

ASX Announcement : 7 December 2017

## CEO Interview

Open Briefing interview with MD/CEO Andrew McLellan



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### In this Open Briefing<sup>®</sup>, Andrew discusses:

- \$1 million initial order from OEM partner in the United States.
- Sales outlook and pipeline for further orders through 2018 and beyond.
- Additional developer kit sales and discussions with potential new OEM partners.
- Scaling of production to meet client demand.
- New board members and shareholders.
- Product manufacturing and development pipeline.

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**1. Good morning Andrew. On 5 December 2017 Bluechiip announced an initial \$1 million order from an OEM partner based in the United States. Can you tell us what this order covers and the size of the market opportunity you're addressing with this partner? Also, when do you expect first cash receipts under this contract and your expectations for additional orders through 2018 and beyond?**

#### **MD Andrew McLellan:**

Our US based OEM partner signed a non-exclusive license and supply agreement with us in April of this year. More recently they have been establishing a range of Bluechiip-enabled consumables and as you know we announced their initial \$1 million order on 5 December 2017, which over the coming year will allow them to scale into the market. The partner will use Bluechiip-enabled consumables to address a variety of markets in Life Sciences including cryogenics, drug screening, cell therapy as well as forensics.

As highlighted in previous communications the potential market for Bluechiip's products and technology is very large. Even just in the focused niche of biobanking, with over 300m new samples placed into storage per year the revenue potential for Bluechiip, if we had 100% market share, is over US\$200m-US\$300m per annum. There is very significant room for growth in sales both with our existing partners but also potential partners we are in negotiations with in this market niche and in other market niches.

Our sales and partnership pipeline continues to grow.

Specifically: we have sold developer kits to 16 organisations, which is the pre-cursor step to OEM negotiations; we have converted 3 of these developer kit sales into OEM agreements; we remain actively engaged with all the other parties we have sold developer kits to; and we continue negotiations to convert several of our developer kit clients into OEM partners across multiple markets.

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**2. Andrew, Bluechiip's cash receipts of \$155k for the September quarter were up almost 3 times on the same quarter last year, 40% on the June 2017 quarter, and the company ended the September quarter with \$2,964k in cash and cash equivalents. Looking to the next several quarters, can you outline your revenue growth expectations and what underpins them?**

**MD Andrew McLellan:**

While we're still early stage you are correct, our cash receipts are growing at an accelerating rate now that we are entering the sales and production ramp phase.

The September 2017 quarter cash receipts were up 40% from the June 2017 quarter and nearly 3 times the same quarter last year. Over the next 3 quarters of this financial year, while we may see some timing bumps, we expect growth to accelerate underpinned by the order we announced on 5 December and other sales we are making.

Over the next twelve months we expect to see products enter the market through product launches from our OEM partners and when that happens we expect to see an increase in the number of product orders.

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**3. How does this OEM focused strategy differ from when you first arrived and can you remind us of the typical timeline from first discussion with a potential customer to ongoing OEM revenues?**

**MD Andrew McLellan:**

2 ½ years ago, the business was entering the market with our own vials and readers and at that point we only had a single point reader. We were attempting to compete in a very competitive bio-storage market which was a real challenge requiring a very significant investment to scale across the globe while also staying focused on our technological core developments.

We changed the strategy and model to utilize our core capability and differentiator, our very unique Bluechiip technology, and partner through OEM agreements to access multiple global markets with global organizations. This strategy has been successful to date in executing partnership agreements and with the recent order we are now moving to a phase where Bluechiip is enabling our partners products to differentiate themselves and at the same time benefit Bluechiip and short circuit the pathway to scale into the market.

There are 3 stages to our customer engagement process. Firstly, clients sign an NDA so they can learn more about Bluechiip's patented technology and products. Second stage is selling developer kits to customers, and to be clear we sell these at commercial prices that generate a good margin for us. The third stage is an OEM partnership agreement which then turns into product being sold into a market by that OEM partner with Bluechiip's technology embedded.

Where are we now? We have moved past counting individual NDA's as we now have well over 50 discussions ongoing, up from two just two and a half years ago. In terms of developer kits, we have sold and delivered 16 and have orders for several more. This was zero 2 years ago, so the number has grown significantly, especially in the last six to nine months. We have 3 OEM partners already and are in discussions to convert a number of our developer kit clients into OEM partners.

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Converting an NDA into a full OEM partnership takes time. The recent order has evolved from an NDA signed in mid 2016, followed by developer kit sale and subsequent Supply and Development agreement in April 2017. We are now seeing this flow into real product orders.

We also have an OEM agreement with Genea Biomedx. We moved from developer kit to a license in similar time frame in 2015/16. Execution of that project into product in the market has been a little slower. We are still anticipating products to be launched in the medium term with Genea Biomedx and their global Pharmaceutical distribution partner.

We are now well engaged with the market and are actively demonstrating at the major conferences in our major markets, US and Europe. Our focus is now on product sales as we build inventory to meet orders and finalise development of our 100-vial reader.

While it does take time to execute and develop “Bluechiip Enabled” products the markets are very large and long lasting.

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**4. How does BCT’s revenue model work in terms of both near term sales and building a recurring revenue stream? What sort of margins do you make on the sales that you’re now generating?**

**MD Andrew McLellan:**

We have a number of revenue points in the early stages of our OEM partnerships including

- The sale of developer kits prior to executing license and supply agreements and subsequently once a license and supply agreement is executed:
- Upfront and periodic license fees
- Engineering services income
- Product revenue from the sale of chips and readers either as prototypes or manufactured products
- And on launch of Bluechiip Enabled partner products with ongoing chip and reader sales

With our three OEM partnerships, we are seeing revenue in all of the above areas and expect the number of partnerships to grow in the near to medium term.

Most importantly each of those partnerships is an opportunity for Bluechiip to work with mature organisations that are servicing the global market with established products.

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**5. Now Bluechiip has entered a production and sales phase, how quickly can you scale up production and what sort of scale economies do you expect from this?**

**MD Andrew McLellan:**

This is very exciting and the team is very focused on and capable of scaling. We have supply partnerships in place and we are working on building out the full product range to meet our partner’s needs.

We see the market building over time, being driven by the end customers understanding of Bluechiip’s core technology benefits. We are well placed to meet this demand.

At present, we are achieving commercial margins on our early sales, that said there are substantial scale efficiencies that will arise as the volume, especially in chip production, increases on customer demand.

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**6. You added some significant shareholders as part of the recent rights issue and have also added 2 new directors. What do they bring to the company?**

**MD Andrew McLellan:**

It was very pleasing in the last capital raise to have some very sophisticated investors take a detailed look at BCT who have come onto the register having done due diligence on the business. That was extremely satisfying in validating where Bluechiip is.

We also had Andrew Cox and Blair Healy join which significantly strengthens the Bluechiip Board. They come with depth of experience in technology focused businesses that have been formed from start-up through to sale. Andrew Cox co-founded and built Inlink to subsequent successful sale to ASX listed oOh! Media Limited in 2015.

Blair Healy has spent the last 17 years establishing, growing and selling technology companies. He has been CEO of a number of company's including: KUSP Limited until its sale to Senetas; Innovonics Limited, sold to private US company Integrian; and founder and Managing Director of private company Cogent Energy, which was acquired by Origin Energy.

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**7. On the product front, what developments have there been and what is the company's core focus in terms of R&D for the next 12 months?**

**MD Andrew McLellan:**

First focus for us is supplying our OEM partners with our core technology and products, namely chips and readers, especially the multi-vial and hand-held readers.

Looking to our products and the stage of development. Our developed MEMS chips are at the manufacturing stage where we can produce significant volumes and have the ability to rapidly scale production.

In terms of our reading platforms, we have our bench top reader, the Matchbox, which can read one vial at a time, which is in manufacture and being sold with our developer kits.

We have the multi 100 vial reader coupled with a Bluechiip Enabled 100 vial box reaching manufacturing stage. Development of this is progressing very well and we have engaged our OEM partner and shareholder, Planet Innovation, to manufacture late stage prototypes and subsequent manufacture.

We also have a handheld, mobile reader that can read 1 sample at a time and recognize the hierarchy of storage to easily locate a sample when it is stored in a -196°C liquid nitrogen tank or in a -80°C freezer. We expect to continue refining the development of the handheld reader and offering it as a robust prototype and then product in the short to medium term.

In the pipeline we also have, what I would term horizon 3 products, including the over temperature chip. We have completed stage 2 of a government funded research collaboration grant with our partner, Melbourne University. The next phase will be into development and we have already applied for a patent on that technology. It is a very exciting product underpinned by strong, positive customer feedback in terms of potential demand. I emphasise however that our main, near term, focus is on supplying the needs of our OEM partners with the existing chip technology and that will remain a focus for the business over the next twelve months. We will continue the development of an over temperature chip but that will be in the background.

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**Thank you Andrew.**

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

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