

ASX ANNOUNCEMENT

17 OCTOBER 2016



COGSTATE

BUSINESS UPDATE AND SEPTEMBER QUARTER CASHFLOW

COGSTATE EXECUTES RECORD LEVELS OF REVENUE AND SALES CONTRACTS AND ACHIEVES POSITIVE EBIT IN FIRST QUARTER

SUMMARY

- Q1FY17 saw record revenue of A\$11.1m, up 82% on Previous Corresponding Period (PCP).
- Largest quarter of new contract signings at US\$17.3m. The value of quarterly contracts signed significantly exceeded quarterly revenue (book-to-bill of 2.04x).
- Record pipeline of contracted future revenue totalling A\$55.5m (PCP A\$35.4m), of which A\$28.7m (PCP A\$18.7m) will be recognised in FY17.¹
- Net Operating Cash Outflow of A\$2.78m in September quarter impacted by payment of staff bonuses in August and typical lags between invoices and cash inflow.
- Positive EBIT achieved in Q1FY17. Positive EBIT expected for H1FY17.

Cogstate (ASX.CGS) has today released a business update and its Appendix 4C – Quarterly Cash Flow statement for the quarter ended 30 September 2016. The company provides guidance for positive EBIT in the first half of FY17, with guidance in respect of the full 2017 financial year to be provided following release of the first half results.

HIGHLIGHTS FOR THE PERIOD ENDED 30 SEPTEMBER 2016 (Q1FY17):

- **A substantial increase in year-on-year revenue:** Underlying revenue for Q1FY17 of A\$11.1m (excludes pass-through cost recoveries) was up 82% on the Q1FY16 result of A\$6.1m revenue. Further details provided in the results table on Page 3.
- **Largest quarter of new sales contract signings:** Cogstate signed US\$17.3m (A\$22.6m)¹ of new Clinical Trials sales contracts in Q1FY17, up 106% on US\$8.4m in Q1FY16 and up 243% on US\$5.0m in the most recent quarter (Q4FY16). This was the largest quarter of new contract signings in Cogstate's history – the previous record of US\$10.6m was achieved in Q1FY15.
- New contract signings in Q1FY17 of A\$22.6m¹ exceeded the A\$11.1m of Clinical Trials revenue booked in the same period by **2.04x (Book-to-Bill ratio)**. New contract signings have exceeded revenue (Book to Bill ratio >1) in eight of the nine quarters since Q1FY15, indicating growth in the revenue pipeline.

1. Contracts are denominated in US\$. Spot rate at the relevant date has been used to calculate the A\$ equivalent.

- **Record revenue pipeline:** At 17 October 2016, Cogstate had a backlog of A\$55.5m (PCP A\$35.4m) of contracted Clinical Trials revenue to be recognised in future periods, of which A\$28.7m (PCP A\$18.7m) will be recognised in FY17. As in the past, as a result of the execution of additional sales contracts throughout the rest of the financial year, Cogstate expects that total revenue in FY17 will increase beyond the current contracted amount.

Contracted Clinical Trials – Revenue²

	As at 30 Sep 2016		As at 30 Jun 2016		As at 22 Oct 2015	
Year 1	FY17	A\$28.7m	FY17	A\$17.5m	FY16	A\$18.7m
Year 2	FY18	A\$14.3m	FY18	A\$ 9.7m	FY17	A\$ 9.2m
Years 3-6	FY19- FY22	A\$12.5m	FY19- FY22	A\$ 6.7m	FY18- FY20	A\$ 7.5m
Total		A\$55.5m		A\$33.9m		A\$35.4m

- **Positive EBIT:** Cogstate achieved a positive EBIT in the September quarter. In achieving positive EBIT, all software development costs have been expensed in line with company policy and Intangible Assets remain unchanged at the 30 June 2016 balance.
- **A Net Operating Cash outflow in the September quarter:** Cogstate reported a Net Operating Cash outflow of A\$2.78m in the quarter ended 30 September 2016.

Cogstate paid cash bonuses to staff in August 2016, based upon achievement of predetermined individual goals and company-wide profitability goals during the 2016 financial year. The bonus payments were expensed in the June 2016 period, but impacted cashflow in September 2016 quarter.

Cash receipts from customers during the September 2016 quarter were \$6.9m, a decrease from the previous June quarter. Given the typical lags between an increase in invoices and receipts from customers, Cogstate expects better cash receipts in the December 2016 quarter, with \$2.9m due to be received from customers by the end of October and a further \$7.8m due to be received from customers before the end of November. Further details are provided in the results table on Page 3.

- **Cost expectations:** With the growing market opportunity for Cogstate's products and services in Clinical Trials, as well as expectations in respect of the global market opportunity for use of Cogstate technology by primary care physicians (Healthcare market), Cogstate will invest in the expansion of its senior management team to collectively manage and deliver sustainable growth in both markets. The company is in the process of adding talented executives that bring industry experience, commercial/scientific expertise and significant additional depth to the management team. Further details in respect of these roles will be released at the appropriate time.
- **Guidance:** Following a profitable first quarter, Cogstate expects to record positive EBIT for the first half of the 2017 financial year. Guidance for the full year results will be provided some time after release of the Appendix 4D Preliminary Half Year Report in February 2017, which will allow management time to consider the contracted revenue position at that date, the level of sales proposals outstanding at that time and a more detailed business plan in respect of the Healthcare business.

2. Contracts are denominated in US\$. Spot rate at 30 September 2016 has been used to calculate the A\$ equivalent. The rate used at 30 September 2016 was 0.763, the rate used at 30 June 2016 was 0.743 and the rate used at 22 October 2015 was 0.732.

Quarterly Report – 30 September 2016
Summary Financial Table

	Quarter Just Completed	Previous Quarter	Previous Corresponding Quarter
	30-Sep-16 A\$ million	30-Jun-16 A\$ million	30-Sep-15 A\$ million
<u>Revenue</u>			
Clinical Trials revenue	11.00	6.17	5.79
Other Revenue (incl. Precision Recruitment)	0.09	0.81	0.30
Sub-total	11.09	6.98	6.09
Pass-through Cost Recoveries	0.51	0.69	1.51
Total Revenue	11.60	7.67	7.60
<u>Receivables</u>			
Opening balance	5.26	6.23	4.90
Closing balance	10.85	5.26	6.14
Net Increase/(Decrease) in Receivables	5.59	(0.97)	1.24
<u>Payables</u>			
Opening balance	(4.75)	(3.62)	(3.42)
Closing balance	(3.62)	(4.75)	(2.80)
Net Increase/(Decrease) in Payables	(1.13)	1.13	(0.62)
<u>Cash Flow</u>			
Cash receipts from customers	6.90	8.66	6.81
Cash payments to employees	(7.46)	(4.92)	(4.68)
Cash payments to suppliers	(1.95)	(1.28)	(2.90)
Cash receipts, non-trading	0.00	0.54	0.01
Net Operating Cash In/(Out) Flows	(2.51)	3.00	(0.76)
Net Investing Cash In/(Out) Flows	(0.17)	(0.29)	(0.38)
Net Financing Cash In/(Out) Flows	0.00	0.02	0.00
Foreign exchange movement	(0.10)	(0.19)	(0.19)
Net Increase/(Decrease) in cash held	(2.78)	2.54	(1.32)

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Name of entity

Cogstate Limited

ABN

80 090 975 723

Quarter ended ("current quarter")

30 September 2016

Consolidated statement of cash flows	Current quarter \$A	Year to date (3 months) \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	6,903,182	6,903,182
1.2 Payments for		
(a) Staff costs (incl R&D)	(7,455,335)	(7,455,335)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(153,607)	(153,607)
(d) leased assets	(276,086)	(276,086)
(e) administration and corporate costs	(958,435)	(958,435)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	18,945	18,945
1.5 Interest and other costs of finance paid	(3,209)	(3,209)
1.6 Income taxes paid	(44,040)	(44,040)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)		
Accounting & Audit	(34,906)	(34,906)
Computer costs	(242,108)	(242,108)
Legal costs, including patent costs	(22,814)	(22,814)
Listing fees & Associated costs	(22,204)	(22,204)
Travel Costs	(215,604)	(215,604)
1.9 Net cash from / (used in) operating activities	(2,506,221)	(2,506,221)

+ See chapter 19 for defined terms.

Consolidated statement of cash flows	Current quarter \$A	Year to date (3 months) \$A
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(172,714)	(172,714)
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) 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)	-	-
2.6 Net cash from / (used in) investing activities	(172,714)	(172,714)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	2,400	2,400
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	2,400	2,400

+ See chapter 19 for defined terms.

Consolidated statement of cash flows		Current quarter \$A	Year to date (3 months) \$A
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	7,471,284	7,471,284
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,506,221)	(2,506,222)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(172,714)	(172,714)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,400	2,400
4.5	Effect of movement in exchange rates on cash held	(97,901)	(97,901)
4.6	Cash and cash equivalents at end of quarter	4,696,848	4,696,848

5.	Reconciliation of cash and cash equivalents	Current quarter \$A	Previous quarter \$A
	at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		
5.1	Bank balances	1,830,436	4,619,221
5.2	Call deposits	2,866,412	2,829,153
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)	4,696,848	7,471,284

6.	Payments to directors of the entity and their associates	Current quarter \$A
6.1	Aggregate amount of payments to these parties included in item 1.2	78,333
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	Nil
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	
N/A		

+ See chapter 19 for defined terms.

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	Nil
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	Nil
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	
N/A	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
8.1 Loan facilities	500,000	Nil
8.2 Credit standby arrangements	N/A	N/A
8.3 Other (please specify)		
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		
Bank overdraft and Credit cards (unsecured)		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Staff costs (incl R&D)	(6,379,777)
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	(322,910)
9.4 Leased assets	(195,625)
9.5 Administration and corporate costs	(1,352,266)
9.6 Other (provide details if material)	
Accounting & Audit	(63,365)
Computer costs	(278,153)
Legal costs, including patent costs	(32,721)
Listing fees & Associated costs	(70,699)
Travel Costs	(312,916)
9.7 Total estimated cash outflows	(9,008,432)

+ See chapter 19 for defined terms.

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	N/A	N/A
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

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.

Sign here: 
(Director/Company Secretary)

Date: 17 Oct 2016

Print name: Cindy Tilley

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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 a