# Managing Director, Andrew McLellan:


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## Open Briefing interview with MD Andrew McLellan

**In this Open Briefing®, Andrew discusses:**

- The completed share placement and current entitlement offer
- December 2023 cash report
- New clients and news labs
- 2 major new client installations
- Pipeline and sales outlook

## Record of interview:

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**Andrew, shortly after releasing its December 2023 quarter 4C report to the ASX, Bluechiip also announced a 2-stage capital raise. Can you tell us how much capital BCT is raising, why the 2-stage approach and what the cash will be used for?**

**MD**
We are raising up to $4.8m, being $0.84m via the completed placement and up to $4m via the entitlement offer.

The size of this raise and the growth outlook for the business means this may be the last time we raise capital for some time. Our confidence in the growth outlook comes from the progress we are making with our direct to market products in North America and the uptake and pipeline interest we are seeing.

So, given the above and the price we are raising at we wanted to give all shareholders the opportunity to participate at the same price as investors in the relatively small placement. The entitlement offer achieves this.

The placement, now completed, allowed us to quickly raise a small amount of money, giving us the time to run the entitlement offer. The placement was oversubscribed forcing us to scale back some investors.

The entitlement offer mailed to shareholders last week, opens on 13 February and closes on 7 March.

The funds will be used to continue our focus on Bluechiip Enabled direct-to-market products and, more specifically, our North American sales and marketing as we continue to build our customer base. Funds will also be used for working capital for our Melbourne-based operations which includes some R&D, but this is trending down. The company is now focusing on sales and marketing and we have a good inventory of chips to meet demand.

This capital-raise will help to support sales which are growing rapidly.

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**Looking at the cost base and the cash flow for the December quarter, Bluechiip's two largest costs are staff and product manufacturing, which combined represent around 75% of the cost base. For the December quarter, staff costs of $1,171k and product manufacturing costs of $370k, were relatively flat vs the September 2023 quarter. Although these costs were +18% and +45% respectively versus the December 2022 quarter this is a far slower growth rate than sales which were up 470% versus December 2022 quarter. How will you be able to keep growing sales so strongly, while holding costs flat?**

**MD**

Quite easily. First, as mentioned, we have inventory on the shelf, so that's an existing asset we can draw against to offset the cost of supplying new customers. Secondly, we have finished the build out of the sales team in North America who are now starting to really come up to speed and gain traction.

Also, we have a customer base from which we are gaining strong organic growth. We didn't have this 18 months ago. These customers provide growth simply by introducing us to their adjacent labs and other facilities and by acting as reference sites for new customers. For example, we now have as customers a small but growing share of the labs from three of the world's top 20 pharma companies. They are actively introducing us to other labs within their businesses – I'll talk about this more later. There is also a follow-the-leader mentality in our market, and what better reference than three of the world's top 20 pharma companies?

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**Can you update us on the business, over the last 6-8 weeks, I see on Bluechiip's LinkedIn page that you have been in the US and attended a major trade show in Boston?**

**MD**

The business customer base and opportunity pipeline is growing rapidly. We certainly have plenty of growth opportunities. Managing the growth is a key focus.

In February alone we are installing two major new clients which will increase our installed demand base by 30-50%. Also we presented in-house to one of the world's biggest pharmaceutical companies which is already a customer, and from that meeting we expect to win more of their many labs across multiple geographies.

The Society for Laboratory Automation and Screening (SLAS) conference in Boston is a major conferences for our customers and there were over 7,500 attendees. Bluechiip's booth generated over 50 new leads which is a significant number to add to our pipeline. We also had significant engagement with existing customers. These additional touch points are important as they build confidence in our products and Bluechiip as a company and allows them to see our products and solutions in operation.

We also had on show our new generation Bluechiip workstation with an in-built touch screen and ability to read multiple box formats of cryovials from standard 89 vial boxes to 48 vials boxes which will be formally released in coming months.

As you highlight I would draw everyone's attention to follow us on social media including LinkedIn, where we have stepped up activity recently. There you will find some images of our booth at SLAS and see the interest we generated. Sometimes we had three or more different groups at once.

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**Can you expand on these two major customer installations this month that will expand your demand base by 30-50%? How long does an installation take and when will we see the demand flow from them reflected in the sales line?**

**MD**

Once locked in, installs take 1-2 weeks, depending on the client. However, it can take several months to schedule the availability of the customer, their IT group and Bluechiip's field product specialists, so we are really pleased have these happening now.

The flow to the revenue line will be lumpy initially as they make their first orders to get the systems up and running and will then smooth over time.

We are also seeing the opportunities in adjacent labs within our latest installs. Often when we are doing the initial training and install we have multiple groups within the same company involved to learn and understand what our solution can do. This adds significantly to our internal growth opportunities.

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**You mentioned an in-house presentation to a pharma client. Can you tell us who it is, their size, the presentation you were asked to do and your expectations for growth from this client?**

**MD**

Unfortunately I can't name the customer however I can confirm that their European based lab has been using our system for the last 18 months and are very happy.

We were invited along with a small number of other companies to present to their global automation summit in which over 30 representatives from within their company were involved, from multiple geographies and facilities. We are already in discussion with a number of these labs.

The presentation went very well and our existing customer who was present was complimentary of what we are able to achieve in their (European) lab. The number of opportunities is difficult to precisely quantify however I can say there were at least five different geographic sites involved and at each site there are upwards of 3-6 lab opportunities, maybe more. In big global pharma some of the facilities are like a university campus.

We are quietly confident the presentation will accelerate the up-take of Bluechiip's solution in the existing pipeline opportunities with this customer and also add more awareness and expand the pipeline.

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**Getting back to the numbers, if we take into account the trend of rising sales, stabilising operating costs and accessing existing inventory to help meet sales, what level of cash burn should we expect over the next several quarters? When will that cash burn start to decline and turn positive? Or, looked at another way, how much more cash burn in dollar terms before we hit break-even?**

**MD**

We expect cash burn to decline consistently over the next several quarters for three key reasons: rising revenue backed by a strong sales pipeline; stable operating cost base; and an existing inventory of chips to help supply our rising sales. It's a bit early to specify how quickly we will see

the burn decline or which quarter we expect it to turn positive but we are starting to see the trend of reduced cash burn

To put some numbers around that, we expect cash expense to remain in the range of $1.2m to $1.6m per quarter which will be offset by rising cash receipts from sales. Getting to a cash break-even point will be driven by growth in sales so this is a big KPI for management.

A key point to make is that we have US$3.5 million in inventory on our balance sheet to meet sales. Our chips have to be made in relatively large batches and so we have over 3 million chips and raw materials to build our readers and cryo-labels. This equates to well over US$10m of sales.

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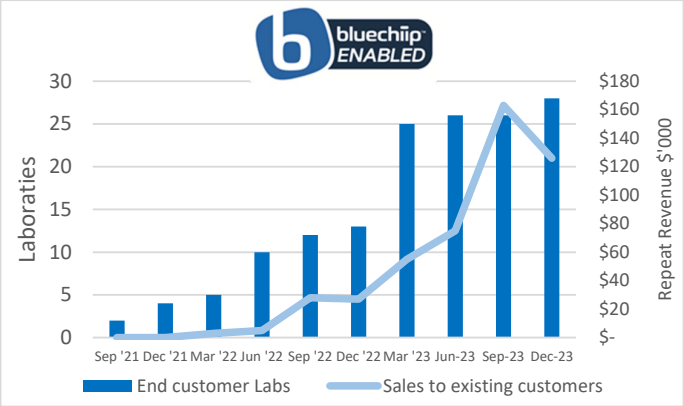
**Looking again at the cash report for December 2023 quarter, BCT recorded its second highest quarterly sales, up 4.7x on the December 2022 quarter but -23% on the September 2023 quarter. BCT also grew the number of customer labs from 26 to 28 over the quarter. Why did sales decline vs the September and does this imply for anything for the underlying sales trend?**

**MD**

The underlying sales trend as highlighted in the chart below remains very strong.

Compound sales growth, measured over the last four consecutive quarters back to December 2022, is running at 47% every quarter. On an annual basis this means the December 2023 quarter was 4.7x the size of the December 2022 quarter.




To put the September 2023 quarter sales in perspective, they were up 117% on the June 2023 quarter and 5.8x the size of the September 2022 quarter. The key reason for this above-trend growth was a large order from the New York Psychiatric Research Institute. They are now an ongoing customer and we expect repeat orders from them in the coming quarters.

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**Repeat orders for from existing customers are central to Bluechiip's business model. Tell us how your customers view your products and systems. What share of sales in the December 2023 quarter were repeat orders?**

**MD**

The majority of the revenue we received in the December quarter was repeat revenue.

That consists of consumables and new readers supplied to existing customers as they expanded their use of the Bluechiip system. Looking to the months and quarters ahead where we add new customers and new labs from existing customers, you'll see even stronger growth and the underlying trend remaining very strong.

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**Can you please give us more detail on the sales and put this into context given your outlook for stable operating costs but with an increased focus on sales and marketing?**

**MD**

The sales pipeline is maturing very strongly. It is dramatically larger than a year ago and a lot stronger even on a six-month basis.

We built our sales team out to seven in North America around the middle of last calendar year, and they are really starting to gain traction.

If you look at the timing above in terms of pipeline growth and sales team growth, what it means is we now have the capacity in our sales team to convert and install that pipeline of opportunities.

Two factors impact the growth of the pipeline. Firstly, existing customers and adjacent facilities within existing customers. Secondly, new customers that we're talking to who range in size from small, single lab operators to huge multinational pharma companies. I'll also highlight that a large proportion of top 20 global pharma companies are either clients or in discussions with us.

If we look at that first group above - existing customers - it includes the three big pharma companies that are now customers. We are supplying only a small number of their labs but they are actively introducing us to more of their labs. An example is the top-20 pharma we presented to earlier this month. We are in one of their labs now but expect to win more. They have 5 geographic locations and at least 3-6 labs at each location, so you can see the potential for growth here is large.

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**You mentioned that you have reallocated staff from R&D into manufacturing & sales, including moving an employee to the USA. Is the build out of the sales and implementation teams complete for now?**

**MD**

Yes. The build is complete and that is part of our outlook for a stable operating cost base in the coming quarters.

Our sales and marketing is focused on the two hottest regions in the world for biotech and pharma, both of which are in North America.

In California there's a large biotech base and the location of many big pharma companies, especially in cell therapies. Up in the North-East of the US, Boston through New Jersy and down past Washington, there are multiple biotech companies, a large number of big pharmaceutical companies and also many national health facilities.

As we grow in those two key regions over the next 6 to 12 months, we will consider adding resources in other parts of North America including Texas, the Midwest and Florida, but for now we are well set in terms of staff and market focus.

In terms of resource reallocation, we've scaled up a manufacturing to make more product and commensurately scaled back R&D. The net result is we have become more of a sales, marketing and manufacturing organisation.

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**Cash burn for the December 2023 quarter was $996k, down from $1.6m in the September 2023 quarter and this was despite customer receipts being down versus the September 2023 quarter. What drove the reduction in cash burn and what level of cash burn should we expect on an ongoing basis?**

**MD**

The cash burn decreased for a couple of reasons. One is that resource shift I have mentioned, where we have been tightly controlling our costs. The other part is that we received our R&D tax refund of $930k. Of this receipt, $650K was used to repay the loan facility we have for R&D tax credits, which we can draw against for future R&D tax credits. As mentioned earlier, we expect cash expenses to be in the $1.2m - $1.6m per quarter, offset by rising sales. The reduction in cash burn to breakeven will be driven by sales growth.

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**If we take into account the de-emphasis of R&D spending now, and the drawdowns that you've already made, what should we expect in terms of cash inflow over the next six months in relation to R&D tax credits, be it from the government or by using a loan facility?**

**MD**

Over the next six months, we expect a net cash inflow of $400k to $500k.

We have the facility in place where we can draw down on what we expect the R&D tax refund to be, essentially in line with previous years, i.e. $800k to $900k for the year.

We already have drawn down $450k from the facility so we expect to receive a net $350k - $450k into the business over the next six months.