

Zacks Small-Cap Research

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Pharma-Bio Serv

(PBSV-OTCQB)

PBSV: Steady as she goes

We value PBSV at \$1.95/share, based on a 12x multiple applied to our 2021 EPS estimate. The shares trade barely higher than book value, which we think will continue to be supported by cash flow generation and positive ROI reinvestment and will act as a floor on the share price.

OUTLOOK

Pharma-Bio Serv provides compliance consulting to the pharmaceutical industry. Serving customers in the U.S., Europe, and Puerto Rico, PBSV counts many of the pharma "majors" as clients. In recent years, revenues have grown in the low double-digits. With stable profit margins, \$15 million cash on the balance sheet, and myriad opportunities to expand their focus beyond pharmaceutical manufacturers, we view Pharma-Bio Serv as an interesting opportunity for the long-term.

Current Price (07/22/20) \$0.94
Valuation \$1.95

SUMMARY DATA

52-Week High \$1.00
52-Week Low \$0.62
One-Year Return (%) 13.45
Beta 0.21
Average Daily Volume (sh) 22,908

Shares Outstanding (mil) 23
Market Capitalization (\$mil) \$22
Short Interest Ratio (days) N/A
Institutional Ownership (%) 0
Insider Ownership (%) 51

Annual Cash Dividend \$0.08
Dividend Yield (%) 7.89

5-Yr. Historical Growth Rates
Sales (%) -2.9
Earnings Per Share (%) N/A
Dividend (%) N/A

P/E using TTM EPS 10.6
P/E using 2020 Estimate 7.3
P/E using 2021 Estimate 5.9

Zacks Rank N/A

Risk Level Low,
Type of Stock Small-Value
Industry Consulting
Zacks Rank in Industry N/A

ZACKS ESTIMATES

Revenue

(in millions of \$)

	Q1	Q2	Q3	Q4	Year
	(Jan)	(Apr)	(Jul)	(Oct)	(Oct)
2018					17.8 A
2019					19.5 A
2020	4.2 A	5.1 A			21.4 E
2021					23.8 E

Price/Sales Ratio (Industry = 2.5x)

	Q1	Q2	Q3	Q4	Year
	(Jan)	(Apr)	(Jul)	(Oct)	(Oct)
2018	\$0.00 A	-\$0.01 A	\$0.03 A		-\$0.05 A
2019	\$0.02 A	\$0.03 A	\$0.02 A	\$0.02 A	\$0.09 A
2020	\$0.02 A	\$0.03 A			\$0.13 E
2021					\$0.16 E

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

RECENT NEWS

Pharma-Bio Serv continues to post solid results despite economic disruption from the pandemic. In the quarter ended April, revenues rose 9.6% to \$5.7 million from \$5.2 million in the year-earlier period. Revenue growth was strongest in its core market of Puerto Rico (+19%), while business in the US and Europe was flat to down. Puerto Rico, where the company is located, and where it conducts most of its business, was largely shuttered through the end of May.

Puerto Rico is open to essential travel, but this week rolled back plans to open to in-bound tourism in mid-July. It's important to note, however that as a project-based business, quarterly results can be volatile as contracts roll on or roll off.

Gross profit margins rose 200bp to 33% from 31% in the year-earlier period, reflecting the concentration of projects in its core geography.

SG&A was stable in the quarter at \$1.15 million compared with the year-earlier period and declined as a percent of revenue to 20.3% from 21.6%.

These minor changes led to a 50% gain in operating income to \$0.72 million, from \$0.48 million a year ago. Other income in the quarter fell to \$49,000 from \$306,000 in the year earlier period. Other income in 2019 included \$200,000 in business interruption proceeds from the 2017 hurricanes.

Net income was roughly flat in the quarter at \$688,000 compared with \$707,000 in the year-earlier period. EPS was \$0.03 in both periods.

Pharma-Bio Serv's balance sheet remains strong with \$15.6 million in cash.

We are maintaining our 2020 estimates of \$21.4 million in revenues and EPS of \$0.13. However, due to greater economic uncertainty, we are lowering our valuation from \$2.60 (16x 2021 estimates of \$0.16) to \$1.95 (12x 2021 EPS estimates).

INVESTMENT SUMMARY

Pharma-Bio Serv, Inc (PBSV), headquartered in Dorado, Puerto Rico and with other offices in the U.S., Ireland and Spain, provides compliance consulting to pharmaceutical, biotech, medical device and chemical manufacturing companies located in Puerto Rico, the United States and Europe.

Compliance consulting encompasses a broad range of services including regulatory (FDA and international regulatory agencies) compliance, validation, technology transfer, and project management, accounts for approximately 93% of the company's revenue. PBSV also provides information technology services and technical training (~2% of total revenue). The company employs about 300 people, many of whom are highly-skilled engineers and quality assurance professionals with advanced degrees in their respective fields of expertise. The company counts many of the pharma "majors" as clients, including eight of the top ten global bio-pharma companies and seven of the top ten global medical technology companies.

PBSV has grown revenues from organic growth and acquisitions over the last several years. Increasing awareness among many of the major pharma and medical device companies of the company's

reputation as an eminent life sciences consulting firm without the relatively high cost of larger competitors has facilitated organic revenue growth. PBSV's small size is an asset, allowing the company to be very nimble and to rapidly adapt to regulatory, industry, market and competitive changes, affording the chance to quickly capitalize on new opportunities.

In late 2018, the Company sold the laboratory business it acquired in 2009 as a way to offer additional in-house testing for clients. After a number of years of investment, management decided that laboratory services were not driving sustainable new revenues and created a distraction from its core consulting business.

The Company continues to focus on expanding its business in new geographies, select service offerings and new customer segments. Geographically, the Company is actively seeking to expand its business in South America (Brazil, Costa Rica), India and China, in addition to its established efforts in the US and Europe. Evolving regulatory demands in GMP (good manufacturing practices) are driving demand for consulting expertise for in instrumentation calibration/maintenance in many industries. In addition, PBSV sees opportunity for its services in food, automotive and other technically-complex manufacturing industries.

The shares trade largely in-line with book value, suggesting there is a solid floor on the current share price. With expectations that PBSV generates positive cash flow and continues to generate positive ROI on reinvested capital, we think there is good reason to believe that book value will grow.

HISTORICAL STOCK PRICE



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