

2 August 2011

# Genetic Technologies Limited

## Proactive approach

### Buy

**Important:** The above recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

**Market capitalisation:**  
A\$83.6m

**Share Price:**  
A\$0.18

**Price Target:**  
A\$0.46

Sector: BBG AP Pharm & Biotech  
RIC: GTG.AX, GTG.AU  
Priced at close 1 August 2011.  
Source: IRESS

GTG110802

GTG has recently launched a novel, validated genetic test for non-familial breast cancer. In recent years new management has sharpened GTG's strategic directive significantly; its current primary focus being the expansion of its cancer management and diagnostics portfolio. This central objective is supported by two cash generating divisions – an active out-licensing and IP assertion program, and an established genetic testing and medical diagnostics business. We initiated with a Buy rating and a price target of A\$0.46.

#### Key Forecasts

|   | FY10A | FY11F | FY12F | FY13F | FY14F |
|---|-------|-------|-------|-------|-------|
| EBITDA (A\$m)                             | -4.7  | 2.4   | 3.5   | 12.6  | 24.2  |
| Reported Net Profit (A\$m)                | -9.5  | 1.5   | 3.1   | 12.7  | 24.4  |
| Normalised Net Profit (A\$m) <sup>1</sup> | -9.5  | 1.5   | 3.1   | 12.7  | 24.4  |
| Normalised EPS (¢) <sup>1</sup>           | -2.5  | 0.4   | 0.7   | 2.9   | 6.3   |
| Normalised EPS Growth (%)                 | nm    | nm    | 83.7  | 307.8 | 119.6 |
| Dividend Per Share (¢)                    | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| Dividend Yield (%)                        | 0%    | 0%    | 0%    | 0%    | 0%    |
| Normalised PE (x)                         | -7.19 | 46.74 | 25.45 | 6.24  | 2.84  |
| EV/EBITDA (x)                             | -14.0 | 27.8  | 17.5  | 3.9   | 1.1   |
| Price/Net Oper. CF (x)                    | -12.5 | 71.6  | 25.9  | 6.6   | 3.4   |

Source: Company data and RBS Morgans forecasts

#### GTG refocuses its strategy to build a reliable foundation

GTG's strategy has been sharpened in recent years to focus primarily on the expansion of its cancer management diagnostics portfolio. The company hopes to gain a large portion of the medical diagnostics market and recognises that oncology is the fastest growing subsection of this market. To support a push into cancer diagnostics, the company relies on a relatively constant stream of revenue from an established genetic testing business and the commercialisation of its patents through an active out-licensing and assertion program.

#### Key product launched in US

GTG has been focussing primarily on the acquisition and development of diagnostic products for cancer management. In June 2011 GTG launched BREVAGen™, the first validated non-familial breast cancer risk test, into the US market. BREVAGen™ was developed by studying genetic and clinical data from tens of thousands of women, and can help provide a clearer picture of an individual woman's risk of developing breast cancer. From a buccal sample, the BREVAGen™ test can detect the absence or presence of certain common genetic variants associated with increased breast cancer risk. The test combines an analysis of these variants plus widely used clinical factors to deliver an improved understanding of a woman's overall individual risk. With the information the BREVAGen™ test provides, physicians can recommend appropriate, individualised follow-up care for each patient to help detect or prevent breast cancer most effectively.

#### Investment View – Initiate with a Buy recommendation and price target of A\$0.46

Using a DCF valuation methodology we value GTG at A\$0.46. Our valuation is most sensitive to changes in the selling price of the BREVAGen™ test and rate of volume growth as the product penetrates the US market. The key risk relates to the execution of the US launch of BREVAGen™.

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## Introducing Genetic Technologies (GTG)

Genetic Technologies Limited (GTG) is a Melbourne-based genetic testing business which, together with an extensive range of international patents and allied research activities, aims at uncovering the impact of DNA on health. The business had its beginnings as a private company named GeneType AG that was incorporated in Zug, Switzerland in February 1989. Research undertaken by GeneType AG successfully proved that the non-coding or “junk” regions of DNA were in reality not “junk”, but a valuable source of genetic information - a fact which had been overlooked by the scientific community up until that time.

Changing its name to Genetic Technologies, the company established itself as a fee-for-service genetic testing business that has grown to become the largest non-government operation of its type in Australia. Its genetic testing business conducts DNA tests for human disease, genetic profiling, to establish paternity, assist in immigration issues, and find out if twins are identical. Through its animal network the company offers a range of DNA tests for animal disease, traits, paternity and breed confirmation.

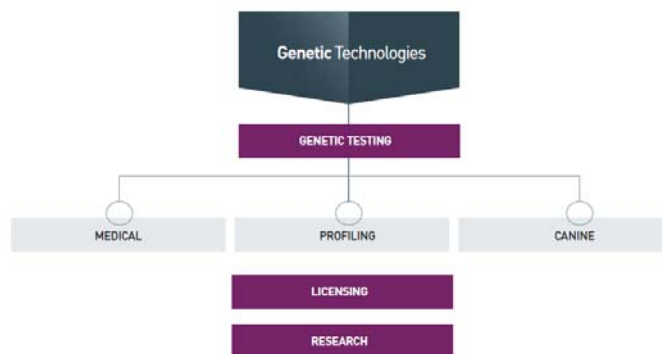
GTG has licensing agreements with over 60 companies and universities, including: Qiagen N.V, Laboratoires Reunis, Innogenetics NV, EraGen Biosciences, Inc, Pioneer Hi-Bred International, Inc, Pfizer Inc, GE Healthcare, and Monsanto.

### Core business units

GTG has a three pronged business strategy that includes:

1. the expansion of its dominant commercial genetic testing business with a focus on oncology and cancer management;
2. the global commercialisation of its patents through an active licensing program; and
3. the commercialisation of its various research and development projects aimed at generating further intellectual property of global commercial significance, however focus on this is reducing.

**Chart 1 : GTG's business structure**



Source: Company Data – Annual Report 2010

### Genetic and diagnostic testing

GTG has an established genetic testing business with high quality facilities and contracted operational revenues. The key testing areas are:

- Medical – GTG offer diagnostic tests that determine a patient’s genetic disposition to disease and support clinical decisions for surveillance or treatment options. The key products & services include: BRCA1 and BRCA2 testing - a breast and ovarian cancer test; BREVAGen - a non-familial breast cancer risk assessment test; a familial test for colon cancer and epilepsy; and diagnostic & targeted therapy tests for cancer. In 2011, GTG gained certification of its Australian laboratory under the US Clinical Laboratories Improvements Amendments (CLIA), regulated by the Centers for Medicare and Medicaid (CMS). GTG’s Melbourne laboratory is

the only lab in Australia, and one of very few outside the US to secure this approval. CLIA certification will enable GTG's Australian laboratory to offer compliant high-complexity medical testing services to US patients via its wholly owned US subsidiary Phenogen Sciences Inc. Under the CLIA certification, GTG may also add further cancer management products in development to its test menu without need for further regulatory applications.

- Profiling – GTG offers genetic testing for paternity (legal & non-legal), forensics (government & private) and specialised DNA profiling tests. The key products & services include: GTG and Silbase paternity brands; forensic DNA testing; My Ancestors Genes - an Ancient DNA test; and ACTN3 Sports Gene Test. In January 2011, the NSW Police Force agreed to take up its option of extending the existing forensic services contract with a focus on “complex volume crime” testing. Processes and logistics were tested and formalised in February with maximum agreed volumes levels reached in March.
- Animal – GTG offers a range of canine DNA profiling, disease and trait tests for professional organisations, breeders and owners of household pets. The key products & services include: BITSA - a breed identification test; disease and trait tests; and DNA profiling/ parentage services.

#### **Key product: BREVAGen™**

The BREVAGen™ breast cancer risk stratification test is a novel genetic test panel that examines a patient's DNA to detect the absence or presence of certain common genetic variations (SNPs) associated with an increased risk for developing breast cancer. The test is designed to help physicians assess aggregate breast cancer risk from these genetic markers, plus factors from a standard clinical assessment based on a patient's family and personal history, thus giving a clearer picture of an individual woman's risk of developing breast cancer. The BREVAGen™ test may be especially useful for women at intermediate risk of developing breast cancer, including those who have undergone breast biopsies, as the test will provide information that can help physicians recommend alternative courses of action, such as more vigilant, targeted surveillance or preventive therapy, on a personalized patient by patient basis.

In the US, there are 1.6 million biopsies taken every year for breast cancer and about 1 million of these are indeterminate from a disease management standpoint and become the target market for GTG. A further target patient group is the 200,000 to 300,000 women who self identify as at risk due to having two or more first degree relatives with breast cancer, but whose BRCA test results are negative. The BRCA test identifies a gene responsible for familial or inherited breast cancer. Only 10% of women will return a positive BRCA test, leaving the remainder of women tested with inadequate information on which a clinician may make decisions regarding managing their care.

#### **Revenue-generating Intellectual Property Estate**

During the past nine years, GTG has conducted a successful out-licensing program involving its foundational patents covering what is known as “non-coding DNA”. This valuable technology was created from research undertaken by the company and involves proprietary methods for utilising the information contained within the non-coding regions of genes.

The non-coding patents owned by the GTG consist of two distinct families relating to intron sequence analysis and genomic mapping. The patent applications, which were filed in many jurisdictions, have since resulted in issued patents being awarded in 22 countries around the world. GTG's research and innovation has resulted in a valuable portfolio of patents. GTG is licensing these non-coding patents to biotechnology companies, genetic service providers and research institutes worldwide; and is now achieving an ongoing revenue stream from these licensing activities.

Historically, the out-licensing of GTG's non-coding patents was an unfocussed operation that provided an unpredictable revenue stream. In recent years though, GTG has formalised their IP assertion program. Strategically timed suits filed against targeted companies, with the objective of early settlement, ensure a constant and reliable flow of revenue.

Despite the recent expiry of one of the non-coding patents ('179, “Intron Sequence Analysis”), others (including '762, “Genomic Mapping”) will not expire until 2015, so the opportunity to secure further licenses will exist for potentially a number of years to come. Notably, GTG has a six year claim-back window for past infringement of its expired patents. It has also acquired patents which

do not expire until 2022 through their acquisition of BREVAGen™. To date, the licensing program, which has resulted in the granting of more than 50 commercial licenses and 6 research licenses, has generated total revenues in excess of A\$65 million, with a further A\$7 million to be received in the form of annuities and royalties, and as such it has historically been the major source of revenues for the company. GTG approximate that they will receive A\$14 million in FY11 alone, and have estimated licensing revenue of A\$8-10 million for at least the following four years. A recent settlement with Navigenics gives credence to these estimates.

### **Research and Development: Product Pipeline**

GTG's product pipeline to follow the US launch of BREVAGen™ has three main components:

1. EGFR, KRAS and BRAF;
2. one or more late stage/on-market product acquisitions; and
3. Block to Blood: Utilising GTG's in-house expertise in isolating small quantities of genetic material from blood to convert and revalidate Paraffin block tests to blood tests.

EGFR, KRAS and BRAF are a suite of generic cancer biomarkers which are widely used by physicians in both lung (Non Small Cell Lung Cancer – NSCLC) and colon cancer. Mutations in EGFR and downstream effectors are implicated in many epithelial tumours. EGFR and KRAS are the only cancer biomarkers which have a recommendation for use in treatment planning by the American Society of Clinical Oncologists (ASCO). A recent study indicates that personalised therapy for malignant melanoma is a near/medium term prospect with associated BRAF testing. Now that GTG has gained CLIA certification for their Australian lab, they are free to test for EGFR, KRAS and BRAF in samples from the US.

RareCollect™, one of GTG's in-house research and development projects centres around isolating foetal genetic material from the mother's blood or cervical mucous as an alternative to amniocentesis. As a direct result of this research GTG has developed know-how and a suite of intellectual property filings relating to the detection of genetic material in low signal to noise samples. The RareCollect™ technology and GTG's in-house expertise may prove useful in revalidating a range of genetic tests, which are currently being run on paraffin block samples, to a simple blood based test. GTG is currently looking to divest the RareCollect program.

### **Acquisition Strategy**

GTG's acquisition of BREVAGen™ for A\$1.2 million, successfully completed in March/April 2010, was a distressed asset sale from Perlegen Sciences Inc. During its history, Perlegen had raised more than US\$300 million in equity and other funding. In 2009, at the depths of the global financial crisis, Perlegen failed to secure additional funding critical to the BREVAGen™ product launch. As a Perlegen shareholder, GTG was privy to information that enabled it to secure an exclusive option to purchase Perlegen's global assets. In completing this transaction and successfully integrating the assets, GTG gained comfort in the fact that it has the requisite expertise to identify, acquire and revalidate/integrate complementary genetic testing and intellectual property assets.

In recent times GTG has been presented with several more opportunities to acquire assets from companies in financial distress. They are currently in various stages of due diligence with several new opportunities; and it may be the case that one or more of them progress to a transaction in the near future. Broadly, GTG's strategy is to acquire on the market or close to on the market assets that complement their expanding cancer management portfolio.

### **Competitive position**

GTG is well positioned to take a large portion of the oncology diagnostics market. The US launch of BREVAGen™ represents a key milestone for the company. Advantages of GTG over its competitors include:

- **First in class technology** - They are the only company to have a validated genetic test for non-familial breast cancer on the market. BREVAGen™ has the potential to lead in a US\$600m per annum market and looks to be the main driver behind GTG's future growth.

- **Testing has been validated** - Other SNP-array tests for breast cancer in development or on the market (deCODE/ Intergenics) have not been validated by scientific studies. Refer Table 1 below. To date, there have been over 20 published studies on BREVAGen™ based on studies of over 50,000 women including a peer reviewed publication in 2007 in Nature.
- **Superior market presence and sales strategy** - deCODE and Intergenics lack sales force and deCODE's products are currently off market. GTG has been aggressively marketing its products to MD/OBGYNs and expects widespread uptake of BREVAGen™. Currently GTG has eight sales staff on the ground in the US, with a view to adding additional personnel every six months.

## Recent Newsflow

As with many life science companies, newsflow is important to driving the share price. The key share price drivers over the next 12 months will include the settlement of GTG's series of licensing legal proceedings and the rollout of BREVAGen™ in the US. Other potential news stories might relate to GTG's acquisition of new market-ready products. Here is a summary of recent announcement from GTG:

- In June 2011, GTG executed a Settlement and License Agreement with Navigenics Inc. of Foster City, California. Navigenics was a counterparty to the Company's recently announced patent infringement suit filed in the District Court of Colorado (ASX announcement May 26th, 2011), and the first such party to settle. Dr. Paul MacLeman, GTG's Chief Executive Officer said "To have a counterparty settle within the first month of filing the suit is very encouraging and speaks volumes, not only to the strength of the patents, but also the caliber of the assertion process."
- Also in June 2011, GTG launched the new BREVAGen™ genetic test for assessing non-familial breast cancer risk in the US. Phenogen Sciences will target its promotion campaign on women's health clinics in over 20 US metromarkets. The company has deployed its sales force to service select markets based on high volume use of the BRCA genetic test, currently available for the rarer familial form of breast cancer. The BREVAGen™ test has an attractive gross margin and an estimated addressable market in excess of \$600 million per annum in the US.
- In April 2011, GTG gained certification of its Australian laboratory under the US Clinical Laboratories Improvements Amendments (CLIA) (42 U.S.C. § 263a) regulated by the Centers for Medicare and Medicaid (CMS). CLIA certification enables GTG's Australian laboratory to offer compliant high-complexity medical testing services to US patients via its wholly owned US subsidiary Phenogen Sciences Inc.

## Financials

- **Net cash position** as at 30 June 2011 was A\$5.1m. On 29<sup>th</sup> July 2011, GTG announced a placement of 60m shares at A\$0.195 raising A\$11.7m.
- **1HFY11 revenue** of A\$14.1m and NPAT was A\$4.2m. A\$10.5m of revenue derived from licensing assertion program. Cash at 31 December was A\$8.4m.
- **FY10 result** – GTG reported a FY10 net loss of A\$9.5m. Key items included revenue of A\$5.8m and employee benefits expense of A\$4.1m. Net operating cash outflow for FY10 was A\$4.3m and cash at 30 June was A\$3.3m.
- **Capital Structure** - 464m ordinary shares and 19.7M options, with various expiring dates.

## Valuation and Price Target

We initiate coverage with a A\$0.46 DCF valuation on GTG. We have set our price target at the same level, providing investors with 170% upside to the current price.

### Key Assumptions:

- **DCF based valuation inputs** – Our A\$0.46 valuation is based on a WACC of 14.47%, risk-free rate of 5.75%, risk premium of 7.0%, beta of 1.3x, and long-term growth rate of 4%. We have applied no value to GTG's product pipeline, providing further upside potential.
- **Cash position** – As at 30 June 2011, GTG had A\$5.1m in cash. The capital raising of A\$11.7m in July 2011 which will be used to fund the establishment of the US sales and marketing efforts for BREVAGen™. We believe this will be sufficient to fund the operations to

sustainable profitability. Management has indicated a desire to pursue additional M&A opportunities, which we will factor into forecasts when they arise.

- **BREVA Gen™** - GTG launched BREVA Gen™ in US in June 2011. In the US, there are 1.6 million biopsies taken every year for breast cancer and about 1 million of these are indeterminate from a disease management standpoint. We expect BREVA Gen™ to take an 8% share of the target market by 2014; and our valuation assumes that sales rates will increase by 15% per year thereafter. So by 2018 we assume a market share of approximately 14%. We have priced the BREVA Gen™ test at A\$475 and assume a EBITDA margin of 40%. Further upside relates to achieving market share in the niche BRCA negative market which is estimated at 200,000 to 300,000 women. Our valuation is most sensitive to changes in the price received for BREVA Gen™, a A\$10 increase in selling price increases our valuation by 1cps and if our sales growth rate increases from 15% to 20% from 2014, this increases our valuation by 4cps.
- **Genetic testing business** – Our model assumes that GTG's genetic testing business will grow at 3.5% per annum from its current revenue base of A\$5.8m and maintain a gross profit margin of 53%.
- **Out-licensing program** - Our model assumes that GTG will receive A\$9m a year from their patent assertion program until 2021 – given the six year claim-back window for past infringements of its patents. These estimates are conservative considering GTG is looking to receive more than A\$10m for their IP licensing program in CY2011 alone. We assume 40% of this revenue is paid as a success fee to the law firm undertaking the assertion program. We have only accounted for the US-targeted assertion program. More revenue will be received through a similar program targeted at EU companies, and less of this revenue (15%) will be paid in legal fees. Furthermore, we expect that the company will receive an average of A\$0.4m per year in royalty revenue.

## Risks

The risks that face GTG at this stage are primarily related to the execution of their business strategy. GTG's success will be closely tied to their ability to successfully rollout the BREVA Gen™ tests in the US. The funding risk associated with the roll out of product is acknowledged and until the market is properly penetrated the risk that additional capital will be required remains. A secondary risk relates to the ability of the IP assertion program to generate consistent revenue.

## Comparable companies

**Table 1 : Comparable companies**

| Company (Exchange)           | Platform (Description)  | Market Cap |
|------------------------------|---|------------|
| Myriad Genetics<br>USA       | Myriad Genetics is a healthcare company that focuses on the development and marketing of novel molecular diagnostic products. The company commercializes predictive medicine, personalized medicine, and prognostic medicine products. Myriad develops and markets a wide range of predictive, personalized medicine and prognostic products. Its product portfolio includes: BracAnalysis® assesses a woman's risk of developing breast or ovarian cancer based on detection of mutations in the Brca1 and Brca2 genes; Colaris®, assesses a person's risk of developing colorectal and a woman's risk of developing uterine cancer; Colaris AP®, assesses a person's risk of developing hereditary colorectal polyps and cancer; Melaris®, assesses a person's risk of developing hereditary melanoma; Prezeon(TM), assesses loss of PTEN function in cancer patients, which is associated with more aggressive disease progression and poorer survival; TheraGuide® 5-FU, assesses a person's risk of developing a severe toxic reaction to 5-FU-based chemotherapy; Prolaris(TM), a prognostic medicine product for prostate cancer; OnDose(TM), evaluates 5-FU exposure for patients undergoing continuous infusion 5-FU chemotherapy; and Panexia(TM), assesses a person's risk of developing hereditary pancreatic cancer. | US\$2.02b  |
| Genomic Health<br>USA        | Genomic Health, Inc is a life science company committed to improve the quality of cancer treatment decisions through the research, development and commercialization of genomic-based clinical laboratory services. The company was founded in 2000.<br><br>Genomic Health's diagnostic assay, Oncotype DX®, is a test that examines breast cancer patient's tumour tissue at a molecular level, and gives information about her individual disease. The company's Oncotype DX is the only gene expression test that has been accepted as demonstrating the ability to predict a patient's benefit from chemotherapy as well as her risk of recurrence. It is developing products for various cancer diseases like Prostrate Cancer, Colon Cancer, Breast Cancer, and Non -Small cell Lung Cancer, Renal Cancer and Melanoma. It conducts sophisticated genomic research to develop clinically-validated molecular diagnostics which provide individualized information on response to certain types of therapy, as well as the likelihood of disease recurrence. The company's pipeline products include: Oncotype DX 21-Gene Breast Cancer Assay, Oncotype 12 Gene Colon Cancer Assay, etc.   | US\$800.9m |
| Complete Genomics Inc<br>USA | Complete Genomics, Inc. is a human genome sequencing company that provides complete human genetic data at a lower cost and at a higher throughput. The company was established in June 2005 and started operations in March 2006 by Clifford Reid, Radoje Drmanac, and John Curson.<br><br>Complete Genomics has developed a third-generation sequencing platform capable of generating genomic data at an unprecedented level of throughput and at low cost. The company's novel DNA sequencing platform is based on a range of proprietary biochemistry, nanotechnology, instrumentation and computing technologies. The company is deploying the platform through its commercial-scale, fully automated genome center and offers a comprehensive human genome sequencing service. The company's main components of DNA sequencing platform include: DNA Libraries; Arrays; Assay; Instruments; Software etc.   | US\$463m   |

Source: Company data; Medtrack.

## Competitor Companies

**Table 2 : Competitor Companies**

| Company (Exchange)       | Platform (Description)  |  |
|--------------------------|---|--|
| deCODE<br>Private        | deCODE genetics is specialized in analyzing and understanding the human genome. The company was founded in 1996 by Kari Stefansson and Jeffrey Gulcher. It is owned by Saga Investments LLC, a consortium including Polaris Venture Partners and ARCH Venture Partners. deCODE has discovered key genetic risk factors for common human diseases ranging from cardiovascular disease to cancer. It employs its capabilities to develop DNA-based tests and personal genome scans to better understand individual risk and empower prevention. The company offers a wide range of diagnostics tests and personal genetic scans that include: deCODE T2, a test that defines genetic risk for T2D, independent of family history and obesity; deCODE BreastCancer(TM), a reference laboratory DNA test for assessing individual risk for the common forms of breast cancer; deCODE ProstateCancer(TM), a reference laboratory DNA test for assessing an inherited risk factor for prostate cancer; deCODE Glaucoma(TM), a reference laboratory DNA test for assessing an inherited risk factor for exfoliation glaucoma; deCODEme Complete Scan, analyzes genetic risk factors for 48 diseases ranging from heart attack and diabetes to lung cancer and traits like ABO bloodtypes, eye color and male pattern baldness; deCODEme Cardio Scan, assesses genetic risk for various cardiovascular diseases; etc.<br><br><b>GTG response:</b> deCODE has not had a US presence since April 2010. There is no indication that deCODE will be re-introducing competing products onto the market. Current operations are predominantly research based. |  |
| InterGenetics<br>Private | InterGenetics Incorporated is a personalized medicine company focused on molecular diagnostics and targeted therapy for cancer. It was established in 1999. InterGenetics has discovered proprietary gene combinations and DNA assessment technology leading to the first broad genetic predictive test for breast cancer. It has a promising research pipeline of predictive tests for other cancers such as ovarian, colon, and prostate cancer. The company's core research also predicts heart disease, diabetes and in enhancing the effectiveness of drug therapies and preventative medicine in these fields. InterGenetics has developed a class of cancer therapeutics in the emerging area of targeted cancer therapy. Its core technology is based upon the discovery that injection of the patented RNA molecules causes complete remission and cure of both primary and metastatic tumors in a rat breast cancer model. The company has also developed a breast cancer-risk test called OncoVue®.<br><br><b>GTG response:</b> InterGenetics lacks sales force, relying on online sales and consumer markets. They lack market presence and do not represent any real competition. Additionally, their tests lack validation.   |  |
| Navigenics<br>Private    | Navigenics, Inc is a genomics company that combines advances in genomics and technology to improve health outcomes across the population by providing clinically actionable genetic insights to motivate behavior change. The company provides clinically guided genetic analysis with the goal of empowering individuals to act based on an understanding of their genetic predispositions. It was founded in 2006 by David Agus and Dietrich Stephan. Navigenics's genetic testing services easily uncover genetic predisposition to a wide variety of health conditions that include: breast cancer, lactose intolerance, lung cancer, lupus, macular degeneration, melanoma, psoriasis, sarcoidosis, abdominal aneurysm, etc. The company offers customized test for each genetic marker associated with the selected health conditions, carried out by a CLIA-certified laboratory that complies with federal regulations.   |  |
| Knome<br>Private         | Knome, Inc. is a genomics company focused on providing whole-genome sequencing and analysis services for individuals. It was founded in 2007 by George Church, Sundar Subramaniam and Jorge Conde with a mission to provide large-scale sequencing and interpretation solutions to biomedical researchers and motivated families seeking to understand the genetic underpinnings of human disease. Knome's KnomeDISCOVERY(TM) is the first fully-integrated human whole-genome sequencing and interpretation service for biomedical researchers. It provides an in-depth accounting and analysis of sequence variants, including those implicated in diseases and other phenotypes. The company's core interpretation services include known and novel allele identification, multi-genome comparative analysis, predictive functional analysis, and causation targeting. It also offers a one-stop solution for all large-scale sequencing needs. It provides whole genome sequencing and interpretation solutions to biomedical researchers and physician-directed families seeking to understand the genetic underpinnings of human disease.   |  |

Source: Company data; Medtrack

## Board and Management

**Table 3 : Board and management team**

| Person and Role  | Description  |
|--|--|
| Sidney C. Hack,<br>CPA. Chairman   | Mr. Hack, 71, was appointed to the Board on 19 November 2008 and as chairman on 25 November 2009. He also serves as Chairman of both the Company's Audit Committee and its Corporate Governance Committee. He is a Certified Practising Accountant and Registered Company Auditor and retired in 2006 after serving 30 years as a senior partner of Hack Anderson & Thomas, Chartered Accountants. Mr. Hack has extensive experience in large company audits, financial planning and taxation and has served on various other Boards during his career.  |
| Huw D. Jones,<br>BSc(Hons), MBA.<br>Non-Executive Director.  | Mr. Jones, 46, was appointed to the Board on 19 November 2008. He also serves as a member of the Company's Audit Committee and its Corporate Governance Committee and is a former Executive Director and Chief Executive Officer of Aeris Environmental Ltd.. Prior to joining Aeris, he was Managing Director of Datex-Ohmeda Australasia (now part of GE Healthcare). He is currently a Director of Fresh Investments Pty Ltd.   |
| Dr. Malcolm R. Brandon,<br>B. Agr. Sci. PhD.<br>Non-Executive Director.  | Dr. Brandon, 62, was appointed to the Board on 5 October 2009 and also serves on the Company's Audit Committee. He has spent his career in the biotech and life sciences sector where he has over 35 years experience in commercially focused research and development and in building successful companies which have commercialised a wide range of Australian and international technologies. As the founding director of the Centre for Animal Biotechnology, Dr. Brandon was also responsible for fund raising and the development of many important agricultural technologies and products. He was co-founder and Director of Stem Cell Sciences Ltd. and Smart Drug Systems Inc. and is currently the Managing Director of genetics and artificial animal breeding company Clone International which uses cloning technologies to breed elite cattle, sheep and horses and to preserve the genetics of elite animals.   |
| Tommaso Bonvino<br>FAICD.<br>Non-Executive Director.   | Mr. Bonvino, 49, was appointed to the Board on 25 November 2009. He has over 27 years experience in consumer marketing and product development and has managed companies for various Italian, Spanish and French firms, distributing and marketing goods throughout South-East Asia. He has established strong bilateral trade relationships between Australian and European companies in the technology and consumer goods sectors. Mr. Bonvino was the former Chief Executive Officer of IM Medical Ltd., an ASX-listed company committed to the use of innovative technology to promote health and well being, spearheading the strategic review which led to significant expansion of the IM Medical business. He also spent time as a Board member of the Italian Chamber of Commerce from 2001 to March 2009, spending the last four years as Vice President.  |
| Dr. Paul D.R. MacLeman<br>BVSc, MBA, Grad Dip<br>Tech Mgt, Grad Cert Eng,<br>FAICD.<br>Chief Executive Officer.                      | Dr. MacLeman, 43, was appointed as Chief Executive Officer on 4 May 2009. He is the current Chairman of the Ausbiotech Agricultural, Environmental and Industrial Advisory Committee and was most recently Chief Executive Officer of Hatchtech Pty. Limited where he led the company from research through to international Phase II human clinical trials. Dr. MacLeman was responsible for opening up animal health and agricultural opportunities, climaxing in an agreement with one of the top three global chemicals companies. Prior to this, he was Chief Operating Officer of Imugene Ltd. and Vice President at Agenix Ltd. Dr. MacLeman has also previously founded life sciences start-ups and worked in investment banking focusing on the analysis and financing of technology companies.   |
| Thomas G. Howitt<br>BCom, ACA, FTIA, ACIS,<br>AICPA.<br>Chief Financial Officer and<br>Company Secretary.                            | Mr. Howitt, 45, was appointed as the Group's first full-time Chief Financial Officer in June 2004 and as Company Secretary in June 2005. During his 20-plus year career, he has served as CFO and Company Secretary for a number of companies, listed on both the ASX and foreign stock exchanges. His wide experience covers all facets of financial management and control across a variety of industries, including resources and technology (domestic and international), having been instrumental in the successful development, patenting and commercialisation of several innovative technologies. He has played key roles in the raising of bank debt and equity capital and the management of complex due diligence programs and has worked as a senior Taxation Consultant for Ernst & Young and in the investment banking industry. He also serves as President of the Company's Canadian-listed subsidiary, Gtech International Resources Limited.       |
| Alison J. Mew<br>MSc Hons.<br>Chief Operating Officer.   | Ms. Mew, 51, was appointed as the Group's Chief Operating Officer on 31 August 2009. Prior to joining the Group, she had extensive experience in the bio-pharmaceutical industry in operations management roles - both in Australia and overseas. Her most recent corporate experience was 13 years with CSL Ltd., in senior executive positions across the Animal Health, Biosciences and Pharmaceutical Divisions - managing vaccines, diagnostics and other biologicals manufacture. Just prior to joining Genetic Technologies Limited, Ms. Mew spent three years providing consulting services in both operational and strategic management areas to both local and international organizations.  |
| Dr. David J. Sparling<br>BVSc Hons, LLB (Hons)<br>Grad Dip Corp<br>Governance.<br>Vice President Legal and<br>Corporate Development. | Dr. Sparling, 37, was appointed as the Group's first Vice President Legal and Corporate Development on 26 October 2009. He is an experienced corporate development executive who has been appointed to drive M&A, expansion and strategy development. Dr. Sparling's expertise includes: senior executive management, intellectual property maintenance and defence, licensing, corporate governance, corporate finance and strategic planning. His experience extends to both pharmaceutical and diagnostic applications; in both human and animal health. Prior to joining the Group, Dr. Sparling was chief operating officer for Solbec Pharmaceuticals Ltd., a publicly listed bio-pharmaceutical company based in Perth, Western Australia. Dr. Sparling is currently a director of Solbec Pharmaceuticals (now named Freedom Eye Ltd.). Prior to this, he was Commercial Counsel for Agenix Limited, an ASX listed biotechnology company based in Queensland. |
| Gregory J. McPherson<br>BA, BBus.<br>Vice President Sales and<br>Marketing.  | Mr. McPherson, 45, was appointed as the Group's first Vice President Sales and Marketing on 20 July 2009. He brings over 20 years experience in developing both retail and consumer businesses in Australia and the Asian region, including the development of new retail formats and multi-media campaigns for chains such as Mitre 10, Spotlight and Symbion Health. There, his expertise in multi-site customer operations translated strategy into broad line management accountability. Overseas assignments in Asia for Whirlpool Corporation included setting up Joint Ventures in China and India and Pan-Asian supplier negotiations. Whilst working in Australia, he assisted in the development of manufacturer/wholesalers such as Electrolux, Whirlpool and Bravis/Carrier, where he implemented advanced measurement and process improvement techniques directly increasing profitability and shareholder value.                                       |
| Lewis J. Stuart<br>BA, MBA.<br>General Manager,<br>Phenogen Sciences Inc.  | Mr. Stuart, 51, was appointed President and General Manager of Phenogen Sciences Inc., Genetic Technologies' North American subsidiary. Phenogen Sciences has marketing rights to BREVAgen™, the proprietary Non-Familial Breast Cancer risk test as the first of a suite of novel advanced cancer management tools. Lewis has more than 28 years of experience in general management, sales and marketing in pharmaceutical and life sciences. Most recently Lewis served as Senior Vice President, Commercial Operations at cardiovascular drug developer CV Therapeutics, where he led the launch of their lead product and played a significant role in growing that company's market cap from \$300 million to the \$1.5 billion acquisition by Gilead. There, Lewis had responsibility for sales, marketing, medical affairs, managed care, operations and investor relations and built the company's 325 person commercial team and related infrastructure.   |

Source: Company data



## Partners

**Table 4 : Key partners**

| Partner           | Description   |
|-------------------|---|
| Trimgen           | TrimGen Corporation is a diagnostic company with a business focus on nucleic acid-based molecular diagnosis. It was founded in 1999, with a mission to provide advanced genetic tests to transform traditional medicine into personalized medicine. TrimGen provides over 100 molecular tests and test products for leukemia, cancer and infectious diseases. The company's products are developed based on proprietary technologies and have superior accuracy and sensitivity. TrimGen's products include: KRAS mutation kits, Colorimetric mutation detection, Multiplex mutation detection, Paraffin sample DNA extraction, Paraffin sample RNA extraction, Paraffin-PCR combo kit, Buccal cell collection and Buccal DNA extraction.   |
| Rosetta Genomics  | Rosetta Genomics Ltd. is a molecular diagnostics company that develops microRNA-based diagnostic tests and therapeutic tools. It was founded in 2000 with a mission is to lead the development of microRNA-based diagnostics, addressing unmet medical needs that will advance personalized medicine, and enhance current and future patient care management. Rosetta Genomics has developed a method for high quality extraction of microRNAs from a wide range of sample types including Formalin Fixed Paraffin Embedded (FFPE), fresh/frozen, serum, saliva, urine and other body fluid samples which is a crucial first step toward the development of highly sensitive microRNA-based tests that can be used for early detection, population screening, and developing invasive diagnostic tests that can replace current surgical procedures, as well as for evaluating response to treatment or tumor recurrence, all based on a simple blood draw. |
| Response Genetics | Response Genetics, Inc. is focused on the development and sale of molecular diagnostic tests for cancer and technologies which enable extraction and analysis of genetic information from genes derived from tumor samples stored as formalin-fixed and paraffin-embedded specimens. It was founded in 1999. Response Genetics has developed PCR-based genetics tests ResponseDX: Lung (TM), ResponseDX: Colon(TM), ResponseDX: Gastric (TM) to help physicians with therapeutic treatment decisions for patients with non-small cell lung cancer (NSCLC), colorectal cancer (CRC) and gastric cancer.  |

Source: Company data; Medtrack.

## Key shareholders

**Table 5 : Top 10 shareholders**

|    | Name  | Number held        | % of issued shares |
|----|---|--------------------|--------------------|
| 1  | Dr. Mervyn Jacobson Group                             | 130,349,954        | 32.36              |
| 2  | National Nominees Limited                             | 65,783,205         | 7.56               |
| 3  | Mervyn Jacobson ApS                                   | 20,000,000         | 6.25               |
| 4  | Security & Equity Resources Limited                   | 19,517,364         | 4.95               |
| 5  | Lupetto Holdings Limited                              | 17,685,486         | 4.81               |
| 6  | C.Y. O'Connor ERADE Village Foundation                | 16,666,667         | 4.47               |
| 7  | Ms Gail Jean Bratz                                    | 10,000,000         | 4.12               |
| 8  | Mr. Bernard Stang+ Mr Maurie Stang (Medi-consumables) | 4,347,500          | 2.88               |
| 9  | Mr. Maurie Stang                                      | 3,550,221          | 1.26               |
| 10 | Mr. Bernard Stang                                     | 3,332,766          | 0.88               |
|    | <b>Total</b>  | <b>291,233,163</b> | <b>71.97</b>       |

Source: Computershare – 6 July 2011.

## Chart 2 : Financial Summaries

|                              | AIFRS<br>2010A | AIFRS<br>2011F | AIFRS<br>2012F | AIFRS<br>2013F | AIFRS<br>2014F | AIFRS<br>2015F | Closing price (A\$)                | 0.18         | Price target (A\$)         | 0.46          |              |
|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------------------------|--------------|----------------------------|---------------|--------------|
| <b>Income statement</b>      |                |                |                |                |                |                | <b>Valuation metrics</b>           |              |                            |               |              |
| Divisional sales             | 10.0           | 20.4           | 20.2           | 32.1           | 53.2           | 59.0           | Preferred methodology              |              | Val'n (A\$)                | \$0.46        |              |
| Total revenue                | 10.0           | 20.4           | 20.2           | 32.1           | 53.2           | 59.0           | <b>DCF valuation inputs</b>        |              |                            |               |              |
| EBITDA                       | -4.7           | 2.4            | 3.5            | 12.6           | 24.2           | 26.5           | Rf                                 | 5.25%        | 10-year rate               | 5.25%         |              |
| Associate income             | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Rm-Rf                              | 6.00%        | Margin                     | 2.0%          |              |
| Depreciation                 | 0.9            | 0.5            | 0.5            | 0.5            | 0.5            | 0.5            | Beta                               | 1.60         | Kd                         | 14.85%        |              |
| EBITA                        | -5.6           | 1.9            | 3.0            | 12.1           | 23.7           | 26.0           | CAPM (Rf+Beta(Rm-Rf))              | 14.9%        | Ke                         | 14.9%         |              |
| Amortisation/impairment      | 4.1            | 0.5            | 0.0            | 0.0            | 0.0            | 0.0            | E/EV*Ke+D/EV*Kd(1-t)               |              | NPV cash flow (A\$m)       | 107.4         |              |
| EBIT                         | -9.6           | 1.4            | 3.0            | 12.1           | 23.7           | 26.0           | Equity (E/EV)                      | 65.0%        | Minority interest (A\$m)   | -1.3          |              |
| EBIT (incl associate profit) | -9.6           | 1.4            | 3.0            | 12.1           | 23.7           | 26.0           | Debt (D/EV)                        | 35.0%        | Net debt (A\$m)            | 63.9          |              |
| Net interest expense         | -0.1           | -0.1           | -0.2           | -1.1           | -1.8           | -3.2           | Interest rate                      | 14.85%       | Investments (A\$m)         | 0.0           |              |
| Pre-tax profit               | -9.5           | 1.5            | 3.2            | 13.2           | 25.4           | 29.2           | Tax rate (t)                       | 30.0%        | Equity market value (A\$m) | 44.8          |              |
| Income tax expense           | 0.0            | 0.0            | 0.1            | 0.4            | 1.0            | 1.3            | <b>WACC</b>                        | 13.5%        | Diluted no. of shares (m)  | 97.3          |              |
| After-tax profit             | -9.5           | 1.5            | 3.1            | 12.7           | 24.4           | 27.9           |                                    |              | <b>DCF valuation</b>       | <b>\$0.46</b> |              |
| Minority interests           | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |                                    |              |                            |               |              |
| NPAT                         | -9.5           | 1.5            | 3.1            | 12.7           | 24.4           | 27.9           | <b>Multiples</b>                   | <b>2011F</b> | <b>2012F</b>               | <b>2013F</b>  | <b>2014F</b> |
| Significant items            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Enterprise value (A\$m)            | 81.4         | 75.5                       | 69.0          | 65.8         |
| NPAT post abnormalities      | -9.5           | 1.5            | 3.1            | 12.7           | 24.4           | 27.9           | EV/Sales (x)                       | 4.0          | 3.7                        | 2.2           | 1.2          |
|                              |                |                |                |                |                |                | EV/EBITDA (x)                      | 34.5         | 21.4                       | 5.5           | 2.7          |
| <b>Cash flow statement</b>   | <b>2010A</b>   | <b>2011F</b>   | <b>2012F</b>   | <b>2013F</b>   | <b>2014F</b>   | <b>2015F</b>   | EV/EBIT (x)                        | 60.1         | 25.1                       | 5.7           | 2.8          |
| EBITDA                       | -4.7           | 2.4            | 3.5            | 12.6           | 24.2           | 26.5           | PE (pre-goodwill) (x)              | 46.7         | 25.5                       | 6.2           | 3.3          |
| Change in working capital    | 0.1            | -0.6           | -0.1           | -0.7           | -0.9           | -0.2           | PEG (pre-goodwill) (x)             | -1.1         | 0.4                        | -0.9          | 0.1          |
| Net interest (pd)/rec        | 0.1            | 0.1            | 0.2            | 1.1            | 1.8            | 3.2            |                                    |              |                            |               |              |
| Taxes paid                   | 0.0            | 0.0            | -0.1           | -0.4           | -1.0           | -1.3           | <b>At target price</b>             | <b>2011F</b> | <b>2012F</b>               | <b>2013F</b>  | <b>2014F</b> |
| Other opex cash items        | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | EV/EBITDA (x)                      | 45.6         | 30.8                       | 8.1           | 4.0          |
| Cash flow from ops (1)       | -4.5           | 1.8            | 3.5            | 12.5           | 24.0           | 28.3           | PE (pre-goodwill) (x)              | 119.6        | 65.1                       | 16.0          | 8.3          |
| Capex (2)                    | -1.0           | -0.9           | -0.5           | -0.5           | -0.5           | -0.5           |                                    |              |                            |               |              |
| Disposals/(acquisitions)     | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | <b>Comparable company data (x)</b> | <b>2011F</b> | <b>2012F</b>               | <b>2013F</b>  | <b>2014F</b> |
| Other investing cash flow    | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Biota Holdings                     |              |                            |               |              |
| Cash flow from invest (3)    | -1.0           | -0.9           | -0.5           | -0.5           | -0.5           | -0.5           | EV/EBITDA                          | -3.2         | -14.3                      | 3.1           | 1.3          |
| Incr/(decr) in equity        | 0.0            | 0.0            | 11.7           | 0.0            | 0.0            | 0.0            | EV/EBIT                            | -2.8         | -11.5                      | 3.3           | 1.3          |
| Incr/(decr) in debt          | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | PE                                 | na           | na                         | 8.5           | 5.3          |
| Ordinary dividend paid       | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Actrix                             |              |                            |               |              |
| Preferred dividends (4)      | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | EV/EBITDA                          | 8.0          | 10.9                       | 7.0           | 4.3          |
| Other financing cash flow    | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | EV/EBIT                            | 8.1          | 11.2                       | 7.3           | 4.4          |
| Cash flow from fin (5)       | 0.0            | 0.0            | 11.7           | 0.0            | 0.0            | 0.0            | PE                                 | 12.1         | 17.9                       | 12.5          | 8.6          |
| Forex and disc ops (6)       | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |                                    |              |                            |               |              |
| Incr/(decr) cash (1+3+5+6)   | -5.5           | 1.0            | 14.8           | 12.0           | 23.4           | 27.7           | <b>Per share data</b>              | <b>2011F</b> | <b>2012F</b>               | <b>2013F</b>  | <b>2014F</b> |
| Equity FCF (1+2+4)           | -5.5           | 1.0            | 14.8           | 12.0           | 23.4           | 27.7           | No. shares                         | 380.9        | 440.9                      | 440.9         | 440.9        |
|                              |                |                |                |                |                |                | EPS (cps)                          | 0.4          | 0.7                        | 2.9           | 5.5          |
| <b>Balance sheet</b>         | <b>2010A</b>   | <b>2011F</b>   | <b>2012F</b>   | <b>2013F</b>   | <b>2014F</b>   | <b>2015F</b>   | EPS (normalised) (c)               | 0.4          | 0.7                        | 2.9           | 5.5          |
| Cash & deposits              | 3.3            | 3.3            | 18.0           | 30.0           | 53.5           | 81.2           | Dividend per share (c)             | 0.0          | 0.0                        | 0.0           | 0.0          |
| Trade debtors                | 0.8            | 1.7            | 1.7            | 2.6            | 4.4            | 4.9            | Dividend payout ratio (%)          | 0.0%         | 0.0%                       | 0.0%          | 0.0%         |
| Inventory                    | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Dividend yield (%)                 | 0.0%         | 0.0%                       | 0.0%          | 0.0%         |
| Investments                  | 0.5            | 0.5            | 0.5            | 0.5            | 0.5            | 0.5            | <b>Growth ratios</b>               | <b>2011F</b> | <b>2012F</b>               | <b>2013F</b>  | <b>2014F</b> |
| Goodwill                     | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Sales growth                       | 104.7%       | -1.1%                      | 59.0%         | 65.8%        |
| Other intangible assets      | 1.8            | 2.2            | 2.2            | 2.2            | 2.2            | 2.2            | Operating cost growth              | 23.2%        | -7.7%                      | 16.8%         | 49.2%        |
| Fixed assets                 | 3.0            | 2.0            | 2.4            | 2.3            | 2.3            | 2.3            | EBITDA growth                      |              | 59.9%                      | 303.4%        | 95.3%        |
| Other assets                 | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | EBITA growth                       |              | 59.9%                      | 303.4%        | 95.3%        |
| <b>Total assets</b>          | <b>8.7</b>     | <b>10.5</b>    | <b>25.2</b>    | <b>38.1</b>    | <b>63.3</b>    | <b>91.5</b>    | EBIT growth                        |              | 121.8%                     | 303.4%        | 95.3%        |
| Short-term borrowings        | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | NPAT growth                        |              | 112.6%                     | 307.8%        | 91.9%        |
| Trade payables               | 1.2            | 1.5            | 1.4            | 1.6            | 2.4            | 2.7            | Pre-goodwill NPAT growth           |              | 112.6%                     | 307.8%        | 91.9%        |
| Long-term borrowings         | 0.4            | 0.3            | 0.3            | 0.3            | 0.3            | 0.3            | Pre-goodwill EPS growth            |              | -46.9%                     | -11.5%        | 21.8%        |
| Provisions                   | 1.4            | 1.4            | 1.4            | 1.4            | 1.4            | 1.4            | Normalised EPS growth              |              | 69.1%                      | -7.2%         | 21.8%        |
| Other liabilities            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |                                    |              |                            |               |              |
| <b>Total liabilities</b>     | <b>3.0</b>     | <b>3.3</b>     | <b>3.2</b>     | <b>3.4</b>     | <b>4.2</b>     | <b>4.5</b>     | <b>Operating performance</b>       | <b>2011F</b> | <b>2012F</b>               | <b>2013F</b>  | <b>2014F</b> |
| Share capital                | 72.4           | 73.8           | 88.7           | 101.4          | 125.8          | 153.7          | Asset turnover (%)                 | 53.1         | 28.3                       | 25.4          | 26.2         |
| Other reserves               | 1.5            | 1.5            | 1.5            | 1.5            | 1.5            | 1.5            | EBITDA margin (%)                  | 11.6         | 17.5                       | 39.4          | 45.4         |
| Retained earnings            | -68.4          | -68.4          | -68.4          | -68.4          | -68.4          | -68.4          | EBIT margin (%)                    | 6.6          | 14.9                       | 37.7          | 44.5         |
| Other equity                 | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Net profit margin (%)              | 7.2          | 15.4                       | 39.6          | 45.8         |
| <b>Total equity</b>          | <b>5.5</b>     | <b>7.0</b>     | <b>21.8</b>    | <b>34.5</b>    | <b>58.9</b>    | <b>86.9</b>    | Return on net assets (%)           | 19.3         | 13.8                       | 35.1          | 40.1         |
| Minority interest            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Net debt (A\$m)                    | -2.9         | -17.7                      | -29.6         | -53.1        |
| Total shareholders' equity   | 5.5            | 7.0            | 21.8           | 34.5           | 58.9           | 86.9           | Net debt/equity (%)                | -41.4        | -80.9                      | -85.8         | -90.1        |
| Total liabilities & SE       | 8.6            | 10.3           | 25.0           | 37.9           | 63.1           | 91.3           | Net interest/EBIT cover (x)        | 12.4         | 18.1                       | 11.5          | 13.4         |
|                              |                |                |                |                |                |                | ROIC (%)                           |              |                            |               |              |
|                              |                |                |                |                |                |                | <b>Internal liquidity</b>          | <b>2011F</b> | <b>2012F</b>               | <b>2013F</b>  | <b>2014F</b> |
|                              |                |                |                |                |                |                | Current ratio (x)                  | 1.0          | 5.7                        | 8.8           | 12.8         |
|                              |                |                |                |                |                |                | Receivables turnover (x)           | 16.8         | 12.1                       | 14.9          | 15.2         |
|                              |                |                |                |                |                |                | Payables turnover (x)              | 13.5         | 11.7                       | 13.1          | 14.6         |

Source: RBS Morgans forecasts



[www.rbsmorgans.com](http://www.rbsmorgans.com)

#### QUEENSLAND

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REDCLIFFE (07) 3897 3999  
ROCKHAMPTON (07) 4922 5855  
SPRING HILL (07) 3833 9333  
SUNSHINE COAST (07) 5479 2757  
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TOWNSVILLE (07) 4725 5787  
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#### WESTERN AUSTRALIA

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