

ASX Announcement :

**Managing Director, Andrew McLellan:
Growing pipeline, Recurring Revenue
Growth, North American Expansion and
cash flow progression.**



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

- Customer and recurring revenues growth
- Growing opportunity pipeline
- Operating costs
- Positive customer feedback
- North American sales & marketing team expansion
- OEM's and cash flow

Record of interview:

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Good morning Andrew.

BCT's 4C report for the June quarter shows that since the December 2022 quarter BCT has doubled the number of labs it services and tripled its repeat sales, albeit from a small base. At the same time though, cash receipts for June showed less growth, +14% vs March and that was after being -73% for the March vs December quarter. Can you walk us through the lag between the rapidly growing customer base and turning that into both new sales and recurring revenue.

MD

We launched our Bluechiip Advanced Sample Management solution just over 18 months ago and have grown our customer base to 26 laboratories across 14 end users.

Very encouragingly we are now seeing growth in recurring revenues from existing customers.

There is however a lag between initial sale to recurring revenues which has caused a lumpiness in the quarterly sales. This is due to new installations purchasing readers and software, typically larger value items, prior to the repeat ordering of our consumables, additional readers and subsequent annual software licenses.

A good case study to demonstrate this lag is a global top 10 pharmaceuticals customer, the Bluechiip solution is in use in one of their labs in Europe.

We delivered our system June 2022, provided installation of software and readers and subsequent training over a three-month period and by December 2022 quarter they were familiar with our system, even embedding processes into their operating procedures. Since then they've been repeat ordering consumables every 1 to 2 months at a rate of \$5k to \$8k per month and in June we invoiced them for their annual software license. This is just one of the Pharma company's labs globally and we anticipate securing more in the short to medium term.

New York Psychiatric Institute is also a good example which has converted more rapidly to repeat ordering. We delivered our Bluechiip readers and software in March, our first batch of Bluechiip cryo-labels in June and have orders in hand for over \$100,000 cryolabels which we are targeting for delivery this quarter. In total they manage 12 labs at the Columbia University campus in New York.

As our North American team has grown especially in the June quarter, we are able to focus on "landing" new customers while at the same time "expanding" within existing customers through installation and training to enable them to more rapidly convert to repeat orders. This is coupled with a view to "expand" within these customers into their adjacent labs and facilities. We are seeing this play out especially in North America.

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Based on your existing customer base of 26 labs, the numbers you've given suggests a recurring revenue base of around A\$1.5m per annum, that is once all 26 labs are up and running. Is this a reasonable assumption?

MD

Yes, it's in the range of that \$1m to \$1.5million, once those 26 labs are up and running. Importantly, within our existing 14 accounts there is a multitude of additional labs that are direct opportunities, well over 100 labs.

We also have a very healthy pipeline with over 50 new opportunities in North America alone which have the potential to become Bluechiip customers with repeat orders. That pipeline is growing due to build out of the team in North America.

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Cash receipts from a reorder can lag that reorder by 2-3 months, so what we see in the 4C for the June 2023 quarter is not a full indication of the current level of reordering. Are repeat orders continuing to grow?

MD

Yes. It's not quite the end of July and we already have forward orders in place of over \$100k from existing customers.

This \$100k of repeat orders in hand compares to recurring revenue of \$75k for the June quarter, \$55k in the March quarter and \$27k in the December quarter. This is very pleasing as it's a strong endorsement of our business model and our product by the people who are using it.

The long-term fundamental of this business is recurring revenues from repeat ordering by customers once they've bought our system, committed to our technology and are gaining the benefits from the technology. So, whilst we are focused on converting those 50 odd labs in the pipeline and attacking the broader opportunity set of thousands of labs, the key long-term fundamental is recurring revenue of consumables and software once those customers are installed.

We launched our product in December 2021 and aside from a couple of early adopter clients we didn't really hit the ground running until Mar/April 2022 as the world's covid restrictions came off. We've built rapidly from a zero base just 18 months ago and we have leading global pharma companies, and facilities within Ivy League institutions amongst our existing customers. These are the thought leaders in the industry and they're the ones that we're starting to build off right now.

The overall underlying strategy of the business remains the same. Get these early adopters and thought leaders on board, use their feedback to improve their efficiencies and also have them as reference customers. From that we build a strong committed customer base and get that repeat revenue flowing.

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With over 50 labs in your sales pipeline, how many do you estimate are in the broader opportunity set for BCT?

MD

We have over 50 labs in our sales pipeline, and we are converting these as fast as our capacity will allow. We estimate the greater market opportunity is well into the thousands, with the highest concentration being in North America, hence our focus on growing our North American team.

One way of thinking about the growth opportunity is: firstly, there is gaining share within labs we already service, as they install our systems and progressively replace existing consumables with ours; second there are new labs at existing customers; and third there are new customers where we don't yet service any of their labs. The existing pipeline of 50 labs is a mix of the second and third of these.

The global Pharma that I mentioned earlier is a good example. It has multiple labs in different parts of the world, including Europe and North America. We are currently in just one lab in Europe.

Imagine walking onto an Ivy League University campus, think of the amount of research and the different labs that are operating and running within those facilities. The same applies in some of the pharmaceutical companies which are doing a lot of core research across multiple different labs, different facilities from geographies but also even just within each facility itself.

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Cash receipts for the June quarter grew slightly vs the March quarter (+14%) but the cash cost of operations increased faster. Staff costs (+36%) and manufacturing costs (+24%) were key drivers, which saw the cash burn for the June quarter rise to \$1,465k from \$647k in the March quarter. Previously you've said cash burn is around \$1m per quarter. Has this changed?

MD

Our cash burn increased for two reasons both of which come from our accelerating growth. Staff costs reflect expansion of the North American sales and marketing team to drive both the acquisition of new accounts and the conversion of existing accounts with new Field Product Specialists for installation of Bluechiip systems and software. Manufacturing costs also increased as we built to deliver into new orders.

Cash inflows from our growing deliveries will come with a lag of 3-4 months. The benefit of the expanded sales team in North America is already being seen in growing pipeline and increased customer numbers, new orders and conversion to repeat orders. Repeat orders are much lower touch than new orders and over time, we aim to convert existing customers to standing orders which will be very efficient to manage.

We are now well resourced to drive that conversion.

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Andrew you've referred to the software and IT system that Bluechiip installs for customers. What is this from customer perspective and what are the key benefits for both them and Bluechiip?

MD

Traditionally, our clients and potential clients have been using handwritten labels or barcodes which they attempt to read through frost. This is inefficient, error prone, and doesn't measure temperature. Our Bluechiip readers and Bluechiip Enabled consumables provide more data (sample ID and temperature), which is more accurate as you can read our chips through frost, which also enables safer, more efficient management of samples. Overlaying this, our Bluechiip Stream software enables the customer to use this higher volume of high-quality data to improve their operations.

The primary benefit that we're seeing from most of our customers is simply the management of their inventory and being able to be guided to where the samples are and automatically update their databases with the information that includes. This removes the need for manually handwriting information.

That has benefits in productivity and also in quality. Customers are saving time in not having to manually enter information while also limiting any transcription errors. It's actually quite astounding.

The second level benefits then start when labs can look back at what's happened to their samples and the data record of that and the traceability that process. It is a powerful tool for them.

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You've grown your North American sales team from 1 person two years ago to 6 today. Can you tell us how quickly this will show up in terms of pipeline conversion into new customers and conversion of those into sales receipts?

MD

We are seeing traction already. We now have capacity to keep converting the new customer pipeline and install to those we have already won.

Two years ago we had one person on the ground in North America. We now have sales reps covering: California and the west coast; Texas and the Midwest; and the Northeast, Boston, New Jersey and Washington. Management of the sales group is out of the East Coast of the US. We've added Field Product Specialists that go in and train our customers and support.

Over the last quarter, the focus has been on installing New York Psyche. It is a very important customer for us. That conversion is going well and we'll see consumables flowing into and within their labs in the next one to two quarters.

We are also progressing in Europe where we have a distributor strategy, in the last month we have partnered with distributors in Spain, France and the UK who will start to promote Bluechiip's products after the Northern summer.

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The September quarter is typically slower due to US summer holidays, e.g. you added just 1 new customer in the September quarter last year. Should we expect a similarly “flat” quarter this year or will your increased sales team and current momentum see stronger growth this year?

MD

We expect this Northern Hemisphere summer to be stronger, with the addition of new clients and new labs within the existing clients. As mentioned above, this reflects the benefit of us having a larger team.

In terms of existing customers, we also have implementations, training and ramp ups scheduled or underway with some existing customers including New York Psych.

In Europe, where our current client base is very high quality but relatively small, we are seeing a more normal summer slowdown but in North America we're not actually seeing that so much.

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The license and development agreement with FujiFilm Irvine Scientific was signed in October 2021 with the aim of a supply agreement in 24 months. Can you update us on the status of that project and negotiations?

MD

We are negotiating towards a supply agreement, which has always been the anticipated outcome of the licensing development agreement. We continue to work hand in hand with FujiFilm Irvine Scientific to deliver this. They are a strong organization with a very good presence in the market.

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Are you speaking with other OEMs and how much focus do you put on OEMs versus building that repeat customer base for your own product?

MD

While we continue to work with a number of OEM's in addition to FujiFilm, our primary focus is our direct to market opportunity, especially in North America. We know that as we expand our end customer base the interest of OEM's will increase, and this is what we are seeing from OEMs.

Labcon, a distribution partner in North America, are uncovering end customer opportunities and we are working with them on conversion to Bluechiip Enabled laboratory customers.

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Cash at the end of the quarter was \$1.7m. When and how much do you expect to receive from R&D tax incentives in the current year? How does that compare to what you received in the June 2023 year and what is your expected cash burn for the next 1 to 2 quarters?

MD

Our cash burn will remain at that \$1million plus a little, with rising customer receipts offsetting our increased cost base for sales and manufacturing. We will apply for our R&D tax refund in the coming quarter. It will be in a similar range to prior years, from \$850k-\$1m based on past spending and what we can claim. Against that we have drawn down a loan of \$650k which we will repay when we receive cash and then draw down against in anticipation of future R&D tax refunds.

So, as we grow the business base we are also tightly managing our cash.

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