Simulations Plus, Inc.

Fourth Quarter & Fiscal Year 2021 Financial Results

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PRESENTATION

Operator

Greetings, and welcome to the Simulations Plus Fourth Quarter Fiscal 2021 Financial Results Conference Call.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce Brian Siegel from Hayden IR. Thank you. Mr. Siegel, you may begin your presentation.

Brian Siegel

Good afternoon, everyone. Welcome to our fourth quarter fiscal 2021 financial results conference call. Hosting the call today are Simulations Plus' CEO, Shawn O'Connor; and CFO, Will Frederick. An opportunity to ask questions will follow today's presentation.

Before beginning, I would like to remind everyone that, except for historical information, the matters discussed in this presentation are forward-looking statements that involve a number of risks and uncertainties. Words like believe, expect, anticipate mean that these are our best estimates at the time but that there can be no assurances that expected or anticipated results or events will actually take place. Our actual future results could differ significantly from those statements. Factors that could cause or contribute to such differences include, but are not limited to, our ability to maintain our competitive advantages, acceptance of new software and improved versions of our existing software by our customers, the general economics of the pharmaceutical industry, our ability to finance growth, our ability to continue to attract and retain highly qualified technical staff, our ability to identify and close acquisition on terms favorable to the company and a sustainable market. Further information on our risk factors is

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contained in our quarterly and annual reports and filed with the U.S. Securities and Exchange Commission.

With that said, I'd like to turn over the call to Shawn O'Connor. Shawn?

Shawn O'Connor

Thank you, Brian. We had an encouraging end to the fiscal year as we saw continued momentum in our software business, and the decline in our services business was less than we saw in the prior quarter. For Fiscal 2021, our total growth—total revenue growth came in at 12%, exceeding our guidance of 5% to 10%. Software revenue growth for Fiscal '21 was 28%, exceeding our guidance of 20% to 25%. The service revenue decline was 6%, slightly better than our guidance of 7% to 12%.

Our software business had a good quarter, reflecting the strength of both GastroPlus and ADMET Predictor, each growing by at least 20%, partially offset by the expected decline in MonolixSuite due to early renewals that occurred in prior quarters. Software revenue growth in Fiscal 2021 increased to 28% compared to last fiscal year's growth rate of 17% and 11% in Fiscal 2019.

GastroPlus revenues grew 20% in the fourth quarter, and we attribute this strong performance to our industry-leading technology and focused upselling efforts, which produced 14 new commercial contracts during the quarter. During the fourth quarter, GastroPlus also saw 17 peer-reviewed journal articles, reflecting the strength and recognition of our industry-leading PBPK platform. ADMET Predictor revenue growth in the fourth quarter was 26% as it continued to benefit from the Q3 product release that added valuable new features and functionality. Additionally, I want to emphasize that both GastroPlus and ADMET Predictor continue to expand their strong leadership position in the market during the year. For example, we saw 20-multiyear GastroPlus licenses signed, three new $100,000-plus customers and 14 upsells during the year. And our new DDI Module has been very well received, all of which are a strong validation of our leadership position.

As anticipated, MonolixSuite revenue declined in the fourth quarter due to early renewals in prior quarters. For the full year, revenue growth was 20% as we continue to see both new commercial client adoption as well as displacing alternative products and taking market share from our primary competitor.

Turning to our services business. As a reminder, our service revenue is nonrecurring. Accordingly, this business can exhibit volatility both quarterly and annually. PK/PD projects are typically in the $100,000 to $200,000 range, and QSP/QST projects can be significantly larger. Sometimes, these projects are accelerated, delayed or even canceled by our customers based on their internal priorities or time lines and are not under our control.

While it was a challenging second half of the fiscal year due to the uncharacteristic events of the third quarter with higher-than-normal customer project delays and cancellations, we saw signs of optimism during the fourth quarter as revenue decreased less than expected, our backlog grew sequentially and our pipeline continued to build. During Q4, we saw the number of customer project delays and cancellations return to more normal levels. We also had a good bookings quarter, highlighted by closing five new clients, which contributed to a 10% increase in backlog for the quarter and a 49% increase for the full year, which was about 110% of our internal target. During the quarter, we also provided critical support for a multiregional regulatory approval and supported an FDA submission for a new COVID-19 therapy. For the year, we took action and made several operational improvements that drove margin enhancements, leading to increased average contract value, project yield and consultant utilization rates.

For the QSP/QST business, revenue was down in Q4 as expected. Despite this decline, we saw positive signs that point to an inflection point in this business. We had one new and one renewal of DILIsym consortium members during the quarter, and overall pipeline activity accelerated, reflecting strong momentum as we enter Fiscal 2022. We are also seeing toxicology project opportunities picking up and

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have multiple QSP projects in late-stage proposal status. I'm also encouraged that we have already achieved our bookings target for Q1 of the new fiscal year. Finally, our PBPK business saw a 63% increase in backlog for the year and finished strong with two significant FDA-funded projects announced during Q4.

Looking to Fiscal 2022, modeling and simulation adoption continues to be strong in the pharma and biotech marketplace. Internal modeling and simulation resources continue to grow, and they are seeking out our software platforms to achieve their objectives. Outsourcing also remains a robust part of our clients' efforts to meet their needs, and we're here to support them with our service business.

Our software business carries strong momentum into the new year as we continue increasing our revenue growth rate as a result of enhancements to our technology, ongoing product portfolio expansion both internally and through acquisitions and investments in our sales and marketing efforts. In Fiscal 2021, our service business experienced the downside of what can be a volatile business, but we saw no fundamental changes in the market that would prevent this business from returning as a positive contributor to revenue growth in the future. Despite this decline in Fiscal 2021, we entered the new year with increased pipeline activity, a rebuilt backlog that should drive sequential revenue growth on a quarterly basis in Fiscal 2022.

With these positive tailwinds, the financial outlook we are providing today anticipates a recovery of our services business and growth accelerating sequentially as the fiscal year progresses. We expect to return to double-digit growth in total revenue in the range of $51 million to $53 million, reflecting 10% to 15% year-over-year growth. We expect software to be in the range of 55% to 60% of total revenue and services to be in the range of 40% to 45% of total revenue.

Finally, we will continue our successful M&A strategy to expand our software portfolio and service offerings and grow our overall market opportunity to broaden our capabilities and further support our clients. Of course, any acquisition would be incremental to this outlook. With future acquisitions, we believe we can continue to grow at a pace that supports our CAGR target above 20% that we've achieved since Cognigen—since the Cognigen acquisition in fiscal 2015.

Let me now turn the call over to our CFO, Will Frederick, to discuss the financial results.

William Frederick

Thank you, Shawn. Our total revenue growth rate for the quarter was 3% due to the challenges in our services business and the early MonolixSuite renewals that occurred in prior quarters. Software revenue growth for the quarter was 14%, and services revenue declined 7% for the quarter. We continue to see improvement in our software and services revenue mix, with software now at 55% of total revenue for the quarter. Our total revenue growth rate for fiscal year was 12%, software revenue growth for the fiscal year was 28%, and services revenue declined 6% for the fiscal year. For the fiscal year, software is now at 60% of total revenue.

For the quarter, software gross margin increased from 83% last fiscal year to 85% this fiscal year due to the increased revenue in that business. The services gross margin for the quarter decreased from 61% to 55% due to the revenue decline in that business. The revenue mix trends positively affected our total gross margin for the quarter, which remained at 72%, comparable to last fiscal year. For the fiscal year, software gross margin increased from 87% last year to 88% this year, and the services gross margin for the fiscal year remained unchanged at 61%. The revenue mix shift had a greater impact on total gross margin for the fiscal year, and our total gross margin increased from 74% to 77%.

For the quarter, GastroPlus represented 57% of our software revenue, ADMET Predictor was 22%, MonolixSuite was 15% and other software was 6%. For the year, GastroPlus represented 59% of our software revenue, ADMET Predictor was 18%, MonolixSuite was 16% and other software was 7%. We

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continue to enjoy solid revenue growth and diversification across our entire portfolio, as evidenced with the software mix change since last year when GastroPlus was 66% of our software revenue and MonolixSuite was only 7%.

We continue to see improvement in our average revenue per customer, again this quarter with an increase from $62,000 to $65,000 for commercial companies and from $42,000 to $55,000 including nonprofit and academic customers. Our renewal rate for the quarter based on fees was 90%, up from 88% last fiscal year and would have been higher except that five customer renewals slipped into the next quarter. Our renewal rate this quarter based on customers was 77%, down from 93% as expected, with our recently announced University+ program that offers free access to our software for students and educators as part of our ongoing support of academic research, training and collaborations. We believe this program will increase modeling and simulation education and help prepare the next generation of scientists and contribute to the rapid development of safer, lower-cost treatments for patients worldwide. With this program, we saw a decline in paid nonprofit and academic renewals, and we'll exclude them from our reporting beginning next fiscal year.

For the fiscal year, we also saw improvement in our average revenue per customer with an increase from $111,000 to $121,000 for commercial companies and from $69,000 to $85,000 including nonprofit and academic customers. Our fiscal year average revenues per customer are higher than those for the quarter due to larger deals that occurred during the fiscal year. Our renewal rate for the fiscal year based on fees was 92%, down slightly from 93% last fiscal year due to the customer renewal slippage for the five customers I just mentioned. Our renewal rate this fiscal year based on customers was 83%, down from 89%, primarily due to nonprofit nonrenewals as they transition to the University+ program.

Let me shift now to our services business. For the quarter, our services revenue breakdown was 53% from PK/PD services, 25% from QSP/QST services, 16% from PBPK services and 6% from other services. For the full year, the breakdown was 49% from PK/PD services, 28% from QSP/QST services, 14% from PBPK services and 9% from other services.

With regard to a couple of key service metrics, total services projects completed during the year increased 36% compared to the prior fiscal year, which increased 24% compared to Fiscal 2019. We started breaking out other projects this fiscal year that were previously reported in PK/PD, QSP/QST or PBPK to provide additional visibility to this increasing activity and reflect the continued expansion of our services offerings. We ended the fiscal year with $13 million of backlog, up $2.5 million from the prior fiscal year-end, reflecting a 24% increase and nice recovery from the decline we saw at the end of fiscal 2020 compared to Fiscal 2019.

Now turning to our consolidated income statement. SG&A expense for the quarter was $5.6 million or 57% of revenue compared to $3.7 million or 39% of revenue in the same period last fiscal year. Approximately $700,000 of this increase was a catch-up this quarter as a result of switching from a semimonthly payroll to a biweekly payroll during the fiscal year. As part of our integration efforts and one company focus, we consolidated our payroll for all U.S. employees and moved to a biweekly payroll. The true-up for seven payroll periods in Q4 is reflected in the quarter and has no impact on our fiscal year expense. We've also seen costs increase since last fiscal year in insurance, external professional fees, recruiting and stock comp expense. Lastly, we had salary increases during the fiscal year to remain competitive with increasing market salaries, and we increased our head count by nine employees during the fiscal year from 137 to 146.

Total R&D costs for the quarter were $2 million or 20% of revenue compared to $1.6 million or 17% of revenue in the same period last fiscal year. R&D expenses for the quarter were $1.3 million or 13% of revenue compared to $0.9 million or 9% of revenue in the same period last fiscal year. Capitalized R&D for the quarter was $0.7 million or 7% of revenue compared to $0.6 million or 6% of revenue in the same period last fiscal year.

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Income from operations was $0.2 million compared to $2.2 million in the same period last fiscal year. This decrease was primarily driven by the higher SG&A cost I just described plus increased spending on R&D to support our product development efforts. The income tax benefit was $0.1 million for an effective tax rate of negative 73% compared to an income tax benefit of $0.2 million, an effective tax rate of negative 7% in the same period last year. We continue to see a lower effective tax rate, primarily driven by the tax benefit associated with disqualifying dispositions that we've seen throughout the fiscal year. Net income was $0.3 million compared to $2.2 million for the same period last fiscal year, and diluted earnings per share was $0.01 compared to $0.11 for the same period last fiscal year. EBITDA was $1.1 million compared to $2.9 million for the same period last fiscal year.

For the fiscal year, SG&A expenses were $20.6 million or 44% of revenue compared to $16.4 million or 39% of revenue last year. The increase in SG&A expenses was primarily the result of higher payroll-related expenses due to increased compensation to remain competitive with increasing market salaries and the increased head count I just mentioned. We've also seen cost increases since last fiscal year in contract labor, insurance, professional fees and stock compensation expense driven by our stock price during the fiscal year.

Total R&D costs were $6.9 million or 15% of revenue compared to $5.3 million or 13% of revenue in the same period last fiscal year. R&D expenses were $4 million or 9% of revenue compared to $3 million or 7% of revenue in the same period last fiscal year. Capitalized R&D for the year was $2.9 million or 6% of revenue compared to $2.3 million, also 6% of revenue in the same period last fiscal year.

Income from operations was $11.3 million compared to $11.6 million last fiscal year. Income tax expense was $1.3 million for an effective tax rate of 12% compared to an income tax expense of $2.1 million, an effective tax rate of 18% for last year. As previously mentioned, we saw a lower effective tax rate throughout this fiscal year, primarily driven by the tax benefit associated with disqualifying dispositions. Net income increased 5% and to $9.8 million compared to $9.3 million for last fiscal year, and diluted earnings per share were $0.47 compared to $0.50 last fiscal year. Adding back the 2.1 million shares of common stock issued in our follow-on offering last August would result in diluted earnings per share, increasing to $0.52 this fiscal year compared to last year. EBITDA also increased to $14.5 million compared to $14.3 million for the same period last fiscal year.

We continue to have a strong balance sheet. At the end of the fiscal year, our cash and short-term investments balance was $123.6 million compared to $116 million at the end of last fiscal year. Our strong balance sheet reduces the need to secure additional capital as we're continually evaluating strategic acquisition opportunities that we believe can further position us for success and support our long-term revenue targets. We also continue to have no debt on the balance sheet.

I'll now turn the call back to you, Shawn.

Shawn O'Connor

Thank you, Will. In conclusion, strategically, we continue to reinforce our leadership in our portion of the biosimulation market for pharmaceuticals as the industry's adoption of model-informed drug development tools and techniques continues to expand at a rate 4 to 5x that of overall R&D. We remain well integrated with both academia and regulatory agencies, giving us scientific capability as we look to the future. As a result, our software business is doing very well with accelerated growth rates and expanded capabilities, and our service business is steadily normalized, as evidenced by our improving backlog and strong bookings. This performance gives us confidence that we have clear line of sight to delivering consistent, longer-term growth in line with our growth expectations.

With that, I'll be happy to take your questions. Operator?

Operator

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Our first question comes from the line of Matt Hewitt with Craig-Hallum Capital Group. You may proceed with your question.

Matthew Hewitt

Good afternoon. Thank you for taking the questions. It's nice to see the bounce back in the services side of the business. Maybe to dig in a little bit there. Last quarter, as you called out on the last call, was abnormal in the number of cancellations, deferrals and whatnot. It seems to have bounced back very quickly. What are you hearing from your customers? Have any of those contracts that were maybe deferred, have those closed? Any incremental color on the services side would be helpful.

Shawn O'Connor

Sure, Matt. Yes, it headed back to normalization, and normalization doesn't mean that there are no cancellations or delays or holds. It's peaked in the third quarter but down to a level, which, as I said before, is typical. Two, three of these occurrences during a quarter is something that we can manage around more adeptly, and so good outcome in that regard.

Is there any market indicator as to why the frequency stepped back down? Hard to pinpoint in the toxicology area, in the QSP area. We are seeing some indication based upon request for proposals and a healthy increase in our pipeline. The FDA responses back to companies has picked up, and that's a good sign. Certainly, we can point to that. I would say that it is still a market, in terms of our PK/PD services, where projects come under greater scrutiny, I think, than in the past. Holds, delays and ultimately cancellations, as I think I've said before, are a good sign that the fail-fast, move to the next drug opportunity when this one indicates a less than likely success profile. I think that's a phenomena that is a good one, and we're going to have to manage the service business around on a go-forward basis. But other than that, no flare against—from the marketplace.

Matthew Hewitt

That's great. Shifting to the software side, a good quarter, better than our estimates anyway, yet it sounds like you had five renewals that slipped. Have any of those closed already here in Q4? Is there anything to pick out with those five? Or is it just a timing situation?

Shawn O'Connor

All five closed in the week after the end of the year.

Matthew Hewitt

That's great. Okay. Then maybe one last one from me and then I'll hop back in the queue. You mentioned that you are seeing continued market share gains, and I'm just curious if you've seen anything from a competitive response. Or is this something that we shouldn't expect as we get into '22 and into '23? Are you going to continue to take share?

Shawn O'Connor

Yes. Our comment there, specifically with regard to Monolix and their growth, is certainly well ahead of the growth for NMLE applications out there as a whole overall market growth. Clearly, we're taking some market share of existing players there. Have we seen a response in that regard? Nothing of great significance. The market for Monolix is responding very favorably to its ease of use, the workflow approach. Quite frankly, our clients are attracted to the same benefit that we see internally, where we are

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completing PK to PD projects more efficiently and utilizing less time to get to end of job when we use Monolix. Very good progress on the Monolix side, and it continues its momentum into next year.

Matthew Hewitt

Got it. All right. Thank you.

Operator

Our next question comes from the line of François Brisebois with Oppenheimer. You may proceed with your question.

François Brisebois

Hi. Thanks for the questions. Just quickly here, I was wondering what makes you so confident, $51 million to $53 million is pretty tight. What gives you confidence to give guidance due to the fact that it seems like this pandemic is lingering quite a bit? Any factors there?

Shawn O'Connor

Well, two sides of our business. On the software side, with its high recurring revenue renewal rates gives us the benefit of being pretty confident in terms of the direction of that business, and it's really picked up in the back half of this year. Really, over the last couple of three years, we've seen the growth rate—organic growth rate of our software business step up and continue to deliver higher growth rates. Our software business is performing very well. The COVID impact there, even when we look back at the brunt of the COVID impact a couple of years ago, our software business wasn't unaffected but was minimally affected, so a high degree of confidence on the software side.

Still cautious on the service side. That is where COVID can have its biggest impact with the disruption in terms of clinical trial timing, drug programs being altered and changed and reallocated to other programs in response to things like COVID. There, we keep a little bit higher discount factor in our heads as we prepare guidance.

But the combination of those two gives us high confidence in an environment that software is performing well. On the service side, our underlying pipeline and building a backlog, new contracts being closed is moving quite nicely as we exited the year and begin the year here in Fiscal Year '22.

François Brisebois

Okay. Great. This has been touched on in the past, but I was just wondering. On the M&A front, have you seen valuations come down a little bit? Just remind us, has it changed the criteria that you're looking for? Or is it more geographical? Any color there on what you're looking for when you study up M&A.

Shawn O'Connor

Yes. Our criteria remain unchanged. The targets that we seek are both software and service. Although software is a focus for us, there are some geographical benefits in some locations. That would be an attraction to a target if it was in the right locale to support our expansion on a global basis of our service coverage. But on the valuation side, the financial criteria of our M&A strategy remains unchanged. We are looking for accretive opportunities, and that interplays, obviously, with valuation quite quickly. Companies got to be performing well, and the valuation has to be appropriate so that it is accretive to us.

Have valuations come down? Boy, the discussions are a little bit easier than they were, say, a year ago. It doesn't mean that they're not tough, and I think we still see in the health care space and certainly

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biosimulation space that in addition to market valuation metrics that might be referred to in valuation discussions, we also see a lot of private companies, private equity funding that comes into play. That affects valuations as well. The headline is valuation discussions are better than they were before. That doesn't mean that they are necessarily easy parts of the discussions that are ongoing in terms of target candidates that we interact with.

François Brisebois

Sounds good. Then just quickly—quick two questions on the financial side. There was a little jump here on the SG&A side, 57% of revenues in the fourth quarter. I think you discussed maybe the contract costs went up or maybe the payroll went up as well and more employees added to the team. Can you just help us understand maybe SG&A going forward, what to expect here?

Shawn O'Connor

Yes. Fair enough. A couple of factors in play there. Our outlook will go through the details of the payroll. We did a merger of our three legal entities, essentially SLP, Cognigen and DILIsym from the acquisitions, to roll up into one legal entity for multiple purposes that support both our consolidation integration process internal for the company as well as external cost savings on a number of fronts that will now accrue to us. That ultimately had some changes in our payroll systems coming together. That didn't change our payroll cost overall for the year but lumped it into quarters a little bit nonconsistent or nonlinearly. Other expenses that came into play in the fourth quarter, all of which—if you look and focus in on EBITDA, our EBITDA percentage of revenue only declined a couple of points in an environment in which we saw revenues in the back half of the year well below where we would be—expected to be.

In terms of our most precious asset, our employees, our scientists, not only is it a compensation competitive marketplace that we need to respond to, and that provides some pressure and uplift to the cost in that area, but as well, while revenue in the service business was down, it wasn't a situation in which we were going to shave off our organization to reduce expenses to match that revenue. These are valued assets in this industry, and so there's some play there as well in terms of Opex being a little high in the fourth quarter. Our expectations are, on a go-forward basis, that nothing is fundamentally changed in terms of our Opex, our profitability profile. We expect that fourth quarter percentage of revenue on Opex to be a bit of an anomaly, and we'll return to where we've been the last year or two in Opex on a go-forward basis.

Francois Brisebois

Great. That's it from me. Thank you very much and congrats on the quarter.

Shawn O'Connor

Take care, Frank.

Operator

Our next question comes from the line of Dane Leone with Raymond James. You may proceed with your question.

Dane Leone

Hi. Thanks for taking the questions. Congratulations on the quarter. Just some other questions here, but can you—do you have an idea of how active you think you're going to be in terms of acquisitions in the coming year? I think we get that question a lot of how you can get a bit more aggressive. Is your

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messaging today that valuations, do you feel, are still prohibitive from engaging in M&A? Or do you expect some deals to get done over the next 12 months? I have a follow-up.

Shawn O'Connor

Sure, sure, Dane. Yes. Obviously, we can't pinpoint and target a predictive date in terms of acquisition. But I think now versus a year ago, the number of discussions that are active, the nature of those discussions being a little less cloudy because of valuation certainly gives me a pretty optimistic view that an acquisition can be achieved in the coming time frame. Now can that—does that mean in three months, four months, eight months, nine months in the next year? We certainly are motivated to find the right target, close a deal that meets our criteria and add it to the portfolio of Simulation Plus companies as quick as we can. That said, it's a market and a process that can't be predicted with exact clockwork. Confident that we will continue to invest the resources necessary to identify and pursue appropriate targets out there, confident that they exist and that at some point in time, we'll have an announcement in this regard to bring to you.

Dane Leone

Okay. Any specific size of deal that you think is going to make more or less sense maybe in terms of the target revenue generation?

Shawn O'Connor

There's a range of the targets that we're in discussions with right now. Lixoft, I'll just use as a leverage point in response here. We're $3 million or close to $4 million in revenue. Those sort of targets or that level size of target is plentiful in our discussions today. That being said that there are some targets that would be of a higher size than that, higher revenue level than that. On the service side, most of those organizations are at the Lixoft or below size in terms of their revenue field flows. On the service side, they tend to be a little bit smaller groups of consultants that would be targets. Yes, I'd use Lixoft as a as a good example in terms of size and maybe there are some opportunities that are a little bit larger than Lixoft out there.

Dane Leone

Okay. Great. Last one from me. Can you just clarify in terms of the response to the operating margin this quarter and the, I guess, abnormal SG&A spend? Is that—are you clarifying that that's a onetime increase or one abnormality for whatever you're doing with consolidating those businesses? Or is there a new higher run rate that we have to expect for SG&A?

Shawn O'Connor

Yes. I think for the most part, it's a blip in the quarter. Obviously, our growth of nine people, continuing compensation response to the marketplace, there are some expenses that are going up. But certainly, that which is attributable to the payroll adjustment, I think, will reference the number of about $700,000 in the quarter. That amount is not recurring in nature.

William Frederick

I'd add on there—I'd probably add on there. It's for Q4 timing is what I would focus on it. For the year, it's where we came out in the revenue growth with the services challenges. If you go back and look at, say, first half of the year and we were at about a 21% growth rate, from an absolute dollar standpoint, our operating expenses will continue to go up just driven by higher revenue as well as bringing more people on at a controlled pace but keeping competitive in salaries. But if we ended up where we had looked at the beginning of the year, I think our total R&D would have still been in the 7% to 8% range, which is

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about where we were last fiscal year and our SG&A in that 41% to 42% range. When you look at things as a percentage of revenues, still trying to keep operating expenses in total below that 50% number, but timing was the Q4 with expenses coming in this quarter versus other quarters.

Dane Leone

Okay. Thank you very much.

Will Frederick

Yes.

Operator

There are no further questions at this time. I would like to turn the floor back over to Mr. Shawn O'Connor for closing comments.

Shawn O'Connor

Very good. Well, thank you, everyone. We are pleased that we saw some uptick in terms of where we came in, in the fourth quarter compared to a challenging third quarter and are very pleased with the momentum on both sides of our business, both the software and service business as they enter our new fiscal year. Look forward to reporting further results a quarter from now to you. Take care. Thanks a lot.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation. Enjoy the rest of your day.

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