



Biotech Daily's CEO interview

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Genetic Technologies' Dr Paul MacLeman: The Hottest Seat In Biotech

Paul MacLeman has taken a giant leap of faith to leave the slowly-developing Hatchtech to the controversy-plagued Genetic Technologies.

The two companies could not be more different. The unlisted Hatchtech has some significant investors, including GBS Venture Partners, and is hoping for results on its head lice egg treatment by the end of this year.

Genetic Technologies employs 75 full-time equivalent staff, has modern offices and laboratory space in Fitzroy, a vault of intellectual property, significant and growing revenues ... and Mervyn.

Genetic Technologies' co-founder and former chief executive officer Dr Mervyn Jacobson faces 319 charges of market manipulation, while his daughter Tamara Newing has been charged with 353 counts of market manipulation and Dr Jacobson's son-in-law and former Genetic Technologies' chief operating officer Geoff Newing has been charged with 192 counts. Apart from the February 1, 2010 date with the judicial system Dr Jacobson owns somewhere between 40 and 50 percent of the company.

So Dr Paul MacLeman has two major jobs on his hands, that if he is adroit he might be able to turn into the same job: running the company effectively to make it cash flow positive and placating the major shareholder. (A related job is reducing Dr Jacobson's holding, but more on that later.)

So far, the boy from Shore (Sydney Church of England Grammar School) seems to be combining both tasks well. Several new deals have been done and although the cash burn to September 30, 2009 was \$1.1 million, receipts from customers amounted to \$1.965 million, with cash in the bank of \$6.6 million, giving at least a year and a half breathing space.

The MacLeman household now boasts two listed biotechnology CEOs – wife, Sue MacLeman is the head of Benitec, which has seen its share of disputes over intellectual property, as has Genetic Technologies.

Genetic Technologies was founded on Dr Jacobson's acquisition of non-coding DNA at a time when some people referred to the space between gene sequences as "junk DNA". It turns out the space is as important to DNA as the space between electrons and planets.

Dr MacLeman has been around the biotechnology sector for most of his working life. Aged 43, he completed a Veterinary Science degree at the University of Sydney, worked for Nature Vet and picked up a Graduate Certificate in Engineering from Wollongong because he had to redesign the company's pharmaceutical factory.

Paul has worked for poultry and pig vaccine developer Imugene and was vice-president of Agenix's animal health division. Along the way he earned a Graduate Diploma in Technical Management from Swinburne and a Masters of Business Administration from Macquarie University's Graduate School of Management.

Well qualified and with solid experience, his appointment to lead Genetic Technologies came as a surprise to most observers in the wake of Mervyn's rolling of his former CEO Michael Ohanessian and the dismissal of his board, then headed by Henry Bosch (BD: Sep 18, 22; Nov 19, 2008).

Six months to the day later, Dr MacLeman appears to be finding his feet and speaks frankly about his relationship with the major shareholder. He acknowledges Biotech Daily's view that Mervyn can either have 50 percent of a five cent company or 19.9 percent of \$1 plus company. Valued by the market at about \$20 million Genetic Technologies is a long way from its \$110 million market capitalization of March 2007.

But to succeed where Michael Ohanessian failed and encourage Dr Jacobson to sell down he has to bridge the "huge void" between the current share price and what Dr Jacobson considers a fair price. The way to do it is "by making the business successful to increase the price to the point where he is interested," Dr MacLeman says.

Dr MacLeman runs through the current and expected opportunities for increasing business for Genetic Technologies and says "operationally we are aggressively pursuing those markets".

Licensing revenues can be highly variable and last year the main contributor to increased losses and decreased revenue was the shortfall on licensing revenue. Mervyn continues as a consultant on licensing, but the company recently hired Dr David Sparling as legal and corporate development vice-president to assist both Dr MacLeman and Dr Jacobson in extending licensing activities, along with other senior appointments.

In his six months Dr MacLeman has re-secured the lucrative three-year contract to provide paternity testing for greyhounds. The high-throughput standardized tests are efficient and provide a reliable income.

The company's controversial BRCA1 and BRCA2 testing for genetic predisposition for breast cancer and to a lesser extent ovarian cancer "could be earning up to \$1 million a year" in licence fees if the company enforced its intellectual property rights.

But when Mr Ohanessian did that, causing a minor public outcry, Mervyn reversed the decision and not long after lost his CEO ... and then the board. Mervyn made it clear that the company would not enforce those rights (BD: Dec 2, 2008).

"We still do more [BRCA testing] than any individual institution," Paul MacLeman says.

Last year, Genetic Technologies acquired the Frozen Puppies business and renamed it the reproductive service business. It has earned about \$790,000 in less than a full year of operation. Originally based in one fertility centre in Calga, New South Wales, the business harvests, stores, ships and inseminates dog semen and has opened sites in Ipswich (Queensland), Baulkham Hills (NSW) and Cranbourne (Victoria) as well as Beijing.

“It will be a one stop shop for pre-breeding management and health,” Dr MacLeman says. “We can test for wide range of illnesses and provide breeders with clear tests.”

He says what might appear to be a simple request, like selecting coat color “is mind-bogglingly complicated” whereas some tests are relatively straightforward. He says one of the critical tasks is selecting for genetic diversity within breeds to avoid inbreeding.

Dr MacLeman says that in terms of revenue, the company’s work is about 40-45 percent animal health and 55-60 percent human health.

Apart from genetic testing for predispositions to breast cancer and colorectal cancer, Genetic Technologies has recently become a distributor for Israel’s Rosetta Genomics’ tests for cancers of unknown origin, mesothelioma as distinct from other lung cancers and squamous compared to non-squamous cell lung carcinomas.

The company also has a distribution agreement with the Maryland-based Trimgen Corp to distribute its cancer management testing products that measure changes in cancer cells to assist in the effective ongoing treatment of cancer.

“We will do a range of deals in that space to allow physicians to manage malignancies better than they do now, Dr MacLeman says.

He said building the oncology business meant that the company could supply testing products for an area of unmet need in which sales representatives could be directed to clearly known cancer centres.

“The other area is paternity testing in its various guises and we do work for the Department of Immigration as well as Legal Aid,” he says.

The company continues its contract to provide genetic testing services for the New South Wales Government and Dr MacLeman hopes to continue discussions with the Victoria Government to provide genetic testing for its police and forensic services.

The patents on the original non-coding DNA lapse over the next few years until 2015, but are all packaged together effectively providing protection for all the intellectual property to 2015. Pulling all the segments together and driving revenues from them will protect Paul MacLeman.

Genetic Technologies was up 0.4 cents or 7.8 cents to 5.5 cents.

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