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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: Buy

Howard Halpern

SLP $55.65 — (NasdaqCM)

November 24, 2020

	2018 A	2019 A	2020 A	***2021 E***	***2022 E***
Net sales (in millions)	$29.7	$34.0	$41.6	***$50.3***	***$58.8***
Earnings per share	$0.42*	$0.46**	$0.50	***$0.59***	***$0.74***

52-Week range	$77.89 – $26.00	Fiscal year ends:	August
Shares outstanding a/o 11/16/20	19.9 million	Revenue/shares (ttm)	$2.24
Approximate float	15.1 million	Price/Sales (ttm)	24.8X
Market Capitalization	$1.1 billion	Price/Sales (2022) E	20.7X
Tangible Book value/shr	$6.23	Price/Earnings (ttm)	111.3X
Price/Tangible Book	8.9X	Price/Earnings (2023) E	75.2X
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*

*** Excludes 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:

Upgrading our rating to Buy from Speculative Buy and increasing our 12-month price target to $76 per share from $72 per share due to an increase in sector valuation and strong projected EPS growth to FY22.

Our upgrade reflects Simulations Plus' strong balance sheet that has $116 million in cash and short-term investments (approximately $5.82 per share) at August 31, 2020, as well as projected earnings growth of 25.4% and cash earnings of $20.5 million in FY22. Our upgrade also reflects the high margin software revenue contribution from the company's Lixoft acquisition that should reach over $5 million in FY22, up from an estimated $4.1 million in FY21, and $1.6 million in 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.

FY20 EPS (reported 11/16/20) was $0.50 on sales growth of 22.4% to $41.6 million, which included approximately $0.06 per share in acquisition related costs. We projected sales of $41 million and EPS of $0.48. In FY19, EPS was $0.46** on sales of $34 million.

In FY21, we project EPS of $0.59 per share (prior was $0.68 per share) on sales growth of 20.9% to $50.3 million (prior was $50.5 million). Sales growth reflects increased customer activity for all its offerings, as well as recurring revenue from the Lixoft acquisition, offset in part by higher than anticipated operating expenses.

In FY22, we project EPS of $0.74 per share on sales growth of 16.8% to $58.8 million. Our sales forecast reflects organic customer growth and increased consulting activity. Our EPS growth forecast of 25.4% is due primarily to improved operating margin expense to 41.3% from an estimated 42.9% in FY21.

Please view our Disclosures pages on 15 – 17.

Investment Recommendation

Upgrading our rating to Buy from Speculative Buy on shares of Simulations Plus, Inc. Our upgraded rating reflects the company's strong balance sheet that has $116 million in cash and short-term investments (or approximately $5.82 per share) at August 31, 2020, as well as projected earnings growth of 25.4% in FY22 and cash earnings of $20.5 million in FY22, up from an estimated $17.8 million in FY21, and $14.7 million in FY19. Our upgraded rating also reflects high margin software revenue contribution from the company's Lixoft acquisition that should reach over $5 million in FY22, up from an estimated $4.1 million in FY21, and $1.6 million in FY20.

We are increasing our 12-month price target to $76 per share from $72 per share due primarily to an increase in sector valuation and establishing our FY22 EPS growth forecast of 25.4% to $0.74. 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 4.6X (prior was 4.3X) on 19.6% earnings growth compared to a forward P/E/G multiple of 3.1X (prior was 3.1X) on 25.4% EPS growth for SLP.

Name	Symbol	Price 11-23-20	Market Cap in $Mil	EPS Growth Rate	P/E/G
Medical Laboratories & Research					
Charles River Laboratories	CRL	232.14	11547	19.1%	2.9
Agilen Technologies, Inc.	A	112.25	34608	15.0%	5.2
Healthcare Information Services					
Veeva Systems Inc.	VEEV	272.35	36963	19.6%	7.7
Cerner Corporation	CERN	73.60	22565	13.4%	2.7
Combined Average				**19.6%**	**4.6**
Company					**FY21- P/E/G**
Simulations Plus Inc.	SLP	55.65	1109	25.4%	2.9

Source: Taglich Brothers, Yahoo, and FINVIZ.com

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 FY22 EPS growth rate, no debt on its balance sheet, and cash and short-term investment totaling $116 million at August 31, 2020. The company 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 4.6X (prior was 4.3X), discounted for execution risk, provides a year-head price target of approximately $76 per share, implying a total (including a 0.4% dividend yield) return in excess of 35%.

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 March 31, 2020).

Recent Developments

In August 2020, SLP announced the closing of a public stock offering of nearly 2.1 million shares of its common stock at $55 per share, which included the full exercise of the underwriters' option to purchase nearly 223,000 additional shares of common stock. The aggregate gross proceeds to the company were $115 million, before deducting underwriting discounts and commissions and other offering expenses.

In September 2020, the company announced that simulations using its DILIsym software were utilized as part of the U.S. Food and Drug Administration's review of the safety of the drug Ubrogepant, which has now been approved for use in the US.

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 95 at August 31, 2020, up from 78 at August 31, 2019 and six in FY06. The company's subsidiaries ended FY20 employing 73 Ph.Ds. in their respective science or engineering disciplines, and 26 employees hold one or more Master's degrees. In FY20, 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. 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 algorithmswith 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 customer's 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. **In October 2020, began the process through a funded cooperative agreement to establish novel in vitro/in silico models for the oral cavity route that should accelerate pharmaceutical research and regulatory assessment of innovative and generic drug products delivered intraorally.**
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.

Projections

We project sales and net income growth through our forecast period 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 1Q21 are likely to be impacted by the global COVID-19 pandemic with year-over-year growth approximating 7.5%. While the company had not seen any measurable decrease in demand for its offering, there continues to be delays in buying decisions. In 1Q21, SLP was closing new software license business but at a slower pace than in prior years. The company anticipates growing its customer base for its software offerings as pent up demand is released as COVID-19 pandemic conditions eventually begin to ease.

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 the 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 forecasted 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 150 in FY22, up from an estimated 133 in FY21 and 113 in FY20. Entering FY21, the company's consulting backlog of secured business is in excess of $10 million.

Operations

For FY21, we project 20.9% sales growth to $50.3 million (prior was $50.5 million), reflecting a 17.3% increase in DILIsym sales to $8.2 million, a 15.1% increase in the company's Lancaster, CA. division sales to $25.3 million reflecting the addition of approximately 133 new customers due primarily to consulting customer conversions and license renewals from regulatory agencies, and a 15.3% increase at its Cognigen division to $12.8 million due to a growing customer base. We anticipate sales from the company's Lixoft subsidiary of $4.1 million, up from $1.6 million in FY20.

For FY22, we project 16.8% sales growth to $58.8 million, reflecting an 18.5% increase in DILIsym sales to $9.7 million, a 15.8% increase in the company's Lancaster, CA. division sales to $29.3 million reflecting the addition of approximately 150 new customers due primarily to consulting customer conversions and license renewals from regulatory agencies, and a 15.1% increase at its Cognigen division to $14.7 million due to a growing customer base. We anticipate sales from the company's Lixoft subsidiary increasing 24.9% to nearly $5.1 million as its European customers using the Lixoft software increase to 82, up from an estimated 65 new customers in FY21.

The table below outlines the cost structure we anticipate for fiscal years 2022 and 2021 vs. 2020 results.

Cost Structure

Margin Analysis	FY209A	**FY21E**	**FY21E**	**FY22E**
	Actual	**Prior**	**Current**	**Current**
Gross Profit	74.4%	75.3%	74.9%	75.7%
SG&A expenses	39.3%	36.5%	36.6%	35.7%
R&D expenses	7.2%	5.6%	6.3%	5.6%
Operating income	27.9%	33.1%	32.0%	34.3%
Tax rate	18.0%	25.0%	25.0%	25.0%

Source: Taglich Brothers estimates and company reports

Our gross margin projection reflects FY21 and FY22 software margins of 87.1%, and 88.3% and consulting service margins of 57.8% and 58%, 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 74.9% and 75.7%, respectively, for FY21 and FY22. Our gross margin forecast reflects the hiring of additional scientific staff in 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 36.6% and 35.7%, respectively, and R&D margins of 6.3% to 5.6%, respectively (see table above). Our operating expense forecasts reflect at least a 10% increase in the company's scientific staff through FY22, 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.

In FY21, operating expenses should increase 11.6% to $21.6 million reflecting a 12.4% increase in SG&A expense to $18.4 million and an R&D expense increase of 6.7% to $3.2 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 and operations of Lixoft (its fourth division acquired on March 31, 2020). The $3.2 million in spending on R&D reflects the development and enhancement of new and existing software offerings.

We project operating expense margin decreasing to 42.8% from 46.5% in FY20. We project a 38.6% increase in operating income to $16.1 million compared to $11. 6 million in FY20.

In FY21, we project other income of $160,000 compared to an expense of $218,000 in FY20. The swing to other income reflects interest income stemming from the company having $49.2 million in cash and $66.8 million in short-term investment at August 31, 2020. In FY20 other expense reflects $203,000 related to a change in value of contingent consideration and $45,000 in loss on exchange of currency, partly offset by $29,000 in interest income.

Our FY21 net income projection is $12.2 million or $0.59 per share. We previously forecast net income of $12.6 million or $0.68 per share. Our forecast reflects average common shares increasing to 20.7 million (prior was 18.5 million) compared to 18.5 million in FY20. The increase in average common shares stems from the issuance in August 2020 of 2 million shares of common stock.

In FY22, operating expenses should increase 12.7% to $24.3 million reflecting a 14.2% increase in SG&A expense to $21 million and a $135,000 increase in R&D expense to $3.3 million. The increase in SG&A expense should support sales growth of the company's software offerings and consulting/analytical services, as well as support customer growth in the company's Lixoft operations. We project operating expense margin decreasing to 41.4% from our forecast of 42.8% in FY21 due to higher sales and the acceleration of scientists' productivity across the company's software and analytical consulting services platforms. We project 25.5% operating income growth to $20.2 million with operating margin of 34.3%.

In FY22, we project other income of $200,000 compared to $160,000 in FY20. Our FY22 net income projection is $15.3 million or $0.74 per share on a 25% tax rate and average shares of 20.7 million.

Finances

For FY21, we project cash earnings of $17.8 million and an increase in working capital of $810,000 due primarily to increases in receivables and revenue in excess of billings, partly offset by an increase in accruals. Cash from operations of $17 million should cover software development costs, contingent and contract payments, and common stock dividends. Cash should increase by $6.4 million to $55.6 million at the end of FY21.

For FY22, we project cash earnings of nearly $20.5 million and an increase in working capital of $1.1 million due primarily to an increases in receivables, partly offset by an increase in accruals. Cash from operations of $19.4 million should cover software development costs, contingent and contract payments, and common stock dividends, increasing cash by nearly $7.5 million to nearly $63.1 million at the end of FY22.

FY20 and 4Q20 Results

FY20

Sales increased 22.4% to $41.6 million due primarily to 37.2% revenue growth at its North Carolina DILISym subsidiary to $6.9 million, a 19.1% increase to $11.1 million at its Buffalo Cognigen subsidiary, and 12.1% growth to nearly $22 million at its Lancaster, CA division. The company reported sales of nearly $1.6 million for its Lixoft division that was acquired in April 2020. The revenue growth at DILISym, Cognigen and the Lancaster division reflects 39, 117, and 97 consulting projects, respectively. Consulting revenue from each division combined increased to $20 million from $15.4 million in FY19. Software revenue from each division combined increased to nearly $21.6 million from nearly $18.6 million in FY19.

Gross profit increased 24% to $30.9 million due primarily to higher sales and gross margins expanding to 74.4% compared to 73.4% in the year-ago period. Gross margin for the software and services division improved to 86.7% versus 83.3% in the year ago period. SLP's Cognigen division had gross margins improve to 53.3% compared to 53.1% due to internal project process efficiencies. The company's DILIsym subsidiary's gross margin contracted to 67.3% versus 72.7% due primarily to higher direct contract costs. Gross margin at the company's Lixoft subsidiary was 83.1%.

Operating expense margin increased to 46.5% from 42.1% due primarily to a $1.4 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 38.7% to $16.4 million with R&D expense increasing by $475,000 to nearly $3 million. The increase in SG&A expense includes higher payroll taxes ($478,000 increase), insurance ($259,000 increase), salaries and wages ($1.5 million increase) reflecting increased stock compensation, salary increases, 401K expense, as well as vacation expense, and increased headcount from existing operations and the Lixoft acquisition. Also, the company reported higher commission costs ($226,000 increase) that reflects higher sales in Asia and US, and contracted labor ($546,000 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 ($145,000 decrease) and lower recruitment fees ($86,000 decrease).

Operating income increased 9% to $11.6 million due to higher sales and gross margin expansion, offset by higher operating expenses including nearly $1.5 in expenses related to the acquisition of Lixoft. Other expense was $218,000 compared to $92,000 in the year-ago period. In FY20, interest income was $29,000, which was more than offset by a $203,000 loss related to a change in value of contingent consideration and a $45,000 loss on currency exchange. The expense in the year-ago period was due primarily to recognition of imputed interest expense (related to contingent consideration) of $76,000.

Net income was $9.3 million or $0.50 per share compared to $8.6 million or $0.48 per share in the year-ago period. In the current period the company recorded an income tax expense of $2.1 million compared to $2 million. Excluding the one-time costs to acquire Lixoft, we estimate EPS would have been approximately $0.58 per share. We projected net income of $8.8 million or $0.48 per share on sales of $41 million.

4Q20

Sales increased 18.9% to $9.5 million from $8 million in the year-ago period. The increase was due primarily to the Lixoft acquisition that contributed $953,000 to sales, and a 20.7% increase in the company's Buffalo subsidiary (Cognigen) to $2.9 million, as well as the Lancaster division increasing 5.1% to $4.4 million. The company's North Carolina subsidiary (DILISym) experienced an 11.1% sales decrease to $1.3 million due primarily to the timing of completing consulting contracts.

Gross profit increased 19.8% to $6.9 million due to higher sales and gross margin expansion to 72% from 71.4%.

Operating expense margin increased to 48.9% from 47.1% due to expenses increasing 23.2% to $4.7 million, which is a faster pace than sales growth of 18.9%. SG&A expense increased 16.8% to $3.7 million and a $345,000 increase in R&D expense to $948,000 due primarily to the operations of the newly acquired Lixoft operations.

Operating income increased 13% to $2.2 million due to sales growth and gross margin expansion, partly offset by higher operating expenses. Other expense was $166,000 compared to income of $37,000 in the year-ago period due primarily to a negative change in value of contingent consideration of $122,000 compared to none in the year-ago period. Also, the current period had a loss on exchange in currency of $46,000 compared to a gain of $42,000 in 4Q19. Net income was flat at approximately $2.2 million or $0.11 per share for each period.

Finances

In FY20, cash earnings of $14.1 million and an increase in working capital of $3.2 million resulted in cash from operations of $10.9 million. The working capital increase was due primarily to increases in receivables and prepaid assets. Cash from operations and the issuance of common stock of approximately $108 million covered capitalized software expenses, payments on contract payables, common stock dividends, cash used to acquire Lixoft, and purchase of short-term investments. Cash increased by nearly $37.8 million to $49.2 million at August 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. The company's Lancaster division is working on several funded collaborations with clinical stage biotechnology and large pharmaceutical companies to enhance its software offerings, primarily its GastroPlus offering. 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 FY20, the company generated over $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.

Shareholder Control

Walter Woltosz, co-founder and chairman of the board, and Virginia Woltosz, co-founder, own approximately 23.6% of the outstanding voting stock (based on SEC filing in November 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 15% and 14% of sales were to Asian and European customers, respectively, in FY20. 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.

Intangible Assets
SLP has a significant amount of intangible assets, including goodwill, capitalized computer software development costs, intellectual property, and other intangible assets due to its three acquisitions. If future growth and operating results of are not as strong as anticipated and/or SLP's market capitalization declines, this could impact the assumptions used in calculating the fair value of goodwill or intangibles. To the extent goodwill or intangibles are impaired, their carrying value will be written down to its implied fair value and a charge would be made to the company's income from operations. Such an impairment charge could materially and adversely affect SLP's operating results. At August 31, 2020, the carrying amount of goodwill and intangibles increased to $37.9 million from $23.7 million at August 31, 2019.

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 November 23, 2020) was 210,000. SLP has 19.9 million shares outstanding and a float of approximately 15.1 million. Investors should by aware that a thinly traded equity could experience price volatility.

Simulations Plus, Inc.
Consolidated Balance Sheets
FY2018 –FY2022E
(in thousands)

	FY18A	FY19A	FY20A	**FY21E**	**FY22E**
ASSETS					
Current assets:					
Cash	$ 9,400	$ 11,435	$ 49,207	**$ 55,633**	**$ 63,093**
Accounts receivable, net	5,515	5,027	7,422	**8,382**	**9,792**
Revenue in excess of billings	1,986	3,234	3,093	**3,500**	**3,250**
Prepaid income taxes	313	765	970	**970**	**970**
Short-term investments	-	-	66,804	**66,804**	**66,804**
Prepaid expense and other current assets	610	704	1,595	**1,643**	**1,903**
Total current assets	17,824	21,165	129,091	**136,931**	**145,812**
Capitalized computer software development costs, net	5,153	4,960	6,087	**8,095**	**7,900**
Property and equipment, net	335	341	438	**440**	**445**
Operating lease right of use asset	-	-	927	**927**	**927**
Customer relationships, intellectual property, goodwill, intangibl	19,930	18,693	31,827	**30,974**	**30,121**
Other assets	37	37	51	**50**	**662**
Total assets	$ 43,279	$ 45,196	$ 168,422	**$ 177,417**	**$ 185,867**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	352	204	350	**271**	**291**
Accrued payroll and other expenses	1,152	1,639	2,251	**2,527**	**2,927**
Operating lease liability	-	-	463	**493**	**200**
Contract payable	2,557	1,761	2,000	**1,942**	**1,942**
Billings in excess of revenues	385	799	141	**800**	**500**
Current portion of deferred revenue	382	381	299	**400**	**600**
Total current liabilities	4,827	4,783	5,505	**6,433**	**6,461**
Deferred income tax accruals	3,195	2,732	2,354	**2,000**	**2,000**
Payments due under contract payable	3,334	-	4,064	**3,500**	**-**
Operating lease liability	-	-	463	**463**	**200**
Stockholders' equity:					
Common stock, no par value; authorized 20,000,000 shares;	7	8	10	**10**	**10**
Additional paid-in capital	13,454	15,319	128,531	**130,131**	**131,831**
Accumulated other comprehensive income (loss)	-	-	58	**58**	**58**
Retained earnings (accumulated deficit)	18,462	22,354	27,436	**34,822**	**45,307**
Total stockholders' equity	31,923	37,681	156,036	**165,021**	**177,206**
Total liabilities and stockholders' equity	$ 43,279	$ 45,197	$ 168,422	**$ 177,417**	**$ 185,867**
SHARES OUT	17,416	17,592	19,923	**19,950**	**19,975**

Source: Company reports and Taglich Brothers estimates

Simulations Plus, Inc.
Annual Income Statement Model
FY2018 – 2022E
(in thousands)

	FY18 A	FY19 A	FY20 A	**FY21 E**	**FY22 E**
Simulations Plus - Pharmaceutical software/consulting	$ 17,553	$ 19,585	$ 21,961	**$ 25,270**	**$ 29,275**
DILIsym - North Carolina	4,257	5,065	6,948	**8,150**	**9,660**
Lixoft - Europe	-	-	1,575	**4,070**	**5,085**
Cognigen division - Consulting services	7,857	9,321	11,105	**12,800**	**14,730**
Total Net sales	$ 29,667	$ 33,970	$ 41,589	**$ 50,290**	**$ 58,750**
Cost of sales - Simulations Plus Division	3,049	3,277	2,923	**3,255**	**3,495**
Cost of sales - DILIsym	1,718	1,382	2,271	**2,885**	**3,480**
Cost of sales - Lixoft	-	-	267	**535**	**510**
Cost of sales - Cognigen Division	3,227	4,367	5,189	**5,960**	**6,775**
Total Cost of sales	7,994	9,026	10,649	**12,635**	**14,260**
Gross Profit	21,672	24,945	30,940	**37,655**	**44,490**
Operating Expenses:					
Selling, general, and administrative	9,584	11,796	16,360	**18,395**	**21,000**
Research and development	1,791	2,500	2,975	**3,175**	**3,310**
Total Operating Expenses	11,375	14,296	19,335	**21,570**	**24,310**
Operating Income (loss)	10,298	10,649	11,605	**16,086**	**20,180**
Other income (expense)					
Interest income (expense)	(126)	(76)	29	**160**	**200**
Change in value of contingent consideration	-	-	(203)	-	-
Gain (Loss) on exhange of currency	(33)	(17)	(45)	-	-
Total Other Income (expense)	(159)	(92)	(218)	**160**	**200**
Pre-Tax Income (loss)	10,139	10,556	11,387	**16,246**	**20,380**
Income Tax Expense (Benefit)	1,204	1,973	2,055	**4,060**	**5,095**
Net income (loss)	8,935	8,583	9,332	**12,186**	**15,285**
Earning (loss) per share	$ 0.50	$ 0.48	$ 0.50	**$ 0.59**	**$ 0.74**
Avg Shares Outstanding	17,860	18,039	18,538	**20,663**	**20,683**
Dividends per Share	$ 0.24	$ 0.24	$ 0.24	**$ 0.24**	**$ 0.24**
Adjusted EBITDA - Stock compensation and D&A	$ 13,729	$ 14,477	$ 17,545	**$ 22,986**	**$ 27,080**
Margin Analysis					
Gross margin - Simulations Plus Division	82.6%	83.3%	86.7%	**87.1%**	**88.1%**
Gross margin - DILIsym - North Carolina	59.6%	72.7%	67.3%	**64.6%**	**64.0%**
Gross margin - Lixoft - Europe	NA	NA	83.1%	**86.9%**	**90.0%**
Gross margin - Cognigen Division	58.9%	53.1%	53.3%	**53.4%**	**54.0%**
Total gross margin	73.1%	73.4%	74.4%	**74.9%**	**75.7%**
Selling, general, and administrative	32.3%	32.9%	39.3%	**36.6%**	**35.7%**
Research and development	6.0%	7.4%	7.2%	**6.3%**	**5.6%**
Operating margin	34.7%	31.3%	27.9%	**32.0%**	**34.3%**
Pre-tax margin	34.2%	31.1%	27.4%	**32.3%**	**34.7%**
Tax rate	11.9%	18.7%	18.0%	**25.0%**	**25.0%**
YEAR / YEAR GROWTH					
Total Revenues	22.9%	14.5%	22.4%	**20.9%**	**16.8%**

Source: Company reports and Taglich Brothers estimates

Simulations Plus, Inc.
Quarterly Income Statement Model
FY2020 to 2022E
(in thousands)

	Q1 20 A	Q2 20 A	Q3 20 A	Q4 20 A	FY20 A	Q1 21 E	Q2 21 E	Q3 21 E	Q4 21 E	**FY21 E**	Q1 22 E	Q2 22 E	Q3 22 E	Q4 22 E	**FY22 E**
Simulations Plus - Pharmaceutical software/consulting	$ 4,927	$ 5,904	$ 6,728	$ 4,402	$ 21,961	$ 5,235	$ 7,100	$ 7,935	$ 5,000	**$ 25,270**	$ 5,700	$ 8,515	$ 9,455	$ 5,605	**$ 29,275**
DILIsym - North Carolina	2,087	1,696	1,909	1,256	6,948	1,250	2,300	2,600	2,000	**8,150**	1,480	2,725	3,085	2,370	**9,660**
Lixoft - Europe	-	-	622	953	1,575	825	1,100	1,135	1,010	**4,070**	1,000	1,410	1,475	1,200	**5,085**
Cognigen division - Consulting services	2,387	2,750	3,039	2,929	11,105	2,800	3,200	3,475	3,325	**12,800**	3,220	3,680	3,995	3,835	**14,730**
Total Net sales	$ 9,401	$ 10,350	$ 12,298	$ 9,540	$ 41,589	$ 10,110	$ 13,700	$ 15,145	$ 11,335	**$ 50,290**	$ 11,400	$ 16,330	$ 18,010	$ 13,010	**$ 58,750**
Cost of sales - Simulations Plus Division	744	844	595	740	2,923	780	925	750	800	**3,255**	800	1,065	850	780	**3,495**
Cost of sales - DILIsym	628	480	646	516	2,271	560	805	780	740	**2,885**	535	980	1,110	855	**3,480**
Cost of sales - Lixoft	-	-	93	173	267	105	165	110	155	**535**	100	140	150	120	**510**
Cost of sales - Cognigen Division	1,271	1,342	1,332	1,245	5,189	1,365	1,475	1,455	1,665	**5,960**	1,480	1,695	1,835	1,765	**6,775**
Total Cost of sales	2,643	2,666	2,665	2,675	10,649	2,810	3,370	3,095	3,360	**12,635**	2,915	3,880	3,945	3,520	**14,260**
Gross Profit	6,758	7,683	9,633	6,866	30,940	7,300	10,330	12,050	7,975	**37,655**	8,485	12,450	14,065	9,490	**44,490**
Operating Expenses:															
Selling, general, and administrative	3,513	4,110	5,023	3,714	16,360	3,975	4,930	5,175	4,315	**18,395**	4,350	5,900	6,250	4,500	**21,000**
Research and development	526	748	753	948	2,975	550	800	925	900	**3,175**	575	775	965	995	**3,310**
Total Operating Expenses	4,040	4,858	5,776	4,661	19,335	4,525	5,730	6,100	5,215	**21,570**	4,925	6,675	7,215	5,495	**24,310**
Operating Income (loss)	2,718	2,826	3,857	2,204	11,605	2,775	4,600	5,950	2,760	**16,086**	3,560	5,775	6,850	3,995	**20,180**
Other income (expense)															
Interest income (expense)	11	12	4	2	29	40	40	40	40	**160**	50	50	50	50	**200**
Change in value of contingent consideration	-	-	(81)	(122)	(203)	-	-	-	-	-	-	-	-	-	-
Gain (Loss) on exhange of currency	4	(2)	(1)	(46)	(45)	-	-	-	-	-	-	-	-	-	-
Total Other Income (expense)	15	10	(77)	(166)	(218)	40	40	40	40	**160**	50	50	50	50	**200**
Pre-Tax Income (loss)	2,733	2,836	3,780	2,038	11,387	2,815	4,640	5,990	2,800	**16,246**	3,610	5,825	6,900	4,045	**20,380**
Income Tax Expense (Benefit)	675	686	844	(150)	2,055	700	1,160	1,500	700	**4,060**	900	1,450	1,725	1,020	**5,095**
Net income (loss)	2,058	2,150	2,936	2,188	9,332	2,115	3,480	4,490	2,100	**12,186**	2,710	4,375	5,175	3,025	**15,285**
Earning (loss) per share	$ 0.11	$ 0.12	$ 0.16	$ 0.11	$ 0.50	$ 0.10	$ 0.17	$ 0.22	$ 0.10	**$ 0.59**	$ 0.13	$ 0.21	$ 0.25	$ 0.15	**$ 0.74**
Avg Shares Outstanding	18,307	18,316	18,427	19,104	18,538	20,655	20,660	20,665	20,670	**20,663**	20,675	20,680	20,685	20,690	**20,683**
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	$ 3,756	$ 3,918	$ 5,842	$ 4,029	$ 17,545	$ 4,500	$ 6,325	$ 7,675	$ 4,485	**$ 22,986**	$ 5,285	$ 7,500	$ 8,575	$ 5,720	**$ 27,080**
Margin Analysis															
Gross margin - Simulations Plus Division	84.9%	85.7%	91.2%	83.2%	86.7%	85.1%	87.0%	90.5%	84.0%	**87.1%**	86.0%	87.5%	91.0%	86.1%	**88.1%**
Gross margin - DILIsym - North Carolina	69.9%	71.7%	66.2%	58.9%	67.3%	55.2%	65.0%	70.0%	63.0%	**64.6%**	63.9%	64.0%	64.0%	63.9%	**64.0%**
Gross margin - Lixoft - Europe	NA	NA	85.0%	81.8%	83.1%	87.3%	85.0%	90.3%	84.7%	**86.9%**	90.0%	90.1%	89.8%	90.0%	**90.0%**
Gross margin - Cognigen Division	46.8%	51.2%	56.2%	57.5%	53.3%	51.3%	53.9%	58.1%	49.9%	**53.4%**	54.0%	53.9%	54.1%	54.0%	**54.0%**
Total gross margin	71.9%	74.2%	78.3%	72.0%	74.4%	72.2%	75.4%	79.6%	70.4%	**74.9%**	74.4%	76.2%	78.1%	72.9%	**75.7%**
Selling, general, and administrative	37.4%	39.7%	40.8%	38.9%	39.3%	39.3%	36.0%	34.2%	38.1%	**36.6%**	38.2%	36.1%	34.7%	34.6%	**35.7%**
Research and development	5.6%	7.2%	6.1%	9.9%	7.2%	5.4%	5.8%	6.1%	7.9%	**6.3%**	5.0%	4.7%	5.4%	7.6%	**5.6%**
Operating margin	28.9%	27.3%	31.4%	23.1%	27.9%	27.4%	33.6%	39.3%	24.4%	**32.0%**	31.2%	35.4%	38.0%	30.7%	**34.3%**
Pre-tax margin	29.1%	27.4%	30.7%	21.4%	27.4%	27.8%	33.9%	39.6%	24.7%	**32.3%**	31.7%	35.7%	38.3%	31.1%	**34.7%**
Tax rate	24.7%	24.2%	22.3%	(7.4%)	18.0%	24.9%	25.0%	25.0%	25.0%	**25.0%**	24.9%	24.9%	25.0%	25.2%	**25.0%**
YEAR / YEAR GROWTH															
Total Revenues	24.7%	22.2%	23.8%	18.9%	22.4%	7.5%	32.4%	23.2%	18.8%	**20.9%**	12.8%	19.2%	18.9%	14.8%	**16.8%**

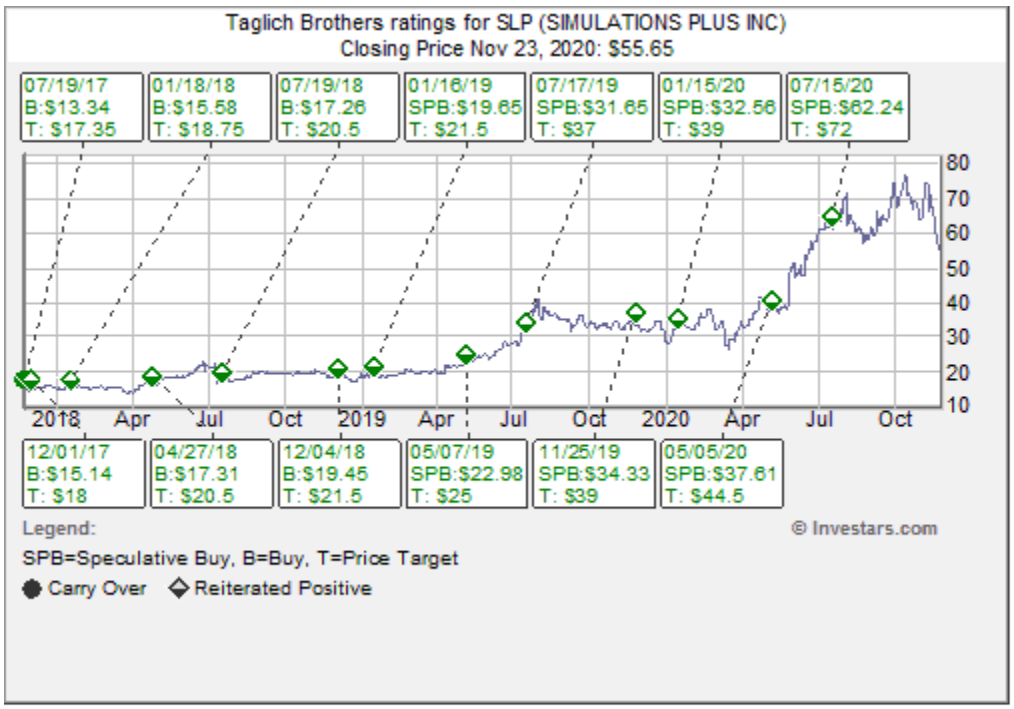
Source: Company reports and Taglich Brothers estimates

Simulations Plus, Inc.
Cash Flow Statement
FY2018 – FY2022E
(in thousands)

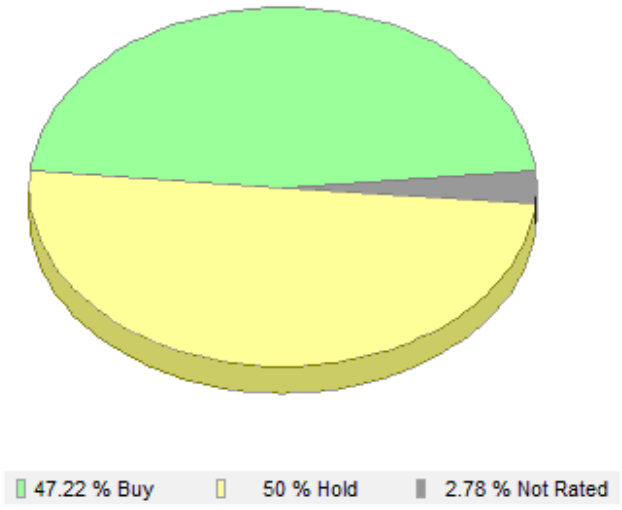
	FY2018A	FY2019A	FY2020A	**FY2021E**	**FY2022E**
Cash Flows from Operating Activities					
Net Income (loss)	$ 8,935	$ 8,583	$ 9,332	**$ 12,186**	**$ 15,285**
Depreciation and amortization	2,721	2,750	2,962	**4,000**	**3,500**
Stock-based compensation, net	709	1,078	1,577	**1,600**	**1,700**
Loss (gain) on sale of assets and change in value of contigent consideration	153	109	203	**-**	**-**
Cash earnings (burn)	12,518	12,520	14,073	**17,786**	**20,485**
Changes In:					
Accounts receivable	(1,466)	488	(2,018)	**(960)**	**(1,410)**
Revenues in excess of billings	(505)	(1,248)	140	**(407)**	**250**
Deferred tax and refund and accured income taxes	(1,582)	(752)	(390)	**(354)**	**-**
Pre-paids and other assets	(154)	(94)	(398)	**(47)**	**(260)**
Accounts payable	111	(148)	221	**(79)**	**20**
Accrued payroll and other expenses	169	487	23	**276**	**400**
Billings in excess of revenues	168	414	(658)	**659**	**(300)**
Deferred revenue	28	(30)	(81)	**101**	**200**
(Increase)/decrease in Working Capital	(3,231)	(882)	(3,161)	**(810)**	**(1,100)**
Net cash Provided by Operations	9,287	11,638	10,912	**16,975**	**19,385**
Cash Flows from Investing Activities					
Purchase of property and equipment	(183)	(138)	(231)	**(250)**	**(125)**
Purchase of short-term investments	-	-	(67,249)	**-**	**-**
Cash and common stock used/received to purchase company's	-	-	(9,471)	**-**	**-**
Purchases of intellectual property	-	(50)	-	**-**	**-**
Cash received in acquisition	-	-	3,799	**-**	**-**
Capitalized computer software development costs	(2,145)	(1,768)	(2,353)	**(3,500)**	**(3,500)**
Cash Flows from Investing Activities	(2,329)	(1,956)	(75,505)	**(3,750)**	**(3,625)**
Cash Flows from Financing Activities					
Payments on contracts payable	(247)	(4,239)	(1,761)	**(2,000)**	**(3,500)**
Proceeds from follow-on public offering, net	-	-	107,747	**-**	**-**
Common stock dividends	(4,162)	(4,197)	(4,250)	**(4,800)**	**(4,800)**
Proceeds from the exercise of stock options and excess benefits	636	788	630	**-**	**-**
Net cash provided by Financing	(3,773)	(7,648)	102,366	**(6,800)**	**(8,300)**
Net change in Cash	3,185	2,035	37,772	**6,425**	**7,460**
Cash Beginning of Period	6,215	9,400	11,435	**49,207**	**55,633**
Cash End of Period	$ 9,400	$ 11,435	$ 49,207	**$ 55,633**	**$ 63,093**

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	3	15
Hold		
Sell		
Not Rated		

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.

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.