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Simulations Plus, Inc.

Second Quarter Fiscal 2021 Financial Results

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C O R P O R A T E P A R T I C I P A N T S

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Shawn O'Connor, *Chief Executive Officer*

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C O N F E R E N C E C A L L P A R T I C I P A N T S

Matt Hewitt, *Craig-Hallum*

François Brisebois, *Oppenheimer*

David Larsen, *BTIG*

Dave Windley, *Jefferies*

P R E S E N T A T I O N

Operator

Greetings and welcome to Simulations Plus Second Quarter Fiscal 2021 Financial Results Conference Call and Webinar.

It is now my pleasure to introduce Jeff Stanlis from Hayden IR. Thank you, Mr. Stanlis. You may now begin.

Jeff Stanlis

On behalf of Simulations Plus, I welcome you to our Second 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 a number of risks and uncertainties. The actual results of the Company could differ significantly from those statements.

Factors that can cause or contribute to such differences include, but are not limited to, 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 factors are contained in the Company's quarterly and annual reports filed with the Securities and Exchange Commission.

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

Shawn O'Connor

Thank you, Jeff. This was another strong quarter for Simulations Plus, and a solid first half to our fiscal year. We delivered 27% year-over-year revenue growth, bolstered particularly by the software side of our business. The solid growth, the inherent leverage of our business model and the greater mix of higher margin software revenue led to improved profitability.

One of the highlights of the quarter was the successful launch of our MIDD Plus Scientific Conference in early March, a two-day event focused on delivering customized modeling and simulation content specifically for pharmaceutical scientists and their organizations. This event, our first Simulations Plus sponsored event, demonstrated our leadership in the industry. More than 500 commercial and academic professionals participated, with tracks including dedicated sessions covering all stages of the drug development process including discovery, preclinical, first-in-human, Phase I through post approval and generics.

In addition, this conference included a strong presence and active participation from regulatory agencies, including representatives from the U.S. FDA Offices of Clinical Pharmacology, New Drug Products, Research and Standards, Translational Sciences, the Center for Drug Evaluation and Research, and the National Center for Toxicological Research, as well as ANVISA and Health Canada.

Another highlight was the release of our inaugural ESG report, which you can find on our IR website. This report demonstrates our commitment to good governance, diversity, transparency and our shareholders. I am proud of this report, something still rare for companies of our size, as the ESG movement continues to find its form.

We have adopted the mission of achieving our long-term goals for growth, profitability and industry leadership through innovative, science-based software and consulting solutions to optimize treatment options that will both save and improve the quality of patients' lives.

In summary, this was a strong and productive quarter with excellent revenue growth and important initiatives that solidify our leadership position. The strong software growth and especially the software mix puts our results a bit ahead of our full year plan and we expect this to normalize as we move through the second half of the year.

Turning to our revenue mix for the second quarter, as I mentioned, we delivered 27% consolidated growth for the quarter. Organic growth was 12% versus the same quarter last year. Lixoft continued to outperform expectations with a revenue contribution of $1.6 million for the quarter.

Software revenue was 60% of total revenues compared to 52% last year. Our second fiscal quarter Software revenue growth was 45% compared to 13% last year. Excluding the addition of revenue sourced from Lixoft, Software revenue growth was 15% compared to 13% last year. We are seeing accelerated organic growth in addition to Lixoft's contribution, resulting in excellent overall Software growth performance.

Our Service revenue increased 7% compared to 35% last year. As a reminder, our DILIsym business experienced some accelerated projects in the second quarter last year, driving that 34% growth rate, and we indicated at the time that performance was likely not sustainable. Our Service revenue growth in the quarter improved sequentially from Q1 Fiscal Year ’21, but still reflects this difficult DILIsym year-over-year comparison in addition to the conclusion of a client-funded software development project at Cognigen.

Year-to-date, our consolidated year-over-year revenue growth was 21%. If you exclude the DILIsym division with its challenging year-over-year comparison, our growth was 28% for the six-month period compared to last year.

Year-to-date, our Software revenue was 59% of total revenue compared to 51% last year. Again, the Lixoft acquisition being the driving factor. Our year-to-date Software revenue growth was 40% compared to 13% last year. Excluding our Lixoft division, our year-to-date software revenue growth was 13%.

Our year-to-date Services revenues increased 1% compared to 37% last year; again, the DILIsym comparison is the primary driver of this growth rate.

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 these metrics. For the second quarter of Fiscal Year ’21, overall gross margin has increased from 74% the last two years to 78% this quarter. EBITDA as a percentage of revenue has remained consistent in the mid 30s, coming in this quarter at 33%. Diluted earnings per share continues to grow year-over-year, coming in at $0.15 this quarter and would have been 42% growth to $0.17 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 60% this quarter.

For year-to-date Fiscal ’21, overall year-to-date gross margin has increased from 73% the last two years to 78%. EBITDA as a percentage of revenue has remained consistent in the mid 30s, coming in at 34% year-to-date. Diluted earnings per share continues to grow year-over-year coming in at $0.27 year-to-date and would have been 30% growth to $0.30 without the dilutive effects of last year’s follow-on offering.

Finally, the Rule of 40 metric is also a positive one for us for year-to-date, coming in at 55%.

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

We enjoyed a diverse mix of software revenue in the quarter with solid growth across our entire portfolio of platforms. GastroPlus represented 57% of total revenue for the quarter, Monolix Suite from Lixoft was 20% of Q2 software revenue, and ADMET Predictor represented 16%. Other software contributed 7% to software revenue in the quarter.

On the year-to-date perspective, GastroPlus represented 56% of total revenue and Monolix Suite was 19%. ADMET Predictor represented 17% of total software revenue, and Other software was 7% of year-to-date software revenue.

With regard to Software highlights during the quarter, our AIDD lead optimization collaboration with a large pharma partner recently achieved a significant milestone. After being synthesized and assayed by the pharma partner, 80% of the candidate molecules tested exhibited sub micromolar activity and acceptable ADMET properties. These results are excellent and demonstrate the unique value of the ADMET Predictor machine learning models coupled with powerful AIDD technology, which required only activity data to optimize lead molecules across a wide spectrum of properties. These results are contributing to a growing sales pipeline for this product category.

We released version 9.8.1 of our flagship PBPK modeling platform GastroPlus, in anticipation of the GastroPlus 10 or GPX release scheduled for later this year. Version 9.8.1 of GastroPlus includes more mechanisms, verification, and guidance for our validated drug-drug interaction models, a validated column in the drug-drug interaction perpetrator table to clearly identify the values that have been validated by our DDI experts for use in simulations, a new option to include variability in lung deposition in the population simulator, and many other key enhancements.

In addition, we also established a relationship with a South America distributor, expanding our presence in this emerging region. The agreement is with the Institute of Pharmaceutical Sciences or ICF. Founded in 2002, ICF is one of the largest pharmaceutical research centers in Latin America and the first commercial Brazilian laboratory to be fully certified by the Brazilian health regulatory agency, ANVISA, to conduct bioavailability and bioequivalence trials. ICF will provide marketing, sales, and technical support to organizations throughout South America.

Turning to Monolix, our Monolix Suite R2020 was released in the first quarter and we are encouraged with the market reaction and the resulting lead generation. We completed a five-day Monolix virtual training workshop in March with daily attendance in excess of 500 participants.

Finally, we announced a new distributor in China for Monolix with Mosim, one of China's leading biopharmaceutical services companies. Founded in 2015, Mosim was the first clinical CRO providing clinical pharmacology services in China. With a staff of over 100 qualified scientists, Mosim will provide extensive connections throughout industry, academia, and regulatory agencies to increase awareness of Monolix Suite including PKanalix, Monolix, and Simulx. Overall, our Monolix Suite has seen a 28% increase in customers year-over-year.

For the quarter, our renewal rates were in line with historical rates at 93% based on fees and 86% based on customers. We continue to see improvement in our average revenue per customer at around $84,000 for commercial customers and $66,000 for customers including nonprofits. During the quarter we signed six multiyear renewals for GastroPlus and ADMET Predictor. We also successfully renewed a large pharma merger situation for Monolix, a scenario which often results in a decreased seat license renewal by the combined client entity. Three Asian renewals including two in India and one in Japan were delayed, but we anticipate renewals from these entities in the coming quarters.

Year-to-date, our renewal rate was also in line with historical rates at 93% based upon fees, and 86% based on customers. We see continued improvement year-to-date as well in our average revenue per customers at around $97,000 for commercial customers and $71,000 for all customers including non-profits.

Let me shift now to our Service business. Our services revenue grew 7% for the quarter compared to 37% growth last year. For the quarter, our Service revenues were sourced 50% from PKPD services, which are primarily delivered by our Cognigen division, 32% from QSP/QST services, primarily delivered by our DILIsym division and 18% from PBPK services primarily delivered by our Simulations Plus division. Year-to-date, service revenues were similarly dispersed by type and division.

Service revenue growth and momentum is good, but continues to be impacted by the difficult year-over-year revenue comparisons at DILIsym that we've previously discussed. We were also challenged by the completion at the end of last year of a client-funded software development collaboration. Absent these two factors, service revenue growth is more in line with historical growth.

Turning to Service highlights for the quarter, we signed a significant large pharma customer for a PKPD project during the quarter in support of regulatory interactions. In addition, more than a dozen projects were performed utilizing Monolix as the primary analysis platform. We secured seven new PKPD clients during the quarter and three large project contracts with ongoing existing clients. Finally, we secured a large QSP contract with a large pharma client in a new disease area.

Another significant event during the quarter was the formation of a Scientific Advisory Board to provide guidance and direction for DILIsym's RENAsym, quantitative systems toxicology kidney injury software platform. This board, called the RENAsym Consortium, consists of six renowned experts in the field and is chaired by Dr. Paul Watkins, the Howard Q. Ferguson Distinguished Professor and Director of the Institute for Drug Safety Sciences at the University of North Carolina.

DILIsym also received a Phase I NIH-funded SBIR grant, together with the University of Pittsburgh Drug Discovery Institute's vLAMPS experimental liver model and the microphysiology systems database to predict the safety of large molecules such as proteins that are increasingly used to treat diseases. The first phase of development funded by the grant will include beta version software construction and vLAMPS testing of several large molecules. Successful completion of the objectives will lead to an application for a larger Phase II grant, which would fully fund the development of the joint commercial offering. The software uses properties of drugs to predict their risk of causing liver injury in patients and is now widely used to support key drug development decisions.

We also entered into a new funded collaboration with a large pharmaceutical company to develop machine learning models and enhance physiologically-based pharmacokinetics/pharmacodynamics approaches for potential treatments of pulmonary infections. Our plan is to apply our ADMET Predictor platform to build machine learning models for key endpoints to serve two purposes: to aid scientists in discovery as they screen candidate libraries and to inform the mechanistic GastroPlus models as lead compounds progress through development.

Additionally, we entered into a new funded collaboration with a large pharmaceutical company to add novel mechanisms for oral peptide formulations within the GastroPlus advanced compartmental absorption and transit or ACAT mechanistic model. This partner is a frequent user of the GastroPlus platform across multiple research sites worldwide. A growing portion of this pharma's development pipeline is focused on therapeutic peptides and proteins, and part of their strategy involves designing oral delivery systems to complement the traditional invasive routes for these bio molecules. This collaborative effort plans to expand the applicability of GastroPlus to simulate intestinal absorption of large molecules and the effect of permeation enhancers within oral formulations.

Finally, our Cognigen division awarded a grant to the Department of Pharmacology and Therapeutics at Makerere University in Kampala, Uganda, the country's largest and oldest institution of higher learning. This grant will fund upgraded Internet capabilities and ensure access to Cognigen's KIWI platform. The goal is to accelerate the university's pharmaceutical research efforts in quantitative approaches, including modeling and simulation, supporting future research and mentorships opportunities. As KIWI users, researchers, faculty, students at the University will gain access to a state-of-the-art platform to dynamically build, compare, refine and evaluate pharmacometric models. The Cognigen team will provide training and oversight to ensure KIWI is optimally leveraged to support the university's initiatives.

Overall, a very busy and productive quarter for our Services group, providing momentum as we enter the back half of our fiscal year.

With regard to a couple of key Service metrics, total Service projects increased 19% during the quarter, with excellent growth in our PK/PD and PBPK service offerings. This offset a reduction in projects in QSP and QST reflecting the accelerated project and revenue growth in Fiscal Year '20 previously discussed.

We closed the quarter with $11 million in Service backlog, which has improved after taking a fall since its peak at the end of Q2 Fiscal Year ‘20 prior to the impact of COVID-19 around this time last year.

Finally, with regard to our Fiscal Year ‘21 outlook, we continue to expect 15% to 20% total revenue growth for Fiscal Year ‘21. As we enter the back half of the year, we will see Fiscal Year ‘20 revenue comparables that include Lixoft, which we acquired in April 2020, and began contributing revenue in Q3 and Q4 of Fiscal Year ‘20. This was anticipated in our Fiscal ‘21 outlook provided at the beginning of the fiscal year and remains unchanged.

Our software revenue is likely to perform at the high end or above the outlook provided due to accelerating software growth rates and the stronger than expected contribution from Lixoft.

Conversely, our Service revenues are likely to perform at the low end or perhaps slightly below the outlook provided due to difficulty overcoming year-over-year comparisons.

On balance, our outlook for Fiscal Year ‘21 remains unchanged. And if anything, profitability is enhanced by the richer mix of software revenues for the year.

We continue to be very active on the M&A front, though we're maintaining our rigor in the evaluation of opportunities.

With that, let me turn the call over to our CFO Will Frederick to discuss the financial results.

Will Frederick

Thank you, Shawn. Our consolidated revenue for the second quarter was up 27% to $13.1 million compared to $10.4 million in the prior year quarter. Total gross profit increased 33% to $10.2 million, representing a 78% gross margin in the second quarter of Fiscal 2021 compared to a gross margin of 74% in the same quarter last year.

SG&A expenses for the quarter were $5.4 million or 42% of revenue compared to $4.1 million or 40% 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 $1.3 million or 10% of revenue compared to $2.7 million or 7% of revenue in the same period last fiscal year. Capitalized R&D for the quarter was $0.7 million or 5% of revenue compared to $0.6 million or 4% of revenue in the same period last fiscal year.

Income from operations was $3.5 million, an increase of 23% compared to $2.8 million in 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 $0.2 million for an effective tax rate of 6% compared to $0.7 million for the same period last fiscal year, which was an effective tax rate of 24%. The lower effective tax rate was primarily driven by the tax benefit associated with disqualifying dispositions that we saw again this quarter similar to last quarter.

Excluding this benefit, the effective tax rate for the quarter would have been closer to 21%. We expect to see the rest of the year effective tax rate in the range of about 15% to 18%, subject to other factors including profitability and any additional disqualifying dispositions.

Net income increased 49% to $3.2 million, compared to $2.2 million for the same period last fiscal year, and diluted earnings per share increased 25% to $0.15 compared to $0.12 for the same period last fiscal year.

EBITDA increased 23% to $4.3 million compared to $3.5 million for the same period last fiscal year.

Our consolidated year-to-date revenue was up 21% to $23.8 million compared to $19.8 million in the prior year period. Total gross profit increased 28% to $18.5 million, representing a 78% gross margin in the first half of Fiscal 2021 compared to a gross margin of 73% in the same period last year.

SG&A expenses were $9.9 million or 41% of revenue compared to $7.6 million or 39% of revenue in the same period last year. Similar to Q2, the increase in year-to-date, 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 were $2.1 million or 9% of revenue compared to $1.3 million or 6% of revenue in the same period last year. Capitalized R&D was $1.4 million or 6% of revenue compared to $1.1 million also 6% of revenue in the same period last fiscal year.

Income from operations was $6.5 million, an increase of 18% compared to $5.5 million in the same period last year. Similar to Q2, this year-to-date 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 $0.7 million for an effective tax rate of 11% compared to $1.4 million for the same period last year, which was an effective tax rate of 24%. As mentioned earlier, the lower effective tax rate this year was primarily driven by the tax benefit associated with disqualifying dispositions.

Net income increased 35% to $5.7 million compared to $4.2 million for the same period last year and diluted earnings per share increased 17% to $0.27 compared to $0.23 for the same period last fiscal year.

EBITDA increased 17% to $8.1 million compared to $6.9 million for the same period last year.

As Shawn previously mentioned, our total gross margin for the quarter increased from 74% last fiscal year to 78% this quarter. This increase was driven by 89% gross margin for our Software business and 61% for our Services business. We also saw an increase in our year-to-date gross margin from 73% last fiscal year to 78% this year. This increase was driven by 88% gross margin for our Software business and 63% 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 $117.8 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.

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

Shawn O'Connor

Thank you, Will.

In conclusion, we delivered strong revenue growth in Q2 and the first half of Fiscal Year ‘21. The richer mix of Software revenues is enhancing our profitability metrics nicely, and we continue to advance our leadership position in the marketplace with business development momentum, winning new business, renewing and growing existing relationships, key collaborations and grants. And we successfully launched our first ever sponsored conference. As a result, the underlying momentum we see across our entire portfolio of software products and services is encouraging.

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

Operator

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

Matt Hewitt

Good afternoon. Thanks for taking the questions and congratulations on the progress. First up, it's almost a year now since you acquired Lixoft and I'm just curious of how the cross-selling is going between the two primary software programs. But how is that—the growth that you're seeing in Lixoft, is that—organic isn't the word, but is that customers coming and looking at Lixoft and acquiring or is it because of the cross-selling initiatives that you put in place?

Shawn O'Connor

Yes, thanks, Matt. All of the above would be my starting point. We're getting good contribution from all of those sources. Remember, Lixoft had a good growth rate coming into the organization, so a lot of momentum in the marketplace, a lot of adoption by both new customers as well as growth as the typical sale of Monolix is a handful of user licenses for a period of time to test and get comfortable and then a follow-on renewal at a much higher user count. That dynamic was there and is continuing.

Been very pleased in terms of the interaction between Lixoft and our Sim Plus division, our software sales team supporting GastroPlus, ADMET Predictor. Number of opportunities have been created to introduce Lixoft to new accounts and some vice versa the other way in terms of Lixoft to accounts have sort of provided some more exposure on the Sim Plus side.

And overall, we are very much focusing as the next step in terms of our development of sales and marketing efforts, cross-selling programs that are focusing on key large accounts and organizing meetings, interaction with them. That provides clients of one or more of our products and services to the visibility of other services that they might not be using, so that's been very good. Very good to date.

And then lastly, I'd comment that the benefit in terms of our big sellpoint on Monolix is the efficiency that it can bring to the pharmacokinetic modeler in terms of performing their work efforts and in that regard we are stepping up ourselves internally and adopting Monolix at a pretty rapid pace where we're able in the performance of our client projects. I mentioned in the script, a dozen accounts or a dozen projects, I should say, this last quarter where we utilize Monolix as the primary data analysis tool. That's an important, not just efficiency in terms of our internal speed and profitability on projects, but it's also another one of those cross-selling means of demonstrating and getting Monolix and its functionality in the eyes of our consulting clients and opening their eyes to the opportunity of adopting it as their tool in-house as well.

Overall, from a number of different angles and sources, the interaction that is now a year old since our acquisition of Lixoft in April of last year has been very, very positive.

Matt Hewitt

Well, that's great. Thank you for the update there.

Then maybe one separate question. Given the mix, it sounds like it's going to remain elevated here towards favoring the software side, at least for the near term or the second half of the year. Should we anticipate that the gross margins are going to be up by that 78%-ish range for the second half as well, or is there something else that could maybe knock the gross margins down? Thank you.

Shawn O'Connor

Sure, Matt. No, we should see the benefit of that richer mix in the direction of the software contribution to revenues, most definitely. Keep in mind, in terms of the year-over-year comparisons that now we enter the third and fourth quarter, and so the growth rate on the software side Lixoft is no longer purely acquisition growth, if you will. The software growth while good and will continue to perform and as I said, in terms of the guidance, at or above the guidance that we gave at the beginning of the year, is performing ahead of plan. Don't look at the 45% growth in the second quarter. Keep in mind, this very next quarter will have some Lixoft revenues in the prior year comparable that will bring that percentage—year-over-year percentage down, but nonetheless, the organic growth rate and Lixoft’s growth rate on a standalone basis will continue quite strong here.

Matt Hewitt

Great. That's helpful. Thank you.

Operator

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

François Brisebois

Hi, thanks for taking the question. Just to touch on what Matt mentioned there, the cross-selling. Obviously on the software side, there's some cross-selling between software products or offerings, but how much of it is pushing—also, you talked about the consulting business. How much of that cross-selling can go to the services side, and is that something—to tie it into an M&A question, what exactly are the criteria that you're looking for? Is the performance of Lixoft maybe changing what you're trying to look for here?

Shawn O'Connor

Boy, you’re coming at several different angles there, Frank, in one question. Congratulations, good question.

The dynamic of cross-selling from Lixoft to the consulting business, as I indicated before, it is presenting opportunities. There were at the time of the acquisition, one of the opportunities going forward was the fact that Lixoft was turning away requests, inquiries by their clients for service-related effort that Lixoft was not staffed up or in a position to support. Inquiries to Lixoft now have a home and that's primarily Cognigen, and go into the lead and sales pipeline to be followed up. We've seen some good activity there.

Then on the other side, the demonstration of Monolix in the performance of existing consulting business in front of our clients is a tremendous sales opportunity to demo. It's not a cold call; when we demo

Monolix, it's a warm relationship and a consulting engagement and a demonstration of the merits of Monolix to a friendly, existing client. That is a very large leverageable opportunity that we're working as well. So feel very good that both on the incremental software cross-selling as well as on the consulting side that opportunities are being presented to and following on to Lixoft acquisition a year ago.

As it relates to M&A, does it change our perspective in terms of our M&A criteria? I think our acquisition of Lixoft was very positive and checked most all the boxes, not only at the time of the acquisition, but a year later. Looking back and in hindsight, the performance and contribution has been better than expected, and so, yes, those are acquisitions we'd want to do on a daily basis so to speak. I don't know that it necessarily changes, however, the criteria that we're running with here. We continue to look for good strategic fit, good cultural fit. We've got a bias towards software entities that can contribute and add to our desire to be the premier software tool provider to the industry and in biosimulation services, but consulting opportunities do have their merits as well. Often, it's geographical in terms of extending our footprint in Europe or perhaps in the Asia region.

Then finally, there are services, biosimulation services that through acquisition we could expand into new but related areas.

All of those criteria remain the same. We've certainly enjoyed the experience from Lixoft and look to replicate that, but I think that's where we were last year and that's where we continue to be today.

François Brisebois

Okay, great. I'll just sneak in another one. You actually hit on all of those, so congrats there.

Software and services mix is something that comes up a lot. Can you talk about—you've obviously talked about 2021, but is this something that, maybe on the low side on the service grows, maybe on the high side on the software side, but if we're looking at it in 2022, 2023, 2024, 2025 down the road, can you share any thoughts about what would be an ideal mix of software and services?

Shawn O'Connor

I like where we've landed back at the 60/40. Over the last couple of years, with some accelerated growth on the service side, while we were investing in sales and marketing to enhance the growth on the software side, we saw that mix percentage come down from close to 60/40, but down I think at its low points, it was even 49% software 51% service, if I'm remembering correctly. We recalibrated that and today we're supporting that with an enhancement in our organic growth on the software side as well.

Obviously, there's benefits there in terms of the overall profitability of our model that we'd like to take advantage of. In the long run, yes, we'd strive to maintain this 60/40; there inevitably will be some ebbs and flows in the quarter-to-quarter results thereof, but that 60/40 would be the mantra that we would march to.

François Brisebois

Okay, great. Then any comments you can share on the pandemic on maybe businesses, backlogs, and maybe new business or hiring? Any updates. There's been obviously—you guys have been sheltered from the impact of COVID a little bit, but any updates there from your perspective?

Shawn O'Connor

Yes, I can't point to anything significant that's new or different. As we're all experiencing, it's a mishmash of opening up and closing down as you walk around the world to various places. Our employees at Lixoft in Paris, I feel bad because they’ve been locked down for so long and can't go more than six miles from their front door.

From a business perspective, I think there's been a settling in, an increase in activity, a moving on, getting through the annual budgeting process allowed our clients to step back and take a deep breath and say, “Okay, well, what's the program going to be on a go forward basis over the next year? What's that budget going to be?” There's a little bit more fluidity to business, if that's the right term. At the same time, it doesn't take much for companies to pull back and say, “We're cautious. We're going to wait till next quarter.”

There's still the impact in terms of we've not been able to face-to-face see our clients in a conference, industry conference and the impact that we felt in that regard for the last year or so. Getting better at it, but still impactful.

It's still a mishmash. We're learning to fight our way through it, but still have some impact.

François Brisebois

Okay, and I apologize, I lied. I'd like to sneak in one last one, if that's okay. That $4 million revenue growth in the first half year, first six months of the way you report, do you break out the contribution there from Lixoft and (Inaudible)?

Shawn O’Connor

It was 1.6 in the second quarter, and I don't know if, Will, maybe you’ve got first quarter visibility there. I don't have that cheat sheet exactly in front of me. I think it was somewhat less than 1.6 in the first quarter.

François Brisebois

Okay.

Will Frederick

Yes, It was 1.2. We'll put it out in our 10-Q on Wednesday as well; we’ll have all that detail.

François Brisebois

Okay. Just trying to gauge if most of that growth is all Lixoft or the organic side, how much of it is organic versus Lixoft?

Shawn O’Connor

Understand. All those details will come forth. For the Lixoft group, their growth is accelerated just by the momentum that they've had. They've also had some accelerated situations where clients have wanted to increase licenses and in so doing the renewal may not have come up until third or fourth quarter, but we want more licenses, so let's renew it now in the second quarter. A bigger dollar contract, license total, and accelerated forward.

We're good. Business momentum is good on Lixoft side. They're learning to become a public company, though, in terms of the quarter-to-quarter revenue process, and so as we work into the back half of the year, the most important factor is keep in mind there's Lixoft revenue in our comparison from the prior year, so that's going to impact that overall growth rate, but not necessarily the momentum underneath it.

François Brisebois

Yes, understood. All right. Thank you very much.

Operator

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

David Windley

Hi, good afternoon. Thanks for taking my question. I believe I heard you say in your prepared remarks that maybe some company specific factors impacted your growth in QSP. I wondered if you could comment more broadly about the trends that you're seeing in growth or demand from customers between what maybe you call core models and disease models, say smoothing out for any company specific factors. I'm trying to understand where is the underlying industry demand going?

Shawn O'Connor

Demand is still strong for third-party assistance to internal modeling and service organizations. It ebbs and flows a bit. I think it was more impacted by COVID than the software side of our business. As, all hands on deck, turn our attention to COVID-related programs and hesitancy or slowness in terms of other programs and a push-off, therefore, of some services that were being utilized on a third-party basis like that, which we provide at Sim Plus.

The growth on services as over a two-, three-year window has been as high as 40% growth, as low as relatively flat. I think the consistent, ongoing normalized growth rate will be in that 25% range. That being said, we'd all like services to be a nice recurring and non-lumpy business but by its nature it is, so even with a target 25% or expectation 25%, it allows them to have some ebbs and flows on a quarter-to-quarter basis.

David Windley

Got it. Just to clarify, so in your case, QSP is all services or are you also selling software? I guess what I'm trying to get at is the difference in demand between what might be thought of as core non-disease modeling versus disease specific modeling and if the industry is rotating to getting more specific on disease states?

Shawn O'Connor

Fair question. The whole quantitative mechanistic modeling, QSP/QST space has been a high demand area and continues to be a very active pipeline on our part. It also tends to be larger models; your basic PKPD study, which may land in 100,000 or 200,000 range, the mechanistic model is going to be 500,000, it could be a million, and therefore activity is very good, but that leads to the ebb and flow and ups and downs, the lumpiness of that business. PK/PD demand continues to be very strong. Mechanistic modeling demand continues to be very strong as well.

David Windley

Got it. Okay. Moving on to a separate topic, in terms of your M&A comments, it sounds like you're still very active in your evaluation. How do clients—or let me ask it differently. Do clients desire for those capabilities that you bring in through acquisition to be natively integrated with your existing platform? Is that important or not to the client?

Shawn O’Connor

I think it can be important. It's not number one on their priority list and I think the biggest driver in that regard can often be the siloed nature of the pharmaceutical organization. A tool in discovery, a tool in clinical, the immediacy, the value to the discovery scientist, he doesn't necessarily latch on to the value if those two products are integrated. The client at a higher level in that organization will see those benefits and list it as something that is very valuable to them, but it depends on where you're at in the matrix with the client, and it depends on what those add-on acquisition products or services might be in terms of who you're talking to at the client.

David Windley

Okay, and last question for me, just to clarify. I think the numbers you gave of about 2.8 million of the growth of your 4 million in growth on a year-to-date basis would have been Lixoft 1.2-ish and 1.6 from the last question. Is that right? Then the remainder of the 1.2 would be your organic number that we should compare to the just shy of 20 million in the first half of last year; is that the right way to think about it?

Shawn O'Connor

Sounds about right, yes.

David Windley

Okay, great. Thanks.

Shawn O'Connor

Very good.

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. I appreciate everyone's interest and joining us here on the earnings call and look forward to next quarter and returning and telling you the story of Simulations Plus. Take care, everyone.

Operator

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