

# Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

Elizabeth Senko, CFA

312-265-9484

esenkol@zacks.com

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

## Pharma-Bio Serv, Inc. (OTCQX:PBSV)

### PBSV: Lowering target; still a solid value

We value PBSV at \$1.77 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 is again building on the strong progress of 2020 over. With stable profit margins, \$13.2 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 (06/27/22) \$0.78  
Valuation \$1.77

### SUMMARY DATA

52-Week High \$1.33  
52-Week Low \$0.78  
One-Year Return (%) -35.50  
Beta 0.31  
Average Daily Volume (sh) 4,291

Shares Outstanding (mil) 23  
Market Capitalization (\$mil) \$18  
Short Interest Ratio (days) N/A  
Institutional Ownership (%) 0  
Insider Ownership (%) 13

Annual Cash Dividend \$0.00  
Dividend Yield (%) 0.00

5-Yr. Historical Growth Rates  
Sales (%) 5.7  
Earnings Per Share (%) N/A  
Dividend (%) N/A

P/E using TTM EPS N/A  
P/E using 2022 Estimate 7.8  
P/E using 2023 Estimate 6.5

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	21.6 A
2021	4 A	5 A	5 A	6 A	20.1 A
2022	5 A	5 A			20.8 E
2023					22.7 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	\$0.01 A			\$0.08 E
2023					\$0.10 E

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

---

## COMPANY UPDATE

Pharma-Bio Serv continued on a steady path in 2Q FY22. Management's confidence in the underlying business led to the decision to pay an additional cash dividend of \$0.075/share in March, its second since the end of FY21.

As we've seen in the past few years, economic uncertainty continues to push out new project starts across the pharmaceutical industry. In July 2021, the US FDA resumed a normalized pace of cGMP, but a significant backlog remains. According to [Fierce Pharma](#), at the end of 2021, the FDA reported it had completed 1,139 of its outstanding pharmaceutical and medical device inspections, roughly 35% of its backlog. In addition, the FDA reported that its backlog of NDA approval inspections rose to 52 in December, from 39 in May 2021. As the FDA continues to clear its backlog, we expect PBSV's new project pipeline to accelerate, particularly in Puerto Rico and the US.

For now, we are trimming our FY22 forecast and our valuation target slightly. Our FY22 revenue target is now \$20.8 million, down from \$21.5 million. We are lowering our FY22 EPS estimate from \$0.10 to \$0.08. Our estimates for FY23 are unchanged.

### Recent results

In 2Q FY22, Pharma-Bio Serv's revenue were largely flat at \$5.0 million, compared with the year earlier period. While weakness continues in the Puerto Rico consulting market, US business continues to rise \$0.8 million (+157% YoY) in the US.

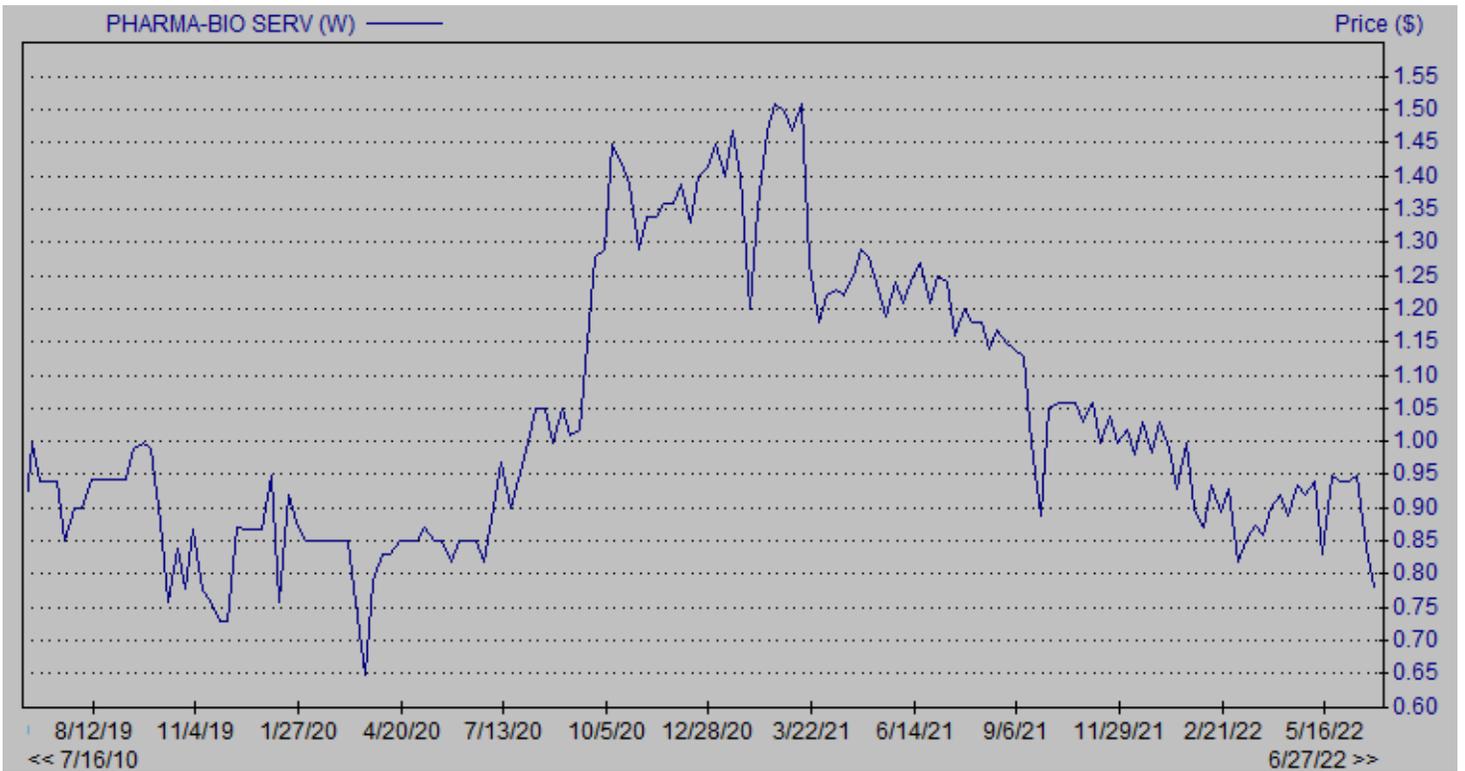
Gross profit margins in the quarter declined 110bps in FY21 to 24.5% period due largely to the end of a high-margin long-term contract in Puerto Rico, and inflation. For FY22, we are targeting gross margins in the 27-28% range. Long-term, we model gross margins in the 30-31% range, although contracts 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. Net income for the quarter was largely unchanged at \$0.24 million.

At April 30, the Company had \$13.2 million in cash on its balance sheet. 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.

Our updated target valuation is \$1.77, driven primarily by a \$2.7 million reduction in cash on the balance sheet, due to the March dividend payment, and more modest top-line and margin expectations for FY22.

# HISTORICAL STOCK PRICE



## 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, Elizabeth Senko, Senior Analyst, 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.

### CANADIAN COVERAGE

This research report is a product of Zacks SCR and prepared by a research analyst who is employed by or is a consultant to Zacks SCR. The research analyst preparing the research report is resident outside of Canada, and is not an associated person of any Canadian registered adviser and/or dealer. Therefore, the analyst is not subject to supervision by a Canadian registered adviser and/or dealer, and is not required to satisfy the regulatory licensing requirements of any Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and is not required to otherwise comply with Canadian rules or regulations.