

ASX Announcement

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1H24 Financial Results & Business Update

All figures in US\$

Cogstate Ltd (ASX:CGS) has today released its Appendix 4D, half year report for the six months ended 31 December 2023 (1H24).

Highlights:

Earnings Growth: 1H24 EBIT of \$1.8M, compared to a PCP loss of (\$0.2M) driven by efficiency gains

Revenue: 1H24 Revenue of \$20.2M, up 3% compared to PCP

Future Revenue: Total future contracted revenue backlog of \$123.7 million at 31 December 2023

Sales Contracts: 1H24 Clinical Trials sales contracts executed of \$10.9M, down 60% compared to PCP

Share Buyback: The Board remains confident that Cogstate is well positioned for growth and will recommence the Share Buyback

FY24 Guidance: Customer engagement on new clinical trials expected to remain strong, particularly in Alzheimer's. Expect improved clinical trials sales bookings in 2H24 compared with 1H24, as increased sales pipeline activity starts to deliver. The revenue impact of the expected sales bookings remains sensitive to timing of contract execution.

	1H24 US\$m	2H23 US\$m	1H23 US\$m
Total revenue from ordinary activities	20.2	20.9	19.5
- Clinical Trials revenue	17.9	18.7	17.3
- Healthcare revenue	2.2	2.2	2.2
New contracts singings executed	10.9	6.7	27.3
Contracted future revenue	123.7	132.6	146.7
EBIT	1.8	2.9	(0.2)
Net Profit before Tax	2.1	3.5	0.0
Net operating cash flow	(0.4)	0.9	(0.2)
Net operating cash flow (excl. passthrough)	0.5	0.4	0.1

1H24 Segment Results

	1H24 US\$m	1H23 US\$m	Variance %
Total revenue from operations	20.2	19.5	3%
Clinical Trials (incl. Research)			
Revenue	17.9	17.3	3%
Direct Cost <i>(excluding direct depreciation)</i>	(6.8)	(7.5)	9%
Gross Margin	11.1	9.8	13%
SG&A	(2.1)	(2.0)	(1%)
Clinical Trials Segment Contribution	9.0	7.8	16%
Contribution Margin	50%	45%	
Healthcare			
Revenue	2.2	2.2	1%
Direct Cost	(0.5)	(0.9)	48%
Healthcare Segment Contribution	1.8	1.3	34%
Contribution Margin	79%	60%	
Other Operating Expense	(7.6)	(8.1)	6%
EBITDA	3.2	1.0	212%
Depreciation & Amortisation	(1.4)	(1.3)	(12%)
EBIT	1.8	(0.2)	N/A
Net Interest	0.3	0.2	24%
Net Profit/(Loss) before tax	2.1	0.0	N/A
Income Tax Expense / (Benefit)	0.1	(0.1)	N/A
Net Profit/(Loss) after tax	2.0	0.1	N/A

Explanatory Notes

1. **Sales contracts:** In the Clinical Trials division, Cogstate enters into contracts ("sales contracts") with both pharmaceutical and biotechnology companies for the provision of Cogstate technology and services, for use in clinical research trials, to determine the extent to which their investigational compound is impacting the cognition of the patient population. The contract value will differ for each clinical trial, depending upon the scope of the technology and services provided by Cogstate, as well as the complexity and length of the trial. An increase in the total value of sales contracts executed will increase the revenue backlog and will, over time, result in an increase to revenue recognised by Cogstate.
2. **Calculation of revenue from Clinical Trials division:** Revenue from sales contracts is recognised over the life of the contract. The length of a clinical trial can vary from several months for a phase 1 study and up to 4-5 years for a phase 3 study. Revenue is recognised based upon achievement of pre-determined milestones. During each period, revenue may be recognised from (i) contracts in the backlog at the beginning of the period, as well as (ii) sales contracts executed during the period. Usually there is a time lag between an increase or decrease in the level of sales contracts executed and a corresponding change to recognised revenue.
3. **Contracted future revenue backlog:** Executed sales contract values that have not yet been recognised as revenue at period end are referred to as "contracted future revenue". The revenue from these contracts will be recognised upon achievement of pre-determined milestones throughout the clinical trials. The contracted future revenue figure provides insight into future revenue performance.
4. **Healthcare revenue:** Cogstate has developed tools specifically designed to aid healthcare professionals, in general and specialist practice medicine, with objective assessments of cognition in patients. Cogstate's Healthcare offering includes the system branded as Cognigram™, a medical device which allows for regular and standardised testing to assist in the early detection of cognitive decline that could be related to a range of factors, including neurodegenerative diseases such as Alzheimer's disease. On 26 October 2020, Cogstate announced an exclusive global licensing agreement with pharmaceutical company Eisai (was previously just Japan), under which Eisai will market Cogstate technology as digital cognitive assessment tools targeting physicians, corporations, municipalities and also directly to consumers.

Under the 10-year global (ex-Japan) agreement between Eisai and Cogstate executed on 26 October 2020:

- In addition to the upfront payments from Eisai of US\$15 million, Cogstate is also due to receive an ongoing royalty on revenue derived by Eisai from the sale of Cogstate technology. Over the course of the 10-year global agreement, the contractual terms prescribe that the royalty payments shall not be less than an additional \$30 million (\$10 million over years 1-5 and \$20 million over years 6-10).
- The full \$45m (upfront payment of \$15m plus the minimum royalties of \$30m due over the course of the global license agreement) is being amortised on a straight-line basis over 11 years (10-year term + 12 months to commence). Actual cash royalties paid in each period will be the higher of (i) royalty amount calculated based on sales of product or (ii) minimum annual cash royalty, which ramp up over the contract period.

1H24 Analysis

Clinical Trials (incl. Research)

- 1H24 revenue was \$17.9m, up 3% on the previous corresponding period (pcp), despite low in-period revenue yield from lower than expected new contract sales.
- Direct cost was \$6.8m, down 9% on the previous corresponding period (down 6% on 2H23) reflecting the lower salary and related cost resulting from the restructuring actions taken in May 2023 which reduced the fulltime workforce in Clinical Trials by 17%.
- SG&A was up 1% on PCP.
- Gross contribution margin increased to 50%, up from 45% in the PCP. The margin improvement results largely from cost productivity and remains below target level due to low SW license mix at only 13% in 1H24
- Sales contracts executed during 1H24 totaled \$10.9m compared to \$6.7m in 2H23 and \$27.3m in 1H23. Delays in trial approvals impacted 1H24 sales.
- Clinical Trials contracted future revenue at 31 December 2023 was \$123.7m, down from 2H23 and 1H23 reflecting the lower new contract sales.

Healthcare

- Healthcare revenue in 1H24 was \$2.2m, consistent with the previous half year periods (1H23 and 2H23). This revenue primarily reflects the amortization of deferred revenue from the Eisai licensing agreement.

Future contracted revenue backlog

The revenue backlog for both the Clinical Trials and Healthcare segments are highlighted in the table below.

	31 Dec 23	31 Dec 22	Change
	US\$	US\$	US\$
Contracted Clinical Trials Revenue	91,173,221	110,007,616	(18,834,395)
Eisai Licence – Global (commercial years 1-10)	31,974,863	36,062,717	(4,087,854)
Eisai Licence – Japan (10 year licence)	565,289	665,207	(99,918)
Total Contracted Future Revenue	123,713,373	146,735,540	(23,022,167)

Profit before Tax

- Revenue growth in Clinical Trials combined with cost reductions across the business has resulted in an improved profit performance, with Net Profit before Tax of \$2.1m compared to nil in the prior corresponding period.
- Staff costs of \$13.2 million were down by 9% or \$1.3 million compared to PCP, reflecting the savings from the restructuring undertaken in May 2023. This is on track to achieve the \$2.6 million savings expected when the restructure was undertaken.
- Depreciation and amortization was \$1.4m, up 12% on PCP and reflects the ongoing investment in tools and technology delivering improved offerings to customers and efficiencies in our delivery.

Net Profit after Tax

- Net Profit after Tax was \$2.0m. This compares to the PCP of \$0.1m and represents a strong improvement in profitability.

Cash Flow / Balance Sheet

- Cash flow from operating activities, excluding passthrough, was \$0.5m compared to \$0.4m in the prior period. A decline in receipts from customers was partially offset by a decline in payments to staff and vendors.
- Total cash flow was an outflow of \$3.4m and reflects the share buy-back activities during 1H24 which amounted to \$3.1m.
- Gross cash on hand amounts to \$25.3 million with \$0.9 million of cash held on behalf of customers for future passthrough payments, providing for a net cash balance of \$24.4 million.

Share Buyback

The Board of Directors has resolved to commence a further on-market share buy-back of up to 5 million of Cogstate's issued ordinary shares over the next 12 months ("Share Buyback"). Under the previous share buy-back which commenced on 28 February 2023 and was closed on 4 December 2023, 3,753,218 ordinary shares were acquired on-market, for a total cost of A\$5,589,131.

The new Share Buyback program reflects the Cogstate Board's maintained belief in the business' future commercial prospects, the business' strong capital position, and supports the Board's ambition to improve returns for shareholders.

The timing and number of shares to be purchased under the Share Buyback will depend on the prevailing share price, market conditions and the capital position and requirements over the next 12 months.

Further information in respect of the Share Buyback will be provided in the Appendix 3C to be lodged by Cogstate following the required notification period.

FY24 Full Year Guidance

Customer engagement on new clinical trials expected to remain strong, particularly in Alzheimer's disease. Expect improved clinical trials sales bookings in 2H24 compared with 1H24, as increased sales pipeline activity starts to deliver. The revenue impact of the expected sales bookings remains sensitive to timing of contract execution.

Therefore, at this time, no specific guidance is provided.

This announcement has been approved for release by the Board of Cogstate Ltd.

About Cogstate

Cogstate Ltd (ASX:CGS) is the neuroscience technology company optimising brain health assessments to advance the development of new medicines and to enable earlier clinical insights in healthcare. Cogstate technologies provide rapid, reliable and highly sensitive computerised cognitive tests across a growing list of domains and support electronic clinical outcome assessment (eCOA) solutions to replace costly and error-prone paper assessments with real-time data capture. The company's clinical trials solutions include quality assurance services for study endpoints that combine innovative operational approaches, advanced analytics and scientific consulting. For 20 years, Cogstate has proudly supported the leading-edge research needs of biopharmaceutical companies and academic institutions and the clinical care needs of physicians and patients around the world. In the Healthcare market, in August 2019 Cogstate entered into an exclusive licensing agreement with the pharmaceutical company Eisai, under which Eisai will market Cogstate technologies as digital cognitive assessment tools in Japanese markets. In October 2020, Cogstate extended its agreement with Eisai to the Rest of the World. The product, branded as NouKNOW, launched in Japan on 31 March 2020 (nouknow.jp). For more information, please visit www.cogstate.com.

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Important Notices

Past performance

Past performance is given for illustrative purposes only and should not be relied upon as (and is not) an indication of Cogstate's views on its future financial performance or condition. Past performance of Cogstate cannot be relied upon as an indicator of (and provides no guidance as to) the future performance of Cogstate. Nothing contained in this announcement nor any information made available to you is, or shall be relied upon as, a promise, representation, warranty or guarantee, whether as to the past, present or future.

Future performance and forward-looking statements

This announcement contains certain "forward-looking statements". The words "expect", "anticipate", "estimate", "intend", "believe", "guidance", "should", "could", "may", "will", "predict", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Forward-looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies that are subject to change without notice and involve known and unknown risks and uncertainties and other factors that are beyond the control of Cogstate, its directors and management. Forward-looking statements are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance.

Actual results, performance or achievements may differ materially from those expressed or implied in such statements and any projections and assumptions on which these statements are based. These statements may assume the success of Cogstate's business strategies, including the that the results of any of those strategies will be realised in the period for which the forward-looking statement may have been prepared or otherwise. For example, Cogstate's performance in any one financial period is sensitive to whether or not contracts are signed in that period, or a subsequent period, and the rate of enrolment in trials of its customers which are influenced by factors that are outside of Cogstate's control.

Readers are cautioned not to place undue reliance on forward-looking statements and except as required by law or regulation, none of Cogstate, its representatives or advisers assumes any obligation to update these forward-looking statements. No representation or warranty, express or implied, is made as to the accuracy, likelihood of achievement or reasonableness of any forecasts, prospects, returns or statements in relation to future matters contained in this announcement. The forward-looking statements are based on information available to Cogstate as at the date of this announcement. Except as required by law or regulation (including the ASX Listing Rules), none of Cogstate, its representatives or advisers undertakes any obligation to provide any additional or updated information, whether as a result of a change in expectations or assumptions, new information, future events or results or otherwise. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward-looking statements.