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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 $34.47 — (NasdaqCM)

November 25, 2019

	2017 A	2018 A	2019 A	***2020 E***	***2021 E***
Net sales (in millions)	$24.1	$29.7	$34.0	***$39.1***	***$45.3***
Earnings per share	$0.33	$0.42*	$0.46*	***$0.54***	***$0.68***

52-Week range	$41.95 – $17.18	Fiscal year ends:	August
Shares outstanding a/o 11/13/19	17.6 million	Revenue/shares (ttm)	$1.88
Approximate float	12.4 million	Price/Sales (ttm)	18.3X
Market Capitalization	$607 million	Price/Sales (2021) E	13.8X
Tangible Book value/shr	$1.08	Price/Earnings (ttm)	73.9X
Price/Tangible Book	31.9X	Price/Earnings (2021) E	53.0X
Annual Dividend	$0.24	Dividend Yield	0.69%

** Excludes an $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*

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 $39.00 from $37.00 due to an acceleration of forecasted EPS growth of 25.8% in FY21 compared to 17.4% forecasted for FY20.

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.

In 2019, the FDA renewed its multi-seat license for SLP's quantitative systems toxicology modeling software (DILIsym) and a 15-user license for SLP's ADMET Predictor software. The renewal will give access to FDA employees across its divisions and support research projects aimed at informing regulatory decision making.

In 2019, SLP received an order from the Pharmaceuticals and Medical Devices Agency in Japan to add additional GastroPlus licenses, which should spur future commercial sales for companies looking to obtain drug approvals in Japan.

4Q19 EPS (reported 11/14/19) was $0.11 on sales growth of 20% to $8 million. 4Q19 includes an estimated $0.02 per share gain related to a corporate tax deduction. We projected sales of $7.5 million and EPS of $0.09. In 4Q18, EPS was $0.06.

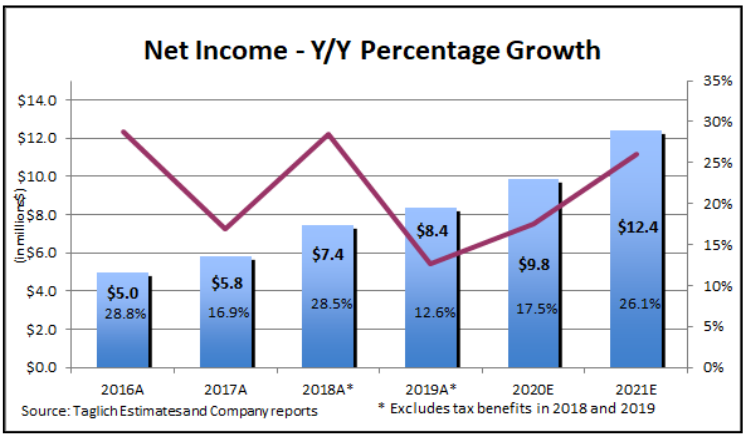
In FY20, we project EPS of $0.54 (prior was $0.63) on sales growth of 15% to $39.1 million (unchanged). Our reduced EPS forecast reflects higher than anticipated SG&A expenses in order to build its sales and contract services infrastructure.

In FY21, we project EPS of $0.68 on sales growth of 16% to $45.3 million. We anticipated the company achieving operating leverage as SG&A margin improves to 31.7% from an estimated 32.8% in FY20.

Please view our Disclosures pages on 15 – 17.

Investment Recommendation

Maintaining our Speculative Buy rating. Our rating reflects projected earnings growth in FY21 (see table below) due primarily to the build out of company's sales and contract services infrastructure through the increased hiring of its scientific staff. By the end of FY20, the scientific staff should have the ability to handle an increased number of consulting and analytical study projects. Long-term growth should also be supported by the collaboration between Cognigen and SLP scientists resulting in new and innovative solutions for clients' research and development programs. FY19, the company closed on a large contract with a pharmaceutical client that will include both software products and consulting services sourced across all three of SLP's divisions. SLP anticipates similar collaborations to occur between its DILIsym, SLP, and Cognigen divisions. In October 2019, the company obtained a partnership with a global pharmaceutical company to create a new platform for acute radiation syndrome (RADAsym) with DILIsym services taking the lead and its Cognigen and Lancaster divisions supporting the effort. Cross selling between the company's three subsidiaries, a growing client base, and user licenses purchased by US and foreign regulators for software products and analytical consulting services should underlie accelerated net income growth through FY21.



Name	Symbol	Price 11-22-19	Market Cap in $Mil	P/E - TTM	EPS Growth Rate	P/E 2021 E	Forward P/E/G
Contract Research Organizations							
Charles River Laboratories	CRL	140.77	6786	22.7	13.2%	16.9	1.7
IQVIA Haoldings Inc.	IQV	143.74	28389	23.3	15.7%	17.2	1.4
Software and Service Providers							
Veeva Systems Inc.	VEEV	153.27	19309	78.6	17.3%	53.8	3.4
Dassault Systemes SE	DASTY	153.91	39802	38.5	12.4%	30.4	2.5
Combined Average				**40.8**	**14.6%**	**29.6**	**2.2**
Company							
Simulations Plus Inc.	SLP	34.47	607	71.8	25.8%	51.4	2.0

Source: Taglich Brothers estimates and Thompson Reuters

We are increasing our 12-month price target to $39.00 per share from $37.00. The increase in our price target reflects our FY21 EPS growth forecast keeping our recently established valuation model – price/earnings/growth (P/E/G). This valuation model should better reflect SLP's relative EPS growth outperformance compared to its peers (see table on the right). Our valuation model includes four comparative companies profiled in the chart on the right. We believe these companies align with SLP's software offerings and analytical and consulting services. The four comparative companies have an average forward P/E/G multiple of 2.2X on 14.6% earnings growth compared to a forward P/E/G multiple of 2.0X on 25.8% EPS growth for SLP.

We anticipate investors are likely to accord a P/E/G multiple equal to its four larger comparative (peer) companies due primarily to SLP's higher FY21 EPS growth, no debt on its balance sheet, and a growing cash balance. The company also has the flexibility to make strategic accretive (no debt) acquisitions. 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 2.2X provides a year-head price target of approximately $39.00 per share, implying a total (including a 0.67% dividend yield) return in excess of 13%.

Simulations Plus shares are best suited for investors seeking exposure to a software and company offering consulting services that are targeting research scientists in the pharmaceutical, biotechnology, and drug development sectors.

Overview

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.

Simulations Plus, Inc., based in Lancaster, California, at the end of FY19 employed 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.

The Cognigen subsidiary was the first contract research organization to offer 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.

In 2011, Cognigen introduced KIWI 1.0, a private cloud-based validated platform to efficiently and consistently organize, process, visualize, evaluate, and communicate modeling and simulation results. In April 2016, the KIWI platform obtain a $4.7 million five-year contract with the Bill and Melinda Gates Foundation for its global teams engaged in model based drug development. In June 2019, KIWI 4.0 was introduced, which included a model wizard and covariate analysis toolset. The goal of the company's KIWI offering is to provide the functionality to meet the scientist's need for extensive documentation of the analysis of results, management's need for summaries of modeling and simulation highlights, and the regulatory agencies' needs for transparency and reproducibility.

In June 2017, SLP acquired DILIsym Services, Inc. a provider of 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.

In 2011, the initial partnerships consisted of 17 pharmaceutical companies to develop DILIsym. Approximately $7 million has been invested to produce the software. Partnership members provide compounds, data, and conduct experiments to support the development effort. The partnerships are moving into the third stage of their software lifecycle with contract renewals from pharmaceutical companies expected to occur through 2020. In January 2019 and June 2019, DILIsym Services released updates that incorporate drug-induced injury to bile duct cells, as well as enabling users to evaluate key pathophysiologic areas of evaluation in non-alcoholic steatohepatitis drug development, such as how drug candidates affect steatosis, lipotoxicity, inflammation, and fibrosis. Future releases should include adaptive immune components, new simulated populations, and integration with SLP's GastroPlus software.

DILIsym Services received an NIH small business grant funding the development of RENAsym (predicting drug-induced kidney injury) and also has 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.

In October 2019, DILIsym 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. Once the project is completed, the RADAsym platform will be available for licensing and consulting service through the company's DILIsym subsidiary.

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. Updates over the past two years included the addition of a new graphical interface, a MedChem Studio module (enables the mining of data to design new drug-like molecules), updated 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. Released in April 2019, Version 9.5 provides 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 new structure sensitivity analysis visualization tool.
DDDPlus™	DDDPlus (dose disintegration & dissolution) enables formulation scientists to predict how changes in formulation or experimental setup affect dissolution rate in laboratory experiments. April 2016 version provides easy integration with ADMET Predictor and new 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 January 2019, Version 6 provides new long-acting injectable model developed from an FDA grant and new 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. In 2017 version 9.5 was introduced with 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. Customers are located in the US (including multiple licenses at the FDA), Europe, and Asia. Released in May 2018, Version 9.6 provides customers with new special population physiology models and improvements to all mechanistic absorption models. In June 2019, Version 9.7 was released, which includes improvements to population simulations, dissolution, absorption, PBPK models, drug-drug interactions, dermal absorption, and immune response was added to the intramuscular injection models.
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.
	Source: company reports and presentations **Future Updates 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. In the 2019 global life sciences outlook published by consulting firm Deloitte, global R&D spending within the pharmaceutical industry is projected to reach $177 billion in 2019, up from $171 billion in 2018. 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.

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.

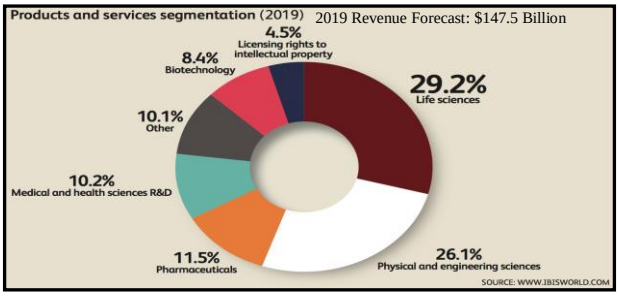
Analysis by the Industrial Research Institute and the biosimulation market forecast suggest sales gains by SLP's simulation software tools such as GastroPlus, ADMET Predictor/Modeler, DDDPlus, and ClassPharmer. In the very early stage of drug development, these tools can help determine whether or not 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.

Since 2015, the company's consulting services and results from its software tools have been part of at least 50 submissions to regulatory agencies around the world. The agencies include the US Food and Drug Administration (FDA), the European Medicines Agency in Europe, the Medicines and Healthcare products Regulatory Agency in England, as well as other FDA equivalent agencies in other countries primarily in Asia.

Strong Growth Prospects

We project sales and net income growth (excluding one-time items) through FY20 due to the acquisitions of Cognigen and DILIsym Services, new software offerings such as PKPlus, funded collaborations (with the FDA, National Institute of Health, and large pharmaceutical companies), and KIWI contracts, as well as an increasing number of consulting contracts and the increasing usage of simulation tools by global regulatory agencies.



Industry Dynamics

IBISWorld projects total US Scientific R&D spending through 2025 to grow 3.1% annually reaching $176.9 billion, up from an estimated $147.5 billion in 2019. Based on IBISWorld's June 2019 forecast for the Scientific R&D Development industry, if the percentages for biotechnology, pharmaceutical, and other hold (30% total – see chart on the right), 2025 spending on those three categories should approximate $53.1 billion, up from $44.3 billion forecast for 2019. Growth should be driven due to the increased outsourcing to companies with specialized skill sets.

Fundamentals

SLP's sales growth is driven primarily by participation of its life science and market teams in large and small conferences around the world. Making in excess of 25 presentations at global conferences resulted in the company's database of over 2,000 potential customers, which should grow annually by approximately 20%. We project annual customer additions could reach at least 120 in FY21, up from 100 in FY19. Along with customer additions, we anticipate more complex, higher value consulting projects due to the collaborative efforts between the SLP, Cognigen, and DILIsym science teams. In FY21, we anticipate analytical consulting services to account for 50.3% of total sales, up from approximately 47% in FY20, and approximately 42.1% in FY19. We anticipate by 2H20, the company will have developed methods and practices that will improve margins on its consulting services offerings.

Customers evaluate software and then obtain approvals from multiple decision makers prior to a purchase, a process that can take up to six months. Company data suggest that once a customer purchases a license, the annual account renewal rate approximates 85% with a revenue renewal rate approaching 95%.

Entering FY20, the company's Cognigen subsidiary had 32 outstanding proposals with 23 companies and a $6 million project backlog. Its DILIsym subsidiary is working on 15 consulting projects (including two projects from its NAFLDsym software along with 7 active consortium contracts). DILIsym also has one small business grant that should receive funding of approximately $900,000 in 2019 and a funded collaboration with a large pharmaceutical company (funding could reach $2.9 million over the next two years).

Operations

For FY20, we project 15% sales growth to $39.1 million (unchanged), reflecting a 15.9% increase in DILIsym sales to $5.9 million, a 14% increase in the company's Lancaster, CA. division sales to $22.3 million reflecting the addition of approximately 110 new customers due primarily to consulting customer conversions and license renewals from regulatory agencies, and a 16.6% increase at its Cognigen division to $10.9 million due to a growing customer base and revenue recognized from its five-year contract to implement its KIWI offering to a non-profit organization. We anticipate analytical consulting services increasing 31% to $18.7 million or 47% of total sales, up from $14.3 million or 42.1% of total sales in FY19. Consulting services growth should reflect an increasing number of consulting projects for new and existing customers at the company's Cognigen division and enhanced analytical capabilities as DILIsym's unique software algorithms are merged into SLP's current services offering at its divisions in California and North Carolina.

For FY21, we project 16% sales growth to $45.3 million, reflecting a 17.1% increase in DILIsym sales to $6.9 million, a 15.6% increase in the company's Lancaster, CA. division sales to $25.8 million reflecting the addition of approximately 120 new customers due primarily to consulting customer conversions and license renewals from regulatory agencies, and a 16.2% increase at its Cognigen division to $12.6 million due to a growing customer base and revenue recognized from its KIWI offering. We anticipate analytical consulting services increasing 21.6% to $22.8 million or 50.3% of total sales, up from an estimated $18.7 million or 47% of total sales in FY20. Consulting services growth should reflect an increasing number of consulting projects for new and existing customers at the company's Cognigen division and enhanced analytical capabilities as DILIsym's unique software algorithms are merged into SLP's current services offering at its divisions in California and North Carolina.

The table below outlines the cost structure we anticipate for fiscal years 2020 and 2019 vs. 2018 and 2017 results.

Cost Structure

Margin Analysis	FY18A	FY19A	**FY20E**	**FY20E**	**FY21E**
	Actual	Actual	**Prior**	**Current**	**Initial**
Gross Profit	73.1%	73.4%	73.7%	73.0%	73.3%
SG&A expenses	32.3%	32.9%	29.5%	32.8%	31.7%
R&D expenses	6.0%	7.4%	6.6%	7.5%	6.3%
Operating income	34.7%	31.3%	37.6%	32.7%	35.4%
Tax rate	11.9%*	18.7%	23.0%	23.0%	23.0%

Source: Taglich Brothers estimates and company reports *Includes a $1.5 million tax benefit in 2Q18.

Our gross margin projection reflects FY20 and FY21 Cognigen margins of 51.6%, and 51.9%, respectively, vs. 84.1% and 84.7%, respectively for each period in the Lancaster, CA division. We estimate the DILIsym division should have gross margin of 70.2% and 69.7% in FY20 and FY21. We forecast consolidated gross margin to remain at or just above 73% for FY20 and FY21, which is relatively flat with 73.4% in FY19. Our gross margin forecast reflects the hiring of additional scientific staff in FY19 in order to fulfill the increase in consulting and analytical study contracts from new and existing customers during the upcoming two fiscal years. We anticipate the costs associated with the new personnel should gain some 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 32.8% and 31.7%, respectively, and R&D margins of 7.5% to 6.3%, respectively (see table on prior page). Our operating expense forecasts reflect nearly a 17% increase in the company's scientific staff in FY19 and additional staff hiring that could approach 10%, partly offset by operational efficiencies created from marketing initiatives at its three divisions in order to obtain and support new customers and expand the functionality of SLP's software programs. Overall expenses will include support for workshops and training sessions in Germany, Korea, India, New Jersey, and at customer sites, as well as global participation in scientific meetings, conferences, and poster presentations.

In FY20, operating expenses should increase 10.3% to $15.8 million reflecting an 8.7% increase in SG&A expense to $12.8 million and R&D expense increase of 17.6% to $2.9 million. The increase in SG&A expense reflects spending to support growth initiatives at its three operating divisions in CA, NY, and NC. The $2.9 million in spending on R&D reflects the development and enhancement of new and existing software offerings. We project flat operating expense margin of 40.3% in FY20 compared to FY19 due primarily to higher sales offset by increased spending and a decrease in gross margin to 73% compared to 73.4% in FY19. We project 19.6% operating income growth to $12.7 million with operating margin of 32.6%.

In FY21, operating expenses should increase 9.1% to $17.2 million reflecting an 11.9% increase in SG&A expense to $14.4 million and R&D expense remaining flat at $2.9 million. The increase in SG&A expense should support sales growth of the company's software offerings and consulting/analytical services. We project operating expense margin decreasing to 38% from our forecast of 40.3% in FY20 due to higher sales and the acceleration of scientists' productivity across the company's software and analytical consulting services platforms. We project 25.7% operating income growth to $16 million with operating margin of 35.4%.

In FY20, we project other income of $40,000 compared to an expense of $92,000 in FY19. The swing to income from an 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). Our net income projection is $9.8 million or $0.54 per share. We previously forecasted net income of $11.3 million or $0.63 per share. The reduction in our net income forecast is due to higher operating expenses than previously anticipated.

In FY21, we project other income of $80,000 compared to $40,000 in FY20, reflecting the increase in the company's cash balances. Our FY21 net income projection is $12.4 million or $0.68 per share. The growth we forecast reflects increased productivity from the prior years' build out of company's sales and contract services infrastructure.

Finances

For FY20, we project cash earnings of $13.6 million and an increase in working capital of $2 million due primarily to increases in receivables and revenue in excess of billings and decrease in deferred tax accruals. Cash from operations of $11.6 million should cover software development costs, contingent and contract payments, and common stock dividends, increasing cash by nearly $3.4 million to $14.8 million at the end of FY20.

For FY21, we project cash earnings of $16.2 million and an increase in working capital of $3.7 million due primarily to increases in receivables and revenue in excess of billings and decrease in deferred tax accruals. Cash from operations of $12.4 million should cover software development costs and common stock dividends, increasing cash by $4.9 million to $19.8 million at the end of FY21.

FY19 and 4Q19 Results

FY19

Sales increased 14.5% to $34 million due primarily to 18.6% sales growth at the company's Buffalo subsidiary (Cognigen) to $9.3 million reflecting 50 new project engagements. The company's North Carolina DILISym subsidiary had sales growth of 19% to $5.1 million due primarily to increased software sales and consulting services. Sales in SLP's Lancaster, CA division increased 11.6% to $19.6 million stemming from new customers and retention of existing customers. Included in total sales were increases in consulting services and software related revenues of $2.5 million and $1.8 million, respectively, compared to FY18.

Gross profit increased 15.1% to $24.9 million due primarily to higher sales and gross margin improving to 73.4% compared to 73.1% in FY18. Gross margin for the software and services division was 83.3% versus 82.6%, while SLP's Cognigen division had gross margin of 53.1% compared to 58.9% in the year-ago period. DILIsym Services gross margin increased to 72.7% from 59.6%. Gross margin improvement was due primarily the company's DILIsym, which had a significant improvement in gross margin stemming from a $380,000 decrease in direct contract expenses paid for testing that occurred in FY18 but did not occur in FY18.

Operating expense margin increased to 42.1% from 38.3% reflecting a 25.7% increase in operating expenses to $14.3 million compared to 14.5% sales growth. SG&A expense increased 23.1% to $11.8 million and R&D increased 39.6% to $2.5 million. The increase in SG&A expense includes higher contract labor ($172,000 increase), insurance ($218,000 increase), and payroll taxes ($116,000 increase). The increase in SG&A expense also reflects higher salaries/wages and commissions ($1.1 million increase) stemming from higher sales through representatives in Asia and increased compensation and salaries due to 401K costs, annual salary increases, and increased head count, as well as a $214,000 increase in recruiting and hiring costs.

Operating income increased 3.4% to $10.6 million due to higher sales and gross margin improvement, offset in part by higher operating expenses. Other expense was $92,000 compared to an expense of $159,000 in the year-ago period. The decrease in other expense stems from contingent consideration (imputed interest) of $109,000 compared to $153,000 in FY18 (both periods include interest income of $34,000 and 27,000, respectively), and a decrease in currency exchange losses to $17,000 compared to a loss of $33,000.

Net income was $8.6 million or $0.48 per share compared to $8.9 million or $0.50 per share. The company recorded an income tax expense of $2 million compared to an expense of $1.2 million in the year-ago period. The year-ago period included a one-time $1.5 million or approximately $0.08 per share tax benefit due to the 2017 tax reform act. Excluding the one-time benefit, EPS was approximately $0.42. We projected net income of $8.2 million or $0.46 per share on sales of $33.5 million.

4Q19

Sales increased 20% to $8 million due to a 26.7% increase in its Lancaster, CA division to $4.2 million. Sales in the company's Cognigen and DILISym divisions each grew in excess of 13% to $2.4 million and $1.4 million, respectively.

Gross profit increased 25.5% to $5.7 million due to higher sales and gross margin expansion to 71.4% from 68.3%.

Operating expense margin increased to 47.1% from 39.9% due to higher SG&A and R&D expenses. Operating expenses increased 41.7% to $3.8 million reflecting SG&A expense increasing 42.5% to $3.2 million due primarily to increases in stock compensation expense, recruiting fees, and higher headcount in the Lancaster and Buffalo divisions. SLP also had an increase in accounting and consulting fees. R&D expense increased 38% to $603,000.

Operating income increased 2.7% to $2 million due to higher sales and gross margin expansion, nearly offset by higher operating expenses. Other income was $37,000 compared to other expense of $58,000 in the year-ago period. Net income was $2.1 million or $0.11 per share compared to $1.3 million or $0.08 per share. 4Q19

included an income tax benefit effect of stock compensation deductions from stock option exercises and sales. If a normalized tax rate was applied, we estimate EPS would have approximated $0.09.

Finances
In FY19, cash earnings of $12.5 million and an increase in working capital of $882,000 resulted in cash from operations of $11.6 million. The increase in working capital resulted primarily from an increase in revenue in excess of billings, partly offset by a decrease in receivables and increase in accruals. Cash from operations covered capital expenditures and common stock dividends, increasing cash by $2 million to $11.4 million at August 31, 2019.

Strategy

SLP aims to increase its visibility and customer leads by having their life science team members attend conferences and scientific meetings worldwide. The company attends approximately 50 scientific conferences annually, while also presenting posters and oral podium presentations globally. SLP also hosts webinars on modeling and simulation applications and holding global workshops demonstrating the utility of its offerings.

The company aims to expand its contract research, consulting, and workshop services offered to the industry. In FY19, SLP's Lancaster division engaged with 40 new commercial clients, is working on five funded collaborations primarily with large pharmaceutical companies, and increased consulting revenue by 28% to $2.3 million. In FY19, SLP increased its professional staff by approximately 17% to 111 including placing four consultants in Europe to support the company's increasing physical presence in that market. While the new staff is an initial expense, operating leverage should emerge in FY20. 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. The company's Lancaster division ended FY19 with two FDA funded collaborations and two unfunded collaborations (with future funding potential). Subsequent to FY19, the Lancaster division obtained three funded collaborations with a clinical stage biotechnology company and two large pharmaceutical companies to enhance the Gastroplus offering. The DILISym subsidiary is actively working on one NIH funded collaboration and two funded collaborations with large pharmaceutical companies. The potential future value of the DILISym collaborations is approximately $4.4 million.

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 an unmet need 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 with small molecules accounting for 64% of total approvals. The 2018 approvals also included 16 new cancer therapies, up from 12 in 2017. Also in 2018, European regulators recommended 84 new drugs including generics, down from 92 in 2017, but the current period included 42 new active substances, up from 35 in 2017.

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.

Shareholder Control
Walter Woltosz, co-founder and chairman of the board, and Virginia Woltosz, co-founder, own approximately 28.7% of the outstanding voting stock (based on SEC filing in November 2019). 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 2017 was 53,700 a day. In 2018, average daily volume increased to 63,000, and over the last three months (ending November 21, 2019) was 115,500. SLP has 17.6 million shares outstanding and a float of approximately 12.4 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	**FY20E**	**FY20E**
ASSETS					
Current assets:					
Cash	$ 6,216	$ 9,401	$ 11,436	**$ 14,849**	**$ 19,777**
Accounts receivable, net	4,049	5,515	5,027	**5,968**	**7,049**
Revenue in excess of billings	1,481	1,986	3,234	**4,000**	**5,250**
Prepaid income taxes	462	313	765	**525**	**525**
Prepaid expense and other current assets	460	610	704	**726**	**774**
Total current assets	12,668	17,824	21,165	**26,068**	**33,376**
Capitalized computer software development costs, net	4,308	5,153	4,960	**5,750**	**7,000**
Property and equipment, net	291	335	341	**350**	**355**
Customer relationships, intellectual property, goodwill, intangibl	21,212	19,930	18,693	**17,584**	**16,879**
Other assets	34	37	37	**37**	**37**
Total assets	$ 38,512	$ 43,279	$ 45,197	**$ 49,789**	**$ 57,647**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	241	352	204	**217**	**109**
Accrued payroll and other expenses	983	1,152	1,639	**1,786**	**1,872**
Accrued bonuses to officers	-	-	-	**-**	**-**
Accrued/payable income taxes	-	-	-	**-**	**-**
Other	-	-	-	**-**	**-**
Contract payable	247	2,557	1,761	**-**	**-**
Billings in excess of revenues	217	385	799	**850**	**800**
Current portion of deferred revenue	354	382	381	**400**	**400**
Total current liabilities	2,042	4,827	4,783	**3,254**	**3,181**
Deferred income tax accruals	4,927	3,195	2,732	**2,269**	**1,000**
Payments due under contract payable	5,738	3,334	-	**-**	**-**
Stockholders' equity:					
Common stock, no par value; authorized 20,000,000 shares;	7	7	8	**8**	**8**
Additional paid-in capital	12,109	13,454	15,319	**16,369**	**17,469**
Retained earnings (accumulated deficit)	13,688	18,462	22,354	**27,890**	**35,989**
Total stockholders' equity	25,805	31,923	37,681	**44,267**	**53,466**
Total liabilities and stockholders' equity	$ 38,512	$ 43,279	$ 45,197	**$ 49,789**	**$ 57,647**
SHARES OUT	17,278	17,416	17,592	**17,623**	**17,630**

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	**$ 22,330**	**$ 25,815**
DILIsym - North Carolina	1,238	4,257	5,065	**5,870**	**6,875**
Cognigen division - Consulting services	7,300	7,857	9,321	**10,865**	**12,625**
Total Net sales	$ 24,138	$ 29,667	$ 33,970	**$ 39,065**	**$ 45,315**
Cost of sales - Simulations Plus Division	2,643	3,049	3,277	**3,555**	**3,940**
Cost of sales - DILIsym	555	1,718	1,382	**1,750**	**2,080**
Cost of sales - Cognigen Division	3,110	3,227	4,367	**5,255**	**6,075**
Total Cost of sales	6,308	7,994	9,026	**10,560**	**12,095**
Gross Profit	17,830	21,672	24,945	**28,505**	**33,220**
Operating Expenses:					
Selling, general, and administrative	8,198	9,584	11,796	**12,825**	**14,350**
Research and development	1,368	1,791	2,500	**2,940**	**2,850**
Total Operating Expenses	9,566	11,375	14,296	**15,765**	**17,200**
Operating Income (loss)	8,264	10,298	10,649	**12,740**	**16,020**
Other income (expense)					
Interest income (expense)	(22)	(126)	(76)	**40**	**80**
Gain (Loss) on exhange of currency	(2)	(33)	(17)	**-**	**-**
Total Other Income (expense)	(24)	(159)	(92)	**40**	**80**
Pre-Tax Income (loss)	8,240	10,139	10,556	**12,780**	**16,100**
Income Tax Expense (Benefit)	2,453	1,204	1,973	**2,945**	**3,700**
Net income (loss)	5,788	8,935	8,583	**9,835**	**12,400**
Earning (loss) per share	$ 0.33	$ 0.50	$ 0.48	**$ 0.54**	**$ 0.68**
Avg Shares Outstanding	17,515	17,860	18,039	**18,075**	**18,115**
Dividends per Share	$ 0.20	$ 0.24	$ 0.24	$ 0.24	$ 0.24
Margin Analysis					
Gross margin - Simulations Plus Division	83.1%	82.6%	83.3%	**84.1%**	**84.7%**
DILIsym - North Carolina	55.2%	59.6%	72.7%	**70.2%**	**69.7%**
Gross margin - Cognigen Division	57.4%	58.9%	53.1%	**51.6%**	**51.9%**
Total gross margin	73.9%	73.1%	73.4%	**73.0%**	**73.3%**
Selling, general, and administrative	34.0%	32.3%	32.9%	**32.8%**	**31.7%**
Research and development	5.7%	6.0%	7.4%	**7.5%**	**6.3%**
Operating margin	34.2%	34.7%	31.3%	**32.6%**	**35.4%**
Pre-tax margin	34.1%	34.2%	31.1%	**32.7%**	**35.5%**
Tax rate	29.8%	11.9%	18.7%	**23.0%**	**23.0%**
YEAR / YEAR GROWTH					
Total Revenues	20.9%	22.9%	14.5%	**15.0%**	**16.0%**

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 E	Q2 20 E	Q3 20 E	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	$ 4,750	$ 5,935	$ 6,970	$ 4,675	**$ 22,330**	$ 5,240	$ 7,125	$ 8,050	$ 5,400	**$ 25,815**
DILIsym - North Carolina	1,106	1,172	1,374	1,413	5,065	1,250	1,395	1,600	1,625	**5,870**	1,475	1,595	1,880	1,925	**6,875**
Cognigen division - Consulting services	2,065	2,292	2,538	2,426	9,321	2,370	2,625	2,995	2,875	**10,865**	2,725	3,100	3,600	3,200	**12,625**
Total Net sales	$ 7,536	$ 8,472	$ 9,937	$ 8,026	$ 33,970	$ 8,370	$ 9,955	$ 11,565	$ 9,175	**$ 39,065**	$ 9,440	$ 11,820	$ 13,530	$ 10,525	**$ 45,315**
Cost of sales - Simulations Plus Division	827	840	806	805	3,277	820	890	955	890	**3,555**	890	1,000	1,085	965	**3,940**
Cost of sales - DILIsym	404	314	314	350	1,382	450	365.000	465.000	470	**1,750**	600	430	500	550	**2,080**
Cost of sales - Cognigen Division	969	1,054	1,205	1,139	4,367	1,175	1,260	1,455	1,365	**5,255**	1,360	1,470	1,645	1,600	**6,075**
Total Cost of sales	2,200	2,208	2,324	2,293	9,026	2,445	2,515	2,875	2,725	**10,560**	2,850	2,900	3,230	3,115	**12,095**
Gross Profit	5,336	6,264	7,613	5,733	24,945	5,925	7,440	8,690	6,450	**28,505**	6,590	8,920	10,300	7,410	**33,220**
Operating Expenses:															
Selling, general, and administrative	2,719	2,810	3,087	3,180	11,796	3,050	3,075	3,500	3,200	**12,825**	3,325	3,575	3,750	3,700	**14,350**
Research and development	530	724	643	603	2,500	590	800	850	700	**2,940**	650	750	775	675	**2,850**
Total Operating Expenses	3,249	3,534	3,731	3,783	14,296	3,640	3,875	4,350	3,900	**15,765**	3,975	4,325	4,525	4,375	**17,200**
Operating Income (loss)	2,087	2,730	3,882	1,950	10,649	2,285	3,565	4,340	2,550	**12,740**	2,615	4,595	5,775	3,035	**16,020**
Other income (expense)															
Interest income (expense)	(35)	(33)	(22)	13	(76)	10	10	10	10	**40**	20	20	20	20	**80**
Gain (Loss) on exhange of currency	(31)	(2)	(8)	24	(17)	-	-	-	-	-	-	-	-	-	-
Total Other Income (expense)	(65)	(35)	(30)	37	(92)	10	10	10	10	**40**	20	20	20	20	**80**
Pre-Tax Income (loss)	2,022	2,696	3,852	1,987	10,556	2,295	3,575	4,350	2,560	**12,780**	2,635	4,615	5,795	3,055	**16,100**
Income Tax Expense (Benefit)	486	596	964	(72)	1,973	525	820	1,010	590	**2,945**	605	1,060	1,330	705	**3,700**
Net income (loss)	1,536	2,099	2,889	2,059	8,583	1,770	2,755	3,340	1,970	**9,835**	2,030	3,555	4,465	2,350	**12,400**
Earning (loss) per share	$ 0.09	$ 0.12	$ 0.16	$ 0.11	$ 0.48	$ 0.10	$ 0.15	$ 0.18	$ 0.11	**$ 0.54**	$ 0.11	$ 0.20	$ 0.25	$ 0.13	**$ 0.68**
Avg Shares Outstanding	17,998	18,003	18,096	18,057	18,039	18,060	18,070	18,080	18,090	**18,075**	18,100	18,110	18,120	18,130	**18,115**
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
Margin Analysis															
Gross margin - Simulations Plus Division	81.1%	83.2%	86.6%	80.8%	83.3%	82.7%	85.0%	86.3%	81.0%	**84.1%**	83.0%	86.0%	86.5%	82.1%	**84.7%**
DILIsym - North Carolina	63.5%	73.2%	77.1%	75.3%	72.7%	64.0%	73.8%	70.9%	71.1%	**70.2%**	59.3%	73.0%	73.4%	71.4%	**69.7%**
Gross margin - Cognigen Division	53.1%	54.0%	52.5%	53.1%	53.1%	50.4%	52.0%	51.4%	52.5%	**51.6%**	50.1%	52.6%	54.3%	50.0%	**51.9%**
Total gross margin	70.8%	73.9%	76.6%	71.4%	73.4%	70.8%	74.7%	75.1%	70.3%	**73.0%**	69.8%	75.5%	76.1%	70.4%	**73.3%**
Selling, general, and administrative	36.1%	33.2%	31.1%	39.6%	32.9%	36.4%	30.9%	30.3%	34.9%	**32.8%**	35.2%	30.2%	27.7%	35.2%	**31.7%**
Research and development	7.0%	8.5%	6.5%	7.5%	7.4%	7.0%	8.0%	7.3%	7.6%	**7.5%**	6.9%	6.3%	5.7%	6.4%	**6.3%**
Operating margin	27.7%	32.2%	39.1%	24.3%	31.3%	27.3%	35.8%	37.5%	27.8%	**32.6%**	27.7%	38.9%	42.7%	28.8%	**35.4%**
Pre-tax margin	26.8%	31.8%	38.8%	24.8%	31.1%	27.4%	35.9%	37.6%	27.9%	**32.7%**	27.9%	39.0%	42.8%	29.0%	**35.5%**
Tax rate	24.0%	22.1%	25.0%	(3.6%)	18.7%	22.9%	22.9%	23.2%	23.0%	**23.0%**	23.0%	23.0%	23.0%	23.1%	**23.0%**
YEAR / YEAR GROWTH															
Total Revenues	6.6%	15.2%	16.2%	20.0%	14.5%	11.1%	17.5%	16.4%	14.3%	**15.0%**	12.8%	18.7%	17.0%	14.7%	**16.0%**

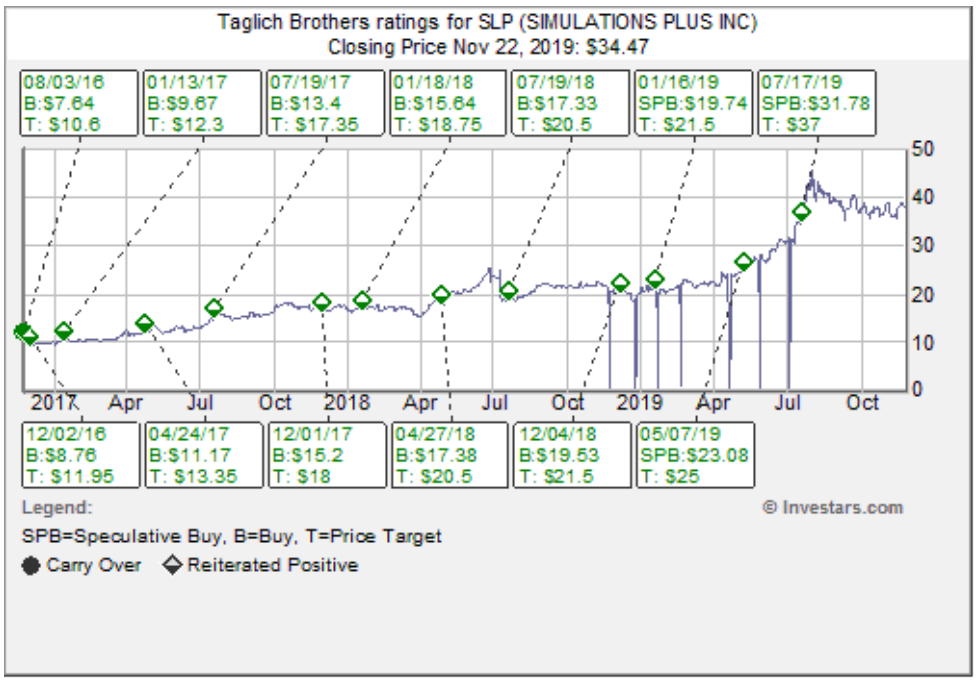
Source: Company reports and Taglich Brothers estimates

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

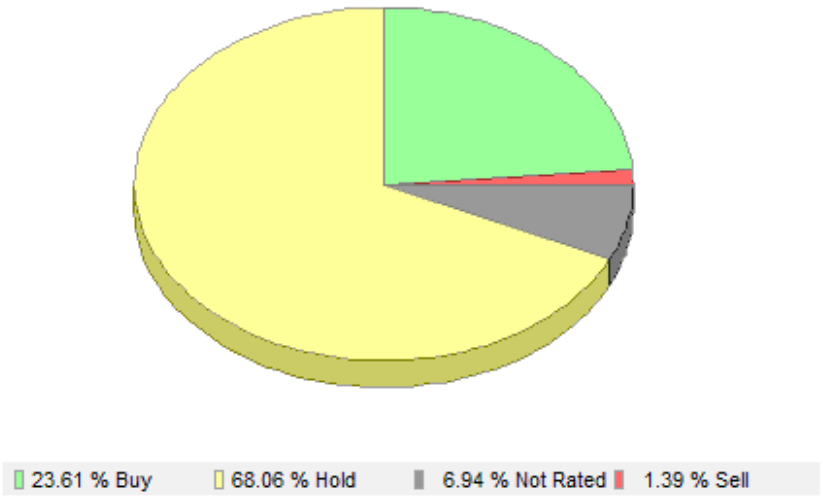
	FY2017A	FY2018A	FY2019A	**FY2020E**	**FY2021E**
Cash Flows from Operating Activities					
Net Income (loss)	$ 5,788	$ 8,935	$ 8,583	**$ 9,835**	**$ 12,400**
Depreciation and amortization	1,248	2,721	2,750	**2,700**	**2,650**
Amortization of intellectual property	887	-	-	**-**	**-**
Stock-based compensation, net	622	709	1,078	**1,050**	**1,100**
Loss (gain) on sale of assets and change in value of contigent considera	38	153	109	**-**	**-**
Cash earnings (burn)	8,583	12,518	12,520	**13,585**	**16,150**
Changes In:					
Accounts receivable	(876)	(1,466)	488	**(942)**	**(1,081)**
Revenues in excess of billings	(634)	(505)	(1,248)	**(766)**	**(1,250)**
Deferred tax and refund and accured income taxes	(239)	(1,582)	(752)	**(463)**	**(1,269)**
Pre-paids and other assets	41	(154)	(94)	**(21)**	**(49)**
Accounts payable	99	111	(148)	**13**	**(108)**
Accrued payroll and other expenses	284	169	487	**147**	**85**
Income taxes	-	-	-	**-**	**-**
Billings in excess of revenues	(118)	168	414	**51**	**(50)**
Other and accrued income taxes	(8)	-	-	**-**	**-**
Deferred revenue	(253)	28	(30)	**19**	**-**
(Increase)/decrease in Working Capital	(1,705)	(3,231)	(882)	**(1,961)**	**(3,721)**
Net cash Provided by Operations	6,878	9,287	11,638	**11,624**	**12,429**
Cash Flows from Investing Activities					
Purchase of property and equipment	(176)	(183)	(138)	**(150)**	**(200)**
Cash used/received to purchase Cognigen Corporation and DILIsym	(2,796)	-	-	**-**	**-**
Purchases of intellectual property	-	-	(50)	**-**	**-**
Earn-out payments	-	-	-	**-**	**-**
Capitalized computer software development costs	(1,384)	(2,145)	(1,768)	**(2,000)**	**(3,000)**
Cash Flows from Investing Activities	(4,355)	(2,329)	(1,956)	**(2,150)**	**(3,200)**
Cash Flows from Financing Activities					
Payments on contracts payable	(1,000)	(247)	(4,239)	**(1,761)**	**-**
Common stock dividends	(3,448)	(4,162)	(4,197)	**(4,300)**	**(4,300)**
Proceeds from the exercise of stock options and excess benefits	111	636	788	**-**	**-**
Net cash provided by Financing	(4,337)	(3,773)	(7,648)	**(6,061)**	**(4,300)**
Net change in Cash	(1,815)	3,185	2,035	**3,413**	**4,929**
Cash Beginning of Period	8,030	6,216	9,401	**11,436**	**14,849**
Cash End of Period	$ 6,216	$ 9,401	$ 11,436	**$ 14,849**	**$ 19,777**

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	10
Hold		
Sell		
Not Rated	1	25

Important Disclosures

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company within the last three years.

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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.