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CogState Limited (CGS)

June Q Hiccup to FY10 NPAT

Outperform

\$0.25

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Key Points

CogState has issued guidance that FY10 NPAT will be in the range of a \$0.2m loss to a small profit.

Impacted by soft June Q sales outlook of A\$1.4-A\$1.6m, resulting from clinical trial deferrals and a reduction in schizophrenia studies.

YTD product sales have been strong, up 35% on pcp, and 67% in US\$ terms on pcp.

Solid 3Q operating cash flows of \$0.95m, with \$1.5m in trade debtors and closing cash of \$3.6m.

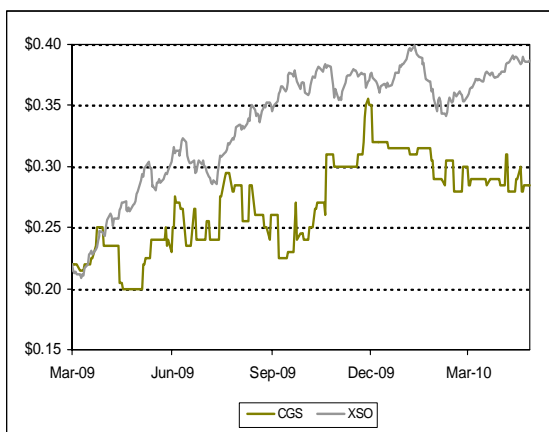
Summary

Market Capitalisation (M)	\$16.4
Shares on Issue (M)	65.6
Share price	\$0.25
Cash (M) as at 30/3/10	\$3.6
Valuation Per Share & Price Target	\$0.42
52 week low	\$0.20
52 week high	\$0.38
Ave Monthly Vol (Yr Rolling)(M)	1.3

Key Financials (A\$'000)

Year End	2009	2010	2011
	Actual	Est.	Est.
Product Sales	8,387	9,147	11,533
Total Revenue	9,103	9,283	11,669
EBITDA	2,019	498	2,775
EBIT	1,762	115	2,212
Normalised NPAT	1,987	1,248	2,614
Reported Profit	1,430	(98)	2,074
Reported EPS (c)	2.2	(0.1)	3.2
Rep. PE Ratio (x)	11.2	n/a	7.9
ROE (%)	41.7%	-2.0%	35.2%

Share Price Graph (A\$)



Our View

- FY10 NPAT Impacted by Trial Contract Deferrals, Resulting in Softer than Expected June Quarter** – In our view, had the deferred contracts been executed during the current half as expected, adjusted NPAT would have been broadly in-line with our previous estimates (\$1.8m). Such impact to profit of contract deferrals underscores the sensitivity of the business to high value contracts commencing on time. Based on our discussions with management, we remain comfortable several high value contracts expected in the June Q are deferrals rather than terminations and we expect them to be progressively executed early in FY11 (1H).
- Operating Leverage a Double Edged Sword** – Highlighting the significant operating leverage in the business, we note that while revenue guidance missed our estimates by 12.5%, and expenditures were broadly in-line, the net effect is an 87.5% reduction in our FY10 adjusted NPAT forecast to \$0.2m. Such surprises (i.e. high value contract deferrals) in the business are likely to result in more measured cost controls moving forward, in our view. On this basis, we are forecasting limited expense growth in FY11.
- Outlook** – As a result of the issued guidance, we have cut our FY10 adjusted NPAT estimate to \$0.2m, down 86.6% on previous estimates. We anticipate the Company will report a small loss for the FY10, consistent with the mid range of Company guidance. While we don't anticipate single digit Y/Y revenue growth as a recurring thematic, we have reduced our growth estimates for the business for FY11 and beyond. Accordingly, we have cut our PT by 8 cps to \$0.42 to reflect our reductions in growth expectations of the clinical trials business. At present levels, CogState trades on a forecast FY11 PER of 7.9x and 4.6x on an EV/EBITDA basis. We note the sensitivity of our estimates to both FX, and a restoration of double digit revenue growth for the clinical trials business. We maintain our Outperform recommendation on the stock.

Changes to Forecasts

Changes to our FY10 - FY12 forecasts as a result of the re-stated guidance are shown below.

A\$m	FY10E			FY11E			FY12E		
	Prev	New	% Change	Prev	New	% Change	Prev	New	% Change
Sales Revenue	10.5	9.1	-12.5%	12.5	11.5	-7.7%	14.7	13.5	-7.9%
EBITDA	1.9	0.4	-77.8%	4.6	2.8	-39.2%	6.5	4.5	-31.2%
EBIT	1.7	0.1	-93.2%	4.0	2.2	-44.7%	5.7	3.7	-35.6%
NPAT reported	1.5	(0.1)	-106.6%	3.8	2.1	-45.5%	4.2	3.8	-8.7%
EPS Reported (c)	2.3	(0.1)	-106.6%	5.8	3.2	-45.6%	6.4	5.8	-8.8%
NPAT Adj.*	1.8	0.2	-87.5%	4.1	2.3	-42.9%	4.2	3.8	-8.7%
EPS Adj.* (c)	2.8	0.3	-87.5%	6.2	3.6	-42.5%	6.4	5.8	-8.8%

* Ex UBC termination payments; Source: Taylor Collison estimates

CGS - Summary of Forecasts

CGS \$ 0.25

PROFIT & LOSS SUMMARY (A\$000s)					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
Product Sales	3,783	8,387	9,147	11,533	13,541
Growth (pcp)	61.0%	121.7%	9.1%	26.1%	17.4%
Total Revenue	3,931	9,103	9,283	11,669	13,710
Cost of Sales	(1,267)	(2,576)	(3,157)	(3,511)	(4,042)
Direct R&D Expenses	0	0	0	0	0
EBITDA	(975)	2,019	498	2,775	4,459
Dep'n/Other Amort'n	(127)	(257)	(384)	(563)	(786)
EBIT	(1,102)	1,762	115	2,212	3,673
Net Interest	59	106	136	132	165
Pre-Tax Profit	(1,043)	1,868	251	2,344	3,838
Tax Expense	297	138	(25)	0	(6)
Minorities	0	0	0	0	0
Normalised NPAT*	(811)	1,987	1,248	2,614	3,832
NPAT Adj.**	(630)	2,006	226	2,344	3,832
Growth (pcp)	61.9%	n/a	-88.7%	937.8%	63.4%
Net Adjustments	(116)	(576)	(324)	(270)	0
Reported Profit	(746)	1,430	(98)	2,074	3,832

PER SHARE DATA					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
Adjusted EPS (c)	(1.2)	3.1	0.3	3.6	5.8
Growth (pcp)	-66.53%	n/a	-89.05%	937.81%	63.45%
Reported EPS (c)	(1.5)	2.2	(0.1)	3.2	5.8
Growth (pcp)	-60.4%	n/a	-106.7%	-2214.6%	84.7%
EPS Pre-Net R&D (c)	(1.6)	2.0	(0.1)	3.2	5.8
Growth (pcp)	-56.8%	n/a	-107.4%	-2214.6%	84.7%
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Gross CF per Share (c)	0.4	3.7	1.7	2.6	7.2
NTA per share (c)	3.0	7.1	6.8	10.0	15.8

KEY RATIOS					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
EBITDA/Sales Margin %	-24.8%	22.2%	5.4%	23.8%	32.5%
EBIT/Sales Margin %	-28.0%	19.4%	1.2%	19.0%	26.8%
Current ratio (x)	2.2	3.5	2.3	2.6	3.5
Net Debt : Equity (%)	-54.4%	-61.4%	-61.5%	-53.5%	-69.4%
ROE (%)	-42.5%	41.7%	-2.0%	35.2%	43.3%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%

VALUATION MULTIPLES					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
Adj. PE Ratio (x)	n/a	8.0	72.6	7.0	4.3
Normalised PE Ratio (x)	n/a	8.0	13.2	6.3	4.3
PE Ratio (x)	n/a	11.2	n/a	7.9	4.3
Dividend Yield (%)	n/a	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	n/a	6.6	27.0	4.6	2.0
EV/EBIT (x)	n/a	7.6	117.3	5.7	2.4

CAPITAL RAISING ASSUMPTIONS					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
Shares Issued (m)	7.4	13.7	0.0	0.0	0.0
Issue Price (A\$)	0.135	0.10	0.00	0.00	0.00
Cash Raised (A\$m)	1.0	1.4	0.0	0.0	0.0

* Excludes UBC termination payments, FX gains/losses, one-off product dev; ** Ex-UBC payments only

BALANCE SHEET SUMMARY					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
Cash	1,048	3,030	3,027	3,758	7,481
Receivables	613	2,146	1,646	2,883	3,114
Pre Payments	23	29	29	29	29
Inventories	0	0	0	0	0
Other	147	60	100	100	60
Total Current Assets	1,831	5,265	4,802	6,770	10,685
Property Plant & Equip	478	698	1,655	2,311	2,632
Intangibles	402	402	402	402	402
Other	66	108	108	108	108
Total Non-Current Assets	946	1,208	2,165	2,821	3,142
TOTAL ASSETS	2,777	6,473	6,967	9,591	13,827
Accounts Payable	526	1,199	1,738	2,191	2,573
Provisions	207	271	274	346	406
Other	109	41	82	82	32
Total Current Liab	842	1,511	2,094	2,619	3,011
Borrowings	0	0	0	0	0
Provisions	10	26	35	35	35
Other	0	0	0	0	0
Total Non-Current Liab	10	26	35	35	35
TOTAL LIABILITIES	852	1,537	2,129	2,654	3,046
TOTAL EQUITY	1,925	4,936	4,838	6,937	10,781

CASH FLOW SUMMARY					
Period	FY08A	FY09A	FY10E	FY11E	FY12E
EBIT (excl Abs/Extr)	(1,102)	1,762	115	2,212	3,673
Add: Depreciation	127	257	384	563	786
Change in Pay.	93	673	539	453	382
Less: Tax paid	297	205	(25)	0	(6)
Net Interest	59	106	136	132	165
Change in Rec.	(409)	(1,533)	500	(1,237)	(234)
Other	1,140	891	(565)	(392)	(42)
Gross Cashflows	205	2,361	1,084	1,731	4,723
Capex	(373)	(495)	(1,000)	(1,000)	(1,000)
Free Cashflows	(168)	1,866	84	731	3,723
Dividends Paid	0	0	0	0	0
Exchange Rate Adjustments	(34)	116	(87)	0	0
Net Cash Flow	(202)	1,982	(3)	731	3,723

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