Research Note

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

Simulations Plus, Inc.

Rating: Speculative Buy

Howard Halpern
September 8, 2014

SLP $6.68 — (NasdaqCM)

	2011 A	2012 A	2013 A	*2014 E*	*2015 E*
Net sales (in millions)	$8.7	$9.4	$10.1	***$11.3***	***$18.0***
Earnings per share	$0.17	$0.17	$0.18	***$0.19***	***$0.27***

52-Week range	$7.09 – $4.67	Fiscal year ends:	August
Shares outstanding estimated a/o 8/2/14	16.9 million	Revenue/shares (ttm)	$0.67
Approximate float	9.8 million	Price/Sales (ttm)	10.0X
Market Capitalization	$113 million	Price/Sales (2015) E	6.4X
Tangible Book value/shr	$0.61	Price/Earnings (ttm)	35.2X
Price/Book	11.0X	Price/Earnings (2015) E	24.7X
Annual Dividend	$0.20	Dividend Yield	3.0%

Simulations Plus, Inc., based in Lancaster, California, is a developer of drug discovery and development software, which is licensed to and used in drug research by major pharmaceutical and biotechnology companies worldwide.

Key Investment Considerations:

Maintaining Speculative Buy rating and increasing 12-month price target to $8.50 per share from $7.00 due to the acquisition of privately held Cognigen Corporation and increased sector valuation.

On September 2, 2014, Simulations Plus closed its acquisition of Cognigen Corporation, a provider of critical path projects delivering mechanistic understanding of disease biology and drug pharmacology at decision milestones. The company's offerings include clinical program design, the go/no go decisions for its pharmaceutical customers, and clinical trial analysis that is submitted to regulators.

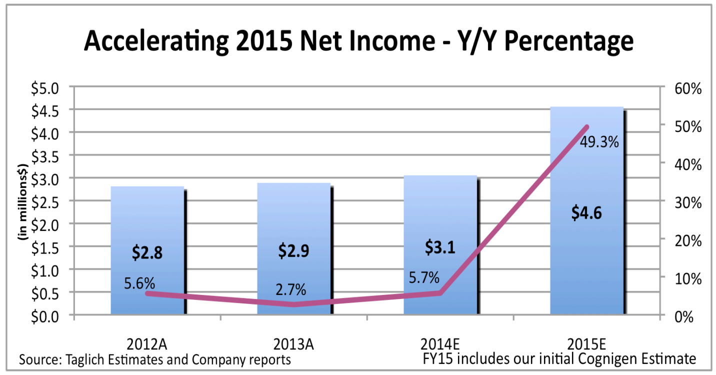
SLP paid $7 million to acquire this privately held company. The consideration consisted of $2.8 million in cash and $4.2 million of newly issued, unregistered shares of common stock. A two-year $1.8 million will be used to satisfy any claims that may arise pursuant to the terms of the agreement.

As of September 5, 2014 no audited pro-forma financials for the combined companies have been filed with the SEC. We estimate Cognigen Corporation should add at least $5 million in service revenue at a 10% net margin.

We project consolidated FY15 revenue of $18 million (prior estimate was $13 million) and net income of $4.6 million or $0.27 per share (prior estimate was $4.1 million or $0.25 per share.

Please view our Disclosures pages 3 - 5

Investment Recommendation



Maintaining Speculative Buy rating. Our rating is based on new contracts with two top-five pharmaceutical companies, expanded simulation software sales to consumer product companies (that manufacture products such as detergent, makeup, toothpaste, etc.) that need toxicology capability, the March 2014 distributor agreement signed with the Research Institute for Liver Diseases in Shanghai, China, and September 2014 acquisition of Cognigen Corporation.

We forecast income growth accelerating from 5.7% in FY14 to 49.3% in FY15 (see chart above) due to an estimated $500,000 in net income produced by Cognigen on estimated additional sales of $5 million. Our FY15 growth forecast for the operations of SLP prior to the acquisition reflects the addition 92 new customers or new departments within existing customers, up from 71 in FY14. Customer growth should be driven by September 2014 release of MembranePlus as this offering will broaden SLP's reach into clinical research departments of pharmaceutical and biotechnology companies. Sales growth should be driven by a price increases on certain software offerings and customer growth. Profit growth should be driven by cost reductions primarily due to elimination of variable GastroPlus royalty payments partly offset by $600,000 per year of intellectual property amortization through 2024.

We are increasing our 12-month price target to $8.50 per share from $7.00 due to the acquisition of Cognigen Corporation and increased sector valuation. Our price target and dividend yield imply a total year-ahead return of 30%. The application software and business services industries' trailing 12-month EPS multiple increased to 51X from 41.4X in July 2014, as well as SLP's current forward (FY15) P/E multiple increasing to 24.7X from 22.4X. We applied a 35X multiple (prior multiple was 30.5X) to our FY15 EPS estimate of $0.27, discounted by 10% to account for execution risk to obtain a year-ahead value of $8.50 per share.

Simulations Plus shares are suited for risk-tolerant investors seeking exposure to a micro cap software company targeting research scientists in the pharmaceutical, biotechnology, and drug development sectors.

For Risk Details please see our full update report dated July 23, 2014

Additional risks include:

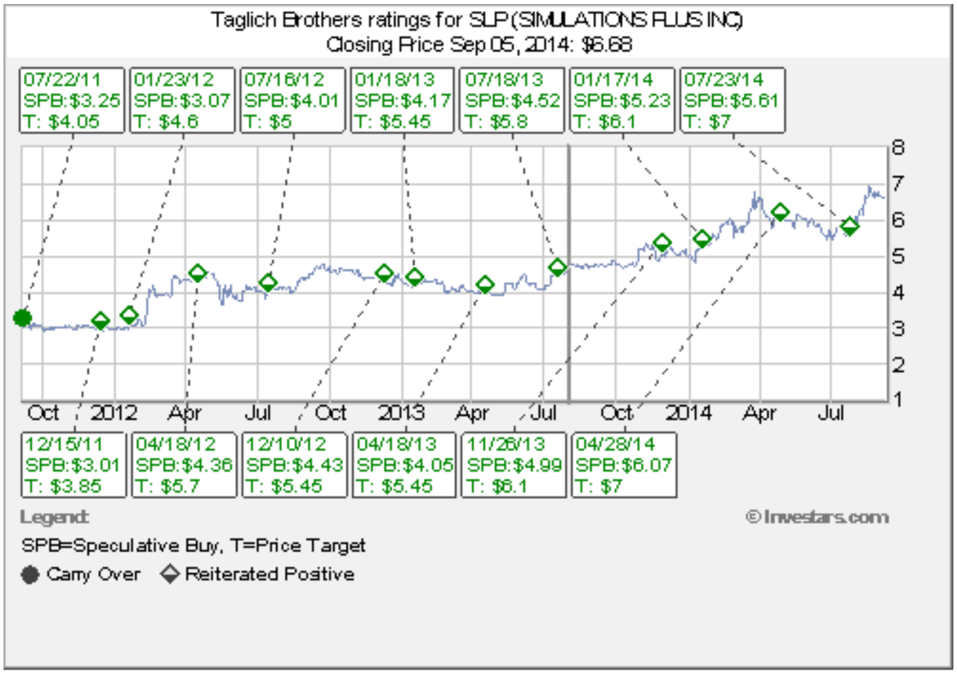
<u>Integration</u>
Cognigen Corporations headquarters will remain in Buffalo, NY and the headquarters of Simulations Plus will remain in Lancaster, California, which could raise integration issues.

<u>Trading Volume</u>
Over the last three months (ending September 5, 2014) average daily volume was 21,830.

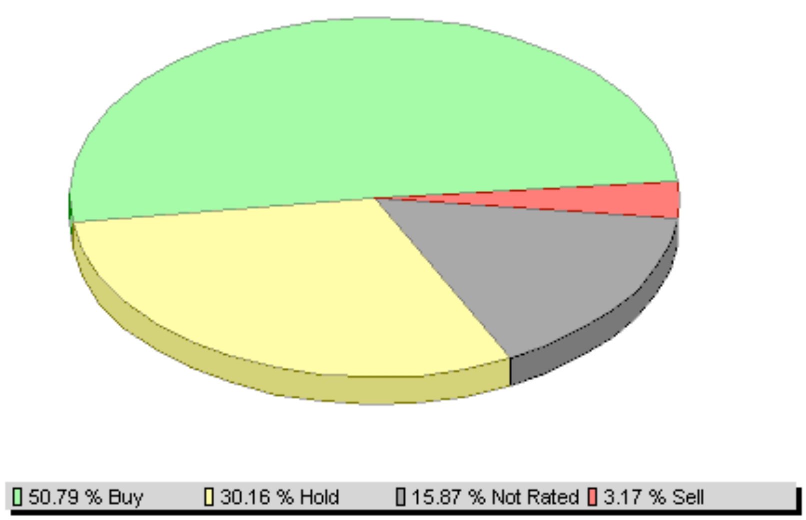
Who is Cognigen Corporation?

Founded in 1992, this Buffalo, New York based company was the first contract research organization to offer modeling services to the pharmaceutical industry. The company's 35 employees works on anywhere from 30 to 40 drugs each year. Cognigen has created a fully validated, private cloud-computing infrastructure that addresses all computational requirements in regulated industries. This computing infrastructure supports a new product called KIWI that is a collaborative platform for modeling and simulation, which organizes, processed, evaluates, and communicates results of pharmacometric analyses (a branch of science concerned with mathematical models of biology, pharmacology, disease, etc.) between the company and its customers.

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	2	7
Hold	1	17
Sell		
Not Rated		

Important Disclosures

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Analyst Certification

I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

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.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, 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.