February 3, 2023

Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

Brad Sorensen, CFA
312-265-9574
bsorensen@zacks.com

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

Pharma-Bio Serv (OTCQB: PBSV)

PBSV: Ready for Post-Pandemic Growth

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 share repurchase program acting as a floor on the share price.

OUTLOOK

We believe that after a year spent recovering from the pandemic and stabilizing the balance sheet, PBSV is ready to grow revenues in 2023. With stable profit margins, $14.2 million cash on the balance sheet, regular payouts to shareholders in the past three years, 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 (02/02/23)	$0.85
Valuation	**$1.77**

SUMMARY DATA

52-Week High	**$1.04**
52-Week Low	**$0.61**
One-Year Return (%)	**10.64**
Beta	**0.32**
Average Daily Volume (sh)	**5,446**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$20**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**13**
Annual Cash Dividend	**$0.08**
Dividend Yield (%)	**8.00%**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**26.0**
P/E using 2023 Estimate	**13.0**

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	4.4 A	19.4 A
2023	5 E	5 E	5.4 E	6 E	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	$0.01 A	$0.04 A
2023	$0.01 E	$0.02 E	$0.02 E	$0.03 E	$0.08 E

© Copyright 2023, Zacks Investment Research. All Rights Reserved.

COMPANY UPDATE

Pharma-Bio Serv announced fiscal 2022 results, which showed a modest decrease in revenue from that seen in 2021, but showed a solid increase in net income. Liabilities were also reduced, as were expenses, as Pharma-Bio Serv appeared to use 2022 to solidify its business, recover from the pandemic, and set up for future growth.

The backlog in drug approvals, according to the FDA, that had built up during the pandemic has been resolved. After the FDA approved a new Alzheimer's drug under an accelerated process and with some safety concerns, we heard from drug companies that were encouraged that the FDA may be open to more types of treatments than they had been in the past. Whether that will prove to be true or not we can't say, but we do believe that the pace of drugs coming to the FDA for approval will increase over the next year. PBSV stands to benefit from that trend and the company's efforts to expand their network, while also, according to the company's CEO, "pursuing strategic acquisition opportunities." As a result, we believe that the company will be able to grow revenues modestly, while net income should also rise as the company benefits from cost discipline.

We are keeping our FY23 forecast for revenues at $21.4 million, while our FY23 EPS forecast is being raised slightly, from $0.08 to $0.10 due to the increase in revenues and the decrease in expenses we saw in 2022. For now, we are leaving our valuation at $1.77/share, but will likely look to increase that target if 1Q2023 indicates the sort of results that we expect.

Recent results

In FY22, Pharma-Bio Serv's revenues were $19.4 million, down $0.7 million from the year earlier period. Weakness in the Puerto Rican and Brazilian market contributed to that decline, but that was at least partially offset by gains in the United States and European markets.

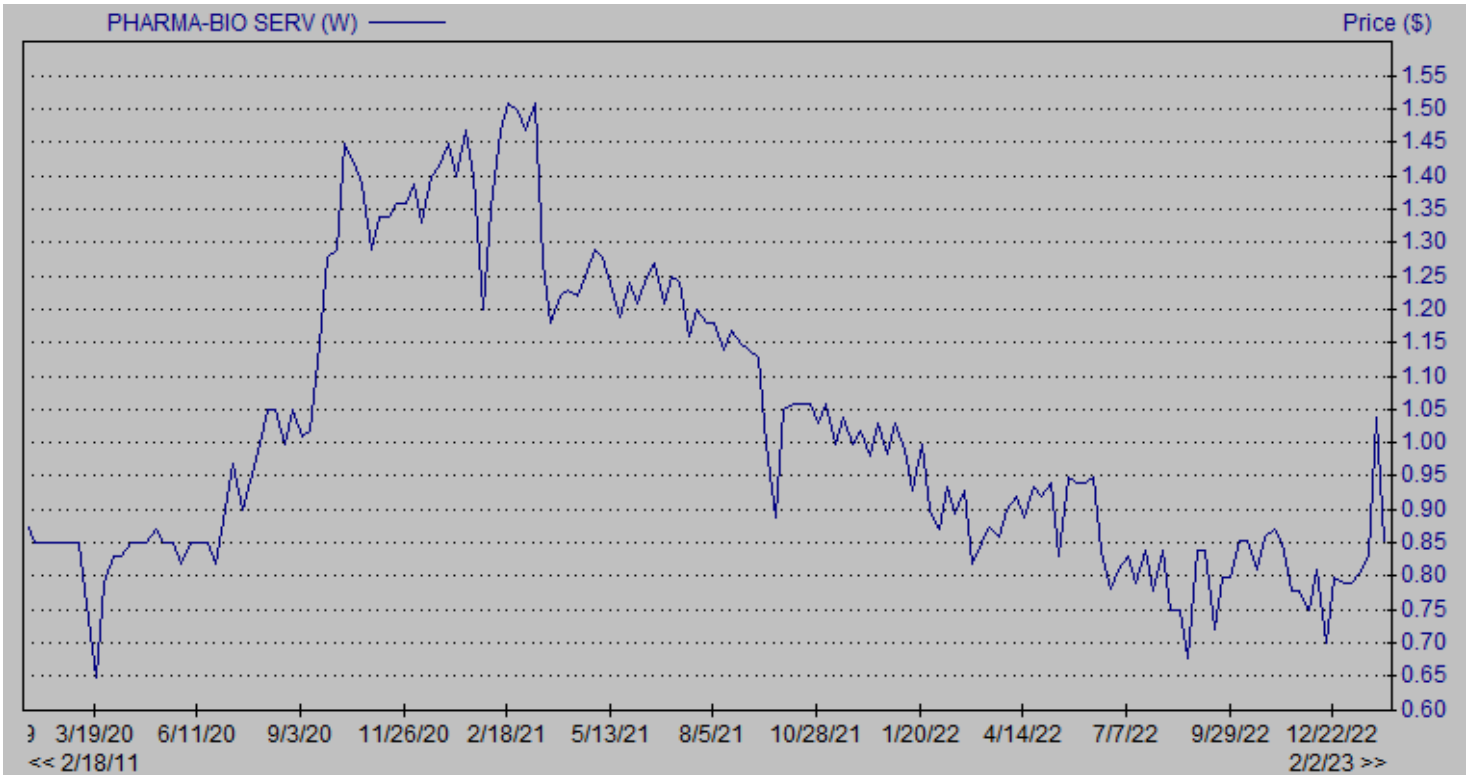
Gross profit margins in the year decreased by 1.5 percentage points, largely due again to weakness in the Puerto Rican market. Long-term, we model gross margins in the 30-31% range. Project staffing is the Company's primary expense and is largely variable, so margin expansion will come primarily through leveraging SG&A. Net income for the year was $1.0 million, up from a loss of $2.1 million in FY22.

At October 31, 2022, the Company had $14.5 million in cash on its balance sheet, roughly unchanged from the amount held at the end of 3Q22. The Company continues its share repurchase program, of which 1.18 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 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 by improving expense management, declining share count, and potential for revenues to rebound.

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, Brad Sorensen, 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.