

Bluechiip battles against the odds

PUBLISHED: 10 Feb 2011 04:05:44

Tony Featherstone

Rising interest in biotech is filtering through to the float market. Two biotechs have listed since December and a third, Bluechiip, will soon join them.

The ability to raise capital again through initial public offerings is an important development for capital-hungry biotechs. The IPO window has been mostly shut for biotech.

Only five biotechs have listed since 2008, with mixed results. The global financial crisis crushed IPO ambitions and the mining boom overshadowed the biotech sector.

The mood is changing. Success stories, such as Acrux and Mesoblast, gave the biotech sector new life last year and several biotechs are nearing vital research milestones.

It will only take a few research wins to jar the IPO window open for biotechs in 2011, even though the sector has a habit of losing momentum and disappointing investors.

Big share-price gains from biotech IPOs would help, too. Bioniche Life Sciences is trading near its \$1.45 issue price after listing last month.

Shares in Reva Medical, the largest biotech IPO in years, rose from \$1.10 to \$1.29 after listing in December. CBIO, an early 2010 listing, languishes below its \$1 issue price.

A 2008 listing, Fluorotechnics, sunk from a \$1 issue price to 4¢. Austofix Group is down from \$1.50 to 60¢. Genera Biosystems is back at its 50¢ issue price after strong price gains in 2009.

Bluechiip is a different proposition. The Victorian company's wireless tracking technology can be applied to several industries. The company wants up to \$6 million to commercialise technology that makes it safer and more efficient to store frozen biological samples, such as for stem cells or invitro fertilisation.

Samples are mostly labelled manually or have barcodes. Cryogenic freezing can frost over labels, make them hard to read and increase the human-error risk.

Removing samples to read labels can be time consuming for laboratory staff and contravene specimen quality in some instances if samples are disrupted to check labels.

Radio frequency identification technology, used in security passes for example, was an option to track sample bags, tubes or vials. But RFID does not work in extreme temperatures.

Bluechiip's technology overcomes this limitation by using micro electro mechanical systems (MEMS) that, simply put, have fewer mechanical properties and withstand freezing temperatures.

Bluechiip's origins stretch back a decade. The technology's inventor, Ronald Zmood, was a former RMIT University academic and a leading MEMS expert.

Brett Schwarz, a former chartered accountant with Arthur Andersen, convinced Zmood, his father-in-law, to start a consultancy in 2001.

The idea for Bluechiip came when a large poultry company asked Zmood to design a temperature device to reduce spoilage of frozen-chicken exports to Asia.

Zmood and Schwarz saw potential to apply the concept to other frozen products. The obvious market was medicine. Bluechiip was incorporated in 2003.

A \$375,000 capital raising from family and friends in 2005 gave Bluechiip lift-off. A year later, Bluechiip raised \$2.5 million in two tranches and hired four engineers.

The company wanted to list in 2007. The GFC saw IPO plans abandoned, another \$500,000 raised, and Bluechiip surviving on government grants.

Capital was still tight in 2010, so Bluechiip tried a backdoor ASX listing that fell through.

Plan B was another IPO attempt. Like many that wanted to list in December, Bluechiip extended its offer into 2011. Early reports suggest Bluechiip will secure its minimum \$3 million subscription and push for \$6 million.

The technology has potential in a global market where tens of millions of new specimens are stored each year for medical or research purposes. Bio-banking is big business.

Still, the danger is falling in love with the technology and overlooking the business model, timetable to profit,

commercialisation path and valuation.

Bluechiip has contracts for the highly specialised manufacture of its chips and readers overseas. It wants a handful of large bioscience companies as distributors. By outsourcing manufacturing, it can focus on securing distributors and finding new uses for its technology. It has a strong manufacturing partner in STMicroelectronics. Another six months are needed for final production testing.

A chip might cost 50¢ to make and be sold for \$1 or more depending on usage. Each chip reader will sell upwards of \$3000, with extra charges for software. In time, Bluechiip might earn consulting revenue.

Only one distributor has been signed, with talk of few large deals in the wings. If all goes well, Bluechiip should be in production later next year with first profits from mid-2013.

However, so much can go wrong: manufacturing and distribution delays, production risk and superior technologies emerging are just a few threats. Bluechiip will rely heavily on other companies.

Perhaps the biggest challenge is the time taken to convince medical companies and their staff to change labelling systems used for decades. Medical firms will surely test the technology for months before making decisions.

The question is whether the valuation reflects these risks. Bluechiip is issuing up to 24 million 25¢ shares through the IPO. About 90 million shares will capitalise it at \$22 million.


More than \$8 million has been invested in the technology. The last independent valuation for Bluechiip was \$10 million 18 months ago, although much has changed since then.

Just over 30 million options could be held by seed investors, management and new investors. Management have reasonable performance hurdles for their 21.7 million options before options are granted. With an 18.75¢ strike price, directors will be well rewarded if targets are met.

Founders deserve their rewards if Bluechiip succeeds. Schwarz invested his own money and has stuck with Bluechiip for eight years while he and his wife raised four young children. He diluted his shareholding from 40 per cent to 10 per cent to raise capital.

True believers will hope a tiny Australian venture with unique technology can succeed in a billion-dollar global market. The odds are stacked against it.

Float facts	
Company	Bluechiip
Operations	Wireless tracking technology used for biological samples
Minimum subscription	\$3 million
Maximum subscription	\$6 million
Issue price	25 cents
Market capitalisation at listing	\$22.5 million (at maximum subscription)
Offer closes	February 28
Expected listing date	March 14
Website	www.bluechiip.com



SOURCE: ASX

The Australian Financial Review