

ASX Announcement :

Managing Director, Andrew McLellan on Bluechiip deliveries, operations and opportunities for June Quarter



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Open Briefing interview with MD Andrew McLellan

In this Open Briefing®, Andrew discusses:

- Quarterly cash results for quarter ended 30 June 2019
- Growth in the installed reader base, enabling growth in use of Bluechiip technology and consumables
- Expected step up increase in cash receipts in the coming quarters and ongoing sales growth
- Additional OEM proposals received

Record of interview:

1. Bluechiip today announced another record sales quarter. Revenues were \$0.517k for the 3 months ended 30 June 2019, +90% yoy, and \$1.02m for the 12 months ended 30 June 2019, +82% yoy. What volume mix drove this and what rate of growth should we expect in the coming quarters?

Thank you. We are pleased with our results (unaudited) and especially in generating over \$0.5m of revenue in the fourth quarter, although that's still small compared to what we expect to generate in the coming years.

Looking at the sales mix, 4Q was driven by a good volume of reader sales, that's both our hand-held and our multi-vial readers, as well as chip deliveries. Just to recap our business model includes putting chip readers into customer sites which then allows them to ramp use of Bluechiip technology and Bluechiip enabled consumables. So our sales volumes are very much led by the reader base we have installed in the marketplace. With the installed base of readers growing, we are therefore positioned to keep growing chip deliveries.

2. What growth in production volumes should we expect this year?

We expect to see our chip deliveries to grow dramatically and steadily in the coming quarters and to also keep growing the number of readers we have operating in the market.

Whilst 4Q FY19 had a larger skew towards readers versus chips than we expect going forward, the mix is already shifting more strongly towards chips.

3. Can you remind us how many chips and readers you have produced in recent quarters?

We are approaching the 0.5 million mark in terms of chips delivered to our customer base and over 100 readers. Growth in the last quarter focused on reader deliveries, with over 100 readers now in the market place. When we talk about the marketplace, it is a mix between OEM partners that are doing evaluations of our readers and also a large and growing number of readers that have come off full production and been delivered to our partners in Labcon and other distribution channels. These readers flow into the market place via end customers who then start to drive consumables volumes.

4. Where is that reader base located geographically and in terms of end market??

North America accounts for over three quarters of the readers we have delivered so far. This is underpinned by the US\$11.6m deal with Labcon that we announced in August 2018.

Asia, including China and Australia, is just under 15% and includes customers such as the Chinese CDC.

In Europe we have a number of seeded sites. We also have distributors that are taking product there and an OEM presence as well.

Looking again at North America, we are seeing flow through to end customer sites, and Labcon's sales force have been armed with handheld readers so they can demonstrate Bluechiip technology to the target customers.

As well as customers adopting the technology are also seeing and papers being published that support our product.

5. Andrew, you previously mentioned research papers that are being published and are very positive towards Bluechiips products and technology. Can you tell us more about these?

Back in April we mentioned the Pulmonary Biobank Consortium in Spain published a poster showing a doubling of productivity when comparing the benefits of Bluechiip technology to the traditional written or bar coded labels.

More recently, in June, this same group presented an expanded version of that material at a global International Society for Biological and Environmental Repositories (ISBER) conference in Shanghai again highlighting the productivity benefits of our technology.

We also have a customer accepted to present at a conference towards the end of the year in North America. One of our end user customers has been testing the temperature variation of samples, which is possible using our chips and technology, as they move through the

process of being collected, stored, removed and placed back into storage. What this study shows is that Bluechip can highlight temperature variations, which is something that barcodes and RFID can't do. This then allows the laboratories to improve their consistency.

This study hasn't been formally published but watch this space later in the year.

6. Cash receipts for the 12 months ended 30 June were just \$441k which is -14% yoy and contrasts with revenues for the 12 months which were \$1.02m, +82% yoy. Can you discuss BCT's working capital and tell us when we should expect to see cash inflows accelerate?

The cash receipts are timing dependant, as you say an investment in working capital.

In this and the next quarter we expect cash inflows from two main sources. Firstly from deliveries we've already made in the March and June quarters. As mentioned earlier there is around \$700k owing from those. Secondly, is R&D tax incentives and we expect over \$1.0m cash during the first half of FY20.

Looking at the lag in Q3 and Q4 between sales and cash receipts, we accelerated our product deliveries in late 3Q and 4Q. The cash from these sales will accelerate through the September and December quarters.

8. Forecast cash expenses for the September 2019 quarter are \$1.57m and as at 30 June, the company had \$3,877k of cash and no debt. Why are forecast cash expenses in the September quarter slightly lower than the \$1.60m spent in the June quarter?

The reason for the decline is just timing. As we ramp our manufacturing we have lumpy items come through. For example, we did a large manufacturing run and built some stock. From a cash flow perspective this shows up as a cost in 4Q FY19 and expected to turn into cash inflow in the 1Q and 2Q FY20. As we continue to scale, these items will smooth out.

9. Government grants and tax incentives received in cash for the FY19 year were \$1,025k with A\$235k of that coming in the June quarter. BCT also received an additional \$187k for the final portion of its FY18 R&D Tax Incentive. Will these grants continue to grow in line with sales and are there any outstanding for the FY19 year?

We have received all of our FY18 grant, being the \$977k plus the Export Market Development Grant which come to around \$48k

We expect our FY19 R&D tax refund to be received in cash in this first half of FY20.

We will see some increase in our R&D tax incentive as we grow and continue to invest in R&D but not at the same pace as sales. Our Export Market Development grant will also increase as our marketing and business development activities increase over the next 2 years.

10. Can you tell us how you are scaling production as well as the costs of doing this and what it will mean for your unit production costs?

Let me split this into two product areas being: one, our readers, hand held and multi-vial; and two the chips that read temperature and ID. We are already making margins on both. As we scale production, costs will come down allowing us to protect and grow our margins.

Focussing on the readers, were entering full production of both our hand held and multi-vial readers. With full production of both now occurring we can lift volumes, reduce unit costs and grow our margins.

On the chip side we are taking steps that will enable us to deliver our contracted growth in volumes over the to grow volumes beyond that, while also lowering unit costs. We are also investing into duplicating and automating some of our processes so that we can deliver increasingly large volumes of chips, and by that I mean millions of chips a year. We are taking a staged approach to this. It will involve some investment in working capital and manufacturing. This will enhance our ability to grow margins further.

11. Earlier this year you were reviewing several OEM proposals. Can you update us on the status of these proposals and how many developer kits you have in the market?

We have 32 developer kits in the market which have been a key way to track market interest in Bluechiips technology and products. This was especially so in the earlier phase when we were still proving the product, getting our initial OEM relationships in place and seeing the first adoption of Bluechiip product and technology by end customers.

Now, we are seeing a shift in how some of our target partners deal with us. They are moving through the process faster, stepping through the need to see if the product works and going straight to where we put proposals in place to do development and customisation work to help the customer identify the best way for them to implement the use of Bluechiip technology.

The 4 OEM proposals we mentioned last quarter continue to progress and we have added to this number. For confidentiality reasons I can't give a more definitive number but we are definitely seeing a broader and more receptive OEM market. This includes continuing opportunities in the IVF, cell therapy and general bio-banking space amongst others.

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Thank you.

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