Managing Director, Andrew McLellan: Bluechiip's results for Q3FY21; pipeline developments; direct to market strategy

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Open Briefing interview with MD Andrew McLellan

In this Open Briefing®, Andrew discusses:

- Sales Activities, Evaluations and Market Conditions
- OEM Progress and Term Sheet
- Direct to market product range, Bluechiip Branded, Bluechiip Enabled Consumables Line
- Labcon Dispute
- Cash Position

Record of interview:

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Bluechiip's sales teams in the USA and Australia have resumed in-person product demonstrations, where possible, and recently installed evaluation systems into several customer sites. How recently and quickly has activity accelerated and as lock-downs continue to ease how soon do you expect customer engagement to return to "normal"?

AM

Customer engagement and activity levels are increasing. They are not back to pre-COVID levels yet, but things are picking up. Last quarter we were able to install a Bluechiip system into an end-customer evaluation site in the USA, re-engage with customers in Australia and install a system in Europe through a distribution partner.

To put some context around activity levels, one clinical trial company we know was down to about 30% operating capacity during last year. It's back up to approximately 70% now. So, facilities are starting to return to capacity, albeit some people are still in and out of

facilities and that ha caused delays in being able to engage with clients and progress discussions we had in place at the start of 2020.

Being able to access the customer's facilities to demonstrate our product is important to us as is demonstrating at trade shows. We're seeing that while trade show activity is still primarily virtual, customer sites are starting to open up and the expectation is that over the next 3 to 6 months we'll see that moving ahead with the vaccine rollout especially in North America.

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What is an evaluation site and where are these sites you have recently installed Bluechiip systems?

AM

An evaluation site is where a company or end-customer has seen or heard of our technology, we've then put in place an evaluation agreement and we demonstrate our product in their facility. This allows them to test it in their workflows and in their systems.

The evaluation process involves our sales and marketing team working closely with the customer site to test and trial our Bluechiip solution. Typical clients are biobanks, clinical research organizations (CROs), clinical trial companies, and the most recent was an outsourced biobanking and transport business in North America. It now has a Bluechiip evaluation system on site.

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Bluechiip has agreed a term sheet with a USA-based OEM. Can you give us more details, for example the industry segment and the broad terms? When and to what extent will you be able to formally announce contract terms?

AM

We will make a formal announcement when we have a definitive agreement in place. This is an important step for us as term sheets are a precursor to detailed multi-year licence and development and subsequent supply agreements.

Our target markets include the IVF, Biobanking, Biopreservation, Cell Therapies and, more recently, vaccine markets where ultra-low temperature storage and transport of biological samples is required. This market is now well over 300m samples per year.

Our OEM process moves through multiple stages, from initial engagement with confidentiality agreements, to developer kit sales. We have over 30 systems with OEMs, which allows our Bluechiip technology to be tested in specific applications. We also assist with customisation and commercial due diligence, in which we are actively engage with

target OEM end-customers, assisting with market research. Detailed plans are prepared through proposals and subsequent licence, development and supply agreements.

All these stages involve multiple stakeholders and decision committees. Some corporate decision cycles have been impacted by COVID, affecting Bluechiip especially given that we are dealing with multi-year agreements with significant organisations and global brands.

We are very pleased to be at the term-sheet stage, drafting an agreement with them, and we would expect to be able to communicate more detail to the market in the near future.

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What is it about BCT's offering that appeals to this new OEM?

AM

Bluechiip's technology is unique in delivering benefits that no other organisation or technology can.

We identify and track samples in ultra-low temperatures while also recording temperature history. This is linked into a client's workflow with our software, giving them significantly increased efficiency, quality and confidence in their samples. This is especially important in -196°C liquid nitrogen, or -80°C environments where samples need to be identified and inventory tracked. In certain applications we can provide this traceability.

Bluechiip limits the risk of samples heating up while at the same time improving productivity. We are able to quickly identify correct samples and their locations.

Bluechiip drives productivity, redefines quality, and provides confidence in every sample. These are especially important dealing with, say IVF, cell therapy or general biobanking samples.

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Progress continues on the company's portfolio of direct-to-market products for the biobanking sector. Can you explain how this strategy will connect with Bluechiip's OEM strategy and which customer segments are being targeted?

AM

Our direct-to-market approach includes bringing our own range of Bluechiip Branded, Bluechiip Enabled cryogenic vials to market. These will be sold with Bluechiip Readers and software as Bluechiip Solutions in North America, ANZ and globally through distribution

partners in the biobanking and the biorepository market in key areas including research, pharmaceuticals, clinical trials, population biobanks and cell-therapy applications.

In the past we have worked with OEM partners to produce Bluechiip Enabled consumables. Bluechiip sold Bluechiip chips to the OEM to incorporate into its consumables range for the OEM to sell to customers.

We are now working with consumables suppliers to produce our own range of Bluechiip Branded and Bluechiip Enabled range of cryogenic vials.

This has advantages for Bluechiip, our customers and partners, including:

- Bluechiip having greater control of the supply chain and the priority of incorporating our chip technology into various formats.
- Increasing the revenue generated from each Bluechiip enabled consumable we sell rather than a Bluechiip chip itself. This is 2-4 times the revenue per customer sample.
- Directly interfacing with the end-customer, allowing us to position and package Bluechiip Solutions to better meet the end-market needs. For example, Bluechiip can offer consumable rental models, deferring some of the capital cost of our equipment into the consumables or into software licences which provides a lot of flexibility.

This is a significant change for us and follows a number of learnings over several years. Having control over consumables integration is critical and selling solutions to end-customers gives us significant advantages.

We are making good progress on the project with first samples being finalised to bring a range of nine consumable varieties and ancillary products to market as travel restrictions ease.

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How does your direct to market strategy differ from an OEM strategy?

AM

As I said, even in other markets, for instance in the IVF marketplace where we are working with potential OEM partners, we will take more control of the consumable that a customer requires. We will continue to work with OEM partners to do that.

We will also distribute through distributors and OEM partners. That's how some parts of the consumables market currently work, with some major vendors outsourcing consumables from thirdparties. We are lowering the barrier for adoption of Bluechiip products with major OEMs in the future, including to adjacent markets that may have alternate consumable formats such as blood bags.

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Your 4C announcement says that the Labcon dispute is "well progressed towards an expected resolution". Can you give us further information regarding the terms and timing?

AM

I'm not in a position to be able to talk in detail as we are going through the legal process, however we are making good progress. Labcon requested that we move to private mediation, which we have been working through.

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Net cash inflow for the quarter of $363k included receipt of $1.626m for R&D tax incentives. In relation to the company's cash expenditure, what level of R&D tax incentives do you expect to receive for the current and next several quarters?

AM

It was pleasing to receive the $1.6m 2019/2020 R&D tax incentive for the R&D investment carried out. In the current financial year we expect a similar magnitude sum. A significant amount of our expenditure is still in R&D, while we bring our Bluechiip Branded, Bluechiip Enabled cryovial range to market and format our readers and software to suit. Well over half of our quarterly spend, if you include the salaries, is R&D costs, from which we expect to get 43.5% back for every dollar spent.

In the past we have received between $1-1.2m back each year. Last financial year we elevated the spend on R&D as we focused on scaling up production of our chips and optimizing chip performance. Hence the recent refund of $1.6m.

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Cash at the end of the quarter was $5.97m, with no debt. What other assets does the company have on hand, including chips and other finished or close to finished products?

AM

We are in a strong cash position and we also expect further R&D tax refund receipts, revenue flow from some OEM partnerships as they execute, and from end-customers with our direct Bluechiip Enabled products.

We also have well over 1.5 million chips available on the shelf and we are able to produce readers on a reasonably rapid basis. We have stock of readers on the shelf to service some of those evaluation sites I mentioned, and will have our own range of consumables to service end-user adopters as we move forward.

Authorised for release by the Board of Bluechiip Limited.