

Earnings Update – Cogstate

Cogstate (CGS: 20 cents) reported its sales revenue this week for the third quarter of this financial year. The company sells a cognitive testing software program and service – based on a proprietary playing card software program where response time and memory are measured and assessed against individual changes and benchmark levels – primarily for use in the clinical trial setting by pharmaceutical and biotech companies developing neurological drugs.

For the three months to March this year, the company generated sales of \$782,000 which brings the total sales for the year to \$1.97 million. Whilst this is a small company with a small market capitalisation (\$9 million), the company is well run and is approaching profitability, with a largely consistent sales growth trend over the last eight quarters. In the quarter just passed, Cogstate generated a positive cashflow of \$124,000 although this was due to receipt of some larger individual payments. The company needs to increase sales by approximately 25%, to around \$1 million a quarter, to move to profitability.

Cogstate has increased its team in the US this year to six staff. It is nearing a position where its clinical trials product is established in the market place and profitable allowing the company to enter other product markets, such as testing alertness in the workplace (Alert 4 Work) and using the test to measure cognitive decline in the broader community (CogHealth).

Cognitive testing in the clinical trial setting is an established commercial area where competing companies have formed successful and profitable businesses. Cogstate's product and service is competitive with that offered by its competitors and is arguably better offering advantages. However it is less established in the market place and this is the main obstacle to growth, as with any new entrant to an existing sector.

Cogstate has shown solid corporate management over the last two years with sales displaying a consistent growth path. As the company extends its position into the market place, with the first goal to secure a second major pharmaceutical group (in addition to Pfizer) as a repeat customer, a continued strong sales growth from a higher base should be achievable. There is also untapped upside from expansion into other product areas that should occur as resources become available to company.

Bioshares recommendation: **Speculative Buy Class B**

Bioshares

Correction - Benitec

We incorrectly listed Benitec's capitalisation in edition #211 of Bioshares. The correct capitalisation of Benitec at 31 March was \$34 million, based on 233 million shares on issue.

The Bioshares 20 Index

Change from June 30, 2006 **77.4%**
Change from Dec 31, 2006 **40.5%**
Change - week ago **0.9%**

Nasdaq Biotech Index

Change from June 30, 2006 **14.9%**
Change from Dec 31, 2006 **6.9%**
Change - week ago **2.0%**

Bioshares Model Portfolio (27 April 2007)

Company	Price (current)	Price added to portfolio
Acrux	\$1.30	\$0.83
Alchemia	\$1.20	\$0.67
Biodiem	\$0.33	\$0.29
Biota Holdings	\$1.72	\$1.55
Cytopia	\$0.73	\$0.46
Chemgenex Pharma.	\$0.81	\$0.38
Optiscan Imaging	\$0.44	\$0.35
Neuren Pharmaceuticals	\$0.43	\$0.70
Peplin	\$0.80	\$0.83
Peptech	\$1.83	\$1.31
Phylogica	\$0.34	\$0.42
Probiotec	\$0.95	\$1.12
Sunshine Heart	\$0.17	\$0.19
Tissue Therapies	\$0.49	\$0.58