



BUY

GTG
GENE

Price
\$0.039
USD4.46

12 Mo. Target
\$0.062
USD7.09

Genetic Technologies (GTG)

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Primed to move forward

Report Summary

- Genetic Technologies is now clearly focused on growing BREVAGen^{plus}® revenues.
- Strategy to grow revenues developed and implemented.
- Structure and staff in place to support focus.
- Recurrent expenditure significantly reduced.

Company Details

ASX Code:	GTG
NASDAQ ADR Code :	GENE
ASX Price:	3.9¢
ADR Price:	USD4.46*
Shares on Issue:	1.7b
Market Capitalisation:	\$66.9m
12-Month Price Range:	1.2¢ – 9.1¢
Monthly Volume (shares, April 15)	155m

*1 ADR = 150 GTG shares

Comparable Companies

Company	Exchange	Ticker	EV ^{1,2}
CareDx Inc	NASDAQ	CDNA	\$23.4m
Response Genetics	NASDAQ	RGDX	\$11.7m
Rosetta Genomics	NASDAQ	ROSG	\$36.8m
Trovagene	NASDAQ	TROV	\$283.7m
Veracyte	NASDAQ	VCYT	\$202.0m
Vermillion	NASDAQ	VRML	\$78.2m

¹Enterprise Value = Market Capitalisation minus Cash
²AUD as at 14 May 2015

Directors & Chief Executive

Dr Malcolm Brandon	Non-Executive Chairman
Dr Paul Kasian	Non-Executive Director
Mr Grahame Leonard	Non-Executive Director
Dr Lindsay Wakefield	Non-Executive Director
Mr Eutillio Buccilli	Chief Executive Officer

Share Price Chart



Source: FactSet

Recommendation: Buy recommendation with a 12-month price target of 6.2 cents per share.

Event: Genetic Technologies released its January – March 2015 quarterly report late last month (April). The report showed that the company finished the period with \$20.2m in cash. Cash receipts from customers were \$363k, while cash burn came in at -\$2.6m. BREVAGen^{plus}® samples received finished the quarter at 512, declining from 800 in the pcp. Finally, legal counsel (Sheridan-Ross) for the company has chosen to appeal a US court decision which has halted Genetic Technologies patent assertion program.

Comment: Genetic Technologies ended Q2 FY15 with only \$1.3m or approximately six weeks cash on hand. Consequently, the company's capital raising initiatives were, by far, its most significant achievement for the quarter. Importantly, the amount of cash raised will be enough to allow the company to complete its near-term restructuring, implement its medium term strategy and give BREVAGen^{plus}® every chance for success.

Evidence from the company's quarterly report indicates that it has gotten a handle on costs. Other working capital, which we believe almost exclusively represents the company's US operations, decreased 21% on a constant currency basis relative to the PCP. Moreover, savings from the sale last year of the Australian heritage genetic testing business are coming through, with staff costs down 38% relative to the PCP.

We are also of the belief that the company's pre-raising cash position was severely limiting its ability to undertake cost-out initiatives (e.g. pay out redundancies) and implement its new strategy. It also appears to have indirectly taken its toll on BREVAGen^{plus}® kits received (down 36% on the PCP), with a number of US sales representatives believed to have left early in Q3 FY15 rather than await their fate in the restructuring. Ultimately, though, this has probably worked in the company's longer term favour, with the accelerated natural attrition enabling it to more easily restructure once it had strengthened its balance sheet.

Going forward, Genetic Technologies should be able to get back to effectively managing its business and driving growth in a controlled fashion, as their strong balance sheet now allows. The BREVAGenTM concept has already demonstrated market acceptance even in a sub-optimal form (validated for Caucasian women only). Re-igniting sales and, subsequently, demonstrating significant growth in kits received with the much more optimal BREVAGen^{plus}® (with applicability toward Caucasian, Black and Hispanic women) and the company's now considerable experience in the US market is a relatively low hurdle.

Nonetheless, money must be spent to make it. A good guide to the company is likely to come from a metric that measures both sales revenue and associated costs. In our view, the ratio represented by "receipts from customers" divided by the sum of "staff costs" plus "other working capital" is probably the best metric for tracking the company's progress. **This ratio is currently 13%** and should improve going forward. "Advertising and marketing" and "research and development" spend are also important components, but their benefits lag the expense and, hence, why we have excluded them when calculating this key metric.

It is a positive that Sheridan-Ross has chosen to appeal one court's ruling regarding the '179 patent and should the appeal be successful, Genetic Technologies is likely to be in a position to settle the several outstanding lawsuits it has against a number of large companies. Combined, such settlements could see the company bolster its cash position by a high six figure sum. It is highly likely, however, that Genetic Technologies patent assertion program would end there.

Conclusion: Genetic Technologies has the funds available to ensure BREVAGen^{plus}® has the best possible chance at success. Importantly, the cost benefits of the company's ongoing restructuring and fiscal responsibility of current management have been demonstrated. **In our opinion, the company is primed to move forward positively.**

Methodology & Valuation

We have valued Genetic Technologies and set our 12-month price target based on the enterprise values (EV) of comparable companies. Table 1 provides an overview of those comparables used in deriving a value for Genetic Technologies. Each comparable sells a laboratory developed test or tests and has a general business plan very similar to Genetic Technologies. Given the absence of suitable ASX listed companies, we have sourced our comparables from the United States. EV has been calculated simply as market capitalisation minus cash, since few of these companies of this nature carry debt and those that do generally only have a small amount. Table 2 outlines the weightings given to each of the comparables and shows how we have derived our 12-month price target from our comparable-derived fair EV of Genetic Technologies. The derived fair EV was multiplied by one (1) plus a discount rate of twelve percent (12%) to determine a 12-month EV target. Genetic Technologies current cash balance was then added to the EV target and the resultant number (essentially a 12-month market capitalisation target) divided by the number of shares on issue to give a **12-month price target of 6.2 cents per share**.

Table 1. Comparable companies used to determine a fair enterprise value for Genetic Technologies.

Company	Exchange	Ticker	Mkt Cap ^{1,2}	Cash ¹	EV ^{1,3}	Last FY ⁴ Revenues ¹	Last FY Profit/Loss ¹
CareDx	NASDAQ	CDNA	\$71.5	\$48.85	\$23.4	\$32.31	\$1.00
Response Genetics	NASDAQ	RGDX	\$14.4	\$2.76	\$11.7	\$18.29	-\$17.16
Rosetta Genomics	NASDAQ	ROSG	\$56.0	\$19.51	\$36.8	\$1.66	-\$18.19
Trovagene	NASDAQ	TROV	\$338.0	\$55.10	\$283.7	\$0.35	-\$17.97
Veracyte	NASDAQ	VCYT	\$245.2	\$43.86	\$202.0	\$47.83	-\$36.79
Vermillion	NASDAQ	VRML	\$99.5	\$21.59	\$78.2	\$3.16	-\$24.05

¹Million AUD; ²As of 14 May 2015; ³EV = Enterprise Value = Market Capitalisation minus Cash; ⁴FY = Financial Year

Company	Overview
CareDx	Lead molecular diagnostic, termed AlloMap [®] , is a gene expression-based test designed to monitor heart transplant patients for organ rejection. They are also working on cell-free DNA as a means of monitoring heart and kidney transplant patients.
Response Genetics	Tests analyse mutation and gene expression status of cancers (lung, colon, gastric, breast, thyroid and brain cancers and melanoma) to aid in treatment decisions.
Rosetta Genomics	Developing tests based on microRNA. The cancer origin test determines the likely primary tumour linked to a cancer of unknown origin. The lung cancer, kidney cancer and mesothelioma tests differentiate cancers by histological type.
Trovagene	Systemic monitoring of the mutations present in cancer patients (genes: BRAF, KRAS, EGFR, high risk HPV). Test is designed to allow a doctor to change a cancer patient's treatment based on changing mutational status.
Veracyte	A molecular cytology company. Lead product, Afirma, is designed to help determine which patients with thyroid nodules should undergo surgery. They have a similar product being developed for lung nodules. A further test is being developed to distinguish different types of lung diseases.
Vermillion	Their main product, Ova1, is used in combination with clinical impression to determine if the patient should be referred to a gynaecologic oncologist.

Table 2. Comparable weightings and Genetic Technologies (GTG) price target calculation.

Comparables	Weighting (%)	Price Target Calculation	
CareDx Inc	5%	Present Estimated GTG EV	\$76.5m
Response Genetics	20%	Discount Rate	12.0%
Rosetta Genomics	20%	12-Month Estimated GTG EV	\$85.7m
Trovagene Inc	5%	12-Month Estimated GTG Mkt Cap	\$105.9m
Veracyte Inc	10%	12-Month Price Target	\$0.062
Vermillion	40%		

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Expected total Return is measured as (capital gain (or loss) + dividend)/purchase price

We have divided our recommendations into three main categories:

Buy: Expected Total Return in excess of 15% over a 1 year period.

Hold: Expected Total Return between 0% and 15% over a 1 year period.

Sell: Expected Total Return less than 0% over a 1 year period.

Analyst Verification

I verify that I Marc Sinatra, have prepared this research report accurately and that any financial forecasts and recommendations that are expressed are solely my own personal opinions. In addition, I certify that no part of my compensation is or will be directly or indirectly tied to the specific recommendation or financial forecasts expressed in this report.

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