VIAVID
communications simplified.

Simulations Plus, Inc.

First Quarter Fiscal 2021 Financial Results

January 11, 2021

CORPORATE PARTICIPANTS

Cameron Donahue, *Hayden IR*

Shawn O'Connor, *Chief Executive Officer*

Will Frederick, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Matt Hewitt, *Craig-Hallum*

François Brisebois, *Oppenheimer*

David Larsen, *BTIG*

Dave Windley, *Jefferies*

PRESENTATION

Cameron Donahue

Good afternoon, everyone. On behalf of Simulations Plus, I welcome you to our First Quarter Fiscal 2021 Financial Results Conference Call and Webinar.

Hosting the call today are Simulations Plus CEO, Shawn O'Connor, and the Company's CFO, Will Frederick. An opportunity to ask questions will follow today's presentation.

Before beginning, I would like to remind everyone that with the exception of historical information, the matters discussed in this presentation are forward-looking statements that involve numerous risks and uncertainties. The actual results of the company could differ materially from those statements.

Factors that can cause or contribute to such differences include, but are not limited to, the continued demand for the Company's products, competitive factors, the Company's ability to finance future growth, the Company's ability to produce and market new products in a timely fashion, the Company's ability to continue to attract and retain skilled personnel, and the Company's ability to sustain or improve the current levels of productivity. Further information on the Company's risk is contained in the Company's quarterly and annual reports and filed with the Securities and Exchange Commission.

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

Shawn O'Connor

Thank you, Cameron. The first quarter of Fiscal 2021 was a good one for Simulations Plus, continuing the momentum of last year and positioning us for another record year. We delivered revenue growth even though the first quarter of last year presented a challenging year-over-year comparison due to an unusually strong quarter from our DILIsym division. The overall results were otherwise strong and in line with expectations.

At the same time, we continue to deliver solid and improving profitability, benefiting from a more favorable revenue mix with higher contribution from our software offerings.

As we look towards the balance of the fiscal year, we enjoy a growing sales pipeline with bookings that reflect continued momentum and a solid position in the market, even as the overall marketplace is still impacted by COVID-19. Our relationship with regulatory agencies and large pharma clients remains a point of emphasis and we are successfully leveraging these important relationships to enhance the value we provide to our clients with broader software and service capabilities.

We continue to demonstrate the importance of modeling and simulation to effectively support clients and improve the drug development process. Modeling is increasingly important to the drug development process, helping reduce costs, accelerate pipelines and contribute to positive regulatory interactions. The increased use of cases of modeling and simulation and the significant revenue and cost impact that they have for our clients underlies our ability to grow revenues, customers and profitability in the future.

For the quarter, our revenue increased 14% overall. As I mentioned, this growth was somewhat muted by the challenging year-over-year comparison in our DILIsym division. As you may recall, in the first quarter of last fiscal year, DILIsym, in response to multiple client requests, accelerated project work into the quarter, resulting in 138% growth in their consulting service revenues last year. This situation normalized as the year progressed and DILIsym's services grew 53% for the full year. With that stellar performance in the first quarter of last year, DILIsym's service revenue in the first fiscal quarter of 2021 declined 66%, as anticipated. It is important to note that DILIsym revenue in Q1 Fiscal Year '21 increased sequentially from Q4 Fiscal Year '20, and we remain confident of good growth from the division for the year as a whole and better year-over-year revenue growth comparisons beginning next year.

Overall, revenue growth for the Company, excluding the DILIsym service revenue, was 28% for the quarter. This growth was helped by a strong software quarter for the Company; software was 58% of total revenue compared to 49% in the year-ago quarter. Part of this was the benefit of the Lixoft acquisition providing a full quarter of contribution. Overall, our software business grew 35% compared to the first quarter last year, compared to 12% year-over-year growth in the first fiscal quarter last year.

In our service business, revenue declined 6% due to the DILIsym comparison. Service revenues growth excluding DILIsym was 15%, well in line with our expectations.

Over the last couple of years, we have accelerated revenue growth both organically and through acquisition. At the same time, we remain very focused on profitability and in that regard we are performing well across its metrics. Gross margins have increased from the low 70s to levels above 75%, coming in this quarter at 77%. EBITDA as a percentage of revenue has remained consistent in the mid-30s, coming in this quarter at 36%. Diluted earnings per share continues to grow year-over-year, coming in at $0.12 this quarter and would have been 18% growth to $0.13 without the dilutive effects of last year's follow-on offering.

Finally, the Rule of 40 metric that has been widely adopted by many to measure revenue growth in combination with profitability is also a positive one for us, coming in at 50% this quarter.

In summary, these metrics demonstrate our ability to balance revenue growth and profitability to deliver continued increases in earnings per share to our shareholders.

As I mentioned, our software revenues represented about 58% of total revenue compared to 49% in the first fiscal quarter last year, and 52% in the fourth quarter. The increase is largely due to the full quarter of sales of Monolix Suite, which is now contributing 19% of our software revenue for the quarter. GastroPlus continues to be our flagship product and generates the largest portion of our software revenue, followed by ADMET Predictor and now Monolix Suite. The software revenue contribution from Monolix demonstrates our continued focus on leveraging existing products and introducing new products to drive increased revenue.

We need to continue to improve and advance our software offerings to maintain our leadership position. GastroPlus remains well established as the leading PD/PK modeling platform in the industry. During the quarter, we released version 9.8 of our flagship GastroPlus offering, adding the industry's first mechanistic model for intra-articular delivery and a revamped virtual bioequivalence trial simulation engine to address many of the requirements published in the U.S. FDA's new regulatory guidance document on PBBM applications, and this has been well received by our customers. We launched a new funded collaboration with the FDA and Roche, and we expect to launch GPX, our GastroPlus version 10 during this fiscal year.

We also released APX, which is ADMET Predictor version 10, and AIDD in the first quarter. We initiated a lead optimization project related to AIDD with a large pharma partner, moving 70 molecules into the synthesis and testing phase. The new AIDD module that was released with APX is a separately priced module used with the ADMET Predictor functionality.

Lixoft released Monolix Suite version 2020 in October, adding a new Simulx module which is a powerful and flexible simulator for clinical trial pharmacometrics with a user-friendly interface. In addition, it allows for a complete modeling and simulation workflow from data analysis, noncompartmental analysis to population modeling and simulation with fully interoperable applications. It provides users with a fast, easy-to-use and powerful suite of applications for pharmacometrics analysis, modeling and simulation. Lixoft reported a 23% increase in customers in Q1 versus Q1 Fiscal Year '20.

We're also nearing completion of our DILIsym version 10 update, and this offering will include tighter integration with GPX and APX. Our goal is to facilitate cross-selling opportunities as we continue to offer better and broader solutions to our customers.

Finally, our IPF model and RENAsym offerings are nearing completion and we expect to have these available for license by mid-year.

Our first fiscal quarter renewal rate was 92% based upon fees and 88% based upon accounts. Our renewal churn from the client budgetary process continued into Q1, but this appears to be settling back towards our more normalized levels which for Fiscal Year '20 were 93%. We were able to implement a price increase and initiate changes to our discount structure during the quarter with minimal pushback. We also continue to see increasing average revenue per customer, demonstrating the success from the price increases, as well as continued upselling efforts.

Let me shift now to our service business. For the quarter, our consulting revenues were sourced 54% from PK/PD services, which are primarily delivered by Cognigen, 25% from QSP/QST services delivered by DILIsym, and 21% from PBPK services delivered primarily by our Lancaster group.

Our consulting business continues to perform well with strong revenue growth and profitability. We support our clients' use of modeling and simulation to positively impact their drug development programs through both the outsourcing of their modeling and simulation needs, as well as in addressing specific issues encountered in their development programs.

Our PK/PD offering increased 15% compared to Q1 last year, a strong result in what is typically a seasonally slow quarter. We delivered a 35% increase in new bookings Q1 versus Q4, and a similar increase in pipeline activity.

Our QSP/QST offering declined, as expected, compared to the year ago quarter. As I mentioned, the first quarter last year was particularly strong for our QSP/QST service offerings as our DILIsym business unit worked aggressively to meet accelerated customer demand.

Finally, our PBPK offering was up 14% compared to Q1 last fiscal year, reflecting continued strong demand.

In terms of client successes, we presented at a scientific poster regarding DILIsym contributions to the development of Remdesivir at an important liver toxicity meeting. DILIsym liver safety analysis was integral to a scientific review by the State of California Office of Environmental Health Hazard Assessment on acetaminophen.

New services during the quarter included a large COVID-19 related project signed with a large pharma client. In addition, we signed a three-year project with the Gates Foundation in tuberculosis, and three new projects with the Gates Medical Research Institute.

With regard to a couple of key service metrics, total service projects increased during the quarter with excellent growth in our PK/PD and PBPK service offerings, and we closed the quarter with $12 million in service backlog, up 14% from the end of last quarter. A good bookings quarter has reversed the trend that we saw during Fiscal Year ’20 as new service contract closures were slowed due to COVID-19 impact.

Let me turn to our Fiscal 2021 outlook. Our goal is to maintain Fiscal Year ’21 organic growth in the 15% to 20% range, in line with the 18% organic growth we delivered in Fiscal Year ’20. In Fiscal Year ’21, incremental Monolix revenue could contribute an additional 3% to 5% of revenue growth on top of the organic growth. Any revenue contributed by acquisitions closed in Fiscal Year ’21 will as well be incremental to this. Certainly the pandemic will continue to create headwinds in Fiscal Year ’21. New software license customers and new consulting service contracts will continue to close at a slower pace—slower than historical pace.

We are targeting software growth of 20% to 25%, up from 16% in Fiscal 2020. This growth rate is based on the new version 9.8 release of GastroPlus, and in Fiscal ’21 the expected release of version 10 which we will market as GPX. Additionally, we will benefit from the new release of ADMET Predictor and the new Monolix Suite, as well as the modest price increases we have already announced.

Finally, the focus on cross-selling initiatives will help us accelerate software growth.

On the consulting services side, we anticipate 25% to 30% growth in Fiscal Year ’21. We continue to see demand across our services with PK/PD and PBPK services remaining consistent.

Overall, I expect the accelerated growth we have delivered in Fiscal Year ’20 to continue into Fiscal Year ’21.

Finally, we continue to pursue our M&A strategy and believe that these efforts are going well. We’re looking at opportunities in both software as well as service entities that would contribute strategically to our product portfolio, add new revenue and market opportunities within our computational biology focus or contribute to our geographic coverage in the marketplace.

Let me now turn the call over to our new CFO Will Frederick to discuss the financial results. This is the third time I've worked with Will in my career and we enjoy a strong relationship. Will, welcome to the company.

Will Frederick

Thank you, Shawn. I'm thrilled to be here. When the pandemic abates, I hope to be able to meet as many shareholders as possible in person.

As Shawn mentioned, our consolidate revenue for the first quarter of Fiscal '21 was up 14% to $10.7 million compared to $9.4 million in the prior year quarter. Total gross profit increased 22% to $8.3 million, representing a 77% gross margin compared to a gross margin of 72% in the same quarter last year.

SG&A expenses for quarter were $4.4 million or 41% of revenue compared to $3.5 million or 37% of revenue in the same period last fiscal year. The increase in SG&A expenses was primarily the result of higher payroll related expenses due to increased compensation and headcount, as well as increases in contract labor, insurance and professional fees.

R&D expenses for the quarter were $0.8 million or 8% of revenue, compared to $0.5 million or 6% of revenue in the same period last fiscal year. Capitalized R&D for the quarter was $0.7 million or 6% of revenue compared to $0.5 million, also 6% of revenue in the same period last fiscal year.

Income from operations was $3.1 million, an increase of 15% compared to $2.7 million the same period last fiscal year. This increase was primarily driven by a higher gross margin on increased revenue, which was partially offset by an increase in operating expenses.

The provision for income taxes was $0.5 million for an effective tax rate of 17% compared to $0.7 million for the same period last fiscal year, which was an effective tax rate of 25%. The lower effective tax rate was primarily driven by the tax benefit associated with disqualifying dispositions.

Net income increased 21% to $2.5 million compared to $2.1 million for the same period last fiscal year. And diluted earnings per share increased 9% to $0.12 compared to $0.11 for the same period last fiscal year.

EBITDA increased 15% to $3.9 million compared to $3.4 million for the same period last fiscal year.

As Shawn previously mentioned, our gross margin increased from 72% last fiscal year to 77% this quarter. This increase was driven by increased gross margins of 85% for our software business and 66% for our services business.

We continue to have a strong, clean balance sheet. At the end of the quarter our cash and short-term investments balance was $118.8 million compared to $116 million at the end of last fiscal year, reflecting significant cash reserves to support our continued expansion through internal investment and M&A activity. We also continue to have no debt on the balance sheet and a current ratio in the 20s.

I will now turn the call back to you, Shawn.

Shawn O'Connor

Thank you, Will.

In conclusion, we delivered consistent revenue growth and continued profitability for the first fiscal quarter, in line with our Fiscal '21 outlook. The environment remains challenging but we have seen improvement and underlying sales activity appears to be moving back towards historical trends. Over the past two years, we have made significant investments in our sales and marketing infrastructure designed to accelerate our growth. These investments included strategic adjustments to our pricing and discounting programs, and the higher growth rate is proof that these investments have had the desired impact.

Simultaneously, with a stronger balance sheet and significant cash, we are continuing our M&A efforts, and the goal of increasing our scale and giving us more solutions to sell to the same customers.

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

Operator

Thank you. At this time, we'll be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question comes from Matt Hewitt with Craig Hallum. Please proceed with your question.

Matt Hewitt

Good afternoon, Shawn and Will, and thank you for taking our questions. My first one is regarding the gross margin. Obviously a fantastic pop there relative to Q1 of last year, and I think you commented a little bit about it, but could you talk about how that can trend over the next few quarters given some of the changes you've implemented on the discounting side but as well as the price increases that you've implemented?

Shawn O'Connor

Thanks for that. A number of factors come into play in terms of pushing our gross margin up to the 77% level in the first quarter. Probably the most impactful driver there being a return to a higher percentage content of software revenues in the mix. Fifty-eight percent of the revenues sourced in the first quarter in the software business is the highest percentage for several quarters back now and that certainly contributes to a richer mix as you've seen in our metrics there, our software margin at 85%, the service business in the mid 60s, low to mid 60s is the norm, and so the richer mix there is a big driver.

On the software side, some contribution from the price increase that was implemented before the end of the calendar year.

The discounting structure changes, those have been initiated. Those tend to take effect over a longer period of time, so I would say that in the immediate window the discounting structure changes are a lesser contributor here in the first quarter.

Then a final comment would be the service margin, which reflected a good step up in the first quarter and I think reflects some good contribution in terms of our focus on the efficiency of the delivery of our projects to our clients, something that has been a focus in the last year, and we saw some rewards from that in the near term.

On an ongoing basis, we see these trends should be able to be continued into the next year. Always impacted as that fluctuation between software and service changes on a quarter-to-quarter basis. But feel confident that we'll continue to accrue benefits from this pick-up on the gross margin line going forward.

Matt Hewitt

That's much-appreciated color. Thank you.

Then regarding the service side, it sounds like you're seeing some of those projects that were maybe just put on hold given the pandemic starting to free up. I wonder if you could just talk a little bit about the pipeline there, and then maybe the contracts that you've signed here, how quickly do you anticipate those starting to contribute to revenues? Is that immediately here in the second quarter, or is it a delayed fuse a little bit?

Shawn O'Connor

Yes, I think one of the more significant learnings from the quarter is that trend change, moving in a positive direction and seeing our backlog step up and increase quarter-over-quarter to $12 million at the end of the first quarter is indicative of we saw a better flow of business and closure of that busines in the last three months, some of which has been those items that were held up by COVID. Some of it is new opportunities that we've encountered and have closed in the quarter.

As we look out into the future, I think the delivery on those new bookings will be similar to as is the norm. Projects are typically contracted and performed over, it's a three-to-six-month window of time, so these are contracts and business that for the most part will be contributing to our—and translated into revenue in between now and the end of our fiscal year at this point in time.

I think this is a very favorable trend change in the context of our backlog growing. It's one of the things that's buffered us from the slower pace during COVID-impacted timeframes here, and while that has not gone away, that impact in terms of this slower pace of closure, we have stepped up in the quarter. You see that backlog start to reaccumulate itself is a significant positive achievement for us here.

Matt Hewitt

Understood. Then I guess last one from me and then I'll pop off. Lixoft had a fantastic quarter and I'm just curious, is that a function of the cross-selling efforts now that you have acquired the asset, or is there some other dynamic that was really driving that growth? Thank you.

Shawn O'Connor

Sure, Matt. I think it's attributable to the fact that the market is seeing the benefits of Monolix and its workflow and front end and functionality in general, and we're continuing to make or achieve successes in terms of both the expansion of its existing clients and growth in terms of their taking down more speeds, as well as the attraction of the new players, new clients and their step into and use of Monolix as an alternative to NONMEM which is the typical tool of use out there, and so been very pleased with their delivery on expectations since we acquired them last April. They've now consistently overperformed for each of the quarters that they've been part of the SLP family. I think the biggest driver is the acceptance of that product in the marketplace.

Yes, good results from our team out of Paris.

Matt Hewitt

That’s great. Thank you.

Operator

As a reminder, if you’d like to ask a question, please press star, one on your telephone keypad. One moment, please, while we poll for questions.

Our next question comes from François Brisebois with Oppenheimer. Please proceed with your question.

François Brisebois

Hi. Thanks for taking the question. Congrats on the quarter.

Just a couple here. In terms of the COVID-related consulting projects and the three-year projects with the large pharma discussed in the press release, is this something maybe on the services side, on the software side that is expected? Would you consider this part of your forecasting in that 15% to 20% organic growth, or is this something that was a nice surprise, which is there haven't been too many nice surprises around COVID, but is this something that just happened recently that was unexpected, I guess?

Shawn O'Connor

I wouldn't characterize it, Frank, as being unexpected. It's been part of that lead population and sales pipeline that we've been working, and it came to fruition finally and contributes to our backlog now, business to be worked going forward. I wouldn't characterize it as being something that would be incremental or cause us to adjust our organic growth expectations of 15% to 20% to a different level. It's certainly a big win, a significant win, not just in terms of dollars but in terms of the type of work in the COVID space so we're very pleased by that, and yet, I wouldn't characterize it as being necessarily an incremental driver above where we've been pointing to in terms of our organic growth rate target.

François Brisebois

Okay, great. Then in terms of, you had mentioned in terms of renewal rates, you mentioned there had been four customers that had slowed down significantly in your last—I guess it was your yearly report. I was just wondering there at 92% now, if you have any more color to give on that renewal rate? Maybe on those four customers, what's going on? Was it just consolidation? Are they coming back? Any color there at all?

Shawn O'Connor

I mean, we stepped back up to 92% in the second quarter that falls within the budgetary cycles where we see the most churn or opportunity for churn as our clients are going through their budgetary reviews, so stepping back up to 92% was a very positive outcome. There were no equivalents in terms of the four anomalies that we had last quarter that took that percentage down. That did not repeat itself this quarter, so that's very positive.

I’d remind you that those four clients, those were not zero percent renewals in terms of their situations; they were reductions from site consolidations and other factors, and they did renew, they just renewed at, on average, a 75% level for those four clients. As I indicated a quarter ago, those clients are still in good standing and there are business development discussions taking place with them and discussion surrounding expanding their licenses back to another higher level or expanding in terms of cross-selling other modules, other software products, and in one case a collaboration agreement. Those are still underway at this point in time.

First and foremost, it was very positive that we have gotten through the second quarter of that window of budgetary discussions and we saw the renewal rate go back up, as we expected, to the historical levels, 93% or thereabouts. Good outcome for the quarter in that regard.

François Brisebois

Okay, great. Then just last one before I jump back in the queue. In terms of organic growth, obviously the Monolix Suite, Lixoft did fantastic. Really nice to see the software percentage of the total revenue, but so the organic growth, is it just—was it 1% and is that—yet, it clearly impacted by DILIsym last year, but from that organic growth, is there any concern about that 15—sorry, the total software growth to see in the year or the organic growth of 15% to 20%? Or is that something that really is just based off DILIsym and going forward there's nothing to worry about there?

Shawn O'Connor

The first quarter comparable for DILIsym impacts the total numbers there. Again, I pointed to the year-over-year growth rate of 28% without the DILIsym consulting revenues, so the business is still firing, firing well on systems here, if you will. No, as we've maintained our—pointing to the 15% to 20% organic growth, our expectation is that we'll conclude the year in that range, as we've previously said.

Comparables will get easier for DILIsym as we get into the second, third and fourth quarter this year. Our expectations for continued improvement in growth driven, A, by our seasonality. Remember that this first quarter is our—the first and fourth quarters of the fiscal year are our lower revenue quarters. We are now entering our second and third quarter, which is usually a little bit more robust on both sides of the business, both software and services, get a number of software new product, new functionality, new releases that will contribute as we proceed through the quarter.

On the service side, as we step back up in terms of our bookings level, you see that backlog number starting to grow. That supports continued improvement through the course of the year on the service side. Yes, first quarter results really excellent across the board, camouflaged a bit by the comparable on DILIsym, but as I look out into the year as a whole still, very confident in terms of the 15% to 20% target that we've put out there.

François Brisebois

Okay, great. Let me lie here and ask one last one here on the tax number. Maybe for Will here. Going forward—I think it was 18% here that you mentioned—in terms of tax benefits, how should we think about the tax rate going forward here, especially with everything that's going on at the higher-level political level as well?

Shawn O’Connor

If we’re going to get into politics, I have to give this one to you, Will.

Will Frederick

All right. I'll give my Pittsburgh perspective instead of the California perspective.

On that effective tax rate, yes, we came in at 17%. We definitely got the benefit of some cashless exercises that give us an offset there. It would have been closer to probably about 20%, and I want to say the 21% to 25%, I think, is what the analysts have us at, so we're still looking at somewhere in that neighborhood.

François Brisebois

Okay, great. That's it for me. Thank you and congrats on the quarter.

Shawn O'Connor

Thanks.

Operator

Our next question is from David Larsen with BTIG. Please proceed with your question.

David Larsen

Hey, congrats on a good quarter. Can you maybe talk a little bit about GastroPlus, and what are going to be the drivers of revenue growth there? Can you just remind me what percentage of software revenue Gastro is? I think it's around a third of total? Thanks.

Shawn O'Connor

Yes, software GastroPlus revenues are about 55%, at least here in the first quarter; it's generally about that level of revenues, of software revenues as a whole, so 55% of software revenues, which were 58% for the quarter gets you down to the exact level.

GastroPlus growth drivers are multiple. A, there is still an expanding list of use cases for PBPK modeling. As those use cases increase, the number of scientists that are employed by our clients to deliver those types of work efforts increase as well. We're in an environment that is still somewhat constrained in terms of the number of scientists available to be hired by our clients, but it's an improved environment in that regard. There's a dynamic of growth that's driven by the increase in users in our client base, as well as their use of this type of modeling that increases its application. Behind that is not only the successes of those applications but the guidance and support of the FDA and other regulatory bodies and providing wind in the sail in that regard.

Other factors in terms of GastroPlus growth this year specifically include the release that we just put out this past quarter, 9.8, and our anticipated GastroPlus version 10 release later in this year, which again expands the functionality of the product as well as the ease of use of the product, which both support that first point that I'd point to in terms of its use in many new different ways but a broader base of scientific scientists in our client base.

There is some push there in terms of pricing. The Company has always had small, relatively modest price increases; we didn't change that too dramatically this year but did implement a price increase that contributes. And you may have heard referred to discount structure changes that take a little bit longer for it to translate into financial impact, although, we're making some changes there.

The last thing I'd point to is an effort over the last year or two in terms of improving our sales and marketing capabilities with staff and tools leads us to ability now to be a little bit more strategic and focus on cross-selling opportunities and therefore, another driver in terms of the growth of GastroPlus, and our other products in our software portfolio is a real focus in terms of key account management and the opportunity to cross-sell and demonstrate to our clients the benefit of utilizing our multiple modeling and simulation platforms and the way they can work in unison in order to deliver impactful results to their drug development process.

David Larsen

That's super helpful, thank you. Then just one more. You've talked about investing into sales and marketing. How many salespeople do you have now? How many would you expect to have 12 months from now? In what areas are you making these investments into? Is it FTEs? Is it people? Is it software or something else? Thanks.

Shawn O'Connor

Yes, it's a little bit of all of the above, David. It's people-based investment in sales professionals and that group has generally gone from I think four to eight in the last 12 to 18 months or thereabouts; we'll look to continue to grow that. That metric is a little bit gray in the sense that those are sales professionals, if you will, and on both our software side of our business and consulting side of the business the sale is obviously a technical one, and so that doesn't include the consultants and/or software specialists that are technical in their background that really support the sales cycle.

For example, on the consulting side, our focus has been to—and our recruiting efforts in building our capacity on the service side, to also profile for recruitment consultants that have a little bit of business development in their DNA and candidates that are going to allocate a higher percentage of their time to business development efforts. We've grown our sales resource, if you will, not just in the metric of sales and marketing staff but also in terms of highlighting the business development skill set and our general scientific recruiting efforts. Implemented a CRM system and other things as well, so it's people and tools that we've been adding to the mix here.

David Larsen

Super. Thanks very much. Congrats on a good quarter.

Shawn O'Connor

Very good. Take care.

Operator

Our next question comes from Dave Windley with Jefferies. Please proceed with your question.

Dave Windley

Hi. Good afternoon. Thanks for taking my questions.

The first one is thinking about end market growth. I know there's a fair amount of noise, both in your numbers and in the end market because of COVID, but if it's possible to see through that, would you describe the end market growth as relatively steady, or are you seeing a distinct before and after pre-COVID/post-COVID type attitude towards adoption of biosimulation?

Shawn O'Connor

It's interesting. I don't know that I've got a metric that addresses that, but I would say that the pandemic and COVID certainly highlighted the observation or the desire to move more quickly in the drug development process in general, understandably so given the need to identify a vaccine as quick as possible. I would say that the attention, the spotlight and the focus on how do we improve and accelerate the drug development cycle, of which I believe modeling and simulation is one of the key means of achieving that, but I would characterize that the attention that is being placed on modeling and simulation is on the upswing.

How much of that is due to just COVID, how much is attributable to—fact is without COVID, there was an increasing focus, both the industry as well as the regulatory agencies on the use of modeling and simulation. How much is COVID, how much is the continuation of that increasing attention that existed there before COVID came into place, hard to say. But I would say that it's a rich environment. We've seen good growth now for many quarters, if not many years now, that has accelerated and opportunity that is rich with opportunity for us going forward.

Dave Windley

Great. If I could—this may be an alternative question to that theme or maybe a slightly deeper version is, as you're interacting with your clients, is their increasing use of biosimulation, is it kind of continuing to spread on what I'll call a single platform, dare I say basic biosimulation approach, or is it taking biosimulation and moving to more of a robust, comprehensive like model informed drug development? If the latter, does that create differential opportunities for a firm like yours that has multiple platforms to bring to bear?

Shawn O'Connor

It’s a great question. It's hard to say and it's anecdotal. I'd say you go down the list of top 20 pharma and deeper and each entity has a differing fervor of adoption and a different means of adoption, meaning are we trying to change the development cycle in total or are we implementing a modeling and simulation approach in a therapeutic area, or in particular segment of their effort? The industry is across the map in terms of those approaches.

I do believe, and from our perspective, the market is not a one platform market; there is no one solution that then becomes the basis for your modeling and simulation, your model-based drug development program. There are number of techniques and platforms that come into play here, and that is behind, in part, our expansion, GastroPlus, ADMET Predictor, our acquisition of Monolix last year, is to be in a position to provide our clients all of the technical platforms that can contribute to a model-based drug development program, and provide it to them efficiently in terms of a vendor partner that can supply their needs, as well as technically under the covers, platforms that have an ability to talk to each other and can be integrated, if not immediately over time, to make that process most efficient.

I'd say that you got to take a look at the market and there are some leaders, there are some laggards and the vast majority are somewhere in the middle there in terms of partially and with different strategies implementing.

All, I would say, of all those characterizations, types of clients, if you compare them today versus a year ago versus five years ago, today their devotion to model-based drug development is greater than it was in those time references.

Dave Windley

Got it. One more for me. You mentioned in one of your answers, some constraint on—if I understood correctly, some constraint on your software sales based on customers' limitations, or maybe hesitation, I wasn't quite sure of hiring of scientists on their side. I'm wondering if you could comment on the labor market in general or what you're seeing in the hiring in your services organization in the labor market currently?

Shawn O'Connor

Sure. I wouldn't characterize it as a hesitation on their part but a challenge, and that's a challenge that is better today than it was yesterday in the sense of there being more candidates, more scientists that are skilled, trained, and have been developed with model-based drug development, computational biology, whatever label you want to place on it. It's better today than it was yesterday but it's still a resource short environment.

Our own internal efforts in terms of recruiting, we've been very successful and have met our growing needs of capacity to provide for our service business and its revenue growth. It's a very competitive market out there. We've succeeded. I expect we'll continue to succeed to meet our needs there. On the software side, it does often become a limiting factor. I think we could grow faster on the software side and license more software to our clients if they were able to build their internal programs and hire at a more rapid pace. That's how I'd characterize the market.

Dave Windley

Great. Thanks for taking my questions. Best of luck. Thank you.

Shawn O'Connor

Sure. Take care.

Operator

Our next question is from François Brisebois with Oppenheimer. Please proceed with your question.

François Brisebois

Just a last one here. On that note of the clients, and we talked about large pharma and the top 20 players and most of them are using this, whether it's on the simulation side on pharmacometrics or whatnot, but I was wondering when you speak to or when you see your clients, in terms of the large pharma versus the smaller pharma that maybe don't want to waste time going down a path that's not worth it, is that movement or is that—in terms of the client base, is it moving more towards smaller or staying with larger? Is there any dynamics there that you're seeing on your side?

Shawn O'Connor

In terms of our clients' portfolio changing in terms of its mix of large and small clients? I would say that the growth in small clients is more rapid, but that's simply because it's a different dynamic. We've got the large pharma are for the most part all our clients already, and the dynamic there is their expansion of more seats, more tools, more projects. On a sheer customer count side, new clients would tend to be in the medium to small size just because of that dynamic.

I think the medium to small size ventures out there, clients that are out there, continue to make that choice, make that choice between building an internal capability and/or outsourcing their needs to a thirdparty provider like ourselves through, our service drivers or our software drivers of our revenue growth going forward. That dynamic of more scientists being available makes the potential there for that cut point in terms of who outsources and who builds internally; perhaps it's moving to a smaller size, but that's a pretty slow movement, slow dynamic change.

François Brisebois

Okay. Are you aware of any large pharma that actually use some of your software to drive their M&A decisions in terms of maybe acquiring smaller pharmas?

Shawn O'Connor

Well, I don't know that I would point to direct use of it in that regard, but often the modeling and simulation work that is done on a drug in their program if they're looking to then sell it off, or if it's an acquirer looking at a company that's been developing a drug, the modeling data and analysis that would exist already would be something that in their due diligence they would seek. I'm sure it's in the mix there somehow, but I wouldn't characterize that we have Large Pharma X Venture division—Venture Business Development division as our client at this stage of the game.

François Brisebois

Understood. Thank you.

Operator

Ladies and gentlemen, we've reached the end of the question-and-answer session. At this time, I'd like to turn the call back over to Shawn O'Connor for closing comments.

Shawn O'Connor

Very good. Well, thank you, everyone, for your interest. It's been a good quarter for the Company, a good start to our Fiscal Year 21, and I look forward to speaking with all of you next quarter, if not sooner. Thanks a lot, everyone. Take care.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.