

# ASX Announcement

13 August 2018



All figures are stated in US\$

## FY18 Results Summary

**Successful 12 months where Cogstate delivered strong growth in Clinical Trials, executed on Healthcare strategy and reinvested in technology for future growth.**

Cogstate Limited ("Cogstate") announced its results for the 12 months ended 30 June 2018:

• Revenue	\$28.96m	(improvement \$2.56m, FY17: \$26.40m)
• EBIT	\$ 0.09m	(improvement \$0.80m, FY17: loss of \$0.71m)
• EBITDA	\$ 0.74m	(improvement \$0.67m, FY17: \$0.07m)
• Net profit before tax	\$ 0.11m	(improvement \$0.77m, FY17: loss of \$0.66)
• Net loss after tax	\$ 0.56m	(improvement \$0.08m, FY17: loss of \$0.64m)

## KEY HIGHLIGHTS

### Clinical Trials:

- Sales contracts executed of \$36.1m during FY18, up 22% on FY17 (\$29.5m)
- FY18 Clinical Trials revenue \$28.0m, up 7.2% from FY17 (\$26.2m), while margins maintained (56.6%)
- Contracted revenue backlog of \$28.4m at 30 June 2018 to be recognised in future periods, down 1% since 30 June 2017 (\$28.7m). Contracted Revenue at 30 June 2018 (previously \$34.8m) was impacted by cancellations of clinical trials; notification received July 2018
- Adjustment to staffing levels executed via restructure in August 2018, balancing resources against contracted revenue position

### Healthcare:

- Regulatory clearance of Cognigram product achieved in US, EU, Australia and Canada
- \$0.7m sales contracts executed, generating revenue of \$0.4m
- Loss from operations of \$1.9m, approximately double the loss from FY17
- Cogstate remains committed to the opportunity for assessment of cognition in primary care and hospital market, but will seek alternative distribution channels to break into that market
- Significant adjustment to staffing and commercialisation model executed, removing significant costs from the business. Most changes to be fully implemented prior to 30 September 2018
- Cogstate will continue to support new and existing Cognigram customers but operational support will be absorbed within the broader operational team

### Restructure executed in the period April 2018 to August 2018:

- Strategic decision to seek distribution or licensing arrangements to commercialise Cognigram, rather than the direct sales model that had been implemented previously
- Adjustment to staffing levels in Clinical Trials group (cost of sales line item), balancing resources against contracted revenue position and therefore maintaining gross margins
- Changes implemented across legal, finance and administrative functions to increase efficiency
- In total, annualised staff costs of \$5m (84% direct costs, 16% cost of sales) removed from the business, through removal of 30 roles (17% of headcount). These costs accounted for \$3.46m of costs of sales and operating costs in FY18

### Earnings guidance:

- Expected to grow net profit before tax during FY19
- 1H19 results will be impacted by approximately \$2m of non-recurring costs relating to restructure
- 2H19 expecting profit growth
  - forecast revenue growth from 1H19 to 2H19
  - full benefit of cost reduction measures delivered in 2H19

Commenting on the FY18 results, Cogstate CEO Brad O'Connor said,

"In the last 12 months, we have continued our growth in the Clinical Trials market, with contract sales up 22%. We have added key scientific resources, with a business development focus and expertise in key focus areas, such as Alzheimer's disease as well as pediatric and rare diseases."

"In Alzheimer's disease, which is a strategically important area for Cogstate, we continue to gain traction and market share as awareness of our total offering increases within potential customers. We were obviously disappointed about the study cancellations that were announced in July 2018, but it is unfortunately a risk of working in clinical research that some investigational compounds will be shown to be not working or may be causing harm to the study participants. It is important to note that the cancellations do not change our view of the broader opportunity in Alzheimer's disease. A recent analysis shows that the number of drugs in phase 2 Alzheimer's disease studies has increased 17% over the last year – further, the number of disease modifying drugs in phase 2 Alzheimer's disease studies is up 34% over the last year. We believe that the huge societal need (and associated commercial opportunity) for Alzheimer's disease treatments will result in continued investment in potential treatments. Cogstate is uniquely placed to offer technological, scientific and operational excellence to customers seeking to find a cure for this terrible disease."

"In Healthcare, we were very pleased to achieved regulatory clearance in key markets. The level of sales of the Cognigram product that were achieved during the 2018 financial year were within our expectations. That said, the projected rate of increase in direct sales in coming years was not sufficient to achieve profitability for the healthcare segment in either the 2019 or 2020 financial years. As a result, we have made a decision to seek an alternative distribution strategy for Cognigram and will cease the direct sales strategy that had been implemented previously. The resulting restructure will remove substantial costs from the business."

"We have also taken the opportunity to streamline other areas of the business also. In total, over \$5 million of costs that would have been incurred in the 2019 financial year have been removed from the business as part of the restructure implemented from April 2018 to August 2018 – these costs accounted for \$3.46 million of costs of sales and operating costs in 2018 financial year. Approximately 16% of the overall cost reduction relates to the balancing of cost of sales within Clinical Trials to the level of contracted future revenue to ensure maintenance of gross margins. Most costs removed from the business were either part of Cognigram or shared services, including legal and finance. There has been no reduction of sales and marketing resources within the clinical trials business, in fact, key science staff with a business development focus were added to the team during the second half of the 2018 financial year. The restructure will enable Cogstate to reduce costs significantly in the second half of the 2019 financial year, with the first half of the year impacted by the one-off restructure costs."

"Based on the information available to Directors, we expect to continue to grow both Clinical Trial contract sales and revenue during the 2019 financial year. However, following the cost reductions implemented, even if sales are flat during the 2019 financial year, we are budgeting to record growth in profit, compared to the 2018 financial year."

## Summary Financial Results

	2018 US\$	Restated 2017 US\$
<b>Clinical Trials</b>		
Revenue	28,080,187	26,187,137
Cost of Sales	(8,909,315)	(8,636,366)
Gross Margin	19,170,872	17,550,771
SG&A	(3,626,539)	(3,171,244)
Pass through costs, net of recovery	-	36,859
<b>Clinical Trials contribution</b>	<b>15,544,333</b>	<b>14,416,386</b>
<b>Healthcare (incl Sport)</b>		
Revenue	384,929	205,045
Cost of sales & SG&A	(494,608)	(844,605)
Other operating expenditure	(1,742,918)	(292,002)
<b>Healthcare contribution</b>	<b>(1,852,597)</b>	<b>(931,562)</b>
<b>R&amp;D (incl. academic research studies, normative data studies &amp; technology validation)</b>		
Revenue	491,768	12,771
Cost of sales & SG&A	(30,447)	(68,407)
Other operating expenditure	(788,302)	(512,425)
<b>R&amp;D contribution</b>	<b>(326,981)</b>	<b>(568,061)</b>
Product Development and Quality Assurance	(4,010,610)	(4,133,870)
Less: capitalisation of software costs	2,377,905	-
<b>Net Product Development &amp; Quality Assurance</b>	<b>(1,632,705)</b>	<b>(4,133,870)</b>
IT infrastructure	(1,662,058)	(1,184,634)
Share based payments (expense of employee options)	(953,003)	(721,724)
Office and Facilities	(1,144,918)	(814,449)
Other operating expenditure	(7,843,927)	(6,409,351)
Interest income	38,796	56,154
Net foreign exchange gains/(losses)	(60,723)	(370,334)
<b>Other Expenditure (Net)</b>	<b>(11,625,833)</b>	<b>(9,444,338)</b>
<b>Net Profit/(Loss) before tax</b>	<b>106,217</b>	<b>(661,445)</b>

Cogstate will be holding an investor teleconference at 11.00am AEDT on Monday 13 August 2018. Management invites investors to participate in the teleconference where the full year results and presentation will be discussed. There will be an opportunity for participants to ask questions at the end of the teleconference.

**Meeting:** Cogstate Ltd June 2018 Full Year Results  
**Date:** Monday 13 August 2018  
**Start time:** 11.00am AEDT  
**Duration:** 30 mins plus questions  
**Toll-free number:** 1800 123 296  
**Toll number:** +61 2 8038 5221  
**Passcode:** 6993799 #  
**Webcast:** <http://webcast.openbriefing.com/4716/>

If you need assistance while on the teleconference, press \*1 on your telephone, and an operator will be happy to assist you.

### For further information contact:

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**About Cogstate**

Cogstate Ltd (ASX:CGS) is a leading science and technology solutions provider dedicated to optimizing the measurement of cognition in clinical trials, academic research and healthcare. Cogstate provides enabling technologies and professional services for higher quality neuropsychological assessments and is a pioneer in commercializing rapid, reliable and highly sensitive computerized cognitive tests. Cogstate customers include the world's leading biopharmaceutical companies; elite sporting organizations and military; physicians and patients; renowned academic institutions and public-private partnerships. For more information, please visit [www.cogstate.com](http://www.cogstate.com).