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# CogState Limited (CGS)

Upgrading on Solid FY12 Outlook

Outperform

\$0.245

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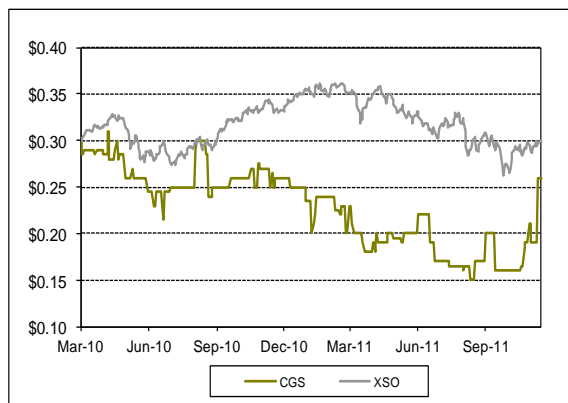
## Summary

Market Capitalisation (M)	\$18.3
Shares on Issue (M)	74.8
Share price	\$0.245
Cash (M) as at 30/6/11	\$3.3
Valuation Per Share & Price Target	\$0.54
52 week low	\$0.15
52 week high	\$0.26
Ave Monthly Vol (Yr Rolling)(M)	0.8

## Key Financials (A\$'000)

Year End	2011	2012	2013
	Actual	Est.	Est.
Product Sales	8,133	11,003	13,964
EBITDA	(484)	2,269	3,267
EBIT	(907)	1,761	2,839
Normalised NPAT	107	1,940	3,067
Reported Profit	(846)	1,880	3,067
Normalised EPS (c)	0.2	2.6	4.1
Reported EPS (c)	(1.3)	2.6	4.1
Norm. PE Ratio (x)	152.3	9.3	6.0
Rep. PE Ratio (x)	n/a	9.6	6.0
ROE (%)	-12.7%	23.0%	27.0%

## Share Price Graph (A\$)



## Key Points

CogState has announced its largest ever clinical trial contract, a Phase 2 depressive disorder contract worth US\$2.6m.

FY12 contracted revenue YTD of US\$8.2m, 13.6% ahead of total FY11 revenues, a very significant uplift in business performance.

YTD contracts signed of US\$7.2m up 125% on pcp.

## Our View

- Robust 1H12 Operating Performance Drives FY12 Upgrade** – CogState's core clinical trial service business has continued to shine from the strong start in 1Q12 where revenues were up 53.8% on pcp in US\$ terms. The Company has increased its secured FY12 revenues by a further 28.1% so far in the 2Q, a solid effort. We have upgraded our 1H12 clinical revenues by 14.0% and 1H12 NPAT to \$1.0m. The Company has significant operating leverage with low variable costs and a cost base we estimate at ~\$8.7m p/a. We believe the pipeline of opportunities remains strong, with a spectrum of diseases expanding beyond CogState's core indications of Alzheimer's disease (AD) and schizophrenia. We cite 42 clinical studies from Phase 1-3 in Alzheimer's alone. Given the complexity of the disease and endpoints required, we consider these high value targets for CogState.
- Has everyone forgotten about Axon Sports and Dementia Screening Opportunities?** – In 1Q12, the Company announced the acquisition of the remaining 50% in Axon Sports LLC for consideration of \$1.3m in scrip. We continue to believe Axon revenues are expected to increase significantly in FY12 onwards, as 30 US states now mandate baseline cognitive testing with other states expected to join in 2012. We note the introduction in CY11 of the Annual Wellness Visit for Medicare recipients in the US, which currently represents more than 50m covered lives. Such a healthcare initiative, as directed by the US Federal Government, includes the detection of any cognitive impairment, via the administration of a cognitive test. Though physician dependent, cognitive testing may include pencil/paper or a computerised test such as CogState's offering. The trend towards preventative health measures via early diagnosis, coupled with a plethora of disease modifying drugs in late stage clinical development for AD is driving the need for cognitive testing in the market. Rapid, cheap cognitive testing is a significantly more cost-effective means of patient screening versus unnecessary diagnostic imaging in our view. A partnering deal with a big pharma will validate this observation.
- Outlook** – As a result of the strong start to FY12, we have upgraded our FY12 NPAT forecast by 67.8% to \$1.9m. On this basis, despite the recent strong scrip performance, the stock trades on low forward multiples viz, EV/Sales of 1.2x, EV/EBITDA of 5.8x and a P/E of 9.6x. Our DCF valuation and 12 month PT of \$0.54 is up 2.0 cps on previous. The dementia screening partnering discussions are progressing and Axon Sports continues to expand its presence in the US concussion testing market, none of which we believe is factored into CogState's outlook. We maintain our Outperform recommendation.

## CGS - Summary of Forecasts

CGS \$ 0.245

PROFIT & LOSS SUMMARY (A\$000s)					
Period	FY09A	FY10A	FY11A	FY12E	FY13E
Product Sales	8,387	9,485	8,133	11,003	13,964
Growth (pcp)	12.17%	13.1%	-14.3%	35.3%	26.9%
<b>Total Revenue</b>	<b>9,103</b>	<b>9,747</b>	<b>8,304</b>	<b>11,152</b>	<b>14,192</b>
Cost of Sales	(2,576)	(3,484)	(3,383)	(3,945)	(4,978)
Gross Margin (%)	68.0%	62.4%	53.7%	61.9%	61.6%
<b>EBITDA</b>	<b>2,019</b>	<b>1,017</b>	<b>(484)</b>	<b>2,269</b>	<b>3,267</b>
Dep'n/Other Amort'n	(257)	(433)	(423)	(508)	(428)
<b>EBIT</b>	<b>1,762</b>	<b>584</b>	<b>(907)</b>	<b>1,761</b>	<b>2,839</b>
Net Interest	106	101	115	149	228
<b>Pre-Tax Profit</b>	<b>1,868</b>	<b>685</b>	<b>(792)</b>	<b>1,910</b>	<b>3,067</b>
Tax Expense	138	1,257	72	0	0
Minorities	0	0	0	0	0
<b>Normalised NPAT*</b>	<b>1,987</b>	<b>1,590</b>	<b>107</b>	<b>1,940</b>	<b>3,067</b>
<b>NPAT Adj.**</b>	<b>2,006</b>	<b>1,942</b>	<b>(720)</b>	<b>1,910</b>	<b>3,067</b>
Growth (pcp)	n/a	-3.2%	n/a	n/a	60.6%
Net Adjustments	(576)	(304)	(126)	(30)	0
<b>Reported Profit</b>	<b>1,430</b>	<b>1,638</b>	<b>(846)</b>	<b>1,880</b>	<b>3,067</b>

PER SHARE DATA					
Period	FY09A	FY10A	FY11A	FY12E	FY13E
<b>Adjusted EPS (c)</b>	<b>3.1</b>	<b>2.9</b>	<b>(1.1)</b>	<b>2.6</b>	<b>4.1</b>
Growth (pcp)	n/a	-6.32%	n/a	n/a	57.6%
<b>Reported EPS (c)</b>	<b>2.2</b>	<b>2.5</b>	<b>(1.3)</b>	<b>2.6</b>	<b>4.1</b>
Growth (pcp)	n/a	10.8%	n/a	n/a	60.1%
<b>Normalised EPS (c)</b>	<b>3.1</b>	<b>2.4</b>	<b>0.2</b>	<b>2.6</b>	<b>4.1</b>
Growth (pcp)	n/a	-22.6%	-93.3%	1544.0%	55.1%
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Gross CF per Share (c)	2.3	2.4	0.0	2.8	4.3
NTA per share (c)	7.1	10.0	8.9	10.4	14.3

KEY RATIOS					
Period	FY09A	FY10A	FY11A	FY12E	FY13E
EBITDA/Sales Margin %	22.2%	10.4%	-5.8%	20.3%	23.0%
EBIT/Sales Margin %	19.4%	6.0%	-10.9%	15.8%	20.0%
Current ratio (x)	3.5	3.1	3.2	3.4	4.2
Net Debt : Equity (%)	-61.4%	-44.0%	-52.4%	-50.5%	-63.8%
ROE (%)	41.7%	27.4%	-12.7%	23.0%	27.0%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%

VALUATION MULTIPLES					
Period	FY09A	FY10A	FY11A	FY12E	FY13E
Adj. PERatio (x)	7.8	8.3	n/a	9.4	6.0
Normalised PE Ratio (x)	7.9	10.2	152.3	9.3	6.0
PERatio (x)	10.9	9.9	n/a	9.6	6.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Sales (x)	1.8	1.6	1.8	1.2	0.7
EV/EBITDA (x)	7.6	15.0	n/a	5.8	3.1
EV/EBIT (x)	8.7	26.1	n/a	7.5	3.6

CAPITAL RAISING ASSUMPTIONS					
Period	FY09A	FY10A	FY11A	FY12E	FY13E
Shares Issued (m)	13.7	0.0	0.0	0.0	0.0
Issue Price (A\$)	0.10	0.00	0.00	0.00	0.00
Cash Raised (A\$m)	1.4	0.0	0.0	0.0	0.0

\* Excludes UBC termination payments, FX gains/losses, one-off product dev, one-off tax credits, Axon JV losses; \*\* Ex-UBC payments only

BALANCE SHEET SUMMARY					
Period	FY09A	FY10A	FY11A	FY12E	FY13E
Cash	3,030	3,092	3,306	5,067	8,080
Receivables	2,146	1,623	1,203	2,201	2,793
Pre Payments	29	59	0	0	0
Inventories	0	0	0	0	0
Other	60	212	410	410	410
<b>Total Current Assets</b>	<b>5,265</b>	<b>4,986</b>	<b>4,919</b>	<b>7,677</b>	<b>11,283</b>
Investments in JV	0	563	116	0	0
Property Plant & Equip	698	1,236	905	684	635
Intangibles	402	402	402	2,417	1,958
Other	108	2,020	1,632	1,516	1,516
<b>Total Non-Current Assets</b>	<b>1,208</b>	<b>3,658</b>	<b>2,939</b>	<b>4,616</b>	<b>4,109</b>
<b>TOTAL ASSETS</b>	<b>6,473</b>	<b>8,644</b>	<b>7,858</b>	<b>12,294</b>	<b>15,392</b>
Accounts Payable	1,199	1,132	1,027	1,650	1,955
Provisions	271	406	491	550	698
Other	41	47	10	42	42
<b>Total Current Liab</b>	<b>1,511</b>	<b>1,585</b>	<b>1,528</b>	<b>2,243</b>	<b>2,695</b>
Borrowings	0	0	0	0	0
Provisions	26	38	25	25	25
Other	0	0	0	0	0
<b>Total Non-Current Liab</b>	<b>26</b>	<b>38</b>	<b>25</b>	<b>25</b>	<b>25</b>
<b>TOTAL LIABILITIES</b>	<b>1,537</b>	<b>1,623</b>	<b>1,553</b>	<b>2,268</b>	<b>2,720</b>
<b>TOTAL EQUITY</b>	<b>4,936</b>	<b>7,021</b>	<b>6,305</b>	<b>10,026</b>	<b>12,672</b>

CASH FLOW SUMMARY					
Period	FY09A	FY10A	FY11A	FY12E	FY13E
<b>EBIT (excl Abs/Extr)</b>	<b>1,762</b>	<b>584</b>	<b>(907)</b>	<b>1,761</b>	<b>2,839</b>
Add: Depreciation	257	433	423	266	232
Change in Pay.	673	(67)	(105)	623	304
Less: Tax paid	205	0	72	0	0
Net Interest	106	101	115	149	228
Change in Rec.	(1,533)	523	420	(1,001)	(595)
Gross Cashflows	1,470	1,574	18	2,041	3,205
Capex	(495)	(933)	(103)	(200)	(200)
<b>Free Cashflows</b>	<b>975</b>	<b>641</b>	<b>(85)</b>	<b>1,841</b>	<b>3,005</b>
Other	891	(521)	386	(80)	9
Dividends Paid	0	0	0	0	0
<b>Net Cash Flow</b>	<b>1,866</b>	<b>120</b>	<b>301</b>	<b>1,761</b>	<b>3,014</b>
Effect of FX on Cash	116	(58)	(87)	0	0

CURRENCY FORECASTS			
	FY11A	FY12E	FY13E
AUD/USD	0.96	0.98	0.85

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