October 11, 2019

Zacks Small-Cap Research

Brian Marckx, CFA
bmarckx@zacks.com
Ph (312) 265-9474

Sponsored – Impartial - Comprehensive

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Pharma-Bio Serv, Inc. (PBSV-OTCQB)

Potent Turnaround in Consulting, Lower Expense Fueling EPS Growth. Big Cash Balance, CF Positive, EPS Growth and Cheap Valuation Bolsters Compelling Risk/Reward Profile

Given the projected steep growth rate of earnings of the company, we use a 27x multiple applied to our 2021 EPS estimate of $0.134 and discount back at 15%/yr. This values PBSV at ~$2.60/share. The shares trade barely higher than book value, which we think will continue to be supported by cash flow generation and positive ROI reinvestment and will act as a floor on the share price.

Current Price (10/11/19)	$0.88
Valuation	**$2.60**

OUTLOOK

Not only has PBSV's revenue rebounded from the disruptions caused by two hurricanes (which caused massive destruction across Puerto Rico in late-2017) and the subsequent (unrelated) sale of the company's Scienza Lab assets (in November 2018), but profitability has as well. Results through Q3'18 (YTD) returned the highest operating income and operating margin over any fiscal first nine-month period since 2013 (i.e. six years ago). And while the resurgence in revenue and income growth is highly encouraging – and, in our opinion, validation of the decision to divest the lab, it's important to remember that this organic growth was not only accomplished without compromise to the balance sheet, but occurred commensurate with a meaningful bolstering of the company's financial position. As growth in both profitability and health of the balance sheet has shown to be a potent combination for building shareholder value, PBSV's recent financial performance may be a prelude to similarly improved performance of the share price. And the beefy cash balance, which stood at almost $15M at July 31st and benefits further from $1.25M in promissory note repayments (i.e. receipts from the acquirer of the lab assets) in September (Q3'19), means PBSV has substantial growth-oriented firepower to further enhance shareholder returns.

SUMMARY DATA

52-Week High	**$1.25**
52-Week Low	**$0.60**
One-Year Return (%)	**-3.48**
Beta	**0.23**
Average Daily Volume (sh)	**1,178**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$20**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**60**
Annual Cash Dividend	**$0.08**
Dividend Yield (%)	**8.52**
5-Yr. Historical Growth Rates	
Sales (%)	**-7.8**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2019 Estimate	**9.8**
P/E using 2020 Estimate	**8.0**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Value**
Industry	**Consulting**

ZACKS ESTIMATES

Revenue
(in millions)

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2018					$17.8 A
2019	$4.6 A	$5.1 A	$5.0 A	$5.0 E	$19.7 E
2020					$21.4 E
2021					$23.8 E

Earnings per Share

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2018					-$0.05 A
2019	$0.02 A	$0.03 A	$0.02 A	$0.02 E	$0.09 E
2020					$0.11 E
2021					$0.13 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

© Copyright 2019, Zacks Investment Research. All Rights Reserved.

Revenue, Profitability at 6-Year Highs. Big Cash, Stellar Balance Sheet Enhances Growth Prospects……

Not only has PBSV's revenue rebounded from the disruptions caused by two hurricanes (causing massive destruction across Puerto Rico in late-2017) and the subsequent (unrelated) sale of the company's Scienza Lab assets (in November 2018), but profitability has as well. In fact, since the devastation from hurricanes Maria and Irma in fiscal Q4'17, PBSV's revenue climbed 34% in 2018 and is up another 21% through the first nine months of fiscal 2019, ending July 31, 2019 (comparisons exclude any contributions from lab assets in each period – i.e. as-if lab had been sold at end of fiscal 2017).

Profitability has also shown significant improvement. Operating income increased 110%, or $665k, from $605k during the first nine months of fiscal 2018 to $1.27M over the same period in 2019 – the first three consecutive quarters since the divestiture. And, as the lab had been a drag on earnings, the improvement in profitability is even more dramatic when as-reported (i.e. lab not considered discontinued op) 2018 results are used as the prior-period comparator.[1]

For additional context of the significance of the improvement, PBSV generated $1.3M of operating income on $14.7M of revenue through the first nine months of fiscal 2019 – representing an 8.7% operating margin. This is the highest operating income and operating margin over any fiscal first nine-month period since 2013 (i.e. six years ago) – which was a record year across almost all categories of the income statement including revenue, gross margin, operating income, net income and EPS.

And while the resurgence in revenue and income growth is highly encouraging – and, in our opinion, validation (particularly as it relates to improved profitability) of the decision to divest the lab, it's important to remember that this organic growth was not only accomplished without compromise to the balance sheet, but occurred commensurate with a meaningful bolstering of the company's financial position.

As growth in both profitability and health of the balance sheet has shown to be a potent combination for building shareholder value, PBSV's recent financial performance may be a prelude to similarly improved performance of the share price. And the beefy cash balance, which stood at almost $15M at July 31st and benefits further from $1.25M in promissory note repayments (i.e. receipts from the acquirer of the lab assets) in September (Q3'19), means PBSV has substantial growth-oriented firepower to further enhance shareholder returns.

Management has indicated that they remain vigilant in evaluating potential growth opportunities - which presumably could include both organic and M&A related options. In the recent past PBSV has also returned a portion of the cash balance to shareholders in the form of share repurchases and, in October 2018, paid a $0.075/share dividend. More than 1.6M shares remain authorized under the share repurchase agreement and, while we have no particular insight, it's conceivable that (lacking any 'better' growth-oriented reinvestment options) the company may consider declaring additional dividends in the future.

Fiscal Q3 2019 Results: *Potent Turnaround in Consulting, Lower Expense Fueling EPS Growth*

Revenue (unless otherwise noted, all comparisons are ex-lab) increased 7% and 21% in the three- and nine-months ending July 31st, 2019 as compared to the respective prior-year periods. Noteworthy is that, even when including the lab revenue in the prior year – which amounted to $1.6M through Q3 – YTD'19 total revenue (which includes no lab-related contribution) is still up by more than 6% growth. This highlights the potency of the turnaround in the company's consulting businesses which, coupled with elimination of the relatively high fixed costs of the lab operations, has resulted in a similarly rapid and significant return to profitability.

Puerto Rico consulting revenue is on a tear - increasing 15% in Q3 and, on a YTD basis, is up 28% from the comparable period in 2018 and 50% higher than in 2017. In fact, the $12.6M generated YTD appears to be the second highest in PBSV's history, bested only by the $13.1M recognized during the first nine months of 2015. Also noteworthy is that PR consulting revenue has increased sequentially in each quarter in 2019.

As PR consulting now accounts for ~85% of the topline, growth in this business was the main catalyst to PBSV's 21% revenue growth through the first nine months of 2019. More importantly, as PR consulting has been deep in the black in each of the first three quarters of the year, it has also been the majority contributor to operating income as well as representing the most significant catalyst to growth in operating income.

[1] PBSV's operating income increased 110%, or $665k, when treating the lab assets as discontinued operations (fiscal Q3'18 YTD) and by an even greater 433%, or $1.03M, if lab assets are included (i.e. not considered discontinued ops) in 2018 results

PR consulting contributed $1.3M in operating income, or 76% of the total YTD. While we estimate ~$200k of this relates to hurricane related insurance-claim settlements which were paid in fiscal Q2'19, even stripping this out, PR consulting contributed $1.1M, or 73%, of the tota. This compares to PR consulting operating income in the comparable prior-year period of just $521k, or ~$180k excluding hurricane insurance and related payments that PBSV recognized in Q3'18 (and which we think was accounted for as PR operating income).

So, while PR consulting revenue grew by *only* 28%, or $2.8M, YTD in fiscal 2019, we estimate that its contribution to operating income (excluding hurricane-related insurance and salary subsidies received in both fiscal 2018 and 2019) grew by approximately 420%, or ~$760k. We think this outsized growth in PR consulting profitability is largely reflective of greater economies of scale at higher service volumes (as while the lab sale eliminated significant fixed costs, there will always be some overhead-type expenses associated with non-revenue generating activities and assets that run through the income statement, affording additional scaling / op leverage opportunity). We also note that PR consulting operating margins have averaged 8.9% (excluding ~$200k of hurricane related insurance receipts) through the first nine months of fiscal 2019 – while up considerably from the comparable periods in 2018 (of approximately 1.9%) and 2017 (negative op income), this is well below the 23% - 24% margins that this business was returning in its heyday. More specifically, PR consulting generated 24% op margins in fiscal 2012 and 23% in 2013 on revenues of $15.2 and $15.8M, respectively.

The take-away here is that there is clearly significant operating leverage opportunity in this business (despite time and materials contracts) which is further illustrated by the fact that every 1% of incremental revenue through the first three quarters of 2019 returned 15% growth of operating income. So, if PR consulting continues its upward sales growth trajectory, this should result in even greater benefit to the bottom line. With PR consulting posting sequential growth and currently running at an annualized rate of $16.8M, or less than 5% shy of its 2015 peak (which corresponded to PR consulting op margins of ~13%), we could see an even more significant widening in margins and benefit to income.

For context of the potential upside, at its current annualized revenue run-rate and historical peak margins, we estimate that PR consulting would add $0.08 - $0.10/share to net income – or roughly equal to our estimated FY'19 EPS for the entire company. As such, even minimal growth of PR consulting revenue could have a relatively major effect on EPS growth and PBSV's share price.

Meanwhile, **U.S. consulting revenue** fell 27% in the most recent quarter but is up a very healthy 29% through the first nine months of fiscal 2019. While U.S. consulting has performed well and is at a three-year high, revenue from this business remains far below historical levels with current-year annualized run-rate ($2.3M) of just 20% of its peak ($11.3M in 2013).

And despite its recent growth, U.S. consulting is in the red – albeit, at a YTD operating loss through Q3'19 of $36k, just barely. We estimate break-even of this business is roughly $600k per quarter – which compares to current-year average of $564k. As such and despite U.S. consulting accounting for only ~12% of total sales, even modest (i.e. single digit %) growth of this business from current levels could have a relatively outsized benefit to PBSV's total profitability. So, as continued strength in the U.S. economy (and, particularly in healthcare) could have a relatively dramatic positive influence on PBSV's earnings, this will be another area that we will be closely watching.

Expenses also continue to show improvement post lab-sale. On a post lab-sale basis, while service margin (SM) fell from 34.4% in Q3'18 to 31.5% in Q3'19, on a YTD basis its up a modest 10 basis points (from 31.5% through the first nine months of fiscal 2018 to 31.6% in the current period). Comparing pre versus post lab-sale, which again illustrates the cost-saving benefits of the divestiture, shows SM improving 70 basis points (from 30.8% Q3'18 to 31.5% Q3'19) and 490 basis points (from 26.7% YTD Q3'18 to 31.6% YTD Q3'19) in the three and nine month periods ending 7/31/19. While the improvement is encouraging, service margin is also well below its historical high, which peaked at 35.8% in fiscal 2013 (on record annual sales of $33.1M). We would expect to see SM to continue to widen with further revenue growth.

Total expenses (i.e. cost of services and opex) have similarly improved. On a post lab-sale basis, total expenses fell from 95.0% of revenue through the first nine months of 2018 to 91.3% (i.e. 370 bps) in the comparable current-year period. The improvement is even more dramatic comparing pre and post lab-sale, which shows total expenses falling 700 bps.

Total expenses as a percentage of revenue is a key metric and one that, given the consulting businesses' inherent built-in margin (reflecting a largely variable cost expense structure), one that we think will continue to

improve with growth in revenue. As while shedding of the lab means that PBSV's expense base is now less significantly fixed, as we noted above there undoubtedly remains meaningful overhead and therefore, opportunity to further improve upon operating leverage.

Most importantly, the lab divestiture has resulted in significant improvement in profitability. Pre-tax loss was $1.4M in 2017 but pro forma for the lab sale, this improved to a loss of just $774k. Pre-tax income then improved substantially, growing by $2.3M to finish 2018 at positive $1.5M (note that this does not include gain on sale of the lab assets, which was recognized below the line). And, with the filing of Q3'19 results, we can see (from the prior-year figures, which are adjusted for the lab sale) that shedding expenses associated with the lab were responsible for a significant portion of the improved (pro forma) profitability in fiscal 2018.

Specifically, the adjusted figures show that the lab divestiture improved pre-tax income in the nine months ending 7/31/18 (Q3'18 was the final full quarter prior to the lab sale) from $675k (prior to the sale) to $995k (pro forma for the sale) and, excluding the $2.7M tax expense associated with the recent reformed tax code ("Tax Cut and Jobs Act of 2017, enacted December 2017), resulted in net margin and EPS improving from approximately 5% / $0.03 to 8% / $0.04 over the same period.

Through the first nine months of the current year, pre-tax and net income were $1.7M and $1.6M. Net margin and EPS were 11% and $0.07. This means that profitability of the first nine months of 2019 is higher than any other comparable period since fiscal 2013. While PBSV returned a similar amount (specifically, ~1% lower) of net income during the first nine months of fiscal 2014, it was at a net margin of 8% (compared to 11% in the current-year period) – which, again, highlights the recent improvement in the company's income-generating efficiency.

We note that, despite the consistently improved financial performance, particularly as it relates to profitability, PBSV's current share price is about 23% lower than what it was when they reported Q3'14 financial results. This speaks to our proposition that we believe the shares are significantly undervalued, particularly in the context of the recent growth in both revenue and income as well as the potential growth-stimulating firepower represented by the company's sizeable and growing cash balance (which may be put to use to further bolster revenue and profitability).

Cash balance was $14.8M at the close of Q3'19 (July 31, 2019). Excluding changes in working capital, PBSV generated $465k and $1.66M in cash from operations in the three and nine months ending 7/31/19. This compares to the prior periods of an inflow of $760k in Q3'18 and cash usage of $1.64M in the first nine months of 2018.

The lab sale brought $2.0M in cash and $3.0M in promissory notes ($500k of the notes' principal was received in April 2019, another $1.25M is due 9/17/19 and the remaining $1.25M is due 9/17/20). As a reminder, PBSV used ~$1.7M to pay a $0.075/share dividend to shareholders of record as of the close of business on October 15, 2018. While not specifically characterized as such, we assume, at least for now, that this is a one-time 'special dividend' – although also point out that the PR left open the possibility of future dividends as they evaluate their strategic options.

Given the health of the balance sheet including sizeable cash position and coupled with our expectation that PBSV's consulting business generates positive cash flow, we think management will be actively engaged in looking at additional ways to put their resources to work. We think that, barring finding any attractive opportunities in the near term that another dividend or further share repurchases may potentially be under consideration.

Lab divestiture

As a reminder, announced in mid-August 2018 and closed on September 17, 2018 sale of the Scienza Lab laboratory assets shed a segment which accounted for 12% - 13% of PBSV's total revenue over the prior two years but which also struggled to cover its fixed costs. Romark Global Pharma, LLC, a pharmaceutical client of PBSV's (per company investor presentation), bought the assets for $5M, which was payable as $2M cash, which has been received, and $3M in the form of promissory notes (tranches of $750k, $1.25M, $500k and $500k due in September 2019, September 2020, March 2019 and September 2019, respectively).

While opportunistic timing may have played a role, we think the decision to sell the lab was based around strategic initiatives aimed at accelerating revenue and income growth. While lab revenue posted strong growth from 2014 through 2016 and quickly bounced back following interruption from the hurricanes, this segment was never consistently profitable. Conversely, while consulting revenue had been on a downward trend since reaching a peak of more than $31M in 2013, it did not dip into the red until 2016. And while 2017 was marked

from interruption from the hurricanes, PBSV's quick recovery and resurgence of growth from Puerto Rico as well as the United States has resulted in rapid improvement in profitability of consulting services.

PBSV employed expense-control initiatives during times of lower activity which were effective in mitigating losses/improving profitability. That, along with time and material contracts which provide a large degree of 'margin protection' helped to limit losses from consulting services. Unlike the consulting business, the capital-intensive nature of the lab did not lend itself to significant cost-cutting. In order to generate a profit, PBSV's lab needed to meet a minimum revenue threshold to cover its fixed costs.

These fixed costs included depreciation on capital assets and amortization – which, based on PBSV's quarterly filings since the divestiture (which allows a pre lab-sale vs post lab-sale comparison of 2018's results), shows that these were significant lab-related expenses (2019 10-Qs also confirm the conclusions of our prior lab-specific cost analyses, which were based on interpolation from figures in the 2017 & 2018 10-Ks). We know this by comparing the amount of 'depreciation and amortization' for the nine months ending 7/31/18 (i.e. YTD through fiscal Q3'18) listed in the Q3'18 10-Q (i.e. the final full quarter prior to the lab sale) to the amount listed for the same period in the Q3'19 10-Q (which restates 2018, treating lab as discontinued operation).

Per the Q3'18 10-Q (i.e. not adjusted for lab sale), depreciation and amortization (i.e. of the entire company) in the first nine months of fiscal 2018 was $456k, which compares to just $65k when the lab is accounted for as a discontinued operation. This means that the lab assets accounted for (($456k - $65k) / $456k =) 86% of the total depreciation and amortization over that period (while various factors including potential differences in asset-specific deprecation methods and useful lives means we can't assume that lab-related D&A consistently represented 86% of the total, we think it is reasonable to assume that it has consistently accounted for the majority).

So, given that the lab struggled to cover its fixed expenses (and, presumably, the outlook was that that would continue to be the case) and PBSV had an opportunity to sell the lab for $5M (and to an existing customer), we think it was a sensible and shareholder-friendly decision.

Revenue	**2010 A**	**2011 A**	**2012 A**	**2013 A**	**2014 A**	**2015 E**	**2016 A**	**2017 A**	**9mths 2018**
Lab	$740.5	$754.8	$857.9	$1,866.9	$1,718.7	$2,005.6	$2,446.6	$2,040.6	$1,612.0
% of total sales	*6.5%*	*3.8%*	*2.9%*	*5.6%*	*6.2%*	*8.6%*	*12.5%*	*13.1%*	*11.7%*
Consulting	$10,606.0	$19,178.4	$28,369.2	$31,195.1	$25,836.3	$21,379.3	$17,090.1	$13,538.7	$12,220.3
% of total sales	*93.5%*	*96.2%*	*97.1%*	*94.4%*	*93.8%*	*91.4%*	*87.5%*	*86.9%*	*88.4%*
Total Revenue	**$11,346.5**	**$19,933.2**	**$29,227.2**	**$33,062.0**	**$27,555.0**	**$23,384.9**	**$19,536.7**	**$15,579.3**	**$13,832.2**
Pre-tax income (loss)	**2010 A**	**2011 A**	**2012 A**	**2013 A**	**2014 A**	**2015 E**	**2016 A**	**2017 A**	**9mths 2018**
Lab	($272.1)	($299.3)	($381.4)	$250.5	($116.7)	($41.9)	($45.9)	($648.6)	($236.5)
pre-tax margin	*-36.7%*	*-39.7%*	*-44.5%*	*13.4%*	*-6.8%*	*-2.1%*	*-1.9%*	*-31.8%*	*-14.7%*
% of total pre-tax income	*-43.8%*	*-8.6%*	*-6.6%*	*4.1%*	*-4.1%*	*-2.3%*	*22.5%*	*46.0%*	*-35.0%*
Consulting	$893.3	$3,763.1	$6,137.0	$5,825.8	$2,979.0	$1,834.7	($157.8)	($762.4)	$911.4
pre-tax margin	*8.4%*	*19.6%*	*21.6%*	*18.7%*	*11.5%*	*8.6%*	*-0.9%*	*-5.6%*	*7.5%*
% of total pre-tax income	*143.8%*	*108.6%*	*106.6%*	*95.9%*	*104.1%*	*102.3%*	*77.5%*	*54.0%*	*135.0%*
Total Pre-Tax Income	**$621.2**	**$3,463.8**	**$5,755.6**	**$6,076.3**	**$2,862.3**	**$1,792.8**	**($203.7)**	**($1,411.0)**	**$674.8**
pre-tax margin	*5.5%*	*17.4%*	*19.7%*	*18.4%*	*10.4%*	*7.7%*	*-1.0%*	*-9.1%*	*4.9%*

Source: PBSV SEC filings, Brian Marckx, CFA

The table above is aggregated from PBSV's filings and provides a general guide as to the profitability of the lab versus that of the consulting business prior to the announced sale. The most obvious indicator that illustrates the relative unprofitability of the lab is the 'net loss from operations through disposal' line item in the income statement of the most recent 10-K. This shows that the lab, net of tax, negatively impacted income by $171k in 2018 while the consulting (and ancillary) businesses generated operating income, excluding ~$368k of income related to insurance and 'business interruption' proceeds associated with the hurricanes, of $1.2M (while this is not net of tax, if adjusted the difference is not likely to be meaningful in the context of our discussion) over the same period. This theme is similarly illustrated in the table above, showing that consulting was responsible for $911k of pre-tax income in the first nine months of 2018 while the lab reduced total operating income by $237k.

And while the table above provides insight into relative profitability of consulting versus that of the lab, those below illustrate the significance and sources of improved profitability had the lab sale occurred at the close of

fiscal 2016. Specifically, the tables below show the estimated degree of improvement to margins, operating expense, net income and EPS for fiscal 2017 and the nine months ending 7/31/18 (i.e. YTD through Q3'18), had the lab already been sold prior to the start of fiscal 2017.

Expenses per Revenue					Improvement pro forma ex-Lab							
		COGS	OpEx	Total	Rev growth	GM	Op Income	Op margin	Net Income	EPS		
9 mths thru Q3'18	Actual	73.3%	25.0%	98.3%	-		-	-	-	-		9 mths thru Q3'18
	PF ex-Lab	68.6%	26.5%	95.0%	288 bps	470 bps	$367.1K	327 bps	$302.5K	$0.013	PR ex-Lab	
FY2017	Actual	76.8%	32.3%	109.1%	-		-	-	-	-		FY2017
	PF ex-Lab	71.1%	35.0%	106.2%	-193 bps	570 bps	$607.4K	300 bps	$637.1K	$0.028	PR ex-Lab	

Source: PBSV SEC filings, Brian Marckx, CFA

	FY2017	FY2017 ex-Lab	9Mths 2018 Actual	9Mths 2018 ex-Lab
Puerto Rico Consulting	$10,936.2	$10,936.2	$9,737.9	$9,737.9
% of total sales	70.2%	82.2%	70.4%	80.3%
U.S. Consulting	$1,217.5	$1,217.5	$1,311.9	$1,311.9
% of total sales	7.8%	9.2%	9.5%	10.8%
Europe Consulting	$1,087.6	$1,087.6	$1,042.1	$1,042.1
% of total sales	7.0%	8.2%	7.5%	8.6%
Lab (microbiological & chemical	$2,040.6	$0.0	$1,612.0	$0.0
% of total sales	13.1%	0.0%	11.7%	0.0%
Other segments	$297.4	$56.3	$128.4	$31.4
% of total sales	1.9%	0.4%	0.9%	0.3%
Total Revenues	$15,579.3	$13,297.6	$13,832.0	$12,123.3
YOY Growth	*-20.3%*	*-22.2%*	*-11.2%*	*-8.8%*
Cost of Services	$11,968.1	$9,455.3	$10,133.7	$8,310.9
Gross Income	$3,611.1	$3,842.3	$3,698.6	$3,812.4
Gross Margin	*23.2%*	*28.9%*	*26.7%*	*31.4%*
SG&A	$5,036.3	$4,660.0	$3,460.3	$3,207.1
% SG&A	*32.3%*	*35.0%*	*25.0%*	*26.5%*
Operating Income	($1,425.1)	($817.7)	$238.2	$605.3
Operating Margin	*-9.1%*	*-6.1%*	*1.7%*	*5.0%*
Interest income, net	$0.0	$0.0	$0.0	$0.0
Other income	$14.1	$43.8	$436.6	$389.5
Total Other Income (Expense)	$14.1	$43.8	$436.6	$389.5
Puerto Rico Consulting	($544.7)	($544.7)	$708.6	$520.8
mrgin	-5.0%	-5.0%	7.3%	5.3%
% of total pre-tax income	38.6%	70.4%	105.0%	52.4%
U.S. Consulting	($377.0)	($377.0)	($133.0)	($133.0)
mrgin	-31.0%	-31.0%	-10.1%	-10.1%
% of total pre-tax income	26.7%	48.7%	-19.7%	-13.4%
Europe Consulting	($44.6)	($44.6)	$12.2	$72.9
mrgin	-4.1%	-4.1%	1.2%	7.0%
% of total pre-tax income	3.2%	5.8%	1.8%	7.3%
Lab (microbiological & chemical	($648.6)	$0.0	($236.5)	$0.0
mrgin	-31.8%	-	-14.7%	-
% of total pre-tax income	46.0%	0.0%	-35.0%	-
Other segments	$203.9	$192.3	$323.5	$534.1
mrgin	68.6%	341.7%	252.0%	1700.8%
% of total pre-tax income	-14.4%	-24.9%	47.9%	53.7%
Pre-Tax Income	($1,411.0)	($774.0)	$674.8	$994.8
Tax expense (benefit)	$3.9	$3.9	$2,736.6	$2,754.0
Tax Rate	*-0.3%*	*-0.3%*	*405.5%*	*276.8%*
Net Income	($1,414.9)	($777.8)	($2,061.7)	($1,759.2)
Net Margin	-	*-5.8%*	-	-
EPS	($0.061)	($0.034)	($0.089)	($0.076)
Diluted Shares O/S	23,097	23,097	23,067	23,067

Source: PBSV SEC filings, Brian Marckx, CFA

VALUATION

Model Update…
We are encouraged by the recent accelerated growth in PR and US consulting revenue, particularly given the relatively high margins and direct benefit to cash flow, income and EPS. Given that PR consulting remains deep in the black and generating cash and U.S. consulting is closing in of break-even, a substantial portion of each incremental dollar should flow through the income statement.

Or model updates reflect benefit from the sale of the lab as it relates to the cost bases - specifically, significant improvement to service margin, and a moderate improvement to operating expenses, operating income and EPS. While the now even more sizeable cash balance provides that much more flexibility in terms of strategy, our model does not (yet) reflect any assumed new (i.e. inorganic) growth catalysts. That could change, however. In the meantime, share buybacks afford an opportunity to reinvest cash and do so at a very attractive valuation.

We now look for consulting revenue to grow at a 4-year CAGR of almost 10% through 2022 and for EPS to grow from $0.09 in the current year to $0.16 in 2022, an implied CAGR of 21%. Given the projected steep growth rate of earnings of the company, we use a 27x multiple applied to our 2021 EPS estimate of $0.134 (i.e. $3.61/share) and discount this back to the present at 15% per year. This values PBSV shares at approximately $2.60/share. The stock currently trades at about $0.88, indicating the shares are trading much cheaper than fair value.

We also note that the shares trade only about 8% higher than book value (book value as of July 31, 2019). As of today, PBSV trades at a market cap of $20.2M while book value as of the close of fiscal Q3'19 was $21.8M. We continue to think book value should provide a floor on the stock. And, with expectations that PBSV generates positive cash flow and continues to generate positive ROI on reinvested capital, we think there is good reason to believe that book value will grow.

FINANCIAL MODEL

Pharma-Bio Serv, Inc

	2018 A	Q1A	Q2A	Q3A	Q4E	2019 E	2020 E	2021 E	2022 E
Total Revenues	$17,797.4	$4,566.2	$5,150.3	$4,966.5	$5,020.3	$19,703.4	$21,421.4	$23,754.2	$25,890.4
YOY Growth	*33.8%*	*22.5%*	*36.8%*	*7.2%*	*-10.0%*	*10.7%*	*8.7%*	*10.9%*	*9.0%*
Cost of Services	$12,110.6	$3,087.1	$3,556.9	$3,400.6	$3,428.9	$13,473.5	$14,031.0	$15,250.2	$16,518.1
Gross Income	$5,686.8	$1,479.1	$1,593.4	$1,565.9	$1,591.4	$6,229.8	$7,390.4	$8,504.0	$9,372.3
Gross Margin	*32.0%*	*32.4%*	*30.9%*	*31.5%*	*31.7%*	*31.6%*	*34.5%*	*35.8%*	*36.2%*
SG&A	$4,598.5	$1,046.6	$1,116.5	$1,205.2	$1,225.0	$4,593.2	$4,972.1	$5,381.3	$5,663.3
% SG&A	*25.8%*	*22.9%*	*21.7%*	*24.3%*	*24.4%*	*23.3%*	*23.2%*	*22.7%*	*21.9%*
Operating Income	$1,088.3	$432.5	$476.9	$360.7	$366.5	$1,636.6	$2,418.3	$3,122.7	$3,709.1
Operating Margin	*6.1%*	*9.5%*	*9.3%*	*7.3%*	*7.3%*	*8.3%*	*11.3%*	*13.1%*	*14.3%*
Total Other Income (Expense)	$435.5	$81.4	$305.8	$81.8	$81.4	$550.5	$221.1	$215.4	$236.7
Pre-Tax Income	$1,523.8	$513.9	$782.7	$442.5	$447.9	$2,187.1	$2,639.4	$3,338.1	$3,945.8
Tax expense (benefit)	$2,785.5	$43.0	$75.3	$11.4	$40.8	$170.4	$306.5	$458.1	$596.2
Tax Rate	*182.8%*	*8.4%*	*9.6%*	*2.6%*	*9.1%*	*7.8%*	*11.6%*	*13.7%*	*15.1%*
Net Income (contin. ops)	($1,261.7)	$471.0	$707.5	$431.2	$407.1	$2,016.7	$2,332.9	$2,880.0	$3,349.5
YOY Growth	*-10.8%*	*-119.0%*	*-8247.9%*	*-40.3%*	*-82.3%*	*-259.8%*	*15.7%*	*23.5%*	*16.3%*
Net Margin	*-7.1%*	*10.3%*	*13.7%*	*8.7%*	*8.1%*	*10.2%*	*10.9%*	*12.1%*	*12.9%*
EPS (contin. ops)	($0.05)	$0.02	$0.03	$0.02	$0.02	$0.09	$0.11	$0.13	$0.16
YOY Growth	*-10.8%*	*-119.0%*	*-8245.7%*	*-40.2%*	*-82.2%*	*-260.0%*	*21.6%*	*26.1%*	*17.8%*
Gain on sale of Lab assets (Sept 2018)	$2,712.2	-	-	-	-	-	-	-	-
Gain (loss) from discontinued op	($170.8)	-	-	-	-	-	-	-	-
Net Income	$1,279.7	-	-	-	-	-	-	-	-
EPS	$0.06	-	-	-	-	-	-	-	-
Diluted Shares O/S	23,081	23,119	23,069	23,038	22,991	23,054	21,931	21,474	21,200

Brian Marckx, CFA

© Copyright 2019, Zacks Investment Research. All Rights Reserved.

BALANCE SHEET via PBSV SEC filings

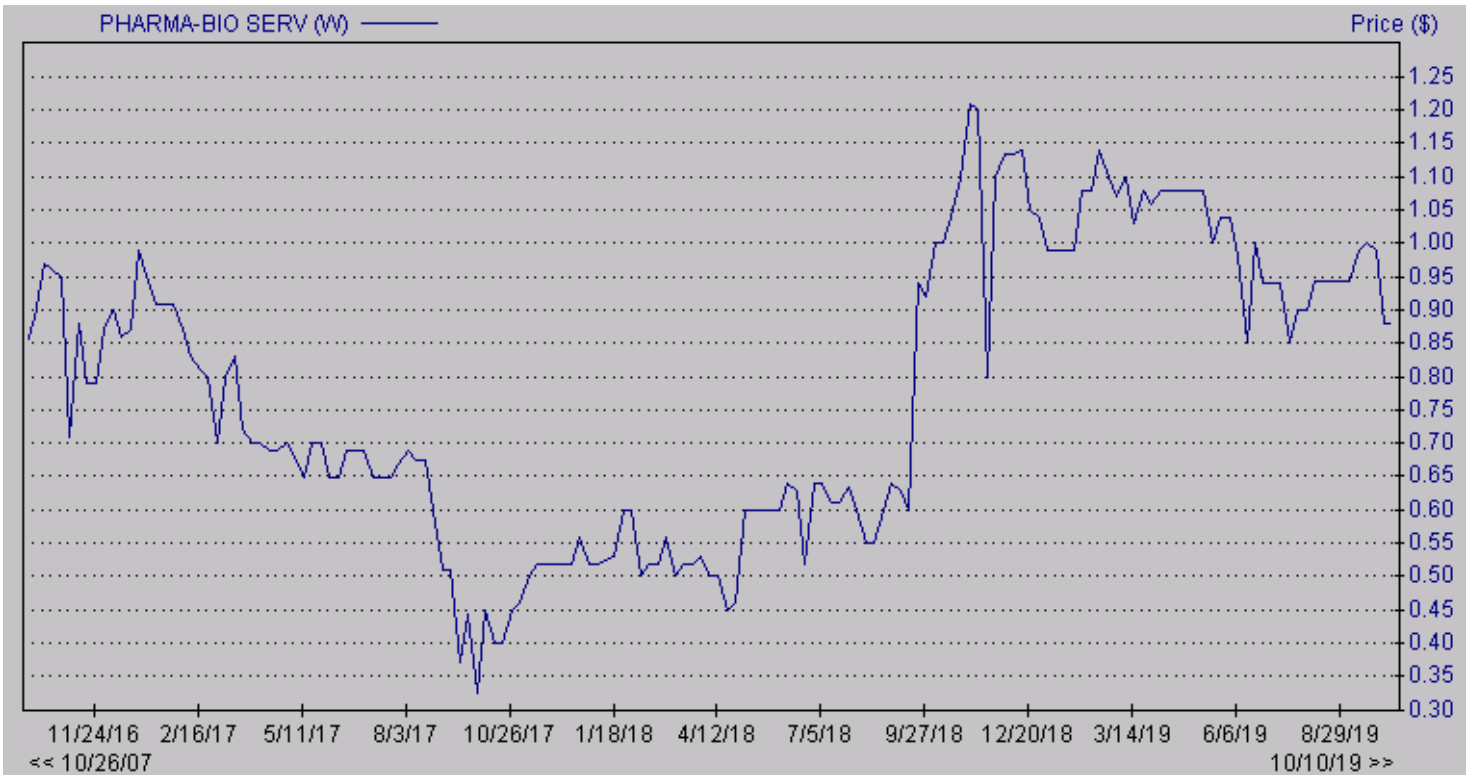
	July 31, 2019	October 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,796	$ 16,030
Marketable Securities	-	44
Accounts Receivable	7,802	5,193
Promissory note (ST portion)	1,250	1,750
Assets of discontin. ops	-	-
Other	479	394
Total current assets	24,327	23,412
Property and equipment, net	307	298
Promissory note (LT portion)	1,250	1,250
Other assets	368	418
Total assets	$ 26,251	$ 25,378
LIABILITIES		
Current liabilities:		
Current portion-obligations under capital lease	$ 11	$ 14
Accounts payable and accrued expenses	1,749	2,140
Liabilities of discontin. ops	-	-
Income taxes payable	342	412
Total current liabilities	2,103	2,566
US Tax Reform Transition tax payable	2,270	2,485
Other liabilities	18	18
Obligations under capital leases	70	46
Total liabilites	4,460	5,115
STOCKHOLDERS' EQUITY		
Preferred Stock	-	-
Common stock	2	2
Additional paid-in capital	1,374	1,347
Retained earnings	20,721	19,111
Accumulated other comprehensive loss	86	108
Total stockholders' equity	22,183	20,568
Total liabilities and stockholders' equity	$ 26,251	$ 25,378

CASH FLOW STATEMENT via PBSV SEC filings

	Three months ending July 31, 2018	2018
Cash flows from operating activities:		
Net income	$ 431	$ 731
Add: net (income) loss from discontinued operations	-	(9)
Net loss from continuing operations	431	722
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposition of P&E		-
Stock-based compensation	9	18
Depreciation and amortization	25	20
Impairment of avail-for-sale securities	-	-
Changes in operating assets and liabilities:		
Accounts receivable	(1,137)	962
Other assets	(122)	(140)
Liabilities	166	104
Net cash provided by operating activities	(627)	1,685
Cash flows from investing activities:		
Acquisition of P&E	(9)	
Proceeds from disposition of P&E	-	-
Net cash used in investing activities	(9)	0
Cash flows from financing activities:		
Proceeds from common stock issuance	-	-
Repurchase of common stock	(1)	-
Payments on obligations under capital lease	(3)	(3)
Net cash provided by (used in) financing activities	(3)	(3)
Effect of exchange rate changes on cash	2	(40)
Net increase (decrease) in cash and cash equivalents (cont ops)	(637)	1,642
Cash provided by discontinued ops	-	559
Net increase (decrease) in cash and cash equivalents		2,202
Cash and cash equivalents, beginning of period	15,433	12,917
Cash and cash equivalents, end of period	$ 14,796	$ 15,119

© Copyright 2019, Zacks Investment Research. All Rights Reserved.

HISTORICAL STOCK PRICE



Source: Zacks Investment Research

DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Brian Marckx, CFA, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly, from an investment manager, or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.