

13 December 2023

Momentum Continues

NEED TO KNOW

- Direct sales model continues to bear fruit
- Repeat orders up 85% Q on Q
- Cash at ~A\$2.9m

BCT's direct sales model continues to bear fruit - 17 customers operate 130 laboratories globally offering a rich pipeline.

Recurring revenue continues to grow – BCT has reported that its repeat revenues have doubled in the three months to September 2023 and repeat orders are up 85% Q on Q.

FY24 financials: Following the capital raise in October 2023, BCT reported cash of ~\$2m. It has subsequently received A\$0.9m through the Australian Government R&D Tax Incentive program.

Investment Thesis

Competitive advantage - BCT's Bluechiip® uniquely monitors each individual storage 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 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 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.

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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	A\$0.06ps (unchanged)
Current price	A\$0.02ps
Market cap	A\$12.6m
Cash on hand	~A\$2.9m (post R&D refund)

Upcoming potential catalysts and newsflow

Period	
FY24	Growth of direct sales customers
FY24	Expansion of sales force

Share Price (A\$)



Source: FactSet, MST Access

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

Bluechip Limited

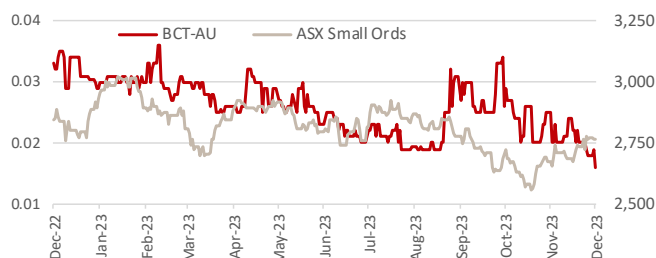
BCT-AU

Year end 30 June

MARKET DATA

Share Price	A\$/share	0.02
52 week high / low	A\$	0.036-0.017
Valuation (12 month forward)	A\$	0.06
Market capitalisation	A\$m	12.6
Shares on issue	m	791
Options	m	-
Other equity	m	200
Potential shares on issue (dil)	m	991

12 month performance



INVESTMENT FUNDAMENTALS	FY22	FY23	FY24E	FY25E	FY26E
EPS Reported (undiluted)	¢ (0.5)	(0.8)	(0.3)	(0.1)	0.0
EPS Underlying (undiluted)	¢ (0.5)	(0.8)	(0.3)	(0.1)	0.0
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\$)	FY22	FY23	FY24E	FY25E	FY26E
Revenue & Other Income	A\$m 1.7	1.9	4.0	6.3	8.3
Expenses	A\$m (4.8)	(6.8)	(6.7)	(7.2)	(7.7)
EBITDA	A\$m (3.1)	(5.0)	(2.7)	(0.9)	0.6
D&A	A\$m (0.0)	(0.0)	(0.0)	(0.1)	(0.1)
EBIT	A\$m (3.1)	(5.0)	(2.7)	(1.0)	0.5
Interest	A\$m 0.0	(0.0)	0.0	0.0	0.0
Tax	A\$m -	-	-	-	(0.2)
NPAT	A\$m (3.1)	(5.0)	(2.7)	(0.9)	0.4

KEY RATIOS (A\$)	FY22	FY23	FY24E	FY25E	FY26E
Forecast year end shares	m 599	714	791	891	891
Market cap (Y/E / Spot)	\$m 16.2	12.8	14.2	16.0	16.0
Net debt / (cash)	\$m (2.8)	(1.1)	0.0	(1.6)	(2.2)
Enterprise value	\$m 13.4	11.8	14.3	14.5	13.8
EV/Sales	x 7.7	6.3	3.6	2.3	1.7
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
Gearing (net debt / EBITDA)	x n/m	n/m	n/m	n/m	n/m
Operating cash flow per share	\$ (0.0)	(0.0)	(0.0)	(0.0)	0.0
Price to operating cash flow	x n/m	n/m	n/m	n/m	25.2
Free cash flow	\$m (3.2)	(4.3)	(2.6)	(0.9)	0.6
Free cash flow per share	\$ (0.01)	(0.01)	(0.00)	(0.00)	0.00
Price to free cash flow	x n/m	n/m	n/m	n/m	25.2
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 2.5	5.4	20.4	6.9	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	7%
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\$)	FY22	FY23	FY24E	FY25E	FY26E
Cash	A\$m 2.8	1.7	0.6	2.2	2.9
Receivables	A\$m 1.1	1.1	0.2	0.3	0.4
Inventory	A\$m 3.0	3.2	3.2	3.2	3.2
PPE	A\$m 0.0	0.2	0.2	0.2	0.2
Intangibles	A\$m -	-	-	-	-
Other	A\$m 0.1	0.1	0.1	0.1	0.1
Total Assets	A\$m 7.0	6.3	4.3	6.0	6.7
Creditors	A\$m 0.4	0.5	0.2	0.3	0.4
Borrowings	A\$m -	0.7	0.7	0.7	0.7
Deferred Revenue	A\$m 1.9	2.3	2.3	2.3	2.3
Provisions	A\$m 0.1	0.3	0.3	0.3	0.3
Other	A\$m 0.2	0.2	0.2	0.2	0.2
Total Liabilities	A\$m 2.6	3.9	3.6	3.7	3.8
Shareholder's equity	A\$m 4.4	2.4	0.7	2.3	2.9

CASH FLOW (A\$)	FY22	FY23	FY24E	FY25E	FY26E
Receipts from customers	A\$m 0.6	1.0	2.6	5.3	7.3
Payments to suppliers/employees	A\$m (4.9)	(6.6)	(6.7)	(7.2)	(7.7)
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)	(2.6)	(0.9)	0.6
Capex	A\$m -	(0.1)	-	-	-
Acquisitions	A\$m -	-	-	-	-
Other	A\$m -	-	-	-	-
Investing cash flow	A\$m -	(0.1)	-	-	-
Borrowings	A\$m -	0.6	-	-	-
Equity	A\$m (0.0)	2.6	1.5	2.5	-
Dividend	A\$m -	-	-	-	-
Financing cash flow	A\$m (0.0)	3.3	1.5	2.5	-
Change in Cash / FX	A\$m (3.2)	(1.0)	(1.1)	1.6	0.6
Year end cash	A\$m 2.8	1.7	0.6	2.2	2.9

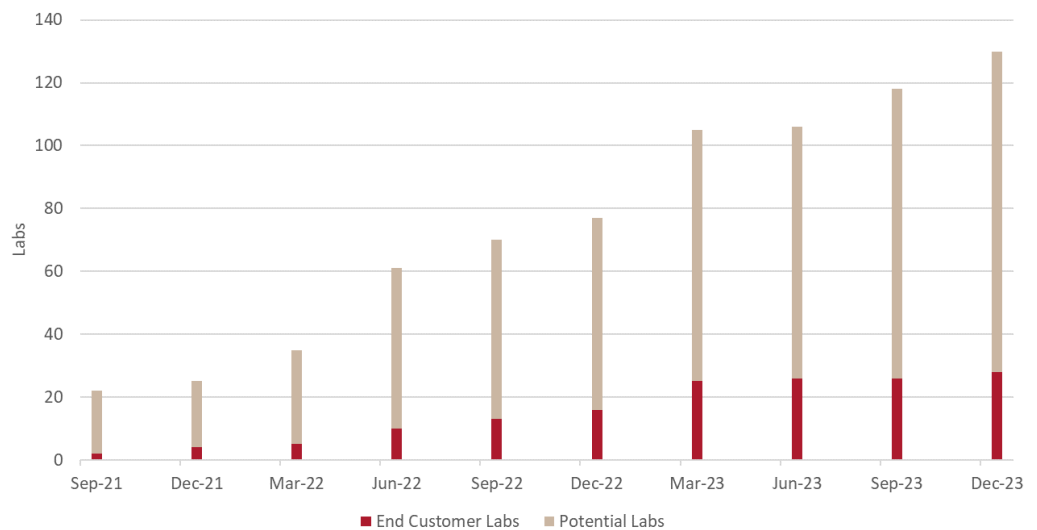
Source: MST Access, FactSet, Company Reports

Momentum Continues

BCT's decision to adopt a direct sales strategy continues to bear fruit. It has reported:

- Repeat revenue doubled in the three months to September 2023
- Repeat orders from the existing customer base were up 85% Q on Q.
- Number of laboratories using BCT technology has ~2X over past 18 months to 27
- 17 current customers operate ~130 laboratories globally, thereby offering a deep pipeline
- Customer base includes three global 'big pharma' and an ivy league research institute
- BCT continues to expand its sales and marketing teams for US and EU.

Figure 1: Potential growth through customer's affiliated labs



Source: BCT

Building for the growth

Boosting supply chain

BCT continues to build its supply chain, with ~3m chips in inventory and scaled production capacity to 5m chips pa.

Ongoing innovation to meet customer needs

BCT's novel Bluechiip[®] is a unique automated storage system, taking away the risk of human error. It provides for guided storage and retrieval of the samples from the laboratories' cryotanks. BCT's innovation continues as it responds to customer needs. As an example, its Hierarchy of Storage system guides the technician to the actual sample – identifying the current tank, rack and position within the rack. It allows for automatic updating of the sample's storage and reducing risk of loss of samples.

FY24 will continue to focus on US and EU

BCT will leverage its growing presence in the US and EU, the largest potential markets.

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

Evolving industry demanding 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 documentation of storage conditions. Data 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.

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.

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

Bluechiip® offers unique advantage of tracking each individual sample.

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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