31m**

A\$/US\$0.78/RNB4.82/£0.495

Cash (A\$m) at 31 March 2015 4.3

Shares in issue 124.7m*
*of which 74.4m in escrow

Free float 27%

Code YPB

Primary exchange ASX

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (9.3) (18.3) (97.5)

Rel (local) (9.4) (13.1) (97.5)

52-week high/low 9.6 0.15

Business description

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

Next events

Interim results 28 August 2015

Analysts

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YPB Group (YPB) is in the early stages of commercialising its patented, non-destructible, anti-counterfeiting technology used for brand protection and product authentication. YPB raised A\$3.7m at IPO (A\$0.20 per share) and a further A\$6.3m (A\$0.30 per share) by way of placements. The company has three contracts expected to generate total revenue of CN¥318m (A\$66m) over four and a half years. Our DCF valuation of A\$0.37 per share assumes that the current contracts are rolled over. Further value should be created through contract wins (A\$0.08 per share for every \$10m of additional revenue) and profitable growth in operations.

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	2.6	(2.8)	(3.4)	0.0	N/A	N/A
12/16e	5.6	(1.3)	(2.0)	0.0	N/A	N/A
12/17e	14.6	3.0	1.4	0.0	17.9	N/A

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

Tapping into anti-counterfeiting demand

YPB has developed a three-pronged strategy designed to offer a beginning-to-end solution to brands and governments combating counterfeiting. YPB has leveraged off its certified business status in China to secure key contracts for its patented, invisible, non-destructible tracer and scanner technology. It is poised to develop its Brand Reporter technology platform which identifies, tracks and reports counterfeit products within supply chains and at point of sale. It will also seek to utilise the expertise in its two recently acquired businesses – security consulting and print management – to sell corporates and governments the whole anti-counterfeit process from embedded tracer to its smartphone solution for counterfeit detection.

Early-stage, but defined strategy

YPB is in the early stages of developing its business strategy. It has successfully secured an estimated A\$26m in revenues over the four- and five-year terms of two of its contracts. YPB has also secured a three-year contract for its tracer and scanners with the Guangdong National Tax Bureau for the bureau's printed tax receipts, which is forecast to deliver another A\$40m in revenues. Our forecasts only include these contracts and an assumption that they roll over. Brand Reporter and the print integration business offer potential upside to earnings and valuation.

Valuation: Additional upside in business roll-out

A further capital raise of ~A\$10m will fund cash requirements in FY15 and FY16. This may overhang YPB's share price near term, but should assist in stock liquidity by expanding the current ~25% free float. Our DCF valuation of A\$0.37 per share is underpinned by secured contracts (A\$0.22 per share) and contract renewals (A\$0.15 per share). Upside is expected from new contracts (A\$0.08/share for every A\$10m of additional revenue) and profitable operations.

Investment summary

Company description: Ready for anti-counterfeit demand

YPB is an Australia-based company, which provides solutions in brand authentication and counterfeit detection. The company has operations in Sydney, Beijing, Indonesia, Thailand and California and plans to enter the US market using newly acquired Brand Reporter as the lead product. YPB owns two Chinese patents for covert forensic tracers, which can be added to packaging and products before, during and after the manufacturing process, effectively becoming part of the DNA of a product and/or its packaging. The patents, which have 15 and 17 years to run respectively, were developed by the Dalian Maritime University in Liaoning, China, and acquired by YPB. An integral part of YPB's offering is the scanner technology it has developed, which decodes the presence of its tracers using fluorescent-like technology. As shown in Exhibit 1, the tracer, which is derived from rare earths and manufactured to a particle size of airborne microns, is embedded in the product, effectively becoming part of the DNA of a product and/or its packaging. YPB's scanners detect the unique signature of the tracer and emit a response to the material.

Valuation: Base case valuation, upside in strategy execution

Our DCF valuation of A\$0.37 per share is based on YPB executing its current contracts and an expectation, on our part, that these contracts roll over at conclusion. We have not assumed any income from or costs associated with YPB's Brand Reporter platform, its security consulting or its print integration businesses, as they have not secured meaningful revenue streams at this point. In our view, this represents upside potential in the valuation and earnings profile of the company. Near term, the share price is likely to suffer an overhang from the prospect of dilution from an equity capital raise. There is also the longer-term prospect of dilution from ~40m in stock options exercisable by 31 October 2017 at A\$0.20 per share.

Financials: 2015 and 2016 are company-building years

The remainder of 2015e and 2016e are expected to be company-building years, with YPB unlikely to produce operating profits until 2017 under its current contracts. Management is confident that it will quickly build revenues from its recently acquired businesses in security consulting, print management and detection platform to enhance earnings over the next 12 to 18 months. We have excluded such earnings enhancements and any associated costs from our forecasts.

Sensitivities: Gaining more contracts adds to valuation

There is upside to our forecasts and DCF valuation if:

- YPB secures additional contracts for its tracers and scanners with either packaging suppliers or Chinese government authorities and with markets outside China;
- YPB commercialises its new-generation scanners for the B2C market;
- Brand Reporter develops a significant presence with corporates and, ultimately, consumers in the detection, tracking and validation of counterfeit products using both a smartphone application and scanner attachment for smartphones; and
- YPB successfully completes its acquisition of US print management company Continuous Forms Control and develops a presence for its tracer product and scanners in label printing.

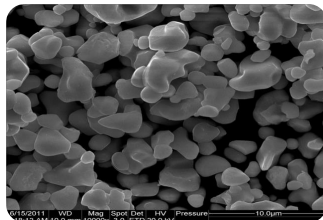
The downside risk in the forecasts is that YPB fails to roll over its existing contracts and that its invisible tracer technology is easily replicated or superseded by a superior technology.

Company description: Ready for anti-counterfeit demand

YPB Group (YPB) listed on the ASX in August 2014 via a reverse takeover of AUV Enterprises (AUV:ASX), raising A\$3.7m, and subsequently raising another A\$6.3m. AUV listed as a sapphire exploration and mining company and was released from administration in August 2013, free of contingent debts. YPB has acquired two Chinese patents for covert forensic tracers, which can be added to both packaging and products before, during and after the manufacturing process to authenticate brands and deter counterfeiters. An integral part of YPB's product is its patented scanner technology, which detects and decodes the tracers inherent in the product. The scanners are used to authenticate products in the supply chain. The company has also developed a smartphone application, on which it has a patent pending, designed to interact with the consumer market and let customers compile actionable data about when and where products are being counterfeited. YPB has validated its business strategy by securing three key contracts in China for the provision of its invisible tracer products and scanners, which we estimate will generate A\$66m in revenues over the next 4.5 years. The company is currently in the unique position of being the only company with Chinese government-certified status to supply invisible tracers for anti-counterfeiting and authentication. While this position is not guaranteed long term, it should give YPB a two- to three-year window to establish its market presence in the Chinese anti-counterfeit products market, one of the largest in the world with US\$80bn spent annually. YPB has also brought together a strong board and management team with several years' experience of operating in China and in start-up operations. This should assist it in developing its market presence.

Exhibit 1: YPB's patented technology

- YPB Particle size 2-5 microns



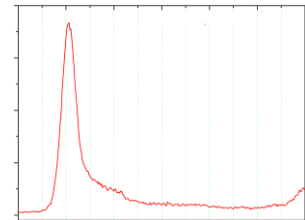
Particles embedded in products

- YPB scanner on product logo



YPB scanner excites the tracer

- YPB Scanner reads the unique signature



When you excite the material, it will emit a unique response

Source: YPB Group

Differentiated product

YPB claims four key points of differentiation for its product over competing technologies:

- YPB's covert forensic tracer is introduced into the product seamlessly at the production stage via a master batch. It is invisible and becomes part of the product, it cannot be removed and is indestructible to 920 degrees Celsius.
- The tracer is priced at a tenth of a US cent per application versus 2-3 cents for competitors, or around 10c for radio frequency identification.
- The tracer is introduced from less than 1% concentration per product versus 3-5% for some competitors.
- YPB's tracer is detectable by the YPB scanner and is forensically secure.

YPB has also developed smartphone technology, on which it has a patent pending, designed to enable customers to compile actionable data about when and where products are being counterfeited. This will assist in the development of its Brand Reporter technology platform, which identifies, tracks and reports counterfeit products in supply chains and at point of sale. YPB will also seek to use the expertise in its two recently acquired businesses – security consulting and print management – to sell corporates and governments the whole anti-counterfeit process from embedded tracer to its smartphone solution for counterfeit detection. The development of these businesses represents upside to our forecasts and A\$0.37 per share valuation. The early-stage nature of these businesses makes quantification of possible earnings problematical.

Certification in China an advantage

YPB is in the unique position of being the only western company in a group of 15 that are certified to sell tracers in China. It is also the only company, western or Chinese, licenced to sell invisible tracers. The licensing process takes two to three years. It has leveraged off this position to secure three key contracts in China to embed its tracers in bottle caps, ink used in tobacco packaging and ink used in preparing government tax receipts. Exhibit 2 highlights the company's certifications for technology in China, Europe and the US.

Exhibit 2: YPB's patents and certifications

China Invention Patents – "Formulation and manufacturing techniques of YPB's covert forensic tracers" Ref. # ZL200810013235.9 and ZL201010288487.X.

Pending Patent – "Smartphone Application" Ref. # 201310109929.3.

Multicomponent Taggant Fibers and Method, publication date 11 March 2010

Approved & Registered Supplier of Anti-Counterfeit Materials by China Government – Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)/Clinical Trials Advisory and Awards Committee (CTAAC).

Approved & Certified Production Licence for Anti-counterfeiting Products by China Government– AQSIQ.

CQC Product Certification – Electronic Safety & Quality, Tested & Certified by China Quality Certification Centre.

CE – European & Global Standard – Electronic Safety & Component Quality, Tested & Certified by Société Générale de Surveillance (SGS).

Sino FDA – Food Contact Products, Tested & Certified by China National Food Safety & Quality Inspection Centre.

US FDA 21 CFR 177.1520 – Food Contact Products, Tested & Certified by SGS.

EU Commission Regulation No 10/2011 - Food Contact Products, Tested & Certified by SGS.

Source: Company data

Outsourced supply and production, high-touch end-customer

YPB has taken a sales approach to its business strategy, focusing on building relationships with the end-users of its technology, predominantly the suppliers of materials for packaging and producing brands. As a consequence, the company outsources the supply for the rare earths that form the base compound for its tracers, and has the tracer material and the scanners manufactured by contracted third parties. Exhibit 3 details the production flow of both the tracer and scanners and YPB's margins on both.

Exhibit 3: Tracer and scanner production flow and cost

Raw rare earth = ~RMB200 p/kg

•Leveraging off inventor's 15 yr relationship with supplier

Processed cost of tracer to YPB = RMB800p/kg

•Manufacturing process outsourced
•Scanner design and production also outsourced @ a cost of ~US\$50 per unit for first generation unit

Selling price of tracer ranges from RMB1200 p/kg - RMB2500 p/kg; First generation scanners sold for US\$100 each

•Contracts with HiCap, Shensaier & Guangdong National Tax Bureau

Source: Company data

Since its IPO in August 2014, the company has focused on commercialising the patents it acquired from Dalian Maritime University. In January, 2015, YPB announced that it had forged key contracts with HiCap Closures, one of China's largest bottle closure manufacturers for the alcohol, pharmaceutical and food industries, and with Shenzhen Shensaier, a leading supplier of high-end UV printing ink and paints to the Chinese tobacco industry. Shensaier generates an estimated US\$350m a year from the supply of its ink to the tobacco industry, while HiCap supplies more than 2bn closures pa to the alcohol, pharmaceutical and food sectors. These exclusive arrangements are expected to generate A\$10m from HiCap and A\$16m from Shensaier over the respective four- and five-year terms of the contracts. YPB has also secured a three-year contract to supply its tracer material and scanners to Guangzhou Renmin Printing for the protection of tax invoices (fapiaos) for Guangdong National Tax Bureau. The contract initially will see 14 million receipts printed in the first year of the contract, but we estimate that this could rise to as many as 500m a year beyond the first year. The total estimated revenue from this contract is A\$40m.

Board and management

YPB has brought together a board and management team with extensive experience in operating in China and the US, particularly in the anti-counterfeit and anti-fraud markets. We view this as one of the company's real strengths in deploying its business strategy. The four-person board comprises two executive and two non-executive directors. Executive chairman and CEO John Houston brings more than 20 years of international business experience in Australia, New Zealand, Singapore, Sri Lanka, Switzerland and Thailand. Before founding YPB, Mr Houston's career was predominantly in telecommunications, where he was president, and later CEO of DOCOMO interTouch and COO of Orange SA/AG. He owns 48.4% of the company. YPB's other directors are:

- Dr Geoffrey Raby (non-executive director), who was the Australian Ambassador to China from 2007 to 2011, and deputy secretary to the Department of Foreign Affairs and Trade from 2002 to 2006. He is chairman of SmartTrans Holdings and a non-executive director of Fortescue Metals, OceanaGold, iSentia Group, and Yancoal Australia.
- George (Su) Su (non-executive director) represents CITIC in Australia and is a non-executive director of Oriental Technologies Investment (OTI:ASX).
- Ronald Langley (non-executive director) currently a director of Mercantile Investment Company Ltd and formerly the Executive Chairman of US giant PICO Holdings Inc and a director of Guinness Peat Group Plc (now Coat Group Plc).

- Robert Whitton is YPB's executive director, CFO and company secretary. He is a chartered accountant and head of business recovery at William Buck.

The senior management team includes:

- Wesley Wang (General Manager China who brings 20 years' experience in technology businesses including Nortel Networks; and
- Tim Merchant (CTO), who brings 35 years' experience in the security industry.

Acquisitions extend capabilities and reach

YPB has made three strategic investments that will enable it to extend its offering and reach beyond China (see Exhibit 4). In September 2014, YPB acquired Brand Reporter, a California-based counterfeit detection platform developed by technology incubator Curious Minds for a mix of cash and shares valued at just under A\$520,000. Brand Reporter, together with YPB's smartphone application, will allow the company to offer detection and collection of actionable data through mobile devices as a complementary service to YPB's tracers and scanners. US corporates are currently charged a monthly licence fee of US\$3-5,000 for Brand Reporter. We have not factored in any revenues or earnings for this business. In May, 2015, YPB acquired International Product Protection Group, a security consultancy based in Thailand but with clients in the US and Singapore, for cash and shares valued at US\$500,000 or just over A\$650,000. The transaction was priced at 1x annual revenues and brought in the services of Tim Merchant, who has extensive experience in the US security documentation industry. This acquisition, together with the soon to be finalised acquisition of Continuous Forms Control, a print management business with many years' experience in printing security documentation, allows YPB to target the security identification markets in both the US and elsewhere. Again, our forecasts and valuation include nothing from these potential new revenue sources.

Exhibit 4: Deal flow

Date completed	Business	Jurisdiction	Acquired from	Cash	Shares issued	Total transaction value (US\$)	Total transaction value (A\$)
8-Sep-14	Brand Reporter	US	LA-based incubator Curious Minds	US\$125,000	1,752,055	483,393	519,890
7-May-15	Intellectual Product Protection Group	Thailand, US, Singapore	Tim Merchant, founder and others	US\$200,000	900,901	500,000	653,108
TBA	Continuous Forms Control	US	Ralph Davis, founder and others	TBA	TBA	TBA	TBA

Source: Company data

Industry overview: The cost of counterfeit

The International Chamber of Commerce (ICC) estimates that the global cost of counterfeit trade will reach US\$1.7tn in CY15. According to the World Customs Organisation, 7% of total world trade is counterfeit, worth an estimated US\$600bn a year. Similarly, independent online researcher Havoscope.com estimates that the value of the global counterfeit industry by product is currently US\$641bn, with pharmaceutical accounting for almost one-third of the value (see Exhibit 5).

Exhibit 5: Value of global counterfeit industry by product

Product	US\$bn
Pharmaceuticals	200.0
Electronics	169.0
Software	63.0
Foods	49.0
Auto parts	45.0
Toys	34.0
Music	12.5
Shoes	12.0
Clothing	12.0
Cable piracy	8.5
Other	36.0
Total	641.0

Source: Havocscope.com

China has been identified by the United Nations as accounting for more than 70% of all counterfeit trade globally. This has put increasing focus on the Chinese counterfeit trade, particularly after luxury brands owner Kering launched its second lawsuit in May 2015 against China-based e-commerce giant Alibaba Group, alleging that the company and its associates “knowingly encourage, assist and profit from the sale of counterfeits on their online platforms”.

According to industry forecasters, Visiongain and MarketsandMarkets, companies and governments are spending in excess of US\$80bn a year combating the problem. The US accounts for more than half this spend, while in the second largest market, Asia, expenditure is expected to reach US\$14bn in 2015, with double-digit increases forecast annually for both these regions over the next five years.

The counterfeit solutions market is a crowded one with several multinationals: 3M, Honeywell, and Thermo Fisher Scientific offering a range of anti-counterfeiting products alongside smaller listed and private technology companies.

Competing anti-counterfeit technologies

Some of the technologies competing with YPB's invisible tracers include:

- Microdots, which provide a unique code to each asset, used predominantly as proof of ownership and protection against theft in large assets such as heavy equipment and automobiles. They tend to be for individual assets and are therefore more expensive.
- Radio Frequency Identity (RFID) tagging devices, which use radio frequency to detect microchip-embedded tags. According to the RFID Journal, UHF readers can cost US\$500-2,000, although low-frequency models can cost less than US\$100. The tags with their unique serial numbers cost around US\$0.05 each.
- UV, molecular and infrared tracers, which are used predominantly in printing and packaging to verify brand ownership and tamper proofing. These have a high luminosity under black light and high heat resistance. This technology most closely resembles YPB's tracers.
- QR codes, which are used for tracking and identifying unique assets, as well as in packaging, to authenticate and verify products.

The opportunities

YPB is in the unique position of holding Chinese certification for invisible tracers. This presents a first-mover advantage for the company in the Chinese market, particularly in the government sector where YPB's board and management have strong connections. One of the biggest near-term opportunities for the company is to extend its presence with the printers of fapiao, the tax invoices printed for each of the 31 provincial governments.

Fapiao – Chinese tax receipts

The fapiao system is used by Chinese tax authorities to calculate and collect business taxes as well as to deter tax evasion. Fapiao is the only official valid proof of expenditure accepted in China. It is crucial for company reimbursements in the case of employees who wish to obtain a rebate for their expenditure; it serves as supplementary evidence of residency for visa purposes; and for business owners it is important in managing company accounts. As indirect taxes are one of the main sources of tax income for governments in China, accounting for approximately one-third of the US\$1.8tn raised in 2013, authenticated fapiao is vital to the system's robustness. It is frequently attacked by counterfeiters and Chinese authorities are increasingly looking for ways to counter fake fapiao.

Exhibit 6: An example of fapiao



Source: whatsonxiamen.com

The main anti-forgery measures for fapiao have included visible IR ink, thermal colour ink, UV excited fluorescent security inks, invisible security codes, magnetic inks and image-coding technology. These measures are used by the 100 or so government-approved printers.

YPB has secured a three-year contract for its invisible tracers and scanners with Guangdong Guanhao, the carbonless copy paper supplier for fapiao to the Guangdong National Tax Bureau. Significantly, the tax bureau recommended the use of YPB's tracers and scanners during the tendering process. With 31 provincial governments and more than 100 printers servicing the 1.5tn pieces of fapiao printed each year, there is a sizeable market for YPB to tap into. Its main competition will come from suppliers of visible infrared ink, thermal colour ink, and UV excited fluorescent security inks, invisible security codes, magnetic inks and image-coding technology. These technologies range in price from RMB1,000/kg to RMB8,000 per kg. YPB's invisible tracer is towards the lower end of this range, costing RMB2,000/kg. YPB is targeting the fapiao printers in its bid to build a share of this market and this presents some additional revenue opportunities for the group longer term. For example, for most of the larger printers, fapiao represents only a portion of their revenues, with bank documents, insurance documents, certificates, ticketing and package printing also requiring anti-counterfeit solutions.

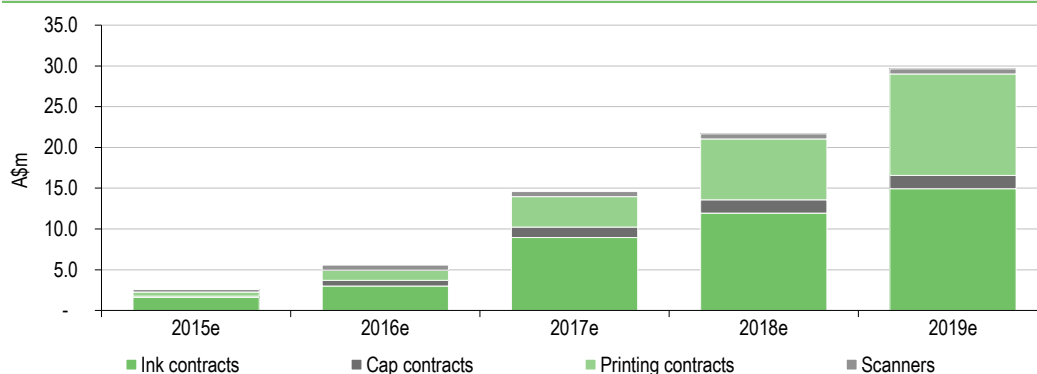
B2C opportunity

YPB's investment in Brand Reporter, together with some refinement of its smartphone scanner attachment, presents a potential B2C opportunity, not yet factored into our forecasts. YPB has redesigned its first-generation scanners to be smaller, lighter and cheaper. The newest model now costs A\$10 to manufacture, compared with the T2 scanner (the first to be commercialised) at A\$50 per unit. A mobile phone attachment is also in development. YPB makes a 50% margin on its scanners, so the opportunity to sell large volumes to corporates or to consumers via the Brand Reporter platform could generate a significant new revenue stream for the company.

High-margin business in need of volume

YPB's current contracts for its tracer product deliver high margins for the group. However, given that the tracer makes up less than 1% of the inks and closures in which it is being embedded, volumes need to be high to produce meaningful revenues for the group. Our forecasts anticipate that the contracts will deliver the volumes and revenues expected in YPB's announced contracts, with peak volumes building towards contract end. In the case of the HiCap cap closure and Shensaier ink contracts, this should emerge in FY19.

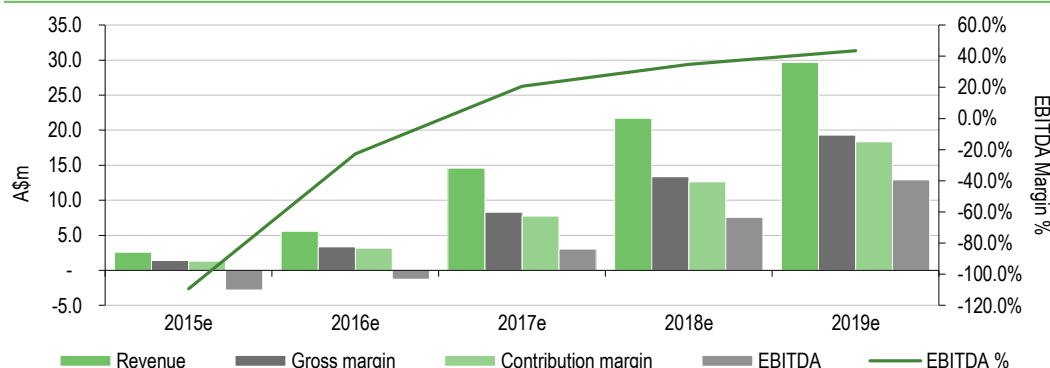
Exhibit 7: Forecast revenues by category 2015-19e



Source: Edison Investment Research

The gross margins average 60% across the three contracts, ranging from 33% for ink contracts to 95% for cap contracts. YPB's operations are forecast to generate operating profits in FY17, while we expect the blended EBITDA margin to reach just over 40% in FY19 (see Exhibit 8).

Exhibit 8: Forecast revenue, gross margin, contribution margin, EBITDA and EBITDA margin (right-hand axis) 2015-19e



Source: Edison Investment Research

Financials

Earnings: having listed on ASX in August 2014, YPB is yet to report a full year result as an operating entity. The December 2015 results will be its first annual result. We expect contract revenues to commence in the second half of CY15 and, as a result, that YPB will report a net loss of A\$4m in FY15, narrowing to loss of A\$2.5m in FY16.

Cash flow: YPB's average monthly cash burn in the first quarter of FY15 was A\$337,000, but this is expected to more than halve to A\$155,000 in FY16. We forecast that the company will generate positive cash flow in FY17.

Balance sheet: at 31 March 2015 YPB had A\$4.3m in cash. Our forecasts envisage that the company will end FY15 with net debt of A\$1.1m, providing it has not acquired more entities or raised more equity. We assume that options expiring on 31 October 2017 will be executed at A\$0.20 per option, resulting in a cash injection of A\$8m.

Sensitivities

Our sensitivity analysis is summarised in Exhibit 9. In our view, the company's main weakness at present is its size, and its main strength lies in its experienced board and management team.

Exhibit 9: SWOT analysis

Strengths	Opportunities
CEO with a track record in successful start-ups.	Land grab – early contracts are encouraging.
Board with credible connections in China.	Possibility of entering the B2C market.
Certification in China gives a first-mover advantage for 2-3 years.	Potential to tap into US government security contracts.
Two registered patents in China with 15- to 17-year life.	Potential to secure a significant position in fapiao market.
In China market, a western company has increased credibility.	Opportunity to upsell Brand Reporter to tracer clients.
Weaknesses	Threats
Outsourced R&D and production.	Competing technologies.
Execution risk as small company with global ambitions.	Financing risk.
Crowded and confused market.	Currency translation.
Small free float (~25%).	No currency hedging policies.
Pending equity raise.	Breach of patent confidentiality by staff or contractors.

Source: Edison Investment Research

Valuation

We have applied a DCF valuation to the estimated cash flows YPB is forecast to earn from its existing contracts on the basis that they are rolled over at the end of each contract. This gives us a valuation of A\$0.37 per share.

Given YPB's early stage and the near-term expectation that it will report operating losses, the discounted cash flow methodology is the most appropriate method of valuation for this company. Importantly, the forecasts do not include any estimates for revenues and earnings beyond those for which the company has been contracted.

Our valuation uses a WACC of 12.6% and a terminal growth rate of 2.0%, which appears to be conservative given China's 10-year average inflation rate of 5.6% to 2015.

Exhibit 10: DCF valuation

Valuation	
WACC	13%
Beta	1.5
Terminal growth rate	2%
Terminal value capitalisation rate	21.4
Present value of cash flows	47.0
Net debt at 31 December 2015e	0.4
Net value for shareholders	46.5
Number of shares on issue	124.7
Net value per share	\$0.37

Source: Edison Investment Research

YPB's peer group is diverse, ranging from conglomerates to privately owned companies. Of those listed, the median EBITDA margin is 17.0% and the median 12-month forward P/E ratio is 16.6x.

YPB is not forecast to deliver positive earnings until FY17. We are forecasting a forward P/E for FY17e of c 17x.

Exhibit 11: Peer comparison

Company	Country	Currency	Price	Market cap m (local)	Market cap m (US\$)	P/E (x)	EV/EBITDA (x)	EBITDA margin (%)
3M	US	US\$	155.08	98,374	98,374	19.0	11.8	28.0
Amcor	Australia	A\$	13.73	16,221	12,003	24.5	13.4	15.0
Applied DNA Sciences	US	US\$	3.17	68	68	-6.6	-	0.0
Avery Dennison	US	US\$	61.58	5,605	5,605	17.7	9.0	11.7
Catalent	US	US\$	29.20	3,629	3,629	16.2	11.3	24.3
Digimarc	US	US\$	39.61	338	338	-23.8	-35.7	-35.7
DuPont Fabros Technology	US	US\$	29.68	2,600	2,600	24.8	13.7	61.4
Essentra	UK	£	9.92	80,031	124,048	19.1	337.2	19.5
Honeywell International	US	US\$	102.38	142,510	142,510	16.3	17.4	20.5
Intel	US	US\$	30.04	36	36	13.2	-0.3	41.4
Scansource	US	US\$	37.74	1,080	1,080	13.4	8.2	3.9
Thermo Fisher Scientific	US	US\$	130.39	51,903	51,903	17.2	14.8	25.1
Thin Film Electronics	Norway	NOK	4.62	2,565	308	-0.1	-15.8	-165.3
YPB Group	Australia	A\$	0.24	30	22	-0.2	NM	-10.0
Zebra Technologies	US	US\$	111.84	5,785	5,785	18.3	13.0	17.1
Anti-counterfeit companies	Median				448,288	16.3	11.5	16.0

Source: Thomson First Call, Edison Investment Research. Note: Prices as at 7 July 2015.

Our forecasts have only assumed revenues and earnings from the contracts that YPB has already secured. We have assumed that these contracts roll over at the end of term. This underpins our DCF valuation of A\$0.37/share. If we assume that the contracts end at term, the DCF valuation falls to A\$0.22 p/share, which is just below the share price at 13 July.

A sensitivity analysis of our current forecasts from FY16 if YPB achieves a 25% increase in volume due to additional contracts results in a 34% uplift in our DCF valuation to A\$0.49 per share.

Exhibit 12: Impact on earnings forecasts from 2016e if YPB achieves a 25% increase in volume through new contracts

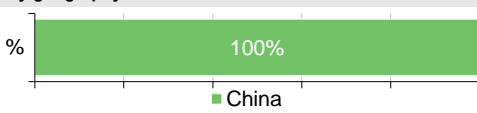
Sensitivity analysis	2016e (A\$m)	2017e (A\$m)	2018e (A\$m)	2019e (A\$m)
Current estimates				
Revenue	5.6	14.6	21.7	29.6
Gross margin	3.3	8.3	13.3	19.3
Contribution margin (Gross profit less variable cost)	3.1	7.7	12.6	18.4
EBITDA	(1.3)	3.0	7.6	12.9
NPAT	(2.5)	1.9	6.6	12.0
EPS (c/share)	(2.0)	1.4	4.0	7.3
DCF (\$/share)	0.37			
Upside case if YPB wins additional contracts in Inks and bottle caps increase volume by 25%				
Revenue	8.3	19.1	26.2	34.2
Gross margin	5.2	11.2	16.2	22.2
Contribution margin (Gross profit less variable cost)	4.9	10.5	15.3	21.1
EBITDA %	0.1	0.3	0.4	0.5
NPAT	(0.7)	4.7	9.3	14.7
EPS (c/share)	(0.5)	3.3	5.6	8.9
DCF (\$/share)	0.49			
% upside				
Revenue	48%	31%	21%	15%
Gross margin	56%	35%	22%	15%
Contribution margin (Gross profit less variable cost)	57%	35%	22%	15%
EBITDA	(105%)	-90%	(95%)	-96%
NPAT	(73%)	141%	42%	23%
EPS	(73%)	140%	42%	23%
DCF	34%			

Source: Edison Investment Research

Exhibit 13: Financial summary

31 December	A\$000s	2014	2015e	2016e	2017e
		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		85	2,578	5,575	14,570
Cost of Sales		0	(1,168)	(2,246)	(6,276)
Gross Profit		85	1,410	3,329	8,293
EBITDA		(1,889)	(2,820)	(1,270)	3,025
Operating Profit (before amort. and except.)		(2,204)	(2,824)	(1,300)	2,964
Intangible Amortisation		0	(1,187)	(1,153)	(1,019)
Exceptionals		(2,206)	0	0	0
Other		0	0	0	0
Operating Profit		(4,410)	(4,012)	(2,453)	1,945
Net Interest		(68)	0	0	0
Profit Before Tax (norm)		(2,272)	(2,824)	(1,300)	2,964
Profit Before Tax (FRS 3)		(4,478)	(4,012)	(2,453)	1,945
Tax		0	0	0	0
Profit After Tax (norm)		(2,272)	(4,012)	(2,453)	1,945
Profit After Tax (FRS 3)		(4,478)	(4,012)	(2,453)	1,945
Average Number of Shares Outstanding (m)		103.9	124.7	124.7	164.8
EPS - normalised (c)		(2.2)	(3.4)	(2.0)	1.4
EPS - normalised and fully diluted (c)		(2.2)	(3.4)	(2.0)	1.4
EPS - (IFRS) (c)		(4.3)	(3.2)	(2.0)	1.2
Dividend per share (c)		0.0	0.0	0.0	0.0
Gross Margin (%)		100.0	54.7	59.7	56.9
EBITDA Margin (%)		-2222.4	-109.4	-22.8	20.8
Operating Margin (before GW and except.) (%)		-2592.9	-109.6	-23.3	20.3
BALANCE SHEET					
Fixed Assets		11,122	11,010	10,476	10,070
Intangible Assets		11,096	10,559	9,405	8,386
Tangible Assets		26	451	1,070	1,684
Investments		0	0	0	0
Current Assets		2,715	2,274	959	13,137
Stocks		136	152	198	352
Debtors		174	433	937	2,448
Cash		2,405	1,688	(176)	10,336
Other		0	0	0	0
Current Liabilities		(364)	(520)	(1,124)	(2,938)
Creditors		(364)	(520)	(1,124)	(2,938)
Short term borrowings		0	0	0	0
Long Term Liabilities		(2,748)	(2,748)	(2,748)	(2,748)
Long term borrowings		(2,748)	(2,748)	(2,748)	(2,748)
Other long term liabilities		0	0	0	0
Net Assets		10,725	10,016	7,562	17,521
CASH FLOW					
Operating Cash Flow		(2,075)	(2,940)	(1,215)	3,173
Net Interest		10	0	0	0
Tax		0	0	0	0
Capex		(161)	(429)	(649)	(675)
Acquisitions/disposals		0	(650)	0	0
Financing		4,900	3,302	0	8,014
Dividends		0	0	0	0
Net Cash Flow		2,674	(717)	(1,864)	10,512
Opening net debt/(cash)		3,017	343	1,060	2,924
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		343	1,060	2,924	(7,588)

Source: Company accounts, Edison Investment Research

Contact details	Revenue by geography
Level 29, 66 Goulburn Street Sydney NSW 2000 Australia Phone: 61 458 701 088 Website: www.ypbsystems.com	 <p>100% China</p>
Management team	
Exec Chairman/CEO: John Houston Founder of YPB with more than 20 years' international business experience in Australia, NZ, Singapore, Sri Lanka, Switzerland and Thailand.	General Manager- China: Wesley Wong Previously with Nortel Networks, has over 20 years' experience with technology companies. A founding executive with YPB.
Exec Director/CFO: Robert Whitton A chartered accountant with more than 30 years' experience in financial analysis, strategic planning and people and risk management.	CTO: Tim Merchant Has 35 years' experience in the security industry dealing with governments and brands. Employed by the US government for 20 years.
Principal shareholders	(%)
John Houston (The BIMM Corporation)	48.4
High Altitude Investments Ltd	4.4
Perle Ventures Pty Ltd	4.1
Mr Ronald Langley & Mrs Rhonda Langley	2.7
Ms Dan Liu	2.5
George Su (Silk Road Corporate Finance)	1.9
Mr Victor Plummer	1.6
Companies named in this report	
3M (MMM:NYSE), Alibaba Group (BABA:NYSE), Amcor (AMC:ASX), Applied DNA Sciences (APDN:NASDAQ), Avery Dennison Corp (AVY:NYSE), Catalent Inc (CTLT:NASDAQ), Coats Group Plc (COA:L), Digimarc Corp (DMRC:NYSE), Dupont Fabros Technology (DFT:NYSE), Essentra (ESNT:LON), FMG:ASX), Honeywell International (HON:NYSE), Intel Corp (INTC:NASDAQ), iSentia Group (IS:ASX), Kering (KER:FP), Mercantile Investments (MVT:AX), Oceana Gold (OGC:ASX), Scansource (SCSC:NASDAQ), SmartTrans Holdings (SMA:ASX), Thermo Fisher Scientific (TMO:NYSE), Thin Film Electronics (THIN:OSLO), Yancoal Australia (YAL:ASX), Zebra Technologies (ZBRA:NASDAQ).	

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