CAMBRIDGE COGNITION

21 September 2017

Cambridge Cognition Holdings plc
(“Cambridge Cognition” or the “Company”)

Half Yearly Report

The neuroscience digital health company Cambridge Cognition Holdings plc, (AIM: COG, ‘the Company’), which develops and markets software products to improve brain health, announces its unaudited Interim Results for the six months ended 30 June 2017.

Investment in commercial team reaps rewards with record sales pipeline

These results demonstrate growth in software and service revenues and continued advances in innovative products and technologies in line with the plans presented to shareholders in April 2016.

Financial Highlights

- Total revenue £3.21m (H1 2016: £3.26m)
- Gross profit increased by 7.4% to £2.90m (H1 2016: £2.70m)
- Loss before tax of £0.39m (H1 2016: £0.15m loss)
- Adjusted* loss before tax of £0.29m (H1 2016: £0.11m loss)
- Loss per share of 1.8p (H1 2016: 0.6p loss per share)
- Cash balance of £1.82m at 30 June 2017 (H1 2016: £1.38m)

*Adjusted for share-based payments charge

Operational Highlights

- Quality of earnings and revenue mix improved: revenues excluding hardware up 5% at £3.14m (H1 2016: £2.99m) Service revenues up 57% at £1.79m (H1 2016: £1.14m)
- Sales order pipeline increased by 65% to record levels
- As expected, administrative expenses increased by £0.38m, including investment in sales infrastructure and science and development costs
- CANTAB data used in landmark EBBINGHAUS study presented by Amgen
- Cognition Kit joint venture successfully advanced from pilot to phase 1 study
- New intellectual property using automatic speech recognition technology

Commenting on the results Steven Powell, Chief Executive Officer of Cambridge Cognition, said: *“These results demonstrate that our strategic shift to providing value added services, either alongside our core products or on a standalone basis, is gaining momentum. Over the last two years we have renewed our commitment to invest in our science and technology base and the resulting innovations will meet the ever increasing demand for near patient health solutions and drive future business growth.”*

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CHIEF EXECUTIVE OFFICER'S REVIEW

The revenue for the first half of 2017 was in line with expectations and broadly similar to H1 2016, which included two major contracts with a significant impact on revenue. To have matched the 2016 result demonstrates that steps have been taken to shape a broader revenue base and we are less dependent on one-off large contracts as the Company has been in the past. Furthermore, the Company is well placed to build on this solid foundation when contracts currently in negotiation come through in the second half and beyond.

The main area of year-on-year revenue growth is services, which has grown 57% on the same period last year. Gross margins also increased by 7.4% which partly offset the investment in the sales and marketing team after the financing in H1 2016.

Our R&D teams continue to make considerable progress across a number of projects to expand our testing capabilities and increasingly deploy digital solutions to take testing closer to the patient. This is exemplified through our increasing use of wearables and web based testing and the development of novel testing technology such as automatic speech recognition. Our pipeline of development projects has expanded over the past year and is focused on delivering new innovation into our commercial offering, while continuing to be managed within the financial constraints of the Company.

Financial Results

Our core high-margin software and services revenues grew by 5%. The quality of earnings and revenue mix is improved. Growth in service revenue of 57% is pleasing as this is the area of the business that has been a particular focus for growth. These services include contract development and data analytics. Also in line with our stated strategy is the return to an underlying decline in low margin hardware sales after the deviation seen in H1 2016 due to fulfillment of a single large order.

	H1 2017 £m	**H1 2016 £m**	**% Change**
Software	1.36	1.84	(26.1)
Services	1.79	1.14	57.0
Hardware	0.06	0.28	(78.6)
Total	**3.21**	**3.26**	**(1.5)**

Software revenues declined by 26.1%. This reflects the strategic change from a small number of large contracts to a smaller number of earlier phase projects which will ultimately provide a firmer foundation for consistent future revenue growth. Software revenue will continue to exhibit some variability because it is recognised through the implementation of a contract which varies in both size and duration.

Service revenues increased by £0.65m to £1.79m, or 57% compared to H1 2016. This increase is a result of a number of factors. First, a higher percentage of the revenues from our wearables and CANTAB Recruit products are classified as services. Second, we are conducting more value added services within our clinical studies as we perform more scientific analyses and trial design work for our customers. Finally, we are being increasingly commissioned for standalone pieces of scientific consultancy, which, while still comparatively low in value, is exposing us to a greater number of customers and sits well with our reputation as an innovative partner. This shift to good quality, high margin and repeat business is a welcome move and one which will help to drive our recurring revenue, giving us greater visibility as we continue to build the business.

Hardware revenues have, as expected, significantly reduced after a one-off increase in 2016. Our cloud-based CANTAB Connect software products can now be installed and operated on devices that customers own or source themselves. While we remain happy to supply hardware with software pre-installed, this is required less frequently. We expect hardware to make a minimal contribution going forward with only the occasional exception such as reported last year.

Following the successful equity placing in April 2016, we employed the funds raised to expand the sales team both in Europe and the USA. The result of this exercise has been reflected in a 65% increase in the opportunity pipeline to record levels. We do not expect the full benefits of this investment to materialise until later this year and into 2018.

Gross profit grew by 7.4% to £2.90m (H1 2016: £2.70m) which outstripped revenue growth given the increase in higher margin services revenues and the reduction in lower margin hardware sales. Gross margin for the period has increased to 90.3% from 82.8%.

Total administrative costs for the period (incorporating sales and marketing, R&D and general administration) increased by £0.38m (13.0%) to £3.31m (H1 2016 £2.93m). This increase is driven by a 37% increase in sales and marketing costs and an 8.4% increase in R&D costs. These increases in functional costs were mitigated in part by a 13.9% reduction in general administrative support costs. Our share-based payments expense also increased in the period as we have widened ownership in the employee share option scheme to ensure that all staff are properly incentivised and focused on our longer term goals.

These investments have directly contributed to a reduced EBITDA and pre tax result. EBITDA was a loss of £0.35m (H1 2016: £0.11m loss). Losses before tax were £0.39m (H1 2016: £0.15m loss). As a result, loss per share was 1.8p (H1 2016: 0.6p loss).

Net cash outflow from operations during the period was £0.55m, a small increase from a similar seasonal outflow of £0.53m for the first half of the prior year. The net cash balance at 30 June 2017 was £1.82m (as at 31 December 2016: £2.38m; 30 June 2016 £1.38m), an increase of £0.44m on the same period last year.

Operational Review

As reported in last year's strategic report, we identified that we could realise efficiency gains in sales by combining the previously separate business units of Pharmaceutical Clinical Trials and Academic Research into a single product group. This reorganisation was completed with effect from 1st January 2017 and our Operational Review is no longer categorised along these lines.

Through 2016, we expanded our CANTAB range of products to address all stages of the clinical drug development cycle from Phase I clinical trials to post approval market analysis. This included the introduction of CANTAB Recruit to accelerate patient recruitment in CNS trials together with the Cognition Kit joint venture for developing wearables for measuring cognitive performance in everyday life.

In March 2017 Amgen published the results of their EBBINGHAUS study. We were proud to be involved in this study both through use of our software and also through working with Amgen on scientific analysis. This was a landmark study, given both the number of participants and time points and was focused on cardiovascular disease highlighting that the use of CANTAB software is not limited to cognitive assessment in the CNS field alone.

We also reported in March 2017 that we had added web based testing to our product offering which has enabled researchers to run testing of trial participants remotely. A highly significant innovation, it allows studies to gather digital cognitive biomarkers at frequent time-points for more accurate and rapid data to aid earlier decision-making and conduct large-scale research projects virtually, reducing the overall running costs of studies using proven neuropsychological assessments.

As part of this move to patient centric technology advancements, we also announced results of the first move away from touch screen testing toward a new delivery format. We have an ongoing programme to use automated voice recognition technology to monitor patient response to pain and depression treatments. To ensure that we can continue to innovate within the constraints of our financial resources we were pleased to report recently that we have been awarded grant funding of £0.3m from Innovate UK to advance our work in biomarkers in this field. We expect this project to conclude and commence commercialisation in late 2018.

While continuing to build our core product business through all stages of clinical development we have also answered a market demand to make our technologies available in other formats; often for use in non-clinical trial applications. We have therefore launched CANTAB Prime, which utilises modular software architecture to apply existing product components within the customer framework enabling the collection, analysis and reporting of cognitive measures from within third party platforms. CANTAB Prime can offer a 'white-label' solution to a multitude of users across our spectrum of customers who wish to incorporate our products and knowledge into their own systems for collecting and analysing data. CANTAB Prime will open up new opportunities previously closed to us in particular where users were not willing to adopt a product that stood in isolation outside their core systems. This approach will enable us to work in partnership with technology companies outside of our core, existing pharmaceutical market to address broader healthcare opportunities.

In order to streamline our operations in the US, the decision was taken earlier this year to relocate our base in Salt Lake City to a new site in Boston. Exiting our old lease was achieved with minimal disruption and cost to the Company. Though it is early days, the office is now in a well established knowledge quarter and we expect to be well placed to recruit talent, as well as further drive our sales in what will be an increasingly important market for the Company.

Future developments aside, we have been pleased with the progress of some of our more recent innovations. CANTAB Recruit, web based testing and the wearables projects, notably the Cognition Kit project with Takeda, have added over £0.5m to our sales since launch, mainly as higher margin service revenues. We see this as an important example of how the demands of the market, and our ability to meet those demands, is evolving. The partnership with Takeda is looking at patients with Major Depressive Disorder (MDD). This represents a first move into this important area, and also exemplifies the combination of clinical trial, research and healthcare application that we believe will characterise much of our future market.

Outlook

With modest investments in commercial infrastructure and R&D activity we have transitioned to an improved blend of product and service revenues. Both the sales pipeline and the innovation pipeline are stronger than in recent history at a time when there is substantial appetite for both neuroscience and digital health solutions. We expect a strong second half to 2017 as we continue to convert our order pipeline and we are confident in the growth potential of Cambridge Cognition into 2018 and beyond.

Steven Powell
Chief Executive Officer
21 September 2017

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENT
For the six months ended 30 June 2017

	Note	6 months to 30 June 2017	6 months to 30 June 2016	Year to 31 December 2016
		Unaudited	Unaudited	Audited
		£'000	£'000	£'000
Revenue	5	**3,209**	3,264	6,876
Cost of sales		**(308)**	(566)	(986)
Gross Profit		**2,901**	2,698	5,890
Administrative expenses		**(3,307)**	(2,925)	(5,860)
Other income		**20**	82	86
(Loss)/ Profit before tax	5	**(386)**	(145)	116
Income tax		**(3)**	-	106
(Loss)/ Profit for the period		**(389)**	**(145)**	**222**
Attributable to:				
Equity holders in the parent		**(368)**	(118)	272
Non-controlling interest		**(21)**	(27)	(50)
		(389)	**(145)**	**222**
Earnings per share (pence)	6			
Basic and diluted		**(1.8)**	(0.6)	1.4
(Loss)/ Profit for the period		**(389)**	**(145)**	**222**
Other comprehensive income - items that may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign operations		24	(12)	4
Total comprehensive income for the period		**(365)**	**(157)**	**226**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2017

	Note	At 30 June 2017 Unaudited £'000	At 30 June 2016 Unaudited £'000	At 31 December 2016 Audited £'000
Assets				
Non-current assets				
Goodwill		**352**	352	352
Property, plant and equipment		**109**	112	117
Total non-current assets		**461**	464	469
Current assets				
Inventories		**40**	62	37
Trade and other receivables		**2,003**	2,706	2,177
Cash and cash equivalents		**1,823**	1,375	2,384
Total current assets		**3,866**	4,143	4,598
Total assets		**4,327**	**4,607**	**5,067**
Liabilities				
Current liabilities				
Trade and other payables		**1,700**	2,180	2,206
Total liabilities		**1,700**	**2,180**	**2,206**
Equity				
Share capital		**205**	204	204
Share premium account		**7,552**	7,517	7,517
Other reserves		**6,009**	5,969	5,985
Own shares		**(45)**	(49)	(47)
Retained earnings		**(11,094)**	(11,187)	(10,748)
Equity attributable to parent		**2,627**	2,454	2,911
Non-controlling interest		**-**	(27)	(50)
Total equity		**2,627**	**2,427**	**2,861**
Total liabilities and equity		**4,327**	**4,607**	**5,067**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the 6 months ended 30 June 2017

	Share capital	Share premium	Other reserve	Own shares	Retained earnings	Non-controlling Interest	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2016	**170**	**6,412**	**5,981**	**(51)**	**(11,099)**	**-**	**1,413**
Total comprehensive income for the period	-	-	(12)	-	(118)	(27)	(157)
Issue of new share capital	34	1,219	-	-	-	-	1,253
Share issue costs	-	(114)	-	-	-	-	(114)
Transfer on allocation of shares in trust	-	-	-	2	(2)	-	-
Credit to equity for share based payments	-	-	-	-	32	-	32
Transactions with owners	34	1,105	-	2	30	-	1,171
Balance at 30 June 2016	**204**	**7,517**	**5,969**	**(49)**	**(11,187)**	**(27)**	**2,427**
Balance at 1 July 2016	**204**	**7,517**	**5,969**	**(49)**	**(11,187)**	**(27)**	**2,427**
Total comprehensive income for the period	-	-	16	-	390	(23)	383
Transfer on allocation of shares in trust	-	-	-	2	(2)	-	-
Credit to equity for share based payments	-	-	-	-	51	-	51
Transactions with owners	-	-	-	2	49	-	51
Balance at 31 December 2016	**204**	**7,517**	**5,985**	**(47)**	**(10,748)**	**(50)**	**2,861**
Balance at 1 January 2017	**204**	**7,517**	**5,985**	**(47)**	**(10,748)**	**(50)**	**2,861**
Total comprehensive income for the period	-	-	24	-	(368)	(21)	(365)
Issue of new share capital	1	35	-	-	-	-	36
Transfer on allocation of shares in trust	-	-	-	2	(2)	-	-
Credit to equity for share based payments	-	-	-	-	95	-	95
Transactions with owners	1	35	-	2	93	-	131
Transfer of accumulated loss on acquisition of non-controlling interest					(71)	71	-
Balance at 30 June 2017	**205**	**7,552**	**6,009**	**(45)**	**(11,094)**	**-**	**2,627**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the 6 months ended 30 June 2017

	Note	6 months to 30 June 2017	6 months to 30 June 2016	Year to 31 December 2016
		Unaudited	Unaudited	Audited
		£'000	£'000	£'000
Net cash flows from operating activities	7	**(547)**	(527)	473
Investing activities				
Purchase of property, plant and equipment		**(29)**	(3)	(44)
Net cash flow used in investing activities		**(29)**	(3)	(44)
Financing activities				
Proceeds from the issue of share capital net of costs		**36**	1,139	1,139
Net cash flows from financing activities		**36**	1,139	1,139
Net (decrease)/ increase in cash and cash equivalents		**(540)**	609	1,568
Cash and cash equivalents at start of period		**2,384**	756	756
Exchange differences on cash and cash equivalents		**(21)**	10	60
Cash and cash equivalents at end of period		**1,823**	1,375	2,384

NOTES TO THE INTERIM FINANCIAL STATEMENT

1. General information

Cambridge Cognition Holdings plc ('the Company') and its subsidiaries (together, 'the Group') develops and markets near patient technologies for the assessment of brain health for sale worldwide, principally in the UK, the US and Europe.

The Company is a public limited company listed on the Alternative Investment Market ('AIM') of the London Stock Exchange (symbol COG) and is incorporated and domiciled in the UK. The address of its registered office is Tunbridge Court, Tunbridge Lane, Bottisham, Cambridge, CB25 9TU.

The condensed consolidated interim financial statements were approved by the Board of Directors for issue on 21 September 2017.

The condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006.

Statutory accounts of the Group for the year ended 31 December 2016 were approved by the Board of Directors on 28 March 2017 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The condensed consolidated interim financial statements together with the comparative information for the six months ended 30 June 2017 have been reviewed, not audited.

2. Basis of preparation

Going concern basis
The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, support the conclusion that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than twelve months from the date of this report. The Group therefore continues to adopt the going concern basis in preparing its condensed consolidated interim financial statements.

3. Accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2016.

During the period, the Group purchased all of the non-controlling interest in CANTAB Corporate Health Limited, a company of which the Group previously owned 70%. The accumulated losses of CANTAB Corporate Health have been bought directly into the Group's equity.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis.

The following are the critical judgements that the directors have made in the process of applying the Group's accounting policies.

Revenue recognition
Trading operations within the Group recognise revenue with regard to amounts chargeable to customers under service contracts. In making its judgement, management considers the detailed criteria for the recognition of revenue from the provision of continuous services set out in IAS 18 Revenue. The directors are satisfied that the significant risks and rewards are transferred and that recognition of the revenue over the duration of the contractual period is appropriate.

Goodwill
The Group reviews the carrying value of its goodwill balances by carrying out impairment tests at least on an annual basis. These tests require estimates to be made of the value in use of its CGUs which are dependent on estimates of future cash flows and long term growth rates of the CGUs.

Capitalisation of development costs
The point at which development costs meet the criteria for capitalisation is critically dependent on management judgment of the probability of future economic benefits.

Recovery of deferred tax assets
Deferred tax assets have not been recognised for deductible temporary differences, share options and tax losses as management considers that there is not sufficient certainty that future taxable profits will be available to utilise those temporary differences and tax losses.

Share-based payment transactions
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using either a Black-Scholes model or a Binomial Option model. The accounting estimates and assumptions relating to equity settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit and loss and equity.

5. Segmental information

The analysis of revenue by product type is as follows:

	6 months to 30 June 2017	**6 months to 30 June 2016**	**Year to 31 December 2016**
	£'000	**£'000**	**£'000**
Software	**1,357**	1,847	3,837
Services	**1,787**	1,140	2,487
Hardware	**65**	277	552
	3,209	3,264	6,876

6. Earnings per share

Calculation of loss per share is based on the following loss and numbers of shares:

	6 months to 30 June 2017	**6 months to 30 June 2016**	**Year to 31 December 2016**
	£'000	**£'000**	**£'000**
Earnings			
Earnings for the purposes of basic and diluted earnings per share being net loss attributable to owners of the Company	**(368)**	**(118)**	272
	'000	**'000**	**'000**
Number of shares			
Weighted average number of ordinary shares for the purposes of basic EPS	**20,154**	**18,644**	19,402
Weighted average number of ordinary shares for the purposes of diluted EPS	**20,154**	**18,644**	19,473

The basic weighted average number of shares excludes shares held by an Employee Benefit Trust. Fully diluted earnings per share is calculated after showing the effect of outstanding options in issue. For both of the six month periods presented, the effect of the options would be to reduce the loss per share, and hence the diluted loss per share is the same as the basic loss per share. For the full year 2016, the impact of diluted shares was so minimal that there was no impact on EPS when rounded to 0.1 pence.

The number of shares in issue at 30 June 2017 was 20,472,735 (31 December 2016: 20,429,235).

7. Reconciliation of operating result to operating cash flows

	6 months to 30 June 2017	6 months to 30 June 2016	Year to 31 December 2016
	£'000	**£'000**	**£'000**
(Loss)/ Profit before tax	**(386)**	(145)	116
Adjustments for:			
Depreciation	**36**	32	68
Share-based payments charge	**95**	33	83
Operating cash flows before working capital movements	**(255)**	(80)	267
Change in inventories	**(2)**	(4)	21
Change in trade and other receivables	**180**	(1,142)	(575)
Change in trade and other payables	**(467)**	611	567
Cash (used)/ generated by operations	**(544)**	(615)	280
Taxation (paid)/ received	**(3)**	88	193
Net cash flows from operations	**(547)**	(527)	473

8. Copies of interim financial statements

Copies of the interim financial statements are available from the Company at its registered office at Tunbridge Court, Tunbridge Lane, Bottisham, Cambridge, CB25 9TU. The interim financial information document will also be available on the Company's website www.cambridgecognition.com.