

Edited text from Chairman's and CEO address at Cogstate Ltd Annual General Meeting, held in Melbourne on Thursday 23rd October, 2014.

This speech is to be read in conjunction with the investor presentation also lodged on this day.

Cogstate Chairman, Mr Martyn Myer AO:

Cogstate's Mission can be stated simply as follows:

“To successfully commercialise Cogstate technology by facilitating decision making in respect of cognition across all aspects of the health care sector – from research to primary care medicine.”

We have talked many times in the past about the demographic time bomb that is coming with the combined effects of an aging population and an increasing incidence of dementia. Many of the world's large pharmaceutical companies are working on drug therapies for this problem and we aim to be the cognitive test that is used both during the drug development processes and then in the assessment of cognitive impairment in primary care medicine.

So how do we intend to fulfil our mission?

Well we're focusing the company on four things

- Clinical trials
- Primary care
- Research
- And Patient recruitment

Which together operate in a virtuous loop.

This virtuous loop works as follows:

- In clinical trials we aim to help pharmaceutical companies test their drug's efficacy in a cost effective manner whether through computerised tests or more conventional paper and pencil tests or a combination of both;
- With our long and wide history of involvement in drug trials we also assist in the development of the protocol for the drug trial in question;
- Simultaneously we are developing the business model for delivering computerised cognitive tests in Primary Care to provide the tools to enable GPs to detect the earliest signs of cognitive impairment associated with Alzheimer's disease and other dementias;
- This program began two years ago with the development and launch of the Cognigram product, in conjunction with Merck in Canada, and is now assisting Canadian GPs to assess cognition in their patients;
- In the future, we can envisage a system that allows testing of cognition by individuals on mobile devices. Therefore, we have developed a computerised test battery that can be taken by people at home without

supervision. The validation of the self-administered tests against tests administered under supervision has been a critical area of focus;

- A very important goal for the future is to gain FDA registration as a medical device approved for use at home;
- All of which neatly drives our patient recruitment business, which has been developed to help pharmaceutical companies efficiently find suitable patients for their clinical trials. In addition, we aim to build a large database of members of the community who can make themselves available for clinical trials or research projects;
- In research our aim is to prove the power and efficacy of computerised cognitive tests particularly in comparison to imaging or bio-markers.

Lets now look at the major milestones for the 2014 financial year.

In the Clinical Trials business we achieved the following milestones:

- Rewrite of technology platform, providing greater ease of use, functionality and hardware independence

The newest version of the software will run on any device with a browser, incorporating touch screen technology for use on a tablet computer.

The software also incorporates learning and instruction components improving test integrity in at-home or unsupervised environments which was critical for launch of Precision Recruitment

- Appointment of Craig Gravina as Chief Technology Officer in June 2014

Craig has over 19 years' experience leading large-scale strategic initiatives, product development, and software development within Healthcare, Digital Media and Internet Industries. He has built and sold four startups, and subsequently taken executive positions at the acquiring companies.

Craig joins us from Nuance Communications where he was the VP Healthcare & Business Development. His previous roles include:

- VP Analytics & Information Business at Allscripts
- VP Strategic Product Development at Eclipsys
- CTO at Premise Corporation

Craig has a Bachelor of Science from Syracuse University.

- Enhanced focus on Clinical Trials sales, seeking improved top and bottom line performance for FY15 and beyond
- Appointment of Lammert Albers as Chief Commercial Officer beginning Nov 2014 as part of a revamped sales team
 - Lammert comes from PRA, the global CRO, where he was Vice President Business Development / Engagement Partner (UK)
 - Over 10 years CRO BD experience
 - Brings over 10 years of experience in sales leadership roles

- Significant experience of growing new business through deal generation, business and client development and negotiating terms.
- Strong understanding of pharma/life sciences and in selling services into the clinical trials space
- Brings 3.5 years experience selling into pharma clinical research in CNS therapy area
- Strategic thinker with strong business acumen
- Track record of building and managing high performance sales teams

In the Primary Care business the major milestones have been

- As shareholders are aware we announced the renegotiation of the contract with Merck Canada in June 2014, under which all sales and marketing rights for Cognigram reverted to Cogstate
- Cognigram is a well developed product that continues to be used commercially by GPs in clinics in Canada
- Merck continue to provide e-marketing support to their very large GP database across Canada
- Other pharmaceutical companies have contacted us with a view to introducing a Primary Care dementia screening product in the US and other markets around the world

In the Research Business

- Cogstate has been selected to provide the computerised cognitive test in the highly influential phase III Alzheimer's disease intervention study: Anti-Amyloid Treatment in Asymptomatic Alz's disease (A4) – in which Eli Lilly's solanezumab drug is being trialled

The Patient Recruitment product has been developed following demand from our pharmaceutical company customers for help in recruiting patients into their Alzheimer's disease trials.

In recent years some drugs have failed because of poor patient selection where many did not have the disease at all and, in some cases, those that did have the disease were too far advanced for the drug to have any meaningful impact. Brad will talk more about this business opportunity later in the presentation

Finally in looking at our virtuous loop of activity around neurological disease we clearly saw that the Axon Sports Training business did not fit strategically so in June 2014 we announced a plan to divest this business. This week we have announced that we have

- signed a Letter of Intent for the sale of the business
- Completion of sale expected inside 60 days
- No upfront cash – Earn out based on a % of revenue for 5 years
- If sold inside 5 years, sliding scale of sales proceeds to Cogstate
- All costs assumed by purchaser

Coming back to Clinical Trials I'd like to review how revenue has developed over the past six years. Beginning on slide 8 there is bar graph that shows

- Work In Progress at the beginning of each financial year in blue
- Contracts signed during each year in red
- And Clinical Trials revenue recognised for the year in yellow

The growth in WIP at the beginning of each year has steadily **increased** over the past three years, increasing by approx. \$1m for each of the past three years

However the level of contracts signed during each year has steadily **decreased** over the past three years, decreasing from approx. \$14m in FY2012 to \$9m last financial year

Leading to a situation where revenue from Clinical Trials has essentially flat lined for the past three years at around \$12m per annum.

It is this realisation that lead us to do a number of things over the past 12 months to significantly increase again the level of contracts signed each year

- Invested in the expansion of our rater training offering (paper & pencil tests)
- Developed the Patient Recruitment product in response to demand by our customers
- And revamped our sales team shortly to be lead by Lammert Albers.

I'm pleased to say that these initiatives are paying off as Brad will explain shortly, but there is no escaping the impact of revenue that has not grown for three years.

As a result of this lack of growth, coupled with increased costs, shareholders will be aware from our annual report that we reported a significant loss for FY2014 with an EBITDA loss of \$4.4m or net loss after tax of \$3.8m.

Towards the end of last calendar year the board anticipated that it was appropriate to stabilise our balance sheet and that is why we raised the funds we did through the placement to David Dolby and his family and the subsequent rights issue.

Breaking down this result into the contribution from each business segment shows the following

- There was a very significant reduction in the contribution from the Clinical Trials business with a drop from \$6.5m to \$3.4m – more on this in the next slide
- A negative contribution of \$0.3m from the Precision Recruitment business as we developed that product – our first revenue was recorded in June 2014 and therefore the revenue impact of this development will be seen in FY2015 and beyond.
- A roughly steady net cost of \$0.6m for the Primary Care business as we continue to support the development of the Cognigram product

- A slight increase in the net cost of the Sport business reflecting the continued investment in Axon Sports training business which we have now agreed to sell – these costs will be more than halved in this fiscal year as we move to sell business by the end of December at which point they will cease altogether. The concussion management division remains with Cogstate and will be rolled into the primary care market.
- Finally a \$0.7m reduction in other unallocated costs

Within the Clinical Trials business we not only increased the number of staff, but also the level of experience by altering the mix of the Clinical Trials team. Over the last 12 months, Cogstate has been bidding on a small number of very large rater training studies and to win this work it was necessary to increase our capabilities.

In July we signed our largest ever Clinical Trials sales contract, and without that change in mix of staffing, this would not have been possible. It should be noted that our expectation was that such contracts would eventuate earlier than was the case – it was not foreseen that we would carry that level of costs against flat revenue.

Additionally, increase software development costs also impacted on the return from the Clinical Trials business. These costs were outside of the ordinary course of business, but necessary to improve our delivery efficiency.

- Conclusion of Chairman's speech; hands over to CEO -

Cogstate Chief Executive Officer, Brad O'Connor:

Throughout 2015 and beyond, Cogstate will focus on growing revenues, improving margins in each business segment and continuing to expand our commercial options.

As Martyn has already noted, we brought a renewed focus to Clinical Trials sales around this same time last year. Our task now is to continue to grow sales as we bring our new team together and to ensure that our growth is profitable.

We are extremely excited about the prospects for utilising Cogstate technology to improve the efficiency of recruitment of patients into clinical drug trials – we will talk about this in more detail later. This new revenue stream will add revenue this year - the first year of launch of the product.

The commercial opportunity to combine Cogstate's capabilities as an e-health tool with the first disease modifying dementia therapies within an ageing population is significant and therefore we will continue to work towards this goal, including a medium term goal of achieving medical device clearance from the FDA.

As we look at our first goal of growing Clinical Trials sales, you can see from this graph on page 16 that the 2015 financial year has started extremely well. In 16 weeks we have already surpassed our full year result for FY14 and equalled the performance for FY13. In the coming slides we will also talk about the strong sales prospects that will add to this strong start to the financial year.

The large amount of Clinical Trials contracts signed has substantially increased the amount of Contracted Future Revenue - this is the WIP that Martyn referred to in slide 8. We currently have over \$18m of revenue secured by contract that will be recognised over this current and future financial years. This is a significant increase on previous periods.

You can see from the table on slide 18 that the Clinical Trials business has secured \$9.6m of revenue for the 2015 financial year, including the \$2.9m already invoiced in the first quarter. Equally you can see that the revenue tail starts to provide greater certainty about future revenue.

I note that total revenue for the first quarter in fact totaled \$3.7m, including revenue from Precision Recruitment, Axon Sports training business and various pass-through costs relating to Clinical Trials contracts.

At this time last year, the Clinical Trials business had secured \$6.5m of revenue for the FY14 year, making the \$9.6m secured for the FY15 year is a 48% improvement on last year.

I am pleased to announce that in addition to the increase in sales contracts, Cogstate has also been awarded a further \$4.8m of new work that is currently going through the contracting process. Once executed, these new contracts are expected to add approximately \$2.4m of revenue to this financial year, taking the amount of revenue secured by contract to \$12m this financial year.

It's important to note that none of these figures include revenue from existing Precision Recruitment contracts. Because of the success nature of the Precision Recruitment where Cogstate is paid upon successful selection of patients for clinical trials, we have not factored in the revenue from these studies yet; revenue from existing and potential new contracts will provide further revenue upside for the second half of this financial year.

Obviously any new contracts signed between now and 30 June will add further revenue this year. It is worth noting that we have a higher level of proposals out with customers currently than we did at this time last year. I note that between last year's AGM and 30 June 2014, Cogstate signed \$7.8m of new sales contracts, which generated \$3.8m of revenue in fiscal year 2014.

In summary, we are confident of revenue growth this financial year compared to the 2014 financial year. Further, we are confident that the second half of the 2015 financial year will provide revenue growth compared to this first half year.

As we look at the Primary care market on slide 19, we focus on the fact that the Cognigram product is live in Canada and while we amended the contract with Merck in June 2014, we are continuing to receive e-marketing support from Merck.

It is worth noting the increase in interest in the broad area of e-health products, including the recent launch of Apple's HealthKit. The interest in health technologies by large technology companies provides opportunities for Cogstate as our new technology leaves us very well placed for mobile assessment of individuals' cognitive health.

As we mentioned earlier, we are pursuing a medium term goal of FDA approval as a medical device for a Cognigram style product and whilst we have commenced initial strategy work in respect of this issue, we are not yet ready to discuss this in detail.

For almost 12 months now, we have been working on the technology changes necessary to allow us to launch the Precision Recruitment product.

This is a significant market opportunity for Cogstate, where our technology can be used to identify cognitively impaired people in the community who may be appropriate for inclusion in a clinical trial. The slow rate of recruitment into AD studies is one of the barriers to bringing a disease-modifying drug to market.

In the past, we have seen drugs fail as inappropriate patients are recruited for clinical trials. The problem of identifying appropriate patients for inclusion in clinical trials has become even harder as new therapies start to look earlier in the disease process, sometimes to asymptomatic patients.

Cogstate has made 2 sales to date of its Precision recruitment product and we have identified additional sales opportunities that we are pursuing. The contracts signed to date have a success fee nature to them in that Cogstate is paid for successful identification of patients who are ultimately enrolled into the study. As the studies begin to enroll patients, we expect to see revenue from Precision Recruitment in the second half of this financial year.

In our Research and Development group, we are working on developments that will enhance commercial opportunities:

- the opportunity to test individuals at home, in an unsupervised setting, provides critical commercial advantage for precision recruitment, but also may be how our Cognigram primary care product is deployed in the future;
- we have been developing and validating tests for younger children that have commercial application in clinical trials and sport;
- we continue to learn and advance our science through inclusion in key longitudinal AD studies; and
- we have been selected in key intervention studies that enhance our position as an endpoint in Alzheimer's disease studies.

I will now talk briefly about our financial performance, looking firstly at our expectations for the first half of the financial year and then beyond that.

In the first half of this 2015 financial year, we will see revenue growth driven by the strong clinical trials sales contracts that we spoke about earlier.

While revenue will grow this half, unfortunately our costs will be consistent with those recorded last financial year. However, it is worth noting that expenditure during this first half includes approximately \$1m of costs that are non recurring, such as

- software redevelopment costs
- additional costs associated with formulation and execution of commercial strategy for launch of Precision Recruitment and Cognition Registry
- costs in respect of the sale of Axon Sports training business
- recruitment costs

Looking now at the second half of the 2015 financial year, at this early stage, we believe that Clinical Trials revenue will exceed the first half result.

With a goal of sustainable margin improvement, we have instilled cost control in the Clinical Trials business and expect to see an improvement in Clinical Trials margin as we grow revenue in the second half of the financial year.

In the second half we will see the benefit of the divestment of the Axon Sports business in the form of cost reduction as well as a decrease in the amount of non-recurring costs, leading to an overall reduction in expenditure.

We are acutely conscious of the need to grow revenue, control costs and build a sustainable business in the short term. In the second half of this financial year, we will be working towards a goal of a much-improved financial performance and we expect to be able to update the market in the second half of the year of our progress against this goal.

To summarise, in the first half of FY15 we expect to see continued cash burn. As stated earlier, we expect to see continued revenue growth into the second half of this financial year and our goal is to move the business to a much more sustainable position through cost control combined with that improved revenue position in the second half of the financial year.

We will of course keep the market updated in respect of our progress against these goals throughout the financial year.

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