

16 August 2023

## New Sales Model Accelerating

### NEED TO KNOW

- Direct sales model gaining traction
- Recurring revenue growing
- Cash at FY23 end of A\$1.7m

**BCT's direct sales model is gaining traction** - 14 customers and 26 labs at FY23 end compared to nine customers with 10 labs at end FY22.

**New direct sales model growing contribution** - FY23 sales of A\$1.0m compared to A\$0.6m pcp. BCT's expanding sales force is expected to continue to grow its customer base and drive stronger sales momentum over FY24.

**Cash at FY23 end was A\$1.7m** - The cash balance included net proceeds of A\$2.9m Placement Share Purchase Plan and borrowings of A\$250k over Q4. MST assumes that BCT will need to raise A\$5m over FY24/25 period.

### Investment Thesis

**Competitive advantage** - BCT's Bluechiip® uniquely monitors each individual item, compared to its competitors which only monitor by cryo-storage box and other larger receptacles holding multiple items. BCT's competitive advantage is important to both regulators and customers.

**New marketing strategy to drive sales growth and expand margin** - BCT's new marketing strategy expands its Original Equipment Manufacturer (OEM) model to include a direct marketing role. The aim is to actively drive sales growth in the smaller to mid-sized customer markets. The model allows for higher margins and reduces its customer concentration risk.

**Strong industry growth outlook** – BCT's first target market, cell therapies, is expected to grow from ~US\$7.8b market in 2019 to ~US\$48.2b by 2027.<sup>1</sup>

### Valuation

MST's DCF 12-month valuation remains at \$0.06 per share, MST assumes that BCT's new direct sales marketing model will see the company free cashflow positive and profitable from 1HFY26 onwards. The model also assumes that BCT's 2-year contract agreement with Fujifilm Irvine Scientific and Labcon agreement continue at similar terms.

### Risks

MST's valuation is subject to upside/downside risks including market penetration, sector growth, competitor behaviour, regulatory change. Further funding will be required. BCT's new sales strategy may fail to gain market traction. BCT's key target market is the US, while the largest, it is also highly competitive. The industry regulatory environment may change, bringing upside and downside risk. BCT's Bluechiip® may create interest from competitors and other sector corporates seeking a point of differentiation.

### Equities Research Australia

#### Biotechnology & Plasma Products

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Bluechiip® provides advanced tracking and monitoring solutions for the management of biological samples across a wide range of applications. Based on a unique patented technology, the MEMS-based wireless tracking contains no electronics. It represents a generational change from current tracking methods such as labels (handwritten and pre-printed), barcodes (linear and 2D), and Radio Frequency Identification. Growth of cell based and other therapies in healthcare present BCT with significant opportunity.

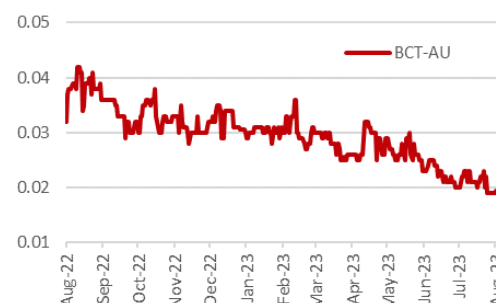
<https://www.bluechiip.com/>

Valuation	<b>A\$0.06 ps</b> <i>(unchanged)</i>
Current price	<b>A\$0.02ps</b>
Market cap	<b>A\$13m</b>
Cash on hand	<b>A\$1.7m</b> (as at June Qtr)

### Upcoming Catalysts and Newsflow

Period	
<b>FY24</b>	Finalise and execute Fuji supply agreement
<b>FY24</b>	Growth of direct sales customers
<b>FY24</b>	Expansion of sales force

### Share Price (A\$)



Source: FactSet, MST Access

<sup>1</sup> <https://www.alliedmarketresearch.com/cell-therapy-market>

**Bluechip Limited**

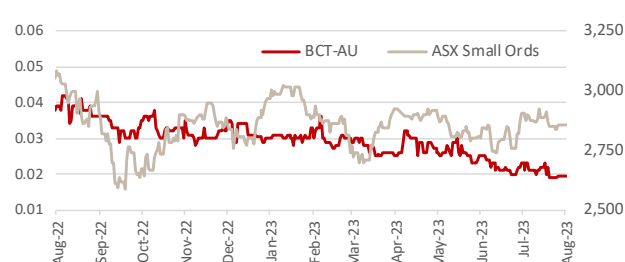
**BCT-AU**

Year end 30 June

**MARKET DATA**

Share Price	A\$/share	<b>0.02</b>
52 week high / low	A\$	0.02 - 0.05
Valuation (12 month forward)	A\$	<b>0.06</b>
Market capitalisation	A\$m	<b>13</b>
Shares on issue	m	714
Options	m	-
Other equity	m	200
Potential shares on issue (dil)	m	914

**12 month performance**



**INVESTMENT FUNDAMENTALS**

	FY21	FY22	FY23E	FY24E	FY25E
EPS Reported (undiluted)	¢ (0.5)	(0.5)	(0.6)	(0.3)	(0.1)
<b>EPS Underlying (undiluted)</b>	<b>¢ (0.5)</b>	<b>(0.5)</b>	<b>(0.6)</b>	<b>(0.3)</b>	<b>(0.1)</b>
Underlying EPS growth	% n/m	n/m	n/m	n/m	n/m
P/E Reported (undiluted)	x n/m	n/m	n/m	n/m	n/m
P/E at Valuation	x n/m	n/m	n/m	n/m	n/m
Dividend	¢ -	-	-	-	-
Payout ratio	% 0%	0%	0%	0%	0%
Yield	% -	-	-	-	-

**PROFIT AND LOSS (A\$)**

	FY21	FY22	FY23E	FY24E	FY25E
Revenue & Other Income	A\$m 1.8	1.7	2.4	3.6	6.3
Expenses	A\$m (5.0)	(4.8)	(6.3)	(6.3)	(7.0)
<b>EBITDA</b>	<b>A\$m (3.3)</b>	<b>(3.1)</b>	<b>(3.9)</b>	<b>(2.8)</b>	<b>(0.7)</b>
D&A	A\$m (0.0)	(0.0)	(0.0)	(0.0)	(0.1)
<b>EBIT</b>	<b>A\$m (3.3)</b>	<b>(3.1)</b>	<b>(3.9)</b>	<b>(2.8)</b>	<b>(0.7)</b>
Interest	A\$m 0.0	0.0	0.0	0.0	0.0
Tax	A\$m -	-	-	-	-
<b>Underlying NPAT</b>	<b>A\$m (3.2)</b>	<b>(3.1)</b>	<b>(3.9)</b>	<b>(2.8)</b>	<b>(0.7)</b>

**KEY RATIOS (A\$)**

	FY21	FY22	FY23E	FY24E	FY25E
Forecast year end shares	m 598	599	714	814	914
<b>Market cap (Y/E / Spot)</b>	<b>\$m 24.5</b>	<b>16.2</b>	<b>13.6</b>	<b>15.5</b>	<b>17.4</b>
Net debt / (cash)	\$m (5.9)	(2.8)	(1.1)	(0.8)	(2.7)
<b>Enterprise value</b>	<b>\$m 18.6</b>	<b>13.4</b>	<b>12.5</b>	<b>14.6</b>	<b>14.7</b>
EV/Sales	x 10.5	7.7	5.1	4.1	2.3
EV/EBITDA	x n/m	n/m	n/m	n/m	n/m
EV/EBIT	x n/m	n/m	n/m	n/m	n/m
Net debt / Enterprise Value	x n/m	n/m	n/m	n/m	n/m
<b>Gearing (net debt / EBITDA)</b>	<b>x n/m</b>	<b>n/m</b>	<b>n/m</b>	<b>n/m</b>	<b>n/m</b>
Operating cash flow per share	\$ (0.0)	(0.0)	(0.0)	(0.0)	(0.0)
<b>Price to operating cash flow</b>	<b>x n/m</b>	<b>n/m</b>	<b>n/m</b>	<b>n/m</b>	<b>n/m</b>
<b>Free cash flow</b>	<b>\$m (2.0)</b>	<b>(3.2)</b>	<b>(4.3)</b>	<b>(2.8)</b>	<b>(0.6)</b>
Free cash flow per share	\$ (0.00)	(0.01)	(0.01)	(0.00)	(0.00)
<b>Price to free cash flow</b>	<b>x n/m</b>	<b>n/m</b>	<b>n/m</b>	<b>n/m</b>	<b>n/m</b>
<b>Free cash flow yield</b>	<b>% n/m</b>	<b>n/m</b>	<b>n/m</b>	<b>n/m</b>	<b>n/m</b>
Book value / share	\$ 0.01	0.01	(0.00)	(0.00)	0.00
<b>Price to book (NAV)</b>	<b>x 1.6</b>	<b>2.6</b>	<b>(15.8)</b>	<b>(14.1)</b>	<b>20.6</b>
NTA / share	\$ 0.01	0.01	(0.00)	(0.00)	0.00
<b>Price to NTA</b>	<b>x 1.6</b>	<b>2.6</b>	<b>(15.8)</b>	<b>(14.1)</b>	<b>20.6</b>
EBITDA margin	% n/m	n/m	n/m	n/m	n/m
ROE (Average Equity)	% n/m	n/m	n/m	n/m	n/m
ROA (EBIT)	% n/m	n/m	n/m	n/m	n/m
Interest cover (EBIT / net interes	x n/m	n/m	n/m	n/m	n/m

**BALANCE SHEET (A\$)**

	FY21	FY22	FY23E	FY24E	FY25E
Cash	A\$m 5.9	2.8	1.7	1.5	3.3
Receivables	A\$m 1.1	1.1	0.1	0.2	0.3
Inventory	A\$m 1.6	3.0	0.1	0.1	0.2
PPE	A\$m 0.0	0.0	0.0	0.0	0.0
Intangibles	A\$m -	-	-	-	-
Other	A\$m 0.2	0.1	0.1	0.1	0.1
<b>Total Assets</b>	<b>A\$m 8.8</b>	<b>7.0</b>	<b>2.1</b>	<b>1.9</b>	<b>3.9</b>
Creditors	A\$m 0.4	0.4	0.1	0.2	0.3
Borrowings	A\$m -	-	0.6	0.6	0.6
Deferred Revenue	A\$m 1.1	1.9	1.9	1.9	1.9
Provisions	A\$m 0.1	0.1	0.3	0.3	0.3
Other	A\$m 0.1	0.2	-	-	-
<b>Total Liabilities</b>	<b>A\$m 1.8</b>	<b>2.6</b>	<b>2.9</b>	<b>3.0</b>	<b>3.1</b>
<b>Shareholder's equity</b>	<b>A\$m 7.1</b>	<b>4.4</b>	<b>(0.9)</b>	<b>(1.1)</b>	<b>0.8</b>

**CASH FLOW (A\$)**

	FY21	FY22	FY23E	FY24E	FY25E
Receipts from customers	A\$m 1.2	0.6	1.0	2.6	5.3
Payments to suppliers/employees	A\$m (5.4)	(4.9)	(6.7)	(6.3)	(7.0)
Milestones, Other Revenue	A\$m 2.1	1.1	1.3	1.0	1.0
Interest	A\$m 0.0	0.0	0.0	0.0	0.0
Tax	A\$m -	-	-	-	-
<b>Operating cash flow</b>	<b>A\$m (2.0)</b>	<b>(3.2)</b>	<b>(4.3)</b>	<b>(2.8)</b>	<b>(0.6)</b>
Capex	A\$m -	-	-	-	-
Acquisitions	A\$m -	-	-	-	-
Other	A\$m -	-	-	-	-
<b>Investing cash flow</b>	<b>A\$m -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Borrowings	A\$m -	-	0.6	-	-
Equity	A\$m (0.0)	(0.0)	2.6	2.5	2.5
Dividend	A\$m -	-	-	-	-
<b>Financing cash flow</b>	<b>A\$m (0.0)</b>	<b>(0.0)</b>	<b>3.3</b>	<b>2.5</b>	<b>2.5</b>
Change in Cash / FX	A\$m (2.0)	(3.2)	(1.0)	(0.3)	1.9
<b>Year end cash</b>	<b>A\$m 5.9</b>	<b>2.8</b>	<b>1.7</b>	<b>1.5</b>	<b>3.3</b>

Source: MST Access, FactSet, Company Reports

# New direct sales model gaining traction

BCT's new direct sales model is gaining traction with its US customer base expanding and its first EU client confirmed. BCT has traditionally marketed its novel microchip through the OEM model. The decision in 2021/22 to reduce 'single' customer risk saw BCT develop a direct to customer model. Its novel Bluechiip® can monitor temperatures from -196°C to +200°C. BCT's initial targets are the higher margin pharmaceutical industry and medical research laboratories. Its product offering includes its novel Bluechiip® enabled storage vessels, readers for monitoring storage conditions and software to record sample management.

## Momentum accelerating

Following the launch of its direct model in December 2021, BCT had grown its customer base to 14 end user customers with 26 laboratories at FY23 end. FY22 end saw nine customers with ten laboratories.

BCT recorded Q4FY23 sales of goods and engineering services of A\$171k (Q3FY23 - A\$203k). Cash at FY23 end of A\$1.7m which included net proceeds of ~A\$2.9m Placement and Share Purchase Plan and borrowings of A\$250k over Q4. The Q4 borrowings completed the full drawdown of an A\$650k facility. The facility is secured by BCT's expected FY23 R&D tax incentive refund, which is expected to be received over FY24. Staff costs of A\$3.7m for the full year versus A\$2.5m in FY22 reflected the ramp up company's new direct sales model. BCT continues to focus on the US market, noting it is pursuing distributor engagements in Spain, France and the UK.

BCT had grown its customer base to 14 end user customers with 26 laboratories at FY23 end.

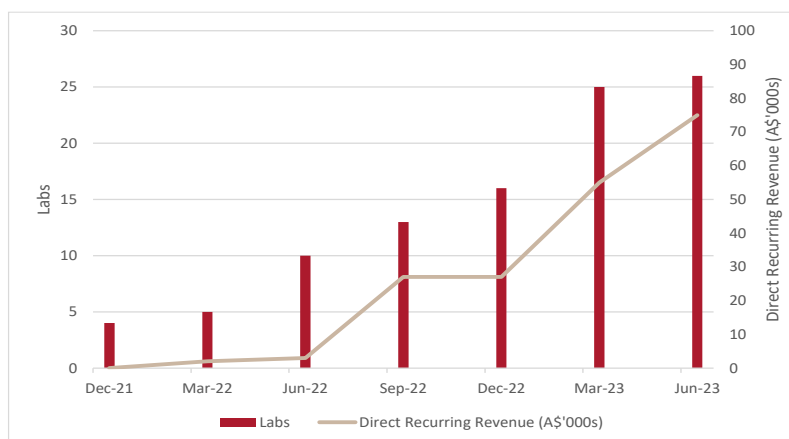
## Gaining traction following 6-month lead time

Figure 1: Rollout of new laboratories

	Dec Q 21	Mar Q 22	Jun Q 22	Sep Q 22	Dec Q 22	Mar Q 23	Jun Q 23
New Laboratories		1	5	2	1	12	1
<b>Total Laboratories</b>	<b>4</b>	<b>5</b>	<b>10</b>	<b>12</b>	<b>13</b>	<b>25</b>	<b>26</b>

Source: Bluechiip

Figure 2: Growth of Lab customers versus recurring revenue (A\$'000s)



Source: Bluechiip

The average time from 'signing on' a new customer to first revenues is commonly 6 months. BCT's revenues comprise 'initial' sales to establish the monitoring system (readers, storage vessels and microchips) with recurring revenues for items such as the microchips and storage devices. Recurring revenue of ~A\$75k was recorded for June quarter, up from A\$55k in March quarter and A\$27k in December 2022. FY24 revenue momentum is expected to be boosted by both initial sales and recurring revenues from the 12 New York Psychiatry Institute labs which were signed on in April 2023. In MST's view, the long lead times coupled with the lag in revenues from customer sign on versus sales force expenditure sees further capital raising required. We assume an additional A\$5m over FY24/25. Earlier sales momentum than forecasted may reduce MST's assumed capital requirements.

# Investment Thesis - leveraging BCT's unique technology in a changing market

Bluechiip® (BCT.AX) has developed a novel microchip for monitoring/tracking items/samples stored/transported in cryogenic temperatures. Its initial target market is the pharmaceutical industry.

The investment thesis is based on:

## 1. BCT's strategy to leverage its technology in a changing industry

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Regulatory oversight is growing with increasing compliance requirements for provenance of the samples.

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### Evolving industry demands higher standards

From a regulatory stance, as an emerging therapeutic approach, the strong growth of biological therapies brings higher risk and as such a demand for greater scrutiny. Regulatory oversight is growing with increasing compliance requirements for provenance of the samples and the need for storage conditions to be documented. Documentation including identification, type of sample/specimen, associated diseases and/or therapeutic protocols, environmental information are becoming accepted practice.

Recent recommendations from industry bodies include:

- The International Society for Biological and Environmental Repositories (ISBER) Best Practices recommends either evidence-based or consensus-based practices for collection, long-term storage, retrieval and distribution of specimens.
- ISBER Best Practices recommend that freeze/thaw cycles of samples should be kept to a minimum.
- College of American Pathologists Guidelines highlight the importance of monitoring temperature and any fluctuations.

### Bluechiip® uniquely meets emerging industry trends

BCT meets the need for more formalised, automated systems to manage the growing sample collections. Its novel microchip, Bluechiip®, monitors/tracks each sample that requires storage and/or transportation in temperatures ranging -196°C to +200°C. It is the only system that can provide data including temperature monitoring to the individual sample level. In addition, its 'Advanced Solution System' offers data management programs and as such, can provide its clients with efficiencies and cost benefits. Industry practices include hand-written labels that are commonly illegible in the frosted conditions and/or monitoring by cryoboxes and other larger storage vessels of multiple specimens. The current manual systems do not allow for accurate recording of removal/return of individual samples over time.

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Bluechiip® offers unique advantage of tracking each individual sample.

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## 2. Target sectors offer strong growth

BCT is initially targeting markets within the pharmaceutical sector, including In Vitro Fertilisation (IVF), stem cell and regenerative medicine therapies. From a commercial perspective, the sector offers high value and high margins with strong growth trends. Currently, billions of biological samples, including human/animal cells, bacteria, viruses, serum/plasma and DNA/RNA, are in storage for potential application in research, diagnostics and treatments. In addition, public (government) and private non-profit organizations are pursuing nation-wide or international programs for biobanking of specimens. Advances in cell and gene-based therapeutics, blood-based products, vaccines and medical services such as IVF also offer strong growth. Emerging therapies such as genomics and personalised medicine bring further growth. The potential for storage of up to 30 years compounds the demand for storage.

## 3. New direct sales model

MST's valuation is based on BCT's new sales/marketing strategy. Its 2020 dispute with Labcon North America, its largest OEM partner, highlighted its exposure to a 'single large customer risk'. To mitigate the risk and take advantage of its experience in the market, BCT is expanding its inhouse sales/marketing team. The new approach promises greater control, stronger revenues and higher margins.

# Valuation, Risks Sensitivities

MST's Discounted Cash Flow (DCF) 12-month valuation of BCT is \$0.06 per share (current share price of \$0.02ps). MST assumes that BCT's new marketing model will see the company free cash flow positive and profitable (NPAT) from 1HFY26 onwards. The valuation is subject to the upside/downside risks around the assumptions including roll out of its new sales strategy, sector growth and competitor behaviour.

BCT's new business strategy will require the appointment of further staff over FY24, bringing higher costs before significant revenue flows. As discussed, MST assumes further capital will be required. The assumptions may vary depending on sale revenues and margin momentum.

The implementation of the new strategy may vary to MST's assumptions which brings upside and downside risk. BCT may fail to gain market traction. BCT's key target market is the US. As the largest market it creates competitive tension. Timing may also vary to MST's estimates as BCT implements its new strategy. The industry regulatory environment may change, bringing upside and downside risk.

The model also assumes Fujifilm Irvine Scientific and Labcon contracts continue at similar terms. BCT's competitors include large multinational corporates such as Thermo Fisher Scientific Inc, (Market Capitalisation US\$210b) which have multiple product offerings and significantly greater marketing resources and reach. BCT's Bluechiip® may create interest from competitors and corporates seeking a point of differentiation. Proof of significant uptake of BCT's technology may invite corporate activity/licensing revenues.

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