



BUY

12 Month Price 88 cents
Price 45 cents
Implied Return 96%

Genetic Signatures Limited

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A good year

Company Details

| | |
|-----------------------------|--------|
| ASX Code: | GSS |
| Price: | \$0.45 |
| Shares on Issue (at close): | 72.9m |
| Market Capitalisation: | \$33m |
| Volume (shares, Aug 15) | 1.0m |

Financials

| Year ending Jun | 2015A | 2016F | 2017F | 2018F |
|---------------------------|---------|---------|---------|--------|
| Lodge adj profit | (2.5) | (2.1) | 1.7 | 4.5 |
| Reported profit (pre abn) | (2.5) | (2.1) | 1.7 | 4.5 |
| EPS pre goodwill (¢) | (4.1) | (2.8) | 2.4 | 6.2 |
| EPS growth | 19.3% | -31.0% | -183.0% | 162.9% |
| P/E ratio | -10.9 x | -15.8 x | 19.1 x | 7.3 x |
| EV / EBIT | -14.5 x | -16.4 x | 25.6 x | 10.1 x |
| EV / EBITDA | -14.5 x | -16.4 x | 25.6 x | 10.1 x |
| FCFPS (¢) | (4.2) | (3.5) | 1.2 | 5.0 |
| Price / FCFPS | -10.7 x | -12.8 x | 37.4 x | 9.0 x |
| NTA per share | \$0.10 | \$0.07 | \$0.09 | \$0.15 |
| Pr / NTA | 4.7 x | 6.6 x | 4.9 x | 2.9 x |

Directors & Chief Executive

| | |
|---------------|-------------------------|
| Nick Samaras | Non-Executive Chairman |
| John Melki | Director & CEO |
| Philip Isaacs | Non-Executive Director |
| Pat Noland | Non-Executive Director |
| Mike Aicher | Executive Director - US |

Major Shareholders (Post-IPO)

| | |
|------------------------------------|-----|
| Asia Union Investments (CM Abbott) | 55% |
|------------------------------------|-----|

Event: Genetic Signatures released its FY15 financial results recently.

Results: A comparison of the P&L produced by the company and Lodge Partners forecast is given below:

| | FY15-Actual | FY15-Lodge | Deviation |
|--|-------------|------------|-------------|
| Sales Revenue | 1,043 | 776 | +267 (+34%) |
| COGS | -395 | -194 | -201 (103%) |
| Other Income | 1,010 | 844 | +166 (+20%) |
| Employee benefits expense | -1,825 | -1,700 | -125 (-7%) |
| Director's and consultancy fees | -408 | -480 | +72 (+15%) |
| Depreciation & amortisation | -205 | -160 | -45 (-28%) |
| Finance costs | -0.5 | -0.5 | +0 (+0%) |
| Rental expenses | -139 | -150 | +11 (+7%) |
| Scientific consumables | -351 | -300 | -51 (-17%) |
| Travel and accommodation | -160 | -150 | -10 (-7%) |
| Other expenses | -1,228 | -1,980 | +752 (+38%) |
| Net profit | -2,659 | -3,494 | +835 (+24%) |

Comment: In general, the concordance between our forecast and Genetic Signatures actual results was good.

There were three areas of notable discordance (+/-30%). They were:

- Other expenses – Specifically, we significantly over estimated costs associated with the company's IPO
- COGS – Deviation relates to a change in accounting practice regarding inventories
- Sales Revenue – Our model does not include a range of non-diagnostic products the company has been selling. Based on details from the prospectus, these non-diagnostic revenues totalled approximately \$100k in FY14.

Overall, the company is performing well and to expectations.

Price target: We have increased our price target to 88 cents to reflect the one year movement forward in our valuation model.

Future activities: Of the upcoming activities mentioned in the 4E, the standout is the expected appointment of a senior US sales representative. The company and particularly the US head, Mike Aicher, have been clear that appointments would be made only if they were justified and would bear fruit. As the largest single market in the world, it is the US that will make Genetic Signatures a very substantial company. The signal that comes with a senior US sales executive being appointed by the company and accepting the job, is that the company and executive are confident of US sales.

Recommendation: We continue to see Genetic Signatures as significantly undervalued. **Buy** recommendation and a new price target of **88 cents** instituted.

Genetic Signatures Limited (GSS: \$0.450)

Mkt Cap: \$33m



Valuation data

| Year ending Jun | 2015A | 2016F | 2017F | 2018F | 2019F |
|------------------------------|--------------|--------------|------------|------------|-------------|
| Lodge adj profit | (2.5) | (2.1) | 1.7 | 4.5 | 9.3 |
| Reported profit (pre sig) | (2.5) | (2.1) | 1.7 | 4.5 | 9.3 |
| EPS_{adj} (¢) | (4.1) | (2.8) | 2.4 | 6.2 | 12.7 |
| EPS _{adj} growth | (19.3%) | 31.0% | 183.0% | 162.9% | (105.0%) |
| P/E ratio | -10.9 x | -15.8 x | 19.1 x | 7.3 x | 3.5 x |
| EV / EBIT | -14.5 x | -16.4 x | 25.6 x | 10.1 x | 6.7 x |
| EV / EBITDA | -14.5 x | -16.4 x | 25.6 x | 10.1 x | 6.7 x |
| FCFPS (¢) | (4.2) | (3.5) | 1.2 | 5.0 | 11.3 |
| Price / FCFPS | -10.7 x | -12.8 x | 37.4 x | 9.0 x | 4.0 x |
| NTA per share | \$0.10 | \$0.07 | \$0.09 | \$0.15 | \$0.28 |
| Pr / NTA | 4.7 x | 6.6 x | 4.9 x | 2.9 x | 1.6 x |

Balance sheet (\$M)

| Year ending Jun | 2015A | 2016F | 2017F | 2018F | 2019F |
|---------------------------|------------|------------|------------|-------------|-------------|
| Cash | 5.7 | 3.2 | 4.0 | 7.7 | 16.0 |
| Receivables | 0.2 | 0.4 | 1.6 | 2.9 | 4.5 |
| Inventories | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Tax Assets | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Current assets | 6.2 | 3.9 | 6.0 | 10.8 | 20.7 |
| Net PPE | 0.8 | 1.2 | 1.6 | 1.9 | 2.3 |
| Investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Intangibles | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| FITB | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-current assets | 0.8 | 1.2 | 1.6 | 1.9 | 2.3 |
| Total assets | 7.0 | 5.1 | 7.5 | 12.8 | 23.0 |
| Debt | 0.1 | 0.2 | 1.0 | 1.7 | 2.7 |
| Provisions | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total liabilities | 0.3 | 0.4 | 1.1 | 1.9 | 2.9 |
| Equity / reserves | 32.5 | 32.5 | 32.5 | 32.5 | 32.5 |
| Retained profits | (25.4) | (27.5) | (25.8) | (21.3) | (12.0) |
| Total s/h funds | 7.0 | 5.0 | 6.7 | 11.2 | 20.5 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total funds emp. | 1.4 | 2.0 | 3.6 | 5.2 | 7.2 |

Ratio analysis

| Year ending Jun | 2015A | 2016F | 2017F | 2018F | 2019F |
|-------------------------|--------------|--------------|------------|------------|------------|
| EBITDA / sales | -235% | -95% | 23% | 33% | 36% |
| EBITAg / sales | -255% | -109% | 18% | 28% | 33% |
| EBIT / sales | -255% | -109% | 18% | 28% | 33% |
| Return on assets | -205% | -115% | 42% | 79% | 103% |
| Return on equity | -36% | -42% | 26% | 40% | 45% |

Profit and loss (\$M)

| Year ending Jun | 2015A | 2016F | 2017F | 2018F | 2019F |
|------------------------------|--------------|--------------|------------|------------|------------|
| Sales revenue | 1.0 | 2.0 | 8.0 | 14.3 | 22.4 |
| <i>growth over pcp</i> | 52% | 92% | 301% | 77% | 57% |
| EBITDA | (2.5) | (1.9) | 1.9 | 4.6 | 8.2 |
| Dep'n and amort'n | (0.2) | (0.3) | (0.4) | (0.6) | (0.8) |
| EBITAg | (2.7) | (2.2) | 1.4 | 4.0 | 7.3 |
| Goodwill amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | (2.7) | (2.2) | 1.4 | 4.0 | 7.3 |
| <i>growth over pcp</i> | 16% | 18% | 166% | 179% | 82% |
| Net interest expense | 0.1 | 0.1 | 0.3 | 0.5 | 1.0 |
| Pre-tax profit | (2.5) | (2.1) | 1.7 | 4.5 | 8.3 |
| Tax | 0 | 0 | 0 | 0 | 1 |
| <i>Effective tax rate</i> | 0% | 0% | 0% | 0% | 0% |
| Preference dividends | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 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 | (2.5) | (2.1) | 1.7 | 4.5 | 9.3 |
| Reported Net Profit pre-adj. | (2.5) | (2.1) | 1.7 | 4.5 | 9.3 |
| Adjustment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported net profit | (2.5) | (2.1) | 1.7 | 4.5 | 9.3 |

Cashflow (\$M)

| Year ending Jun | 2015A | 2016F | 2017F | 2018F | 2019F |
|------------------------------|--------------|--------------|------------|------------|-------------|
| EBIT | (2.7) | (2.2) | 1.4 | 4.0 | 7.3 |
| Net interest paid | 0.1 | 0.1 | 0.3 | 0.5 | 1.0 |
| Dep'n and amort'n | 0.2 | 0.3 | 0.4 | 0.6 | 0.8 |
| Tax paid | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Gross cash from op'ns | (2.3) | (1.8) | 2.2 | 5.1 | 10.1 |
| (Inc) / dec in w'k'g cap | (0.1) | (0.1) | (0.5) | (0.5) | (0.6) |
| 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 | (2.5) | (1.9) | 1.7 | 4.7 | 9.5 |
| <i>growth over pcp</i> | 0.2 | (0.2) | (0.1) | 1.8 | 1.0 |
| Investing cashflows | | | | | |
| Capital expenditure | (0.6) | (0.7) | (0.8) | (1.0) | (1.2) |
| Asset sales | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Divestments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing cashflows | | | | | |
| Gross equity raised | 6.9 | 0.0 | 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 | 3.9 | (2.6) | 0.9 | 3.7 | 9.3 |

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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.

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