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# CogState Limited (CGS)

One-Offs, FX Impact FY09 NPAT

Speculative Buy

\$0.275

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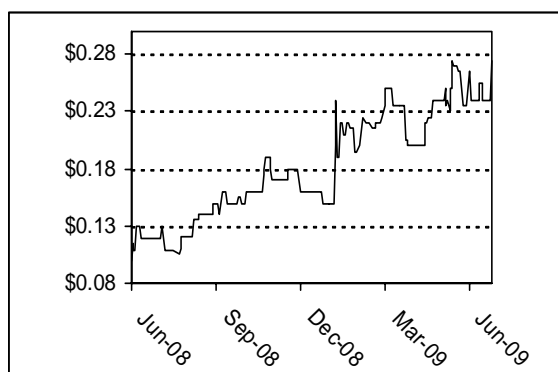
## Summary

<b>Market Capitalisation (M)</b>	<b>\$18.0</b>
<b>Shares on Issue (M)</b>	<b>65.6</b>
<b>Share Price</b>	<b>\$0.275</b>
<b>Est. Cash (M) as at 30/6/09</b>	<b>\$3.1</b>
Cash Burn Per Quarter (M) (est.)	n/a
<b>Valuation Per Share &amp; Price Target</b>	<b>\$0.50</b>
52 week low	\$0.06
52 week high	\$0.275
Ave Monthly Vol (year rolling)(M)	0.53

## Key Financials (A\$'000)

Year End	2008	2009	2010
	Actual	Est.	Est.
<b>Product Sales</b>	3,784	8,388	10,116
<b>Total Revenue</b>	<b>3,932</b>	<b>9,158</b>	<b>10,256</b>
Net Op. Rev	(916)	2,284	2,734
<b>EBITDA</b>	<b>(975)</b>	<b>2,159</b>	<b>2,593</b>
EBIT	(1,102)	1,968	2,234
Adjusted NPAT	(746)	2,182	2,372
<b>Reported Profit</b>	<b>(746)</b>	<b>1,382</b>	<b>2,372</b>
<b>Reported EPS (c)</b>	<b>(1.5)</b>	<b>2.1</b>	<b>3.6</b>
<b>PE Ratio (x)</b>	<b>n/a</b>	<b>12.8</b>	<b>7.6</b>
ROE (%)	-42.5%	41.4%	40.1%

## Share Price Graph (A\$)



## Key Points

CogState expects to report an FY09 NPAT of \$1.38m, up substantially on pcp but below guidance and 18.9% below our expectations.

CogState had forecast maiden FY09 NPAT to in the range \$1.5m-\$1.75m.

2H09 impacted by one-off costs relating to termination of UBC alliance (\$0.72m), unfavourable FX movements (\$0.2m) and staff bonuses (\$0.55m).

Operating cash flows for FY09 were \$1.0m, with closing cash in excess of \$3.0m.

## Our View

- Though CogState missed its maiden NPAT guidance for the FY, the Company has estimated a \$0.6m 2H09 NPAT impact from adverse FX movements since 3Q09 guidance. Despite the margin impact of the FX, FY09 product sales of \$8.4m were 4.9% ahead of expectations, and up 121% on pcp. Underlying EBITDA excl FX, UBC payments and staff bonuses grew by 78.2% to \$1.4m in 2H09 compared with 1H09, consistent with high value contract wins, and record 4Q09 sales of \$2.82m, up 115% on pcp. The average value of contracts also continues to rise, commensurate with later stage clinical trials. FY09 average contract value was \$0.3m versus \$0.14m in FY08.
- In our view, the use of CogState's computerised cognitive testing market for pharmaceutical clinical trials will continue to experience strong double digit growth during FY10 as penetration remains low (<10%) in a market worth at least US\$100m. CogState also stands to benefit from several macro drivers, including an overall expansion in Phase 2/3 clinical trials where cognition testing is required (most particularly Alzheimer's disease) and a reduction in usage of cumbersome pencil/paper cognition tests.
- Our FY10 and FY11 estimates remain largely unchanged as a result of the preliminary FY09 result, noting Company comments relating to the strong operating conditions and an expectation of closing further clinical trials contracts in the current Q. CogState remains debt free, cash flow generative and currently trades on a forecast 7.6x FY10 EPS, with a solid growth outlook in a defensive, under penetrated, oligopolistic market. We continue with our Speculative Buy recommendation and have upgraded our valuation and price target by 5cps to \$0.50 on PV adjustments to our 3 year DCF model.

## CGS - Summary of Forecasts

CGS \$ 0.275

PROFIT & LOSS SUMMARY (A\$000s)					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
Product Sales	2,350	3,784	8,388	10,116	11,004
Growth (pcp)	13.2%	61.0%	121.7%	20.6%	8.8%
<b>Total Revenue</b>	<b>2,605</b>	<b>3,932</b>	<b>8,968</b>	<b>10,256</b>	<b>11,261</b>
Net Operating Revenue	(1,769)	(916)	2,284	2,734	3,514
Direct R&D Expenses	(106)	0	0	0	0
<b>EBITDA</b>	<b>(1,980)</b>	<b>(975)</b>	<b>2,159</b>	<b>2,593</b>	<b>3,257</b>
Dep'n/Other Amort'n	(92)	(127)	(191)	(359)	(343)
<b>EBIT</b>	<b>(2,072)</b>	<b>(1,102)</b>	<b>1,968</b>	<b>2,234</b>	<b>2,915</b>
Net Interest	105	59	125	138	254
<b>Pre-Tax Profit</b>	<b>(1,967)</b>	<b>(1,043)</b>	<b>2,093</b>	<b>2,372</b>	<b>3,169</b>
Tax Expense	314	297	89	0	0
Minorities	0	0	0	0	0
<b>NPAT Adj.*</b>	<b>(1,653)</b>	<b>(746)</b>	<b>2,182</b>	<b>2,372</b>	<b>3,169</b>
Growth (pcp)	n/a	54.9%	n/a	8.7%	33.6%
Net Abnormals	0	0	(800)	0	0
<b>Reported Profit</b>	<b>(1,653)</b>	<b>(746)</b>	<b>1,382</b>	<b>2,372</b>	<b>3,169</b>

PER SHARE DATA					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
<b>Adjusted EPS (c)</b>	<b>(3.7)</b>	<b>(1.5)</b>	<b>3.4</b>	<b>3.6</b>	<b>4.8</b>
Growth (pcp)	-9.00%	-60.38%	n/a	6.81%	33.60%
<b>Reported EPS (c)</b>	<b>(3.7)</b>	<b>(1.5)</b>	<b>2.1</b>	<b>3.6</b>	<b>4.8</b>
Growth (pcp)	n/a	-60.4%	n/a	68.6%	33.6%
<b>EPS Pre-Net R&amp;D (c)</b>	<b>(3.8)</b>	<b>(1.6)</b>	<b>2.1</b>	<b>3.6</b>	<b>4.8</b>
Growth (pcp)	n/a	-56.8%	n/a	68.6%	33.6%
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Gross CF per Share (c)	(2.8)	0.4	3.0	4.4	5.3
NTA per share (c)	2.7	3.0	6.8	10.2	15.2

KEY RATIOS					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
EBITD/Sales Margin %	-76.0%	-24.8%	24.1%	25.3%	28.9%
EBIT/Sales Margin %	-79.5%	-28.0%	21.9%	21.8%	25.9%
Current ratio (x)	2.3	2.2	2.9	3.3	4.3
Net Debt : Equity (%)	-78.9%	-54.4%	-65.0%	-80.2%	-85.5%
ROE (%)	-70.6%	-42.5%	41.4%	40.1%	36.3%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%

VALUATION MULTIPLES					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
Adj. PE Ratio (x)	n/a	n/a	8.1	7.6	5.7
PE Ratio (x)	n/a	n/a	12.8	7.6	5.7
Dividend Yield (%)	n/a	n/a	0.0%	0.0%	0.0%
EV/EBITDA (x)	n/a	n/a	6.8	4.7	2.7
EV/EBIT (x)	n/a	n/a	7.4	5.4	3.0

CAPITAL RAISING ASSUMPTIONS					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
Shares Issued (m)	0.0	7.4	13.7	0.0	0.0
Issue Price (A\$)	0.00	0.135	0.10	0.00	0.00
Cash Raised (A\$m)	0.0	1.0	1.4	0.0	0.0

\* Excludes UBC termination payments

BALANCE SHEET SUMMARY					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
Cash	1,250	1,048	3,121	5,704	8,907
Receivables	204	613	2,013	2,529	2,751
Pre Payments	25	23	25	0	0
Inventories	0	0	0	0	0
Investments	0	0	0	0	0
Other	215	147	74	74	74
<b>Total Current Assets</b>	<b>1,694</b>	<b>1,831</b>	<b>5,233</b>	<b>8,307</b>	<b>11,732</b>
Investments	0	0	0	0	0
Inventories	0	0	0	0	0
Property Plant & Equip	215	478	898	809	924
Intangibles	401	402	402	402	382
Other	47	66	66	66	66
<b>Total Non-Current Assets</b>	<b>663</b>	<b>946</b>	<b>1,366</b>	<b>1,277</b>	<b>1,372</b>
<b>TOTAL ASSETS</b>	<b>2,357</b>	<b>2,777</b>	<b>6,599</b>	<b>9,584</b>	<b>13,103</b>
Accounts Payable	433	526	1,510	1,922	2,091
Revenue in Advance	159	74	0	0	0
Provisions	139	207	250	506	550
Other	3	35	66	66	66
<b>Total Current Liab</b>	<b>734</b>	<b>842</b>	<b>1,826</b>	<b>2,494</b>	<b>2,707</b>
Borrowings	0	0	0	0	0
Provisions	39	10	17	17	17
Other	0	0	0	0	0
<b>Total Non-Current Liab</b>	<b>39</b>	<b>10</b>	<b>17</b>	<b>17</b>	<b>17</b>
<b>TOTAL LIABILITIES</b>	<b>773</b>	<b>852</b>	<b>1,843</b>	<b>2,511</b>	<b>2,724</b>
<b>TOTAL EQUITY</b>	<b>1,584</b>	<b>1,925</b>	<b>4,756</b>	<b>7,073</b>	<b>10,379</b>

CASH FLOW SUMMARY					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
<b>EBIT (excl Abs/Extr)</b>	<b>(2,072)</b>	<b>(1,102)</b>	<b>1,968</b>	<b>2,234</b>	<b>2,915</b>
Add: Depreciation	92	127	191	359	324
Change in Pay.	154	93	984	412	169
Change in Rev. in Ad.	(143)	(85)	(74)	0	0
Less: Tax paid	314	297	89	0	0
Net Interest	105	59	125	138	254
Change in Rec.	230	(409)	(1,400)	(516)	(222)
Change in Inv.	0	0	0	0	0
Other	75	1,225	50	256	44
<b>Gross Cashflows</b>	<b>(1,245)</b>	<b>205</b>	<b>1,933</b>	<b>2,883</b>	<b>3,503</b>
Capex	(137)	(373)	(400)	(300)	(300)
<b>Free Cashflows</b>	<b>(1,382)</b>	<b>(168)</b>	<b>1,533</b>	<b>2,583</b>	<b>3,203</b>
Dividends Paid	0	0	0	0	0
Exchange Rate Adjustments	(29)	(34)	238	0	0
<b>Net Cash Flow</b>	<b>(1,411)</b>	<b>(202)</b>	<b>1,771</b>	<b>2,583</b>	<b>3,203</b>

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