

Zacks Small-Cap Research

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Pharma-Bio Serv, Inc. (PBSV-OTCQB)

PBSV: 7.5% Dividend Declared. Returning Cash To Shareholders As PBSV Evaluates Strategic Options.

We look for revenue to grow at a 4 year CAGR of approximately 13% through 2021. We use an industry PE/G ratio of 1.9x to value PBSV. We look for 2020 EPS of \$0.08 which values the company at approximately \$2.25/share. The stock currently trades at about \$1.06, indicating the shares are trading cheaper than fair value.

Current Price (10/05/18) \$1.06
Valuation \$2.25

SUMMARY DATA

52-Week High \$1.118
52-Week Low \$0.40
One-Year Return (%) 232.31
Beta 0.55
Average Daily Volume (sh) 9,541

Shares Outstanding (mil) 23
Market Capitalization (\$mil) \$24
Short Interest Ratio (days) N/A
Institutional Ownership (%) 0
Insider Ownership (%) 52

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

5-Yr. Historical Growth Rates
Sales (%) -15.3
Earnings Per Share (%) -42.0
Dividend (%) N/A

P/E using TTM EPS N/A
P/E using 2018 Estimate 106.0
P/E using 2019 Estimate 26.5

Zacks Rank N/A

OUTLOOK

Similar to the decision to sell the lab, we think returning cash to shareholders via a dividend is a sensible move. Pro forma for the lab sale (mid-Sept), cash balance was \$16.9M as of July 31st – and this does not include the \$3M promissory note (which will be fully collected over two years). While a too-big cash balance is usually a good 'problem' to have, given that the return on cash isn't particularly attractive (especially at today's interest rates), we applaud management's decision to declare a (very healthy) ~7.5% (i.e. \$0.075/share) dividend.

The dividend, announced yesterday and payable on October 26, 2018 to shareholders of record at the close of business on October 15, 2018, will consume roughly 10% (i.e. \$1.7M of \$16.9M) of their (pro forma for the lab sale) cash balance (as of 7/31/18). While not specifically characterized as such, we assume, at least for now, that this is a one-time 'special dividend' – although also point out that the PR (filed with 8-K, Oct 4th) leaves open the possibility of future dividends as they evaluate their strategic options ("The Board will continue to evaluate the Company's strategic plan, which might include future acquisitions, sales of business units, dividends or any combination of these opportunities while continuing our stock repurchase plan.").

Risk Level Above Avg.,
Type of Stock Small-Value
Industry Consulting

ZACKS ESTIMATES

Revenue
(in millions)

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2017	\$4.1 A	\$3.9 A	\$4.0 A	\$3.6 A	\$15.6 A
2018	\$4.2 A	\$4.4 A	\$5.2 A	\$4.6 E	\$18.4 E
2019					\$18.0 E
2020					\$20.6 E

Earnings per Share

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2017	-\$0.02 A	-\$0.01 A	-\$0.01 A	-\$0.02 A	-\$0.06 A
2018	-\$0.12 A	-\$0.01 A	\$0.03 A	\$0.10 E	\$0.01 E
2019					\$0.04 E
2020					\$0.08 E

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

\$0.075 Per Share Dividend Declared: *Returning Cash To Shareholders As PBSV Evaluates Strategic Options...*

Bolstered by the sale of their Puerto Rico-based laboratory assets, PBSV wasted little time in putting their ever-greater cash balance to work for shareholders. The sale, which closed in mid-September, brought in \$2M cash upfront and includes another \$3M in proceeds in the form of a two-year promissory note. Pro forma for the sale, cash balance was \$16.9M as of July 31st – and this does not include the \$3M promissory note (which will be fully collected over two years). And with operations now at a better-than-break even rate of cash flow generation, we think cash could continue to pile up.

As we noted in our [report last week](#) (*Lab Assets Sold, Should Benefit Margins, Profitability. Big Cash Balance Affords Strategic Flexibility*, Oct 1st), aside from possibly repurchasing additional shares (another ~1.7M shares can be repurchased under their existing stock buyback program), we did not have any particular insight as to management's plans for potentially reinvesting their now even-larger cash position.

We also noted that, given that the lab had consistently ran in the red (and presumably would continue to do so), that selling off the assets was a sensible and shareholder-friendly decision by PBSV. While a too-big cash balance is usually a good 'problem' to have, given that the return on cash isn't particularly attractive (especially at today's interest rates), we also applaud management's subsequent decision to declare a (very healthy) ~7.5% (i.e. \$0.075/share) dividend.

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FINANCIAL MODEL

Pharma-Bio Serv, Inc

	2017 A	Q1A	Q2A	Q3A	Q4E	2018 E	2019 E	2020 E	2021 E
Lab (microblgical & chem testing)	\$2,040.6	\$478.9	\$583.7	\$549.4	\$301.8	\$1,913.8	\$0.0	\$0.0	\$0.0
YOY Growth	-16.6%	-25.4%	4.2%	4.1%	-2.8%	-6.2%	0.0%	0.0%	0.0%
% of total sales	13.1%	11.4%	13.3%	10.5%	6.6%	10.4%	0.0%	0.0%	0.0%
Consulting Total (ie. non-lab)	\$13,538.7	\$3,733.5	\$3,820.8	\$4,666.0	\$4,272.8	\$16,493.0	\$18,023.1	\$20,608.9	\$23,535.7
YOY Growth	-20.8%	9.7%	13.7%	35.2%	28.7%	21.8%	9.3%	14.3%	14.2%
% of total sales	86.9%	88.6%	86.7%	89.5%	93.4%	89.6%	100.0%	100.0%	100.0%
Total Revenues	\$15,579.3	\$4,212.4	\$4,404.4	\$5,215.4	\$4,574.6	\$18,406.8	\$18,023.1	\$20,608.9	\$23,535.7
YOY Growth	-20.3%	4.1%	12.3%	31.0%	26.0%	18.1%	-2.1%	14.3%	14.2%
Cost of Services	\$11,968.1	\$3,129.2	\$3,397.2	\$3,607.2	\$3,316.6	\$13,450.3	\$12,165.6	\$13,292.7	\$14,804.0
Gross Income	\$3,611.1	\$1,083.1	\$1,007.2	\$1,608.2	\$1,258.0	\$4,956.6	\$5,857.5	\$7,316.1	\$8,731.7
Gross Margin	23.2%	25.7%	22.9%	30.8%	27.5%	26.9%	32.5%	35.5%	37.1%
SG&A	\$5,036.3	\$1,064.0	\$1,156.4	\$1,240.0	\$1,669.7	\$5,130.0	\$4,974.4	\$5,519.1	\$6,166.4
% SG&A	32.3%	25.3%	26.3%	23.8%	36.5%	27.9%	27.6%	26.8%	26.2%
Operating Income	(\$1,425.1)	\$19.2	(\$149.2)	\$368.2	(\$411.7)	(\$173.5)	\$883.1	\$1,797.1	\$2,565.4
Operating Margin	-9.1%	0.5%	-3.4%	7.1%	-9.0%	-0.9%	4.9%	8.7%	10.9%
Total Other Income (Expense)	\$14.1	\$17.8	\$20.8	\$397.9	\$2,925.0	\$3,361.6	\$60.0	\$45.0	\$40.0
Pre-Tax Income	(\$1,411.0)	\$37.0	(\$128.3)	\$766.2	\$2,513.3	\$3,188.1	\$943.1	\$1,842.1	\$2,605.4
Tax expense (benefit)	\$3.9	\$2,701.0	\$0.0	\$35.6	\$127.7	\$2,864.3	\$98.1	\$287.4	\$442.9
Tax Rate	-0.3%	7297.9%	0.0%	4.6%	5.1%	89.8%	10.4%	15.6%	17.0%
Net Income	(\$1,414.9)	(\$2,664.0)	(\$128.3)	\$730.6	\$2,385.6	\$323.9	\$845.0	\$1,554.7	\$2,162.5
YOY Growth	451.5%	597.1%	-60.2%	-548.3%	-536.1%	-122.9%	160.9%	84.0%	39.1%
Net Margin	-9.1%	-63.2%	-2.9%	14.0%	52.1%	1.8%	4.7%	7.5%	9.2%
EPS	(\$0.06)	(\$0.12)	(\$0.01)	\$0.03	\$0.10	\$0.01	\$0.04	\$0.08	\$0.11
YOY Growth	453.7%	596.8%	-60.2%	-548.8%	-537.2%	-122.9%	184.6%	89.8%	39.1%
Diluted Shares O/S	23,097	23,064	23,063	23,075	23,062	23,066	21,150	20,500	20,500

Brian Marcxx, CFA

BALANCE SHEET

	Pro forma for lab sale		
	July 31, 2018	July 31, 2018	October 31, 2017
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 16,939	\$ 15,189	\$ 11,752
Marketable Securities	39	39	27
Accounts Receivable	5,180	5,180	7,208
Promissory note (ST portion)	500	-	-
Other	489	489	550
Total current assets	<u>23,146</u>	<u>20,896</u>	<u>19,537</u>
Property and equipment, net	242	1,992	2,391
Promissory note (LT portion)	2,500	-	-
Other assets	419	419	423
Total assets	<u>\$ 26,307</u>	<u>\$ 23,307</u>	<u>\$ 22,350</u>
LIABILITIES			
Current liabilities:			
Current portion-obligations under capital lease	\$ 14	\$ 14	\$ 14
Accounts payable and accrued expenses	1,812	1,787	1,527
Income taxes payable	372	253	2
Total current liabilities	<u>2,198</u>	<u>2,054</u>	<u>1,543</u>
US Tax Reform Transition tax payable	2,485	2,485	-
Obligations under capital leases	50	50	60
Total liabilities	<u>4,733</u>	<u>4,589</u>	<u>1,603</u>
STOCKHOLDERS' EQUITY			
Preferred Stock	-	-	-
Common stock	2	2	2
Additional paid-in capital	1,348	1,348	1,295
Retained earnings	20,354	17,498	19,560
Accumulated other comprehensive loss	131	131	138
Total stockholders' equity	<u>21,836</u>	<u>18,980</u>	<u>20,995</u>
Total liabilities and stockholders' equity	<u>\$ 26,307</u>	<u>\$ 23,307</u>	<u>\$ 22,350</u>

CASH FLOW STATEMENT

	July 31,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 731	\$ (163)
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposition of P&E	-	(19)
Stock-based compensation	18	20
Depreciation and amortization	154	88
Impairment of avail-for-sale securities	-	-
Changes in operating assets and liabilities:		
Accounts receivable	1,377	(312)
Other assets	(138)	(102)
Liabilities	104	9
Net cash provided by operating activities	<u>2,245</u>	<u>(478)</u>
Cash flows from investing activities:		
Acquisition of P&E	-	(41)
Proceeds from disposition of P&E	-	48
Net cash used in investing activities	<u>-</u>	<u>7</u>
Cash flows from financing activities:		
Proceeds from common stock issuance	-	-
Repurchase of common stock	-	-
Payments on obligations under capital lease	(3)	(43)
Net cash provided by (used in) financing activities	<u>(3)</u>	<u>(43)</u>
Effect of exchange rate changes on cash	(40)	6
Net increase (decrease) in cash and cash equivalents	2,202	(507)
Cash and cash equivalents, beginning of period	12,987	12,705
Cash and cash equivalents, end of period	<u>15,189</u>	<u>12,198</u>

HISTORICAL STOCK PRICE



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