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Zacks Small-Cap Research

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Pharma-Bio Serv (OTCQB: PBSV)

PBSV: Expanding Markets and Margins

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, as the company continues to improve margins and its international reach.

OUTLOOK

Pharma-Bio Serv reported 3Q 2023 earnings that met our estimates, while reporting an improvement in gross profit percentage.

Margins improved and revenue in the US and Europe expanded, both of which we believe are encouraging signs for the company. We believe the company has now turned the corner following Covid and is looking to expand its reach and presents an attractive investment opportunity at current prices.

Current Price (09/14/23)	$0.92
Valuation	**$1.81**

SUMMARY DATA

52-Week High	**$1.17**
52-Week Low	**$0.68**
One-Year Return (%)	**24.24**
Beta	**0.41**
Average Daily Volume (sh)	**2,197**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$21**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**12**
Annual Cash Dividend	**$0.08**
Dividend Yield (%)	**8.50%**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**13.1**
P/E using 2023 Estimate	**10.2**

Risk Level	**Medium**
Type of Stock	**Small-Value**
Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
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	4.6 A	4.6 A	5.0 E	18.4 E
2024	5.0 E	5.0 E	5.1 E	5.1 E	20.2 E

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
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 A	$0.02 A	$0.03 E	$0.09 E
2024	$0.02 E	$0.03 E	$0.03 E	$0.03 E	$0.11 E

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COMPANY UPDATE

Pharma-Bio Serv announced fiscal 3Q 2023 results. The headline showed that earnings per share of $0.02 were inline with our estimates, driven by the continued impressive improvement in gross margin on sales revenue by another 6.4% in the quarter just ended July 31. Revenues of just over $4.6 million were also inline with our estimates and we saw consulting revenues from Europe more than double from the second quarter of last year, continuing the recent trend of expansion of the European markets, which is encouraging to us as Pharma-Bio Serv looks to continue to expand its global footprint. The company also showed improved its US revenues and believe this is a reflection of management's commitment to look for opportunities in new market and industries.

Additionally, the balance sheet continues to look solid. At first glance it appears that the company's cash balance has decreased from $14.4 million in October 2022 to just under $3.0 million. As we've discussed before, 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 $11.7 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 and adding to the revenue for Pharma-Bio Serv.

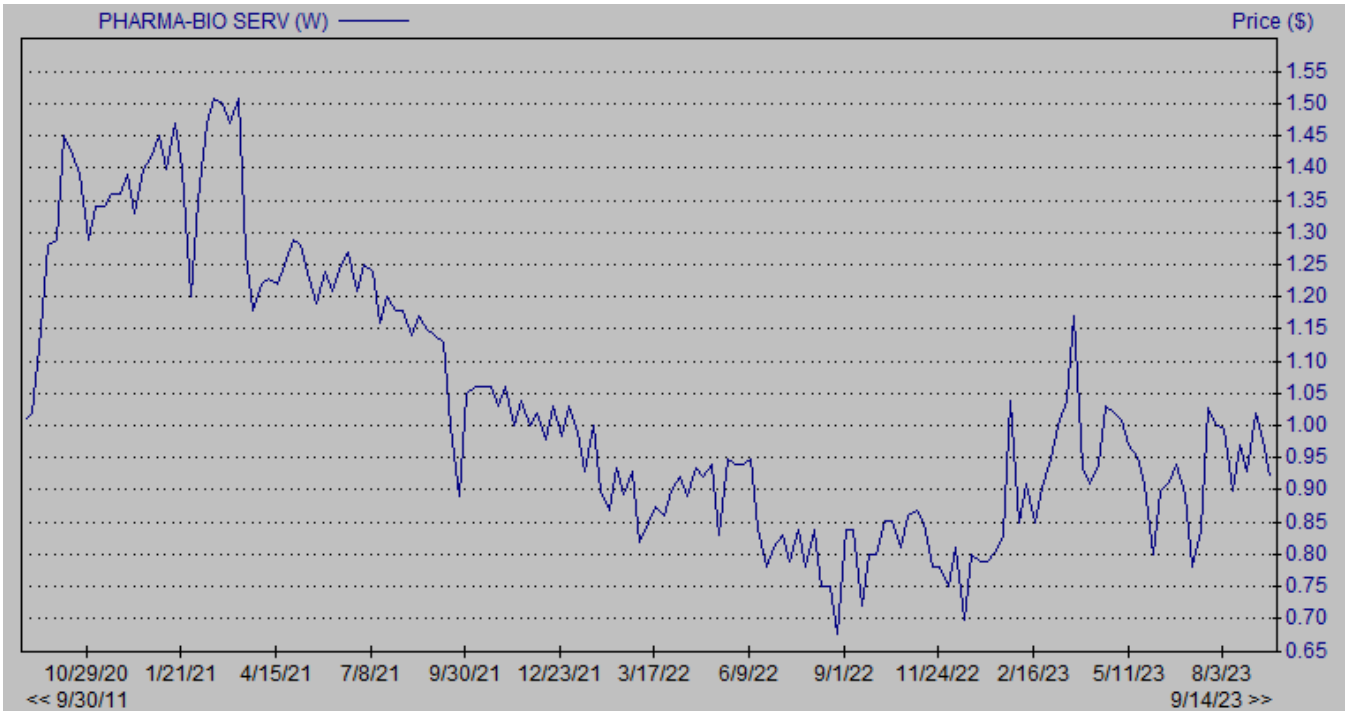
A reminder that the company continues to have shareholders' best interest in mind in our view, as management recently approved a $0.075 dividend for shareholders as of March 29, 2023, which continues management's dedication to returning cash to shareholders and paid out on April 14, 2023. The company 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.

With the meeting of earning estimates in the most recent quarter, we are maintaining our full-year earnings estimate, but we are fairly optimistic that they will be able to best those estimates if current trends in expense containment, cash management and domestic and foreign market growth can be maintained. The pharmaceutical business is 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 continues to bode 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 and we believe this revenue will take some time to recover. The country continues to be plagued by power problems and political roadblocks appear to be impeding improvement and recovery. It is a credit to Pharm-Bio Serv that the company has been able to overcome these issues and more than offset the loss of revenue from Puerto Rico by expanding business in other markets.

That ability to pivot and expand its reach, along with the rapid growth seen in the European markets and a growing US business with the potential to expand lead us to have a positive view on PBSV stock. We suggest investors who are looking for a steady investment with a consistent dividend and with management dedicated to shareholders take a look at PBSV.

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