Transcript of
Staffing 360 Solutions, Inc.
Fiscal Second Quarter 2016 Earnings Conference Call
January 15, 2016

Participants

Darren Minton - Executive Vice President
Brendan Flood - Executive Chairman, Interim CFO
Matt Briand - President, Chief Executive Officer

Analysts

Adam Sellens – Accelerated Capital Group
Scott Reed - Ashton Thomas Private Wealth
Aaron Brodt - Ashton Thomas Private Wealth

Presentation

Operator
Greetings ladies and gentlemen, and welcome to the Staffing 360 Solutions Fiscal Second Quarter 2016 Earnings Conference call. At this time, all participants are in a listen-only-mode. A brief question and answer session will follow the formal presentation. (Operator instructions.) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Darren Minton, Executive Vice President of Staffing 360 Solutions. Mr. Minton, please go ahead.

Darren Minton - Executive Vice President
Thank you, Melissa. Thank you to everyone who has joined us for Staffing 360's earnings conference call. I'm joined here today by Brendan Flood, Staffing 360's Executive Chairman and Interim CFO as well as Matt Briand, our President and CEO.

The purpose of the call today is to discuss the financials for the fiscal quarter ended November 30, 2015, as well as provide an update regarding Staffing 360's high growth initiatives as part of our selective M&A strategy. At the conclusion of this call, we'll be answering questions during a brief Q&A session.

I also want to bring to your attention that a webcast and replay of this conference call is available by following the link contained on the bottom of the press release announcing this call. It's also available on our website, www.staffing360solutions.com.

Now before we get started, I'll take a brief moment to read the Safe Harbor statements regarding today's conference call. This conference call will contain forward-looking statements within the meaning of the US Federal Security laws concerning Staffing 360 Solutions, Inc.

Forward-looking statements are subject to number of significant risks and uncertainties, and actual results may differ materially. Please refer to the company's filings with the SEC, which contain and identify important risks and other factors that may cause Staffing 360's actual results to differ from those contained in our forward-looking statements. All forward-looking statements are made as of today, January 15, 2016, and Staffing 360 Solutions expressly disclaims any obligation to revise or update any forward-looking statements after the date of this conference call.

Now with that I'd like to start the call with a few words from Staffing 360's Executive Chairman, Brendan Flood. Brendan?

Brendan Flood - Executive Chairman and Interim CFO
Thank you, Darren, and good morning to everybody listening in the United States and good afternoon to those of you in the United Kingdom. You are all welcome to our quarterly call.

As per usual, I will make a few opening high level remarks. I will then add some detail on the financial statements before handing over to Matt Briand for some extra color on the performance of our operations. Following that I will outline some of the key initiatives for the calendar year of 2016 before opening the call to a Q&A session.

As an organization, we are consistent in our description of what we do and where we are going. Our strategy is to build a $300 million revenue business in the staffing sector, and to optimize returns that we can develop for our shareholders. It is important for us that we do what we say that we are going to do. I believe that we have continued to do that in all material respects.

During the course of our second quarter ended November 30, 2015, we delivered on record levels of revenue, record levels of gross profit, the highest adjusted EBITDA number that we have ever generated, uplisted to the NASDAQ Capital Market, and continued our M&A program with the acquisition of the JM Group in the United Kingdom. Now, that's quite a lot to fit into a 13-week period that also includes the Thanksgiving holiday.

As you may have seen in our press release, the following are the headline numbers for our quarter: Revenue of $41.3 million, up from $35.8 million sequentially and $33.1 million last year; gross profits of $7.5 million, up from $6.3 million sequentially and $5.8 million last year; adjusted EBITDA at $1.1 million, up from $460,000 sequentially and $564,000 last year. I can confirm that the outcome was in line with our internal management expectations. As an example, our revenue forecast was between $40 million and $41 million, and our adjusted EBITDA forecast was to hit one million dollar, and is our fifth quarter in a row in which we have delivered a positive adjusted EBITDA result

The slight upside on both revenue and adjusted EBITDA was driven by an over performance by the JM Group in its first month as part of the consolidated results. So, despite making eight acquisitions in a little over two years, we have developed a strong handle on the financial drivers and seasonal issues within each of them. We may get it wrong in the future or experience a surprise or two, but right now we believe that we have a strong understanding of our business.

In summary on the opening remarks, we are very pleased with where we are on our development plan, and we commend each and every one of our employees for the positive improvements that they deliver on a daily basis.

Turning to the financial statement, our revenue of $41.3 million was a 25% increase on the same period last year and includes the JM Group for one month with our other acquisitions included for the entire period. The JM Group contributed approximately $2 million of revenue for the month of November. Allowing for seasonality, our annualized run rate is now $170 million, and so we are more than halfway to our targeted total of $300 million.

Gross profit of $7.5 million was an increase of 29% from the $5.8 million in the previous year. Gross margins at 18.1% showed an increase from 17.6% in the previous year. For the six months, our margin was 17.8% versus 17.5% in the previous year. As stated on the earlier calls, each of our businesses has been very successful at maintaining margins. Therefore, the improvement is mainly a function of the increased percentage of our revenue that is coming from professional staffing rather than from light industrial.

Our net income loss in the quarter was $3.2 million versus $8.7 million in the same quarter last year. Our press release provides a reconciliation from net loss back to the non-GAAP Adjusted EBITDA calculations. In total, there are $4.1 million of add backs. To summarize, these add backs can be shown as follows: Non-cash items, [$3.0] million; interest in tax, $0.6 million; acquisition fees related to the JM Group, $0.3 million with everything else netting to zero. Excluding the non-cash items, our adjusted net income was at [a small loss] for the quarter.

Our total net assets have increased to 56.5 million at November, up 14.1 million from our previous year-end of May 2015. Within these figures, our receivables have increased from 18.8 million to 22.9 million and the asset backed lending related to that has increased from 13 million to 14.8 million.

All of our operations continue to treat our day sales outstanding metric or DSO as a key driver in our cash management. At the end of November, our DSO in total was 45 days, which is a very strong indicator of both the quality of our invoices and the strength of the relationships that we have with our clients. Our total equity number improved to 8.9 million from 8.4 million, despite the inclusion of 5.1 million of net income losses over the six-month period.

I will address the debt side of the balance sheet when I discuss the key initiatives within the group for the 2016 calendar year. Therefore at this point, I will hand the call over to Matt Briand, our CEO and President, for an update on our operational performance. Matt?

Matt Briand - President, Chief Executive Officer

Thank you, Brendan, and good morning, everyone. Now that the financials have been discussed, I will be focusing on some of the highlights of our operations and recent developments as we continue to implement our acquisition strategy and grow organically.

Speaking of which, Monroe Staffing, our largest brand, has continued to expand. As mentioned in our last conference call, Monroe expanded into brand new office space with over 10,000 square feet and room for 55 employees to make way for the growth at its corporate headquarters. In addition, we are looking to expand our footprint in the southern United States. We've identified a new office location in Concord, North Carolina and expect it to open in March of 2016. Monroe currently has 15 offices across the East Coast and 5 onsite locations.

Lighthouse Placement Services, which became part of our portfolio in July, has been another great addition to the team. It enhances our engineering staffing offering through international enterprises and defense contractors in Eastern Massachusetts and New Hampshire. Although we've only had them under our belt for one full quarter at this time, they bring $15 million in annualized revenue to the table and they just secured several new contract wins over the past two months. So, they bring another growth story to the mix.

Across all of our operations, we are pleased with our reported revenue of $41.3 million and gross profit of $7.5 million, our largest quarterly revenue and gross profit figures in the history of Staffing 360 Solutions. Our employees have done a fantastic job growing the business. We now have over 4,000 temporary workers.

Our operations this quarter also highlight that our intelligent integration approach is working and we are also seeing operating expense benefits of our restructuring program. As the business has scaled, we've managed to hold the line on operating expenses. As a percentage of revenue, operating expenses declined from 25% of revenue last period to 22% of revenue for the most recent quarter.

On the M&A front, we were pleased to announce that we completed our latest acquisitions this quarter, the JM Group, which is a $25 million revenue business in London. The JM Group has been one of the UK's leading recruitment firms for over three decades. In addition, due to JM Group's proximity to the existing Longbridge office, there are potential synergies and cost savings we could achieve by combining all staff under one roof. Both teams have already met, including our combined holiday party this past month, and the workplace chemistry seems to work quite well together. Needless to say, we are pleased to have them joined in the Staffing 360 journey, which puts us at $170 million run rate.

As mentioned on many of our past earning calls, we have a pipeline of potential acquisitions that would bring us past our publicly stated goal of $300 million in revenues. We are constantly coming across new inbound acquisition opportunities wherever we go, whether it'd be trade conferences, meetings, industry contacts, you name it. There is no shortage of potential acquisition candidates. Obviously, there could be no certainly that any of these acquisitions will take place until they're finalized, but we believe their solid operations and management teams represent a very good fit for a highly focused and disciplined strategy.

As we continue to grow organically and raise capital to fund our acquisition strategy, we believe Staffing 360 is looking forward to a very bright future in 2016.

At this point, I'd like to hand the call back to Brendan for some closing remarks.

Brendan Flood - Executive Chairman, Interim CFO

Thank you, Matt. There are a number of key initiatives for the group during the current calendar year. Most importantly, there is the organic growth of our existing businesses, and the conversion of this growth into additional EBITDA and cash flow. We will take it as read that this is the principal reason that we are here, and we will continue to drive it.

The capital structure of any fast growth business is always going to be a challenge, and it is no different with us. We are right now debt heavy and equity light. Over the course of this year and beyond, we will work to readdress this imbalance.

In regards to our debt, there is an amount of debt that will become due over the course of next 12 months, and we are working with several parties to restructure or refinance as much as this as we can. As with anything, there is no guarantee that we will be successful. However, we will continue to advise our investors as we make progress in this endeavor.

On January 7th, we filed our first ever registration statement an S-3 filing with the SEC, and we will use this vehicle to raise equity in the capital markets following what we expect will be a full review by the SEC. We are standing by and waiting for their responses, and will respond with haste to each and every question so that the timetable will be as condensed as we can make it.

Those of you who are familiar with our financial statements will be aware of the lawsuit in which the company is engaged. This lawsuit is from the former owners of our Control Solutions International subsidiary. As disclosed in our filings, on October 21, 2015, we had an adverse ruling in this case and we are waiting for the court to advise us on the specific value of the ruling. We intend to meet all of the requirements of the court in full.

We do not believe that the ruling came to the correct conclusion, so we filed an appeal on January 6, 2016. We believe in the validity of our appeal, and that is why we filed it. We have separately filed arbitration claims in New York against the individual's concerned, who are now former employees, and we await development on that front. The case hasn't had any impact on our financial statement in neither the quarter nor in the six months as it was all accrued for in the previous financial year.

Before the end of our current financial year, we will host our first ever annual shareholders' meeting to give our investors an additional opportunity to meet with the board and management and to formalize a number of items that have been identified over the past year or so. These resolutions will include formal approval of various staff option programs, the change of our state of incorporation from Nevada to Delaware, reappointments of directors and auditors, the change our financial year from a May year-end to a December year-end amongst other things. And finally and importantly, we will continue with our M&A program and continue on our drive to $300 million of annualized revenues and beyond.

Melissa, at this point, I would like to hand the call over to a Q&A session please.

Operator
Our first question comes from line of Adam Sellens with ACG.

<Q>: This question is based, or directed towards Darren. I had a question with the current S-3 that you guys had filed to raise capital from making acquisitions. One, how much were you guys looking to raise, and two, how much of that do you guys plan to use towards IR going forward with the investments? Thank you.

Darren Minton - Executive Vice President
Yes, so, I can start to answer that and then rest of the team can jump in. So, Adam, the total amount is somewhat undefined. With the S-3, and this typical for any public company, the market amount that can be raised through an S-3 is based on roughly a third of the public company float market cap. So for us, around where we are right now, the amount we could raise is around $3 million to $4 million. Obviously that changes as market cap increases or decreases accordingly.

So, that is the current estimate. Obviously by the time, as Brendan mentioned in the conference call, that the SEC provides comments and the registration statement through the S-3 is effective, things can change between that timeframe. Current estimate could be one to two months. We're just not sure. It could be sooner or later within that timeframe. It really depends on the quickness with which the SEC provides comments, and then we respond back to that. So, that's the basic framework for the S-3.

The other benefit is the S-3 raise can reset after fiscal years. By happenstance, our fiscal year is May 31st. And so, after we file our 10-K that can reset the amount that we can raise through that vehicle.

As far as the specific amounts that would be devoted to an IR budget, we do expect to devote moneys to the IR budget. But at this time because the amount of we raise is somewhat ambiguous and, that's based on that market cap rule, we just don't have any exact figure for that.

Brendan Flood - Executive Chairman, Interim CFO
Well, I can probably add a bit to that Darren in that our intention this year is to have a full suite of investor relations activity. Up until now, we've always taken the view that the company was relatively small, but growing and didn't have enough fundamentals on its financial statements to strengthen the story. So, everything was about the future.

Now we're at a point where it's still a lot about the future, but we've now had five quarters in a row of positive EBITDA. We're setting new records every quarter. So, our story is significantly stronger than it's been before. Plus, plus we're up on NASDAQ. So, we have a board meeting the week after next where the investor relations program for this 2016 year will be approved, but I can tell you that it would be pretty extensive.

Operator
Our next question comes from the line of Scott Reed with Ashton Thomas Private Wealth.

<Q>: My question simply is just from an investor perspective. Many of our investors in Staffing 360 are down significantly from their original investment as everyone is aware based on the stock price. I would just ask for a comment on what your thoughts are as far as what those investors should expect going forward as far as return on their capital goes.

Brendan Flood - Executive Chairman, Interim CFO
Scott, that's a great question. If I knew the answer, I'd probably be sitting at a trading desk investing right now.

I can tell you that everything that we have been doing is in line with what we said we were going to do, and everything that we will continue to do is in line with that strategy. At a certain point our expectation is that the liquidity in our stock, which is probably one of the key drivers that is depressing the price right now, there are a number of initiatives we're working on which will improve that liquidity, both in the investor relations side but also in the S-3 and other stock items that we're working on.

I can't tell you it's going to go up, or it's going to go down. I'm not sure I'm even allowed to say whether I think it's going to go up or go down. But, we are not coming to work every day for it to sit a $3.85 level. Our job is to drive the return as high as we can possibly make it and that's why we come to work every day.

Darren Minton - Executive Vice President
And just to kind of go on that same point as Brendan was mentioning, there is, we believe, with the S-3 and in getting more shares registered, will certainly help one of the main issues with the stock, which is our very small float. Regardless of what the share price is, you'll notice there's still a lot of volatility with the trading, and that's simply because there are so few shares that are in the company's public float. So, getting the registration statement out there will be critical; getting a lot of those restrictive legends removed from previous shares, that'll go a long way to creating more liquidity for both buyers and sellers and a more attractive market for the entire capital markets.

Operator
Our next question comes from the line of Adam Sellens with ACG.

<Q>: Tied to Scott's question, I think a better—going forward, do you guys have a basis of what you think the price should be based on the multiples in your industry, based on your revenues, etc., where it's at right now, saying, okay, our competitors are at seven times, their price is X, where should the stock be trading at in your idea?

Darren Minton - Executive Vice President
I can take the initial response for that, and then we can have others respond as well. We're not allowed to provide a specific price target per se. So, we can't get into exact levels.

But what we do provide in our PowerPoint presentation on our website, Adam, which I encourage you to check out and any investor on the call, we do provide some analytics on various companies within the staffing industry, different peers. What we have done is provide some tables as well as charts that show comparables with Staffing 360 against some of these peers. Obviously some of those peers are large, multibillion dollar companies, but it does provide a good idea for where others in the industry are trading, and where we hope to achieve trading multiples.

So, to throw out a couple of multiples to keep in mind, the average industry multiple on EBITDA is roughly 12 to 13 times. That's an important multiple. We're clearly not trading at that multiple now. That would be something that we would like to get to.

Another important metric to keep in mind is a 1.0 times revenue multiple. That's on average where more of the top staffing companies trade. Clearly, we're not at that point yet. We're at a 0.2 multiple based on our current market cap. So, there's lots of room for improvement there. As well as gross profit multiples. We are below industry levels.

So, we can't provide exact basis or price targets for our own company. That's something that we're not allowed to do, but based on those industry multiples, those are things that we would like to move toward.

Operator
Our next question comes from the line of Aaron Brodt of Ashton Thomas.

<Q>: I wanted to see if we could get any color on going out to the analysts in the staffing industry and discussing the fundamental of the company versus the disconnect of the share price. How is the company focused in that area and that also relates kind of to investor relations?

Darren Minton - Executive Vice President
Sure. I can take the first pass on that. For sell side analyst coverage that is something that we're very focused on and we've announced in this past year that we've engaged PCG Advisory, our investor relations firm. That's something that both PCG as well Staffing 360 are very focused on. It's something that doesn't happen overnight. I can't explain, and we can't in general explain the exact targets that we have for sell side analyst coverage, but we do have two in the pipeline that we hope will take on coverage very soon, which is exciting.

Once those reports are released, and we encourage all investors to look at those, but we can't provide exact timing or the names of those firms until they are released. But, we are working full steam ahead on that front. As well, we're also looking at investor conferences. We'll be attending a significant number of investor conferences this year including the Roth Conference, which we attended last year; Marcum, and a few others. So both from an investor conference standpoint as well as sell side analyst coverage standpoint, we're moving full steam ahead. And as those become available, we'll let the market know.

Operator
Our next question is a follow-up from the line of Scott Reed with Ashton Thomas.

<Q>: Yes. Just real briefly, I think it was Matt mentioned, there's some kind of a meeting the week after next in regard to IR. Will there be some kind of an announcement, or press release, or any kind of information released after that meeting? Thanks.

Brendan Flood - Executive Chairman, Interim CFO
Scott that was me, Brendan. And that meeting is our monthly board meeting, but the general significance of January board meetings is where we approve the budget for the forward-looking year. Inside of that budget will be Darren's investor relations plan and all of the various conferences, etc. that we're going to attend. So specifically, there won't be a press release coming out of that meeting. Whatever announcements will be made will be made specifically in relation to individual conferences and so on that Darren has just outlined on the previous answer.

Operator
Ladies and gentlemen, that marks the end of our question and answer session today. Does anyone on the team have any closing comments?

Brendan Flood - Executive Chairman, Interim CFO
Thank you, Melissa. So, just to summarize before the end, one of our internal mantras is that we do what we say we're going to do. And I'm hopeful at the progress over the past 12 months and in our most recent quarter will have given you comfort that this is true, that our activity and momentum is in the positive direction and that we do represent an opportunity for tremendous growth.

This is especially the case now as a NASDAQ listed company, with other great milestones happening in such short order such as our record quarterly revenue and our S-3 filing, which starts the talk and comments that we can raise new capital as part of our first registered offering.

As always by delivering on our strategic aims, we remain committed to growth in revenue, growth in earnings, and growth in shareholder value.

Operator, that is the end of our call. Thank you all again for your time and have a very pleasant day.