

Brain health is driving the world and revenues

Cogstate (ASX:CGS) works to optimise brain health assessments in clinical trials and medical diagnosis. The company has developed digital technology over 20 years to enable non-invasive sensitive measurements of brain health. Cogstate runs clinical trials for global pharmaceutical companies testing new drug candidates in treating diseases such as Alzheimer's. The company was formed in 1999 with the thesis that in an ageing society an increasing awareness of brain health would drive a need for brain health assessments. Cogstate has developed digital assessments of brain health that can be delivered via computer, tablet and phone technologies. The Cogstate assessments have been shown to be effective for both in-person and remote assessment of patients. Cogstate tests have demonstrated scientific validity in over 600 peer-reviewed publications and have been used in more than 1,800 academic research studies. Since first sales into the clinical trials market in 2004, Cogstate has supported more than 130 different customers in the conduct of 460 clinical trials in 75 countries. Increased focus on Alzheimer's disease and remote monitoring have driven the business strongly in FY22.

Business model

Cogstate derives revenues from the clinical trials segment where CGS manages the entire clinical trial cycle from design to final statistical analysis on behalf of a pharmaceutical or biotech company. The value of clinical trials contracts executed in FY22 rose 74% with Alzheimer's disease representing 84% of the value of those contracts. The company is managing 123 trials in FY23 across all four stages of drug development. CGS tools are also developed to aid healthcare professionals in assessment of cognition in patients. Distribution of these products has been outsourced to Japanese company Eisai and has resulted in increased opportunities and lower costs. Revenue in the healthcare segment rose 19%.

FY23 margins appear robust and revenue growth likely

Building on the strong operational performance in FY22 management is guiding to EBIT at the bottom of the target 20%-24% of revenues. H1 FY23 revenues are forecast to be consistent with H2 FY22 but H2 FY23 is less clear as it depends on sales contracts executed in FY23. Given strong revenue backlogs it seems likely H2 FY23 will also be stronger.

CGS executing well in a growth market

Cogstate is the largest and most mature of the comparable companies we have selected. Delivering strong revenues and profit growth over the past two years places CGS in a position where the company is generating cash and needs relatively little invested capital. Clinical trial management in the areas of brain function seem likely to grow and remain technically difficult for drug companies to manage – Cogstate is in a strong competitive position.

Historical earnings and ratios (in US\$m unless otherwise stated)

Year end	Revenue	EBITDA	NPAT rep.	EPS (c)	EV/Sales (x)	EV/EBITDA (x)	PER (x)
06/19a	21.9	(3.1)	(2.5)	(0.021)	0.9	(6.0)	n.a.
06/20a	22.8	(0.8)	(2.0)	(0.012)	2.1	(63.1)	n.a.
06/21a	32.7	5.7	5.2	0.031	6.0	22.8	33.2
06/22a	45.0	13.2	7.5	0.044	4.7	16.0	24.2

Source: Company data; CGS reports in US\$

Healthcare Equipment and Services

9th September 2022

Share Details

ASX code	CGS
Share price (8-Sept)	A\$1.33
Market capitalisation	A\$230.6M
Shares on issue	173.4M
Net cash at 30-Jun-2022	US\$29.2M
Free float	~47%

Share Performance (12 months)



Upside Case

- Strong demand for clinical trials in FY23
- Ageing remains the major normal challenge for health in developed countries
- Personal mental health is an increasing focus

Downside Case

- A slowdown in Alzheimer's drug candidates
- Major trial ends leaving a gap in revenues
- Healthcare take-up slows

Catalysts

- Contract announcements in H1 FY23
- Healthcare licensee success

Comparable companies (Aust/NZ)

Aldicion (ASX:ALC), Aroa Biosurgery (ASX:ARX), Doctor Care Anywhere (ASX:DOC), MedAdvisor (ASX:MDR)

Board and Management

Martyn Myer	Chairman
Brad O'Connor	CEO / Exec. Director
David Dolby	Non-Exec. Director
Richard Mohs	Non-Exec. Director
Ingrid Player	Non-Exec. Director
Richard van den Broek	Non-Exec. Director
Kim Wenn	Non-Exec. Director

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FINANCIAL SERVICES GUIDE

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AFSL 456663

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