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Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

Simulations Plus, Inc.

Rating: Speculative Buy

Howard Halpern

SLP $62.30 — (NasdaqCM)

July 15, 2020

	2017 A	2018 A	2019 A	***2020 E***	***2021 E***
Net sales (in millions)	$24.1	$29.7	$34.0	***$41.0***	***$50.5***
Earnings per share	$0.33	$0.42*	$0.46*	***$0.56****	***$0.76*****

52-Week range	$68.40 – $26.00	Fiscal year ends:	August
Shares outstanding a/o 07/09/20	17.8 million	Revenue/shares (ttm)	$2.19
Approximate float	12.9 million	Price/Sales (ttm)	28.4X
Market Capitalization	$1.1 billion	Price/Sales (2021) E	22.8X
Tangible Book value/shr	$0.81	Price/Earnings (ttm)	124.6X
Price/Tangible Book	NMF	Price/Earnings (2021) E	82.0X
Annual Dividend	$0.24	Dividend Yield	0.4%

**Excludes a $0.08 per share tax benefit due to the 2017 tax reform act in 2018 and approximately $0.02 per share related to corporate tax deductions from exercise of stock incentive options.*
*** Excludes an Est. $0.08 per share in acquisition related costs and non-cash amortization costs *** Excludes an Est. $0.08 per share in acquisition related amortization costs.*
Simulations Plus, Inc., based in Lancaster, CA, develops drug discovery/development software, and provides preclinical/clinical consulting for regulatory submissions.

Key Investment Considerations:

Maintaining Speculative Buy rating and increasing our 12-month price target to $72 per share from $44.50 per share due to an increase in our EPS growth forecast for FY21 and a significant increase in sector valuation.

Long-term growth should be driven by the increased use of software tools and consulting analytics for drug discovery. SLP estimates it has penetrated approximately 20% of the pharmaceutical, biotechnology, and generic companies that would be potential users of its software and/or consulting services. Future penetration should be supported by continual upgrades to SLP's existing software, consulting services, and scientific staff.

On April 2, 2020, SLP announced it acquired Lixoft, headquartered in Paris, France. Lixoft's software products are designed to save the time in biotech and pharmaceutical research. Lixoft expands SLP's European operations and should provide recurring annual revenue over $3.5 million in FY21 as well as offering the potential to add consulting services to their existing customer base.

3Q20 EPS (reported 07/09/20) was $0.16 on sales growth of 23.8% to $12.3 million, which included approximately $0.04 per share in acquisition related costs. We projected sales of $10.6 million and EPS of $0.06. In 3Q19, EPS was $0.16 on sales of $9.9 million.

In FY20, we project EPS of $0.56** (prior was $0.41) on sales growth of 20.8% to $41 million (prior was $39 million). Our increased EPS forecast reflects 3Q20 results and guidance for double digit sales growth in 4Q20, as well as a limited impact from the global COVID-19 pandemic.

In FY21, we project EPS of $0.76 per share (prior was $0.68 per share) on sales growth of 23% to $50.5 million (prior was $48.5 million). Sales growth reflects increased customer activity for all its offerings, as well as recurring revenue from the Lixoft acquisition.***

Please view our Disclosures pages on 15 – 17.

Investment Recommendation

We are maintaining our Speculative Buy rating on shares of Simulations Plus. Our rating reflects projected earnings and adjusted EBITDA growth due primarily to the build out of company's sales and contract services infrastructure through the increased hiring of its scientific staff, and the April 2020 acquisition of Lixoft. That acquisition should generate over $3.5 million in recurring software revenue in FY21 but also increase expenses stemming from a significant increase in amortization expense that could approximate $2 million annually. We anticipate adjusted EBITDA (excluding stock-based compensation expense) increasing 34.5% to $23.6 million in FY21, up from an estimated $17.6 million in FY20.

We are increasing our 12-month price target to $72 per share from $44.50 per share due to an increase in our EPS growth forecast for FY21 and a significant increase in sector valuation. We believe the companies in the chart on the right align with SLP's offerings. The four comparative companies have an average forward P/E/G multiple of 4.3X (prior was 3.4X) on 19.6% earnings growth compared to a forward P/E/G multiple of 3.2X (prior was 2.9X) on 25.8% normalized (FY19 = $0.48 to FY21 = $0.76) annualized EPS growth for SLP (the latter excludes non-cash amortization expenses related to the acquisition of Lixoft).

Name	Symbol	Price 07-14-20	Market Cap in $Mil	EPS Growth Rate	P/E/G
Medical Laboratories & Research					
Charles River Laboratories	CRL	187.45	9221	19.1%	2.6
Agilen Technologies, Inc.	A	90.69	28023	15.0%	4.4
Healthcare Information Services					
Veeva Systems Inc.	VEEV	244.47	36558	19.6%	6.9
Cerner Corporation	CERN	69.73	21593	16.6%	3.3
Combined Average				**19.6%**	**4.3**
Company					**FY21- P/E/G**
Simulations Plus Inc.	SLP	62.30	1110	25.8%*	3.2

Source: Taglich Brothers, FINVIZ.com *Growth Rate Normalized for FY20 acquisition costs

We anticipate investors are likely to accord a P/E/G multiple approaching that of its four larger comparative (peer) companies due primarily to SLP's higher FY21 EPS growth rate and no debt on its balance sheet. The company also has the flexibility to make strategic accretive (no debt) acquisitions, which it did in April 2020 with the acquisition of Lixoft. Additionally, SLP's ability to obtain user licenses for its software from the US Food & Drug Administration should drive sales to commercial companies that need to submit data to the FDA. Applying a P/E/G multiple of 4X (prior was 3.4X), discounted for execution risk, provides a year-head price target of approximately $72 per share, implying a total (including a 0.4% dividend yield) return in excess of 15%.

Simulations Plus shares are best suited for investors seeking exposure to a software company offering consulting services that are targeting research scientists in the pharmaceutical, biotechnology, and drug development sectors. Investors should also be aware that this sector has seen significant expansion of its P/E/G multiple since January of 2020.

Overview

Simulations Plus, Inc., headquartered Lancaster, CA develops drug discovery and development software for mechanistic modeling and simulation, as well as machine-learning-based prediction of properties of molecules based on their structure. The company's software and consulting operations provide scientists knowledge and data to predict the properties and outcomes of pharmaceutical and biotechnology agents, as well as a wide range of early discovery, preclinical, and clinical consulting services and software.

SLP provides consulting services ranging from early drug discovery through preclinical and clinical trial data analysis and for submissions to regulatory agencies. Besides its Lancaster operations, the company generates revenue from three additional subsidiaries, Cognigen (based in Buffalo, NY), DILIsym Services, Inc. (based in the Research Triangle Park, North Carolina), and Lixoft (based in France – acquired on April 2020).

Recent Developments

On April 2, 2020, SLP announced it acquired Lixoft, headquartered in Paris, France. Lixoft's software products are designed to save the time and energy of pharmacometricians and biostatisticians. At closing, the company paid $11 million consisting of $7.3 million in cash and common stock amounting to nearly $3.7 million. Future earn-out consideration (over a two-year period) is up to $5.5 million with a majority in cash and the balance in common shares. A portion of the closing consideration, totaling $2 million, was held against any indemnification claims for a two-year period.

In April 2020, the company announced it partnered with a large pharmaceutical company to its ADMET Predictor software offer to enhance high-throughput PBPK (physiologically-based pharmacokinetic modeling - used to quantitatively translate in vitro data and evaluate temporal effects from drug-drug interaction) capabilities. This partnership should result in extended capabilities in high-throughput PBPK calculations at the discovery and developmental level. This enhancement to ADMET Predictor should demonstrate it is possible to front-load PK considerations at the discovery stage at an unprecedented level of speed and with more sophisticated models that ultimately lead to improved efficiencies with less attrition in the transition from discovery into early development.

Operations

The company's simulation software (see description on page 4) assists pharmaceutical scientists in rapidly predicting certain key potential drug dynamics and compound properties, thereby reducing the risk of multi-million dollar clinical trial failures and reducing the time to market of effective new medications. Pharmaceutical software and consulting services sales growth is driven by the company's technical and research and development staff, which increased to 78 at August 31, 2019, up from 69 at August 31, 2018 and six in FY06. The Lancaster, CA division ended FY19 employing 52 Ph.Ds. in their respective science or engineering disciplines, and 24 employees hold one or more Master's degrees. In FY19, net sales consisted of annual site license revenue and consulting services from the company's portfolio of pharmaceutical software offerings.

Cognigen, based in Buffalo, NY, offers pharmacokinetic (the study of the bodily absorption, distribution, metabolism, and excretion of drugs) and pharmacodynamic (the study of the action or effects of drugs on living organisms) modeling simulation services to the clinical pharmacology sector. This division generates revenue from services provided to customers during Phase I through IV of clinical drug development. Over the last five years, approximately 45% of its projects have resulted in direct regulatory interaction. Cognigen offerings include a private cloud-based validated platform (KIWI) to efficiently and consistently organize, as well as process, visualize, evaluate, and communicate modeling and simulation results.

DILIsym Services, Inc., based in North Carolina primarily provides Drug Induced Liver Injury modeling and simulations software and contract research services. DILIsym's software also provides analysis of potential drug-induced liver injury, as well as a simulation program for analyzing nonalcoholic fatty liver disease called NAFLDsym. The difference between DILIsym and NAFLDsym is the former estimates the potential for a particular drug molecule to induce liver injury, while the latter estimates the likelihood of new molecules to treat nonalcoholic fatty liver disease, and is unique to the mechanisms involved in such treatment.

DILIsym Services offerings are expanding as it received NIH small business funding for the development of RENAsym (predicting drug-induced kidney injury) and a two-year agreement with a large pharmaceutical company for the development of IPFsym, a quantitative systems pharmacology modeling application that should have the ability to predict the efficacy of drugs being developed to treat idiopathic pulmonary fibrosis. DILIsym also announced it will lead the development of RADAsym™ a drug development program for lifesaving countermeasures to acute radiation syndrome. This is a funded multiyear project with a global pharmaceutical company.

Lixoft, headquartered in Paris, France (acquired on March 31, 2020), was founded in 2011 by Jérôme Kalifa and Marc Lavielle (who will remain with the company). Lixoft designs software solutions based on scientific

breakthroughs to reduce the cost and increase the success rate of new drug development. Its primary software offering (that is renewed annually) is the Monolix Suite, a unique population PKPD modeling solution that projects from the first data exploration to clinical trial simulations. The suite includes the Monolix software that is a platform of reference for model-based drug development, which incorporates the most advanced algorithms with unique ease of use. It also includes Simulx software which is a powerful and flexible simulator for clinical trial pharmacometrics that runs on top of the Lixoft simulation engine and PKanalix software that performs analysis on data sets.

Offerings	Description
ADMET* Predictor™/ ADMET Modeler™ **absorption, distribution, metabolism, elimination, and toxicity*	The predictor component (molecular property prediction program) enables pharmaceutical researchers to rapidly estimate a number of ADMET properties of new chemical entities. The modeler component allows researchers to build artificial neural network ensembles or support vector machine ensemble models from their own data to rapidly calculate quantum level descriptors. Prediction of sites of metabolism, new atomic level descriptors, adds skin permeability, transporter, and toxicity models that includes air/water partition coefficient and an improved mutagenicity models in toxicity module, and integrates with its MedChem Designer program. The MedChem Studio module enables the mining of data to design new drug-like molecules. Additional updates include new toxicity models, rapid compound library screening in virtual humans and rates, as well as synthetic feasibility assessments for virtual molecules, and an HTPK Simulation Module. In 2019, Version 9.5 was released to provide novel approaches to calculate uncertainty estimates on all regression models, new machine learning models for metabolism and transporter endpoints and for a primary toxicity endpoint required during risk assessment, as well as a structure sensitivity analysis visualization tool. **Developing improved structure and tautomer (each of two or more isomers of a compound which exist together in equilibrium) handling capabilities that will support data integrity across the different discovery platforms and high-throughput pharmacokinetic simulations that will incorporate PBPK modeling into a customers discovery platform to support compound screening activities.**
DDDPlus™	DDDPlus (dose disintegration & dissolution) enables formulation scientists to predict how changes in formulation or experimental setup affect dissolution rate in laboratory experiments. DDDPlus integrates with ADMET Predictor and provides dosage form options for immediate and controlled release formulations. Customers in the US use DDDPlus with multiple licenses used at FDA, and in Europe, and Japan. Includes parameter sensitivity analysis, a virtual trial capability, immediate release capsule dosage form, and new input/output functions. Released in 2019, Version 6 provides long-acting injectable model developed from an FDA grant and precipitation assay and biphasic dissolution models.
GastroPlus™	GastroPlus simulates absorption, pharmacokinetics (the process by which a drug is absorbed, distributed, metabolized, and eliminated by the body), and pharmacodynamics (the combination of therapeutic and adverse effects on the body) for orally dosed and injected drugs. For drug development it aids researchers in dosage formulation by allowing the adjustment of formulation variables (solubility, particle density, dose, and radius) versus time, in order to achieve a target plasma concentration. GastroPlus is also capable of providing drug interactions for ocular, nasal, dermal, and pulmonary drug delivery, and drug interactions with transporter and induction capabilities, as well as precipitation models, infant PBPK physiologies model, built-in enzyme expression levels, and biologics from large molecules. GastroPlus has added an intramuscular dosing model and antibody-drug conjugate model for biologics, and new physiology models, including Chinese and hepatic impairment populations, as well as revamped workflows for building in-vitro in-vivo correlations and reporting capabilities, making it easier for companies wishing to submit results to regulatory agencies. In 2018, Version 9.6 provided customers with new special population physiology models and improvements to all mechanistic absorption models. In 2019, Version 9.7 was released to include improvements to population simulations, dissolution, absorption, PBPK models, drug-drug interactions, dermal absorption, and immune response was added to the intramuscular injection models. **Working on various collaborations to add additional modules.**
MembranePlus™	MembranePlus, launched in 4Q14, simulates laboratory experiments for measuring permeability of drug-like molecules through various membranes, including several different cell cultures, as well as artificially formulated membranes. MembranePlus will integrate with GastroPlus. Clinical research departments should be the primary customers of this offering. The September 2017 release of version 2.0 added new models to analyze data collected from hepatocyte (liver cells).
PKPlus™	PKPlus, launched in 4Q16, provides a complete level of functionality needed by pharmaceutical industry scientists to generate the analyses and output needed to satisfy regulatory agency requirements for both noncompartmental and compartmental pharmacokinetics analysis. While version 2.0 (released in February 2018) fix items reported to the company by initial customers, version 2.5 (released in July 2019) provided enhancement such as the simplification of pharmockinetic data analyses, as well as automating and streamlining key routines. **In the process of designing the next-generation engine that automates the import and mapping of data, selection of calculation templates, and generation of reports within a streamlined, validated system.**
	Source: company reports and presentations **Future Updates/Enhancements are in Bold**

R&D Budget Pressures – Simulation Tools to the Rescue

A strategic shift in drug development should drive the use of simulation software tools. According to data from the Association of the British Pharmaceutical Industry (ABPI), the global pharmaceutical industry invested

nearly $1.4 trillion in R&D during 2007 to 2016. ABPI forecasts the industry to invest $181 billion annually in R&D by 2022.

To enhance productivity in drug development, technologies employed by scientists and engineers in laboratories are expected to continuously evolve over the next several years, especially with the increasing use of big data predictive analytics. The 2020 global life sciences outlook published by consulting firm Deloitte, predicts computational medicine and drug discovery software (predictive analytics) market growth of 5.1% annually reaching nearly $8 billion in 2023 from 2018.

Biosimulation (use of computer aided simulation of biological processes and systems) market growth reflects the cost and time spent on drug discovery and development programs and the failures of drug candidates. Regulatory agencies in the US and Europe are using and promoting the use of predictive technologies in order to streamline the drug approval process, reduce R&D costs, and potentially eliminate late stage drug failures. In April 2019, Zion Market Research published a report that indicates the global biosimulation technology market to grow annually by 15.7%, reaching $4.6 billion by 2025, up from an estimated $1.7 billion in 2018. Biosimulation market growth is segmented into software and services with the software segment holding the largest share of the market. Driving market growth is the adoption of biosimulation software by pharmaceutical and research organizations and the increasing R&D investment for pharmaceutical research.

The Industrial Research Institute issued a biosimulation market forecast that included a section suggesting sales gains are likely to be experienced by SLP's simulation software tools (GastroPlus, ADMET Predictor/Modeler, and DDDPlus). In the very early stage of drug development, these tools can help determine whether or not to proceed with continued development of a potential drug candidate. SLP software tools that enable clinicians to meet clinical trial endpoints could potentially save millions of dollars, especially if a simulation software tool detects a failure prior to Phase III testing.

Pharmaceutical and biotechnology companies continue to seek innovative alternatives to lower the cost of drug development and submission processes to regulatory agencies. Simulation software should be increasingly important in reducing costs and increasing productivity as R&D budgets shrink. Simulations Plus software can increase productivity and reduce the risk of failure in late stage clinical trials as the prediction and data mining models can provide the researcher with a better understanding of drug reactions in the human body, enabling a more informed go/no-go decision.

Strong Growth Prospects

We project sales and net income growth in FY21 due primarily to the acquisition of Lixoft (April 2020), and sustained growth from SLP's prior acquisitions of Cognigen and DILIsym Services, as well as new funded collaborations (with the FDA, National Institute of Health, and large pharmaceutical companies) and consulting services in its operating subsidiaries.

Sales prospects for 4Q20 are unlikely to be impacted by the global Covid-19 pandemic and year-over-year growth should approximately 12%. As of July 9, 2020, the company had not seen any measurable decrease in demand for its offering. While there continues to be delays in buying decisions, SLP continues to close new software license business, albeit at a slower than historical pace, and its new software pipeline is growing.

EPS prospects for 2H20 are higher compared to our prior forecast due primarily to 3Q20 results that were better than anticipated. In FY21, we have estimated non-cash amortization expense of approximately $2 million related to the acquisition of Lixoft.

Industry Dynamics

IBISWorld projects total US Scientific R&D spending through 2025 to grow 1.1% annually reaching $217.2 billion, up from an estimated $170.8 billion in 2020. Based on IBISWorld's February 2020 forecast for the Scientific R&D Development industry, if the percentages for biotechnology, pharmaceutical, and medical and health sciences segments hold (29.4% total), 2025 spending on those three categories should approximate $63.9

billion, up from $50.2 billion forecast for 2019. Growth should be driven by the increased outsourcing to companies with specialized skill sets.

Fundamentals

SLP's software sales growth is driven primarily by utilizing the company's database of over 2,000 potential customers, which has grown annually by approximately 20%. We project annual customer additions could reach approximately 133 in FY21, up from 109 (prior was 96) in FY20. Entering 4Q20, the company had a backlog of secured business in excess of $12 million. After a review, approximately 10% of the backlog may be at risk of delay or cancellation. The primary delays are likely to come from new software licenses from Asian customers.

Operations

For FY20, we project 20.8% sales growth to $41 million (prior was $39 million). The increase from our prior forecast reflects 3Q20 results that exceeded our forecast by $1.7 million. The year-over-year growth of 20.8% should reflect a 43% increase in DILIsym sales to $7.2 million stemming from accelerated consulting working for two existing clients in 1H20 that continued into 3Q20, a 15.1% increase at its Cognigen division to $10.7 million due to increased consulting work from a growing customer base, and a 10.8% increase in the company's Lancaster, CA. division sales to $21.7 million reflecting the addition of approximately 109 (prior was 96) new customers and an increase in consulting projects. We project sales of nearly $1.4 million from the company's April 2020 acquisition of Lixoft.

For FY21, we project 23% sales growth to $50.5 million (prior was $48.5 million), reflecting a 21.9% increase in DILIsym sales to $8.8 million, a 16.8% increase in the company's Lancaster, CA. division sales to $25.4 million reflecting the addition of approximately 133 new customers due primarily to consulting customer conversions and license renewals from regulatory agencies, and a 15.4% increase at its Cognigen division to $12.4 million due to a growing customer base. We anticipate sales from the company's Lixoft subsidiary of $3.9 million, up from an estimated $1.4 million in FY20.

The table below outlines the cost structure we anticipate for fiscal years 2021 and 2020 vs. 2019 results.

Cost Structure

Margin Analysis	FY19A	**FY20E**	**FY20E**	**FY21E**	**FY21E**
	Actual	**Prior**	**Current**	**Prior**	**Current**
Gross Profit	73.4%	73.4%	74.4%	74.3%	75.3%
SG&A expenses	32.9%	45.2%	39.7%	38.9%	36.5%
R&D expenses	7.4%	7.2%	6.4%	6.4%	5.6%
Operating income	31.3%	21.0%	28.3%	29.0%	33.1%
Tax rate	18.7%	24.5%	24.0%	24.5%	25.0%

Source: Taglich Brothers estimates and company reports

Our gross margin projection reflects FY20 and FY21 software margins of 86%, and 86.4% and consulting service margins of 59.6% and 60%, respectively. The improvement in software margins is due primarily to the April 2020 acquisition of Lixoft and consulting service improvement should reflect internal project process efficiencies at the company's Cognigen division. We forecast consolidated gross margin of 74.4% and 75.3%, respectively, for FY20 and FY21. Our gross margin forecast reflects the hiring of additional scientific staff in FY19 and FY20 in order to fulfill the increase in consulting and analytical study contracts from new and existing customers. We anticipate the costs associated with the new personnel should gain additional leverage due to increased productivity as the staff is able to handle more consulting and analytical study contracts.

For the next two fiscal years, we project SG&A margins of 39.7% and 36.5%, respectively, and R&D margins of 6.4% to 5.6%, respectively (see table above). Our operating expense forecasts reflect a nearly 17% increase in the company's scientific staff in FY19 and additional staff hiring through FY21, partly offset by operational efficiencies created from marketing initiatives at its divisions in order to obtain and support new customers and expand the functionality of SLP's software programs. Overall expenses will include support for Webinar workshops and remote training sessions from customers around the world, as well as global participation in virtual scientific meetings and virtual conferences. We have included additional non-cash amortization expense

of approximately $500,000 and $2 million, respectively, in FY20 and FY21 stemming from the April 2020 acquisition of Lixoft.

In FY20, operating expenses should increase 32.3% to $18.9 million reflecting a 38.1% increase in SG&A expense to $16.3 million and an R&D expense increase of 5% to $2.6 million. The increase in SG&A expense reflects spending to support growth initiatives at its four operating divisions, including incremental expenses related to the acquisition (over $1.4 million in professional fees) and operations of Lixoft (its fourth division) that includes amortization expense. The $2.6 million in spending on R&D reflects the development and enhancement of new and existing software offerings. We project operating expense margin increasing to 46.1% from 40.1% in FY19. We project a 9.2% increase in operating income to $11.6 million compared to $10.6 million in FY19.

In FY20, we project other expense of $48,000 compared to $92,000 in FY19. The improvement in other expense reflects no recognition of imputed-interest in FY20 compared to $109,000 in FY19 (the latter offset by interest income of approximately $33,000). However, FY20 reflects an $81,000 expense related to a change in value of contingent consideration that did not occur in the prior year. Including acquisition related costs, our net income projection is $8.8 million or $0.48 per share. We previously forecasted net income of $6.2 million or $0.34 per share. We estimate excluding one-time professional fees related to the acquisition of Lixoft, EPS could approximate $0.54 per share.

In FY21, operating expenses should increase 12.7% to $21.3 million reflecting a 13.2% increase in SG&A expense to $18.5 million and a $223,000 increase in R&D expense to nearly $2.9 million. The increase in SG&A expense should support sales growth of the company's software offerings and consulting/analytical services and includes amortization expense related to the acquisition of Lixoft. We project operating expense margin decreasing to 42.2% from our forecast of 46.1% in FY20 due to higher sales and the acceleration of scientists' productivity across the company's software and analytical consulting services platforms, as well as the absence of one-time costs that occurred in the year-ago period stemming from the Lixoft acquisition. We project 43.8% operating income growth to $16.7 million with operating margin of 33.1%.

In FY21, we project other income of $20,000 compared to an expense of $48,000 in FY20. Our FY21 net income projection is $12.6 million or $0.68 per share. We previously forecast net income of $10.6 million or $0.58 per share. We estimate excluding non-cash amortization costs related to the acquisition of Lixoft, EPS could approximate $0.76 per share.

Finances

For FY20, we project cash earnings of $14.8 million and an increase in working capital of $2.5 million due primarily to increases in receivables and increases in payables and accruals. Cash from operations of $12.3 million is unlikely to cover software development costs, contingent and contract payments, common stock dividends, and the acquisition of Lixoft. Cash should decrease by nearly $1.2 million to $10.2 million at the end of FY20.

For FY21, we project cash earnings of nearly $20.1 million and an increase in working capital of $2.9 million due primarily to an increases in receivables and revenue in excess of billings and decreases in payables and accruals. Cash from operations of nearly $17.2 million should cover software development costs and common stock dividends, increasing cash by $7.1 million to nearly $17.4 million at the end of FY21.

3Q20 and 9M20 Results

3Q20

Sales increased 23.8% to $12.3 million due primarily to 38.9% revenue growth at its North Carolina DILISym subsidiary to $1.9 million, a 19.7% increase to $3 million at its Buffalo Cognigen subsidiary, and 11.7% growth to $6.7 million at its Lancaster, CA division. The company reported sales of $622,000 for its Lixoft division that was acquired in April 2020. The revenue growth at DILISym reflects seven active consortium licensees and 13 active DILISym consulting projects including two NALFDsym projects. Revenue growth at Cognigen was due primarily to 18 new projects initiated in 3Q20. The company's Lancaster divisions' growth reflects

approximately $500,000 increase in software and software-related sales reflecting 23 new customers consisting of 11 commercial clients and 12 nonprofit groups. All of the company's subsidiaries combined software and software-related sales increased by $1 million or 17.7% with newly acquired Lixoft contributing approximately $566,000 of the increase, while consulting and analytical study revenues increased nearly $1.3 million or a 32.4% compared to the year-ago period.

Gross profit increased 26.5% to $9.6 million due primarily to higher sales and gross margins expanding to 78.3% compared to 76.6% in the year-ago period. Gross margin for the software and services division improved to 91.2% versus 86.6% in the year ago period. SLP's Cognigen division had gross margins improve to 56.2% compared to 52.5% due to internal project process efficiencies. The company's theDILIsym subsidiary's gross margin contracted to 66.2% versus 77.1% in 3Q19 due primarily to higher direct contract cost. Gross margin at the company's Lixoft subsidiary was approximately 85%.

Operating expense margin increased to 47% from 37.5% due primarily to a $1 million increase in legal and consulting fees (included in SG&A expense) stemming from the acquisition Lixoft and expenses related to build an infrastructure to support accelerated revenue growth FY21. SG&A expense increased 62.7% to $5 million with R&D expense increasing by $109,000 to $753,000. The increase in SG&A expense includes higher payroll taxes ($160,000 increase), insurance ($140,000 increase), salaries and wages ($595,000 increase) reflecting increased stock compensation, annual salary increases, 401K expense, as well as vacation expense, and increased headcount, commissions and advertising ($76,000 increase), contracted labor ($105,000 increase) related to outsourced services and director compensation. Partly offsetting the increase in SG&A expense were a decrease in trade show and corporate travel expense ($136,000 decrease) and lower recruitment and hiring costs ($46,000 decrease).

Operating income was flat at $3.9 million due to higher sales and gross margin expansion, offset by higher operating expenses including $1.1 in expenses related to the acquisition of Lixoft. Other expense was $77,000 compared to an expense of $30,000 in the year-ago period. 3Q20 recorded interest income of $4,000, which was more than offset by an $81,000 loss related to a change in value of contingent consideration and a $1,000 loss on currency exchange. The expense in the year-ago period was due primarily to recognition of contingent consideration (imputed interest) of $33,000.

Net income was $2.9 million or $0.16 per share compared to $2.9 million or $0.16 per share in the year-ago period. In the current period the company recorded an income tax expense of $844,000 compared to $964,000. Excluding the approximate after-tax expense of $837,000 to acquire Lixoft, we estimate EPS would have been approximately $0.20 per share. We projected net income of $1.2 million or $0.06 per share on sales of $10.6 million.

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Net sales	$ 32,049	$ 25,945	23.5%
Cost of sales	7,975	6,735	18.4%
Gross Profit	24,074	19,210	25.3%
Total Operating Expenses	14,673	10,511	39.6%
Operating Income (loss)	9,401	8,699	8.1%
Total Other Income (expense)	(52)	(129)	NM
Pre-Tax Income (loss)	9,349	8,570	9.1%
Income Tax Expense (Benefit)	2,205	2,046	NM
Net Income	7,144	6,524	NM
Earnings per share	$ 0.39	$ 0.36	NM
Avg Shares Outstanding	18,334	18,008	
Margin Analysis			
Gross margin	75.1%	74.0%	
Operating margin	29.3%	33.5%	
Pre-tax margin	29.2%	33.0%	

Source: company reports

9M20

Sales increased 23.5% to $32 million due to a nearly $1.2 million increase in software and software-related sales stemming from 89 new customers consisting of 39 commercial clients and 50 nonprofit groups. Sales growth was enhanced by a nearly $3.9 million increase in consulting and analytical study revenues due primarily to the company's Buffalo subsidiary (Cognigen) and North Carolina subsidiary (DILISym). Also, the acquisition of Lixoft contributed $622,000 in sales.

Gross profit increased 25.3% to $24.1 million due to higher sales and gross margin expansion to 75.1% from 74%.

Operating expense margin increased to 45.8% from 40.5% due to expenses increasing 39.6% to $14.7 million, which is a faster pace than sales growth of 23.5%. SG&A expense

increased 46.8% to $12.6 million (including approximately $1.1 million in professional fees related to the acquisition of Lixoft) and a $130,000 increase in R&D expense to $2 million.

Operating income increased 8.1% to $9.4 million due to sales growth and gross margin expansion, partly offset by higher operating expenses. Other expense was $52,000 compared to $129,000 in the year-ago period. The primarily change in other expense was due to no recognition of contingent consideration (imputed interest) in the current period compared $109,000 to last year and a swing to a currency gain of $1,000 compared to a loss of $40,000. The current period includes an $81,000 loss from change in value of contingent consideration. In 9M20, net income was $7.1 million or $0.39 per share compared to $6.5 million or $0.36 per share.

Finances

In 9M20, cash earnings of $10.5 million and an increase in working capital of $4.4 million resulted in cash from operations of $6.1 million. Cash from operations did not cover capitalized software expenses, payments on contract payables, common stock dividends, and cash used to acquire Lixoft reducing cash by nearly $4.1 million to $7.4 million at May 31, 2020.

Strategy

The company aims to expand its contract research, consulting, and workshop services offered to the industry. The consulting offering is a marketing tool since it demonstrates the capabilities of the company's life sciences team and simulation tools, which often lead to site licenses for its software offerings.

SLP is engaged in the practice of seeking funded research consulting agreements with government agencies and commercial pharmaceutical companies. Entering 4Q20, the Lancaster division was working on seven funded collaborations with clinical stage biotechnology and large pharmaceutical companies to enhance its software offerings. The DILISym subsidiary is actively working on a funded collaboration with the NIH and large pharmaceutical companies. The potential future value of the DILISym collaborations is approximately $4.4 million.

In March 2020, the company developed and launched its StrategiesPlus™ COVID-19 ACT Program to speed consulting assistance to any organization involved in coronavirus research. During 3Q20, the company generated $250,000 in bookings related to its new regulatory offering.

Competitive Landscape

Pharmaceutical companies conduct drug discovery and development efforts through internal development staffs and outsourcing some of this work. Smaller companies need to outsource a greater percentage of this research. SLP also competes with in-house development teams at some pharmaceutical companies.

Drug makers have turned to innovative drug treatments that serve unmet needs in order to get regulatory approval. In 2015, the FDA approved 45 novel drugs, four more than in 2014 and the most since the all-time record of 53 set in 1996. In 2016, FDA approvals fell to 22, the lowest number since 2010. In 2017, FDA approvals rebounded to 46 and accelerated in 2018 to 59, but decreased to 48 in 2019.

The company's pharmaceutical software and services business competes against companies that provide more extensive and higher cost screening, testing, and research services, and products that are not based on simulation software. There are also software companies whose products do not compete directly, but are related. We were unable to find other companies that might pose a competitive threat to GastroPlus, DDDPlus, and/or MembranePlus. Those simulated software offerings appear to be unique. ADMET Predictor/ADMET Modeler operates in a more competitive environment; however, independently published product comparisons have been very favorable, with ADMET Predictor consistently ranked first in predictive accuracy.

Risks

Technology
The software industry is highly competitive and changes rapidly. The company's operating results could be significantly affected by its ability to maintain and increase acceptance of its products.

COVID-19
Declared by the World Health Organization to be a global pandemic, COVID-19 is impacting worldwide economic activity. The spread of COVID-19 and mitigation measures taken by governments could disrupt the supply chain and adversely impact SLP's business, financial condition or results of operations. The extent to which the pandemic impacts the company's results will depend on future developments that are highly uncertain.

Potential Dilution
In July 2020, the company announce it filed a shelf offering with the SEC that would allow the company to issue common stock, preferred stock, warrants for the purchase of common stock, preferred stock and other securities or rights, depositary shares; and/or units consisting of one or more of the securities. The company believes that this shelf registration filing provides it with the flexibility required to support any future need to issue securities for working capital, mergers and acquisitions, or general corporate purposes.

Shareholder Control
Walter Woltosz, co-founder and chairman of the board, and Virginia Woltosz, co-founder, own approximately 27% of the outstanding voting stock (based on SEC filing in June 2020). Walter and Virginia Woltosz might greatly influence the outcome on all matters requiring stockholder approval in ways that may not be in the best interests of other shareholders.

Intellectual Property Rights
Third parties may infringe on or misappropriate IP rights, or otherwise independently develop substantially equivalent products and/or services. The loss of intellectual property protection or the inability to secure or enforce intellectual property protection could harm its business and/or ability to compete.

Cyber Security
SLP operates large and complex computer systems that contain significant amounts of client data. Unauthorized third parties could attempt to gain entry to its computer systems for the purpose of stealing data or disrupting the systems. The company believes appropriate measures are in place to protect client data from intrusion, and will constantly work to improve and enhance its computer systems. However, if its systems prove not to be secure, the company could suffer significant harm since client contracts typically contain provisions that require their data to remain confidential.

Foreign Exchange
While nearly all of SLP's transactions are denominated in US dollars, approximately 18% and 18% of sales were to Asian and European customers, respectively, in FY19. In Japan and China, the company receives payment in Yen and Yuan, respectively. If foreign currency transactions increase significantly, the company may engage in hedging in order to mitigate risk. So far, exchange rate exposure has had no material impact.

Miscellaneous Risk
The company's financial results are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume
Liquidity is a potential concern. Based on our calculations, the average daily-volume during calendar 2018 was 63,700 shares a day. In 2019, average daily volume increased to 97,300, and over the last three months (ending July 14, 2020) was 258,000. SLP has 17.8 million shares outstanding and a float of approximately 12.9 million. Investors should by aware that a thinly traded equity could experience price volatility.

Simulations Plus, Inc.
Consolidated Balance Sheets
FY2017 –FY2021E
(in thousands)

	FY17A	FY18A	FY19A	3Q20A	**FY20E**	**FY21E**
ASSETS						
Current assets:						
Cash	$ 6,216	$ 9,401	$ 11,436	$ 7,354	**$ 10,261**	**$ 17,393**
Accounts receivable, net	4,049	5,515	5,027	10,853	**8,552**	**9,116**
Revenue in excess of billings	1,481	1,986	3,234	2,838	**3,000**	**4,000**
Prepaid income taxes	462	313	765	392	**400**	**500**
Prepaid expense and other current assets	460	610	704	745	**760**	**761**
Total current assets	12,668	17,824	21,165	22,184	**22,973**	**31,770**
Capitalized computer software development costs, net	4,308	5,153	4,960	5,755	**5,800**	**6,500**
Property and equipment, net	291	335	341	357	**360**	**365**
Operating lease right of use asset	-	-	-	1,019	**1,019**	**1,019**
Customer relationships, intellectual property, goodwill, intangibl	21,212	19,930	18,693	32,214	**31,942**	**26,438**
Other assets	34	37	37	50	**50**	**50**
Total assets	$ 38,512	$ 43,279	$ 45,197	$ 61,579	**$ 62,144**	**$ 66,142**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	241	352	204	663	**610**	**288**
Accrued payroll and other expenses	983	1,152	1,639	2,137	**1,954**	**1,838**
Operating lease liability	-	-	-	525	**493**	**493**
Contract payable	247	2,557	1,761	3,761	**2,500**	**1,942**
Billings in excess of revenues	217	385	799	269	**850**	**800**
Current portion of deferred revenue	354	382	381	429	**400**	**400**
Total current liabilities	2,042	4,827	4,783	7,785	**6,807**	**5,762**
Deferred income tax accruals	4,927	3,195	2,732	2,775	**2,775**	**2,000**
Payments due under contract payable	5,738	3,334	-	3,942	**3,942**	**-**
Operating lease liability	-	-	-	489	**489**	**489**
Stockholders' equity:						
Common stock, no par value; authorized 20,000,000 shares;	7	7	8	8	**8**	**8**
Additional paid-in capital	12,109	13,454	15,319	20,231	**21,236**	**22,836**
Accumulated other comprehensive income (loss)	-	-	-	30	**30**	**30**
Retained earnings (accumulated deficit)	13,688	18,462	22,354	26,317	**26,857**	**35,017**
Total stockholders' equity	25,805	31,923	37,681	46,587	**48,131**	**57,891**
Total liabilities and stockholders' equity	$ 38,512	$ 43,279	$ 45,197	$ 61,579	**$ 62,144**	**$ 66,142**
SHARES OUT	17,278	17,416	17,592	17,788	**17,850**	**18,000**

Source: Company reports and Taglich Brothers estimates

Simulations Plus, Inc.
Annual Income Statement Model
FY2017 – 2021E
(in thousands)

	FY17 A	FY18 A	FY19 A	**FY20 E**	**FY21 E**
Simulations Plus - Pharmaceutical software/consulting	$ 15,600	$ 17,553	$ 19,585	**$ 21,709**	**$ 25,355**
DILIsym - North Carolina	1,238	4,257	5,065	**7,242**	**8,825**
Lixoft - Europe	-	-	-	**1,372**	**3,935**
Cognigen division - Consulting services	7,300	7,857	9,321	**10,726**	**12,375**
Total Net sales	$ 24,138	$ 29,667	$ 33,970	**$ 41,049**	**$ 50,490**
Cost of sales - Simulations Plus Division	2,643	3,049	3,277	**2,928**	**3,460**
Cost of sales - DILIsym	555	1,718	1,382	**2,204**	**2,640**
Cost of sales - Lixoft	-	-	-	**183**	**520**
Cost of sales - Cognigen Division	3,110	3,227	4,367	**5,184**	**5,840**
Total Cost of sales	6,308	7,994	9,026	**10,500**	**12,460**
Gross Profit	17,830	21,672	24,945	**30,549**	**38,030**
Operating Expenses:					
Selling, general, and administrative	8,198	9,584	11,796	**16,292**	**18,450**
Research and development	1,368	1,791	2,500	**2,627**	**2,850**
Total Operating Expenses	9,566	11,375	14,296	**18,918**	**21,300**
Operating Income (loss)	8,264	10,298	10,649	**11,631**	**16,730**
Other income (expense)					
Interest income (expense)	(22)	(126)	(76)	**32**	**20**
Change in value of contingent consideration	-	-	-	**(81)**	**-**
Gain (Loss) on exhange of currency	(2)	(33)	(17)	**1**	**-**
Total Other Income (expense)	(24)	(159)	(92)	**(48)**	**20**
Pre-Tax Income (loss)	8,240	10,139	10,556	**11,583**	**16,750**
Income Tax Expense (Benefit)	2,453	1,204	1,973	**2,780**	**4,190**
Net income (loss)	5,788	8,935	8,583	**8,803**	**12,560**
Earning (loss) per share	$ 0.33	$ 0.50	$ 0.48	**$ 0.48**	**$ 0.68**
Avg Shares Outstanding	17,515	17,860	18,039	**18,370**	**18,468**
Dividends per Share	$ 0.20	$ 0.24	$ 0.24	**$ 0.24**	$ 0.24
Adjusted EBITDA - Stock compensation and D&A	$ 11,021	$ 13,729	$ 14,477	**$ 17,571**	**$ 23,630**
Margin Analysis					
Gross margin - Simulations Plus Division	83.1%	82.6%	83.3%	**86.5%**	**86.4%**
Gross margin - DILIsym - North Carolina	55.2%	59.6%	72.7%	**69.6%**	**70.1%**
Gross margin - Lixoft - Europe	NA	NA	NA	**86.7%**	**86.8%**
Gross margin - Cognigen Division	57.4%	58.9%	53.1%	**51.7%**	**52.8%**
Total gross margin	73.9%	73.1%	73.4%	**74.4%**	**75.3%**
Selling, general, and administrative	34.0%	32.3%	32.9%	**39.7%**	**36.5%**
Research and development	5.7%	6.0%	7.4%	**6.4%**	**5.6%**
Operating margin	34.2%	34.7%	31.3%	**28.3%**	**33.1%**
Pre-tax margin	34.1%	34.2%	31.1%	**28.2%**	**33.2%**
Tax rate	29.8%	11.9%	18.7%	**24.0%**	**25.0%**
YEAR / YEAR GROWTH					
Total Revenues	20.9%	22.9%	14.5%	**20.8%**	**23.0%**

FY20 includes an estimated $0.06 per share in acquisition related costs and $0.02 per share in amortization costs
FY21 includes an estimated $0.08 per share in acquisition related amortization costs.

Source: Company reports and Taglich Brothers estimates

Simulations Plus, Inc.
Quarterly Income Statement Model
FY2019 to 2021E
(in thousands)

	Q1 19 A	Q2 19 A	Q3 19 A	Q4 19 A	FY19 A	Q1 20 A	Q2 20 A	Q3 20 A	Q4 20 E	**FY20 E**	Q1 21 E	Q2 21 E	Q3 21 E	Q4 21 E	**FY21 E**
Simulations Plus - Pharmaceutical software/consulting	$ 4,365	$ 5,008	$ 6,025	$ 4,187	$ 19,585	$ 4,927	$ 5,904	$ 6,728	$ 4,150	**$ 21,709**	$ 5,455	$ 7,100	$ 7,935	$ 4,865	**$ 25,355**
DILIsym - North Carolina	1,106	1,172	1,374	1,413	5,065	2,087	1,696	1,909	1,550	**7,242**	1,925	2,300	2,600	2,000	**8,825**
Lixoft - Europe	-	-	-	-	-	-	-	622	750	**1,372**	825	1,100	1,135	875	**3,935**
Cognigen division - Consulting services	2,065	2,292	2,538	2,426	9,321	2,387	2,750	3,039	2,550	**10,726**	2,800	3,200	3,475	2,900	**12,375**
Total Net sales	$ 7,536	$ 8,472	$ 9,937	$ 8,026	$ 33,970	$ 9,401	$ 10,350	$ 12,298	$ 9,000	**$ 41,049**	$ 11,005	$ 13,700	$ 15,145	$ 10,640	**$ 50,490**
Cost of sales - Simulations Plus Division	827	840	806	805	3,277	744	844	595	745	**2,928**	870	955	855	780	**3,460**
Cost of sales - DILIsym	404	314	314	350	1,382	628	480	646	450	**2,204**	605	690	780	565	**2,640**
Cost of sales - Lixoft	-	-	-	-	-	-	-	93	90	**183**	105	165	110	140	**520**
Cost of sales - Cognigen Division	969	1,054	1,205	1,139	4,367	1,271	1,342	1,332	1,240	**5,184**	1,400	1,535	1,455	1,450	**5,840**
Total Cost of sales	2,200	2,208	2,324	2,293	9,026	2,643	2,666	2,665	2,525	**10,500**	2,980	3,345	3,200	2,935	**12,460**
Gross Profit	5,336	6,264	7,613	5,733	24,945	6,758	7,683	9,633	6,475	**30,549**	8,025	10,355	11,945	7,705	**38,030**
Operating Expenses:															
Selling, general, and administrative	2,719	2,810	3,087	3,180	11,796	3,513	4,110	5,023	3,645	**16,292**	4,295	4,930	5,175	4,050	**18,450**
Research and development	530	724	643	603	2,500	526	748	753	600	**2,627**	600	750	775	725	**2,850**
Total Operating Expenses	3,249	3,534	3,731	3,783	14,296	4,040	4,858	5,776	4,245	**18,918**	4,895	5,680	5,950	4,775	**21,300**
Operating Income (loss)	2,087	2,730	3,882	1,950	10,649	2,718	2,826	3,857	2,230	**11,631**	3,130	4,675	5,995	2,930	**16,730**
Other income (expense)															
Interest income (expense)	(35)	(33)	(22)	13	(76)	11	12	4	4	**32**	5	5	5	5	**20**
Change in value of contingent consideration	-	-	-	-	-	-	-	(81)	-	**(81)**	-	-	-	-	-
Gain (Loss) on exhange of currency	(31)	(2)	(8)	24	(17)	4	(2)	(1)	-	**1**	-	-	-	-	-
Total Other Income (expense)	(65)	(35)	(30)	37	(92)	15	10	(77)	4	**(48)**	5	5	5	5	**20**
Pre-Tax Income (loss)	2,022	2,696	3,852	1,987	10,556	2,733	2,836	3,780	2,234	**11,583**	3,135	4,680	6,000	2,935	**16,750**
Income Tax Expense (Benefit)	486	596	964	(72)	1,973	675	686	844	575	**2,780**	785	1,170	1,500	735	**4,190**
Net income (loss)	1,536	2,099	2,889	2,059	8,583	2,058	2,150	2,936	1,659	**8,803**	2,350	3,510	4,500	2,200	**12,560**
Earning (loss) per share	$ 0.09	$ 0.12	$ 0.16	$ 0.11	$ 0.48	$ 0.11	$ 0.12	$ 0.16	$ 0.09	**$ 0.48**	$ 0.13	$ 0.19	$ 0.24	$ 0.12	**$ 0.68**
Avg Shares Outstanding	17,998	18,003	18,096	18,057	18,039	18,307	18,316	18,427	18,430	**18,370**	18,435	18,440	18,445	18,550	**18,468**
Dividends per Share	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.24	$ 0.06	$ 0.06	$ 0.06	$ 0.06	**$ 0.24**	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.24
Adjusted EBITDA - Stock compensation and D&A	$ 3,026	$ 3,686	$ 4,834	$ 2,931	$ 14,477	$ 3,756	$ 3,918	$ 5,842	$ 4,055	**$ 17,571**	$ 4,855	$ 6,400	$ 7,720	$ 4,655	**$ 23,630**
Margin Analysis															
Gross margin - Simulations Plus Division	81.1%	83.2%	86.6%	80.8%	83.3%	84.9%	85.7%	91.2%	82.0%	**86.5%**	84.1%	86.5%	89.2%	84.0%	**86.4%**
Gross margin - DILIsym - North Carolina	63.5%	73.2%	77.1%	75.3%	72.7%	69.9%	71.7%	66.2%	71.0%	**69.6%**	68.6%	70.0%	70.0%	71.8%	**70.1%**
Gross margin - Lixoft - Europe	NA	NA	NA	NA	NA	NA	NA	85.0%	88.0%	**86.7%**	87.3%	85.0%	90.3%	84.0%	**86.8%**
Gross margin - Cognigen Division	53.1%	54.0%	52.5%	53.1%	53.1%	46.8%	51.2%	56.2%	51.4%	**51.7%**	50.0%	52.0%	58.1%	50.0%	**52.8%**
Total gross margin	70.8%	73.9%	76.6%	71.4%	73.4%	71.9%	74.2%	78.3%	71.9%	**74.4%**	72.9%	75.6%	78.9%	72.4%	**75.3%**
Selling, general, and administrative	36.1%	33.2%	31.1%	39.6%	32.9%	37.4%	39.7%	40.8%	40.5%	**39.7%**	39.0%	36.0%	34.2%	38.1%	**36.5%**
Research and development	7.0%	8.5%	6.5%	7.5%	7.4%	5.6%	7.2%	6.1%	6.7%	**6.4%**	5.5%	5.5%	5.1%	6.8%	**5.6%**
Operating margin	27.7%	32.2%	39.1%	24.3%	31.3%	28.9%	27.3%	31.4%	24.8%	**28.3%**	28.4%	34.1%	39.6%	27.5%	**33.1%**
Pre-tax margin	26.8%	31.8%	38.8%	24.8%	31.1%	29.1%	27.4%	30.7%	24.8%	**28.2%**	28.5%	34.2%	39.6%	27.6%	**33.2%**
Tax rate	24.0%	22.1%	25.0%	(3.6%)	18.7%	24.7%	24.2%	22.3%	25.7%	**24.0%**	25.0%	25.0%	25.0%	25.0%	**25.0%**
YEAR / YEAR GROWTH															
Total Revenues	6.6%	15.2%	16.2%	20.0%	14.5%	24.7%	22.2%	23.8%	12.1%	**20.8%**	17.1%	32.4%	23.2%	18.2%	**23.0%**

FY20 includes an estimated $0.06 per share in acquisition related costs that were spread out over 2Q20 and 3Q20 and $0.02 per share in amortization costs
FY21 includes an estimated $0.08 per share in acquisition related amortization costs.

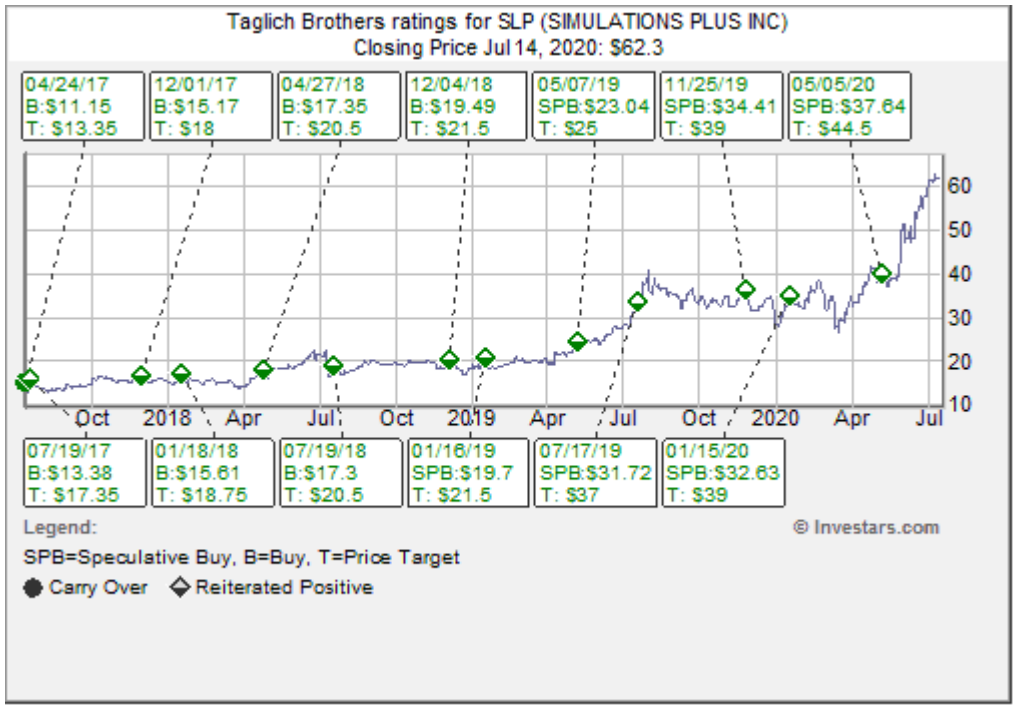
Source: Company reports and Taglich Brothers estimates

Simulations Plus, Inc.
Cash Flow Statement
FY2017 – FY2021E
(in thousands)

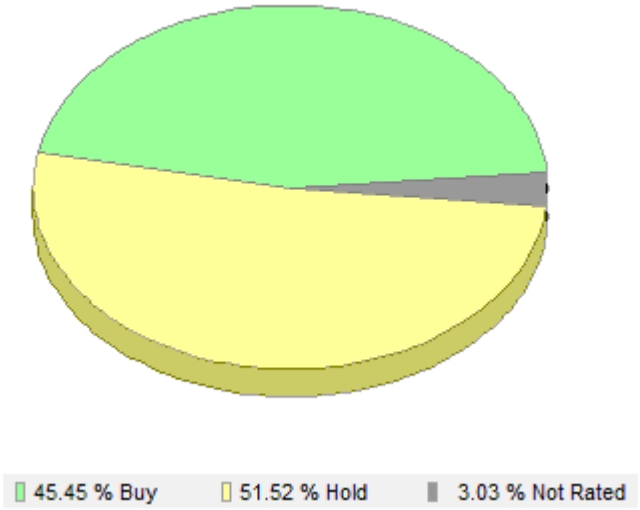
	FY2017A	FY2018A	FY2019A	9 Mos. 20A	**FY2020E**	**FY2021E**
Cash Flows from Operating Activities						
Net Income (loss)	$ 5,788	$ 8,935	$ 8,583	$ 7,144	**$ 8,803**	**$ 12,560**
Depreciation and amortization	1,248	2,721	2,750	2,134	**4,400**	**5,900**
Amortization of intellectual property	887	-	-	-	**-**	**-**
Stock-based compensation, net	622	709	1,078	1,144	**1,500**	**1,600**
Loss (gain) on sale of assets and change in value of contigent consideration	38	153	109	81	**81**	**-**
Cash earnings (burn)	8,583	12,518	12,520	10,503	**14,784**	**20,060**
Changes In:						
Accounts receivable	(876)	(1,466)	488	(5,269)	**(3,525)**	**(564)**
Revenues in excess of billings	(634)	(505)	(1,248)	396	**234**	**(1,000)**
Deferred tax and refund and accured income taxes	(239)	(1,582)	(752)	597	**43**	**(775)**
Pre-paids and other assets	41	(154)	(94)	7	**(55)**	**(1)**
Accounts payable	99	111	(148)	324	**406**	**(322)**
Accrued payroll and other expenses	284	169	487	27	**315**	**(116)**
Income taxes	-	-	-	-	**-**	**-**
Billings in excess of revenues	(118)	168	414	(529)	**51**	**(50)**
Other and accrued income taxes	(8)	-	-	-	**(3)**	**-**
Deferred revenue	(253)	28	(30)	48	**19**	**-**
(Increase)/decrease in Working Capital	(1,705)	(3,231)	(882)	(4,399)	**(2,515)**	**(2,827)**
Net cash Provided by Operations	6,878	9,287	11,638	6,104	**12,268**	**17,233**
Cash Flows from Investing Activities						
Purchase of property and equipment	(176)	(183)	(138)	(106)	**(150)**	**(200)**
Cash and common stock used/received to purchase company's	(2,796)	-	-	(9,471)	**(9,471)**	**-**
Purchases of intellectual property	-	-	(50)	-	**-**	**-**
Earn-out payments	-	-	-	3,799	**3,799**	**-**
Cash received in acquisition	-	-	-	-	**-**	**-**
Capitalized computer software development costs	(1,384)	(2,145)	(1,768)	(1,733)	**(2,310)**	**(3,500)**
Cash Flows from Investing Activities	(4,355)	(2,329)	(1,956)	(7,511)	**(8,132)**	**(3,700)**
Cash Flows from Financing Activities						
Payments on contracts payable	(1,000)	(247)	(4,239)	-	**(1,761)**	**(2,000)**
Common stock issued to acquire Lixoft	-	-	-	-	**-**	**-**
Common stock dividends	(3,448)	(4,162)	(4,197)	(3,181)	**(4,300)**	**(4,400)**
Proceeds from the exercise of stock options and excess benefits	111	636	788	507	**750**	**-**
Net cash provided by Financing	(4,337)	(3,773)	(7,648)	(2,674)	**(5,311)**	**(6,400)**
Net change in Cash	(1,815)	3,185	2,035	(4,081)	**(1,175)**	**7,133**
Cash Beginning of Period	8,030	6,216	9,401	11,436	**11,436**	**10,261**
Cash End of Period	$ 6,216	$ 9,401	$ 11,436	$ 7,354	**$ 10,261**	**$ 17,393**

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	2	11
Hold		
Sell		
Not Rated		

Important Disclosures

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Public Companies mentioned in this report:

None

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long-term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Discontinued – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company-specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.