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Zacks Small-Cap Research

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Pharma-Bio Serv (OTCQX-PBSV)

PBSV: Steady as she goes

We value PBSV at $2.11 per share. Our target is based on a 10-year DCF with an 18% terminal EBIT margin and an 11% discount rate. The shares trade at book value which we think will continue to be supported by cash flow generation, positive ROI and a renewed repurchase program acting as a floor on the share price.

OUTLOOK

We believe that after a post-COVID slow start to 2021, Pharma-Bio Serv will build on the strong progress of 2020 over the next three years. With stable profit margins, $15.3 million cash on the balance sheet, regular payouts to shareholders in the past three years yielding over 6% annually, and myriad opportunities to expand their focus beyond pharmaceutical manufacturers, we believe Pharma-Bio Serv is a unique opportunity for value-oriented investors.

Current Price (04/04/22)	$0.92
Valuation	**$2.11**

SUMMARY DATA

52-Week High	**$1.33**
52-Week Low	**$0.82**
One-Year Return (%)	**-28.13**
Beta	**0.34**
Average Daily Volume (sh)	**3,246**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$21**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**12**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**5.9**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2022 Estimate	**9.2**
P/E using 2023 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Value**
Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2020	5 A	6 A	6 A	5 A	22 A
2021	4 A	5 A	5 A	6 A	20 A
2022	5 A				21.5 E
2023					23 E

Earnings per share

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2020	$0.02 A	$0.03 A	$0.03 A	$0.01 A	$0.09 A
2021	$0.01 A	$0.01 A	$0.10 A	-$0.21 A	-$0.09 A
2022	$0.01 A				$0.10 E
2023					$0.12 E

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

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COMPANY UPDATE

Pharma-Bio Serv continued to progress in FY21, and 1Q FY22 extended the upward trend.

Pharma-Bio Serv has a well-established business model serving an industry with complex, specific needs. New contracts are generally won through a competitive bid process and generally go to companies with an established reputation for delivering high quality, reliable and timely solutions.

The pandemic disrupted manufacturing and development of products across industries (including pharmaceuticals). For Pharma-Bio Serv, this disruption means a delay in new consulting project starts, leading to a gap in what is normally a consistent, moderate-growth top line. At the same time, the pandemic has raised concerns over the reliability of the supply chain, leading manufacturers to consider relocating some capacity closer to home. In our view, Puerto Rico and Pharma-Bio Serv, will ultimately benefit from these trends.

In FY21, revenues hit our target at $20.1 million, down slightly from $21.5 million in FY20. The net decrease stemmed from weakness in the Puerto Rico consulting market, due largely to economic disruption from the pandemic and related delays in new project starts. At the same time, business continues to improve in other geographies. Revenues rose $0.4 million (+19%) in the US, $1.5 million (+81%) in Europe and $0.2 million (+62%) in Brazil.

Gross profit margins declined 420bps in FY21 to 26.7% from 30.9% in the year earlier period due largely to the end of a high-margin long-term contract in Puerto Rico. For FY22, we are targeting gross margins in the 27-28% range. Long-term, we model gross margins in the 30-31% range, although contracts outside Puerto Rico can be more profitable in some cases. Project staffing as the Company's primary expense and is largely variable, so margin expansion will come primarily through leveraging SG&A.

Operating profit was $(3.9) million, due largely to an increase in uncollectible accounts receivable reserves of $5 million. The reserve increase stems from a single development-stage client, where the pandemic halted progress for its drug candidate, and therefore the ability to raise new cash, creating a liquidity issue. Given a lack of visibility on timing and probability of full repayment, it was appropriate to increase reserves. Net of this one-time charge, PBSV's operating profit for FY21 was approximately $1.4 million.

FY21 net income totaled $(2.1) million, including $2.0 million in other income for PPP loan forgiveness. Earnings were $(0.09) in FY21, versus $0.09 in FY20. Excluding the accounts receivable charge and loan forgiveness, adjusted net income for FY21 was approximately $1.2 million compared to $2.1 million in FY20.

For 1Q FY22, Pharma-Bio Serv's revenues rose $0.5 million to $5.0 million, up 11% from the year-earlier period. Net income for the quarter was largely unchanged at $0.3 million.

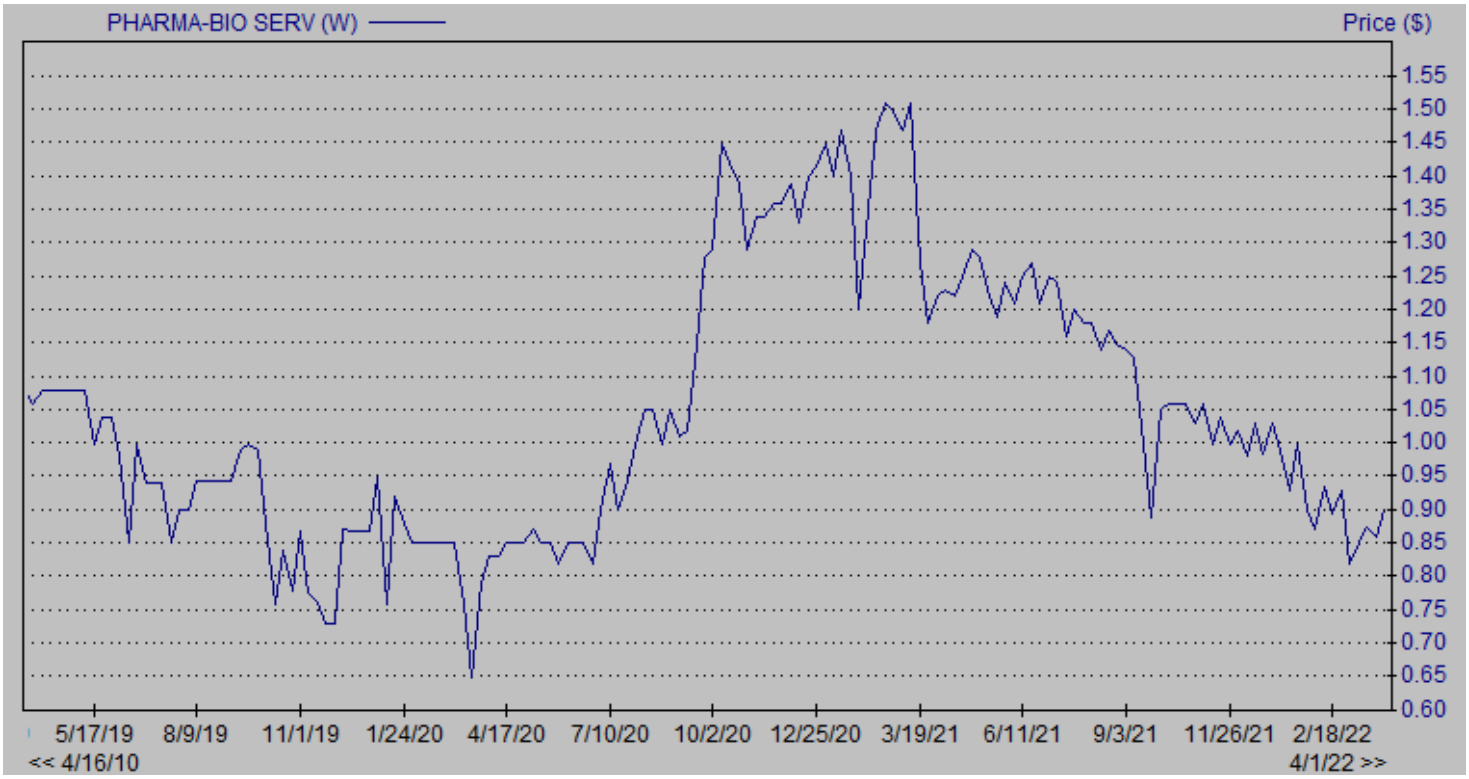
We are trimming our FY22 revenue target from $23 million to $21.5 million on the chance that inflationary pressure limits new consulting contracts; however, with the FDA back to a more normalized pace of cGMP inspections, the new business pipeline could accelerate later in the year. For FY23, our revenue estimate goes from $25 million to $23 million, to reflect our more modest revenue expectations for FY22. Our EPS estimates of $0.10 (FY22) and $0.12 (FY23), are unchanged.

PBSV paid two separate cash dividends of $0.075/share to shareholders since the end of FY21. The first was paid in early January, the second in mid-March.

At January 31, the Company had $15.3 million in cash on its balance sheet, which we expect is ~$13.5 million following the March dividend payment. On September 24, the Company resumed its share repurchase program, of which 1.7 million shares were still authorized for repurchase. With the shares trading at book value, and modest capital expense and working investment needs, we view this as a reasonable action.

The Company's has emphasized organic growth in Puerto Rico and increasingly in other geographies. In addition, the Company looks to provide GMP services outside its core pharmaceutical client base, such as food, cosmetic and automotive manufacturers. Any additional investments the Company makes in its business and the rate of its expansion will factor significantly in both our forecasts and financial valuation.

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