

23 August 2017

Cogstate Ltd (CGS)**BUY****Share Price: A\$1.05****FY17F in-line with guidance, medium term upgrades****Target Price:****A\$1.35**

CGS's FY17F results were in-line with guidance. In addition it announced its first contract as part of its preferred provider status with Lilly and an outline of its commercial launch strategy for Cognigram. We are confident in continued strong top-line growth and expect enhanced investment to drive margin expansion in the medium term while only slightly impacting short term profitability. We have our target price of A\$1.35. We reiterate our Buy recommendation.

Key FY17 Financials

- Revenue of ~A\$35.0m (+28% yoy), in-line with guidance, provided in July, of A\$34.6m.
- Profit before tax of minus A\$0.8m, broadly in-line with guidance of approximately minus A\$1.0m.
- Growth was negatively impacted by contract delays, which we expect are likely to be reinstated in FY18F.
- Net cash inflow of A\$1.8m, leading to a strong net cash position of A\$9.3m.

Lilly & Cognigram

- CGS has been the preferred provider to Lilly's Alzheimer's Disease (AD) platform since May 2017.
- While we have not included this in our forecasts, given its early stage nature, we view this as the most significant source of upgrades in the short term and early signs are positive with a Phase II contract having been signed last week.
- In addition, CGS has recently received FDA approval for its Cognigram self-assessment product which can be completed in both an in-clinic and at home setting.
- We see near term upside potential for this product within a hospital setting which under the Total Cost of Care regime does not require reimbursement.
- While there are existing appropriate CPT codes, we expect CGS to lobby for increased in these codes. However this will require a larger data set which will require 12-18 months to develop.

Forecasts and Valuation

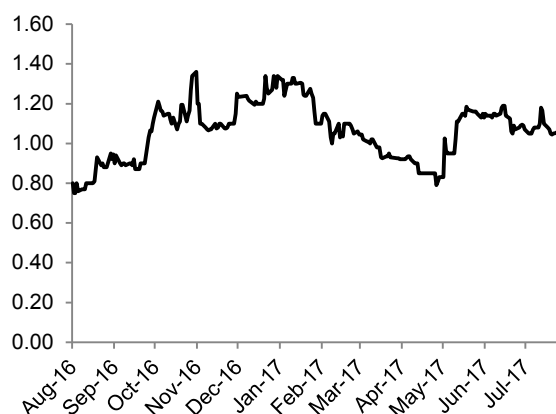
- Cogstate has outlined a higher level of investment in product development than we were anticipating which caused us to reduce our estimates slightly.
- However, a significant proportion of this investment will drive margin expansion in the near to medium term, leading to upgrades beyond FY19F
- As a result we have maintained our target price of A\$1.35 and hence reiterate our Buy recommendation.

Company Data

Shares – ordinary (M)	111.9
Dilution (M)	10.0
Total (fully diluted) (M)	121.9
Market capitalisation (\$M)	117.5
12 month low/high (\$)	0.75 / 1.39
Average monthly turnover (\$M)	2.3
Index	-
GICS Industry	Health Care Equipment

Financial Summary (fully diluted/normalised)

Year end June	2015A	2016A	2017F	2018F	2019F
Revenue (\$M)	16.1	27.3	34.9	45.0	60.0
Costs (\$M)	-18.4	-25.9	-34.8	-43.0	-49.8
EBITDA (\$M)	-2.3	1.4	0.1	2.0	10.2
NPAT (\$M)	-5.1	2.6	-0.8	1.2	6.9
EPS (¢ps)	-5.1	0.6	-0.7	0.9	5.6
EPS Growth (%)	n/m	n/m	-211%	-244%	491%
PER (x)	n/m	177.6	-159.6	110.7	18.7
Free Cashflow (\$M)	-3.8	1.0	1.4	0.4	8.6
FCFPS (¢ps)	-3.4	0.9	1.2	0.3	7.7
PFCFPS (x)	n/m	117.4	84.2	303.0	13.7
Enterprise Value (\$M)	112.0	110.0	108.2	107.8	99.2
EV / EBITDA (x)	n/m	81.2	754.2	52.9	9.7
Payout ratio (%)	n/m	n/m	n/m	n/m	n/m
Dividends (¢ps)	n/m	n/m	n/m	n/m	n/m
Yield (%)	n/m	n/m	n/m	n/m	n/m

CGS – performance over one year**Disclosure and Disclaimer**

This report must be read with the disclosure and disclaimer on the final page of this document.

Killian Murphy
+61 2 9239 9607

Analysis

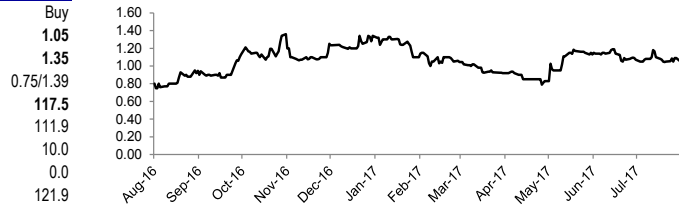
Cogstate Ltd

Year end 30 June

MARKET DATA

Recommendation		Buy
Price	\$	1.05
Target price (12-month)	\$	1.35
52 week low / high	\$	0.75/1.39
Market capitalisation	\$m	117.5
Shares on issue (basic)	no.	111.9
Options / rights	no.	10.0
Other equity	no.	0.0
Shares on issue (diluted)	no.	121.9

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS

	FY15A	FY16A	FY17A	FY18F	FY19F
Reported NPAT	\$m (5.1)	2.6	(0.8)	1.2	6.9
NPAT normalised	\$m (5.1)	2.6	(0.8)	1.2	6.9
Reported EPS (undiluted)	¢ (5.1)	0.6	(0.7)	1.0	5.9
EPS normalised (undiluted)	¢ (5.1)	0.6	(0.7)	0.9	5.6
... Growth	% n/m	n/m	(211%)	-244%	491%
PER normalised	x (20.6)	177.6	(159.6)	110.7	18.7
Operating cash flow per share	¢ (2.3)	2.1	2.1	1.3	8.0
Free cash flow per share	¢ (3.4)	0.9	1.2	0.3	7.7
Price to free cash flow per share	x (30.7)	117.4	84.2	303.0	13.7
FCF yield	% (3.3)	0.9	1.2	0.3	7.3
Dividend	¢ 0.0	0.0	0.0	0.0	0.0
Payout	% 0.0	0.0	0.0	0.0	0.0
Yield	% 0.0	0.0	0.0	0.0	0.0
Franking	% n/a	n/a	n/a	n/a	n/a
Enterprise value	\$m 112.0	110.0	108.2	107.8	99.2
EV/EBITDA	x (48.7)	81.2	754.2	52.9	9.7
EV/EBIT	x (36.9)	106.8	(123.0)	67.2	10.1
Price to book (NAV)	x 12.7	8.3	7.8	5.4	3.6
Price to NTA	x 10.7	6.7	6.0	4.1	2.8

KEY RATIOS

	FY15A	FY16A	FY17A	FY18F	FY19F
EBITDA margin	% (14.3)	5.0	0.4	4.5	17.0
EBIT margin	% (18.9)	3.8	(2.5)	3.6	16.3
NPAT margin	% (31.5)	2.7	(2.3)	2.6	11.5
ROE	% (50.0)	4.7	(4.9)	4.9	19.6
ROA	% n/m	3.7	(3.7)	3.7	15.2
Net debt / (cash)	\$m (5.5)	(7.4)	(9.3)	(9.7)	(18.3)
Interest cover (EBIT / net interest)	x (234.8)	(117.3)	14.0	(25.6)	(155.9)
Gearing (net debt / EBITDA)	x 2.4	n/m	n/m	n/m	n/m
Leverage (net debt / (net debt + equity))	x n/m	n/m	n/m	n/m	n/m

DUPONT ANALYSIS

	FY15A	FY16A	FY17A	FY18F	FY19F
Net Profit Margin	% (31.5)	2.7	(2.3)	2.6	11.5
Asset Turnover	x 1.3	1.4	1.6	1.4	1.3
Return on Assets	% (40.9)	3.7	(3.7)	3.7	15.2
Financial Leverage	x 1.2	1.3	1.3	1.3	1.3
Return on Equity	% (50.0)	4.7	(4.9)	4.9	19.6

GROWTH PROFILE

	FY15A	FY16A	FY17A	FY18F	FY19F
Operating revenue	% 41.9	69.8	28.0	28.8	33.3
EBITDA	% (41.0)	(158.9)	(89.4)	1,320.7	401.5
EBIT	% (33.8)	(133.9)	(185.4)	(282.4)	510.0
Operating NPAT	% 30.2	(114.4)	(211.3)	(244.2)	490.8
Normalised EPS	% 18.6	(111.6)	(211.3)	(244.2)	490.8

PROFIT AND LOSS (PRO FORMA)

	FY15A	FY16A	FY17A	FY18F	FY19F
Total revenue	\$m 16.1	27.3	34.9	45.0	60.0
EBITDA	\$m (2.3)	1.4	0.1	2.0	10.2
Depreciation & amortisation	\$m 0.7	0.3	0.4	0.4	0.4
EBIT	\$m (3.0)	1.0	(0.9)	1.6	9.8
Net interest	\$m (0.0)	0.0	0.1	0.1	0.1
Non-operating income	\$m 0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m (5.2)	1.0	(0.8)	1.7	9.8
Tax expense	\$m 0.2	(0.3)	0.0	(0.5)	(3.0)
Minorities	\$m 0.0	0.0	0.0	0.0	0.0
Operating NPAT	\$m (5.1)	0.7	(0.8)	1.2	6.9
Significant items	\$m 0.0	1.9	0.0	0.0	0.0
Reported NPAT	\$m (5.1)	2.6	(0.8)	1.2	6.9

BALANCE SHEET

	FY15A	FY16A	FY17A	FY18F	FY19F
Cash	\$m 5.5	7.4	9.3	9.7	18.3
Receivables	\$m 4.9	5.3	5.1	13.7	18.3
Inventory	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m 0.5	0.9	1.2	1.0	1.0
Current	\$m 10.8	13.6	15.6	24.4	37.5
Prop. plant & equip	\$m 1.1	1.7	2.1	2.9	3.7
Intangibles	\$m 0.4	0.4	0.4	0.4	0.4
Other	\$m 0.0	3.8	3.8	3.8	3.8
Non current	\$m 1.5	6.0	6.2	7.0	7.8
Total assets	\$m 12.4	19.6	21.8	31.4	45.3
Accounts Payable	\$m 2.5	3.4	4.6	7.1	9.5
Borrowings	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m 0.0	0.0	0.1	0.1	0.1
Total liabilities	\$m 2.6	3.4	4.7	7.2	9.6
Shareholder's equity	\$m 10.1	15.4	16.5	23.6	35.1

CASH FLOW

	FY15A	FY16A	FY17A	FY18F	FY19F
EBITDA	\$m (2.3)	1.4	0.1	2.0	10.2
Change in provisions	\$m 0.0	0.0	0.0	0.0	0.0
Change in working capital	\$m (0.5)	1.3	2.4	(0.5)	(0.5)
Net interest	\$m 0.1	0.0	0.1	0.1	0.1
Tax paid	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m (0.5)	1.3	2.4	(0.5)	(0.5)
Operating cash flow	\$m (2.8)	2.6	2.6	1.6	9.8
Capex	\$m (1.1)	(1.6)	(1.2)	(1.2)	(1.2)
Acquisitions	\$m 0.0	0.0	0.0	0.0	0.0
Disposals	\$m 0.0	0.0	0.0	0.0	0.0
Investing cash flow	\$m (1.0)	(1.6)	(1.2)	(1.2)	(1.2)
Equity	\$m 2.1	0.9	0.5	0.0	0.0
Increase / (decrease) in borrowings	\$m 0.0	0.0	0.0	0.0	0.0
Dividend/other	\$m 0.0	0.0	0.0	0.0	0.0
Financing cash flow	\$m 2.1	0.9	0.5	0.0	0.0
Free cash flow	\$m (3.8)	1.0	1.4	0.4	8.6

Source: Petra Capital

FY17 in-line with Guidance

Cogstate reported a solid set of FY17 results yesterday, with revenue of A\$34.6m and a PBT of minus A\$0.8m in-line with guidance provided in July. Due to strong cash generation of A\$1.8m the balance sheet remains strong with a A\$9.3m net cash position

Clinical Trials business expected to see strong growth in FY18 & FY19

After a slowdown in 2H17, due to the impact of poor clinical trial outcomes impacting decision making amongst CGS's customer base, we expect to see significant growth within CGS's clinical trials business in FY18F and FY19F. CGS begins FY18F with a pipeline double the size of that with which it started FY17F, this coupled with its preferred provider status to Lilly's Alzheimer's Disease platform (within which it won its first contract last week) sets the scene for strong top line growth over the near and medium term. Cogstate will invest ~A\$6.8m in technology improvements, particularly around its database and integration capabilities, in FY18F in order to drive margin improvements within the clinical trials business.

Cognigram may be a potential game changer

Cogstate has recently been awarded FDA approval for its Cognigram self-assessment product which can be completed in both an in-clinic and at home setting. We see near term upside potential for this product within a hospital setting which under the Total Cost of Care regime does not require reimbursement. While there are existing appropriate CPT codes, we expect CGS to lobby for increased in these codes. However this will require a larger data set which will require 12-18 months to develop. Cogstate expects to invest ~A\$3.2m in FY18 to develop its commercial team and effectively launch this product in FY18F.

Forecasts & Valuation

We remain confident in CGS's ability to deliver ~30% top-line growth in FY18F and FY19F. In addition we expect margins to increase over this period as the benefit of enhanced efficiencies flow through the business. However, this enhanced level of investment will lead us to trim our FY18F and FY19F estimates.

We have reduced our FY18 EBIT forecast from A\$3.5m to A\$1.9m and our FY19F from A\$11.9m to A\$9.8m. These forecasts may prove too conservative given the significant upside potential from the Lilly relationship which we will re-assess as we move through FY18F. We have maintained our target price of A\$1.35 and reiterate our Buy recommendation.



Petra Capital
Level 17, 14 Martin Place, Sydney NSW 2000

ABN 95 110 952 782
ACN 110 952 782
AFSL 317 944

Director:	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Industrials):	Nick Berry	+61 (0)2 9239 9634	nberry@petracapital.com.au
Research (Industrials):	Killian Murphy	+61 (0)2 9239 9607	kmurphy@petracapital.com.au
Research (Industrials):	Daniel Porter	+61 (0)2 9239 9625	dporter@petracapital.com.au
Research (Property):	Jonathan Kriska	+61 (0)2 9239 9633	jkriska@petracapital.com.au
Research (Resources):	Brett McKay	+61 (0)2 9239 9605	bmckay@petracapital.com.au
Research (Resources):	Matthew Schembri	+61 (0)2 9239 9630	mschembri@petracapital.com.au
Sales:	Frank Barila	+61 (0)2 9239 9603	fbarila@petracapital.com.au
Sales:	Richard Macphillamy	+61 (0)2 9239 9604	rmacphillamy@petracapital.com.au
Sales:	Vincent Pisani	+61 (0)2 9239 9617	vpisani@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Iain Gow	+61 (0)2 9239 9608	igow@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Sales:	Vince Barila	+61 (0)2 9239 9627	vbarila@petracapital.com.au
Corporate (ECM):	Conrad Anderson	+61 (0)2 9239 9610	canderson@petracapital.com.au
Corporate (ECM):	David Wallis	+61 (0)2 9239 9622	dwallis@petracapital.com.au
Administration:	Krystle Garven	+61 (0)2 9239 9635	kgarven@petracapital.com.au
Administration:	Samantha Tingley	+61 (0)2 9239 9636	stingley@petracapital.com.au
Administration:	Silvia Fratta Pasini	+61 (0)2 9239 9621	spasini@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@petracapital.com.au
Legal & Compliance:	Stephen Newton	+61 (0)2 9239 9612	snewton@petracapital.com.au
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@petracapital.com.au

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