

ASX Announcement :

Managing Director, Andrew McLellan on Bluechiip deliveries, recent trade show and market update



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Open Briefing interview with MD Andrew McLellan

In this Open Briefing®, Andrew discusses:

- Four new OEM proposals under consideration
- Growing market enquiries and successful trade shows including ISBER and SLAS
- Six months trading results, period ended 31 December 2018
- Changing revenue mix to ongoing consumables sales
- Increasing production and delivery under US\$11.9m Labcon contract

Record of interview:

1. Bluechip today reported revenues for the six months ended 31 December 2018 of \$225,082, essentially flat year on year. Can you tell us how the revenue mix is changing as you move to being a seller of consumables and how your production of chips and readers is ramping up?

Thanks very much Kevin. The headline sales numbers for this half was in line with the 6 months to December 2017.

What is different though is that the mix of products has changed dramatically and of course we have significant orders to grow into.

A large proportion of the revenue in the six months ended December 2018 was from products, with the December quarter coming 100% from sales of chips, readers, software and include the sale of developer kits to potential new partners. A considerable portion of those products went to Labcon.

Over the coming quarters our monthly sales will grow significantly, underpinned by existing orders, and the mix will continue to be dominated by product revenues.

We also have 4 new OEM proposals under consideration.

2. Your US\$11.9m (A\$15.9m) development and supply agreement with Labcon will require a very significant ramp up in production and cash sales in the coming quarters. When will we start seeing this in your reported numbers? When did you first start shipping product under this agreement?

The first shipment to Labcon under that new agreement, which is for a minimum of US\$11.9m, was in the month of December 2018.

We are almost 2 months into the March quarter now and I can say that March quarter volumes and revenues will be up on the December quarter.

Looking through the next several quarters and into calendar 2020, we have an ongoing monthly shipment and delivery schedule which will see volumes to Labcon continue to increase.

In terms of chips we are ramping and scaling our ability to produce millions of chips a year, which means hundreds of thousands per month in the not too distant future. We have the ability to scale beyond this as we win further orders from new and existing customers.

On the reader front, the multi vial reader, has now gone into full-scale production at our partner Planet Innovation and we are also transferring our handheld readers into full-scale production. The multi-vial reader is very important to us in the marketplace as it gives our end customers significant efficiencies and the ability to read up to 100 samples at a time.

3. You mentioned 4 new OEM proposals. Can you discuss those and remind us how many developer kits you have in the market, in addition to your existing 3 OEM agreements and how does the quality and rate of enquiry compare to this time last year?

We have 4 new, active proposals with potential new OEM partners. Several of these came out of the two recent trade shows. To have 4 new OEM proposals in a short period of time is very exciting and reflects the work we have been doing with developer kits and potential partners.

We have 31 developer kits in the marketplace, which are the pre-cursor to an OEM agreement. We have 3 existing OEMs agreements with the most well progressed being with Labcon.

The level of engagement with the market is increasing, helped by Labcon getting out into the marketplace with their product. The discussions we're having with potential OEMs are no longer about "does your technology work and do we have to test it ourselves?". They've very quickly moved to "how can we use your product", "how can we configure?" and "how can we package the core Bluechiip technology into our product line-up?".

I will add that our primary focus is scaling to meet the rapidly expanding orders, but we are also well positioned to be able to customize and respond quite rapidly to new potential OEMs. We do expect that over the short to medium term we will see the conversion of some of those OEM proposals into partners either with Labcon or directly.

4. Trade shows are key business development channel for Bluechiip, with the recent SLAS and ISBER conferences being important for your industry and end customers. How did this year's conferences compare to last year's both for Bluechiip and the market in general?

The conferences are very important and this year we have seen a step up in the quantity and quality of engagement from the market.

These conferences are the opportunity for us to put up our shop front. so, while we don't have a shop front on high street malls, the trade shows are our opportunities to do that.

SLAS (Society for Laboratory Automation Systems) held this year in Washington, DC is a very large meeting and a number of new potential opportunities came through the show. Over 5,500 people attend, including a variety of our target OEMs. At SLAS this year, Labcon had its Bluechiip enabled Coldpoint range on display as they continue to expand their marketing presence including launching on the product range on the web: <http://www.labcon.com/tubescryo.html#>

Bluechiip also had its own trade booth, selling to both early adopters and to OEM's.

ISBER (International Society for Biological and Environmental Repositories) in Berlin is an important European focused event. We presented our products and excitingly one of our customers from Spain presented a poster outlining the benefits of MEMS technology, with MEMS tracking technology only available from Bluechiip. They had benchmarked the productivity and the time saving benefits of the Bluechiip technology, in an end user environment, demonstrating a 49% increase in productivity and the ability of the Bluechiip technology to survive and operate in low temperatures as well as survive aggressive high temperature and pressure sterilisation processes.

The poster can be found on our website:

<https://www.bluechiip.com/bluechiip-technology-validated-in-scientific-poster-at-isber-symposium-berlin-2019/>

It was very good to have the poster highlighting the benefits of our Bluechiip technology, and it also attracted a number of end users to look at what our Bluechiip technology is about.

5. As at 31 December you had cash of \$5.6m, no debt and in January you said you expected to receive over A\$1m of R&D tax credits in the next two quarters. Have you received any of the R&D credits yet and do you still expect to receive over \$1m in the combined March and June quarters?

Last week we received \$790K of the R&D tax incentive cash refund, and we expect to receive another amount over the next quarter bringing the total to over \$1m.

In the half yearly results we have accrued an allowance for \$430K for R&D tax incentive refund, we would expect to accrue a substantially higher number in line with the expected increase in R&D activities through the next 6 months, so we expect our claim will be well over \$1M for this financial year.

6. R & D expense for the six-month ended 31 December declined by \$216k year on year while employee costs rose by \$229k. Can you tell us what drove these movements and is there any relationship between them?

There is a close relationship in the movement between the two expense items.

The additional employee cost increase is twofold. We are internalizing more of the R&D. As well as being more efficient, it enhances our ability to very quickly respond to some of our OEM requests, especially as they move towards the release of full production products into the marketplace. We have also added some additional business development capability as we see an acceleration of the engagement with potential OEMs.

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Thank you.

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