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Zacks Small-Cap Research

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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: Continuing to Recover

Phama-Bio Serv is a company that offers compliance and validation consulting services to the pharmaceutical industry.

Using discounted cash flow analysis, we value the shares of PBSV at $1.80, a slight boost from the previous target due to the growth in European revenues and the 1Q2023 earnings beat.

OUTLOOK

Pharma-Bio Serv reported 1Q 2023 earnings that bested our estimates by a penny, while overall revenues came up just shy of estimates.

Margins improved and revenue in Europe expanded, both of which we believe are encouraging signs for the company as it continues to recover from the Covid-related downturn. We believe the company has now turned the corner and presents an attractive investment opportunity at current prices.

Current Price (02/02/23)	$1.04
Valuation	**$1.80**

SUMMARY DATA

52-Week High	**$1.15**
52-Week Low	**$0.61**
One-Year Return (%)	**18.86**
Beta	**0.32**
Average Daily Volume (sh)	**8,975**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$24**
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	**20.8**
P/E using 2023 Estimate	**10.4**

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	4.2 A	5 E	5.4 E	6 E	20.6 E

	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	$0.02 A	$0.02 E	$0.02 E	$0.03 E	$0.09 E

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COMPANY UPDATE

Pharma-Bio Serv announced 1Q 2023 results. The headline showed that earnings per share of $0.02 was a penny better than our estimates, driven largely by improvement in gross margin on sales revenue from approximately 24% last year at this time to 29% in the quarter just ended. Revenues of just over $4.2 million were slightly below our estimates and 1Q 2022 levels but we saw consulting revenues from Europe more than double from the first quarter of last year, which is encouraging to us as Pharma-Bio Serv looks to continue to expand its global footprint.

Additionally, the balance sheet continues to look solid. At first glance it appears that the company's cash balance has decreased from $14.5 million to just over $7.2 million. But the company has done something with that "missing" cash that we believe is much smarter and will benefit the company and shareholders—management has decided to invest just over $8.2 million in US Treasury Bills. With recent yields on T-bills between 4-5%, this move allows the company to hold cash equivalents that are actually earning a nice yield, while remaining safe and liquid—a win, win for investors and the company.

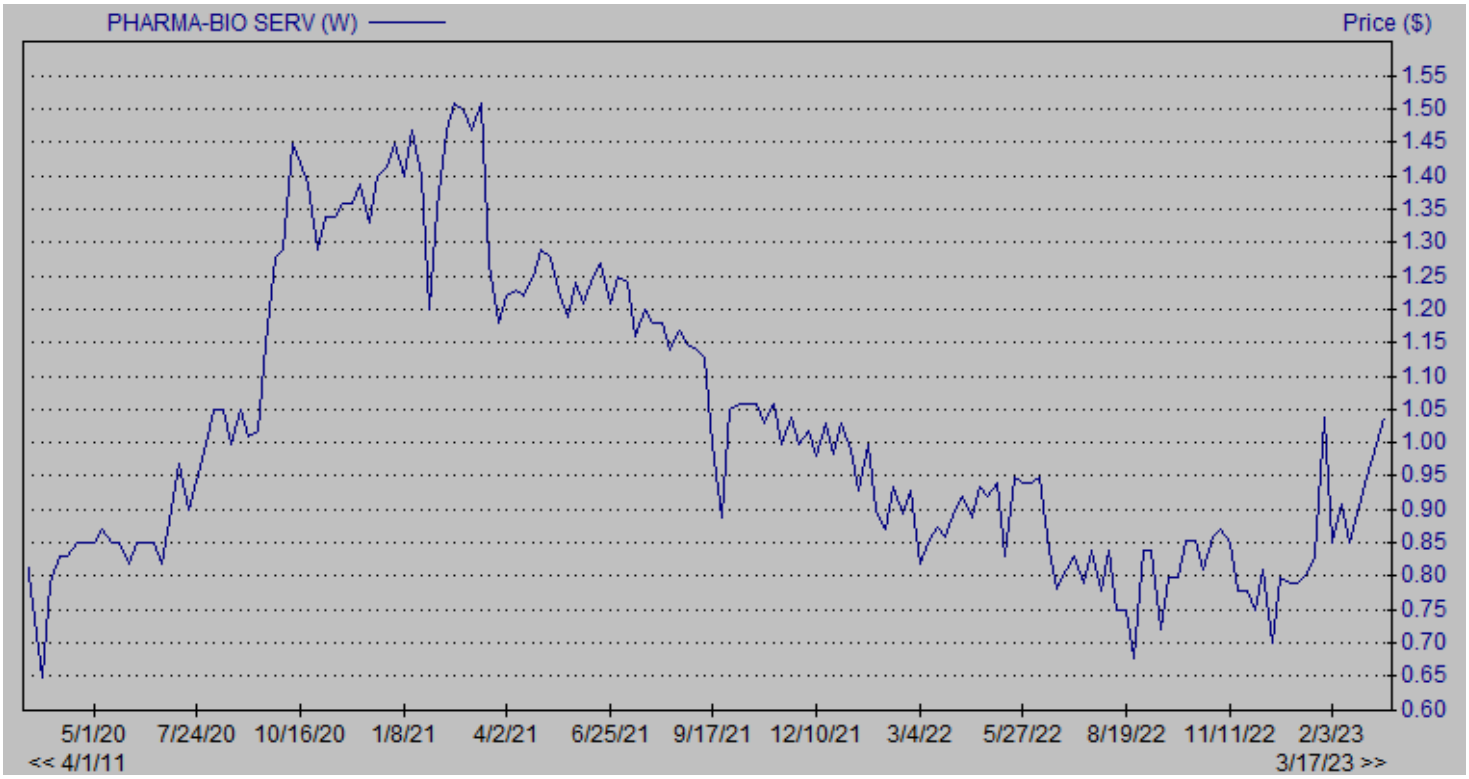
The company also recently approved a $0.075 dividend for shareholders as of March 29, 2023, which continues management's dedication to returning cash to shareholders. The company has also authorized a share buyback program that remains in force, with just over 450,000 shares being repurchased to this point, with the potential for another 1.5 million shares to be repurchased in the future—presenting another upside potential for investors.

As a result of the earnings beat this quarter, we are raising the full fiscal year forecast to $0.09 per share in 2023, although we are fairly optimistic that they will be able to best those estimates if current trends in expense containment, cash management and foreign market growth can be maintained. The pharmaceutical business in running at full speed again after the sharp Covid-related slowdown and the backlogs that resulted among regulators have been largely relieved. We believe this bodes well for the demand for services provided by Pharma-Bio Serv will grow as more companies look to navigate their products through the sometimes complicated and opaque regulatory environment around the globe.

The company's revenues from Puerto Rico have declined over the past year, but we view this as a temporary development due in large part to the country's continued struggle to recover from Hurricane Maria in 2017, resulting in continuing power outages on the island. According to the nonpartisan think tank Center for a New Economy (and reported by ABC News) the Puerto Rican government has approved $12 billion for electric grid reconstruction, but only $88 million worth of projects had been completed as of early March 2023. The US recently announced it was sending mega generators to the island, which we believe, along with continued local efforts, will result in an improvement in the Puerto Rican economy in 2023 as the year progresses, which should help Pharma-Bio Serv recover at least some of the lost revenue.

That potential recovery, along with the rapid growth seen in the European markets, along with a steady US business with the potential to grow lead us to have a positive view on PBSV stock. In fact, we are raising our target valuation slightly to $1.80 per share, driven primarily by improving expense management, declining share count, the earnings beat and the expansion in European revenues. We suggest investors who are looking for a steady investment with management dedicated to shareholders take a look at PBSV.

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