



Certara Reports Second Quarter 2021 Financial Results

August 5, 2021

Raises full year 2021 guidance and announces deal to acquire Pinnacle 21

PRINCETON, N.J., Aug. 05, 2021 (GLOBE NEWSWIRE) -- Certara, Inc. (Nasdaq: CERT), a global leader in biosimulation, today reported its financial results for the second quarter of fiscal year 2021.

Highlights:

- Revenue was \$70.1 million, representing growth of 15% over the second quarter of 2020
- Net loss was (\$2.9) million, compared to a net income of \$2.8 million in the second quarter of 2020
- Adjusted EBITDA was \$25.5 million, representing growth of 1% over the second quarter of 2020
- Announced agreement to acquire Pinnacle 21, a leader in data standardization software for pharmaceutical clinical data, for \$310 million in cash and stock, with a closing expected in early Q4 of 2021
- Raised 2021 guidance from \$283 million to \$289 million of revenue, \$101 million to \$103 million of Adjusted EBITDA, and \$0.21 to \$0.25 of Adjusted Diluted Earnings Per Share. Updated guidance does not include the impact of the Pinnacle 21 acquisition

"Our second quarter results reflect continued momentum from increased adoption of our proprietary end-to-end platform and the launch of new software capabilities to expand use cases of biosimulation worldwide," said William F. Feehery, Chief Executive Officer of Certara. "Earlier today, we announced the strategic and accretive deal to acquire Pinnacle 21, our largest to date. This expansion of Certara's quantitative tools and solutions will further help researchers and regulators answer critical questions throughout the drug development life cycle."

Second Quarter 2021 Results

"In the second quarter, Certara's differentiated portfolio of software and technology-driven services delivered strong financial performance. Looking forward, we remain well-positioned to achieve our stated long-term goals of mid-teens revenue growth and Adjusted EBITDA margin expansion. With reported trailing twelve-month bookings growth of 26%, we have a high level of visibility towards realizing our business and financial plans for the year," said Andrew Schemick, Chief Financial Officer.

Total revenue for the second quarter of 2021 was \$70.1 million, representing year-over-year growth of 15%. The revenue growth was driven by both technology-driven services and software licenses and subscriptions.

Total cost of revenue for the second quarter of 2021 was \$27.5 million, an increase from \$20.6 million in the second quarter of 2020, primarily due to a \$3.9 million increase in employee related costs and a \$1.4 million increase in stock-based compensation costs.

Total operating expenses for the second quarter of 2021 were \$37.3 million, an increase from \$26.9 million in the second quarter of 2020, primarily due to a \$5.6 million increase in stock-based compensation expense and a \$2.1 million increase in employee related costs. The remaining increases were due to increases in refinancing costs, acquisition related costs and D&O insurance costs.

Net loss for the second quarter of 2021 was (\$2.9) million, compared to a net income of \$2.8 million in the second quarter of 2020. The loss was primarily due to a \$7.0 million increase in stock-based compensation expense.

Diluted Earnings Per Share for the second quarter 2021 were (\$0.02), as compared to \$0.02 in the second quarter of 2020.

Adjusted EBITDA for the second quarter of 2021 was \$25.5 million compared to \$25.3 million for the second quarter of 2020, representing 1% growth. Adjusted EBITDA for the second quarter of 2020 included the benefit of the completion of high margin projects and lower SG&A costs during the start of the pandemic, which when combined with public company costs incurred in 2021, led to a challenging comparison in the quarter. See note (1) in the section *A Note on Non-GAAP Financial Measures*, below, for more information on Adjusted EBITDA.

Adjusted Net Income for the second quarter of 2021 was \$5.6 million compared to \$3.8 million for the second quarter of 2020. Adjusted Diluted Earnings Per Share for the second quarter 2021 was \$0.03 compared to \$0.02 for the second quarter of 2020. See note (2) in the section *A Note on Non-GAAP Financial Measures*, below, for more information on Adjusted Net Income and Adjusted Diluted Earnings Per Share.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
<i>Key Financials (in millions, except per share data)</i>				
Revenue	\$ 70.1	\$ 61.1	\$ 136.8	\$ 118.6
Net Income (Loss)	\$ (2.9)	\$ 2.8	\$ (1.8)	\$ 3.8
Diluted Earnings Per Share	\$ (0.02)	\$ 0.02	\$ (0.01)	\$ 0.03
Adjusted EBITDA	\$ 25.5	\$ 25.3	\$ 49.4	\$ 45.2
Adjusted Net Income	\$ 5.6	\$ 3.8	\$ 13.6	\$ 5.7
Adjusted Diluted Earnings Per Share	\$ 0.03	\$ 0.02	\$ 0.09	\$ 0.04

Cash and Cash Equivalents \$ 267.8 \$ 55.7

2021 Financial Outlook

Certara is updating its previously reported guidance for full year 2021, not including the impact of the Pinnacle 21 acquisition, by raising the ranges for revenue, Adjusted EBITDA and Adjusted Diluted Earnings Per Share. We expect the following:

Full year 2021 revenue to be in the range of \$283 million to \$289 million;

Full year 2021 Adjusted EBITDA to be in the range of \$101 million to \$103 million;

Full year 2021 Adjusted Diluted Earnings Per Share is expected to be in the range of \$0.21 to \$0.25;

Fully diluted shares for 2021 will be 153 million to 155 million; and

Effective annual tax rate for 2021 will be in the range of 40% to 45%.

In millions, except per share data

	Prior Full Year 2021 Guidance	Full Year 2021 Guidance (excluding Pinnacle 21)
Revenue	\$ 277 - \$285	\$ 283 - \$289
Adjusted EBITDA	\$ 100 - \$102	\$ 101 - \$103
Adjusted Diluted Earnings Per Share	\$ 0.20 - \$0.24	\$ 0.21 - \$0.25

Webcast and Conference Call Details

Certara will host a conference call today, August 5, 2021, at 5:00 p.m. ET to discuss its second quarter 2021 financial results and the impact of the Pinnacle 21 acquisition. The dial-in numbers are (833) 360-0946 for domestic callers or (914) 987-7661 for international callers, followed by Conference ID: 2728807. A live webcast of the conference call will be available on the "Investors" section of the Company's website at <https://ir.certara.com/>. The webcast will be archived on the website following the completion of the call for approximately one year.

About Certara

Certara accelerates medicines using biosimulation software and technology to transform traditional drug discovery and development. Its clients include 1,650 global biopharmaceutical companies, leading academic institutions, and key regulatory agencies across 61 countries.

Please visit our website at www.certara.com. We intend to use our website as a means of disclosing material, non-public information and for complying with our disclosure obligations under Regulation FD.

Such disclosures will be included in the Investor Relations section of our website at <https://ir.certara.com>. Accordingly, investors should monitor such portion of our website, in addition to following our press releases, Securities and Exchange Commission filings and public conference calls and webcasts.

Forward-Looking Statements

This press release contains certain statements that constitute forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, with respect to the Company's future business and financial performance, revenue and margin, and the impact of the Pinnacle 21 acquisition. These statements typically contain words such as "believe," "may," "potential," "will," "plan," "could," "estimate," "expects" and "anticipates" or the negative of these words or other similar terms or expressions. Any statement in this press release that is not a statement of historical fact is a forward-looking statement and involves significant risks and uncertainties. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot provide any assurance that these expectations will prove to be correct. You should not rely upon forward-looking statements as predictions of future events and actual results, events, or circumstances. Actual results may differ materially from those described in the forward-looking statements and are subject to a variety of assumptions, uncertainties, risks and factors that are beyond our control, including the Company's ability to compete within its market; any deceleration in, or resistance to, the acceptance of model-informed biopharmaceutical discovery; changes or delays in relevant government regulation; increasing competition, regulation and other cost pressures within the pharmaceutical and biotechnology industries; trends in research and development (R&D) spending; consolidation within the biopharmaceutical industry; reduction in the use of the Company's products by academic institutions; pricing pressures; the Company's ability to successfully enter new markets, increase its customer base and expand its relationships with existing customers; the impact of the Pinnacle 21 acquisition and any future acquisitions and our ability to successfully integrate such acquisitions; the occurrence of natural disasters and epidemic diseases, such as the recent COVID-19 pandemic; any delays or defects in the release of new or enhanced software or other biosimulation tools; failure of our existing customers to renew their software licenses or any delays or terminations of contracts or reductions in scope of work by its existing customers; our ability to accurately estimate costs associated with its fixed-fee contracts; our ability to retain key personnel or recruit additional qualified personnel; risks related to our contracts with government customers; our ability to sustain recent growth rates; our ability to successfully operate a global business; our ability to comply with applicable laws and regulations; risks related to litigation; the adequacy of its insurance coverage and ability to obtain adequate insurance coverage in the future; our ability to perform in accordance with contractual requirements, regulatory standards and ethical considerations; the loss of more than one of our major customers; future capital needs; the ability of our bookings to accurately predict future revenue and our ability to realize revenue on backlog; disruptions in the operations of the third-party providers who host our software solutions or any limitations on their capacity; our ability to reliably meet data storage and management requirements, or the experience of any failures or interruptions in the delivery of our services over the internet; our ability to comply with the terms of any licenses governing use of third-party open source software; any breach of its security measures or unauthorized access to customer data; our ability to adequately enforce or defend ownership and use of our intellectual property and other proprietary rights; any allegations of infringement, misappropriation or violations of a third

party's intellectual property rights; our ability to meet obligations under indebtedness and have sufficient capital to operate our business; any limitations on our ability to pursue business strategies due to restrictions under our current or future indebtedness; any impairment of goodwill or other intangible assets; our ability to use our net operating losses and R&D tax credit carryforwards; the accuracy of management's estimates and judgments relating to critical accounting policies and changes in financial reporting standards or interpretations; any inability to design, implement, and maintain effective internal controls; the costs and management time associated with operating as a publicly traded company; and the other factors detailed under the captions "Risk Factors" and "Special Note Regarding Forward-Looking Statements" and elsewhere in our Securities and Exchange Commission ("SEC") filings, and reports, including the Form 10-K filed by the Company with the Securities and Exchange Commission on March 15, 2021. Any forward-looking statements speak only as of the date of this release and, except to the extent required by applicable securities laws, we expressly disclaim any obligation to update or revise any of them to reflect actual results, any changes in expectations or any change in events. Factors that may materially affect our results and those risks listed in filings with the SEC.

A Note on Non-GAAP Financial Measures

This press release contains "non-GAAP measures" that are financial measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with U.S. generally accepted accounting principles ("GAAP"). Specifically, the Company makes use of the non-GAAP financial measures Adjusted EBITDA, Adjusted Net Income (Loss) and Adjusted Diluted Earnings Per Share which are not recognized terms under GAAP. These measures should not be considered as alternatives to net income (loss) or GAAP diluted earnings per share as measures of financial performance or any other performance measure derived in accordance with GAAP and should not be considered a measure of discretionary cash available to the Company to invest in the growth of its business. The presentation of these measures has limitations as an analytical tool and should not be considered in isolation, or as a substitute for the Company's results as reported under GAAP. Because not all companies use identical calculations, the presentations of these measures may not be comparable to other similarly titled measures of other companies and can differ significantly from company to company.

You should refer to the footnotes below as well as the "Non-GAAP Financial Measures" section in this press release below for a further explanation of these measures and reconciliations of these non-GAAP measures in specific periods to their most directly comparable financial measure calculated and presented in accordance with GAAP for those periods.

Management uses various financial metrics, including total revenues, income (loss) from operations, net income (loss), and certain non-GAAP measures, including those discussed above, to measure and assess the performance of the Company's business, to evaluate the effectiveness of its business strategies, to make budgeting decisions, to make certain compensation decisions, and to compare the Company's performance against that of other peer companies using similar measures. In addition, management believes these metrics provide useful measures for period-to-period comparisons of the Company's business, as they remove the effect of certain non-cash expenses and other items not indicative of its ongoing operating performance.

Management believes that Adjusted EBITDA, Adjusted Net Income (Loss) and Adjusted Diluted Earnings Per Share are helpful to investors, analysts, and other interested parties because they can assist in providing a more consistent and comparable overview of our operations across our historical periods. In addition, these measures are frequently used by analysts, investors, and other interested parties to evaluate and assess performance.

Please note that the Company has not reconciled the Adjusted EBITDA and Adjusted Diluted Earnings Per Share forward-looking guidance included in this press release to the most directly comparable GAAP measures because this cannot be done without unreasonable effort due to the variability and low visibility with respect to costs related to acquisitions, financings, and employee stock compensation programs, which are potential adjustments to future earnings. We expect the variability of these items to have a potentially unpredictable, and a potentially significant, impact on our future GAAP financial results.

- (1) Adjusted EBITDA represents net income excluding interest expense, provision (benefit) for income taxes, depreciation and amortization expense, intangible asset amortization, equity-based compensation expense, acquisition and integration expense and other items not indicative of our ongoing operating performance.
- (2) Adjusted Net Income and Adjusted Diluted Earnings Per Share exclude the effect of the items discussed in footnote (1) above from GAAP net income and GAAP diluted earnings per share, respectively, as well as currency gain (loss) and adjust the provision for income taxes for such charges.

In evaluating Adjusted EBITDA, Adjusted Net Income, Adjusted Diluted Earnings Per Share, you should be aware that in the future the Company may incur expenses similar to those eliminated in this presentation and this presentation should not be construed as an inference that future results will be unaffected by unusual items.

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CERTARA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

<i>(in thousands, except per common share and share data)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenue	\$ 70,096	\$ 61,123	\$ 136,814	\$ 118,572
Cost of revenues	27,542	20,647	53,558	42,830
Operating expenses:				
Sales and marketing	4,589	2,729	8,341	5,667
Research and development	4,626	2,969	9,332	5,844
General and administrative	18,034	11,181	34,596	22,722
Intangible asset amortization	9,479	9,323	18,935	18,682
Depreciation and amortization expense	552	669	1,154	1,222
Total operating expenses	37,280	26,871	72,358	54,137
Income from operations	5,274	13,605	10,898	21,605
Other income (expenses):				
Interest expense	(6,332)	(7,023)	(10,260)	(13,881)
Miscellaneous, net	(346)	(80)	(463)	445
Total other income (expenses)	(6,678)	(7,103)	(10,723)	(13,436)
Income (loss) before income taxes	(1,404)	6,502	175	8,169
Provision for income taxes	1,453	3,725	1,980	4,346
Net income (loss)	\$ (2,857)	\$ 2,777	\$ (1,805)	\$ 3,823
Net income (loss) per share attributable to common stockholders:				
Basic	\$ (0.02)	\$ 0.02	\$ (0.01)	\$ 0.03
Diluted	\$ (0.02)	\$ 0.02	\$ (0.01)	\$ 0.03
Weighted average common shares outstanding:				
Basic	147,485,566	132,407,786	147,323,724	132,407,786
Diluted	147,485,566	132,407,786	147,323,724	132,407,786

CERTARA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

<i>(in thousands, except per share and share data)</i>	June 30,	December 31,
	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 267,757	\$ 271,382
Accounts receivable, net of allowance for doubtful accounts of \$70 and \$132, respectively	56,586	54,091
Restricted cash	1,838	1,909
Prepaid expenses and other current assets	18,627	19,202
Total current assets	344,808	346,584
Other assets:		
Property and equipment, net	3,069	3,872
Long-term deposits	1,167	1,163
Goodwill	524,265	518,592
Intangible assets, net of accumulated amortization of \$147,343 and \$127,172, respectively	387,942	396,445
Other long-term assets	1,145	—
Deferred income taxes	2,939	2,744
Total assets	\$ 1,265,335	\$ 1,269,400
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 5,549	\$ 6,394
Accrued expenses	18,886	30,729
Current portion of deferred revenue	29,120	30,662

Current portion of interest rate swap liability	2,390	2,605
Current portion of long-term debt	3,020	4,680
Current portion of capital lease obligations	284	275
Total current liabilities	59,249	75,345
Long-term liabilities:		
Capital lease obligations, net of current portion	174	318
Deferred revenue, net of current portion	1,157	545
Deferred income taxes	76,933	75,894
Long-term portion of interest rate swap liability	—	1,066
Long-term debt, net of current portion and debt discount	292,622	294,100
Other long-term liabilities	690	—
Total liabilities	430,825	447,268
Commitments and contingencies		
Stockholders' equity:		
Preferred shares, \$0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding as of June 30, 2021 and December 31, 2020, respectively	—	—
Common shares, \$0.01 par value, 600,000,000 shares authorized, 152,864,921 and 152,979,479 shares issued and outstanding as of June 30, 2021 and December 31, 2020, respectively	1,529	1,529
Additional paid-in capital	897,209	884,528
Accumulated deficit	(64,143)	(62,338)
Accumulated other comprehensive loss	(85)	(1,587)
Total stockholders' equity	834,510	822,132
Total liabilities and stockholders' equity	\$ 1,265,335	\$ 1,269,400

CERTARA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

<i>(in thousands)</i>	Six Months Ended June 30,	
	2021	2020
Cash flows from operating activities:		
Net income (loss)	\$ (1,805)	\$ 3,823
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	1,154	1,222
Amortization of intangible assets	20,227	19,848
Amortization of debt issuance costs	747	762
Recovery of doubtful accounts	(61)	—
Loss on retirement of assets	282	—
Equity-based compensation expense	12,681	1,105
Unrealized loss on hedge	2,390	—
Deferred income taxes	(1,971)	1,871
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	620	(1,299)
Prepaid expenses and other current assets	197	(2,608)
Accounts payable and accrued expenses	(13,848)	(3,645)
Deferred revenue	(1,057)	(4,438)
Net cash provided by operating activities	19,556	16,641
Cash flows from investing activities:		
Capital expenditures	(511)	(638)
Capitalized development costs	(3,374)	(3,928)
Business acquisitions, net of cash acquired	(14,114)	(675)
Net cash used in investing activities	(17,999)	(5,241)
Cash flows from financing activities:		
Unit repurchase	—	(55)
Proceeds from borrowings on long-term debt	89	—
Payments on long-term debt and capital lease obligations	(2,323)	(2,639)
Proceeds from line of credit	—	19,880

Payments of debt issuance costs	(2,931)	—
Net cash provided by (used in) financing activities	(5,165)	17,186
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	(88)	1,005
Net increase (decrease) in cash and cash equivalents, and restricted cash	(3,696)	29,591
Cash and cash equivalents, and restricted cash, at beginning of period	273,291	29,762
Cash and cash equivalents, and restricted cash, at end of period	\$ 269,595	\$ 59,353

NON-GAAP FINANCIAL MEASURES

The following table reconciles Net income (loss) to Adjusted EBITDA:

<i>(in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income (loss) ^(a)	\$ (2,857)	\$ 2,777	\$ (1,805)	\$ 3,823
Interest expense ^(a)	6,332	7,023	10,260	13,881
Interest income ^(a)	(100)	(13)	(171)	(24)
Provision for income taxes ^(a)	1,453	3,725	1,980	4,346
Depreciation and amortization expense ^(a)	552	669	1,154	1,222
Intangible asset amortization ^(a)	10,125	9,918	20,227	19,848
Currency gain (loss) ^(a)	164	55	356	(227)
Equity-based compensation expense ^(b)	7,530	567	12,681	1,105
Acquisition-related expenses ^(c)	556	494	2,152	949
Transaction related expenses ^(d)	937	—	1,622	—
Severance expense ^(e)	—	16	—	211
Reorganization expense ^(f)	—	102	—	107
Loss on disposal of fixed assets ^(g)	282	—	282	—
Executive recruiting expense ^(h)	327	—	327	—
First-year Sarbanes-Oxley implementation costs ⁽ⁱ⁾	233	—	340	—
Adjusted EBITDA	\$ 25,534	\$ 25,333	\$ 49,405	\$ 45,241

The following table reconciles Net income (loss) to Adjusted Net Income:

<i>(in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income (loss) ^(a)	\$ (2,857)	\$ 2,777	\$ (1,805)	\$ 3,823
Currency gain (loss) ^(a)	164	55	356	(227)
Equity-based compensation expense ^(b)	7,530	567	12,681	1,105
Acquisition-related expenses ^(c)	556	494	2,152	949
Transaction related expenses ^(d)	937	—	1,622	—
Severance expense ^(e)	—	16	—	211
Reorganization expense ^(f)	—	102	—	107
Loss on disposal of fixed assets ^(g)	282	—	282	—
Executive recruiting expense ^(h)	327	—	327	—
First-year Sarbanes-Oxley implementation costs ⁽ⁱ⁾	233	—	340	—
Income tax expense impact of adjustments ^(j)	(1,594)	(162)	(2,346)	(265)
Adjusted Net Income	\$ 5,578	\$ 3,849	\$ 13,609	\$ 5,703

The following table reconciles diluted earnings per share to Adjusted Diluted Earnings Per Share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Diluted earnings per share ^(a)	\$ (0.02)	\$ 0.02	\$ (0.01)	\$ 0.03
Currency gain (loss) ^(a)	—	—	—	—
Equity-based compensation expense ^(b)	0.05	—	0.08	0.01

Acquisition-related expenses ^(c)	—	—	0.01	—
Transaction related expenses ^(d)	0.01	—	0.02	—
Severance expense ^(e)	—	—	—	—
Reorganization expense ^(f)	—	—	—	—
Loss on disposal of fixed assets ^(g)	—	—	—	—
Executive recruiting expense ^(h)	—	—	—	—
First-year Sarbanes-Oxley implementation costs ⁽ⁱ⁾	—	—	—	—
Income tax expense impact of adjustments ^(j)	(0.01)	—	(0.01)	—
Adjusted Diluted Earnings Per Share	\$ 0.03	\$ 0.02	\$ 0.09	\$ 0.04
Diluted weighted average common shares outstanding	147,485,566	132,407,786	147,323,724	132,407,786
Effect of potentially dilutive shares outstanding ^(k)	4,979,042	—	4,952,002	—
Adjusted diluted weighted average common shares outstanding	152,464,608	132,407,786	152,275,726	132,407,786

- (a) Represents amounts as determined under GAAP.
- (b) Represents expense related to equity-based compensation. Equity-based compensation has been, and will continue to be for the foreseeable future, a recurring expense in our business and an important part of our compensation strategy.
- (c) Represents costs associated with mergers and acquisitions and any retention bonuses pursuant to the acquisitions.
- (d) Represents costs associated with directly expensed costs from the secondary offerings and debt modification.
- (e) Represents charges for severance provided to former executives and non-executives.
- (f) Represents expense related to reorganization, including legal entity reorganization.
- (g) Represents the gain/loss related to disposal of fixed assets.
- (h) Represents recruiting and relocation expenses related to hiring senior executives.
- (i) Represents the first year Sarbanes-Oxley costs for accounting and consulting fees related to the Company's preparation to comply with Section 404 of the Sarbanes-Oxley Act in 2021.
- (j) Represents the income tax effect of the non-GAAP adjustments calculated using the applicable statutory rate by jurisdiction.
- (k) Represents potentially dilutive shares that were excluded from the Company's GAAP diluted weighted average shares outstanding because the Company had a reported net loss and therefore including these shares would have been anti-dilutive.



Source: Certara