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Lodgement of Open Briefing

We enclose a transcript of an Open Briefing interview with Managing Director Andrew McLellan.

Yours sincerely



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ASX Announcement :

Managing Director, Andrew McLellan on Bluechiip deliveries, operations and developments in the December quarter



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Open Briefing interview with MD Andrew McLellan

In this Open Briefing®, Andrew discusses:

- Cash receipts and deliveries in the October Quarter
- Revised supply agreement with Bluechiip's suppliers and upcoming deliveries
- Net cash position and the recent capital raise
- Investment in chip, reader and software development to allow scale
- Progress of OEM partnerships

Record of interview:

1. Bluechip released its report for the December 2019 quarter today. Receipts from customers of \$272k were +176% versus the December 2018 quarter but -38% versus the September 2019 quarter. You did tell us back in October 2019 that the ramp up in sales and volumes would be lumpy for 6-12 months. Can you tell us what drove this quarter's numbers?

We are pleased with the customer receipts for the quarter. Our partnerships with Labcon and other companies are progressing.

Revenue and chip deliveries for the quarter were less than we wanted though, with volumes slipping past Christmas and into this quarter. The delays were due to logistics, i.e. shipping and customs.

In the October period we finalised an updated chip development and supply agreement with our supply chain and we now have over 1.5m chips in process. It takes 2-3 months for that to work through our processes, including testing, so that we can ship those chips to customers. This means we expect to see significant ramp-up of deliveries in the March quarter, continuing into the June quarter.

2. Looking to the March quarter, and taking into account recorded sales of just \$38k for the December quarter, should we expect a further decline in cash receipts from customers in the March 2020 quarter?

Ramp-up of manufacturing is already happening this quarter. The timing of how this translates into revenues and cash receipts for this quarter are becoming clearer as we continue to refine and establish our processes.

These timing issues as we ramp up – and note we are really just talking weeks and months –are not an issue from a cash perspective. We are well-funded given the successful capital raise we did last quarter, which means we can both fund our growth and absorb fluctuations in working capital as we do this.

3. Have the production and logistics issues been fully addressed and if so what action did you need to take?

In terms of scaling and logistics these are just timing issues. We were ramping up delivery volumes leading into the holiday period, which can be a tricky period from a logistics perspective. Our production of chips is done offshore, then the chips are brought to Melbourne where we test each one and then ship them to customers. Doing this over the holiday period and with rising volumes meant we hit some speed bumps and hence the timing issues I've mentioned.

These issues have been resolved and we are now delivering to our customers.

4. Net cash was \$10.7m at the end of December 2019, following the successful capital raise in November 2019. This appears to be more than BCT will need to fully scale and fund the working capital for your existing orders. Is this correct and if so can you remind us of the reason for the size of the last raising?

The demand for, and success of, the capital raise was pleasing.

We placed \$4.5m of stock with sophisticated investors and also had very strong participation from existing shareholders via the share purchase Plan, which raised another \$4.6m.

The cash in the bank provides us significant runway to scale into our existing orders and also make some additional investment in the business to improve efficiency and drive opportunities.

5. What will be the benefits for you from ISO 9001 certification and when do you expect to receive this?

We are targeting ISO 9001 certification over the next 6 months, ISO 9001 is essentially what the bar code and RFID suppliers, our two main competitor groups, are certified to. At the same time we are also putting in place the processes for ISO 13485, which is a higher level of stringency required for medical devices to be ready for potential customer audits in the future.

The process and framework of ISO 9001 provide Bluechiip with a solid basis around our quality control and production as we scale and also make it easier for our OEM partners if they want to audit our systems to ensure we are a strong, reliable business partner.

6. R & D expense has increased over recent quarters as you scale the business. For September 2019 quarter it was \$427k, the December 2019 quarter was \$1,028k and for the March 2020 quarter you are forecasting \$1,605k. Is this a temporary increase or is it more indicative of your ongoing expectations? How much of this do you expect to receive back in R & D Tax credits?

That step up in the December quarter was in line with our expectations as increased research and develop on our chips to enable greater quality and allow for scaling of production with our manufacturing partner. The move was vital, and our long-term view will help us establish quality enhancements and efficiencies which will translate to improved margins. We expect this higher level of R & D spend will run into the March quarter, before returning again towards the level shown in previous quarters.

We expect to receive a considerable portion of this back in R & D tax credits.

7. Part of the step up in R & D Expense was to address opportunities identified by market feedback. Can you give us some examples and tell us where you think BCT's technology stands versus existing and potential competitors?

As we get product into the marketplace, including Labcon's customers, we get end customer feedback which gives us opportunities to configure the product even more specifically to customers' needs and also identify new opportunities.

The feedback has included software features – for example guided retrieval – which allows the customer to more efficiently identify and retrieve individual samples. This improvement is done at the software level and can generate meaningful time savings and quality improvements for the clients. Remember that these clients are dealing with huge numbers of samples, which are typically high in value and in very low temperature environments, so the savings and increased accuracy we can generate for them are highly valuable to them.

We have also had a request, noted in a poster by a company called MedPace, a US based clinical research organisation, relating to the tracking of boxes and samples in those boxes to ensure they have not gone over critical temperature levels, in this case over -50°C. To address this opportunity we are now building our "Bluechiip Box Reader" product which easily plugs into our hand held readers.

In terms of our competitors in the market, we are highly differentiated. Radio Frequency ID, RFID, simply doesn't work in extreme temperatures and our box reader is a good example of where our product works and RFID cannot. Firstly, we can identify and track temperatures as boxes move through the processes in cryogenic storage. Second, we can identify individual samples and track their temperature. So the application of our product is expanding from tracking into the handling of samples.

In very low temperature environments we are still primarily competing with bar code labels which have a number of limitations, including frost clouding the label.

8. Labcon made a multi-year order in late 2018 for US\$11.3m. Can you remind us of the terms of that order and tell us where we are in the life of that contract and the relationship with Labcon?

The relationship with Labcon is going well. We are closely engaged with them as they go into their customers and present the Coldpoint, Bluechip Enabled range, as we scale alongside this. We are continually coordinating our operations and sharing feedback.

To remind you of the long term contractual agreement, they are: US\$1.1m in year 1, US\$3.1m in year two, a minimum of US\$7.1m in year three and options on years 4 and 5.

9. In addition to Labcon you had two other OEM agreements at the end of 2019 plus a significant number of developer kit clients and OEM proposals including several that were well advanced. Can you tell us the status of this pipeline?

The opportunities continue to progress well. This week we are exhibiting our technology at the Society of Laboratory and Automation Systems (SLAS) show in San Diego, which has well over 5,000 attendees. This show is important for two reasons; firstly for meeting important end users, and secondly because many of the OEM partners we are working with are also present. The show is an important meeting for us to progress those OEM opportunities.

Numerically, we have 35 developer kits in the market place now, three of which have converted into OEM agreements so far, with the remainder at various stages of development. We expect to convert some of these opportunities in the not too distant future.

Looking at near term opportunities, several of these developer kits have converted into OEM proposals with customers, including one where we have delivered product to the client and they are now testing that in the marketplace with their end customers.

While our potential OEM partners are working through their processes, we are well positioned to keep growing the business as we scale into our existing contracts and from a cash perspective, we are well funded following last quarter's successful capital raise.

Overall we are very happy with how the business is operating, funded, and the opportunities we are executing on.

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Thank you.

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