

ASX Announcement

28 January 2020

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All figures are reported in US\$

Business Update and December 2019 Quarter Cashflow (Appendix 4C)

Cogstate (ASX.CGS) has today released a business update and its Appendix 4C – Quarterly Cash Flow statement for the quarter ended 31 December 2019.

Summary of Half Year Results	Half Year Ended		
	31 Dec 2019	30 Jun 2019	31 Dec 2018
	(1H20)	(2H19)	(1H19)
	US\$'000,000	US\$'000,000	US\$'000,000
Sales contracts executed (clinical trials division) ¹	26.9	7.9	10.0
Contracted future revenue ³	37.2	20.3	23.4
Total half year revenue (subject to audit review)	9.7	10.7	11.1
- Clinical Trials Revenue ²	8.3	10.4	11.0
- Healthcare Revenue ⁴	1.3	0.2	0.06
- Research Revenue	0.1	0.1	0.07
Total cash & receivables	11.3	7.5	8.7
- Cash reserves	7.2	3.2	4.1
- Trade receivables	4.1	4.3	4.6

Summary Commentary:

- **Record high sales contracts executed:** Clinical Trials executed sales contracts totalling \$26.9 million during the half year (previous best: \$23.0m for the half year ended 31 Dec 2016).
- **Record high revenue backlog:** Contracted revenue that will be recognised in future periods totalled \$37.2 million at 31 December 2019 (previous best: \$35.0m at 31 Dec 2017).
- **Strong cash position:** Cash reserves totalled \$7.2 million at 31 December 2019 following capital raising completed during the half year.
- **Clinical Trials revenue decreased in line with expectations:** Clinical Trials revenue decreased 25% compared to the previous corresponding period, which was in line with expectations. This reflects the Contracted Revenue position as at the start of the period and is therefore a function of Clinical Trials sales contracts executed in prior periods. The current record high backlog will provide revenue growth during the second half of the 2020 financial year (see page 4 for more details).
- **Healthcare revenue increased:** Healthcare revenue increased to \$1.3 million for the half year, inclusive of the upfront royalty paid by pharmaceutical company Eisai in respect of licensing of Cogstate technology for the Japanese market.
- **Reconfirm guidance:** FY20 EBIT Loss - Notwithstanding growth in clinical trials contracts and increase in Cognigram revenue, Cogstate is expected to record a loss for FY20 but targeting EBIT profit for FY21.

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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. In August 2019, Cogstate entered into an exclusive licensing agreement with pharmaceutical company Eisai, under which Eisai will market, to physicians and also directly to consumers, Cogstate technology as digital cognitive assessment tools in Japan. Launch of Cogstate technology in Japan is expected to occur within the half year ending 30 June 2020. With an increased focus on brain health in the community and with the potential upcoming release of disease modifying treatment in patients with early Alzheimer's disease, Cogstate is focused on the growth opportunity that the Healthcare market provides.

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Sales Contracts Executed:

For the half year to 31 December 2019, Cogstate executed \$26.9 million of Clinical Trials sales contracts – the best half year result ever recorded by Cogstate. The December 2019 half year result represented 170% growth on the prior corresponding period (December 2018) and 25% growth on the December 2017 half year result.

In the December 2019 quarter, Cogstate executed \$19.2 million sales contracts – the best quarterly result ever recorded by Cogstate.



During the half year to 31 December 2019, Cogstate won work in a range of therapy area indications including, but not limited to, Alzheimer's disease, Parkinson's disease, epilepsy, haemophilia, schizophrenia, oncology, and a range of rare diseases.

Predominantly, the revenue from the sales contracts executed during the first half of the 2020 financial year will be recognised in future periods – see contracted future revenue section below.

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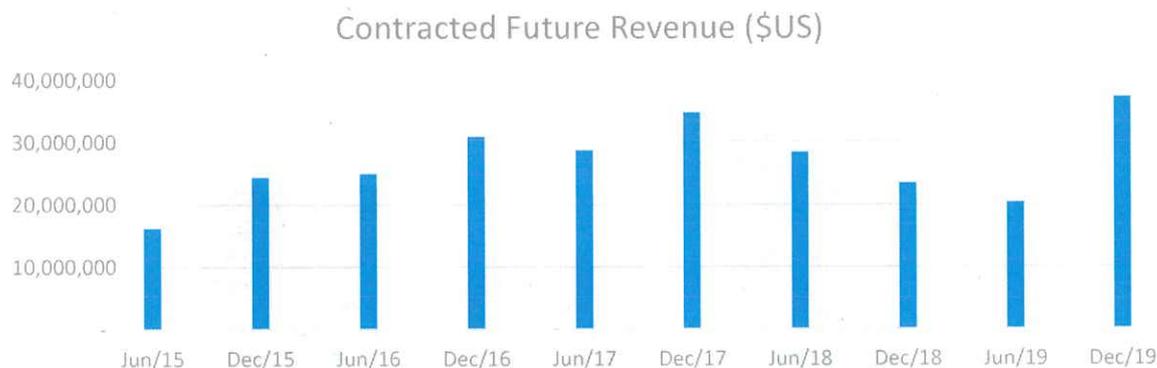


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Contracted Future Revenue:

At 31 December 2019, Cogstate had \$37.2 million of contracted Clinical Trials revenue to be recognised in future periods, after 1 January 2020.

The graph below shows contracted future revenue as at the end of each half year period since June 2015:



Of the \$37.2 million backlog of contracted future revenue at 31 December 2019, \$10.1 million is expected to be recognised as Clinical Trials revenue in the second half of the 2020 financial year.

The table below details the expected roll-off of the current amount of contracted future revenue (barring any unforeseen cancellation of ongoing clinical trials), including comparison to the prior corresponding period:

	H2 Current Financial Year US\$m	Next Financial Year US\$m	Subsequent Years US\$m	Total Contracted Revenue US\$m
As at 1 Jan 2020	10.1	9.4	17.7	37.2
As at 1 Jan 2019	8.2	7.2	8.0	23.4

The projected value of Clinical Trials revenue for the second half the 2020 financial year will be a function of:

1. the \$10.1 million that is already contracted and projected to be realised in that period; and
2. additional revenue recognised from sales contracts executed during the second half of the financial year.

Analysis of contracted future revenue as at 1 January for the two prior corresponding periods shows that \$2-\$3 million of additional revenue can be expected to be recognised from sales contracts executed during the June half of the financial year:

- 1 Jan 2019: contracted H2 revenue was \$8.2m, whereas actual H2 clinical trials revenue was \$10.4m
- 1 Jan 2018: contracted H2 revenue was \$11.0m, whereas actual H2 clinical trials revenue was \$14.2m

The actual amount of Clinical Trials revenue recognised during the second half of the 2020 financial year will vary according to the value and timing of additional sales contracts executed during the second half of the financial year.

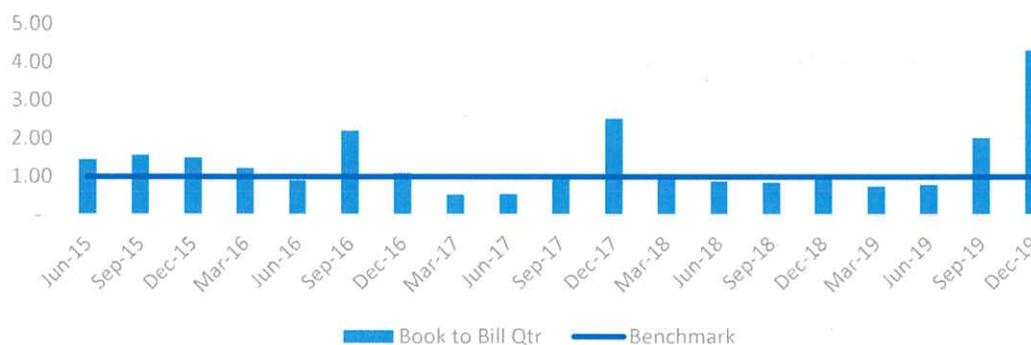
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Book-to-Bill Ratio:

The Book-to-Bill ratio of 4.3 for the December 2019 quarter is an extremely strong growth indicator, reflecting both an excellent sales result, but also reflecting the lower amount of revenue recognised during the December 2019 quarter.



Book-to-bill ratio is new business wins (Sales Contracts) divided by the quarter's revenue and is widely used in the pharmaceutical services industry as a measure of demand. A figure over 1.0 is indicative of an increase in contracted future revenue backlog.

Notwithstanding strong sales during the December 2019 quarter, much of the revenue from those sales contracts will be generated in future periods. The graph below shows the historically low level of revenue recognised during the December 2019 half year – a direct result of the lower level of sales contracts executed during the December 2018 and June 2019 half year periods.

Sales Contracts Executed
(a leading indicator of future revenue recognition)



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Operating Cash Flow and Balance Sheet

- Net cash inflow of \$2.5 million for the December 2019 quarter
 - Net Operating Cash outflow was \$1.13m for the quarter.
 - Net Investing Cash outflow was \$0.10m for the quarter.
 - Net Financing Cash inflow was \$3.71m for the quarter.
- Cash balance of \$7.2m at 31 December 2019, up from \$4.7m at 30 September 2019
 - Trade Receivables balance of \$4.1m at 31 December 2019, up from \$2.3m at 30 September 2019
- Gross Operating Cash outflows of \$7.66 million for the December 2019 quarter were slightly more than amount forecasted – as per Appendix 4C lodged 15 October 2019 (\$7.29m), with the additional costs related to clinical trial specific 3rd party costs that will be passed-through to customers and cash received in the next quarter.
- Quarterly Gross Operating Cash outflows (excluding clinical trial specific 3rd party costs that are passed-through to the customer) are detailed below:
 - Sep 2018 \$9.37m
 - Dec 2018 \$5.71m
 - Mar 2019 \$6.52m
 - Jun 2019 \$5.74m
 - Sep 2019 \$6.95m
 - Dec 2019 \$5.50m
- The issue of new shares via private placements and an Entitlement Offer has raised additional funds totalling \$7.5 million during the half year ended 31 December 2019:
 - As announced on 8 July 2019, Cogstate issued 22,857,143 shares to Australian based fund manager, Australian Ethical Investments, at a price of A\$0.175 per share raising \$2.8m (A\$4m).
 - On 28 August 2019, Cogstate announced a placement of fully paid ordinary shares to Eisai Co., Ltd, based in Japan,
 - **[Tranche 1]** As announced on 2 September 2019, Cogstate issued 6,700,000 shares to Eisai Co., Ltd, at a price of A\$0.20308 per share by way of a placement, raising \$0.9m (A\$1.36m).
 - **[Tranche 2]** Following receipt of shareholder approval, which was received at Cogstate's 2019 annual general meeting on the 21st October 2019, Cogstate issued 4,497,751 shares to Eisai Co., Ltd at a price of \$0.3335 per share by way of placement, raising \$1.0m (A\$1.5m).
 - Under the terms of the Entitlement Offer to shareholders, Cogstate issued 14,875,339 shares at a price of A\$0.27 per share raising \$2.8m (A\$4m)

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Reconfirm Earnings Guidance

Notwithstanding growth in sales contracts executed and the increase in Cognigram revenue during 1H20, Cogstate continues to expect to record a loss for FY20 and to target EBIT profit for FY21 based on achievement of budgeted growth in FY20 clinical trial sales contracts.

Clinical Trials revenue for the first half of the 2020 financial year was \$8.3 million – the lowest half year Clinical Trials revenue figure recorded by Cogstate since June 2015. For context, Clinical Trials revenue for the full financial year ended 30 June 2018 was \$28.1 million, which fell to \$21.4 million for the year ended 30 June 2019.

The level of sales contracts executed during the half year ended 31 December 2019, providing a record contracted revenue backlog, along with a strong sales outlook for the second half of the 2020 financial year, provides confidence of a sustainable increase in Clinical Trials revenue over the coming periods. However, it will take some time for the revenue to roll-off under those sales contracts and for Clinical Trials revenue to return to FY18 levels.

Therefore, at this time, Cogstate reconfirms the earnings guidance provided in September and October 2019 that it will record a loss for the 2020 financial year.

This announcement was authorised for release by the Board of Directors 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 supporting 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, Cogstate has recently entered into an exclusive licensing agreement with pharmaceutical company, Eisai, under which Eisai will market Cogstate technologies as digital cognitive assessment tools in Japanese markets. For more information, please visit www.cogstate.com.

For further information contact:

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Quarterly Report – 31 December 2019 Summary Financial Table

	Quarter Just Completed	Previous Quarter	Previous Corresponding Quarter
	31-Dec-19	30-Sep-19	31-Dec-18
	US\$ million	US\$ million	US\$ million
Receivables			
Opening balance	2.15	4.28	5.38
Closing balance	4.13	2.15	4.64
Net Increase/(Decrease) in Receivables	1.98	(2.13)	(0.74)
Payables			
Opening balance	(2.17)	(4.76)	(2.11)
Closing balance	(4.53)	(2.17)	(4.20)
Net Increase/(Decrease) in Payables	2.36	(2.59)	2.09
Cash Flow			
Cash receipts from customers	6.54	5.93	8.69
Cash payments to employees	(4.47)	(4.88)	(4.13)
Cash payments to suppliers	(3.19)	(2.64)	(4.13)
Cash receipts, non-trading	(0.01)	0.02	0.27
Net Operating Cash In/(Out) Flows	(1.13)	(1.57)	0.70
Net Investing Cash In/(Out) Flows	(0.10)	(0.53)	(0.05)
Net Financing Cash In/(Out) Flows	3.71	3.60	0.02
Foreign exchange movement	-	-	-
Net Increase/(Decrease) in cash held	2.48	1.50	(0.68)

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Cogstate Limited

ABN

80 090 975 723

Quarter ended ("current quarter")

31 December 2019

Consolidated statement of cash flows	Current quarter \$US	Year to date (6 months) \$US
1. Cash flows from operating activities		
1.1 Receipts from customers	6,535,228	12,468,587
1.2 Payments for		
(a) research and development	(1,443)	(26,102)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(23,145)	(140,595)
(d) leased assets	(177,569)	(609,634)
(e) staff costs	(4,465,529)	(9,324,677)
(f) administration and corporate costs	(1,599,069)	(2,940,334)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	(11,283)	9,378
1.5 Interest and other costs of finance paid	(1,679)	(29,459)
1.6 Income taxes paid	(26,084)	(123,282)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)		
Accounting & Audit	(133,276)	(282,791)
Computer costs	(700,814)	(1,036,839)
Legal costs, including patent costs	(111,465)	(154,880)
Listing fees & Associated costs	(45,443)	(73,491)
Travel Costs	(366,637)	(437,485)
1.9 Net cash from / (used in) operating activities	(1,128,208)	(2,701,604)

+ See chapter 19 for defined terms.

Consolidated statement of cash flows	Current quarter \$US	Year to date (6 months) \$US
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(29,813)	(122,297)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(g) entities	-	-
(h) businesses	-	-
(i) property, plant and equipment	-	-
(j) investments	-	-
(k) intellectual property	-	-
(l) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material) Repayment of short-term borrowings	(66,606)	(500,000)
2.6 Net cash from / (used in) investing activities	(96,419)	(622,297)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	3,794,929	7,479,149
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	9,848	9,848
3.4 Transaction costs related to issues of equity securities or convertible debt securities	(91,691)	(180,665)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-

+ See chapter 19 for defined terms.

Consolidated statement of cash flows		Current quarter \$US	Year to date (6 months) \$US
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	3,713,086	7,308,332

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,711,991	3,216,019
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,128,208)	(2,701,604)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(96,419)	(622,297)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,713,086	7,308,332
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	7,200,450	7,200,450

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		Current quarter \$US	Previous quarter \$US
5.1	Bank balances	7,200,450	4,711,991
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	7,200,450	4,711,991

6. Payments to related parties of the entity and their associates		Current quarter \$US
6.1	Aggregate amount of payments to related parties and their associates included in item 1	73,563
6.2	Aggregate amount of payments to related parties and their associates included in item 2	Nil

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

+ See chapter 19 for defined terms.

7. Financing facilities	Total facility amount at quarter end \$US	Amount drawn at quarter end \$US
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	881,827	505,949
7.2 Credit standby arrangements	61,824	61,824
7.3 Other (please specify)		
7.4 Total financing facilities	943,561	567,773

7.5 **Unused financing facilities available at quarter end** 375,878

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Bank overdraft (A\$500k)
 Credit cards (A\$45k)
 Trade finance facility (US\$500k)
 Bank Guarantee (A\$88k)

8. Estimated cash available for future operating activities	\$US
8.1 Net cash from / (used in) operating activities (Item 1.9)	(1,128,208)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	7,200,450
8.3 Unused finance facilities available at quarter end (Item 7.5)	375,878
8.4 Total available funding (Item 8.2 + Item 8.3)	7,576,328
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	6.72

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 28 JANUARY 2020

Authorised by: 
By the Board of Cogstate Ltd (SECRETARY)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

