



Biotech Daily

Friday June 16, 2017

Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Genetic Technologies

By TIM BOREHAM

ASX Code: GTG; **Nasdaq Code:** GENE

Market cap: \$19.5 million; **Share price:** 0.8 cents; **Shares on offer:** 2,435,282,724

Chief executive officer: Eutillio Buccilli

Board: Dr Malcolm Brandon (chairman), Eutillio Buccilli, Dr Paul Kasian, Grahame Leonard, Dr Lindsay Wakefield

Financials (March quarter): revenue of \$195,000 (compared with \$184,000 in December quarter), cash burn \$1,576,000 (\$1,720,000); estimated current-quarter cash burn \$2,779,000, cash on hand \$12.4 million

Major shareholders (as of 2016 annual report): National Nominees 75%*, Kentgrove Capital 1.6%, Security and Equity Trustees (0.88%).

* The National Nominees holding covers the US investors which includes Saby Management (6.59%) and CVI Investments/ Height Capital (5.7%).

There's a notable absence on the breast cancer testing outfit's list of key management personnel: British racing driver and breast cancer crusader Pippa Mann.

Peppy Pippa, the company's ambassador, is mentioned in almost every media release and on the company's acknowledgement is the "cornerstone" to its marketing efforts.

So much so that GTG's next generation product, Brevagenplus, was launched at this year's Indianapolis 500 race, in which Pippa competed for the fifth time in her Dale Coyne Racing Honda.

She didn't win, did set a women's record in qualifying laps of a sizzling 230 miles per hour (370kph).

So come on guys, give her a non-executive directorship, at least.

After a tortured recent history – and we'll come to that later – Genetic Technologies' streamlined hopes lie with Brevagenplus, a simple non-invasive predictive test for non-inherited breast cancer.

The test supersedes Brevagen, which had the shortcoming of being applicable to white women and not Blacks and Hispanics. Given Genetic Technologies' target market is the US that removes about one-third of the target audience.

In the March quarter, Genetic Technologies received 162 samples, compared with 278 in the December quarter. But bear in mind Brevagenplus was only rolled-out in earnest in January this year.

Please, no reimbursement

While most medical companies crave for reimbursement – funding eligibility from health insurers or government organs – Genetic Technologies' official strategy is to revert to a private pay model.

As the company admits, it had become increasingly difficult to obtain funding over the last few years, an “acknowledged issue” for all molecular diagnostics companies assigned to a random US reimbursement code marked “miscellaneous”.

The test sold for a list price of \$US2,795 (\$A3,770), but insurers were unwilling to stump up anything like that amount. As a result, patients were presented with surprise bills six to nine months after the event and became somewhat narky.

In the company's words: “understandably, they become contentious and this was directed at their physicians”.

The new test will be sold for \$US349 (\$A470). Despite the yawning discrepancy, the company says the price will be in line with what it previously received per test. As with booking a hotel room you never pay the rack rate, do you?

The benefit of not seeking reimbursement is that Genetic Technologies does not have to spend money on clinical trials aimed not at regulatory approval (which it has), but at convincing the insurers to stump up the dough.

As a result, two questionnaire-based studies launched last year are being reevaluated.

Colorectal expansion

While Brevagenplus is Genetic Technologies' revenue driver, the company has signed an exclusive global compact with the University of Melbourne to develop and commercialize a risk test for colorectal cancer (CRC).

Excluding skin cancer, CRC is the third most common cancer. While the five-year survival rate is an encouraging 92 percent, this plunges to 11 percent when the tumor has metastasized (spread to other organs).

Hence the need for an early risk-based test, which would be similar to the technology underlying Brevagenplus.

From chequered history to chequered flags

Until Pippa motored along, Genetic Technologies was in the headlines for the wrong reasons.

Should we mention founder Dr Mervyn Jacobson? We probably need to.

In November 2014 a Victorian Supreme Court jury found Dr Jacobson guilty of 35 counts of share manipulation, pertaining to trading activity in his GTG holding in 2006 (then 40 percent, now 0.33 percent).

Dr Jacobson was sentenced to two years and eight months at Her Majesty's pleasure, with a minimum term of one year, and has since been released.

Then there was the patent litigation over 'ownership' of the mutant gene BRCA1, a leading cause of breast cancer. Myriad Genetics of the US had licenced the relevant patent to Genetic Technologies for use in Australia. But in a key case brought on behalf of a Queensland pensioner, the High Court in 2015 ruled that a company could not lay claim to genetic information.

Earlier, Genetic Technologies came under fire for attempting to enforce its exclusive local rights to BRCA1 and BRCA2 screens, thus depriving public research organisations of free use. The company later backed down on its threat to charge royalties.

Operationally, Genetic Technologies is now a much cleaner business. In November 2014 the company shed its "legacy" animal genomic testing arm to a division of Primary Health for \$2 million.

A core activity of this profitable division was assessing the provenance of pooches, a service likely to strike fear into many a dodgy greyhound owner.

Until then, the company had gone to the dogs in more ways than one.

Fear not the fiscal fiend

As mentioned, Genetic Technologies' accumulated losses means it won't be worrying about a tax bill in the near future.

The company sits on \$12 million in cash, which follows an \$8.1 million placement to US investors. The placement saw 4.8 million American depositary shares issued at \$US1.25 per ADS, equivalent to 720,000,000 Australian shares at 1.13 cents apiece.

GTG has a heady 2.4 billion shares on issue, a tell-tale legacy of raising funds at low valuations over the years.

The company also has 53.8 million options on issue. Mr Buccilli, who joined the company in June 2014 and was promoted to chief executive officer in February 2015, accounts for 14.2 million of them, exercisable at any time to November 2020 at a strike price of two cents, subject to vesting conditions.

Dr Boreham's diagnosis:

Can Pippa put the GT stripe back into GTG's performance?

Mr Buccilli and his team (including Pippa) will need to put their feet on the earnings accelerator to realize any value for these securities.

After all, we're talking about a company with accumulated losses of \$109 million and which has chalked up a \$42 million cumulative deficit over the last five years (\$8.45 million in 2015-'16).

On current trends, the number of Brevagenplus tests carried out is nothing to get excited about, but we stress it's early days and the target market is capacious.

Not for the first time, the Stating-The-Bleeding-Obvious-Award goes to the auditors: "The extent of any future losses and whether or not the company can generate profits in future years remains uncertain."

To further state the bleedin' obvious, the stock is cheap but probably cheap for a reason.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He has never competed in the Indi 500 but as a young lad once got his Datsun 1200 to 120kph before the motor blew.