

ASX Announcement :

Managing Director, Andrew McLellan:
Accelerating sales receipts, growing customer base, repeat orders and strong pipeline



Bluechiip Limited
1 Dalmore Drive
Caribbean Business Park
Scoresby VIC 3179 AUSTRALIA

Open Briefing interview with MD Andrew McLellan**In this Open Briefing®, Andrew discusses:**

- Accelerating sales receipts, increasing customer base, repeat orders
- Expanded North American sales and marketing team and growing pipeline
- OEM partnerships and FujiFilm Irvine Scientific progress
- New Patent grant in US
- R&D tax refund and expectation moving forward
- How Bluechiip is now positioned versus 12-24 months ago with an exciting future

Record of interview:

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Andrew it was only in December last year that BCT launched its own product range. Today you have rising sales volumes from an expanding customer base, with an expanding number of customer sites, and with a strong pipeline. Could you tell us, how does Bluechiip look and feel to you now versus say 12 months ago?

MD

Bluechiip is in a dramatically different place than it was 12 to 24 months ago. Pre-COVID we had one major customer and were chasing very large OEM partnerships, with long timelines.

We had significant single-customer risk and did not have our own line of consumable products to sell.

We now have our own products, fully approved and registered, and we are in the market selling through our own channels with an expanded sales and marketing team.

Those products were only released in November/December 2021 and we are already seeing rising sales receipts and repeat orders. We expect our customer base to grow very significantly in the short, medium, and long-term.

We are gaining positive feedback from our customers including winning the ISBER new product award in 2021. Our website is highlighting customer testimonials that provide excellent references for new customers.

On top of our own range of products we are executing an OEM licence and development agreement with a major global brand, FujiFilm Irvine Scientific, and we continue to progress OEM opportunities with other global brands in pharmaceuticals, cell therapies and biobanking markets.

With increasing customer receipts, a strong and growing pipeline of opportunities, \$2.7m cash in bank, approximately \$1m of receivables, greater than \$2.5m of inventory, zero debt and a scaled production capacity of over 5 million chips per annum, it is an exciting time for the company.

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BCT's cash flow report and associated ASX announcement for the June 2022 year show sales continued to accelerate strongly through the year, with 58% of sales and 46% of cash receipts coming in the fourth quarter. As sales grew strongly, from a small base, your cash burn also slowed significantly to just \$40k in the June quarter. Can you tell us what is driving the growth in sales, both in terms of product and customers?

MD

The rapid growth and strong momentum in our sales is the result of three key factors.

- Firstly, the launch in December 2021 of our Bluechiip Enabled Advanced Sample Management Solution, which includes consumables, readers and software for the 300+ million samples a year in the global bio preservation market. This followed our European CE mark approval and US FDA registration and release of our full product catalogue;

- Secondly, the easing of COVID-related travel restrictions from February this year has allowed us to visit our customers' sites and present at trade shows. We have also added sales and marketing resources in North America.
- Thirdly, we continue to execute on our licence and development agreement with Fujifilm Irvine Scientific, which we signed in October 2021. The expectation is that that project will move to a long-term supply agreement in the future.

A significant contributing factor has been the excellent execution by our staff. They have enabled us to build an entire new product range, win patents and access new customers in a difficult global environment.

All of these factors have allowed us to drive sales and build an increasing revenue base with increasing customer numbers across rising numbers of customer sites. I use the term "revenue base" deliberately because we are selling consumable products into a growing base of customer sites that have our readers and software installed.

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From December 2021, when BCT launched its own range of consumables, how has the number of clients and client sites, grown? Have you received any repeat orders yet and how is the pipeline looking?

MD

After launch in November/December last year we installed into a number of customers both locally here in Australia including Crux Biolabs based in Melbourne, and a number of customers in Europe.

After January, which is typically a quiet month in Australia, during February and March we installed into several customer sites in North America, including The American Regenerative Medicine Institute (ARMI) in New Hampshire.

From the end of the March quarter with COVID travel restrictions significantly eased around the world, we were able really hit the road, especially in North America and in Europe, where we brought on new customers including OrganaBio in Florida, and a large pharmaceutical company in Europe.

We also made our first sales under our revised agreement with Labcon in June, with product to be delivered to one of their end customers.

We have received repeat orders. Bearing in mind that we only launched our product in December 2021, this is very pleasing.

This activity is reflected in the numbers across the financial year:

- September 2021 quarter, we had very limited sales, deep in COVID, and finalizing our product line.
- December 2021 quarter, revenue was around \$185-\$195k, we launched our own product range, and commenced activities with FujiFilm Irvine Scientific.
- March 2022 quarter, including the typically quiet month of January, we achieved similar revenues around \$185k-\$195k.
- And in the June quarter just completed, sales grew quite strongly with over \$500k in revenue from existing and new customers and continued FujiFilm Irvine Scientific development and license activities

That progression is really pleasing, especially given the opening up of the global market from COVID restrictions only started happened in a meaningful way across the world in February.

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With nine clients on board at the end of June 2022, spread over 10 sites, can you tell us how many additional sites these clients have and are they adding new sites?

MD

The types of customers range from smaller players to very large multinationals with multiple sites around the world. This gives us the capability to scale internally with those clients. Interestingly, our end customers are also growing, which is a positive reflection of both our customers and the broad market in which they operate.

The smaller players typically have 1 to 2 laboratories. An example is that one larger customer we are servicing has eight laboratories, of which we currently installed in just two of them, with the ability to scale organically. On the very large side we are installed in a global pharmaceutical company which is using our Bluechiip Enabled Advanced Sample Management Solution within one of its central laboratories in Europe to manage sample inventory and quality.

We have also started to see repeat orders, which our business model is predicated on. With Bluechiip Enabled software and readers installed we expect to see, and are now seeing, repeat consumables orders.

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With four sales and marketing people on board now in North America, plus your relationship with Labcon which delivered its first sales in 4Q, what is your assessment of the market opportunity in North America and how would you describe BCT's momentum there?

MD

The pipeline is strong and has built significantly in a short period of time, especially reflecting on the timeline just mentioned. After our product launch in December, we expanded our North American sales and marketing team in March and April, and they are now out in the marketplace. Our team is gaining traction and gaining confidence in our refined customer messaging, which is hitting the mark.

When you build a sales and marketing team it takes time for them to gain traction, both in executing opportunities in the pipeline and adding new opportunities. We are pleased that we are already seeing this come through in North America.

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What volume of stock does BCT have on hand and what is that made up of?

MD

We are finalizing our audited accounts now, but the stock level is over \$2.5m, including 3 million chips and a sets of readers.

We have steadily and strategically built this inventory and our manufacturing capability over the last 2 to 3 years, with the ability to manufacture 5 to 10 million chips a year.

The 3 million chips on the shelf are available to be built into our multiple Bluechiip Enabled consumable formats, including our Cryovials and Cryolabels, and into OEM configurations including the IVF marketplace for Fujifilm Irvine Scientific.

The readers on the shelf, many of which came back from Labcon in this financial year, are being reconfigured and delivered to new customers

Seeing that we have good inventory levels on the shelf also gives confidence to our customers.

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Turning now to inflationary pressures and supply chain. BCT has navigated its business well through the global supply chain challenges that emerged during the COVID pandemic. Now, with a larger customer base and global inflationary pressures, how is BCT positioned? What challenges and opportunities does inflation present for BCT?

MD

We sell a premium product, with a core differentiated technology in our Bluechiip Enabled technology, for which we charge a premium. This positions us well both in terms of supply chain and inflation.

It helps our supply-chain, because we're able to pass some of that premium back through our supply-chain, which motivates our supply-chain to deliver on our needs. We have had limited supply chain disruptions.

In terms of inflation, we are seeing price increases for products that customers currently use such as Cryovials, due to global shortages of medical-grade plastic. This reduces the differential that a customer has to pay to adopt a new technology. This provides customers with an increased incentive to adopt Bluechiip technology and gaining increase productivity, improved quality and confidence in every sample.

Put another way, as input costs, labour, materials, etc rise, then the efficiencies our products deliver are increasingly valuable.

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Looking now to BCT's large customers and OEM relationships; you continue to execute and deliver to FujiFilm Irvine Scientific under the agreement signed in October 2021; discussions and negotiations continue with a number of OEMs across a range of markets; and you also delivered product under the revised agreement with Labcon. How large a part of BCT's sales and cash receipts is this broad group of large customers today and is there an approximate timeline for conversion of these various negotiations and agreements and sales? As an example, can you remind us how the FujiFilm Irvine Scientific agreement works?

MD

Over the year, in a broad sense, the revenue mix between OEM and direct customers has been approximately fifty/fifty.

We have delivered development kits and sample product to pharmaceutical, cell therapy and biobanking OEM customers. They are all evaluating and testing our technology, and we expect a number will convert in the medium term into long-term licence, development and supply agreements.

We have also executed our licence and development agreement with Fujifilm Irvine Scientific which is an 18 to 24 months agreement. Over that time we expect to convert into a long-term supply agreement.

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A new US patent was awarded for “Device, System and Method for Temperature Limit Indication and Detection of Temperature-Sensitive Items”. What market does this address and how does this patent relate to your overall suite of patents?

MD

The new US patent (patent?) protects a core part of our technology and it's pleasing to have had that granted in the largest market in the world, the USA, following our Japanese patent mentioned in the previous quarter.

The patent is for our “over-temperature” chip which provides temperature excursion and identification once the chip, in a sample container, goes into the cold and then rises above a critical temperature. When that occurs, the chip will flag the excursion both visually and electronically. There's a very significant market opportunity adjacent to markets we are already serving, including in the food and cold chain and logistics market.

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BCT received \$1.09m in 4Q from R&D tax credits and the company continues to allocate expenditure towards R&D. What level of cash should we expect BCT to receive in the current year from R&D tax credits?

MD

While we are finalising our audited accounts and have not yet submitted our 2022 financial year claim, our expectation with our R&D spend declining slightly the flow through to expected cash receipts from R&D tax credits will drop from \$1m to around \$800k this coming year.

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4Q cash burn was just \$40k and BCT had \$2.7m of cash at year end. To what extent can we extrapolate this cash flow trend, noting that you have strong sales momentum but there is a lag between sales and cash receipts and that the September current quarter is typically slower due to the northern hemisphere summer holiday season?

MD

We received our R&D tax refund during the June quarter, significantly reducing our cash burn for the period. On an underlying basis, the cash burn over the last year was \$1m to \$1.2m per quarter, which we expect to decline in the medium term as sales grow and receipts from customers increase.

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