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CogState Limited (CGS)

Flying Start to FY15 with a \$7.3m Pharma Contract

Outperform

\$0.28

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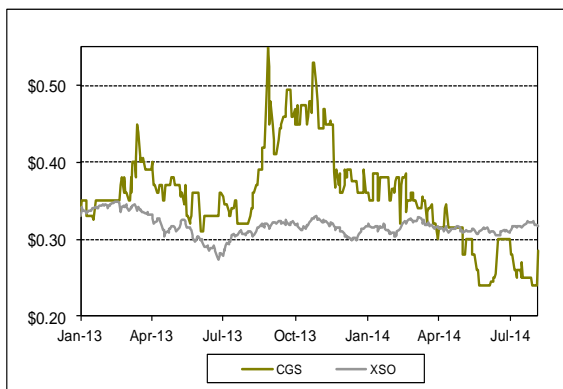
Summary

Market Capitalisation (M)	\$27.7
Shares on Issue (M)	99.0
Share price	\$0.28
Cash (M) as at 30/6/14	\$7.1
Valuation Per Share & Price Target	\$0.51
52 week low	\$0.24
52 week high	\$0.55
Ave Monthly Vol (Yr Rolling)(M)	0.6

Key Financials (A\$'000)

Year End	2014	2015	2016
	Est.	Est.	Est.
Product Sales	11,359	15,437	21,316
EBITDA	(4,213)	1,066	4,342
EBIT	(4,886)	522	3,878
Adjusted NPAT	(4,783)	572	3,109
Reported Profit	(4,783)	572	3,109
Adjusted EPS (c)	(5.3)	0.6	3.1
Reported EPS (c)	(5.3)	0.6	3.1
Adj. PE Ratio (x)	n/a	48.4	8.9
Rep. PE Ratio (x)	n/a	48.4	8.9
ROE (%)	-45.6%	4.6%	21.9%

Share Price Graph (A\$)



Key Points

CogState has signed its largest single contract in history, with a multi-year \$7.3m Phase 3 Alzheimer's Disease (AD) deal.

An additional contract tied to the same study possible using CogState's new web-based Precision Recruitment tool.

The value of contracts signed so far in FY15 extends to \$8.2m, with \$8.6m in revenue to be recognised in FY15 (up 32.3% on pcp).

Solid start to FY15 after a poor FY14 sales and NPAT result.

FY14 NPAT loss guided at \$4.5m-\$5.0m.

Our View

- FY15 Will Now Be Cycling Low Comps** - As a result of the soft FY14 sales result (TC est. -8.9% on the pcp), the cycling effect of improved FY15 revenues is strong given the -11.5% and -5.8% revenue decline in 1H14/2H14. From an operating profit perspective, top line growth off a lower overall fixed cost base, should deliver a strong turnaround from our estimated FY14 NPAT loss of \$4.8m to a \$0.6m NPAT, growing to \$3.1m in FY16 given the mix benefit of the higher margin Precision Recruitment business now emerging and reduced investment into Cognigram™ and Axon Sports.
- Alzheimer's Disease (AD) Thematic Grows** - Despite numerous setbacks in the space, we believe the business opportunities for CogState, as evidenced by this contract signing, are accelerating as a result of a paradigm shift in AD clinical trials, driven by (1) FDA allowing approvals of early stage AD drugs based on a cognitive benefit alone (2) General medical consensus that late stage AD patients are too impaired for drugs to have a clinically meaningful effect and (3) Evidence of benefit in selecting the "correct" AD patient for trial purposes using sensitive cognitive measures. We are forecasting growth in clinical trial contracts of 36.6% on the pcp.
- Outlook** - Importantly for CogState, total contracted future revenue remains very strong, with \$18.6m in contracts on hand which is up 90% on the pcp. The roll off profile is skewed to FY15, FY16 with 46% and 27% of the total value of contracts, respectively. We maintain our Outperform recommendation and we have set a revised \$0.51 price target (down 11.0 cps on previous). Risks include timing of clinical trial contracts, an appreciating AUD relative to the USD and changes to pharma clinical trial investment patterns.

Cogstate Ltd - Summary of Forecasts

CGS \$ 0.28

PROFIT & LOSS SUMMARY (A\$000s)					
Period	FY12A	FY13A	FY14A	FY15E	FY16E
Product Sales	12,014	12,467	11,359	15,437	21,316
Growth (pcp)	47.7%	3.8%	-8.9%	35.9%	38.1%
Total Revenue	12,274	13,149	11,470	15,668	21,582
EBITDA	2,047	(1,029)	(4,213)	1,066	4,342
Dep'n/Other Amort'n	(585)	(712)	(672)	(544)	(463)
EBIT	1,462	(1,741)	(4,886)	522	3,878
Net Interest	105	81	103	232	266
Pre-Tax Profit	1,567	(1,660)	(4,783)	754	4,145
Tax Expense	(340)	(297)	0	(189)	(1,036)
Minorities	0	0	0	0	0
Adjusted NPAT*	1,227	(1,957)	(4,783)	566	3,109
Growth (pcp)	1758.1%	n/a	n/a	n/a	449.5%
Net Adjustments	1,225	0	0	0	0
Reported Profit	2,452	(1,957)	(4,783)	566	3,109

PER SHARE DATA					
Period	FY12A	FY13A	FY14A	FY15E	FY16E
Adjusted EPS (c)	1.7	(2.6)	(5.3)	0.6	3.1
Growth (pcp)	n/a	n/a	n/a	n/a	449.5%
Reported EPS (c)	3.3	(2.6)	(5.3)	0.6	3.1
Growth (pcp)	n/a	n/a	n/a	n/a	449.5%
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Gross CF per Share (c)	2.0	(2.4)	(4.2)	1.3	3.7
NTA per share (c)	10.2	8.4	11.1	11.0	14.1

KEY RATIOS					
Period	FY12A	FY13A	FY14A	FY15E	FY16E
EBITDA/Sales Margin %	16.7%	-7.8%	-36.7%	6.8%	20.1%
EBIT/Sales Margin %	11.9%	-13.2%	-42.6%	3.3%	18.0%
Current ratio (x)	4.3	3.4	6.3	5.0	5.5
Net Debt : Equity (%)	-45.6%	-37.5%	-58.7%	-64.4%	-75.0%
ROE (%)	29.7%	-20.6%	-45.6%	4.5%	21.9%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%

VALUATION MULTIPLES					
Period	FY12A	FY13A	FY14A	FY15E	FY16E
Adjusted PERatio (x)	16.7	n/a	n/a	49.0	8.9
Reported PERatio (x)	8.4	n/a	n/a	49.0	8.9
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Sales (x)	1.9	2.0	1.8	1.3	0.8
EV/EBITDA (x)	11.3	n/a	n/a	18.3	3.7
EV/EBIT (x)	15.8	n/a	n/a	37.3	4.1

* Excludes UBC term payment; Axon JV losses +re-valuation gain

CURRENCY FORECASTS			
Period	FY14A	FY15E	FY16E
AUD/USD	0.92	0.92	0.85

BALANCE SHEET SUMMARY					
Period	FY12A	FY13A	FY14A	FY15E	FY16E
Cash	4,660	3,393	7,133	8,199	11,699
Receivables	1,979	2,991	2,533	3,087	4,263
Pre Payments	0	0	0	0	0
Inventories	0	0	0	0	0
Other	336	686	485	485	0
Total Current Assets	6,975	7,070	10,151	11,771	16,963
Investments in JV	0	0	0	0	0
Property Plant & Equip	977	925	709	590	524
Intangibles	2,704	2,422	2,131	1,876	1,651
Other	1,250	638	952	851	365
Total Non-Current Assets	4,931	3,985	3,792	3,316	2,539
TOTAL ASSETS	11,906	11,055	13,943	15,087	18,502
Accounts Payable	1,087	1,173	1,022	1,544	1,812
Provisions	532	821	568	772	1,066
Other	0	91	32	32	32
Total Current Liab	1,619	2,085	1,622	2,347	2,910
Borrowings	0	0	0	0	0
Provisions	7	0	0	0	0
Other	58	160	174	0	0
Total Non-Current Liab	65	160	174	0	0
TOTAL LIABILITIES	1,684	2,245	1,796	2,347	2,910
TOTAL EQUITY	10,222	8,810	12,147	12,740	15,592

CASH FLOW SUMMARY					
Period	FY12A	FY13A	FY14A	FY15E	FY16E
EBIT (excl Abs/Extr)	1,462	(1,741)	(4,886)	522	3,878
Add: D&A	585	712	672	544	463
Change in Pay.	60	86	(151)	521	268
Less: Tax paid	0	0	0	0	0
Net Interest	130	138	103	232	266
Change in Rec.	(776)	(1,012)	458	(554)	(1,176)
Gross Cashflows	1,461	(1,817)	(3,804)	1,265	3,701
Capex	(343)	(406)	(200)	(200)	(200)
Free Cashflows	1,118	(2,223)	(4,004)	1,065	3,501
Other	166	913	7,697	0	0
Dividends Paid	0	0	0	0	0
Net Cash Flow	1,284	(1,310)	3,693	1,065	3,501
Effect of FX on Cash	69	44	47	0	0

CGS - VALUATION METHODOLOGY

	Applied Multiple	Weight	Valuation (A\$ps)
Equity Valuation (Core Bus.)- DCF	WACC - 12%	100%	\$0.41
Dementia (Cognigram)	rDCF	100%	\$0.07
Axon Sports	BV	100%	\$0.03
TOTAL Equity Valuation/PT			\$0.51

* Valuation on Core business (ex-R&D work for dementia screening, Axon Sports).

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