Transcript of
Staffing 360 Solutions, Inc.
Fiscal First Quarter Financial Results Conference Call
May 1, 2019

Participants
Brendan Flood - Chairman & Chief Executive Officer
David Faiman - Chief Financial Officer

Analysts
William Gregozeski - Greenridge Global
K. Tucker Andersen - Above All Advisors, LLC

Presentation

Operator
Greetings, ladies and gentlemen, and welcome to the Staffing 360 First Quarter 2019 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. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

This conference call will contain forward-looking statements within the meaning of the U.S. Federal Securities Laws, concerning Staffing 360 Solutions, Inc. The forward-looking statements are subject to a number of significant risks and uncertainties, and our 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, May 1, 2019, and Staffing 360 Solutions expressly disclaims any obligation to revise or to update any forward-looking statement after the date of this conference call.

During these prepared comments, we may make reference to certain non-GAAP measurements, such as Adjusted EBITDA. Where applicable, we have provided reconciliations of these non-GAAP measures to the most directly comparable GAAP measure.

It is now my pleasure to introduce Brendan Flood, Chairman and Chief Executive Officer of Staffing 360 Solutions. Mr. Flood, you may now begin.

Brendan Flood
Thank you, Holly, and thank you to everyone who has joined us for Staffing 360's Fiscal First Quarter 2019 Earnings Conference Call. I'm joined today by David Faiman, our Chief Financial Officer. I will start my remarks with an overview of our financial and operational first quarter 2019 performance. Then I'll hand the call over to David Faiman to discuss our financial statements in more detail. After Dave, I will give you an

update on recent business developments and our strategy going forward before opening the line for questions.

The first quarter delivered a 32.3% increase in revenue from $55.8 million to $73.8 million. It also delivered a 4.9% organic growth within that number. Gross profits was flat recognizing year-on-year impact of disposal of the PeopleSERVE business in June 2018, offset by the impact of the lower margin increases in Commercial and RPO with Permanent Placement being flat year-over-year.

Non-Adjusted EBITDA of $3.1 million was up 77.2% from $1.8 million in the prior year. Adjusted EBITDA was up 26.2% to $2 million year-over-year. Most importantly, we delivered a long-awaited net income positive number of $230,000 of net income.

I will now hand the call over to David Faiman, our Chief Financial Officer, for the financials. Dave?

David Faiman

Thank you, Brendan, and good morning everyone. For the first quarter of 2019, revenue of $73.8 million reflects an increase of 32.3% over the prior year of $55.8 million. The growth included organic growth of $2.5 million or 4.9% and $21 million from the acquisitions of Clement May and Key Resources that closed in June and August of 2018, respectively. This is partly offset by a $4.3 million decline attributable to the divestiture of the PeopleSERVE business in June of 2018 and unfavorable foreign currency translation of $1.1 million.

Revenue during the quarter was comprised of $71 million of Temporary Contractor revenue and $2.8 million of Permanent Placement revenue. The temporary contractor revenue is now $5,658 per week, up from $5,201 per week in the prior year first quarter, and up 2.2% from $5,538 per week in the fourth quarter of 2018. We ended with approximately 5,500 temporary contractors on billing versus 3,900 last December.

Gross profit for the quarter of $12.1 million increased $500,000 or 4.6% over the prior year. Gross margin was 16.4% versus 20.8% in the prior year fourth quarter, partly driven by mix reflecting the addition of the RPO business and Clement May and the acquisition of Key Resources which operates in the light industrial space, both with lower gross margins than our Professional Staffing businesses.

Operating expenses for the quarter were $11.4 million, a decrease of 5.2% of $600,000. The acquisitions of Clement May and KRI drove an increase of 9.5% in expenses, while underlying organic expenses decreased 14.7%, driven by lower non-recurring and acquisition-related costs, as well as savings attributable to cost-saving initiatives and operating expenses associated with PeopleSERVE that was disposed in June of 2018.

Income from operations was a positive $750,000 versus an operating loss of $405,000 in the prior year comparative quarter. This is the Company's fourth consecutive quarter of positive operating income.

Other expenses for the first quarter was $523,000 versus $714,000 in the prior year, driven by lower interest in the $13 million debt conversion we executed in the fourth quarter of 2018, an $840,000 gain from the settlement of the remaining firstPRO deferred consideration at a 50% discount, partially offset by $538,000 gain from fair valuing of warrants in the prior year, and a $224,000 year-over-year lower remeasurement gain on our intercompany note.

Finally, we recognized a small benefit from income taxes in the current year compared with $152,000 provision in the prior year.

This performance translated into the Company's first ever net income of $230,000 compared with a $1.3 million net loss in the prior year.

EBITDA grew 77.2% to $3.1 million over the $1.8 million recorded in the prior year, making it our fifth consecutive quarter of positive EBITDA, and then Adjusted EBITDA grew 26.2% to $2 million.

Turning to the balance sheet, the more significant changes from December 2018 is the recognition of our right-of-use asset and offsetting liability in the amount of approximately $5.3 million in connection with the new lease standard. This is a balance sheet gross-up impact only. In addition, we relieved approximately $2 million of liabilities in connection with the settlement of the firstPRO deferred consideration.

Finally, with respect to cash flow, we reported $825,000 of positive cash from operations compared to $8.8 million in the prior year. However, the prior year included a one-time inflow from refinancing the U.K. borrowing facilities to a factoring arrangement. Financing activities include $4.9 million of proceeds from the sale of equities through our S1 and S3 offset by approximately $950,000 of financing costs, $1.8 million paid on earnouts, including the firstPRO deferred considered, and finally, $81,000 for the Company's first ever dividend.

I'll now hand the call back to Brendan.

Brendan Flood

Thank you, Dave. 2019 has shown a great start for Staffing 360 Solutions. We've delivered another huge increase in performance year-over-year, and with the work that was performed across 2018 and into the early part of 2019 on our cost base, we have now moved the Company into being net income positive. We have also now declared our second dividend with an effective date of May 17, payable on May 30.

In the first quarter, we made important progress in strengthening our balance sheet, positioning us for future growth. In February, we closed on a $4 million equity offering, and in March, we settled at a 50% discount the remaining deferred consideration from the acquisition of firstPRO.

On our previous call, we issued guidance for our first time. That guidance was to a revenue number for calendar '19 in excess of $320 million and an unadjusted EBITDA number in excess of $12 million. At this point, we are reaffirming that guidance and have seen nothing in the first quarter's performance or the early part of Quarter 2 that would make us any less confident on delivering that.

Additionally, discussions on possible acquisitions continue and these will be explored over the coming months and quarters as we move towards our stated aim of being a $500 million revenue business.

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

Question-and-Answer Session

Operator

Thank you. If you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that's star, one to ask a question. We will pause for just a moment to allow everyone an opportunity to signal for questions.

We will now take our first question from William Gregozeski from Greenridge Global. Please go ahead.

William Gregozeski:

Hey guys. Congratulations on a great quarter. How much did you say Key Resources and Clement May added in the first quarter in revenue?

David Faiman:

Twenty-one million.

William Gregozeski:
Okay. As far as the gross margin is concerned, what are you guys aiming for? With the businesses you have now, what would be kind of a good long-term gross margin that you would shoot for?

David Faiman:
I would say our Contractor gross margin is going to be about 14%, I would say, based upon projected mix of the business. Perm comes through at 100%.

William Gregozeski:
Okay, so blended, I mean, what could we look for as far as the blended rate?

David Faiman:
Yes, blended would be approximately 16.5% probably, 16% to 17%.

William Gregozeski:
Okay. Perfect. Thanks.

David Faiman:
Yes.

Operator:
We will now take our next question from Tucker Andersen from Above All Advisors. Please go ahead.

Tucker Andersen:
Good morning. Congratulations. A couple of questions, financial questions for David. Do you have there, given the changes that have occurred, the number of common shares and fully diluted shares outstanding at the end of the quarter, and the net debt on the balance sheet?

David Faiman:
I do. If you bear with me one second.

Tucker Andersen:
Sure.

David Faiman:
We have about 8.25 million shares outstanding at the end of the quarter. There are an additional 9.5 million shares that would get added on a total fully diluted basis. That's primarily 7.5 million related to the convertible eShares. I'm sorry. What was the second question?

Tucker Andersen:
The net debt at the end of the quarter.

David Faiman:
Sure. The net debt at the end of the quarter, we have $37.2 million of term loan on a gross basis. There's about $1 million of deferred financing costs against that.

Tucker Andersen:
Thanks, and once again congratulations.

David Faiman:
Sure. Thank you.

Operator:
As there are no further questions, I'd like to turn the call back to Brendan Flood for any additional or closing remarks.

Brendan Flood:
Thank you again, Holly. We're very pleased with how the year has begun, and frankly, it is a testimony to our hard-working staff that we've moved to being net income positive at this time. On behalf of the Management Team, we'd like to commend each and every one of them. We look forward to continuing to drive improvements to our operational performance and to continuing to drive shareholder value as this journey continues.

Thank you all, and we look forward to speaking with you again. Operator, that is the end of our call.

Operator:
Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.