S&P Global
Market Intelligence

Simulations Plus, Inc. NasdaqCM:SLP

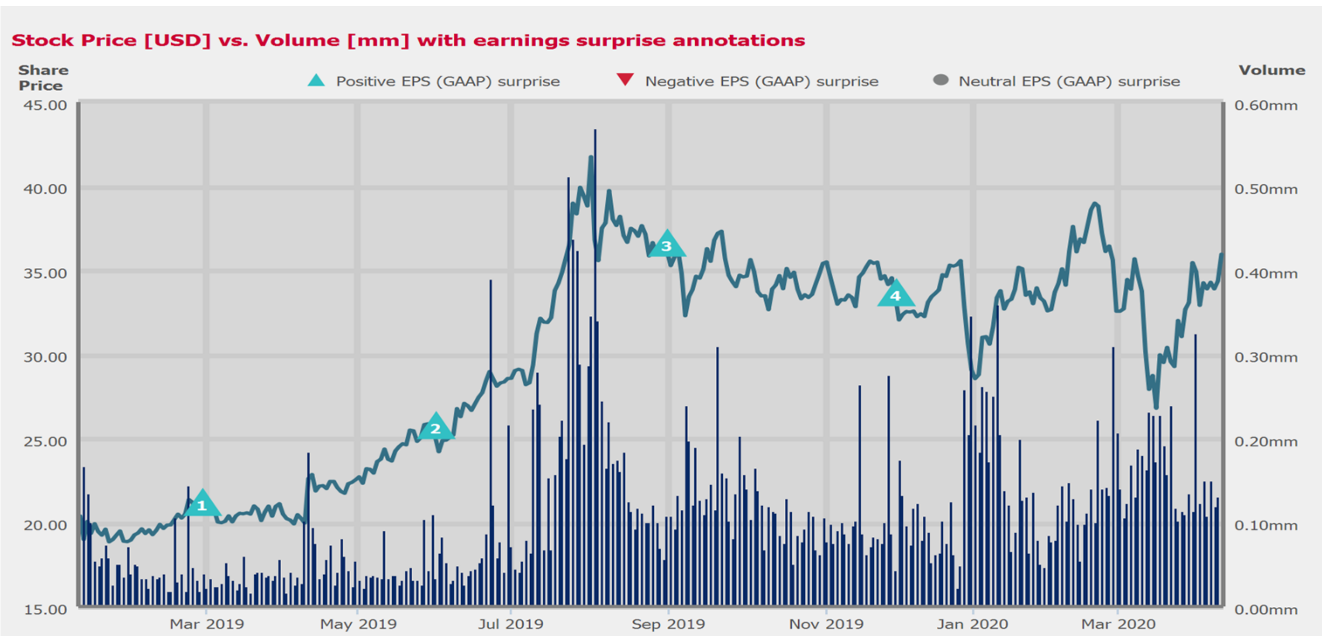
FQ2 2020 Earnings Call Transcripts

Thursday, April 09, 2020 8:15 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2020-	-FQ2 2020-		-FY 2020-	-FY 2021-
	CONSENSUS	CONSENSUS	SURPRISE	CONSENSUS	CONSENSUS
EPS (GAAP)	0.10	0.14	▼(14.29 %)	0.52	0.68
Revenue (mm)	8.61	9.86	▲4.97	40.06	47.12

Currency: USD
Consensus as of Apr-03-2020 12:05 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2019	0.10	0.12	▲1 20.00 %
FQ3 2019	0.14	0.16	▲2 14.29 %
FQ4 2019	0.09	0.11	▲3 22.22 %
FQ1 2020	0.10	0.11	▲4 10.00 %

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Call Participants

EXECUTIVES

John R. Kneisel
CFO & Corporate Secretary

Shawn M. O'Connor
Chief Executive Officer

ANALYSTS

Matthew Gregory Hewitt
Craig-Hallum Capital Group LLC, Research Division

ATTENDEES

Cameron Donahue
Hayden IR, LLC

Presentation

Cameron Donahue
Hayden IR, LLC

Good afternoon, everyone. On behalf of Simulations Plus, I welcome you to our second quarter fiscal year 2020 financial results conference call and webinar. Hosting the call today is Simulations Plus' CEO, Shawn O'Connor; and the company's CFO, John Kneisel. Our quarterly earnings release should be available momentarily and expect to have this before we get into the main details of the earnings call today. An opportunity to ask questions will follow today's presentation. [Operator Instructions]

Before beginning, I'd 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 is contained in the company's quarterly annual reports and filed with the Securities and Exchange Commission.

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

Shawn M. O'Connor
Chief Executive Officer

Thank you, Cameron. This was certainly an eventful and historical quarter for Simulations Plus and for all of us.

I'd like to start the call by expressing my hope that you and your families are all healthy and safe in these uncertain times. While we all may be feeling a bit homebound at this point, I encourage everyone to adhere to the guidelines and precautions that keep you and your families best protected during these times. Thankfully, the impact of the COVID pandemic on us here at Simulations Plus has been relatively minimal to date.

I will elaborate on the COVID impact in our response later in the call. But first, I'd like to comment with regard to our recently announced acquisition and operating results for the quarter. Subsequent to the end of the quarter, we acquired Lixoft of the Paris, France, the developer of the highly regarded Monolix Suite. Monolix is a PK/PD modeling platform that supports the pharmacometricians workflow with data exploration, to model fitting through to clinical trial stimulation. This acquisition did several things for us. First, it immediately expands our presence in Europe with 12 new employees and strong experienced executive management.

Second, it rebalances our mix of software and consulting revenues, following 2 acquisitions of businesses that are more weighted to consulting. Lixoft's revenues are 99% annual software licenses with consistently high renewal rates, which we believe will benefit from our sales and marketing channels. Third, Lixoft has historically turned away consulting opportunities, and we believe that we will be able to respond to this market opportunity with our consulting resources, creating a new source of revenue.

And finally, the acquisition is immediately accretive with revenue growth performance in our target of 15% to 20% revenue growth and operating and EBITDA margins that exceed our existing performance. I welcome Jérôme Kalifa, Lixoft's Cofounder and Chairman; and Jonathan Chauvin, Lixoft's Chief Executive Officer to our executive management team, and I also welcome the whole Lixoft team to the Simulations Plus family.

With regard to our operating results, Simulations Plus delivered another strong quarter of execution. As you may recall, our stated goal was to deliver organic revenue growth of 15% to 20%. And once again, we exceeded this goal with 22% growth. This was our third consecutive quarter with revenue growth in excess of 20%. Our software revenues grew 12%, in line with prior periods. These strong results were achieved despite lower-than-anticipated new license business from our Asian distributors, where COVID impact was first being felt in February. Specifically, we saw about $200,000 to $300,000 of new business in Asia slipped out of the second quarter, more with regard to COVID dilemma.

Our service revenue growth was strong across each of our divisions coming in overall at 35% growth. The Lancaster team is busy with many collaborations we have announced over the past several months. Cognigen is operating at capacity with full backlog, and DILIsym grew this quarter at 45%, down from their 89% growth in the first quarter, but still excellent and more in line with our capacity. Our gross margins improved to 74% overall, benefiting from a seasonally higher software quarter.

Our mix was 52% software with margins of 85% and 48% consultant with margins of 63%. Net income to EBITDA as a percentage of revenue were generally within historical levels, but impacted by onetime transaction expenses related to the Lixoft acquisition. John will speak to these in detail later in the call. Let me now speak in more detail to the impact of COVID on our business.

Operationally, about 40% of our workforce already worked remotely, and nearly everyone was equipped to do so. As a result, the transition to 100% working from home has gone quite smoothly. Indeed, our entire workforce is now working remotely, and productivity is essentially unchanged. Our industry has seen the cancellation of most conferences. We are conducting trainings and workshops virtually, and we have transitioned sales activities from face-to-face meetings to virtual meetings. We even completed an acquisition this quarter remotely. I believe and early results reinforce that Simulations Plus is well positioned to weather this storm compared to other companies.

We have a strong balance sheet with ample cash, we've generated years of consistent profitability, and we exercise prudent expense management. Even after the use of cash to complete the Lixoft acquisition, our cash position of approximately $8 million is adequate and exceeds our cash position subsequent to our 2 previous acquisitions.

We recently secured a line of credit, not out of cash flow concerns, but rather as a minimal cost insurance policy. Rates for such facilities are excellent, cost to put them in place is minimal, and there is no fee related to unused credit during the term of the line of credit. The line of credit serves as an insurance should the need arise in the future. Additionally, a significant portion of our revenues comes from the renewal of software on annual licenses with very high renewal rates. Lixoft operates on a similar model with renewal rates that are very similar to ours. So the acquisition further bolsters our recurring revenue.

We have seen no impact to date on renewal rates. Finally, our service business operates off a large backlog of secured business, which at the end of the quarter totaled just under $10 million. We have undertaken a detailed review combined with ongoing interactions with our clients and have identified less than 10% of the backlog at risk of delay or cancellation at this time, but we continue to monitor this status.

Where we have seen impact is in the securing of new business at historical rates. I previously mentioned that we saw $200,000 to $300,000 in new software licenses -- excuse me, in Asia, slipped out into the second quarter. Asia continues to be impacted, where in some regions, infrastructure for work at home is not as robust as our experience here in the States. That said, this important -- this impact on new license sales is felt not just in Asia, but in all geographies. Thus far, we've seen no measurable decrease in demand, however, buying decisions are being delayed as companies wait for clarity into the economic impact of the pandemic, changes to their development plans and investments, and visibility into when the stay-at-home situations will begin to abate. We continue to close new software license business but at slower than historical pace. As a result, our new software pipeline is growing.

With regard to our service business, we also see a slowdown in closure of new business. As you know, our work with clients is sometimes in support of new clinical trials or post analysis of clinical trial performance, which in today's environment has been stalled. The direct development industry has focused its attention on COVID-related programs, is managing the disruptive impact on currently active clinical trials and evaluating existing plans for future clinical trials and programs in general.

Further, lab facilities integral to testing have been disrupted, impacting the generation of data available for analysis. All without certainty as to when the work environment will return to normal. New business discussions continue, but at a slow and cautious pace. We continue to close new service business but at a pace behind historical levels. Similar to our software business, our new business pipeline is growing.

On a positive note, we have recently initiated 2 new service offerings, which add to our new service opportunities. First, a global regulatory strategies offering, StrategiesPlus, led by a significant new addition to the team from the FDA. And secondly, the StrategiesPlus COVID ACT Program to speed consulting assistance to any organization involved in the coronavirus research.

As part of this initiative, each division of Simulations Plus has identified COVID-related product applications and services to provide specialized expertise, which will contribute to developing safe and effective treatments. These 2 new service offerings and the addition of the Lixoft software revenue stream, and the potential for Monolix-based consulting service agreements, all represent incremental revenue opportunities introduced in the last quarter. All positives for the future. Nonetheless, the near-term is dependent upon the uncertainties of the COVID impact in terms of the timing and nature of our clients' go-forward plans.

In summary, our business is faring better than most in today's COVID environment. We are strong financially, able to continue our support of clients with minimal impact and enjoy high recurring software revenue -- renewal revenues and a good backlog of service business. The current environment, for which there is no easy means to estimate when will we return to normal, is impacting new business cycles that have been mostly deferred and not lost.

Before I turn the call over to John, let me speak briefly about the performance of our division. At our Lancaster division, revenue was up 18% for the quarter. Breaking this down, our revenue from -- came 71% from renewals, 16% from new sales and 13% from consulting services.

In our software business, renewals were 88% by account and 94% based on fees, and we have generated 11% year-over-year growth in new licensing units. We added 12 new commercial companies, including new licenses in the U.S., Europe, Japan and Brazil. And we also expanded our presence with nonprofits, research groups, academic institutions, and regulatory agencies.

We are engaged in projects with 19 companies and 10 funded collaborations. Operationally, we continue to advance our industry-leading software. As previously referred to, we welcome on board, Sandra Suarez-Sharp as Vice President of Regulatory Affairs. Sandra comes to us after a 10-year career at the FDA, where she was most recently master reviewer and scientific adviser for the division of Biopharmaceutics. We ended the quarter with 44 full-time employees at our Lancaster division, up 3 from 41 in the prior quarter and up 6 from 38 last year.

At our Buffalo division, revenue was up 20% for the quarter. We signed 21 contracts and initiated 14 new projects during the quarter. Overall, we have 64 active projects across 34 companies, we have 18 proposals outstanding with 18 companies as of March 1. We also continue to expand and improve our team. We recruited a Director, Quantitative Clinical Pharmacology to focus on traditional pharmacology consulting support, and we hired a senior clinical pharmacologist to increase capacity to support early-stage clinical development, advice and services.

We ended the quarter with 52 full-time employees at our Buffalo division, up 1 from 51 in the prior quarter and up 10 from 42 last year. Our DILIsym or RTP division, revenue increased 45% for the quarter. Breaking this down, 48% of total division revenue was from DILIsym software and projects, 12% from RENAsym, 10% from IPF system -- excuse me, software, 12% from NAFLDsym software and projects, 6% from RENAsym grant and 12% from our heart failure project.

DILIsym has 20 active consulting projects and 7 active consortium of contracts at this time. We ended the quarter with 18 full-time employees at our RTP division, up 1 from 17 in the prior quarter and up 1 from

17 last year. I'll take a breath, and let me now turn the call over to John to review more detailed financial results. John?

John R. Kneisel
CFO & Corporate Secretary

Thanks a lot, Shawn. Looking at the quarter here. First, our consolidated net revenues for the second quarter of our fiscal year '20, were up 22% or $1.9 million to $10.3 million compared to $8.5 million in the prior year. Total gross profit increased 23% to $7.7 million, representing a 74.2% gross margin in the second quarter of this fiscal year compared to a 73.9% margin in the same quarter last year. SG&A expenses were $4.1 million or 40% of revenue in the second quarter of this year, an increase of approximately $1.3 million or 46% compared to $2.8 million or 33% of revenue in the second quarter of '19.

The increase in SG&A expenses was primarily the result of increases in salaries, wages, labor and stock compensation costs, as the company has grown in headcount to support our revenue growth. We have also seen increases in selling expenses, commissions and advertising, some contract labor also. In addition, this quarter, we incurred about $300,000 of M&A-related due diligence costs associated with the Lixoft acquisition. Without these transactions-related cost, the SG&A would have been approximately 37% of revenue.

SG&A expense in the third quarter will be -- also be impacted by transaction costs associated with the Lixoft acquisition. Research and development costs for the most recent fiscal quarter were approximately $1.4 million. Of this total, $748,000 was expensed and $620,000 was capitalized.

Income from operations for the second quarter of the year was $2.8 million, up approximately $96,000 or 3.5% compared to $2.7 million in the year ago quarter. Our provision for income taxes in the second quarter of fiscal year '20 was about $686,000, an effective rate of 24.2% compared to an effective rate of 22.1% in the prior year. We expect our tax rate to be in the 23% to 25% range for this fiscal year.

Net income increased by approximately 2.4% or $51,000 to $2.2 million in the most recent quarter compared to $2.1 million a year ago. On a per share basis, net income was $0.12 per diluted share in the second quarter of both this fiscal year and last fiscal year. The transaction expenses lowered EPS by just over $0.01 per share.

EBITDA was $3.5 million this quarter, up slightly compared to $3.4 million in the year ago quarter.

Now going on to the year-to-date numbers. Consolidated net revenues year-to-date were up 23.4% or $3.7 million to $19.8 million compared to $16 million in the year ago. Our gross margin for the first 6 months was 73.1% compared to 72.5%. SG&A expenses, including the $300,000 of transaction-related costs were $7.6 million or 38.6% of revenue compared to 34.5% for the same period last year. Expense, research and development costs were approximately $1.3 million for the first 6 months of the year, effectively unchanged from the prior period -- or the prior year, excuse me. Income from operations for the period was $5.5 million compared to $4.8 million, and net income increased by approximately $600,000 or about 16% to $4.2 million compared to $3.6 million. EBITDA was $6.8 million year-to-date, up 10.5% compared to $6.2 million the prior year.

Turning to the next slide. This slide shows our revenue on a quarterly basis from fiscal year 2016 to the second quarter of 2020, illustrating both historical quarterly growth patterns and the seasonality of the business. Seasonality can best be seen using the 2019 purple bars. Our third quarter is typically our strongest quarter with a decrease in revenue in the fourth quarter that coincides with the slowdown in our clients' purchasing in the summer months. Our first and second quarters this year followed the same upward trend.

The next slide represents income by quarter, which illustrates a consistent track record of increases both year-over-year and sequentially through the first and third quarters with the fourth quarter, as we talked, a little bit lighter for the year. As you can see, the patterns for quarterly revenues and quarterly income from operations have largely held true for quite a number of years. This Slide 15, we can see that similar pattern of net income with the third quarter typically being the strongest. We isolated the impact of a $1.5

million deferred tax benefit in the second quarter of fiscal year '18 since it tends to skew the presentation without highlighting that difference.

On the next slide, diluted earnings per share follows the same pattern and tracks with net income as expected. As I mentioned earlier, fiscal year '20 second quarter diluted earnings per share were $0.12, excluding the $300,000 of transaction costs related to Lixoft, as I indicated before, earnings would have been a $0.01 more.

Turning to EBITDA. Again, we expected the seasonal patterns to hold true with the overall trends moving upward and typically seasonal -- with typical seasonality between the quarters. Just a note here regarding the trends in these slides. Shawn has covered what we currently see related to COVID-19, after what is effectively only 1 month into the pandemic’s effect. No one is able to fully predict the full impact. But based on our annual renewal model for software revenues, we'd expect the seasonal nature of these trends to continue. We will be continually monitoring for changes.

This slide shows our revenue by region. We are a global business with the majority of our revenues in the Western Hemisphere, approximately 68% of revenues were in the Americas. Asia and Europe each represents 16% of the total revenue for our current year.

Moving on to our cash position slide. This slide shows the strength of our cash position with a quarterly view of our cash balance and how we have used funds for dividends and acquisitions over the period. Observing the red balance line, we can see that the low point of cash or at the time when the company has invested in new acquisitions. The company shows patterns of cash accumulation post major acquisition dates. Beginning with the first quarter of fiscal year '17, on the far left, the blue bar at the bottom illustrate our consistent dividend payout. Approximately $900,000 per fiscal year through that -- through fiscal '17. At the beginning of 2018, the Board increased the dividend payment to $0.06 a share, thereby returning approximately $1 million to $1.1 million in cash to our shareholders quarterly through the present quarter. Today, on our press release, we announced that the Board has again continued the $0.06 quarterly dividend, and the next dividend payment will be May 1.

Continuing with the chart, the green bars represent cash used for acquisitions. Cash flows from operations have allowed us to invest for future growth through acquisitions with the extra cash while keeping and maintaining a healthy balance sheet. Our reinvestment through acquisitions has exceeded $15 million over the last 4 to 5 fiscal years, while also returning more than $15 million to our shareholders through this consistent dividend payments without taking on any borrower debt. Subsequent to the quarter, as Shawn mentioned earlier, we established a line of credit in the amount of $3.5 million. Under terms of this agreement, at our discretion, we either pay interest at the prime rate or a fixed rate based on LIBOR plus 1.75% on funds drawn. It's a 2-year term with the agreement and there are no charges on funds for underused line fees. The agreement requires the company to satisfy certain financial covenants relative to profitability, EBITDA and annually requires the company to maintain a 0 balance for a 30-day period. While we don't see a need to utilize funds under management, under the agreement at this time, the letter of credit provides us cash management capabilities into the future.

Moving on to the next slide. At the end of the year, again, we talked -- in the quarter, our cash was $12.2 million, which was up 7% compared to our fiscal year. Our balance sheet is clearly stronger today than a year ago as a direct result of our increased earnings power, cash flow generation and prudent allocation of capital.

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

Shawn M. O'Connor
Chief Executive Officer

Thank you, John. We're all navigating a new world, impacted by this unprecedented pandemic. Thus far, we fared better than most and are well positioned to continue our long track record of success even in these challenging times. I'm excited to add Lixoft to our already strong and diverse organization, helping grow our European presence and improving our revenue mix. Demand for our solutions remain strong, although we will likely see some measure of delay in new business as our customers deal with the ramifications and uncertainties this pandemic has caused.

And with that, I'd like to turn it over and take any questions you might have.

Question and Answer

Cameron Donahue
Hayden IR, LLC

[Operator Instructions] At this time, I will -- as we wait and poll for questions, go through some of the early written questions that are -- have been submitted. Actually, we are going to take the questions first from Matt Hewitt with Craig-Hallum. [Operator Instructions]

Matthew Gregory Hewitt
Craig-Hallum Capital Group LLC, Research Division

And thank you for providing some details on the coronavirus. Maybe just to dig in on that a little bit more and I realize that this is an ever-evolving situation. But as you're talking to your clients and you're seeing news that some of them are maybe pushing out some of their trial starts or continuations of trials. What is the feedback that you're getting from them? Are they waiting for 30 days and then they're going to get back to you? Are they saying, you know what, we're just going to push the trial start date from maybe instead of May 1, we're going to push it to June 1. Just any incremental color on what you're hearing from the clients would be helpful.

Shawn M. O'Connor
Chief Executive Officer

Yes, Matt, I appreciate the question. And obviously, everyone in most all regards is looking for that date certain that the trends turns downward that certainty or visibility to return to normalcy will take place. And unfortunately, no one has that crystal ball. And so discussions with clients, they're influx. They're evaluating, they're reallocating resources. You see the focus on COVID-related development opportunities that are being pursued, there's a lot of movement in that direction. Existing plans where other therapeutic areas and developments are being held to, but being cautious right now, they are not pointing to -- we're going to defer this from April 1 start to June 1 start, is we're going to defer it from our plans at April 1 start without a date identified going forward.

I think we're all operating in an environment in which we'd be able to plan better if we knew when the curve bends downward and that uncertainty just keeps us all in a wait-and-see mode. And I think that's the characteristic of the term that we get from clients. It's a little bit wait and see how things evolve here over the coming days, weeks and hopefully not too many months.

Matthew Gregory Hewitt
Craig-Hallum Capital Group LLC, Research Division

Understood. And then regarding the Lixoft acquisition, congratulations, looks like a great fit, and you even touched on some of the potentially cross-selling opportunities. How quickly, especially given the current environment, how quickly do you anticipate being able to integrate that business and see some of the benefits from the cross-selling?

Shawn M. O'Connor
Chief Executive Officer

I mean we're getting -- certainly, these things do take some time, but we've been planning in anticipation of the announcement that we've made last week. And so that number of efforts, plans, engagement points between the new organization and are starting to take hold in the coming months, I think the plans, both in terms of sales and marketing as well as product development will begin to take shape. I think that there are areas where there is a population of consulting opportunities that are out there, all subject to the same COVID issues that we've addressed already here.

But I think in that regard, there's a flow of business that was waiting for someone to catch it. And now with our consulting resources, we should be able to pick up the ball there relatively quickly. So I think things will move very quickly in this regard. It's a product space that isn't -- is adjacent to us, familiar to us. Our clients are the same. And so our ability to consolidate sales and marketing efforts should go very smooth and very quickly.

Matthew Gregory Hewitt
Craig-Hallum Capital Group LLC, Research Division

Okay. And then maybe one last one for me and I'll hop back in the queue. Regarding the new regulatory strategies team, maybe a little more color there as far as how should we be thinking about the size of those contracts, the duration, how -- what is that pipeline looking like? I realize it's early days, but is there a pipeline that's building? And when do you anticipate signing the first contract?

Shawn M. O'Connor
Chief Executive Officer

Sure. It's exciting. Sandra has been on board maybe a month now. And we've reached out into the marketplace and we've got, a, we get immediate positive response. She's well-known, well-regarded in the pharma community and got a lot of accolades back from the marketplace in terms of great to hear that she's joined the organization, a lot of excitement around that.

Yes, it's -- very quickly, it generated a number of leads that we are managing through. Right now, the types of projects and I guess I'd describe sort of 2 scenarios: one, opportunities that are regulatory advisory projects in and of themselves, meaning that's the point of the project and the service. And then secondly, in the breadth of the consulting offerings, the projects that we do, including in those projects, some allotment of a time. And use of Sandra's advice in effecting other projects, our mainstream projects, if you will, to get that regulatory advice and color and expertise that Sandra brings to the table. So she will fit into or drive the stand-alone new projects as well as contribute and add to the flow of existing consulting projects that we perform.

Cameron Donahue
Hayden IR, LLC

Thank you. At this time, we will walk through some of the written questions. The first question has come from Howard Halpern. You stated the acquisition of Lixoft will add approximately $3.5 million to the revenues. Given the continued lockdown in Europe, is that still attainable? And how does the margin profile? And over time, what is the plan to integrate it into the general consulting services?

Shawn M. O'Connor
Chief Executive Officer

Okay. Let me get to the first point in terms of revenue expectations, what we disclosed was that they closed the calendar year 2019 with $3.4 million in revenue. That means that they enter the calendar year of '20 with $3.4 million of software revenues, software licenses that given their high renewal rates, they traditionally enjoy that the vast majority, 90-plus percent of the $3.4 million should renew and recur into the calendar year '20 with our fiscal year of August year-end, we get in terms of mismatches in terms of the time frame so I understand, but the point is, that their base business, which is recurring revenue is at $3.5 million level. And so expectations are pretty high that we should be able to continue that into our fiscal year '21.

It's not highly dependent upon new software licensing. So we certainly expect that not to be 0 during this time frame. So on the margin side, there, gross margin, operating income, EBITDA percentages on a stand-alone basis over the prior 2 years, all exceeded, were at or exceeded our percentages in those regards of revenue in terms of their model performance. So they should add to and might, in a small way, improve our percentage results in terms of EBITDA percentage of revenue operating income.

In the last it was with regard to consulting, how quick that would come on board. There's sales cycles that are involved there. We know we've got leads -- can get leased pretty quickly. But now we're in that environment of COVID-9 (sic) [COVID-19], so hard to say in terms of the speed of that sales cycle closure.

Cameron Donahue

Hayden IR, LLC

Thank you, Shawn. The next follow-up question from Howard is have you increased the use of webinars, virtual conferences to offset the some 20-plus conferences and presentations you attend in a given year? And do you expect any impact on your future customers in obtaining them?

Shawn M. O'Connor
Chief Executive Officer

Yes. We certainly gone virtual as many have on the business world, virtual in the sense of our webinars, our training, workshops, each of the divisions has moved, planned events into that format. And so we utilize that significantly. We've translated face-to-face sales meetings with virtual meetings. So we're keeping the pace of the activity going. No doubt, there is some slowness that creeps in as -- into the process, as we've talked about. But yes, we're leveraging the virtual world as best as we can.

Cameron Donahue
Hayden IR, LLC

And with this one additional question from Howard is, has the pipeline of consulting services across all subsidiaries changed due to the current environment?

Shawn M. O'Connor
Chief Executive Officer

Yes. As I've said, the pipeline has actually grown as we've had a slower pace on the closure end of the sales cycle, the amount of the business that we are working in our pipeline has grown. Certainly, some of the opportunities have fallen off. But the additions to the pipeline have far exceeded the fallout there. And that is true across all 3 businesses. There still is some [Cognigen] and the consulting work we do have to take care. So...

Cameron Donahue
Hayden IR, LLC

Thank you, Shawn. And we're going back to a live question, a follow-up question from Matt Hewitt of Craig-Hallum.

Matthew Gregory Hewitt
Craig-Hallum Capital Group LLC, Research Division

Maybe -- I guess just one last one here. As you look at the sales force, I think you were up to 2. And did Lixoft bring -- also bring any sales resources? Or is that an area where you still maybe could look to add any heads there?

Shawn M. O'Connor
Chief Executive Officer

Yes. Lixoft brought a sales organization of Jonathan, the CEO, who was the primary sales front to the organization. Supported the Round #10 other Lixoft employees split pretty equally between software development personnel and applications personnel, applications personnel being those that support client-facing demonstrations, customer service and support, trainings and workshops, et cetera. So we've got an excellent sales person in Jonathan that's come on board. And our needs going forward, not immediate in terms of additions because of the acquisition, the joining of Lixoft, and in fact, it gives us the immediate benefit of having a senior sales-oriented executive like that in the geography. And just as we will be coming up to speed in terms of being able to front the Lixoft products here in the U.S. have them up to speed in terms of being able to front our products in Europe as well in this process.

Cameron Donahue
Hayden IR, LLC

We have a few more follow-up written questions. First one coming from [Karl Hoffman]. And how does the Lixoft software complement or potentially overlap any SLP existing software?

Shawn M. O'Connor
Chief Executive Officer

It's mostly an adjacent product. It's a product in PK/PD modeling world that covers a modeling -- it's a modeling platform but it allows the scientists to run from data exploration to the building of PK models, to primarily NOME is the type of modeling technique that it has engines for and then runs simulations off of that clinical trial simulations to the adjacent product to our PD/PK platform in gastric class. There is some functionality that crosses over but it's relatively minimal.

Cameron Donahue
Hayden IR, LLC

Thank you, Shawn. And one final follow-up question for Howard Halpern. Has there been any material change to your operating expense profile during this current pandemic environment and excluding the transaction cost, as mentioned, what are the expectations for percentage of sales for the remainder of the year on an operating basis, SG&A cost?

Shawn M. O'Connor
Chief Executive Officer

Well, United and Marriott had called me up and asked me where I've been over the last 8 years, [6 weeks]. So I guess there probably is some expense that we're avoiding in this sort of work style, but -- I'm being a little facetious, I don't think it's dramatic, but certainly there is on the travel side. There's no -- we did not incur a tremendous expense related to taking our workforce off-site. Much of it was already in place. Most all employees were set up such that even if they worked in office that they have the capability of working from home on a temporary basis. So there is no great expenditure in terms of cost involved in the transition in that regard.

SG&A, excluding the impact of closing of the transaction and expenses that will continue to flow into the third quarter related to it. I think should continue to move as we have been for the last number of quarters, having stepped up in the lower revenue seasonality quarters above the 35%, you'll see that the average out with our second and third quarters, which are the higher revenue quarters. And we've been looking at keeping it as close as we can on the 35% for the year as a whole. I don't see anything that's changed in that regard other than the uncertainties is the top line in terms of our top line growth with COVID impacts.

Cameron Donahue
Hayden IR, LLC

Thank you, Shawn. It appears there is no further additional questions. With that, I conclude the conference call. Thank you, everyone. This does conclude today's conference call and webinar. If you've missed any part of today's presentation, the replay will be available on the website, simulations-plus.com. Thank you, and have a good weekend.

Shawn M. O'Connor
Chief Executive Officer
Thanks, everyone. Be safe.