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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 response to COVID 19 crisis, operations and outlook in the March quarter



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Open Briefing interview with MD Andrew McLellan

In this Open Briefing®, Andrew discusses:

- March quarter cash flow and sales results
- Response to current environment
- R & D opportunity
- Current cash position and
- Long term outlook for Bluechiip's products.

Record of interview:

1. Andrew, our second question will be about the March quarter but first can you give us an overview of the challenges and opportunities you are seeing due to Covid19 and how Bluechiip is responding? Can you address global supply chains, the surge in medical laboratory work now and presumably for quite some time, as well as Bluechiip's cost base and cash position?

It is a challenging time for everybody, both on a human and business level.

At Bluechiip, we are well-positioned to weather the current crisis and are working towards coming out of it stronger where our technology and products are expected to be even more relevant.

Being a health crisis with a lot of testing there has been a surge in demand for laboratory consumables, our target market. We expect increased demand will continue in the long term as investment increases in ensuring that the world is better positioned to deal with such medical crisis in the future.

Our immediate focus does include saving costs but we are also mindful of keeping the team in place and being able to hit the ground running when the operating environment re-accelerates, as it will.

Operationally, we are using this environment to do a number of positive things.

Firstly, as mentioned, we have reduced our cost base, for example staff have reduced to working 4 days per week.

Secondly, increased focus on R & D projects that have been identified by our customers and which we expect will qualify for Government R & D tax incentives. This emphasis on R & D allows us to expand the range of products including the consumables to which we apply our technology with our partner Labcon and other potential OEMs as well as improving efficiency.

Our balance sheet, as a result of last year's capital raise, is strong. With the changes in our cost base and expected increase in eligible Government R&D tax incentives and other assistance programs we can make that cash last significantly longer than 5 quarters.

On the marketing and new customer front, our potential OEM partners, majority based in the US are still in continuous engagement with us, albeit through video conferencing and working with people that are working out of their home offices.

2. Bluechiip released its 4C report to the ASX today, covering the March 2020 quarter. Receipts from customers of \$66k were -70% versus the March 2019 quarter and 44% versus the December 2019 quarter. You forecast a slowdown in January 2020 and Covid19 appears to have exacerbated this. Can you give us more detail on cash receipts, sales recorded, chip deliveries and timing for the quarter?

We did record cash receipts of \$66,000. These relate to deliveries that occurred in the September and December 2019 quarters.

In January and February, we began scaling our delivery of chips following a quiet December quarter. By the middle of March, we were hit with the Covid19 crisis both in terms of supplies and also our customers simply not being able to receive chips that had been sent due to COVID-19 Pandemic issues including lockdowns and restrictions.

During the crisis, the lag between physical deliveries of product and cash receipt from customers is typically 1 to 3 months.

3. Recorded sales were \$68k for the March quarter, with the month of March being effectively zero due to Covid19 lockdowns at your customers. Is this sales number useful guide as to what cash receipts we should expect in the June quarter, even as demand ramps back up, given the normal lag between sales contracts and cash receipts from customers?

We actually expect cash receipts for the current quarter to increase slightly off the back of the recorded sales in the March quarter, and also from some of the outstanding payments from the December quarter.

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We are already seeing some of those lockdowns ease, albeit these are uncharted waters for all of us. We are watching and have deliveries ready to go to our customers when the operating environment allows.

4. Looking forward you are already seeing signs of reacceleration from customers and suppliers. Is it too early to quantify this in terms of demand volumes for the June quarter? How quickly can you ramp up production when the operating environment accelerates?

In terms of being able to ramp up quickly we have consistent supply chain for both chips and readers including locally held and produced stock that we are working on.

Production wise, over the last 6 weeks we have seen some re-emergence of activity out of China, and some of our European supply chain has been able to continue to operate through the whole crisis.

In terms of demand, our customers are still in reduced operating conditions but we are hearing, unconfirmed of course, that some of those restrictions will be lifted in the next couple of months, especially out of North America.

Interestingly, while it is difficult to do face to face sales and marketing activity due to travel restrictions, we are seeing some good engagements out of our OEM opportunities, which is very positive.

5. Operationally, you said Covid19 is presenting opportunities including your ability to shift towards previously identified R & D, which allows you to access significant R & D tax credits. Can you remind us how R & D tax credits work? Are there any other Government schemes that Bluechip can benefit from?

We have been able to pivot by reallocating some spending to previously identified R&D programs which provides a meaningful cash flow benefit to us. For eligible R & D that we spend we receive 43.5% cash refund in the following financial year.

In terms of other government schemes that we can benefit from: we have registered for the Federal Government's JobKeeper program; we have also been able to access some of the State revenue office's payroll tax concessions and refunds and government tax programs brought in due to the COVID-19 crisis. These add up to a significant benefit for us as a business which helps us to maintain capability to be able to hit the ground running as lock downs of the economy eases.

Previously identified R & D that we are talking about is very much about the scaling, efficiency and quality improvements on our chips, readers and software.

On the chip front we have over 1.5 million chips coming through our R & D and testing process. Through R&D we're able to tune the processes so that we improve the performance of the end product and produce chips with increased efficiency. R&D on our reader and software platforms is based on customer feedback and includes items such as a refinement of our multi-vial reader, improving its ability to adapt to different formats of consumables. For our handheld reader we are improving flexibility and ability to be adapted for people to wear for instance.

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6. In terms of your overall cost base, what have you done to reduce operating costs and how quickly can you ramp back up as the operating environment reopens?

We have already taken action and continue to look very closely at our cost base.

First, I thank all our staff for their support especially as we have moved to a 4-day work week with many staff working from home.

We have also drastically reduced sales and marketing activities, much of which is simply not possible right now, e.g. attending tradeshows and visiting customers. We have dramatically reduced this cost and reorientated to R&D.

We have also reduced facilities costs, including our Chicago office lease, with a very focused monitoring of all costs across the supply chain and efficiency in all activities.

7. Working capital has been a use of cash for a number of quarters as you build your supply chains and ramp up production. What is the current value of debtors and how much stock is Bluechiip carrying that can be used to smooth supply again as demand reaccelerates?

Our debtors stand at slightly over \$100k. We have over 1.5 million chips that have been used through the R&D process that are potentially available. We are able to scale very quickly as the market rebounds and as discussed previously the R & D work we are doing means that we will also be more efficient going forward.

We have no bad debts reported at this date.

8. Labcon has a US\$11.6m contract with you and you are negotiating with a number of potential new OEM partners. What is the status of the Labcon contract and how engaged are the potential new OEM partners?

The Labcon contract is in place as a long term multi-year working partnership, where we are both working to deliver in scale into the marketplace.

With lock downs in most geographies there are difficulties at Labcon similar to ours in that they literally cannot visit some of their potential customers to make the sales. We are working closely with Labcon, redefining delivery schedules and aiming to be even better positioned with a broader range of products when we come out of this.

In terms of other potential OEM partners, we are still seeing very good engagement despite only being able to meet via audio and video conference. This is very pleasing given some of these groups, e.g. internal R&D groups at some target OEM partners, are working from home or in severe lockdown, spread across multiple different jurisdictions. So clearly their R & D continues on our products and how they can use and implement Bluechiip technology.

Our expectation, as the year progresses and lock downs ease, is to see some solid business cases put by these OEMs to their decision boards and decision panels to move through to execution of licence agreements.

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9. Looking the 4C document released today, one section in the revised format required by the ASX asks you to simply divide your current cash holdings by the recently completed quarter's cash burn as an indicator of how many quarters of cash you hold, is that simplistic formula indicative of where you actually stand?

That new formula is not an accurate indicator of our overall runway.

The format for the 4C has changed. Previously we forecast for the coming quarter, now it is just a simple arithmetic division of our total cash divided by the spend in the previous quarter. Based on our cash spent in March, which we had previously highlighted would be higher than usual, the formula suggests we have just under 5 quarters worth of cash in the bank. This is not our expected position.

With all the activities reduce spending and access to government assistance programs we have considerable additional runway. When we release our 4C for the June quarter you can expect to see a significant fall in cash burn and more of that cash will have been spent on qualifying R & D, for which we get back 43.5 cents in the dollar

10. Long term, how do Bluechiip's products fit into a post Covid19 world?

The long term demand picture is very positive.

We offer enhanced efficiency, tracking and temperature checking capabilities for laboratories. I think there will be a dramatic increase in the investment into health especially in the preparedness to mitigate the risk of future pandemics. This will mean increased laboratory work and stockpiling of consumables in segments that we directly target.

Organisations that we're targeting and working with in the bio-preservation space are seeing increased demand and we expect demand for laboratory consumables to settle at a higher level than in the past. Developing vaccinations and even increased testing, mean significant increases in the number of consumables including storage vials.

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Thank you.

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