



COGSTATE
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ASX Announcement

19 November 2013

Business Update and First Half Financial Guidance

Medical technology company Cogstate Limited (ASX:CGS) (**Cogstate** or the **Company**) has today provided a business update and financial results guidance for half year to 31 December 2013.

The Company has today announced a fundraising of \$7.5 million via a private placement and fully underwritten rights issue (**Capital Raisings**). The proceeds of the Capital Raisings will be used, among other purposes, to accelerate the commercialisation and expansion of COGNIGRAM™, a point of care computerised test for cognitive impairment, which is being used currently in Canada to identify cognitive impairment associated with dementia and other neurological conditions.

Whilst Cogstate is pursuing commercialisation of its technology in primary care medicine through COGNIGRAM™, the vast majority of Cogstate's revenue at this time is generated by the Clinical Trials business. In this market, Cogstate technology and associated services are used by pharmaceutical and biotechnology companies to quantify the effect of drugs or other interventions on human subjects participating in clinical trials. Cogstate technology and services are provided to customers under a contract for services for each clinical trial. Revenue is recognised by Cogstate in accordance with various milestones that are built into the sales contract.

Historically, the number and value of sales contracts signed in the Clinical Trials business have fluctuated greatly from quarter to quarter. The variability in the level of sales contracts signed reflects the level of research activity by Cogstate customers in their development programs. Since signing US\$7.5 million of sales contracts in the 3 months to 31 December 2012, Cogstate has only signed US\$5.5 million of sales contracts in the 9 subsequent months.

However, the low level of sales contracts signed in the last 9 months does not coincide with a reduction in sales opportunities. Cogstate currently has a record level of sales proposals in front of customers and is hopeful of converting a number of those to signed contracts in the coming weeks and months with the potential to significantly improve the Company's revenue position.

As a result of the slower than anticipated conversion of new Clinical Trials contracts and subsequent lower than expected revenue, the company will be seeking to reduce costs. These cost reductions include a reduction in head count of approximately 14% percent.

The cost reduction strategies to be implemented immediately will reduce budgeted costs for the year to 30 June 2014 by approximately \$3.7 million and expected to deliver approximately \$3 million of cost savings in the year to 30 June 2015. These costs savings, predominantly from the area of software development, will not impact on the ability of the Clinical Trials business to service new contracts or the activity planned to drive new opportunities for COGNIGRAM™.

Funding the Axon Sports Cognitive Training Business

In order to focus on its core markets, Cogstate has resolved to partially spin-out the Axon Sports cognitive training business.

Axon Sports has been developing sport-specific cognitive training products, initially focussed on American football and baseball, and the resulting technologies have now been launched within a small number of elite college and professional programs in the USA and UK. In the year to 30 June 2013, the Axon Sports cognitive training products generated \$0.4 million of revenue.

In 2014, Cogstate intends to seek third party external investors for the Axon Sports cognitive training business, in order to limit future funding requirements by Cogstate. The future cost savings from a partial spin-out have not been factored in to the cost savings identified earlier in this release. Cogstate has not yet begun the search for possible investors and there is no guarantee that Cogstate will be successful in identifying third party investors or in successfully completing a spin-out transaction.

The external funding directly into Axon Sports will allow the business to continue development of its training products for the elite market and to enable Axon Sports to launch a consumer version of the training products.

It is noted that, if successful, the partial spin-out of Axon Sports will not impact the ownership interest in Cogstate's concussion management technologies, which will continue to be 100% owned and sold by Cogstate. The concussion management product is intimately tied to Cogstate's strategy to provide primary care doctors with the tools to accurately measure cognition.

Financial Guidance for H1

Cogstate is forecasting revenue for the half year to 31 December to be in the range of \$5 - \$5.5 million (prior corresponding period : \$6.1 million). After taking into account all costs associated with redundancies, Cogstate is forecasting an operating loss in the range of \$2.75 - \$3.25 million for the half year.

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About Cogstate

Cogstate Ltd (ASX: CGS) is a multi-faceted cognitive assessment and training company, focused on the development and commercialisation of rapid, computerised tests of cognition (brain function). It has three distinct business units:

Clinical Trials: In the clinical drug trial market, Cogstate technology and associated services are used by pharmaceutical and biotechnology companies to quantify the effect of drugs or other interventions on human subjects participating in clinical trials. Since sales into the clinical trials market began in 2004, Cogstate has secured agreements with top pharmaceutical companies including Pfizer, AstraZeneca, Bristol-Myers Squibb, GlaxoSmithKline, Johnson & Johnson, Novartis, Lundbeck, Dainippon Sumitomo, Targacept, Otsuka, and Servier.

Axon Sports: The mission of Axon Sports is to “protect and train the athletic brain”. Axon’s focus is to research, develop and deliver cutting edge tools to assess, monitor and improve the athletic brain.

Axon has been developing sport specific training products, initially focussed on American football and baseball, and the resulting technologies have now been launched within a small number of elite US college programs. In addition, the first of Axon’s consumer iPad apps was launched in 2012.

In the area of sports related concussion, Cogstate’s technology has been used by a number of highly regarded institutions and sporting organisations around the world for almost 10 years. That technology is now marketed to consumers as Axon Sports. Current users of Cogstate/Axon Sports in Australia include the AFL and NRL, whilst in the USA elite programs such as the NBA, WNBA, NHL as well as college programs such as University of Notre Dame, University of Michigan and University of Connecticut all use the Axon Sports system.

Healthcare: In the primary care or general practice setting, the Cogstate’s COGNIGRAM™ assesses cognition in patients and the reports generated on the basis of this assessment can allow physicians to identify subtle changes that could be indicative of the early stage of a neurodegenerative disease, such as Alzheimer’s disease. Cogstate intends to develop COGNIGRAM™ to monitor changes in cognitive function following concussion or after treatment with drugs or other types of interventions. In June 2012, Cogstate entered into an agreement with Merck Canada Inc. providing it with the exclusive right to market and promote COGNIGRAM™ in Canada.