

BUSINESS UPDATE AND SEPTEMBER QUARTER CASHFLOW

COGSTATE RECORDS POSITIVE EBIT IN FIRST QUARTER AND REAFFIRMS GUIDANCE FOR POSITIVE EBIT FOR 2016 FINANCIAL YEAR¹

SUMMARY

- **Revenue** of A\$6.1m realised in September quarter 2015, up 80% on September quarter 2014, albeit down 12% on the record achieved in the June quarter 2015.
- **Second largest quarter of new contract signings** at US\$8.4m (which was the largest in A\$ terms at A\$11.7m). The value of quarterly contracts signed has exceeded quarterly revenue for the last five consecutive quarters.
- Since 30 September 2015, additional sales contracts totalling US\$1.2m have been signed; taking the total **contracts signed YTD to US\$9.6m**.
- **Record pipeline** of contracted clinical trials revenue totalling A\$35.4m (PCP A\$21.2m), of which A\$18.7m (PCP A\$9.6m) will be recognised in FY16.²
- A Net Operating Cash Outflow of -A\$0.76m in September quarter due to a reduction in payables and the typical lags between sales and cash inflow.
- **September quarter 2015 saw a return to positive EBIT.** Guidance for positive FY16 EBIT maintained (compared to -A\$3.05m in FY15 pre asset impairments), with positive EBIT also expected in 1H16.¹

Cogstate (ASX.CGS) has today released a business update and its Appendix 4C – Quarterly Cash Flow statement for the quarter ended 30 September 2015. The company reiterates its guidance for a return to positive EBIT in FY16, with positive EBIT also expected in 1H16.¹

HIGHLIGHTS FOR THE PERIOD ENDED 30 SEPTEMBER 2015 (1Q16):

- **A substantial increase in year-on-year revenue:** Underlying revenue for 1Q16 of A\$6.1m (excludes pass-through cost recoveries) was up 80% on 1Q15 but down 12% on the record 4Q15. Including pass-through cost recoveries; headline revenue of A\$7.6m in 1Q16 was up 102% on A\$3.8m reported in 1Q15. Further details provided in the results table on Page 3.
- **Second largest quarter of new sales contract signings:** Cogstate signed US\$8.4m (which was a record in A\$ terms of A\$11.7m) of new Clinical Trials sales contracts in 1Q16, up 8.0% on US\$7.8m (A\$9.9m) in 4Q15. This was the largest quarter of new contract signings since the all time high of US\$10.8m (A\$11.5m) in 1Q15.³

1. FY16 guidance based on EBIT from continuing operations at 30 June 2015 exchange rates. FY15 EBIT of -A\$3.05m excludes -A\$2.16m impairment of assets.
2. Contracts are denominated in US\$. Spot rate at the relevant date has been used to calculate the A\$ equivalent.
3. Contracts are denominated in US\$. The A\$ equivalent is based on the prevailing spot rate at the time of signing the individual contracts.

- New contract signings in 1Q16 of A\$11.7m exceeded the A\$5.8m of Clinical Trials revenue booked in the same period by **2.02x (Book-to-Bill ratio)**. This is the fifth consecutive quarter where new contract signings have exceeded revenue (Book to Bill ratio >1), indicating growth in the revenue pipeline.
- **Record revenue pipeline:** At 22 October 2015, Cogstate had A\$35.4m (PCP A\$21.2m) of contracted clinical trials revenue to be recognised in future periods, of which A\$18.7m (PCP A\$9.6m) will be recognised in FY16. As in the past, Cogstate expects that total revenue in FY16 will exceed the amount contracted for that year as at 22 October 2015. For example, 63% of the A\$15.2m clinical trials revenue for FY15 was contracted at 22 October 2014 – see table below for more detail.

Contracted Clinical Trials – Revenue⁴

	As at 22 Oct 2015		As at 30 Jun 2015		As at 22 Oct 2014	
Year 1	FY16	A\$18.7m	FY16	A\$10.9m	FY15	A\$9.6m
Year 2	FY17	A\$9.2m	FY17	A\$6.5m	FY16	A\$4.7m
Years 3-5	FY18- FY20	A\$7.5m	FY18- FY20	A\$4.0m	FY17- FY20	A\$6.9m
Total		A\$35.4m		A\$21.4m		A\$21.2m

- **A return to positive EBIT:** Cogstate achieved a positive EBIT in the September quarter. Excluding the A\$2.2m impairment of intangible assets in June 2015, Cogstate has achieved five consecutive months of positive EBIT, since 1st May 2015. 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 2015 balance.
- **Cost control:** The first quarter saw Gross Profit margins within Management's target of 57%-60%. On a constant currency basis, Management expect FY16 overhead costs to remain broadly in line with the levels of 2H15 (annualised).
- **A Net Operating Cash outflow in the September quarter:** Cogstate reported a Net Operating Cash outflow of -A\$0.76m in the quarter ended 30 September 2015. While this was an improvement on the -A\$1.4m recorded in the previous corresponding period, it was down on the A\$0.2m recorded in the June 2015 quarter. This was largely due to a reduction in payables at 30 September and the typical lags between higher sales and cash inflow. Further details provided in the results table on Page 3.
- **Key drivers of improving business momentum:**
 - Fully resourced commercial sales team (initiated October 2014 and all positions now filled);
 - Favourable industry trends driving increased demand, including
 - Increased trial activity looking at early stage disease in Alzheimer's / Dementia;
 - New regulatory requirements for cognition testing in Paediatrics;
 - Increased research activity in major psychiatric disorders
 - Exit of Axon Sports, completed 30 November 2014.
- **Maintain prior guidance for a return to positive EBIT from continuing operations in FY16, with positive EBIT also expected in 1H16.**

4. Contracts are denominated in US\$. Spot rate at 30 June has been used to calculate the A\$ equivalent. The rate used at 22 October 2015 was 0.732, the rate used at 30 June 2015 was 0.763 and the rate used at 22 October 2014 was 0.90.

Quarterly Report – 30 September 2015

Summary Financial Table

	Quarter Just Completed	Previous Quarter	Previous Corresponding Quarter
	30-Sep-15 A\$ million	30-Jun-15 A\$ million	30-Sep-14 A\$ million
<u>Revenue</u>			
Clinical Trials revenue	5.79	6.67	2.91
Other Revenue (incl. Precision Recruitment)	0.30	0.22	0.48
Sub-total	6.09	6.89	3.39
Pass-through Cost Recoveries	1.51	1.24	0.38
Total Revenue	7.60	8.13	3.77
<u>Receivables</u>			
Opening balance	4.90	2.72	2.77
Closing balance	6.14	4.90	3.14
Net Increase in Receivables	1.24	2.18	0.37
<u>Payables</u>			
Opening balance	(3.42)	(3.53)	(2.03)
Closing balance	(2.80)	(3.42)	(2.43)
Net Reduction in Payables	0.62	0.11	(0.40)
<u>Cash Flow</u>			
Cash receipts from customers	6.81	6.30	3.35
Cash payments to employees	(4.68)	(4.01)	(2.76)
Cash payments to suppliers	(2.90)	(2.57)	(2.01)
Cash receipts, non-trading	0.01	0.49	0.02
Net Operating Cash In/(Out) Flows	(0.76)	0.21	(1.40)
Net Investing Cash In/(Out) Flows	(0.38)	(0.23)	(0.23)
Net Financing Cash In/(Out) Flows	0.00	2.04	0.02
Net Increase/(Decrease) in cash held (net of foreign exchange movements)	(1.14)	2.02	(1.61)

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Rule 4.7B

Rule 4.7B

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001

Name of entity

Cogstate Limited

ABN

80 090 975 723

Quarter ended ("current quarter")

30 September 2015

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter	Year to date (3 months)
		\$A	\$A
1.1	Receipts from customers	6,809,675	6,809,675
1.2	Payments for		
	(a) staff costs (incl R&D)	(4,684,433)	(4,684,433)
	(b) advertising and marketing	(164,463)	(164,463)
	(c) research and development (direct external costs)	(29,216)	(29,216)
	(d) leased assets	(191,205)	(191,205)
	(e) other working capital	(2,023,618)	(2,023,618)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	14,643	14,643
1.5	Interest and other costs of finance paid	(1,875)	(1,875)
1.6	Income taxes paid	31,275	31,275
1.7	Other (provide details if material)		
	Accounting & Audit	(11,001)	(11,001)
	Computer costs	(99,436)	(99,436)
	Legal Costs, including patent costs	(13,605)	(13,605)
	Listing fees & assoc. costs	(32,364)	(32,364)
	Travel costs	(365,735)	(365,735)
	Grant Income	2,889	2,889
Net operating cash flows		(758,567)	(758,567)

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

	Current quarter \$A	Year to date (3 months) \$A
1.8 Net operating cash flows (carried forward)	(758,567)	(758,567)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	(377,041)	(377,041)
(e) other non-current assets	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other (provide details if material)	-	-
Net investing cash flows	(377,041)	(377,041)
1.14 Total operating and investing cash flows	(1,135,608)	(1,135,608)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	-	-
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings – convertible notes	-	-
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other (provide details if material)	-	-
Net financing cash flows	-	-
Net increase (decrease) in cash held	(1,135,608)	(1,135,608)
1.21 Cash at beginning of quarter/year to date	5,444,943	5,444,943
1.22 Exchange rate adjustments to item 1.20	(189,355)	(189,355)
1.23 Cash at end of quarter	4,119,980	4,119,980

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A
1.24	Aggregate amount of payments to the parties included in item 1.2	81,938
1.25	Aggregate amount of loans to the parties included in item 1.11	Nil

1.26 Explanation necessary for an understanding of the transactions

N/A

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

N/A

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

	Amount available \$A	Amount used \$A
3.1 Loan facilities	\$500,000	Nil
3.2 Credit standby arrangements	N/A	N/A

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$A	Previous quarter \$A
4.1	Cash on hand and at bank	813,895	2,664,890
4.2	Deposits at call	3,306,085	2,780,053
4.3	Bank overdraft	-	-
4.4	Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)		4,119,980	5,444,943

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1	Name of entity	N/A
5.2	Place of incorporation or registration	
5.3	Consideration for acquisition or disposal	
5.4	Total net assets	
5.5	Nature of business	

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:  Date: 22 October 2015
 Company Secretary

Print name: Claire Newstead-Sinclair

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 wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
 - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
 - 9.2 - itemised disclosure relating to acquisitions
 - 9.4 - itemised disclosure relating to disposals
 - 12.1(a) - policy for classification of cash items
 - 12.3 - disclosure of restrictions on use of cash
 - 13.1 - comparative information
3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.