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CogState Limited (CGS)

Speculative Buy

Record 1Q Sales of \$2.0m; Maiden Profit Guidance Issued at AGM

\$0.16

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Key Points

CogState has recorded 1Q sales of \$2.0m, up 51.9% on 4Q08 and 170.7% on pcp.

\$3.5m worth of clinical trial contracts signed during 1Q09, with estimated FY09 product sales run-rate tracking at \$4.2m.

Cost base guidance of ~\$6.0m issued at AGM.

Cash balance of \$1.9m, with additional \$1.5m in trade debtors, 91% < 30 days.

1Q09 profit "in excess" of \$0.5m, with guidance of profitable 1H09 and 2Q09 revenues of "at least \$1.5m" guided.

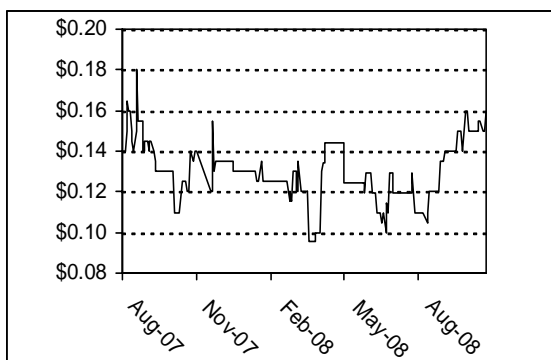
Summary

Market Capitalisation (M)	\$10.5
Shares on Issue (M)	65.6
Share Price	\$0.16
Cash (M) as at 30/9/08	\$1.9
Cash Burn Per Quarter (M) (est.)	n/a
Market Cap.: Cash	5.5
Valuation Per Share & Price Target	\$0.43
52 week low	\$0.06
52 week high	\$0.16
Ave Monthly Vol (year rolling)(M)	0.63

Key Financials (A\$'000)

Year End	2008	2009	2010
	Actual	Est.	Est.
Revenue	3,932	7,142	8,115
Net Op. Rev	(916)	1,092	1,787
R&D Expenses	0	0	0
EBITDA	(975)	901	1,580
EBIT	(1,102)	717	1,397
NPAT pre Net R&D	(835)	908	1,603
Reported Profit	(746)	908	1,603
Reported EPS (c)	(1.5)	1.4	2.4
PE Ratio (x)	n/a	11.4	6.6
ROE (%)	-42.5%	30.3%	33.3%

Share Price Graph (A\$)



Our View

- We continue to believe CogState offers excellent defensive characteristics, because (1) pharma companies are investing heavily in pipeline development to offset major cannibalisation of key marketed drugs by generics; (2) CNS clinical trials are one of the fastest growing indications; (3) outsourcing of clinical trials by pharma to third parties has increased in line with business models and (4) evidence of increased adoption of computerised cognition testing versus antiquated pencil/paper tests.
- Highlighting this observation, CogState has thus far signed 43% of the total contracts signed in FY08, during 1Q09. Moreover, the Company's technology offering is now being utilised in later stage (i.e. Phase 2) clinical trials (FY08 n=13 versus n=0 in FY07), providing longer dated, higher value revenue streams (Table 1). We had previously flagged the significant cross-selling opportunities between UBC (a 15% holder) and CogState. We note from management comments at the AGM that the alliance has executed its first contract, with major late stage trial pitches commencing. We expect execution of tenders to be very high. The significant depreciation of the AUD against the USD will also provide both top and bottom line benefits during FY09 as CogState invoices in US\$, with a partial hedge via the US sales office.
- CogState's cognition testing business has exhibited revenue CAGR of approximately 58.33% since 1Q05 (Table 2), commensurate with entering the pharma clinical trials market. Due to the bullish operating environment and management guidance, we have upgraded our FY09E NPAT by 35.5% to \$0.9m (please see Table 3 for full revisions). CogState currently trades on 11.4x FY09E EPS, with no debt, an excellent growth profile, and a logical future acquirer as a major holder and strategic partner. We have also upgraded our DCF valuation by 10.2% to \$0.43 per share (fully diluted). We continue with our Speculative Buy recommendation.

AGM Highlights

Table 1

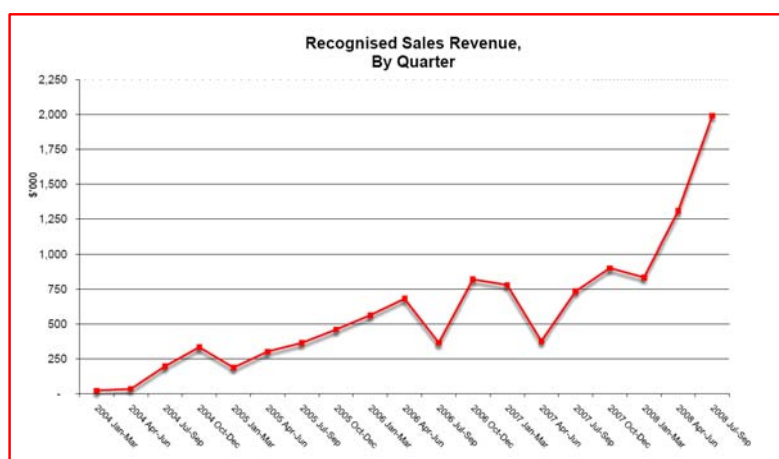
Phase of Trial	FY07	FY08	FY09 Q1
Phase I	11	19	7
Phase II	0	13	4
Phase III	0	0	1
Phase IV	1	1	0
Other	5	4	4
Total	17	37	16

Strong growth in Phase 2 trial contracts in FY08.

1Q FY09 contracts currently 43% of total signed FY08.

Source: CogState AGM

Table 2



1Q FY09 product sales of \$2.0m, 51.9% on 4Q08 and 170.7% on pcp.

Source: CogState AGM

Table 3: TC Revised Forecasts

	FY09E			FY10E			FY11E		
	Previous	Revised	Change	Previous	Revised	Change	Previous	Revised	Change
Product Sales (\$m)	5.80	6.95	19.8%	7.10	7.91	11.4%	7.80	8.96	14.8%
Operating Expenses (inc R&D)(\$m)	(5.10)	(6.05)	18.6%	(5.60)	(6.33)	13.0%	(6.00)	(6.58)	9.7%
EBITDA (\$m)	0.70	0.90	28.7%	1.50	1.58	5.3%	1.80	2.38	32.0%
EBIT (\$m)	0.50	0.72	43.4%	1.40	1.40	-0.2%	1.70	2.22	30.8%
NPAT (\$m)	0.67	0.91	35.5%	1.60	1.60	0.2%	2.00	2.53	26.5%
EPS (c)	1.0	1.4	40.8%	2.4	2.4	1.8%	3.0	3.9	28.5%

Major TC revisions to CogState P&L estimates in FY09, FY10, FY11.

Source: Taylor Collison estimates

CGS - Summary of Forecasts

CGS \$ 0.16

PROFIT & LOSS SUMMARY (A\$000s)					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
Total Revenue	2,605	3,932	7,142	8,115	9,266
<i>Growth (pcp)</i>	7.1%	50.9%	81.6%	13.6%	14.2%
Net Operating Revenue	(1,769)	(916)	1,092	1,787	2,684
Direct R&D Expenses	(106)	0	0	0	0
EBITDA	(1,980)	(975)	901	1,580	2,375
Dep'n/Other Amort'n	(92)	(127)	(184)	(183)	(152)
EBIT	(2,072)	(1,102)	717	1,397	2,223
Net Interest	105	59	191	206	308
Pre-Tax Profit	(1,967)	(1,043)	908	1,603	2,531
Tax Expense	314	297	0	0	0
Minorities	0	0	0	0	0
NPAT	(1,653)	(746)	908	1,603	2,531
<i>Growth (pcp)</i>	n/a	54.9%	n/a	76.6%	57.9%
Net Abnormals	0	0	0	0	0
Reported Profit	(1,653)	(746)	908	1,603	2,531

PER SHARE DATA					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
Reported EPS (c)	(3.7)	(1.5)	1.4	2.4	3.9
<i>Growth (pcp)</i>	n/a	-60.4%	-195.6%	73.5%	57.9%
EPS Pre-Net R&D (c)	(3.8)	(1.6)	1.4	2.4	3.9
<i>Growth (pcp)</i>	n/a	-56.8%	-185.4%	73.5%	57.9%
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Gross CF per Share (c)	(3.0)	(2.0)	1.8	2.7	4.3
NTA per share (c)	2.7	3.0	5.7	7.9	11.8

KEY RATIOS					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
EBITD/Sales Margin %	-76.0%	-24.8%	12.6%	19.5%	25.6%
EBIT/Sales Margin %	-79.5%	-28.0%	10.0%	17.2%	24.0%
Current ratio (x)	2.3	2.2	2.7	3.3	4.1
Net Debt : Equity (%)	-78.9%	-54.4%	-84.4%	-92.3%	-96.4%
ROE (%)	-70.6%	-42.5%	30.3%	33.3%	37.0%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%

VALUATION MULTIPLES					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
PE Ratio (x)	n/a	n/a	11.4	6.6	4.1
Dividend Yield (%)	n/a	n/a	0.0%	0.0%	0.0%
EV/EBITDA (x)	n/a	n/a	7.6	3.3	1.0
EV/EBIT (x)	n/a	n/a	9.6	3.7	1.1

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

BALANCE SHEET SUMMARY					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
Cash	1,250	1,048	3,443	5,138	7,838
Receivables	204	613	1,390	1,582	1,791
Pre Payments	25	23	25	0	0
Inventories	0	0	0	0	0
Investments	0	0	0	0	0
Other	215	147	147	147	147
Total Current Assets	1,694	1,831	5,005	6,867	9,777
Investments	0	0	0	0	0
Inventories	0	0	0	0	0
Property Plant & Equip	215	478	457	333	283
Intangibles	401	402	402	402	382
Deferred Tax Assets	47	66	66	66	66
Other	0	0	0	0	0
Total Non-Current Assets	663	946	925	801	731
TOTAL ASSETS	2,357	2,777	5,930	7,668	10,508
Accounts Payable	433	526	1,251	1,423	1,612
Revenue in Advance	159	74	209	237	269
Borrowings	0	0	0	0	0
Income Tax Payable	0	32	32	32	32
Deferred Tax Liabilities	3	3	3	3	3
Provisions	139	207	348	395	448
Total Current Liab	734	842	1,842	2,091	2,364
Borrowings	0	0	7	7	7
Provisions	39	10	10	10	10
Other	0	0	0	0	0
Total Non-Current Liab	39	10	17	17	17
TOTAL LIABILITIES	773	852	1,859	2,108	2,381
TOTAL EQUITY	1,584	1,925	4,070	5,560	8,127

CASH FLOW SUMMARY					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
EBIT (excl Abs/Extr)	(2,072)	(1,102)	717	1,397	2,223
Add: Depreciation	92	127	184	183	133
Change in Pay.	154	93	725	172	189
Change in Rev. in Ad.	(143)	(85)	135	29	138
Less: Tax paid	314	297	0	0	0
Net Interest	105	59	191	206	308
Change in Rec.	230	(409)	(777)	(191)	(210)
Change in Inv.	0	0	0	0	0
Gross Cashflows	(1,320)	(1,020)	1,175	1,796	2,800
Capex	(137)	(373)	(180)	(100)	(100)
Free Cashflows	(1,457)	(1,393)	995	1,696	2,700
Dividends Paid	0	0	0	0	0
Net Cash Flow	(1,457)	(1,393)	995	1,696	2,700

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