Managing Director, Andrew McLellan:

License and Development Agreement with FUJIFILM Irvine Scientific, Bluechiip branded consumables range and September '21 Quarter 4C

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Open Briefing interview with MD Andrew McLellan

In this Open Briefing®, Andrew discusses:

- September quarter 4C
- License and Development agreement with US-based Fujifilm Irvine Scientific
- First sales of Bluechiip's own consumables

Record of interview:

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Andrew, we'll come back to the OEM agreement that you announced earlier this week and also to the sales orders Bluechiip has received for its own brand consumables. First, let's look at the numbers in your September quarter 4C. They suggest it was a relatively quiet quarter. Cash burn was $1m, receipts from customers were just $22k and cash at the quarters end was $4.9m. Staff costs of $498k were in line with the prior quarter but production costs of $256k were down from $471k in the prior quarter. What were the business's key activities during this period? Why the drop in production costs?

MD

The key focus for us over the quarter was finalizing our direct-to-market consumables range, our new Bluechiip-Enabled cryovials. This also involved the reconfiguration of our readers and updates to our stream sample-management software. The overall Bluechiip Enabled advanced management solution allows end customers – biobanks, cell therapy organisations, clinical

research facilities amongst others – to drive productivity, enhance quality and provide confidence in every sample.

We are happy with the new product range especially as it allows us to sell a solution to our target end customers and while we are almost at the point of launch, we have received some initial orders which we have delivered to in October.

We also remain focused on converting OEM partnerships, including the License and Development agreement with Fujifilm Irvine Scientific, Inc (FISI) which we announced this week. With that in mind, our cash burn did drop to $1M over the period. The $22K receipt from customers was a forward payment for our new cryovial range, which we delivered post 30 September, and there is more to come on that front now that we have the product finalised and the world returns to a post-COVID normal.

The decline in production costs was due to variation of delivery timings, largely associated with our chips. We now have several million chips on the shelf able to meet orders. We will continue to manage our production rate.

In terms of cash, at the end of the quarter we had just under $5M in the bank and in the following quarters we expect to receive over $1.0m from the R&D tax refund. We also expect to see some cash inflows from end customers for deliveries of our own branded product, plus of course payment for activities that we will be conducting as part of our licensing development agreement with FUJIFILM Irvine Scientific.

You have received European regulatory approval and your first purchase orders for Bluechiip's own brand consumables. These orders are from both local and overseas customers and shipping began in October. Can you tell us more about these consumables – what they do, the markets they target and who these customers are? Will we see cash receipts from these customers show in the December quarter cash flow?

MD

We have received the CE IVD registration for Europe and we're progressing with our FDA registration. For the FDA it is a matter of registering information on the system and that will enable us to sell in North America as well, this is expected in the coming month.

The approval is for our Bluechiip Enabled cryovial range. Each cryogenic vial is Bluechiip Enabled as each consumable contains a Bluechiip tag (processed chip), allowing the client to track temperature and ID in extreme environments, such as liquid nitrogen. Then, using our software and readers, customers are able to more securely and efficiently track and manage inventory and the workflow of their high value biological samples.

Targeted end users are the Biobanking, cell therapy and IVF markets. The biological samples being stored and tracked are blood, serums, sperm in the IVF marketplace, tissue, and biological materials, which is a very large global market with well over 300 million samples a year going into storage and use.

In terms of sales orders received and shipped, plus those we expect to fulfil in the near term:

- **Australia** We have a local customer who had pre-ordered the system and equipment. They were installed this month and they're going through training at the moment.
- **Europe** We have several customers, one of which we delivered product to earlier this month and several that have our system. We expect orders from them for the new consumables range in the near future.
- **North America** Now that we can move around and conduct in-person meetings, we have put on an additional salesperson to drive the new product line as we bring it to market. We have provided quotes and have a number of customers that are using our Bluechiip-enabled product.

Much of the world is suffering from supply chain and inventory problems. You mentioned that you have several million chips in stock. How is Bluechiip positioned to meet demand, for its current orders of these new consumables and also potential new customers, both in terms of inventory of chips and multi-vial readers and also your production capabilities?

MD

For us this has not been an issue. Our chip production capacity is now 5 to 10 million chips per annum. R&D activities over the years in our core technology and the resources invested during the pandemic has given us this capacity and to enhance our efficiency. We can also scale that further when needed. Our fabrication partners have enough capacity for our needs. It is worth noting that because our chip is so small, each of the silicon wafers we manufacture has well over 10,000 chips on it. Hence, we can run at well over 10 million chips per annum and could do significantly more if need be.

Our readers are manufactured locally in Australia and we have capacity to meet demand. We are also due to receive a number of readers, both hand-held and multivial, from Labcon which we will reconfigure to the new format to service both our direct customers and distributors including Labcon.

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R&D remains a significant part of Bluechip's spending and you mentioned Bluechiip expects to receive around A$1m from R&D tax credits in the coming quarters. Can you remind us what the R&D is for and how the tax refund system works?

MD

The R&D is for the development of our core technology, so that's our chip and functionalizing/packaging for different applications. This includes putting the chips into our own Bluechiip-branded cryovials; reconfiguring our products and configuring our chips to work in different application. For instance, we are working at the moment on a chip format which has an adhesive label which can be applied to multiple products, such as blood bags or the storage towers and tanks.

We are also involved in several collaborative projects with local and global institutions, including working with the Australian Research Councils Training Centre for Cell & Tissue Engineering Technologies to configure our technology for applications like cell therapies. This is a collaborative venture working with multiple research and industry partners across Australia and internationally. We are also continuing core technology development with partners within ventures of this type.

We are receiving significant feedback from the marketplace and end customers, allowing us to continually improve on our products and adapt to customers' requirements. We are working with different OEM partners and some require design and development to meet their applications.

Under the FISI agreement just announced, we will be undertaking development work. Some of that will be covered by payments from them but some will also be for our fundamental technology.

For every $1 spent on R&D, we get 42.5 cents back as a cash refund. This comes back to us annually. We are waiting on last year's R&D cash refund to come in over the next quarter or two.

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Bluechiip has signed a two-year Licence and Development Agreement with Fujifilm Irvine Scientific (FISI). During the next 18-24 months Bluechiip and FISI will negotiate and seek to agree a supply agreement for sale and distribution of customised Bluechiip enabled products. Can you give us details about the products and markets this applies to and does this agreement potentially give access to other product markets via FISI?

MD

We have been working with Fujifilm Irvine Scientific for some time, defining what those products will look like.

Essentially it is a reconfiguration of our readers and repackaging of our chips to enable application of our technology and system to the Assisted Reproductive Technology (ART) market, otherwise known as the IVF marketplace.

The agreement is to service the IVF marketplace, to track and improve the traceability of the inventory of eggs and sperm as they move through the IVF process including storage in liquid nitrogen at -196°C. It covers the global market and we anticipate a supply agreement to come out of this development activity that will result in a long-lasting relationship providing access to that market with a strong partner.

Typically, these types of agreements involve significant due diligence. Can you give us some background to this including when and how you first introduced your technology to FISI?

MD

We have a confidentiality agreement with all our partners, so there are some limits on what I can say.

That said, we met with the FISI several years ago at a tradeshow. We subsequently went through the delivery of prototypes and our current technology with FISI, which allowed them to do their technical due diligence. We also talked to some of their customers to understand their requirements and the market opportunities. There is absolutely a demand for improving how the IVF process is handled, especially at that inventory and handling stage.

FISI has manufacturing facilities in the USA, Japan and Europe. Under the anticipated supply agreement who would market and manufacture the products?

MD

The intent is that FISI will market the product and become a distributor of a Bluechiip-enabled FISI system that they'll sell into the global marketplace. We would be the manufacturing, design and development partner. We would deliver the products, the readers, software and consumables that would allow them to service the marketplace.

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What is Bluechiip's ability to scale to meet high volume demand for a contract with someone like FISI?

MD

We manufacture readers locally and we can readily scale and as mentioned earlier, we can produce 5 to 10 million chips per annum and are able to scale.

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You note that the IVF, or ART, market, which the FISI agreement is focussed on, has well over 2.5m cycles per annum of potential sales for BCT. What does this translate to in annual dollar terms?

MD

In the IVF market, for each cycle they typically collect between 4 to 8 eggs, and also store embryos and sperm in -196°C. So we think of it as 5 to 8 consumables per cycle, putting the annual market for consumables at 15 to 20 million. Each could benefit from being Bluechiip Enabled. In dollar terms this translates to a total addressable market of around US$50m for Bluechiip. This is a new market for us, so there is tremendous potential upside.

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Does FISI have any exclusivity under this agreement? If so, can you provide us some details and also tell us how this impacts your other OEM negotiations and developer kit relationships?

MD

This agreement is purely for the IVF marketplace. There are some exclusivities in that but they do not affect our other target markets. That's probably as much as I can say under our confidentiality agreement.

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Looking at the broader market, is this a normal lead time between detailed discussion and signing of a formal agreement or should we expect things to reaccelerate now we are in a "COVID normal" world?

MD

All our OEM discussions have different timeframes, and it is a little bit dependant on the market. That said, we've seen that a few OEM discussions including Fujifilm Irvine Scientific

being disrupted due to COVID. We literally haven't been able to visit for a couple of years, they haven't been able to sell some products, and in some parts of the world they stopped performing IVF procedures for periods over the last two years. So there's been disruption.

We are seeing, especially in North America, that people are moving around, people can get on planes, they're able to fly interstate, they're even able to fly from the USA to Europe and vice versa. This has allowed engagement with OEM partners, not just ones in existing discussions, but new partners have emerged over the last 3 months.

More importantly it is not just about OEMs. We're actually able to visit end customers to demonstrate our technology. Having a range of products, readers, software, including Bluechiip-Enabled consumables is very important, and we hope the markets remain open.

Was this last quarter the first quarter since the start of the COVID pandemic during which your sales teams could fully operate with face-to-face meetings?

MD

That's probably the best way to put it. We're proud that we've been able to continue working with Fujifilm Irvine Scientific over that period. We're doing remote online meetings with customers to assess our technology. I'm proud of the team and of what we have been able to achieve in this environment.

We've done installations of product remotely including in Europe, we installed into a site in Chicago in the middle of last year remotely. So, we have been able to do some of that work, but it is a lot more efficient and it is a lot more impactful for us to be able to go in and demonstrate our products to end customers and do that directly.
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