



ASX Announcement

Melbourne, 21<sup>st</sup> October 2009

Address to the Annual General Meeting of Shareholders

Martyn Myer, AO  
Chairman, CogState Ltd

"I am pleased to report that, in what has been an extraordinary year of financial volatility and foreign exchange fluctuations since we last met, strong growth in demand for CogState's services within the pharmaceutical clinical trials market have delivered an impressive result this year.

#### Slide 3

CogState is a small business, some 32 people, operating in the extremely specialized areas of neuropsychology, software engineering and clinical drug development. It is not possible to grow a successful business in complex areas like this without having access to the some very good people. At CogState, we are extremely lucky to have a very talented group of senior managers guiding the company.

The size and credentials of the CogState science team, lead by Dr Paul Maruff, provides us with a competitive advantage compared to any of our competitors. With four highly qualified and knowledgeable senior science staff, CogState is extremely well positioned to meet customer needs and provide advice.

In March 2009 we were lucky enough to gain the services of Sophie Egholm from Pfizer at a time when Pfizer was going through some uncertainty following their decision to merge with Wyeth. Sophie held the position of Associate Director, Worldwide Business Development at Pfizer and prior to her time at Pfizer, Sophie was part of the management team at smaller organizations and therefore understood what it meant to leave Pfizer and join CogState. Sophie is based in our New Haven, Connecticut office where she runs the team of project managers and other operations staff.

CogState's technical advancements and ability to process and provide to our customers data in real time is a key strength and competitive advantage. Dale Fraser and his team of software engineers and development staff have been critical in the constant evolution of our technology.

#### Slide 4

CogState operates in the highly regulated environment of clinical drug development. Our full time QA manager, Mala Bisunadan, has been instrumental in building the quality controlled environment in which we operate.

CogState is regularly audited by our customers, in fact we have had 3 audits this financial year already with more planned before the end of 2009. Under our confidentiality provisions, I cannot reveal which companies have audited us, nor can I reveal the findings of those audits. However, I can say that, to date, no audits have found any significant issues and we continue to work with all companies that have audited us in the past.

CogState is in the process of being assessed for certification under the ISO system and we expect to have that in place by 30 June 2010.

## Slide 5

This time last year, we discussed the strategic partnership that we had just formed with United BioSource Corporation (UBC). Unfortunately, for a number of reasons, the decision was made to terminate that agreement before the end of the 2009 financial year. We hold that the decision to terminate that agreement was in the best interests of all CogState shareholders.

Since termination of that agreement, UBC have bought 100% of one of our competitors, Cognitive Drug Research (CDR), who are based in the UK. We expect that we will continue to see stiff competition from CDR in the clinical trials market and we wait to see what impact UBC will have on the running of that business.

Following their decision to acquire CDR, UBC sold 100% of their holding of CogState shares; some 10.8 million shares or 16% of issued capital. I am happy to report that those shares were predominantly placed with sophisticated investors or institutions and we view this development as an extremely stabilizing result for the CogState share register.

During the year we have also worked extremely hard on the incorporation of the Neurophysiological Test Battery – the NTB – into the CogState system. The NTB is a paper and pencil battery of cognitive tests designed for use in Alzheimer's disease studies which was developed by CogState scientist, Dr John Harrison when consulting to Elan and Wyeth in respect of their Alzheimer's disease drug development programs. The use of NTB in Alzheimer's disease studies has been endorsed by the FDA following submission of the Elan and Wyeth data for their studies and is therefore being used extensively in new Alzheimer's disease studies.

CogState is the only licensed distributor of NTB. We utilise the CogState back-end technology and real time data analysis to add sophistication to paper and pencil testing methodologies. To date we have seen increased use of CogState in conjunction with NTB tests and we expect that this will provide us with a lasting competitive advantage in Alzheimer's disease clinical trials.

## Slide 6

There are a number of varied reasons why CogState has been able to continue to grow revenue, despite the impact on broader economic conditions. The factors influencing CogState growth include a number of internal and external factors.

Externally, we have seen a structural migration towards computerized cognitive testing away from the traditional paper and pencil testing methods, leading to an increase in market size. The increased use of computerized cognitive testing in clinical trials is consistent with the trend towards electronic data capture in clinical trials.

Other external factors influencing CogState's revenue growth include the increased use of external specialists, such as CogState, following the trend within large pharmaceutical companies to out-source non-core functions. Additionally, the focus on central nervous system diseases where cognition is a key end point in clinical trials, such as Alzheimer's disease and schizophrenia, has helped increase sales opportunities for CogState.

The key internal factor influencing our growth has been the commercial validation of CogState as a quality provider of clinical trials services. CogState has now demonstrated our ability to manage large, international clinical trials, and that is assisting us in our presentations to potential customers.

CogState's scientific focus is also a very important factor in our continued growth. Our customers use our services, not only because of our technological advancements, but also because of our scientific experience and credibility.

## Slide 7

For the year to 30 June 2009, CogState recorded its maiden profit, with a net profit after tax of \$1.4 million. The profit result was driven by an increase in demand for our products and services. We saw significant growth in both the value of sales contracts signed and sales revenue recorded.

Sales revenue, measured in Australian dollars, was \$8.4 million for the 2009 financial year, an increase of 122% compared to the 2008 financial year. Sales revenue for the 2008 financial year was, in turn, an increase of 61% on the 2007 financial year. Over the course of two financial years, we have seen sales revenue grow from \$2.4 million to \$8.4 million.

## Slide 8

CogState results have been impacted by the dramatic foreign exchange fluctuations that we have seen during the last year. CogState sales revenue, when measured in US dollars, grew by 91% for the 2009 financial year, compared to the 122% increase in revenue when measured in Australian dollars.

Given the recent strength of the Australian dollar, the challenge for CogState over the next year is to continue to drive revenue growth, as measured in Australian dollars, despite the tougher foreign exchange conditions that now exist for exporters from Australia.

CogState is very confident that we can continue to aggressively grow revenue, as measured in US dollars. However, should the Australian dollar keep rising in value, relative to the US dollar, we won't necessarily see that same level of growth when measuring sales in Australian dollars. CogState CEO, Brad O'Connor, will talk more about the financial outlook when he delivers his presentation.

## Slide 9

During the 2009 financial year, CogState signed 32 sales contracts with a combined value of A\$9.3 million, an 85% increase compared to the 2008 financial year. Again, the growth in the 2009 financial year built on an impressive result during the 2008 financial year when the value of sales contracts signed grew by 162%. Over the course of two financial years, we have seen the value of sales contracts signed each year grow from less than \$2 million to \$9.3 million.

Again, the lower Australian dollar impacted on the value of sales contracts signed. The value of contracts signed, measured in US dollars, totaled US\$7.2 million, which represented 60% growth on the US\$4.5 million signed during the 2008 financial year.

CogState was not immune to the financial turmoil that shook the world last year. 80% of the \$9.3 million contracts signed during the year were signed in the periods July – August and March – June. During the six months from 1 September 2008 until 28 February 2009, at the height of the financial instability, CogState signed only 10 sales contracts with a combined value of A\$1.9 million, which was just 20% of the total value of contracts signed during the year.

Despite the significant increase in the value of contracts signed during the year, there were in fact five fewer contracts signed during the 2009 financial year than during the previous 2008 financial year. The average value of the 32 contracts signed during the 2009 financial year was \$289,000, compared to an average value of \$123,000 for the 37 contracts signed during the 2008 financial year.

An important factor in the continued sales growth by CogState has been the commercial validation of CogState's ability to efficiently manage large, international clinical trials. CogState's now has extensive experience in the delivery of computer equipment, software and associated services into clinical trials around the world. CogState software is now available in over forty languages and has been used in over 550 clinical trial sites around the world. The larger phase 2 and 3 clinical trials that CogState has been contracted to support over the last year have driven up the average value of each sales contract.

In summary, the 2009 financial year was an extremely successful one for CogState. I will now hand over to our CEO, Brad O'Connor, who will talk about trading conditions during the first quarter of the 2010 financial year and give some guidance as to the outlook for CogState.

Brad O'Connor  
CEO, CogState Ltd

#### Slide 11

At the end of the first quarter of the 2010 financial year, I can advise that the company is trading consistently with our expectations.

During the first quarter CogState recorded sales revenue of A\$1.8 million, contributing total cash receipts from customers of A\$2.35 million for the quarter. This produced a net cash outflow of A\$0.3 million for the quarter.

Whilst first quarter revenue was down significantly on the A\$2.8 million revenue recorded in the most recent June quarter, A\$1.8 million was in line with our expectations, based on the milestone based revenue recognition policy that we have in place. The December quarter sees a number of revenue milestones occurring from various sales contracts and therefore, we expect much more robust revenue recognition in the December quarter.

During the first quarter, CogState signed 11 sales contracts with a combined value of US\$3.18 million or A\$3.73 million. Measured in US\$, that is our best quarter ever. During the six months from 1 April – 30 September, we signed 18 sales contracts with a combined value of US\$6.06 million or A\$7.52 million.

#### Slide 12

The high value of contracts signed over the last six months has dramatically increased the value of contracted future revenue. Contracted future revenue is secured by a signed sales contract and will be recognised as revenue at a future point in time based upon the achievement of a milestone, such as delivery of software, or delivery of a final report.

Compared to the same time last year, contracted future revenue has increased by US\$2.1 million to US\$4.9 million. That's a 75% increase on the previous corresponding period.

Of that US\$4.9 million, we expect US\$3.3 million of that to be recognised before 30 June 2010. That's a US\$1.3 million, or 65%, increase on the same time last year.

It is interesting to note that, at this time last year we had US\$2.0 million, equivalent to A\$2.2 million, of contracted future revenue that we expected to recognise before 30 June 2009. That US\$2.0 million represented 44% of the actual US\$ revenue that was recorded for the nine months from 1 October 2008 to 30 June 2009. The A\$2.2 million represented 34% of A\$ dollar revenue that was recorded for the same nine month period, however the analysis of the A\$ revenue is misleading because of the fluctuating value of the A\$ during that nine month period.

#### Slide 13

For the first half of the 2009/2010 financial year, we are forecasting revenue in the range of US\$4.00 – US\$4.20 million.

Obviously what we record as A\$ revenue will be impacted by the prevailing exchange rate at the time that the revenue is recorded. We are providing today two forecast based on exchange rates of US\$0.92 and US\$0.96.

We have a good degree of confidence around the US\$ revenue figures, with 88-90% of revenue secured by an existing sales contract. The remaining 10-12% of revenue is based on proposals that we believe have a high probability of execution before 31 December 2009. There are existing proposals that have not been included in the forecast because of the uncertainty associated with those proposals at this time.

Our forecast revenue result would produce revenue of A\$9.27 million for the calendar year.

#### Slide 14

This graph shows both US\$ and A\$ revenue for the trailing 12 months at various time points. As you can see, the strengthening value of the A\$ does impact on the rate of A\$ revenue growth.

#### Slide 15

As I mentioned, because of the uncertainty around the value of the A\$, relative to the US\$, we have provided forecast revenue and profitability information at the prevailing rate of US\$0.92 as well as US\$0.96.

At both rates we are seeing very good growth in the operating profitability of the business. Operating profit is expected to be in the range of A\$0.73 – A\$0.96 million, depending on actual sales revenue and the prevailing exchange rate over the next 10 weeks.

Obviously at the higher of the two rates we see lower revenue and a higher foreign exchange loss for the half year.

#### Slide 16

This slide shows the comparison of forecast results to the previous two half years.

As you can see, forecast first half revenue is expected to show significant growth when measured in US\$ - US\$ revenue growth is expected to be between 21-27% when compared to the most recent half year and 36-43% growth on the previous corresponding half year.

A\$ revenue growth is impacted by the strengthening A\$.

Notwithstanding the higher A\$, Operating Profit is expected to grow significantly from last financial year, with an operating profit of A\$0.96 million for the half year.

The obvious difference between this half year and H1 last financial year is the growth in revenue from last year and the fact that we will record a foreign exchange loss this half year compared to the significant foreign exchange gain recorded in the first half of last financial year.

In conclusion, the market appears to be expanding and we are certainly tracking well on our goals of securing both new customers as well as new sales contracts. We are managing the business conservatively, but expanding our team in order to meet the increased demand for our services.

We look forward to being able to produce good results for shareholders throughout the 2010 financial year.