



Transcript of Staffing 360 Solutions, Inc. Fiscal Second Quarter Financial Results Conference Call August 15, 2019

Participants

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

Analysts

William Gregozeski - Greenridge Global
Richard Freeman – Private Investor

Presentation

Operator

Greetings, ladies and gentlemen, and welcome to the Staffing 360 Solutions Fiscal Second Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. After, 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 identifies 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, August 15, 2019, and Staffing 360 Solutions expressly disclaims any obligation to revise or to update any forward-looking statements after the date of this conference call.

During the 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 measurements to the most directly comparable GAAP measurements.

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

Brendan Flood

Thank you, Operator, and thank you to everyone who has joined us for Staffing 360's Fiscal Second 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 second quarter 2019 performance. Then I'll hand the call over to David 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.

Second quarter delivered a 23.1% increase in revenue from \$59.7 million to \$73.5 million. On a constant currency basis, the gross was 26.1%. You'll hear a little more from David on the impact of currency on our results.

Due to this impact, our revenue was flat against the first quarter. Gross profit delivered a gross from \$11.9 million in Q2 2018 to \$12.1 million in Q2 2019. You may recall that we disposed of the PeopleSERVE business in June 2018. The results of that operation are included in the comparative numbers. Excluding PeopleSERVE, our constant currency growth was 33.5% in revenue and 6.8% in gross profit.

Non-Adjusted EBITDA of \$1 million was up 42% from \$1.7 million in the prior year. With Adjusted EBITDA growing 10.2% to \$2.4 million year-over-year. Our net loss for the quarter of \$1.47 million which included currency impact of approximately \$400,000 on a non-cash basis, and it also included legal fees related to the warranty claim in the UK of approximately \$350,000. Positive netting can impact with the warranty claim will be included in Q3's results.

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

David Faiman

Thank you, Brendan, and good morning everyone. For the second quarter of 2019, revenue of \$73.5 million reflects an increase of 23.1% over the prior year of \$59.7 million. The growth included \$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 \$3.3 million decline attributable to the divestiture of the PeopleSERVE business in June of 2018 and an unfavorable foreign currency translation impact of \$1.8 million.

Revenue during the quarter was comprised of \$71.1 million of Temporary Contractor revenue and \$2.4 million of Permanent Placement revenue. The temporary contractor revenue is now \$5,469 per week, up from \$4,372 per week in the prior year second quarter. We ended with approximately 5,350 temporary contractor workers.

Gross profit for the quarter of \$12.1 million increased \$200,000 or 1.8% over the prior year. Our margin was 16.5% versus 19.9% in the prior year quarter, partly driven by mix reflecting the addition of the RPO business in Clement May and the acquisition of Key Resources, Inc. which operates in the light industrial space, both with lower gross margins than our Professional Staffing businesses.

Also included in the prior year is approximately \$400,000 in gross profit associated with the PeopleSERVE business that we disposed.

Operating expenses for the quarter were \$11.6 million, a decrease of 1.4% or \$100,000. The acquisitions of Clement May and KRI drove an increase of 9.1% in expenses, while underlying organic expenses decreased 10.5%, 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.

In addition, the current year includes approximately \$350,000 of legal expenses associated with the successful CBS Butler warranty claim. Unfortunately, GAAP does not permit the recognition of the estimated net gain \$1.2 million to be recorded until July 2019 when the settlement agreement was signed. That benefit will show up in the third quarter.

Income from operations was a positive \$515,000 versus \$140,000 in the prior year comparative quarter representing the Company's fifth consecutive quarter of positive operating income.

Other expenses for the quarter were \$2.3 million versus \$2.2 million in the prior year. The prior year included aggregate gains of approximately \$600,000 from the sale of PeopleSERVE and fair value of warrants.

The current year includes lower interest of \$200,000 from \$13 million conversion of debt in the fourth quarter 2018, and \$353,000 lower foreign currency loss on the intercompany note between the U.S. and the UK.

This performance translated to a net loss of \$1.5 million compared with \$1.8 million net loss from the prior year.

Our EBITDA grew 42% to \$1 million making our sixth consecutive quarter of positive EBITDA and Adjusted EBITDA grew 10% to \$2.4 million.

The Company operates in only two currencies, the U.S. dollar and Pound Sterling. For some time now, the Pound Sterling has continued to weaken significantly impacting results unfavorably. In the second quarter \$1.5 million net loss included is \$400,00 of unfavorable remeasurement loss in the intercompany note. That coupled with the roughly \$350,000 of legal expenses associated with the CBS Butler warranty claim, comprises about half of the net loss. Then again, the net gain and the warranty claim were approximately \$1.25 million will be recognized in the third quarter.

Turning to the balance sheet and cash flow, the more significant changes from December 2018 is the recognition of our right-of-use asset and offsetting liability in connection with the new lease standard that I spoke about in the first quarter. In addition, we relieved approximately \$2 million of liabilities in connection with the settlement of the firstPRO deferred consideration and made the first deferred consideration payment of \$350,000 pounds associated with the Clement May acquisition.

I'll now hand the call back to Brendan.

Brendan Flood

Thank you, Dave. I've made mention on several calls about the strength of the economies in both our markets in the United States and the United Kingdom. Unemployment is at its lowest rate in both since the early 1970s; and just within the past week, the UK declared that there are more people in work than has ever worked since records began.

But in the staffing industry, this is a double-edge sword. On the positive side, it allows us to manage our margins better, but on the downside, it is a candidate-led market and a placement cycle can be tougher. This is certainly the case in point in our Atlanta and Northern Massachusetts markets where the unemployment level for professional staff is effectively about zero.

With that said, we are still experiencing very strong demand for candidates in all of our business streams, and we are working with our clients to accentuate the needs to condense the hiring process so that quality candidates are not lost to more fleet-footed competitors.

We are making solid progress and adding new clients, but some of the rollouts expected in Q2 have moved into Q3, but are still expected to come on stream. In relation to mergers and acquisitions, we continue to work with possible targets principally in professional staffing in the United States, and we will advise the markets when there's something more solid to discuss.

Over the past 18 months, we've worked extensively on integrating the businesses that we have already acquired, and this has been a huge success for us.

The management teams across all of our brands and between the United States and the United Kingdom have collaborated to such a degree that never a week goes by without two or more of our businesses cross-selling to each or attempting to cross-sell to each other.

There is one specific client operation where we have four of our brands working together to provide a service to them. This would have just been a dream 18 months ago.

Our business view of both the economies and the later markets in which we operate, continues to be very positive, and we will expect to continue to grow our business each quarter in the foreseeable future.

I'm also happy to remind you that I bought 50,000 shares in the open market in late June, which is the fifth time that I've personally gone into the open market to buy stock in this company that I have full belief in over the course of the last two years.

Before I turn our call over to the Operator, I'll additionally point out that this morning we announced that the Board of Directors have declared a quarterly cash dividend of \$0.01 per share of common stock, for the third quarter in a row payable to holders of record at the close of business on August 22, and the dividend will be paid on September 6.

Operator, at this point, I would like to hand the call over to the 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're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, please press star, one to ask a question. We will pause for a moment to allow everyone to signal.

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

William Gregozeski:

Hi guys. In regard to Clement May's key resources, can you give us what the revenue number for those two business combined were last year assuming you had held them for the entire quarter last year?

David Faiman:

Yes. It'd be the \$21 million that I quoted in the script.

William Gregozeski:

Okay. It was flat year-over-year?

David Faiman:

No. The businesses are growing. What I'm commenting is that we acquired \$21 million revenue as if we had owned them last year, but the businesses are growing since we bought them.

Operator:

Again, as a reminder to ask a question today, please press star, one.

We have no further questions at this time.

We have a question from Richard Freeman, a private investor. Please go ahead.

Richard Freeman:

Yes, hello? Hey, guys. I just wanted to ask in regard to the offering, why did you have to do an offering for \$600,000?

David Faiman:

Richard, thanks for the question. At the moment, it relates to the refinancing exercise that we're going through in the UK, and that was the amount of money we needed to raise in order to settle the agreement with the former owners of CBS Butler.

It was a small amount of money, it was a bit of annoyance, but it was a strategic requirement in order to settle the agreement that we have in the UK and that was done.

Operator:

Again, a final reminder to ask a question today, please press star, one.

As there are no further questions in the queue, I would like to turn the call back to your host for any additional or closing remarks.

Brendan Flood:

Okay, thank you again, Operator. Just to reiterate what I say at the end of most of these calls, we are very pleased with how the year has continued, and I do extend my thanks and the thanks to the entire executive team to our hard-working staff who are responsible for all of our successes. We all look forward to continuing to drive improvements to our operational performance and to driving 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:

That will conclude today's conference call. Thank you for your participation You may now disconnect.