

# ASX Announcement

## 27 February 2019



### FY19 Half Year Results and Earnings Guidance

Cogstate (ASX.CGS) has today released its Appendix 4D – Half Year Report for the six months ended 31 December 2018.

#### Summary of Results

*All figures are stated in US\$*

*Previous Corresponding Period (PCP) = 31 December 2017*

#### Financial Results:

- Revenue: \$11.1m (PCP \$13.4m)
  - Revenue was impacted by \$1.9m negative adjustment as at 31 December 2018 and restated from Appendix 4C H1 FY2019 revenue estimate of \$13.0m (see Revenue Adjustment section below).
- Net loss before tax: \$2.8m : \$1.6m before non-recurring restructure costs (PCP \$0.5m)
  - Current period includes \$1.2m restructure costs incurred as part of a cost-cutting program
- Sales contracts executed during the period: \$10.0m (PCP \$21.6m)
- Contracted future revenue to be recognised in future periods: \$23.4m (PCP \$35.0m, Jun-18 \$28.4m)

#### Commentary:

- As previously advised to shareholders, the recent failure of Alzheimer's disease clinical trials has negatively impacted the clinical trials services industry including, but not limited to, Cogstate. These failures have negatively impacted Cogstate revenue in the reporting period as well as new sales contracts executed during the period, which in turn has impacted the contracted future revenue of the Company.
- A significant cost-cutting exercise was undertaken at the beginning of the period. Non-recurring restructure costs (\$1.2m), predominantly associated with staff reduction, were expensed during the period. Total costs removed from the business as part of the restructure exceed \$5m on an annualised basis (with the full benefit being realised from H2 FY2019 onwards).
- Cogstate continues to explore opportunities from indications other than Alzheimer's disease and is firmly focused on converting those opportunities in the short term. Management has been pleased with the level of interest in paediatric and rare diseases; an area that Cogstate has expanded into within the last year. Management also sees growth in oncology, depression and schizophrenia markets in the short term – with optimism based on recent cognition data analysis from clinical trials, where Cogstate was an endpoint in the relevant trials.
- Across the pharmaceutical industry, the amount of investment in new Alzheimer's disease clinical trials is presently less than previous years. However, an effective Alzheimer's disease therapy continues to represent an enormous unmet societal health need. Cogstate management believes that the level of investment in new Alzheimer's disease clinical trials will return to prior levels in the medium term.
- Cogstate is focused on balancing resources and capital against its revised revenue position. At 31 December the cash balance was \$4.1m and, as reported in the Appendix 4C, forecast gross operating cash outflows for the March 2019 quarter total \$5.74m, down substantially from December 2018 (\$7.15m) and September 2018 (\$9.65m).

- Over the last two years, Cogstate has been developing a more flexible technology platform that will provide better usability for our customers, allow the Company to support different types of assessments in a range of indications and offer efficiency savings in the management of clinical trials. This technology platform is nearing commercial release and is expected to begin contributing to revenue generation in 2HFY2019.

#### Guidance:

- At this time, management expects sales contracts for the quarter to 31 March 2019 to underperform, consistent with sales results from the September 2018 and December 2018 quarters.
- Whilst the June quarter outlook is more promising, recent conversion timelines suggest that there is some uncertainty in respect of sales conversion.
- As a result of the above, management is currently forecasting a loss for the June 2019 half year (2HFY2019). The forecast amount of the loss varies according to the value of new sales contracts executed in the March and June quarters but could be in the range of \$1.5m - \$2.5m loss before tax for the 2HFY2019.
- The Company has entered into a debt facility, with two entities, which are affiliated with Martyn Myer and David Dolby respectively. That facility, combined with current cash reserves, are expected to meet the forecast cash requirements of the business. Further details are provided below in the section titled Debt Facility.

## Further Details

### Revenue adjustment

In July 2018, Cogstate announced the future cancellation of sales contracts as a result of the failure of two distinct phase 3 trials of investigational compounds in Alzheimer's disease. Presently, Cogstate is undertaking an ongoing, and as yet uncompleted, reconciliation of those sales contracts as we work with our pharmaceutical company customers to finalise contract amendments. The reconciliations and contract amendments are complex and therefore final contract amendments are expected to be executed within the next six months. Cogstate will provide a further update once those reconciliations and amendments are finalised.

In the course of the ongoing reconciliation of these contracts, it is likely that a refund will be payable to two customers of certain amounts previously invoiced, paid and recognised as revenue. As a result of this reconciliation, Cogstate has taken up an accrual for these refunds as at 31 December 2018, in the amount of \$1.6 million.

This accrual is based on the best and most recent data available but, as stated above, the contract amendments have not been finalised. These amounts are not presently payable to the customers but are expected to be payable following final reconciliation and execution of the contract amendments.

The nature of these refunds relate to a particular service item where there is necessarily an element of estimation in the invoice generation, based on best data available at the time at which the actual work is undertaken. These estimates were agreed with the customer and the customer paid the invoice at the time of issue based upon the agreed estimate.

As a result of the impact of this analysis, Cogstate has undertaken further analysis to ascertain whether the revenue on other (unrelated) sales contracts is affected by similar issues. This additional analysis has resulted in a deferral of recognition of \$0.30 million revenue at 31 December 2018. It is estimated that the \$0.30 million of deferred revenue will be recognised in 2H FY2019.

## Contracted future revenue

Contracted future revenue is the amount of revenue to be recognised in the future from sales contracts that were executed prior to the commencement of the current period.

Following the ongoing reconciliation of the contracts that will be cancelled (referred to above), along with adjustments to revenue recognition that is associated with the introduction of new accounting standards governing the recognition of revenue, Cogstate has calculated an updated value for contracted future revenue as at 31 December 2018.

In the Business update released to the ASX in January 2019, Cogstate referred to a contracted future revenue position of \$22.1m as at 31 December 2018. With these adjustments, the contracted future revenue position is now restated to \$23.4m as at 31 December 2018, of which \$8.2m is expected to be recognised by 30 June 2019, \$7.15m is expected to be recognised in the 2020 financial year and \$8.06m in the 2021-28 financial years.

Clinical Trials revenue recognised during a period is a function of (i) contracted future revenue and (ii) revenue recognised from sales contracts executed during the period. The revenue for 2H2019 (or any future period) will vary according to the value of new sales contracts executed during the period.

## Restructure undertaken

As previously announced, a restructure was undertaken in August 2018 to seek to reduce costs within the business. The full benefit of the restructure will be realised in H2 FY2019.

As part of this restructure, a strategic decision was made to seek distribution or licensing arrangements to commercialise Cognigram, rather than the direct sales model employed previously. In addition, an adjustment was made to staffing levels in the Clinical Trials group, balancing resources against contracted revenue position to maintain gross margins.

Staffing levels were also reduced across legal, finance and administration functions to increase efficiencies.

## Debt Facility

The Company has entered into an unsecured debt facility with the two entities, affiliated with Martyn Myer and David Dolby respectively. The Board (other than Messrs Myer and Dolby who declared their interest and recused themselves) considers that the terms of the facility are reasonable and more favourable to the Company than those available to the Company from arm's length sources of debt capital. The facility has not been drawn down upon at this time. If drawn down, the Company can repay the debt and cancel the facility at any time, with no penalty to the Company. If drawn down, the Company will pay interest, quarterly, to the debt providers. There are no warrants or other instruments or any security interests attached to the facility. The debt facility, in the amount of A\$2m, is available to the Company until 31 December 2019 unless terminated earlier by the Company, or a default event.

## Summary Financial Results

Please see the Summary Financial Results presented on the following page. Please note that the summary presented is a pro-forma P&L, which details separately the non-recurring costs, thereby providing a better guide of the cost base going forward.

## Summary Financial Results

### Proforma P&L excluding non-recurring costs

	31 December 2018 \$US	30 June 2018 \$US	31 December 2017 \$US
Revenue from Operations	11,107,900	15,578,466	13,378,418
<b>Clinical Trials</b>			
Revenue	10,976,669	15,249,451	12,830,736
Cost of Sales (excluding direct depreciation)	(4,059,522)	(4,497,233)	(4,051,222)
<b>Gross Margin</b>	<b>6,917,117</b>	<b>10,752,218</b>	<b>8,779,514</b>
SG&A	(1,598,452)	(1,868,781)	(1,757,758)
Pass through costs, net of recovery	-	-	-
<b>Clinical Trials EBITDA</b>	<b>5,318,665</b>	<b>8,883,437</b>	<b>7,021,756</b>
	48.5%	58.3%	54.7%
<b>R&amp;D (incl. academic research studies, normative data studies &amp; technology validation)</b>			
Revenue	67,712	117,632	374,136
Cost of sales & SG&A	(159)	(4,457)	(25,990)
Other operating expenditure - salaries and wages	(356,148)	(388,125)	(400,178)
<b>R&amp;D EBITDA</b>	<b>(288,595)</b>	<b>(274,950)</b>	<b>(52,032)</b>
<b>Total Other Expenditure (Net)</b>	<b>(6,317,035)</b>	<b>(6,300,992)</b>	<b>(5,713,685)</b>
<b>Adjusted EBITDA from continuing operations, excluding share based compensation</b>	<b>(1,286,965)</b>	<b>2,307,495</b>	<b>1,256,039</b>
Share based payments (expense of employee options)	133,021	(319,645)	(633,358)
Depreciation (Direct and Indirect) and Amortisation	(230,892)	(334,956)	(316,762)
<b>Profit/(Loss) before tax from continuing operations</b>	<b>(1,384,836)</b>	<b>1,652,894</b>	<b>305,919</b>
<b>Investment in Cognigram (start-up)</b>			
<b>Healthcare EBITDA</b>	<b>(225,003)</b>	<b>(1,023,958)</b>	<b>(828,639)</b>
<b>Net Profit/(Loss) before tax from continuing operations</b>	<b>(1,609,839)</b>	<b>628,936</b>	<b>(522,720)</b>
<b>Non-recurring costs</b>			
- Clinical Trials cost of sales	(194,511)	-	-
- Cognigram	(708,704)	-	-
- Administration	(289,027)	-	-
<b>Net Profit/(Loss) before tax</b>	<b>(2,802,081)</b>	<b>628,936</b>	<b>(522,720)</b>

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**About Cogstate**

Cogstate Ltd (ASX:CGS) is a leading science and technology solutions provider dedicated to optimizing the measurement of cognition in clinical trials, academic research and healthcare. Cogstate provides enabling technologies and professional services for higher quality neuropsychological assessments and is a pioneer in commercializing rapid, reliable and highly sensitive computerized cognitive tests. Cogstate customers include the world's leading biopharmaceutical companies; elite sporting organizations and military; physicians and patients; renowned academic institutions and public-private partnerships. For more information, please visit [www.cogstate.com](http://www.cogstate.com).