

ASX Announcement :

Managing Director, Andrew McLellan on Bluechiip enabled Labcon product marketing release, accelerating sales and production scaling



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Open Briefing interview with MD Andrew McLellan**In this Open Briefing®, Andrew discusses:**

- Labcon's official release and marketing of Bluechiip enabled product
- Accelerating sales and production scaling progress
- Reader production status and approvals
- Partner progress and cash position

Record of interview:

1. Labcon recently added Bluechiip enabled Coldpoint products to its website <http://www.labcon.com/tubescryo.html>. What customer testing did Labcon do before making this commitment and what feedback has Bluechiip received?

MD Andrew McLellan:

Labcon has recently commenced marketing their Bluechiip-enabled Coldpoint range including on their website, which is exciting to see. This comes after a period of extensive testing including with end customers. Manufacturing tooling is now primarily in place with the product line gaining the appropriate regulatory approvals. Importantly for Bluechiip, this is the commencement of continued and growing monthly supply of Bluechiip chips and readers to a customer that is servicing a very large consumables market.

Initial due diligence testing began prior to our agreement, which was executed in 2017. When Labcon purchased a developer kit, they also conducted very extensive market research and identified a very large market opportunity. Throughout each phase the feedback has been very positive. As announced to the market last year, Labcon then stepped up with a very large, \$US11.6M multi-year order & agreement for chips and readers

In conjunction with Labcon's testing, Bluechiip also commenced three evaluations with end customers in the quarter. These are progressing well, and the feedback is very positive. Our technology is highly differentiated with no other technology able to survive the severe conditions the cryogenic vials are subject to and the ability to sense temperature at extremely low temperatures is very important, especially with high value samples.

2. Meeting Labcon's \$US11.6m order for chips and readers, signed on 29 August 2018, will see a significant ramp up in revenues for BCT over the next 24 months. Can you tell us where you are in terms of expanding production and delivery of chips and readers to meet this order?

MD Andrew McLellan:

We continue to scale our capacity and transfer of our products into manufacture which is progressing well. December 2018 was the first month of supply under the expanded agreement with Labcon and there will be a significant ramp in revenues over the next 3 to 6 months as we deliver on the orders that we have in hand. That covers our readers and the chips themselves.

We have been working diligently to scale our production capacity for the chips and readers. Our team has extensive experience in doing this successfully in the past through various roles, including in my previous role at Vision Biosystems.

Starting with the readers, our partner Planet Innovation is scaling production of the multi vial readers, which are really critical to the end market. They are also commencing production of the handheld readers on an ongoing basis. In terms of chips, we're expanding our capacity to handle hundreds of thousands of chips a month over the not-too-distant future.

3. Late last year Bluechiip's multi vial readers were being produced as late stage prototypes. What is the status of development now, how many vials can they read at a time and what is the strategic importance of the multi vial reader base?

MD Andrew McLellan:

We are now moving into full scale production of the multi vial reader with relevant approvals including CE mark in final stage.

This has a major strategic impact for us. The multi vial readers can read up to a hundred cryogenic vials at a time directly from cold storage through frost. The Labcon Coldpoint cryogenic range includes a 9x9 cryogenic box format so in this case our Multi Vial Readers read 81 vials at a time.

The ability to identify full boxes at one read enables important productivity efficiencies especially for large cryogenic storage facilities who have tens of thousands, hundreds of thousands, or even millions of samples in store.

4. When are the next major trade shows at which both you and Labcon will be showing Bluechiip enabled products?

MD Andrew McLellan:

In the first week of February we have one of our major trade shows for the year in North America, called the Society of Laboratory Automation Systems (SLAS). Both Bluechiip and Labcon will be there demonstrating our range of products. As noted, Labcon has put their Coldpoint Bluechiip-enabled cryogenic vial range onto their website, and we expect this to be a driver of consumer interest in this product at the trade show. Tradeshows are important as they are the points at which we can put up our shopfront for attendees from all over the world.

5. What is CE marking and why is it important to BCT's business? What stage are you at?

MD Andrew McLellan:

CE marking is a safety certification for electrical products in Europe with equivalent requirements in North America. It is really important for us that we have our CE mark and our US comparative marks to enable us and our partners to sell full commercial versions.

We are at the final stage of testing to gain these approvals for our readers which we expect to finalise in the coming month.

6. Labcon is the first of BCT's OEM relationships that has moved into full end customer production. Can you update us of the status of BCT's other OEM agreements and remind us how many developer kits, which are the precursor to an OEM agreement, BCT has in the market with potential OEMs?

MD Andrew McLellan:

We now have 32 developer kits and agreements in the marketplace with a multitude of different vendors. Three of these developer kits are now under full OEM agreement with Labcon being the most well progressed. Our other two are with Genea Biomedx and Planet Innovation.

We are seeing a lot more traction and engagement with a multitude of potential OEM opportunities. This has been helped by this Labcon Coldpoint Bluechiip-enabled range moving into the marketplace. It has caused other OEMs to really take note.

We have had a number of new enquiries over the last 2 to 3 months from parties in adjacent marketplaces for example in pharmaceutical vials and a range of suppliers of blood-based products such as blood bags.

We expect the rate of engagement to continue to increase both through Labcon's partners and in adjacent markets.

7. Looking at BCT's financials, R & D cash expense for the December quarter was \$161,000 down from \$269,000 in the September quarter. What ongoing level of R & D should we expect and will it decline as a percentage of operating costs as you scale production and grow revenues?

MD Andrew McLellan:

Variation between the December and September quarter R&D includes some timing items from a cash flow perspective. In terms of our future R&D spend, we will maintain a similar

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level of activity and may see it increase slightly in the short term. However, as a proportion of the operating cost it is expected to reduce so that the overall percentage spent on R&D will decrease as we scale.

That said, there are R&D opportunities in the marketplace where we can continue to grow the value of Bluechiip, so whilst R&D will decline as a percentage of cost and sales, we will keep developing our product and patent base, and approach each opportunity as they arise.

8. The 4C that BCT released to the ASX shows that as at 31 Decembr 2018 the company had \$5.6m of cash and no debt and forecast cash outflows for the March quarter of \$1.3m. As well as accelerating cash revenues in the coming quarters, what inflows can we also expect from R & D tax credits?

MD Andrew McLellan:

You are correct we have significant cash in the bank and no debt. We also expect to receive R&D tax refunds of just over \$1.0m within the next 2 quarters for the 2017/18 financial year. Further R&D tax refunds of similar magnitude are expected for our current financial year with cash receipt in the following financial year. So, we are well positioned, and we expect an acceleration of our cash revenues.

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Thank you.

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