



BUY	GTG GENE	Price \$0.029 USD2.80	12 Mo. Target \$0.062 USD6.84
------------	---------------------	--------------------------------------	--

Genetic Technologies (GTG)

Marc Sinatra

+61 3 9200 7050 | m.sinatra@lodgepartners.com.au

6 August 2015

More positive signs

Report Summary

- Cash receipts up 79%, cash burn down -31%
- Receipts/(Staff costs + Other WC) up 100% to 26%
- All eight comprehensive breast centres expected to, are using BREVAGenplus®
- Publishing of studies a priority

Company Details

ASX Code:	GTG
NASDAQ ADR Code :	GENE
ASX Price:	3.9¢
ADR Price:	USD2.80*
Shares on Issue:	1.7b
Market Capitalisation:	\$49.7m
12-Month Price Range:	1.2¢ – 9.1¢
Monthly Volume (shares, July 15)	26.8m

*1 ADR = 150 GTG shares

Comparable Companies

Company ³	Exchange	Ticker	EV ^{1,2}
CareDx Inc	NASDAQ	CDNA	\$51.8m
Rosetta Genomics	NASDAQ	ROSG	\$38.0m
Trovagene	NASDAQ	TROV	\$186.5m
Veracyte	NASDAQ	VCYT	\$386.9m
Vermillion	NASDAQ	VRML	\$115.5m

¹ Enterprise Value = Market Capitalisation minus Cash

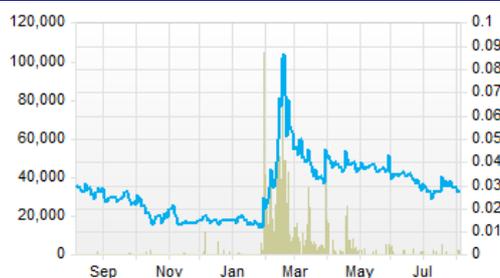
² AUD as at 6 August 2015

³ Response Genetics was removed as a comparable as of this report

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 maintained.

Event: Genetic Technologies released its April – June 2015 quarterly report late last month (July). The report showed that the company finished the period with \$18.3m in cash. Cash receipts from customers were \$650k (previous Q: \$363k), while cash burn from operations came in at \$1.8m (previous Q: \$2.6m. BREVAGenplus® samples received finished the quarter at 425 (previous Q: 512).

Comment: Q4 FY15 was clearly a good quarter for Genetic Technologies, with **cash receipts up substantially on the previous quarter (79.1%)** and **cash burn from operations down significantly (-30.8%)**. Importantly, the decline in tests received, resulting from issues previously mentioned, is abating, with the decline dropping to 17.0% between Q3-Q4 FY15 from 34.3% between Q2-Q3 FY15.

In our last update, we flagged that we felt the ratio represented by the following equation was a good measure of the company's progress:

Receipts from customers / (Staff costs + Other working capital)

That measure came in at 13% in Q3 FY15 and improved to 26% in the current quarter (Q4 FY15). Obviously, this is a promising result.

A considerable amount of time can pass between Genetic Technologies receiving a patient a BREVAGenplus® patient sample and receiving the cash payment for performing the test, due to the vagaries of the US healthcare system. While this gap will decrease over time, it means that ratio, above, may decline over the next one or two quarters as payments for tests received during the weaker quarters (Q's 3 & 4) are received.

The current quarter (Q1 FY16) is likely to mark the turnaround in tests received, since we believe Genetic Technologies US sales force is now back up to full strength and many of the new sales representatives have had the chance to settle in, having been in their new jobs for a few months now.

It is also important to note, that **all eight of the comprehensive breast centres that the Company recruited to start using BREVAGenplus® are providing patient samples to the Company.** Given the recruitment success of the company, investors can have more confidence in Genetic Technologies assertions that more comprehensive breast centres are to follow.

The company has recently and consistently stated that it is now focusing on publishing yet to be published data from completed studies with BREVAGenplus® and embarking on new studies that can also be published. Peer-reviewed studies demonstrating the clinical utility and cost effectiveness of BREVAGenplus® are crucial to marketing BREVAGenplus® to physicians and in negotiating coverage and payment amount with insurers. While the company appears to have always recognised this, the cash to pursue a publication strategy has been lacking until recently.

Conclusion: The current 4C indicates that Genetic Technologies is in the best shape it has been in for a while and, in our opinion, they are now doing everything right.

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**.

Response Genetics (NASDAQ: RGDY) has been removed from our basket of companies we compare Genetic Technologies to as of this report. Response is soon to be delisted from the NASDAQ for continued non-compliance with NASDAQ's listings rules, consequently, the Response's share price is no longer representative of that of a listed company nor will they have a publically traded price in the near future.

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	\$104.8	\$53.0	\$51.8	\$35.1	\$1.1
Rosetta Genomics	NASDAQ	ROSG	\$59.2	\$21.2	\$38.0	\$1.8	-\$19.8
Trovagene	NASDAQ	TROV	\$300.8	\$114.3	\$186.5	\$0.4	-\$19.5
Veracyte	NASDAQ	VCYT	\$422.0	\$35.1	\$386.9	\$51.9	-\$39.9
Vermillion	NASDAQ	VRML	\$139.0	\$23.4	\$115.5	\$3.43	-\$26.1

¹Million AUD; ²As of 6 August 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.
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	20%	Present Estimated GTG EV	\$79.1m
Response Genetics	50%	Discount Rate	12.0%
Trovagene Inc	6%	12-Month Estimated GTG EV	\$88.6m
Veracyte Inc	4%	12-Month Estimated GTG Mkt Cap	\$106.9m
Vermillion	20%	12-Month Price Target	\$0.062

Disclaimer

In accordance with section 949A of the Corporations Act 2001, any recipient of the information contained in this document should note that information is general advice in respect of a financial product and not personal advice. Accordingly the recipient should note that: (a) the advice has been prepared without taking into account the recipient's objectives, financial situations or needs; and (b) because of that, the recipient should, before acting on the advice, consider the appropriateness of the advice, having regard to the recipient's objectives, financial situation and needs.

Although Lodge Partners Pty Ltd ("Lodge") consider the advice and information contained in the document is accurate and reliable, Lodge has not independently verified information contained in the document which is derived from publicly available sources. Lodge assumes no responsibility for updating any advice or recommendation contained in this document or for correcting any error or admission which may become apparent after the document has been issued. Lodge does not give any warranty as to the accuracy, reliability or completeness of advice or information which is contained in this document. Except in so far as liability under any statute cannot be excluded, Lodge, its employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

Lodge, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Act 2001 may receive commissions from transactions involving financial products referred to in this document and may hold interests in financial products referred to in this document.

General Securities Advice Warning

This report is intended to provide general securities advice. In preparing this advice, Lodge did not take into account the investment objectives, the financial situation and particular needs of any particular person. Before making an investment decision on the basis of this advice, you need to consider, with or without the assistance of a securities adviser, whether the advice is appropriate in light of your particular investment needs, objectives and financial circumstances.

Explanation of Lodge Partners recommendation system:

Recommendations are assessments of each Lodge Partners Analyst's view of potential total returns over a 1 year period.

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.

Contact Lodge Partners:

Melbourne
Level 5, 60 Collins St
Melbourne Vic, 3000

Phone: +61 3 9200 7000
Fax: +61 3 9200 7077
www.lodgepartners.com.au