Transcript of the
Staffing 360 Solutions, Inc. (Ticker: STAF)
Fiscal Q1 2016 Earnings Conference Call
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Participants

Brendan Flood – Executive Chairman and Interim CFO, Staffing 360 Solutions
Matt Briand – President and CEO, Staffing 360 Solutions
Darren Minton – Executive Vice President, Staffing 360 Solutions

Presentation

Operator
Greetings, ladies and gentlemen, and welcome to the Staffing 360 Solutions Fiscal First 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 Darren Minton, Executive Vice President of Staffing 360 Solutions. Mr. Minton, you may begin.

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

The purpose of this call today is to discuss the financials for the fiscal quarter ended August 31, 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, and it's also available on Staffing 360's website, www.Staffing360Solutions.com.

Before we get started, I'll take a brief moment to read the Safe Harbor statement regarding today's conference call. This conference call will contain forward-looking statements within the meaning of US federal security laws concerning Staffing 360 Solutions, Inc. Forward-looking statements are subject to a 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, October 16, 2015, and Staffing 360 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 all of our listeners in the United States, and good afternoon to all in the United Kingdom. Welcome to our first quarter earnings conference call. As usual in these calls, I will make a few opening remarks, add some detail on the financial results, and then hand the call over to Matt for additional color on our operations. Darren will then provide some comments on NASDAQ and we'll open the call for Q&A.

Each quarter offers a great opportunity to reflect and to determine if we are moving in the right direction. We continue to believe strongly that we are. Over the Q1 2016 quarter, we have grown our revenues to almost $36 million, which includes the partial quarter of our most recent acquisition of Lighthouse. This provides us with an annualized run rate of $145 million of revenue. We have delivered an adjusted EBITDA profit for the fourth quarter in a row and also delivered a non-adjusted EBITDA positive result in this quarter.

We have delivered a positive operating cash flow for our first time. Additionally, we continue to strengthen our balance sheet, as well as to raise capital to further our M&A strategy. All through this period, our pathway-to-profitability exercise has been pivotal in delivering these numbers. With each quarter that we put under our belts, our strategy of building an international staffing firm with revenues in excess of $300 million has been strengthened and, importantly, is being validated.

We now find ourselves at the halfway point on this deliverable with ever-increasing levels of visibility as to how we will get to our goals. Hopefully, during this call, we will share with you some very positive developments and offer confidence that we will deliver on our strategy.

At this point, I will start to discuss the financial results. Let's begin with the all-important Cash Flow Statement. A major milestone for every developing company is the point at which it becomes operating cash flow positive. So, without further ado, we are very pleased to announce that Staffing 360 achieved positive cash flow from operating activities for the first time this quarter.

Needless to say, this is a major event for the Company. In fact, for the quarter ended August 31, 2015, our operating cash flow was a positive $576,000 against a negative $2 million in the same quarter one year ago — a $2.6 million improvement fueled by our increased volume of business, allied to reduced corporate overhead, and strong receivables management in our subsidiaries. We view this result as being maintainable to improvable.

Our DSO, or days sales outstanding, at the end of August was 45 days, which is an over quartile performance for our industry. During the quarter, we raised approximately $4.3 million in funding with the largest use of this being the acquisition of Lighthouse Placement Services, a business from which we will see the full benefits in our second quarter of operations. Overall, we finished the quarter with approximately $815,000 of cash in our bank accounts, but with caution that as a temporary staffing business, our bank account balance is subject to major fluctuations from day to day.

Moving to the balance sheet, our total assets increased by $7 million, from $42.3 million at the end of May 2015, our fiscal year-end, to $49.2 million in our most recent quarter. The primary driver here is the acquisition of Lighthouse in July of 2015. Likewise, our total liabilities increased from $32.8 million to $37.6 million in the most recent quarter. Again, the primary driver here is acquisition-related debt and seller notes.

Taking a look at a few additional items from the balance sheet would reveal the following. Our cash and equivalents increased from $19,000 to $815,000. Stockholders' equity increased from $8.4 million to $10.5 million in the most recent quarter, which is a major improvement.

Finally, for the Income Statement. There are a few highlights that I would like to bring to your attention.

Revenue: First, let me say that for companies undertaking a buy-and-build strategy in the staffing industry, revenue growth is a critical metric. The entire profitability model in the staffing sector is one of leveraging economies of scale. As a company implementing a buy-and-build strategy, we are very pleased to report revenue of $35.9 million for Staffing 360 Solutions, our largest quarterly revenue to date.

However, we're not yet done. Our acquisition of Lighthouse occurred during July, so it only added a partial quarter of revenue to the mix. As mentioned, we will see the full impact of this acquisition in the second quarter. A full fiscal quarter of revenue from our various acquisitions puts us at $145 million in revenue on an annualized basis. We are well on our way, in fact, nearly halfway, to achieving our stated goal of $300 million in revenue.

Gross profit: As you can see from our press release, we reported over $6.3 million in gross profits, up from $5.7 million in the prior Q1 from last year. This, of course, is a function of our revenue growth. The Company's gross margin percentage has improved from 17.4% in Q1 2015 to 17.6% now. What is important to understand is that our business units have experienced little to no slippage in their individual gross margin percentages, which is a very positive development.

Operating expenses: For those who follow the staffing industry, you will know that operating expenses are one of the more critical components of building a successful, profitable, and scalable staffing business. In Staffing 360's case, our first quarter operating expenses, as a percentage of revenue, have decreased from 22% in fiscal 2015 to 19% in fiscal 2016, which is pretty remarkable, given the fact that revenue has grown steadily during that same timeframe. This demonstrates the impact of our pathway-to-profitability exercise and how economies of scale are beginning to kick in.

Adjusted EBITDA: In yesterday's press release, we provided a clear reconciliation from net loss to Non-GAAP Adjusted EBITDA. The Company is at that critical inflection point where it has started to generate positive cash flows and is capable of generating real and meaningful earnings. We have achieved positive Adjusted EBITDA the last four consecutive quarters, reporting $460,000 in Adjusted EBITDA in Q1 2016, an improvement of approximately $800,000 over the same period last year. Just as importantly, this also puts us into positive territory for Non-Adjusted EBITDA, which was a positive $78,000 in fiscal Q1 2016. Each of our quarters over the past four sequential quarters has delivered a better Adjusted EBITDA result than the prior quarter.

In conclusion, I want to reiterate that we are pleased with our Revenue and Gross Profit growth. We reported positive Adjusted EBITDA four quarters in a row. We have delivered our first positive Cash Flow from Operations, and, going forward, we see this as maintainable to improvable, EBITDA profitability will begin to take hold and we believe the markets will begin to reflect our efforts and the Company's financial performance and opportunity.

With that said, I'm going to hand the call over to Matt, our president and CEO, for a few words.

Matt Briand – President and CEO
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, started to outgrow its corporate offices in Connecticut earlier this year. So, in May, right before the start of the most recent quarter, we announced the move of our entire headquarters to a brand new office with over 10,000 square feet of space and room for 55 employees. In fact, even though it's larger, we estimate this newer and more flexible office space will save us money on a monthly basis. Monroe now has over 15 offices across the East Coast and 5 onsite locations.

Longbridge, our UK-based operation, has benefitted from the newly-combined offices in London after the acquisition of Poolia. The group is coming together quite nicely. In fact, I visited London less than two weeks ago to take the Longbridge staff on an excursion for hitting certain metrics. It was a great team-building experience and should keep everyone focused on growth as the team continues to expand.

We are also pleased to announce that Linda Moraski, president of our PeopleSERVE business in Boston, became a member of the Committee of 200, or C200 for short, an invitation-only organization with some of the top women entrepreneurs and corporate leaders from countries around the world. This is the first time we have publicly mentioned this great honor, and we will be issuing a press release next week with more details.

Across all of our operations, we are pleased to have reported revenue of $35.9 million and gross profit of $6.3 million, our largest quarterly revenue and gross profit figures in the history of Staffing 360 Solutions. Despite this growth, the increase in gross profit has outpaced the growth in revenue. Therefore, our margins are holding, and even slightly improving, as we execute on our strategy and continue to fine tune our business mix.

Our operations this quarter also highlight that our “Intelligent Integration” approach is working, and we’re also seeing operating expense benefits of our restructuring program. As the business has scaled, we’ve managed to hold the line on operating expenses, which, in total, are lower than last year on an absolute basis. As a percentage of revenue, operating expenses declined from 21.7% of revenue last year to 19.4% of revenue this year. Essentially, one could argue this represents approximately $800,000 of savings compared to if we had simply maintained the 21.7% run rate.

On the M&A front, we were pleased to announce this quarter that we completed our latest acquisition of Lighthouse Placement Services. Founded in 2001, Lighthouse specializes in engineering workforce solutions and complements our existing mix of staffing industry verticals. However, and more importantly, the acquisition has provided us with a highly-motivated engineering team and two extremely talented staffing industry entrepreneurs, Alison and David Fogel.

Lighthouse generated approximately $15 million in revenue over the past year, and their engineering expertise serves clients ranging from local firms to large defense contractors. Needless to say, we are pleased to have them join in the Staffing 360 journey.

With Lighthouse added to the mix, we are now at $145 million run rate. As mentioned on many of our past earnings calls, we have a robust pipeline of potential acquisitions ranging from letter of intent to discussions in principle that would bring us past our publicly stated goal of $300 million in revenue.

While there can be no certainty that any of these acquisitions will take place until they are finalized, we believe their solid operations and management teams represent a very good fit for our highly focused and disciplined strategy. Needless to say, 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.

At this point, I would like to hand the call to Darren, who will provide some remarks before we lead up to the Q&A.

Darren Minton – Executive Vice President
Thanks, Matt.

As discussed by both Matt and Brendan, there have been many milestones this quarter. I think many of our investors would agree that our NASDAQ listing certainly deserves the top spot. For any small cap company, achieving a listing on one of the major exchanges represents a major inflection point and shifts how the Company is perceived in the capital markets.

For those who have been following our story over the past several years, you'll notice that right after we received the green light from NASDAQ, the Company affected a one-for-ten reverse stock split on September 17th to achieve the required $4 bid price threshold, which was our last remaining requirement for uplisting.

As part of this reverse split, the Company's issued and outstanding shares of common stock decreased from 45.7 million to roughly 4.5 million shares. Fractional shares of common stock were rounded up to the nearest full share.

As a quick aside for investors on the call that may still be having some questions about the reverse split, you are not required to send in stock certificates or evidence of book entry shares or electronic positions. On the effective date of the reverse split, each stock in "street name" and book entry share was automatically adjusted. Shareholders holding physical share certs can still hold on to their current certificates, even with the pre-split numbers, until they choose to deposit the shares with their broker, at which time, they will be adjusted.

Now, after the reverse split has taken place, you'll have noticed a "D" was added to the symbol after the 17th, and Staffing 360 entered the trading phase of the uplisting process. This required us to complete five consecutive trading days with a bid price above $4 per share, which we successfully did. The listing officially occurred on September 29, 2015, and Staffing 360 now is pleased to trade on our original ticker symbol of STAF on the NASDAQ capital market.

To celebrate this historic event and further motivate employees within our organization, upon the uplisting, our board of directors took the step of granting shares of stock to every internal employee, which equates to approximately 160 staff. Now, everyone is a shareholder as we enter this new NASDAQ phase of our journey.

Although not a major dilution by any means, at approximately 16,000 shares total, we see this as an important thank you to all of our loyal team members that have made our growth possible today. NASDAQ opens the doors to numerous opportunities for growth and will play an important role in our efforts to enhance the value of Staffing 360 Solutions.

Right before this process was initiated, we engaged PCG Advisory as our investor relations firm of record to increase our awareness and introduce our story to a wider segment of investors in the capital markets. We've already met with numerous firms since our uplisting, both institutional and retail, brokers and high net worth individuals, as part of a non-deal roadshow, and the resounding response has been positive.

Now that we've transitioned to a new market, trading volume and momentum will take time and patience to build, especially as we get analyst coverage, but as a NASDAQ-listed company, we believe our ability to communicate our progress with a broader audience, raise the visibility of our M&A strategy, and generate more value for our shareholders will improve to a large degree. We're better positioned to advance our stated mission of reaching $300 million in revenue, as Brendan stated, as we build a major, international staffing company through both organic growth and accretive acquisitions.

With that, I'll hand the call back to Brendan for closing remarks. Brendan?

Brendan Flood – Executive Chairman and Interim CFO

Thank you again, Darren. As you'd heard, there is a long list of milestones in the past fiscal quarter. They can be summarized again as strong revenue growth; strong gross profit growth with some margin improvement; our recent uplisting to NASDAQ; continuing strengthening of our balance sheet, including stockholders' equity; continuing adjusted EBITDA profitability four quarters in a row; our first delivery of positive cash flow from operations; and, most importantly, the management team across all of our business units that is united in driving our operational performance.

As we begin to look forward, our main aims of the current fiscal year include the following: continued strong organic growth driving our revenues, continued M&A activity underpinned by capital-raising initiatives, continued strengthening of our operational performance, and continued awareness to support growth in shareholder value.

In conclusion, our business plan is working and we believe that our pathway to profitability will continue to deliver, and potentially to exceed, the results that we expect.

Operator, I would now like to open the call to Q&A please.

Operator
Thank you. Ladies and gentlemen, we will now be conducting a question-and-answer session. (Operator instructions.) One moment please, while we poll for questions. Thank you. Our first question comes from the line of Bill Sutherland with Emerging Growth Equity. Please proceed with your question.

Bill Sutherland – Emerging Growth Equity
Thanks. Good morning. I'm curious if you could let us know, kind of, the impact of Lighthouse in the quarter on the revenue line?

Brendan Flood – Executive Chairman and Interim CFO
Thanks, Bill, certainly. So, Matt, do you want to take that or do you want me to do it?

Matt Briand – President and CEO
No, you go ahead. You can start and I'll chime in after.

Brendan Flood – Executive Chairman and Interim CFO
Okay, so, we picked it up from the second week of July, so we added $1.6 million of revenue during that period. We would probably have picked up another $1.4 million had we picked it up for the entire quarter.

Bill Sutherland – Emerging Growth Equity
Okay.

Matt Briand – President and CEO
If it was there for the entire quarter, I think we'd have declared results of about $37 million and a bit. Maybe $37.2 million, $37.3 million.

Bill Sutherland – Emerging Growth Equity
Okay. I noticed in the geographic breakdown, the UK looked flattish. Any color on that, please?

Matt Briand – President and CEO
Do you want to get into individual segments? We typically only speak on a consolidated level.

Bill Sutherland – Emerging Growth Equity
Okay, well, it's a segment presentation, so that's why I asked on that. And then, remind me on seasonality on your fiscal year. The quarter you're in now is typically the biggest or do I have that wrong? Is it your fourth fiscal?

Matt Briand – President and CEO
Yes, absolutely. So, calendar Q3 and calendar Q4.

Bill Sutherland – Emerging Growth Equity
Are strongest?

Matt Briand – President and CEO
Correct.

Bill Sutherland – Emerging Growth Equity

Okay. And then, I guess, some color on the pipeline and, kind of, as far as being able to execute on the M&A strategy with the current Balance Sheet, or how we should think about how you need to move forward with the Balance Sheet to achieve your M&A goals?

Brendan Flood – Executive Chairman and Interim CFO
Okay. This is Brendan. I'll take this. So, our pipeline continues to be strong. We have a pipeline of acquisition targets which range from letters of intent to early stage conversations that would bring us significantly above our $300 million stated aim.

We are in due diligence on two acquisitions, which are in the IT space. As Matt said, there's no guarantee that we will complete any acquisition until it's actually completed, but those two acquisitions alone would add another $70 million to our revenue number in the near term.

Actually, our M&A program is all driven by capital raises, so, as Darren stated, we've been in discussions with a number of people, both before our uplisting to NASDAQ and, significantly, an increased number post our uplisting to NASDAQ. The response is positive, but until we raise that money, these acquisitions will not close.

So, we are making some very good progress. As you've seen from our history, we do have a very strong history of actually raising money when we require it in order to move to the next stage, and we are confident that we will continue to deliver on that. Until the money is in the bank account, I can't say with certainty that we will raise it all.

Bill Sutherland – Emerging Growth Equity
And Brendan, I didn't quite hear the acquired revenue from the two IT companies in due diligence. Is it $17 million or $70 million?

Brendan Flood – Executive Chairman and Interim CFO
$70 million. One is $25 million and the other is $45 million.

Bill Sutherland – Emerging Growth Equity
In the US, both?

Brendan Flood – Executive Chairman and Interim CFO
These two are in the UK.

Bill Sutherland – Emerging Growth Equity
Okay. I think that's it from me. Thanks for the color.

Brendan Flood – Executive Chairman and Interim CFO
Thank you very much.

Operator
Thank you. Our next question comes from the line of Richard Strub, private investor. Please proceed with your question.

Richard Strub – Private Investor
Yes, hello. I listen to these conferences frequently and all the information sounds really positive, but just as a very simple investor, I don't quite understand why the listing on NASDAQ, the stock rate, the value, has actually gone down. Is it just a question of needing to be more patient? I guess I thought when you got listed on the NASDAQ I would see things pop up, especially with the good things you say at these conference calls.

Darren Minton – Executive Vice President
I can answer that, and then anyone else can chime in as well. This is Darren Minton, Executive Vice President. So, several things, but one in particular, with an uplisting – and we have received this info from NASDAQ, as well – uplistings, generally, are fairly disruptive. If a company is on the OTC moving up to

NASDAQ or the NYSE, especially if there's not a concurrent re-IPO or capital raised alongside that uplisting, it can be even more disruptive in many ways than a reverse split, because you're actually moving from a different market on to a new market.

So, we were warned that volume can actually decrease slightly. We believe it's picking up. We believe that our valuation, as well, will begin to pick up, as we continue to increase our awareness in the market, continue our roadshow activity, and talk to as many folks as we can about our story.

Another important factor is our earnings, and now that our numbers are out there in the market, we believe that will certainly help. Our financials continue to improve, and, with that, we believe that the market will begin to take notice. So, patience, I do believe, is one of the things that will help in the long term, but we are continuing to go out to the market as much as we can and get the word out there, because we believe we are very undervalued. So, we have the same sentiments as you. We are both shareholders and as employees of the Company.

Brendan Flood – Executive Chairman and Interim CFO
If I could just add a little bit to it. We've always looked upon this as being a three- to four-year journey, and I guess we would all feel significantly more comfortable if the share price had gone on an orderly rise for the last few months, but we believe, and we will continue to drive the correct performance internally and to drive the fundamentals of the Company that we believe this is not a short-term play, but is a medium- to long-term play.

Richard Strub – Private Investor
Thank you.

Operator
Ladies and gentlemen, thank you. That marks the end of our question-and-answer session today. I'll now turn the floor back to Mr. Flood for any final concluding remarks.

Brendan Flood –Executive Chairman and 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 are going to do. I'm hopeful that the progress of the past 12 months and in our most recent quarter will have given you comfort that this is actually true—that our activity and momentum is in a positive direction, and that we represent an opportunity for tremendous growth, especially now as a NASDAQ-listed company. As always, as we deliver on our strategic aims, we remain committed to growth in revenue, to growth in profit, and to growth in shareholder value.

Melissa, that is the end of our call. Thank you, all, again and have a very pleasant day.