

07 May 2024

Repeat Business is Supportive

NEED TO KNOW

- Sales driven by existing customers
- Conversion of 6 'potential' labs to 'active'
- Cash at ~A\$0.9m

Repeat sales driving momentum – Over prior two quarters, BCT's sales have comprised repeat orders from customers. Repeat orders support ongoing uptake of technology.

Conversion of six 'potential' labs to active: Typically, new customers trial technology in one lab before wider implementation. In MST's view, increasing customer confidence is displayed by the conversion of six 'potential' labs to 'active'.

Cash: Cash of A\$0.9m plus financial facility funding of \$0.2m allows for ~one quarter of funding.

Investment Thesis

Competitive advantage - BCT's Bluechiip® uniquely monitors each individual storage item. It compares 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 margins - BCT's new direct marketing strategy continues to bear fruit. 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.^[1]

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 1H FY26 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 sufficient market traction to support profitability. 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.

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

Equity Research Australia

Technology Hardware & Equipment

Rosemary Cummins, Senior Analyst
rosemary.cummins@mstaccess.com.au



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. www.bluechiip.com

| | |
|---------------|-----------------------------|
| Valuation | A\$0.060 (unchanged) |
| Current price | A\$0.007 |
| Market cap | A\$7.7m |
| Cash on hand | A\$0.9m |

Upcoming Catalysts / Next News

| Period | |
|--------|---------------------------------------|
| FY24 | Growth of customer base |
| FY24 | Additional labs of existing customers |
| FY24 | Growth of repeat sales |

Share Price (A\$)



Source: FactSet, MST Access

Figure 1: Financial Summary

| Bluechip Limited | | | | | | BCT-AU | | | | | | | |
|--------------------------------------|-----------|--------|--------|--------|--------|----------------------|------------------------|-------|-------|-------|-------|-------|-------|
| Year end 30 June | | | | | | | | | | | | | |
| MARKET DATA | | | | | | 12 month performance | | | | | | | |
| Share Price | A\$/share | | | | | 0.007 | | | | | | | |
| 52 week high / low | A\$ | | | | | 0.032 - 0.006 | | | | | | | |
| Valuation (12 month forward) | A\$ | | | | | 0.06 | | | | | | | |
| Market capitalisation | A\$m | | | | | 7.7 | | | | | | | |
| Shares on issue | m | | | | | 1,101 | | | | | | | |
| Options/Performance Shares | m | | | | | - | | | | | | | |
| Other equity | m | | | | | 200 | | | | | | | |
| Potential shares on issue (diluted) | m | | | | | 1,301 | | | | | | | |
| | | | | | | | | | | | | | |
| | | FY22A | FY23A | FY24E | FY25E | FY26E | | FY22A | FY23A | FY24E | FY25E | FY26E | |
| EPS Reported (undiluted) | ¢ | (0.5) | (0.8) | (0.5) | (0.1) | (0.0) | Revenue & Other Income | A\$m | 1.7 | 1.9 | 2.7 | 6.3 | 8.3 |
| EPS Underlying (undiluted) | ¢ | (0.5) | (0.8) | (0.5) | (0.1) | (0.0) | Expenses | A\$m | (4.8) | (6.8) | (7.2) | (7.7) | (8.3) |
| Underlying EPS growth | % | n/m | n/m | n/m | n/m | n/m | EBITDA | A\$m | (3.1) | (5.0) | (4.5) | (1.4) | 0.0 |
| P/E Reported (undiluted) | x | n/m | n/m | n/m | n/m | n/m | D&A | A\$m | (0.0) | (0.0) | (0.1) | (0.1) | (0.1) |
| P/E at Valuation | x | n/m | n/m | n/m | n/m | n/m | EBIT | A\$m | (3.1) | (5.0) | (4.6) | (1.5) | (0.0) |
| Dividend | ¢ | - | - | - | - | - | Interest | A\$m | 0.0 | (0.0) | (0.1) | 0.0 | 0.0 |
| Payout ratio | % | 0% | 0% | 0% | 0% | 0% | Tax | A\$m | - | - | - | - | (0.1) |
| Yield | % | - | - | - | - | - | NPAT | A\$m | (3.1) | (5.0) | (4.6) | (1.5) | (0.1) |
| | | | | | | | | | | | | | |
| | | FY22A | FY23A | FY24E | FY25E | FY26E | | FY22A | FY23A | FY24E | FY25E | FY26E | |
| Forecast year end shares | m | 599 | 714 | 1,101 | 1,201 | 1,201 | Cash | A\$m | 2.8 | 1.7 | 0.6 | 1.6 | 1.7 |
| Market cap (Y/E / Spot) | \$m | 16.2 | 5.0 | 7.7 | 8.4 | 8.4 | Receivables | A\$m | 1.1 | 1.1 | 0.2 | 0.3 | 0.4 |
| Net debt /(cash) | \$m | (2.8) | (1.1) | (0.3) | (1.4) | (1.5) | Inventory | A\$m | 3.0 | 3.2 | 3.4 | 3.4 | 3.4 |
| Enterprise value | \$m | 13.4 | 3.9 | 7.4 | 7.0 | 6.9 | PPE | A\$m | 0.0 | 0.2 | 0.3 | 0.3 | 0.3 |
| EV/Sales | x | 7.7 | 2.1 | 2.7 | 1.1 | 0.8 | Intangibles | A\$m | - | - | - | - | - |
| EV/EBITDA | x | n/m | n/m | n/m | n/m | n/m | Other | A\$m | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| EV/EBIT | x | n/m | n/m | n/m | n/m | n/m | Total Assets | A\$m | 7.0 | 6.3 | 4.5 | 5.7 | 5.8 |
| Net debt / Enterprise Value | x | n/m | n/m | n/m | n/m | n/m | Creditors | A\$m | 0.4 | 0.5 | 0.2 | 0.3 | 0.4 |
| Gearing (net debt / EBITDA) | x | n/m | n/m | n/m | n/m | n/m | Borrowings | A\$m | - | 0.7 | 0.3 | 0.3 | 0.3 |
| Operating cash flow per share | \$ | (0.0) | (0.0) | (0.0) | (0.0) | 0.0 | Deferred Revenue | A\$m | 1.9 | 2.3 | 2.2 | 2.2 | 2.2 |
| Price to operating cash flow | x | n/m | n/m | n/m | n/m | 112.6 | Provisions | A\$m | 0.1 | 0.3 | 0.3 | 0.3 | 0.3 |
| Free cash flow | \$m | (3.2) | (4.3) | (4.2) | (1.4) | 0.1 | Other | A\$m | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Free cash flow per share | \$ | (0.01) | (0.01) | (0.00) | (0.00) | 0.00 | Total Liabilities | A\$m | 2.6 | 3.9 | 3.2 | 3.3 | 3.4 |
| Price to free cash flow | x | n/m | n/m | n/m | n/m | 112.6 | Shareholder's equity | A\$m | 4.4 | 2.4 | 1.3 | 2.4 | 2.5 |
| Free cash flow yield | % | n/m | n/m | n/m | n/m | n/m | | | | | | | |
| Book value / share | \$ | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | | | | | | | |
| Price to book (NAV) | x | 1.0 | 2.1 | 5.8 | 3.5 | n/m | | | | | | | |
| NTA / share | \$ | n/m | n/m | n/m | n/m | n/m | | | | | | | |
| Price to NTA | x | n/m | n/m | n/m | n/m | n/m | | | | | | | |
| EBITDA margin | % | n/m | n/m | n/m | n/m | 1% | | | | | | | |
| 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 interest) | x | n/m | n/m | n/m | n/m | n/m | | | | | | | |
| | | | | | | | | | | | | | |
| | | FY22A | FY23A | FY24E | FY25E | FY26E | | | | | | | |
| CASH FLOW (A\$) | | | | | | | | | | | | | |
| Receipts from customers | A\$m | 0.6 | 1.0 | 1.8 | 5.3 | 7.3 | | | | | | | |
| Payments to suppliers/employees | A\$m | (4.9) | (6.6) | (7.4) | (7.7) | (8.3) | | | | | | | |
| Milestones, Other Revenue | A\$m | 1.1 | 1.3 | 1.4 | 1.0 | 1.0 | | | | | | | |
| Interest | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | | |
| Tax | A\$m | - | - | - | - | - | | | | | | | |
| Operating cash flow | A\$m | (3.2) | (4.2) | (4.2) | (1.4) | 0.1 | | | | | | | |
| Capex | A\$m | - | (0.1) | (0.0) | - | - | | | | | | | |
| Acquisitions | A\$m | - | - | - | - | - | | | | | | | |
| Other | A\$m | - | - | - | - | - | | | | | | | |
| Investing cash flow | A\$m | - | (0.1) | (0.0) | - | - | | | | | | | |
| Borrowings | A\$m | - | 0.6 | (0.5) | - | - | | | | | | | |
| Equity | A\$m | (0.0) | 2.6 | 3.6 | 2.5 | - | | | | | | | |
| Dividend | A\$m | - | - | - | - | - | | | | | | | |
| Financing cash flow | A\$m | (0.0) | 3.3 | 3.1 | 2.5 | - | | | | | | | |
| Change in Cash / FX | A\$m | (3.2) | (1.0) | (1.2) | 1.1 | 0.1 | | | | | | | |
| Year end cash | A\$m | 2.8 | 1.7 | 0.6 | 1.6 | 1.7 | | | | | | | |

Source: Company reports

Repeat sales/additional labs support BCT's technology

Figure 2: Key Q3FY24 Financial Data

| Quarterly Performance | | | | |
|-----------------------|--------|--------|----------|----------|
| | Jun-23 | Sep-23 | Dec-CY23 | Mar-CY24 |
| Cash of Receipts | \$164K | \$267K | \$90K | \$61K |
| Sales | \$171K | \$200K | \$126K | \$40K |
| Repeat sales | \$75K | \$163K | \$126K | \$40K |
| No of Labs | 26 | 27 | 28 | 34 |
| Potential Labs | 108 | 118 | 126 | 120 |
| End users | 14 | 16 | 17 | 17 |

Source: BCT reports

BCT's 4C report included:

- Q3FY24 sales of \$40K and cash receipts of \$61K were down on recent previous quarters. However, MST notes that the sales were repeat sales, indicating ongoing uptake from BCT's customer base.
 - Stronger sales momentum to come
- It is important to note that it commonly takes BCT ~ six months to fully 'on board' a new customer.
- Customers usually 'trial' a new technology in one lab before wider adoption. Sales momentum going forward looks to be underpinned by the addition of six 'labs from New York State Psychiatric Research Institute becoming active over the Q and ongoing adoption in the existing customer labs. The 17 current customers operate an additional ~120 laboratories globally, thereby offering a deep pipeline. In addition, BCT reported that its technology was operational in two additional global pharma companies.
- The current customer base including three big pharma entities and an IVY League institution, provides strong credibility of BCT's unique approach.
 - BCT continues to expand its sales and marketing teams for US and EU, its key markets.

Financials

Expenses for the H1FY24 of \$3.75m compared to \$3.14 m pcp in H1FY23. The sales/marketing activities, particularly in the US, contributed to staff costs of US\$2.92m for H1FY24. The finance cost of \$75K reflected the interest cost of R&D advance facility from the previous year.

Cash inflows included the FY24 Australian Government R&D Tax Incentive Refund of A\$931K. The refund payment was used in part to repay the R&D advance of \$650K, secured by the R&D Tax incentive FY23. The company made two drawdowns totaling \$450K in a new R&D Advance facility. In February 2024, BCT undertook capital raising of \$4.8m.

FY24/FY25

Over FY24/FY25, the company focus will continue on sales/operations. Timing of new contracts are likely to vary according due to the clients' budgeting processes. Commonly, funding for research institutes and government repositories and biobanks are based around annual budgeting processes. In contrast, large pharma companies can more readily accommodate new opportunities.

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 evolving industry 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. In response, the regulators are demanding higher compliance requirements for provenance of the samples and greater documentation of storage conditions. Data including identification, type of sample/specimen, associated diseases and/or therapeutic protocols, environmental information are becoming accepted practice.

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.

2. 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.

3. Target sectors offer strong growth

BCT is 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 genomic-based, personalised medicines are expected to bring further growth. The potential for storage of up to 30 years compounds the demand for storage.

4. MST notes that while BCT's key focus is its direct sales strategy, it continues to pursue potential OEM partners.

Valuation, Risks Sensitivities

MST's Discounted Cash Flow (DCF) 12-month valuation of BCT is \$0.06 per share. 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.

MST assumes further capital will be required. The assumptions may vary depending on sale revenues and margin momentum. 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\$218b) 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.

Personal disclosures

Rosemary Cummins received assistance from the subject company or companies in preparing this research report. The company provided them with communication with senior management and information on the company and industry. As part of due diligence, they have independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in this report. They have taken care to maintain honest and fair objectivity in writing this report and making the recommendation. Where MST Financial Services or its affiliates has been commissioned to prepare content and receives fees for its preparation, please note that NO part of the fee, compensation or employee remuneration paid has, or will, directly or indirectly impact the content provided in this report.

Company disclosures

The companies and securities mentioned in this report, include:

Bluechip (BCT.AX) | Price A\$0.007 | Valuation A\$0.060;

Price and valuation as at 07 May 2024 (not covered)*

Additional disclosures

This report has been prepared and issued by the named analyst of MST Access in consideration of a fee payable by: Bluechip (BCT.AX)

MST Financial Services or its affiliates has received compensation for investment banking services in the past twelve months from: Bluechip (BCT.AX)

MST Financial Services or its affiliates managed or co-managed a public offering of securities in the past twelve months for: Bluechip (BCT.AX)

Within the last 12 months, MST and its associates have provided and received compensation for investment banking services, including acting as Lead Manager for the May 2023 capital raising of approximately A\$2.2 million, Lead manager for the October 2023 capital raising of approximately A\$1.63 million and Lead Manager for the February 2024 capital raising and entitlement offer of approximately \$2.13 million for Bluechip (BCT.AX).

Other disclosures, disclaimers and certificates

Methodology & Disclosures

MST Access is a registered business name of MST Financial Services Limited (ABN 617 475 180 "MST Financial Services"), which is a limited liability company incorporated in Australia on 10 April 2017 and holds an Australian Financial Services Licence (AFSL 500 557). This research is issued in Australia through MST Access, which is the research division of MST Financial Services. The research and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by MST Access is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a financial product you should read any relevant Product Disclosure Statement or like instrument.

ECM and corporate advisory services: MST Financial Services provides equity capital markets ("ECM") and corporate advisory services through its capital markets division, MST Capital Markets ("MST Capital"). MST Capital provides these services to a range of companies including clients of MST Access. As such, MST Capital may in the future provide ECM and/or corporate advisory services and, accordingly, may receive fees from providing such services. However, MST Financial Services has measures in place to ensure the independence of its research division is maintained, including information barriers between its Capital Markets and Research teams. In addition, neither MST Access, nor any of its research analysts, receive any financial benefit that is based on the revenues generated by MST Capital or any other division of MST Financial Services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently certified. Opinions contained in this report represent those of MST Access at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results and estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of liability: To the fullest extent allowed by law, MST Access shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained in this report. No guarantees or warranties regarding accuracy, completeness or fitness for purpose are provided by MST Access, and under no circumstances will any of MST Financial Services' officers, representatives, associates or agents be liable for any loss or damage, whether direct, incidental or consequential, caused by reliance on or use of the content.

General Advice Warning

MST Access Research may not be construed as personal advice or recommendation. MST Access encourages investors to seek independent financial advice regarding the suitability of investments for their individual circumstances and recommends that investments be independently evaluated. Investments involve risks and the value of any investment or income may go down as well as up. Investors may not get back the full amount invested. Past performance is not indicative of future performance. Estimates of future performance are based on assumptions that may not be realised. If provided, and unless otherwise stated, the closing price provided is that of the primary exchange for the issuer's securities or investments. The information contained within MST Access Research is published solely for information purposes and is not a solicitation or offer to buy or sell any financial instrument or participate in any trading or investment strategy. Analysis contained within MST Access Research publications is based upon publicly available information and may include numerous assumptions. Investors should be aware that different assumptions can and do result in materially different results.

MST Access Research is distributed only as may be permitted by law. It is not intended for distribution or use by any person or entity located in a jurisdiction where distribution, publication, availability or use would be prohibited. MST makes no claim that MST Access Research content may be lawfully viewed or accessed outside of Australia. Access to MST Access Research content may not be legal for certain persons and in certain jurisdictions. If you access this service or content from outside of Australia, you are responsible for compliance with the laws of your jurisdiction and/or the jurisdiction of the third party receiving such content. MST Access Research is provided to our clients through our proprietary research portal and distributed electronically by MST Financial Services to its MST Access clients. Some MST Access Research products may also be made available to its clients via third party vendors or distributed through alternative electronic means as a convenience. Such alternative distribution methods are at MST Financial Services' discretion.

Access & Use

Any access to or use of MST Access Research is subject to the [Terms and Conditions](#) of MST Access Research. By accessing or using MST Access Research you hereby agree to be bound by our Terms and Conditions and hereby consent to MST Financial Services collecting and using your personal data (including cookies) in accordance with our [Privacy Policy](#), including for the purpose of a) setting your preferences and b) collecting readership data so we may deliver an improved and personalised service to you. If you do not agree to our Terms and Conditions and/or if you do not wish to consent to MST Financial Services' use of your personal data, please do not access this service.

Copyright of the information contained within MST Access Research (including trademarks and service marks) are the property of their respective owners. MST Access Research, video interviews and other materials, or any portion thereof, may not be reprinted, reproduced, sold or redistributed without the prior written consent of MST Financial Services.