Managing Director, Andrew McLellan on A$15.9 million, three-year deal with Labcon.

bluechiip Tracking Solutions

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Open Briefing interview with MD Andrew McLellan

In this Open Briefing®, Andrew discusses:

- A$15.9m, three-year deal with Labcon North America
- Expectation for margins and NPAT and operating cash flow positive from this one contract
- Ramp up of production and consideration of working capital sources
- Adjacent markets beyond this Labcon order that can be addressed with Bluechiip's technology
- Progress of overall impact in the market

Record of interview:

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Andrew, this week Bluechiip announced a A$15.9m extended agreement with Labcon North America, that covers three years and includes minimum order of US$7.3m (A$9.8m) in year three. Can you remind us of the key terms of this contract?

MD
For Bluechiip this is a very exciting time and an extension to a very positive partnership with Labcon.

We've been working with Labcon for the last 18 months, initially supplying them with a developer kit as part of our normal client engagement process.

In December 2017 Bluechiip commenced supplying chips, readers and software as part of Labcon's initial $1 million order. We have now supplied them with over 290,000 chips. Over this time Labcon has ramped up manufacturing of their Coldpoint Bluechiip enabled cryogenics vials and has been demonstrating the range to their clients both directly and at trade shows.

This A$15.9m agreement is a continuation of that relationship. We're very pleased that Labcon has seen the opportunity in their end markets and has entered an agreement covering 3 years with an option to extent it another 2 years beyond that.

The agreement is based on financial years and commences immediately and includes:

- $US4.2m ($A5.8m) two-year purchase order for chips, readers, software and engineering services, expected to be $US1.1 million ($A1.5 million) in year one, and $US3.1 million ($A4.3 million) in year two.
- An additional minimum $US7.4 million ($A10.1 million) of products and services will be ordered and supplied in the third year.
- With an additional fourth and fifth year with minimums to be agreed.

Long term, people should be reminded that this is a consumables model. Labcon embeds our chips into their Coldpoint Bluechiip enabled vials, which it sells with Readers into a very large market. As the number of readers in the market grows, so too will the number of end users. Also keep in mind that this contract is for minimum volumes and we see this relationship running past the potential 5 years covered by this contract and the 2 year option.

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The contract gives Labcon a moratorium in a specific market. Can you tell us how this moratorium works and also the markets that it doesn't cover?

MD
The moratorium means that Bluechiip will not partner with other Original Equipment Manufacturer's (OEM's) to embed Bluechiip technology to compete directly against Labcon's Coldpoint Bluechiip Enabled vial range, and potentially other Labcon enabled products that they might produce.

Bluechiip is still able to sell its own products and we can also, within the terms of the agreement, sell Labcon enabled products through our own distribution channels established around the world.

It also does not limit us from working with our currently engaged OEM partners, including Genea Biomedx which is focused on the IVF market space, and Planet Innovation which is working with a number of medical device manufacturers around the world.

There are also adjacent markets and consumables including blood bags, pharmaceutical vials and cell therapies to name a few and we remain free to pursue those markets too.

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What sort of margins do you expect to make on products and services delivered under this A$15.9m agreement from Labcon?

MD
We make good commercial margins on the chips and readers we are already selling and we will continue to make good commercial margins under this A$15.9m agreement.

The exact numbers, as you will understand, are commercially sensitive. It is also important to note that we are currently engaged with multiple OEM partners and progressing opportunities to sign contracts with them as well.

As we increase our scale of operations we will also be able to bring scale efficiency into place. With this agreement covering several years it gives us the confidence to invest in our manufacturing which should deliver efficiencies and give us scope to increase margins further.

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If we look at the questions of margins and finances in terms of the bottom line, will this contract enable Bluechiip to reach profitability and be operating cash flow positive?

MD/Managing Director

Yes, that is the plan. We expect this one contract and partnership will see Bluechiip through to a point where it is a sustainable business both in terms of net profit and positive operating cash flows.

I would note that this is just one contract, a very important one to us and an important partnership, but we are also at various stages of negotiation with the other clients who have brought our developer kits.

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How big is the market served by Labcon's Coldpoint™ Bluechiip-enabled vials?

MD
Labcon's Coldpoint™ Bluechiip-enabled vials service a number of markets, one of which is the bio-perseveration market, into which over 300 million samples per year are put into short, medium or long-term very low temperature storage. At current prices this translates into approximately US$200m per annum of revenue for Bluechiip if all of those samples used Bluechiip enabled vials. So, the opportunity is very large.

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Looking at the other markets you can address, how many developer and evaluation kits do you have with potential clients who can address these markets?

MD
We have 29 developer kits with a wide range of partners and potential across a range of consumables and markets. While the moratorium does restrict access to a small number of these parties we still see substantial opportunities. We have sold kits to parties including:

- Existing OEM partners: Genea Biomedx; Planet Innovation; and of course, Labcon's original developer kit.
- Potential OEM's in adjacent markets for example in blood bags, cell therapies and pharmaceuticals to name a few.
- End customers, for example the CDC in China.

The agreement with Labcon does not preclude us from working with these parties and more importantly has the potential to enhance these opportunities. We are already seeing that the Labcon relationship is enhancing and bringing a network of origination to the Bluechiip technology.

As Labcon's Coldpoint Bluechiip-enabled vials are used by end customers in different locations we can also expect to see end customer demand pull for Bluechiip technology into these adjacent markets to increase.

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Genea Biomedx was you first OEM partner and recent press reports indicate that ownership of that company may change. How does this impact your agreement with Genea and in relation to the products that they have already developed, incorporating Bluechiip's products and IP.

MD
Genea Biomedx, which focuses on the IVF market, is our longest standing OEM partner. I just want to reiterate our Labcon agreement does not impact our Genea Biomedx agreement.

Genea has been moving slowly. Recent reports in the Australian Financial Review suggest that Genea's ownership structure is changing and approaching finalisation. We would hope and expect that this change will enable us to progress more rapidly with Genea Biomedx and their global pharmaceuticals distribution partner.

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You mention that kits have been also been provided to end customers, can you explain how this is progressing and the overall impacts in the market.

MD
We are seeing an increasing understanding of the needs for quality, which our technology allows, in the bio preservation market. Only this month the International Standard ISO 20387:2018 *Biotechnology -- Biobanking -- General requirements for biobanking* was released which specifically calls out a need for persistent tagging of samples including with printed labels, barcodes, RFID and Micro electro mechanical systems (MEMS). We expect and are seeing this change having an impact on the end market.
We already have a number of systems in the market with key opinion leaders and see this number growing in the near term across all regions including the US, Europe and APAC. The extended agreement with Labcon and the range of consumables this brings into the marketplace places Bluechiip in a very exciting position.

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Thank you.