

SE MarketWatch
HD **Anti-counterfeit play could be real McCoy**
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AUV Enterprises (suspended) THE proposed IPO of You Pin Bao — Mandarin, apparently, for “excellent **brand** protection” — has the \$US1.7 trillion (\$1.8 trillion) global counterfeiting market in its sights.

According to YPB’s prime mover, John Houston, companies spend \$US80 **billion** a year experimenting with holograms, tamper-evident closures and hot stamping (a la Australian passports).

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His philosophy is that “if you can see it, it can be copied”: anyone wanting to knock off a security hologram has the choice of 34,000 **Chinese** suppliers.

Overseen by lead manager KS Capital, YPB is seeking to raise \$3 **million**–\$6m at 20c apiece via the shell of former sapphire explorer AUV, which has been dormant since 2005. This would ascribe a market cap of \$19.5m–\$22.5m.

Houston says counterfeiters have become so clever that real and fake packaging are indistinguishable — although the contents usually give the game away.

“There are more bottles of Penfolds **sold** in **China** per year than what Penfolds makes,” he says.

YPB’s remedy is an invisible tracer called realProtection, a compote based on rare-earth ingredients and a secret formula.

The material is incorporated into the manufacturing process — be it plastics, fabric, fibre and even food — and is detectable by a scanner even in minute amounts.

Not surprisingly, YPB is targeting the **Chinese** market, which accounts for 68 per cent of global counterfeiting. As a start, it has signed up nine contract manufacturers covering sectors including food, clothing, hardware and tobacco.

YPB estimates that if its protection were applied to each of the 123 **billion** cigarette packs **sold** in **China** annually, revenue of \$146m would ensue.

In the case of a tamper-proof soy sauce cap, he says, the process would add a quarter of a cent to the 7c-per-unit production cost.

Between 200,000 and 300,000 **Chinese** die each year because of fake pharmaceuticals.

With the backing of others, Houston has spent \$10m developing the technology over four years.

Houston held numerous global roles for Hutchison and Orange. He also built up the Singapore broadband supplier Intertouch, **sold** to NTT DoCoMo for \$US70m in 2004.

The YPB **board** includes Geoff Raby, a former **China** ambassador and a director of Fortescue Metals and Macquarie **Group**.

Also on the **board** is Houston's co-investor George Su, who headed Citic Securities locally.

YPB's next step is a mobile app enabling consumers to differentiate fake barcodes from the real McCoy.

DataDot (DDT) 2.3c DESPITE YPB's real (as opposed to fake) — potential, we caution that start-up tech plays are notoriously difficult.

Take DataDot, which has patented DataDotDNA and CopDots, polymer and metallic spots that attaches to an item.

One of DataDot's target markets is **brand** protection for Australian **wine** exports, especially to **China**.

Despite being at it for years, DataDot reported a December-half loss of \$539,000 on revenue of \$3.55m.

Given our last spec **buy** on the stock at 2.2c last November was mildly fulfilling, we'll stick with it.

As for YPB, its existing revenues and management pedigree hopefully it's a case of Houston, we have lift-off.

Dick Smith Holdings (DSH) \$1.88 AFTER a deep and meaningful with Dick Smith's management, Foster Stockbroking theorises the warm weather that was such a headwind for The Reject Shop and PacBrands is a mild benefit for the private-**equity** spin-off.

That's because if consumers aren't buying clothes there's more discretionary spend for electronics retailers.

Criterion isn't quite convinced Dick Smith will be given a leg-up from sagging consumer sentiment, but we're heartened by management's efforts to boost profits rather than generate more sales for the sake of it.

"Another change has been an increase in sales staff and reduction in management," Foster says.

"Various supplier rebates are now booked at time of sales to the customer, as opposed to the time of ordering from the supplier (which occurred in the past).

"This incentivises staff to sell in contrast to amassing inventory." A month ago, Dick Smith reiterated 2013-14 pro forma sales of \$1.22bn and net earnings of \$40m.

Dick Smith shares are wallowing below their \$2.20 issue price of last December, having touched \$2.40 in January.

As a PE spin-off, the IPO was never burdened by the weight of expectations. Dick Smith is a cheaper entry to the sector relative to JB Hi-Fi (JBH, \$17.75), which also last month pointed to a healthy 8-11 per cent earnings increment, to \$126m-\$129m.

Personally, Criterion's few spare shekels are staying in the biscuit tin behind the teapot but we'll call Dick Smith a **buy** and JB Hi-Fi a long-term **buy**.

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