

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:

- Accelerating chip deliveries and resultant revenues
- Receipt of multi-vial chip reader product and for new orders
- Attendance at industry trade shows
- Rising R & D tax credits, linked to rising production and expenditure

Record of interview:

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Andrew, can you update us on your expanding production capacity and accelerating delivery of chips to meet Labcon's initial order?

MD

Our deliveries and production are scaling rapidly, which also drives our revenues:

- In the Q1 this financial year, i.e. the three months ended September 2017, we shipped, in various forms including in cryovials, just over 2,000 chips.
- In Q2, noting that we only received the order from Labcon for over \$1m of Bluechiip technology in December, we shipped over 25,000.
- In Q3, the March 2018 quarter, we shipped just over 80,000.
- And in Q4, we will ship over 140,000.

We will see this accelerating growth in shipments progressing over the coming quarters and well into the long term. By year end we expect to be producing at around 100,000 chips per month and to grow from there, assuming we have the customer orders of course.

Revenues as you'd expect are also rising, closely correlated with the products we ship. Note that this includes both chips and our various readers and software.

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Staying on the theme of production and scaling, we note that the order from Labcon is just an initial order and that you have sold developer kits into over 20 other companies in a number of markets. How much further and how fast can you scale production when you get additional orders?

MD

We can and will scale to produce millions of chips a year and are cognisant of the need to do this. So, whilst our immediate focus is scaling production to meet existing orders, we are also putting in place the production systems and processes so that we can scale capacity to a multiple of this. This will also give us economies of scale and bring down the cost per chip.

It is worth mentioning also, that as we deliver more chips into the market, our multi-vial readers will be very important in helping clients process Bluechip enabled products.

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You've spoken in the past about the importance of the multi-vial readers. Can you explain why they are important, how this relates to the volumes of chips you'll be delivering into market and the infrastructure this creates?

MD

The multi-vial reader is very important for the end customer base to be able to handle very high volumes of samples. Having multi-vial readers in the market creates the infrastructure for end users to consume large volumes of Bluechiip enabled products, such as the vials that Labcon has produced. Our multi-vial reader can read a box of 100 Bluechiip enabled samples and it can do that with a box that has come immediately out of liquid nitrogen -196degC. This means the samples are preserved in a very cold and safe condition.

From an efficiency and safety point of view it's also very exciting because it enables the bio banks and bio repositories to put large volumes of samples into store, quickly. Some of these organisations store millions of samples and they might be putting tens of thousands if not hundreds of thousands or millions of samples into storage at a time.

For facilities doing those sorts of volumes it's very important that they can process/handle a box of 100 samples at once, through our multi-vial reader, and place them into a tank or freezer that could contain anywhere up to 30, 50 or 100 thousand samples. So each multi-vial reader that we are able to put into our customer sites, positions us to get a significant volume of consumables running through them for years to come.

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Given the importance of the multi-vial readers can you tell us more about their development and production?

MD

We've been building the capability to produce multiple units on a consistent basis. This month we took a very important step along that path with delivery of the first batch of multi vial readers from our OEM and manufacturing partner, Planet Innovation.

It is very exciting for us as these units, which are late stage prototypes, are now being shipped to customers and early adopter sites.

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The relevance of late prototype stage, is that it allows us to finalise our validation and regulatory approvals for full scale roll out of the product, which will occur over the coming 3-6 months.

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As you accelerate production and associated expenditure, what does this mean for the volume of cash you receive from R&D tax credits?

MD

As a company and as a product we are still in late phase of R&D. This means that despite the sharply rising demand and deliveries we still have a fairly considerable expenditure, as a percentage of our total expenditure, that is going into R&D.

At the half year we recognised \$450,000 accrued from the R&D tax refund. We expect our full year accounts to show an R&D tax refund available of well over \$1m.

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Moving onto marketing, can you tell us how you are scaling your marketing activities, including the recent International Society for Bio and Environmental Repositories (ISBER) trade show. What is important about this trade show, who attends and what did Bluechiip achieve here?

MD

We have scaled our activities both directly and via our OEM partners including Labcon. Trade shows are a very important part of this. Our booths at these shows are our shop front.

Today I am at our exhibit at the International Society for Stem Cell Research (ISSCR). This is an international show being held in Melbourne with 3,500 attendees from around the world attending with very positive feedback and interest.

Earlier this month in Dallas the International Society for Biological and Environmental Repositories (ISBER) held their annual global meeting, where both we and Labcon had booths displaying Bluechiip enabled products. We received a very positive response from customers.

ISBER had over 1,500 attendees from around the world and was very focused on the bio banking community. Attendees include the major bio banking organisations, along with the major vendors and providers into that marketplace.

Bluechiip's booth at ISBER, which is effectively our shop front, had all of our patented technology and products on display, including: the core Bluechiip technology, i.e. our Micro-Electro-Mechanical-Systems (MEMS) chips; our full range of single, match-box and multi-vial readers; and the centralized Software and data base hub to which the handheld, multi-vial and matchbox readers talk and communicate.

Labcon, one of our OEM customers, was also at ISBER with their own exhibit displaying Labcon's range of Bluechiip enabled vials and Bluechiip readers. It was exciting for us to have multiple points communicating and demonstrating Bluechiip, and the reception was very positive. When I refer to the wider bio banking community, this includes a range of the organizations that service the market, as well as end users including clinical research organizations and major bio banks around the world.

So, all up it was another important show for us and we were very pleased with both the customer response and to see multiple points displaying our product.

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Can you tell us how many developer kits, which are the pre-cursor to an OEM relationship, you now have in the market? Which geographies and sectors are they in and the market size they address?

MD

We have now placed 21 developer kits. It's been a very busy quarter and we are still seeing strong demand for developer kits. We are also building the sales systems through which we can get into the marketplace and of course expanding our production capacity.

In terms of market size that's addressed, firstly the total market for bio storage is well over 300m samples a year going into our target bio-storage market across the globe. North America is the major market with around 40%, Europe is over 30% and Asia, including China and Japan are also important markets.

We have early adopter sites in the US, with a strong focus on providing them with our software and multi-vial readers, as well as the core consumable products, such as Bluechiip enabled vials.

In Asia we are seeing a high level of interest and demand. That includes in Japan, where we've received an order through our Japanese distributor for a full set of multi-vial reader, matchbox and handheld reader. This is on top of the demand out of China for multiple systems, in addition to those we have already sold to the Chinese Centre For Disease Control (CDC).

In Europe we have sold a number of developer kits and following our recent shows and activities there, we are also seeing rising interest. We expect to have some installations running in Europe in the very near future.

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With your accelerating deliveries to Labcon, what does this mean for your revenue mix as well as revenue levels?

MD

As our chip deliveries are increasing the revenue mix is also changing to reflect increased sales of consumables which, given the nature of our end markets, we expect to be recurring revenues. In other words, we are moving out of the phase where our revenue is skewed to license fees, R&D development activities and developer kit sales.

What you can see in our first half accounts and it will be even more apparent in our full year accounts is that our mix of revenue is starting to be driven by product. At the end of the day we are a product and technology company. Underpinning this is our long-term vision, to be a sustainable supplier of Bluechiip enabled technology.

With the delivery of hundreds of thousands of chips in this half we are moving towards that vision and with the immediate target market of over 300 million samples going into storage per annum, we have a very large market to grow into.

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Thank you.

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