

ASX Announcement

21 January 2021

All figures are reported in US\$

Business Update and December 2020 Quarter Cashflow (Appendix 4C)

Cogstate (ASX.CGS) has today released a business update and its Appendix 4C – Quarterly Cash Flow statement for the quarter ended 31 December 2020.

The financial results provided remain subject to audit review. Audited financial results are scheduled to be released to the market on 25th February 2021.

Summary of Results

	Quarter Ended 31 Dec 2020 (2Q21) US\$'000,000	Prior Quarter 30 Sep 2020 (1Q21) US\$'000,000	PCP* 31 Dec 2019 (2Q20) US\$'000,000
Sales contracts executed (clinical trials division) ¹	14.3	8.3	19.2
Total cash & receivables	26.8	12.4	7.0
- Cash reserves	21.3	7.4	4.7
- Trade receivables	5.5	5.0	2.3

* PCP = Prior Corresponding Period

Commentary

- **Sales contracts executed:** Clinical Trials sales contracts totalled \$14.3 million during 2Q21. Total sales contracts executed for the calendar year to 31 December 2020 was \$41.7 million.
- **Trading Conditions Update:** In the Clinical Trials segment, pharmaceutical company customers have continued to demonstrate a willingness to initiate new trials, notwithstanding the ongoing pandemic conditions.
- **Revenue:** Given the significance of the global license agreement that the Company entered into with Eisai Co. Ltd on 26 October 2020 for access to Cogstate technology, Cogstate is working with its advisers and auditors on the appropriate accounting treatment for the agreement. Audited half year revenue results will be included with the financial statements for the period ended 31 December 2020 which are scheduled to be released on 25 February 2021. This release includes details of the non-refundable cash payment which Eisai paid to the Company pursuant to the global license agreement during the quarter.
- **Cash inflow:** A total cash inflow of \$13.95 million for the December 2020 quarter, including net operating cash inflow of \$15.5 million.
 - Cash receipts from customers of \$22.3 million for the quarter. This includes receipt of \$15 million from Eisai.
 - Trade receivables balance increased from \$5.0 million at 30 September 2020 to \$5.5 million at 31 December 2020.

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Explanatory Notes

- Sales contracts:** In the Clinical Trials division, Cogstate enters into contracts (“sales contracts”) with both pharmaceutical and biotechnology companies for the provision of Cogstate technology and services, for use in clinical research trials, to determine the extent to which their investigational compound is impacting the cognition of the patient population. The contract value will differ for each clinical trial, depending upon the scope of the technology and services provided by Cogstate, as well as the complexity and length of the trial. An increase in the total value of sales contracts executed will increase the revenue backlog and will, over time, result in an increase to revenue recognised by Cogstate.
- Calculation of revenue from Clinical Trials division:** Revenue from sales contracts is recognised over the life of the contract. The length of a clinical trial can vary from several months for a phase 1 study and up to 4-5 years for a phase 3 study. Revenue is recognised based upon achievement of pre-determined milestones. During each period, revenue may be recognised from (i) contracts in the backlog at the beginning of the period, as well as (ii) sales contracts executed during the period. Usually there is a time lag between an increase or decrease in the level of sales contracts executed and a corresponding change to recognised revenue.
- Contracted future revenue backlog:** Executed sales contract values that have not yet been recognised as revenue at period end are referred to as “contracted future revenue”. The revenue from these contracts will be recognised upon achievement of pre-determined milestones throughout the clinical trials. The contracted future revenue figure provides insight into future revenue performance.
- Healthcare revenue:** Cogstate has developed tools specifically designed to aid healthcare professionals, in general and specialist practice medicine, with objective assessments of cognition in patients. Cogstate’s Healthcare offering includes the system branded as Cognigram™, a medical device which allows for regular and standardised testing to assist in the early detection of cognitive decline that could be related to a range of factors, including neurodegenerative diseases such as Alzheimer’s disease. On 26 October 2020, Cogstate announced an exclusive global licensing agreement with pharmaceutical company Eisai, under which Eisai will market Cogstate technology as digital cognitive assessment tools targeting physicians, corporations, municipalities and also directly to consumers. With an increased focus on brain health in the community and with the potential upcoming release of a disease modifying treatment in patients with early Alzheimer’s disease, Cogstate is focused on the growth opportunity that the Healthcare market provides.

Business Update

In Cogstate's Clinical Trials segment, overall results for the December half year were very strong. The level of sales contracts executed during the half year (\$22.6 million) exceeded expectations, given the pandemic conditions globally. During the half year, Cogstate executed sales contracts with existing customers in addition to first-time agreements with several new customers; in the context of the necessary change to remote interaction with customers, the success with new customers is encouraging. Cogstate continues to win work across a number of different indications, but with a degree of concentration across Alzheimer's disease and rare diseases.

In July 2020, ERT, the global leader in clinical endpoint data collection, announced a preferred partnership with Cogstate that will see Cogstate computerised cognitive assessments deployed in Clinical Trials on ERT's electronic Clinical Outcome Assessment (eCOA) technology platform. Joint marketing and sales enablement activities have been underway since the time of the announcement and both commercial teams have been engaged and open collaborators. Cogstate have been prominently promoted on the ERT website and social channels, additionally both companies have jointly hosted lead generation events including webinars on safety endpoints, Multiple Sclerosis trials and oncology trials. Initial customer engagement with the joint ERT-Cogstate offering has spanned Alzheimer's disease, rare disease, anesthesia and oncology. Whilst Cogstate has not yet signed any contracts via this joint offering, the Company remains well placed to leverage this preferred partnership.

In October 2020, Cogstate announced that it had entered into an agreement with pharmaceutical company, Eisai Co., Ltd., to exclusively distribute Cogstate digital cognitive assessment technologies in healthcare and other markets world-wide. Cogstate and Eisai teams are currently working on launch plans for the Cogstate digital assessments in a number of countries. Cogstate continues to be impressed with the hard-work and dedication of the Eisai team as they prepare for launch, including a commitment to the key role of digital assessment in the patient journey from identification of cognitive decline through diagnosis and then treatment.

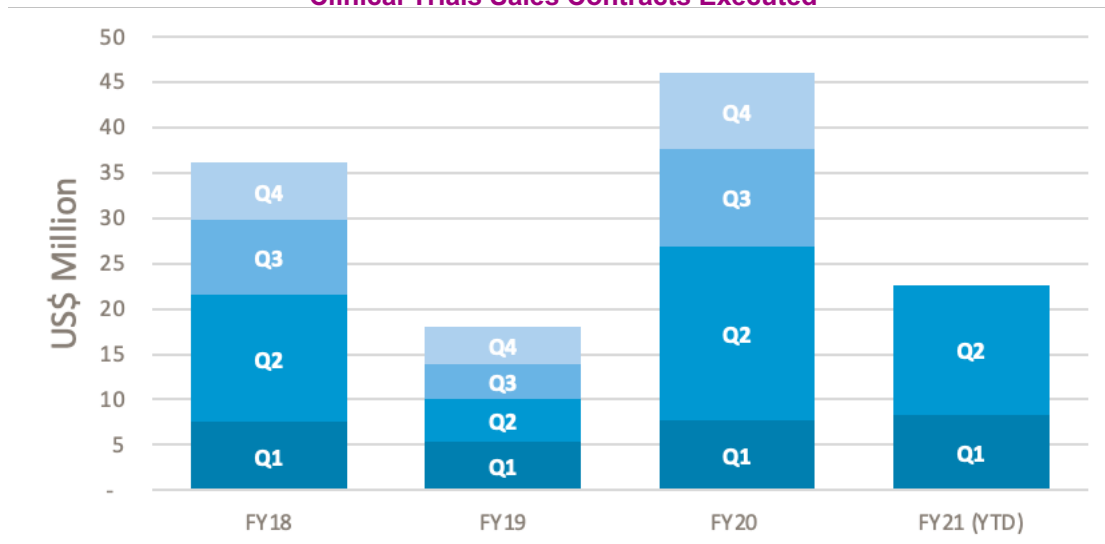
The initial royalty of \$15 million payable by Eisai Co. Ltd to Cogstate was received during the December quarter. Net proceeds totalled \$13.875 million after accounting for withholding tax levied in Japan of 5% (\$0.75 million) and direct advisory costs of \$0.375 million.

Sales Contracts Executed

For the quarter ended 31 December 2020, Cogstate executed \$14.3 million of Clinical Trials sales contracts.

The 2Q21 result represented 72% growth on the prior quarter but was 26% less than the previous corresponding period (December 2019). The previous corresponding quarter included execution of a contract for a large phase III Alzheimer's disease with a total value in excess of \$13 million, whereas the largest contract executed in the December 2020 quarter was less than \$5 million.

Clinical Trials Sales Contracts Executed



For context, a history of Clinical Trials sales contracts executed, per quarter, since 1 July 2017 is provided:

	Sep Quarter US\$m	Dec Quarter US\$m	1 st Half US\$m	Mar Quarter US\$m	Jun Quarter US\$m	2 nd Half US\$m	Financial Year US\$m
FY21 YTD	\$8.3	\$14.3	\$22.6			N/A	N/A
FY20	\$7.7	\$19.2	\$26.9	\$10.7	\$8.4	\$19.1	\$46.0
FY19	\$5.4	\$4.6	\$10.0	\$3.8	\$4.1	\$7.9	\$17.9
FY18	\$7.5	\$14.1	\$21.6	\$8.3	\$6.2	\$14.5	\$36.1 ⁽¹⁾

⁽¹⁾ Does not take into account \$6.4m of study cancellations that were recognised at 30 June 2018.

Operating Cash Flow

- A total cash inflow of \$13.95 million for the December 2020 quarter, including net operating cash inflow of \$15.46 million.
- Cash receipts from customers of \$22.3 million for the quarter. Trade receivables balance increased from \$5.0 million at 30 September 2020 to \$5.5 million at 31 December 2020
- Staffing levels and staff costs have increased within the December 2020 quarter, despite the cash outflows relating to staff costs for the December quarter (\$4.35) appearing lower than September quarter (\$5.01m). This is due to:
 - Staff costs capitalised for software development (\$1.2m) being accounted for within cash flows used within investing activities at 2.1(f);
 - Based on 2 weekly pay-cycle in the USA, the September quarter included an additional pay run (approximately \$0.5 million per USA pay cycle) in July 2020; and
 - Payment of certain FY20 annual bonuses in October 2020 (approx. \$0.7 million).

- Government grant funds received in the December quarter (\$14,006) relate to the temporary cash flow support provided by the Australian government to small and medium businesses as credits on Business Activity Statements lodged as part of COVID-19 support measures.

Investing Cash Outflow

- Investing cash outflow of \$1.4 million includes capitalised software development costs of \$1.2 million

About Cogstate

Cogstate Ltd (ASX:CGS) is the neuroscience technology company optimising brain health assessments to advance the development of new medicines and to enable earlier clinical insights in healthcare. Cogstate technologies provide rapid, reliable and highly sensitive computerised cognitive tests across a growing list of domains and support electronic clinical outcome assessment (eCOA) solutions to replace costly and error-prone paper assessments with real-time data capture. The company's clinical trials solutions include quality assurance services for study endpoints that combine innovative operational approaches, advanced analytics and scientific consulting. For over 20 years, Cogstate has proudly supporting the leading-edge research needs of biopharmaceutical companies and academic institutions and the clinical care needs of physicians and patients around the world. In the Healthcare market, Cogstate has recently entered into an exclusive licensing agreement with pharmaceutical company, Eisai, under which Eisai will market Cogstate technologies as digital cognitive assessment tools. For more information, please visit www.cogstate.com.

For further information contact:

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Cogstate Chief Executive Officer
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Quarterly Report – 31 December 2020

Summary Financial Table

	Quarter Just Completed	Quarter Just Completed	Previous Corresponding Quarter
	31-Dec-20	30-Sep-20	31-Dec -19
	US\$ million	US\$ million	US\$ million
<u>Receivables</u>			
Opening balance	5.00	4.21	2.15
Closing balance	5.49	5.00	4.13
Net Increase/(Decrease) in Receivables	0.49	0.79	1.98
<u>Payables</u>			
Opening balance	(3.41)	(7.05)	(2.17)
Closing balance	(3.78)	(3.41)	(4.53)
Net Increase/(Decrease) in Payables	0.37	(3.64)	2.36
<u>Cash Flow</u>			
Cash receipts from customers	22.33	7.19	6.54
Cash payments to employees	(4.35)	(5.01)	(4.47)
Cash payments to suppliers	(2.53)	(4.43)	(3.19)
Cash receipts, non-trading	0.01	0.03	(0.01)
Net Operating Cash In/(Out) Flows	15.46	(2.22)	(1.13)
Net Investing Cash In/(Out) Flows	(1.37)	(0.55)	(0.10)
Net Financing Cash In/(Out) Flows	(0.14)	(0.18)	3.71
Foreign exchange movement	-	-	-
Net Increase/(Decrease) in cash held	13.95	(2.95)	2.48

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Cogstate Limited

ABN

80 090 975 723

Quarter ended ("current quarter")

31 December 2020

Consolidated statement of cash flows	Current quarter \$US	Year to date (6 months) \$US
1. Cash flows from operating activities		
1.1 Receipts from customers	22,330,663	29,522,762
1.2 Payments for		
(a) research and development	(336)	(1,318)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(31,973)	(208,538)
(d) leased assets (refer to 3.9)	-	-
(e) staff costs	(4,347,549)	(9,361,464)
(f) administration and corporate costs*	(915,823)	(4,404,021)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	(12)	94
1.5 Interest and other costs of finance paid	(42,731)	(36,823)
1.6 Income taxes paid	(766,447)	(807,408)
1.7 Government grants and tax incentives	14,006	40,935
1.8 Other (provide details if material)		
Grant funds received (non-government)	-	-
Accounting & Audit	(132,083)	(368,447)
Computer costs	(277,890)	(694,702)
Advisory fees	(375,000)	(375,000)
Legal costs, including patent costs	(32,559)	(73,386)
Listing fees & Associated costs	(29,565)	(48,483)
Travel Costs	64,737	47,795
1.9 Net cash from / (used in) operating activities	15,457,438	13,231,996

+ See chapter 19 for defined terms.

*Current quarter includes \$0.97m in clinical trial specific 3rd party costs (that are passed through to the customer).

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(186,617)	(209,353)
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) capitalised software development	(1,179,641)	(1,707,741)
2.2	Proceeds from disposal of:		
	(g) entities	-	-
	(h) businesses	-	-
	(i) property, plant and equipment	-	-
	(j) investments	-	-
	(k) intellectual property	-	-
	(l) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(1,366,258)	(1,917,094)

3.	Cash flows from financing activities	-	-
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	71,471	120,540
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Principal portion of lease payments	(209,347)	(436,597)
3.10	Net cash from / (used in) financing activities	(137,876)	(316,057)

+ See chapter 19 for defined terms.

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	7,376,318	10,330,777
4.2	Net cash from / (used in) operating activities (item 1.9 above)	15,457,438	13,231,996
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,366,258)	(1,917,094)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(137,876)	(316,057)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	21,329,622	21,329,622

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$US	Previous quarter \$US
5.1	Bank balances	21,329,622	7,376,318
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	21,329,622	7,376,318

6.	Payments to related parties of the entity and their associates	Current quarter \$US
6.1	Aggregate amount of payments to related parties and their associates included in item 1	85,470
6.2	Aggregate amount of payments to related parties and their associates included in item 2	Nil

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Answer: Quarterly Directors' Fees paid to; Martyn Myer, David Dolby, Richard Mohs, Richard van den Broek, Ingrid Player and Kim Wenn.

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

		Total facility amount at quarter end \$US	Amount drawn at quarter end \$US
7.1	Loan facilities		
7.2	Credit standby arrangements	102,625	69,993
7.3	Other (please specify)		
7.4	Total financing facilities	102,625	69,993

7.5 **Unused financing facilities available at quarter end** 32,632

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Bank Guarantee of US\$68k (A\$88k) in respect to the Melbourne property lease (i.e., 2/255 Bourke Street, Melbourne) and credit card facility of US\$35k (A\$45k).

		\$US
8.1	Net cash from / (used in) operating activities (Item 1.9)	15,457,438
8.2	Cash and cash equivalents at quarter end (Item 4.6)	21,329,622
8.3	Unused finance facilities available at quarter end (Item 7.5)	32,632
8.4	Total available funding (Item 8.2 + Item 8.3)	21,362,254
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	N/A as cash from operating activities in item 8.1 is positive

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 21 January 2021

Authorised by: Brad O'Connor
On behalf of the Board of Cogstate Ltd

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

+ See chapter 19 for defined terms.