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CEO on Update



Open Briefing interview with MD/CEO Andrew McLellan

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In this Open Briefing®, Andrew discusses:

- Bluechiips' inclusion in OEM partner's product at major trade show
- Pipeline of potential OEM partners
- New Intellectual Property registration

Record of interview:

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Bluechiip Limited's (ASX: BCT) Micro-Electromechanical System (MEMS) technology is on display as part of an Original Equipment Manufacturer (OEM) partner's product for the first time this week at the world's largest Assisted Reproductive Technology (ART) trade show. Can you tell us more about this trade show and your participation?

MD Andrew McLellan

Indeed, this is very exciting for Bluechiip, and a significant milestone in our OEM partner strategy. The ART market is a high potential market for us, with more than 1.8 million IVF cycles undertaken per year. Our partnership with a leading Australian ART device manufacturer and their global distribution partnership through a leading pharmaceutical company provides Bluechiip global reach into this market.

The European Society of Human Reproduction and Embryology (ESHRE) trade show is the largest in the world for assisted reproductive technologies (ART) and in-vitro fertilisation (IVF), with more than 10,000 attendees from around the world. So it's quite significant for our product to be displayed as part of our partner's technology as it gives us exposure to the global market through a major device manufacturer. Though we have participated at trade shows before, this is the first time our products have been shown as part of a key partner's technology. We are in attendance at the show in support of our partner and to explain the Bluechiip technology and the advantages it has for ART laboratories around the world.

The ART product on show has been developed over the last six months in line with the partnership agreement we executed in December 2015. The overwhelmingly positive feedback we have received from this trade show will be used to continue developing the products for full release to ART laboratories globally early next calendar year.

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How does the MEMS technology used by BCT work and what differentiates it from your competition?

MD Andrew McLellan

Bluechiip provides unique and patented technology that combines secure wireless sample tracking with integrated temperature reading for use in extreme environments. The core Bluechiip system consists of a wireless tracking/measuring chip, a reader, and associated software:

- The Micro Electro Mechanical Systems (MEMS) chip is a purely mechanical device with no powered electronics. It is different from labels, barcodes and radio-frequency identification (RFID) technology in that it performs in extreme environments, operating reliably in temperatures down to -196°C and up to 200°C. It is also resistant to gamma sterilisation and, is extremely difficult to clone or corrupt. It can be attached to any plastic for a variety of uses (e.g. in vials or consumables).
- The reader can be handheld or multi-point. It enables instant tracking of ID and temperature sensing, increasing productivity and reducing human error. It also does not require line-of-sight to read samples, e.g. can read through frost.
- The software: The easy-to-use software database has wireless connectivity and keeps a chain of custody data record for samples in one location.

When we're dealing in markets with temperature and sterilisation requirements, the Bluechiip MEMS technology is obviously ideally suited.

As for how we are different from our competition, I'd say we don't really have any direct competition. There are few technologies that work in extreme environments, and no other single technologies provide both integrated wireless temperature reading and tracking.

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This week's trade show participation follows the December 2015 announcement of Bluechiip's first OEM partnership. Can you update us on the current pipeline of opportunities and their state of progress?

MD Andrew McLellan

The ART partnership we've discussed is clearly the most progressed partnership in the pipeline. The agreement was executed in 2015, and we've now passed due diligence and are post-revenue, having received initial licensing income of \$100,000 and been paid for prototypes and the development of the technology for the trade-show products. We are now receiving regular income from this partnership, and expect this to grow as the product hits the market.

The rest of the pipeline has also grown significantly, with one fully executed supply agreement, two development agreements, and a growing number of trial agreements. We've sold over 15 development and starter kits for clients to start incorporating our technology into their products, and our pipeline is continually expanding. For example, at the beginning of 2015 we were in discussions with just two OEM partnership prospects, and now we have well over 15.

In addition to our initial IVF focus we are also targeting the protein crystallography, cell therapies and biobanking transport markets: we have executed developer agreements in these markets on the heels of ART success.

I invite you to view our recent ASX announcements, the Chairman's letter and investor presentations for specific details of recent OEM partnerships.

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What experience do you and the team have in executing an OEM strategy like this in the technology sector?

MD Andrew McLellan

Changes to the team over the last 18 months, including at the Board level, have given us a deep experience in the commercialisation of technology.

Michael Ohanessian and I joined the board at the start of 2015. We had worked together when Michael was CEO at Vision BioSystems and I was VP of Marketing and Business Development. In North America We spent almost 10 years developing and globally commercialising that company's technology, and ultimately the parent company Vision Systems was acquired by Danaher systems in 2007 for over AU\$700M due primarily to our team's efforts.

I have also spent the last five years as CEO of Advanced Manufacturing Cooperative Research Centre where I introduced Australian technology companies to viable research organisations in order to commercialise and globally market Australian technology - something I am extremely passionate about. I am also very familiar with the North American technology landscape, having managed sophisticated immunohistochemistry technology products while based in California, and have been heavily involved in extensive global technology management and distribution.

At the operational level we've got many years of technology commercialisation experience rounding out the management team, with expertise in technology and inclusion of technologies into partners' products.

We've also engaged a number of people in North America who have deep commercialisation experience and working with partners. We recently engaged Hugh Douglas out of San Francisco to support David White based in Chicago. They both have significant experience working specifically in this sector and have between them taken many organisations and products into the market.

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What are the keys to turning BCT's pipeline into revenues and what milestones should investors look for to signal ongoing success?

MD Andrew McLellan

We're already seeing the first signs of traction in the marketplace with revenue received from developer kits and license income.

Our pipeline works via stages, so investors should look for these key milestones:

1. The sale of developer or trial kits, which allow partners to trial our product in their own technology and create prototypes
2. Execution of supplier agreements
3. Demonstration of products in the marketplace
4. And finally integration into and commercialisation of OEM partner technology, which generates recurring consumables revenue.

The interesting thing about our revenue model is that, from the time our prospective clients move from discussions into trial, revenue is built into the process. Our revenue model is focused on four steps:

- First step – licence fees
- Second step – technology customisation service fees
- Third step – through sales of our core MEMS chip technology and reading systems
- Fourth step – royalty income from the inclusion of our product into partner products

So we are generating revenue all through the pipeline and development process. For example, this past month we have received revenue through:

- Sales of developer kits, including to a US consumables manufacturer as the first point of entry into their organisation;
- Licence fees at the early stages of a development agreement;
- Customisation services;
- Delivery of prototype products.

The ultimate goal is for our partners to include BCT technology in their consumable products. As they place devices and other products into the marketplace we will see sales of Bluechiip-enabled consumables. For every one of those placements revenue is being generated which will grow over time.

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How much capital do these OEM partnerships typically require in the initial phases and how long do they take to convert into ongoing sales revenues?

MD Andrew McLellan

We've got the core OEM reading technologies and volume manufactured chips in place, which we can readily configure to applications. And the time required for us to configure is getting shorter as we build efficiencies into our processes. So the capital investment that was required at the early stages to mature the Bluechiip technology is largely complete, and we are now beginning to see a return on that capital outlay.

As for how long it takes to develop a partnership from initial discussions into ongoing sales revenue, I'll use our ART partnership as an example. That relationship started in mid-2015, and an agreement was executed in December 2015. Initial revenue came in February and within months we were seeing repeat orders. The product is expected to be released very early in 2017 where we will see increasing ongoing sales revenues. So from initial discussions to product release can take around 18 months, but don't forget that we receive revenue at several milestones along the way.

And to mention the Company's position as a whole, we do still see a need for capital investment to build our pipeline, refine our core technology and protect our markets through patents over the coming 18 months; however, we believe that with the agreements we have already signed, our healthy pipeline, and our growing revenue stream, we are well on our way to being self-funding.

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Thank you Andrew.

For more information about Bluechiip, visit <http://www.bluechiip.com/> or Andrew McLellan on +61 457 823 470.

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