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Zacks Small-Cap Research

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Pharma-Bio Serv (OTCQB: PBSV)

PBSV: Slow and steady wins the race

We value PBSV at $1.77 per share. Our target is based on a 10-year DCF with an 19% 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, $14.2 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 (09/23/22)	$0.80
Valuation	**$1.77**

SUMMARY DATA

52-Week High	**$1.08**
52-Week Low	**$0.61**
One-Year Return (%)	**-10.10**
Beta	**0.34**
Average Daily Volume (sh)	**1,880**
Shares Outstanding (mil)	**23**
Market Capitalization ($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 (%)	**5.1**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2022 Estimate	**10.0**
P/E using 2023 Estimate	**8.0**
Zacks Rank	**N/A**

Risk Level	**High,**
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	5 A		19.3 E
2023					21.4 E

Price/Sales Ratio (Industry = 2.5x)

	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	$0.01 A		$0.05 E
2023					$0.08 E

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

COMPANY UPDATE

Pharma-Bio Serv continued on a steady path in 3Q FY22. Higher sales in the US and Europe, offset continued softness in Puerto Rico. Gross margins improved vs. the year-earlier period.

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. However, as of June 2022, the FDA reports that the NDA approval backlog is cleared; however, it is unclear whether meaningful backlog still exists for already approved drugs/manufacturing. As the FDA gets back to a normal pace of routine cGMP inspections, 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 $19.3 million, down from $20.8 million. We are lowering our FY22 EPS estimate from $0.08 to $0.05. For FY23, we are sticking with a conservative stance. Our new FY23 revenue target is $21.4 million, down from our earlier estimate of $22.7 million. Our FY23 EPS estimate is now $0.08, down from $0.10.

Recent results

In 3Q FY22, Pharma-Bio Serv's revenues were $4.8 million, down $0.2 million from the year earlier period. While weakness continues in the Puerto Rico consulting market, US business is running at nearly double the rate in FY21. In 3Q FY22, sales in the US rose, ~78% YoY to $1.1 million; sales in Europe climbed 12% YoY to $0.65 million in the quarter.

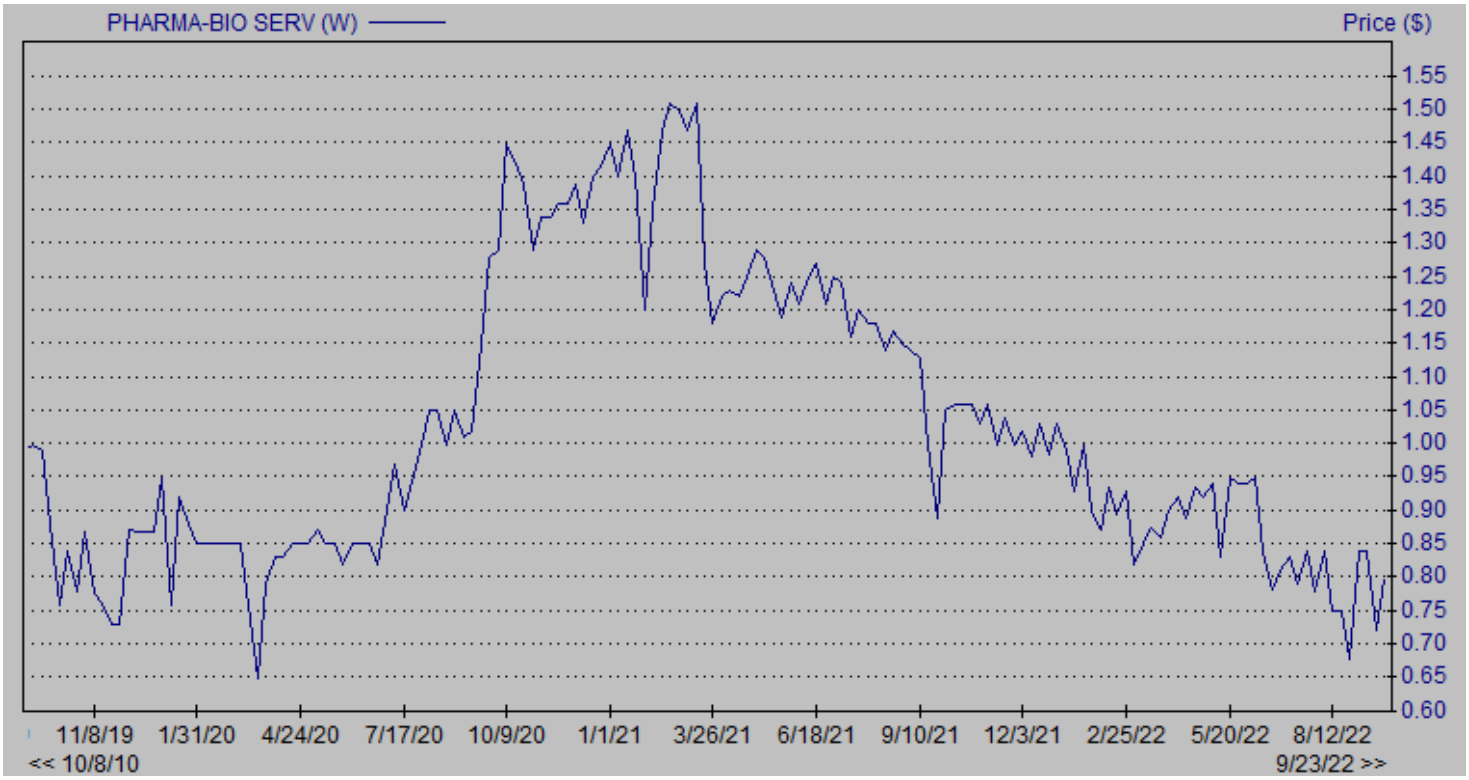
Gross profit margins in the quarter improved 230 bps YoY and 300 bps sequentially, due largely to higher margined projects in both Puerto Rico and Europe. Long-term, we model gross margins in the 30-31% range. Project staffing is the Company's primary expense and is largely variable, so margin expansion will come primarily through leveraging SG&A. Net income for the quarter was $0.3 million, up from $0.24 million in 2Q FY22. However net income declined ~$2.0 million, on a YoY basis, as 3Q FY21 net income included PPP loan forgiveness.

At July 31, the Company had $14.2 million in cash on its balance sheet. The Company continues its share repurchase program, of which 1.55 million shares are 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, and cosmetic 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 target valuation is unchanged at $1.77, driven primarily improving gross margins (vs. FY21) and slower than expected growth in SG&A spend.

HISTORICAL STOCK PRICE



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