

## ASX Announcement :

Managing Director, Andrew McLellan on Bluechiip deliveries, operations for March Quarter and new order enquiries



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**Open Briefing interview with MD Andrew McLellan**

**In this Open Briefing®, Andrew discusses:**

- Quarterly trading results for period ending 31 March 2019
- Rapid growth in sales and cash receipts with broadening revenue base
- Ramping up production and drive for economies of scale
- Status of 4 new OEM proposals under evaluation and 32 developer kits in market
- Government R&D Tax Refunds and grants

**Record of interview:**

**1. Bluechiip today reported sales revenues of \$272k and cash receipts of \$218k, +119% and +132% respectively versus the December 2018 quarter. What drove the mix and volume for this, and should we expect similar growth in the coming quarters?**

March was the largest quarterly revenue the company has ever had.

As our strategy of engaging with existing and new OEM partners continues, especially with the Labcon deal only just starting to come on line, we expect to see a similar trajectory over the coming quarters.

Regarding the mix, those revenues include several things. The largest component is delivery of chips and readers to Labcon under the OEM agreement with them. Added to this is the delivery of product to other parties including early adopters like the Hudson Institute in Melbourne, Australia (refer to: [News coverage of BCT introduction into Hudson Institute](#)) and a number of sites in North America and Spain that continue to utilise our technology and product.

We are also seeing a number of independent research papers in progress regarding our technology and products. One of which was presented at a recent conference and we expect to see more of these papers during this year.

**2. In February you were reviewing 4 OEM proposals and had 31 developer kits in the market. Can you update us the status of these?**

We have a solid pipeline, with 32 developer kits in the market, up from 31 in February and 4 OEM proposals under consideration. We have had several new enquiries over the last couple of months flowing from the trade shows that we have attended.

The OEM market is now well aware of us and we continue to progress those opportunities, some are with existing partnerships, including Labcon, and into adjacent markets that we have mentioned in the past like IVF and also into adjacent markets outside of the bio-repository space.

While we can't be definitive on the timing of when some of these potential partnerships will come into fruition, we certainly continue to progress this large and still growing list of opportunities. It is exciting.

**3. During the March quarter you received cash of \$790k from R&D tax credits and looking at the March 4C you are forecasting to maintain the June quarter R&D spend. What does that imply for your R&D tax credits in the coming quarters?**

The \$790k cash that we have received from R&D tax credits so far this year is only a partial payment for our full year's R&D because we do some R&D's offshore, especially the MEMS development. There is no MEMS manufacturing capability in Australia, so we have to take that R&D offshore. To receive R&D tax credits for the offshore spending component we need a separate Government approval.

We expect to receive several hundred thousand dollars more in R&D Tax refunds this quarter based on R&D money that we have already spent. Looking forward to the next and subsequent quarters, even though we are to scale production, our R&D spend will incrementally grow and we will be able to recoup that as we submit our tax refund claims.

**4. The Department of Innovation and Science Australia has given Bluechiip an approval under the Industry Research and Development Act in relation to the 2018 - 2020 years. What does this mean and how does this benefit Bluechiip?**

As mentioned, one of the important things with the R&D Tax refund scheme is that you need to primarily spend the money in Australia, which we do but we do have an overseas component and for that you need this separate approval. It runs for a period of three years and allows us to claim our offshore R&D expenditure.

Specifically, it allows us to do several things. Firstly, it allows us to claim the several hundred thousand dollars which we should receive this quarter. Also, as we move forward, we'll be able to also claim our offshore R&D expenses for 2019 and 2020, which is a significant portion of our overall R&D tax refund.

We had anticipated receipt of this approval and the associated R&D tax credits when doing our budgeting.

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**5. You secured an Export Marketing Development Grant of \$72k during the period. When will this be received and is there potential for more grants and benefits from this source?**

Yes, we've partially received that \$72k and we expect the balance in this or the next quarter.

The export market development grant is valuable to us as we scale. As we invest into business development, especially into North America, as well as the rest of the world, it allows us to recoup some of these costs. The overseas business development is in line with promotional export activities which allows us to claim back on components of these costs. We expect to receive export market development credits over the next several years.

**7. As you scale production are you seeing opportunities to gain economies of scale and reduce unit costs and when will you be able to realise these opportunities?**

The process of reducing unit costs on the manufacturing side is very much dependant on volume. We have a very clear plan on when some of these efficiencies can be brought into play. Some of this may take a small investment in some capital items over the next year to 18 months and this is also well and truly in plan and progressing as expected.

As scale and volume increase and we move into producing millions of chips and tens of millions of chips those scale efficiencies really do come into play.

**8. What sort of gross margins are you making on products at current volumes and do you expect margins to expand as you grow volumes?**

We are already making gross margin on sales even at these lower volumes. These margins will expand significantly as production grows and we benefit from economies of scale. Our margin expansion will become more apparent in our results in the coming quarters as our sales revenues continue to grow.

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Thank you.

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