



BUY

Price 33 cents
Target Price 70 cents
Implied Return 112%

Genera Biosystems Limited (GBI)

Marc Sinatra

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

The final piece in the puzzle

Company Details

ASX Code:	GBI
Price:	33 cents
Shares on Issue (fully diluted):	106m
Market Capitalisation:	\$35m
12-Month Price Range:	17 – 36 cents
Monthly Volume (shares, July 2015)	0.9m

Financials

Year ending Jun	2014A	2015F	2016F	2017F
Lodge adj profit	(1.7)	(2.8)	0.0	4.0
Reported profit (pre abn)	(1.7)	(2.8)	0.0	4.0
EPS pre goodwill (¢)	(2.9)	(2.6)	0.0	3.8
EPS growth	4.0%	-24.0%	146.7%	157.0%
P/E ratio	-11.4 x	-12.5 x	0.0 x	8.7 x
DPS (¢)	0.0	0.0	0.0	0.0
NTA per share	\$0.01	\$0.01	\$0.01	\$0.05
Pr / NTA	33.0 x	33.0 x	33.0 x	6.7 x

Directors & Chief Executive

Lou Panaccio	Chairman
Richard Hannebery	Chief Executive Officer
Dr Karl Poetter	Executive Director (CSO)
Jim Kalokerinos	Non-Executive Director
David Symons	Non-Executive Director

Major Shareholders

Durbin Superannuation Fund	7.6%
JPS Distribution Pty Ltd	7.0%

Share Price Chart



Source: FactSet

Event: Genera Biosystems announced on the 7th of August 2015 that it was in receipt of the results from the Predictors 3 study. The Predictors 3 study compared the leading human papilloma virus (HPV) tests head-to-head in a 6,000 patient cervical cancer screening population. The study was conducted by Professor Jack Cuzick's group in England.

Comment: The performance of a diagnostic is very much dependent on the patient population it is studied in. As such, the further away from the real world setting the study is done in, the less meaningful the results will be and the greater is the chance that an erroneous conclusion will be drawn. In the case at hand, such an erroneous result would be the choice of one HPV test, when another actually performs better in the real world population.

The Predictors 3 study is the largest comparative study of HPV tests that has been undertaken (and, likely, will be undertaken) in a strict cervical cancer screening population. As such, the results are likely to be the most relevant and definitive set in terms of comparative performance of HPV tests. It is also why it is important that Genera's HPV test, PapType[®], was included in it.

While Genera is in receipt of the results, they are not at liberty to release them publicly, as they are in the domain of Prof Cuzick's group at the Wolfson Institute of Preventive Medicine. Prof Cuzick's group will, however, make the results available by their publication in a scientific journal and, possibly earlier, via conference presentation.

Genera can and has stated that they will confidentially share the results with potential partners. It seems reasonable to conclude that Beckman Coulter, with which Genera has an existing relationship, will be one of the company's to see the results.

Potential partners will be interested in both the sensitivity of PapType[®] (the percentage of cervical lesions the test detects) and its specificity (1 - the false positive rate), both of which are very important parameters.

In a previous study, Predictors 2, also carried out by Cuzick's group, there was generally little difference between tests in terms of sensitivity, with the majority coming in around 95%. There was a wider spread in terms of specificity and specificity may be the metric that separates the tests in Predictors 3. When the Predictors 3 results are released investors should note PapType[®]'s comparative specificity. The higher, the better.

PapType[®] already has an advantage over other tests in the study. PapType[®] not only determines the presence or absence of HPV, but the type that is present and, thus, it is the only single test that (a) allows for patients to be triaged based on the seriousness of the type they are infected with and (b) allows the presence of a persistent infection to be detected through sequential testing over one or more years.

The results of the Predictors 3 Study may well be the catalyst which delivers Genera the deal it has been seeking. The results will provide prospective partners with comfort regarding the performance of the product when it is in commercial use, significantly reducing the risk associated with licensing the test. It will, of course, also provide a validation of Genera's overall platform, AmpaSand[®].

Conclusion: The delivery of the Predictors 3 study results to Genera and their availability to potential partners brings Genera to a pivotal stage in its evolution. Essentially, all of the information a prospective partner needs or could want before they do a deal will be on the table. Assuming PapType[®] has performed solidly in Predictors 3, a deal is likely to come down to how well Genera's technology fits with the hardware and molecular diagnostics strategy of the majors. Given this, it is likely the company will do a deal in the not-too-distant future.

Recommendation: We retain our **BUY** recommendation and raise our 12-month price target to **70 cents**.

Genera Biosystems Limited (GBI: \$0.330)
Mkt Cap: \$35m



Valuation data

Year ending Jun	2014A	2015F	2016F	2017F	2018F
Lodge adj profit	(1.7)	(2.8)	0.0	4.0	6.8
Reported profit (pre sig)	(1.7)	(2.8)	0.0	4.0	6.8
EPS_{adj} (¢)	(2.9)	(2.6)	0.0	3.8	6.4
EPS _{adj} grow th	4.0%	(24.0%)	146.7%	157.0%	61.1%
P/E ratio	-11.4 x	-12.5 x	0.0 x	8.7 x	5.1 x
DPS (¢)	0.0	0.0	0.0	0.0	0.0
NTA per share	\$0.01	\$0.01	\$0.01	\$0.05	\$0.10
Pr / NTA	33.0 x	33.0 x	33.0 x	6.7 x	3.2 x

Balance sheet (\$M)

Year ending Jun	2014A	2015F	2016F	2017F	2018F
Cash	0.6	1.0	0.4	3.4	7.6
Receivables	0.1	0.2	0.6	1.2	1.5
Inventories	0.0	0.1	0.3	0.8	0.9
Other	0.1	0.1	0.1	0.1	0.1
Current assets	0.8	1.4	1.4	5.5	10.1
Net PPE	0.3	0.6	0.9	1.4	2.1
Capitalised development costs	1.9	1.9	2.7	3.4	4.2
Intangibles	1.8	2.0	1.9	1.8	1.8
FITB	0.4	0.5	0.5	0.5	0.5
Other	0.0	0.0	0.0	0.0	0.0
Non-current assets	4.4	5.0	6.0	7.1	8.6
Total assets	5.2	6.4	7.4	12.6	18.7
Debt	1.5	2.0	2.4	2.9	3.1
Provisions	0.2	0.3	0.3	0.3	0.3
Other	0.4	0.5	0.5	0.5	0.5
Total liabilities	2.1	2.8	3.2	3.7	3.9
Equity / reserves	24.8	27.3	27.3	27.3	27.3
Retained profits	(21.7)	(23.6)	(23.6)	(20.3)	(14.6)
Total s/h funds	3.1	3.7	3.7	7.0	12.7
Minorities	0.0	0.0	0.0	0.0	0.0
Total funds emp.	4.0	4.7	5.7	6.5	8.2

Ratio analysis

Year ending Jun	2014A	2015F	2016F	2017F	2018F
EBITDA / sales	-400%	-367%	3%	27%	31%
EBITAg / sales	-633%	-500%	-11%	21%	27%
EBIT / sales	-633%	-500%	-11%	21%	27%
Return on assets	-41%	-56%	-10%	37%	53%
Return on equity	-55%	-76%	0%	57%	54%

Profit and loss (\$M)

Year ending Jun	2014A	2015F	2016F	2017F	2018F
Sales revenue	0.3	0.6	6.1	16.4	22.0
<i>growth over pcp</i>	<i>31%</i>	<i>100%</i>	<i>917%</i>	<i>169%</i>	<i>34%</i>
EBITDA	(1.2)	(2.2)	0.2	4.4	6.9
D&A	(0.7)	(0.8)	(0.9)	(1.0)	(1.0)
EBITAg	(1.9)	(3.0)	(0.7)	3.4	5.9
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(1.9)	(3.0)	(0.7)	3.4	5.9
<i>growth over pcp</i>	<i>-37%</i>	<i>-37%</i>	<i>329%</i>	<i>121%</i>	<i>42%</i>
Net interest expense	(0.2)	(0.2)	0.2	0.3	0.5
Pre-tax profit	(2.1)	(3.2)	(0.5)	3.7	6.4
Tax	0.4	0.4	0.5	0.3	0.4
<i>Effective tax rate</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Minorities	0.0	0.0	0.0	0.0	0.0
Lodge adjustments	0.0	0.0	0.0	0.0	0.0
Lodge adj profit	(1.7)	(2.8)	0.0	4.0	6.8
Reported Net Profit pre-adj.	(1.7)	(2.8)	0.0	4.0	6.8
Adjustment	0.0	0.0	0.0	0.0	0.0
Reported net profit	(1.7)	(2.8)	0.0	4.0	6.8

Cashflow (\$M)

Year ending Jun	2014A	2015F	2016F	2017F	2018F
EBIT	(1.9)	(3.0)	(0.7)	3.4	5.9
Net interest paid	(0.2)	(0.2)	0.2	0.3	0.5
D&A	0.7	0.8	0.9	1.0	1.0
Tax paid	0.4	0.4	0.5	0.3	0.4
Gross cash from op'ns	(1.0)	(2.0)	0.9	5.0	7.8
(Inc) / dec in w'k'g cap	0.0	(0.3)	(0.9)	(1.1)	(0.8)
Inc / (dec) in Other Liab.	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Operating cashflow	(1.0)	(2.3)	0.0	3.9	7.0
<i>growth over pcp</i>	<i>50%</i>	<i>-130%</i>	<i>584%</i>		<i>79%</i>
Investing cashflows					
Capital expenditure	0.0	0.3	0.6	0.7	(0.6)
Asset sales	0.0	0.0	0.0	0.0	0.0
Development costs	0.0	(0.4)	(0.9)	(1.1)	(1.1)
Divestments	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing cashflows					
Net equity raised	0.9	2.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Chg in loans	0.0	0.0	0.0	0.0	0.0
Other non-op flow s	0.0	0.0	0.0	0.0	0.0
Net chg in cash	(0.1)	(0.4)	(0.3)	3.5	5.3

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