Transcript of
Staffing 360 Solutions, Inc.
Fiscal Year-End 019 Results Conference Call
May 12, 2020

Participants
Brendan Flood - Chairman & Chief Executive Officer
Sharnika Viswakula, Corporate Controller and Principal Accounting Officer
Alicia Barker, Chief Operating Officer

Analysts
William Gregozeski - Greenridge Global
Paul Denby - Denby Enterprises

Presentation

Operator
Greetings, ladies, and gentlemen, and welcome to the Staffing 360 Solutions Fiscal Year-End 2019 Results 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 Solutions' actual results to differ from those contained in our forward-looking statements.

All forward-looking statements are made as of today, May 12, 2020, 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 remarks, we may make reference to certain non-GAAP measures, 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 begin.

Brendan Flood
Thank you, Christine, and thank you to everyone who has joined us for Staffing 360 Solutions Fiscal Full Year 2019 Financial Results Conference Call.

I am joined today by Alicia Barker, our Chief Operating Officer; and by Sharnika Viswakula, our Corporate Controller and Principal Accounting Officer.

I will start my remarks by saying that I hope everyone is staying healthy and safe during this unprecedented COVID-19 pandemic. The well-being of our staff, contractors and clients has been our first priority since the virus so quickly descended upon everyone all around the globe. Alicia will tell you more about how our Executive team, team leaders and dedicated staff were able to 'turn on a dime', enabling us to continue to seamlessly provide our customary best-in-class client service with the majority of us working from home.

I will now give an overview of our financial and operational performance covering the full year 2019, before commenting on the fourth quarter in a bit more detail. Then I will hand the call over to Sharnika for further details, after which Alicia will update us on the impact of the coronavirus pandemic and our quick and effective response to it. I will finish by outlining what we are seeing operationally in the early part of 2020, and what our near-term plans are in relation to our acquisition strategy, and our intended refinancing of our business. The line will then be open for questions.

As previously advised, our full year revenue for 2019 was $278.5 million, a 6.7% increase from 2018.

Gross profit at $48.3 million was flat against the prior year.

In the middle of 2018, we divested of the PeopleSERVE business. Excluding this from the comparative, we then saw the following: revenue for the year was up 10% to $278.5 million from $253.3 million, and gross profit increased by 2% year-over-year to $48.3 million from $47.5 million.

Additionally, we have been adversely impacted by the weakening of the pound sterling against the dollar. Excluding PeopleSERVE again, our revenue grew by 12.3% on a constant currency basis.

Adjusted EBITDA for the year was $9.8 million, an increase of 8.6%, over $9.0 million in 2018. On a non-adjusted basis, our EBITDA was $6.6 million, up 18% on 2018's $5.6 million.

Our net loss of $4.9 million was an improvement from the prior year's net loss of $6.5 million. The key challenges facing the business in the second half of 2019 were primarily in the U.K. We lost a low margin payroll and contract in July, which impacted us to the tune of £1 million or $1.3 million per month, across the July to December period.

We faced the specter of the pending introduction of Brexit from December 31. While we were not hugely exposed directly to Brexit, we did have some clients whose clients were affected. So, the uncertainty leading up to it created a decision-making vacuum in certain parts of the U.K. economy.

Finally, we also faced the challenge of the pending introduction of a piece of tax legislation called IR35. We are pleased that this introduction was subsequently deferred for 12 months, but it forces the reshaping of some of our U.K. business to be more balanced towards permanent placement activity, rather than temporary contracting.

When we look at Q4 given the items just mentioned, it is more meaningful to look at the sequential movements that we are seeing. Q4 revenue was $63.8 million, a drop of $3.5 million or 5.2% from Q3, with gross profit moving to $11 million in Q4 from $12.5 million in Q3. Because of the holidays, Q4 is a quiet quarter for permanent placements. Our Adjusted EBITDA in Q4 was $2.5 million against $2.9 million in the third quarter. Our press release contains a table showing the trailing 12 months performance.

I will now hand the call over to Sharnika Viswakula, our Corporate Controller and Principal Accounting Officer for further update. Sharnika?

Sharnika Viswakula
Thank you, Brendan, and good morning, everyone.

For the full year Fiscal 2019, revenue increased by 6.7% to $278.5 million, as compared with $261 million for Fiscal 2018. Of that growth, $47.2 million was from the acquisitions of Clement May and KRI. This was partially offset by decline of $7.6 million from divesting of the PeopleSERVE business, $5.2 million from the unfavorable foreign currency translation, and $16.7 million from organic revenue decline.

Within organic revenue, temporary contractor revenue declined $16.8 million and permanent placement grew by approximately $0.5 million. Gross profit for Fiscal 2019 was $48.3 million, flat versus Fiscal 2018 of $48.3 million, representing gross margins of 17.3% and 18.5% for each period, respectively.

Operating expenses for Fiscal 2019 were $47.6 million, an increase of 2.2% over $46.6 million for Fiscal 2018. The acquisitions of Clement May and KRI drove an additional increase of 5.7% in operating expense to sales ratio. Excluding the acquisitions, operating expenses decreased by 4.3%.

Other expenses for Fiscal 2019 were $5.8 million, a decrease of 28.1% from $8.1 million in Fiscal 2018. The decrease was primarily driven by gain on the settlement of CBSbutler earnout of approximately $1 million and $0.8 million gain on the settlement of the *first*PRO deferred consideration in Fiscal 2019. This performance translated into a net loss of $4.9 million to Fiscal 2019, as compared with $6.5 million loss for Fiscal 2018, a decline of $1.6 million in net loss. EBITDA grew by 18.1% year-over-year to $6.6 million.

For the fourth quarter of 2019, revenue of $63.8 million declined 13.8% from prior year of $74.1 million. The decline stems from contractor revenue primarily due to a shift away from high revenue but low margin clients in the U.K., that Brendan mentioned earlier. Our perm placement revenue has remained stable.

Revenue during the quarter comprised of $61.5 million of temporary contractor revenue, and $2.4 million permanent placement revenue. The temporary contractor revenue is now approximately $4,700 per week and we ended with approximately 5,000 billing temporary contractors.

Gross profit for the quarter of $11.6 million was a slight decline from prior year fourth quarter of $4.3 million. Gross margin of 18.2% improved by approximately 150 basis points, from 16.7% in the prior quarter, primarily due to a shift away from low gross margin clients.

Operating expenses of $12.5 million were slightly higher than the prior year, primarily driven by the non-recurring costs related to potential acquisitions and costs related to earnout. Excluding non-recurring and non-cash costs, underlying operating expenses have declined by approximately $0.7 million. These operating results translated into loss from operations of approximately $0.9 million.

Below operating income, net other expenses for the quarter were $1.7 million versus $2.6 million in the prior year. Interest expense and amortization of deferred financing costs remained relatively stable, and we had non-cash bond contrary measurement gain of approximately $0.9 million, from the strengthening of the pound sterling by year-end compared with third quarter of 2019.

This performance translated into a net loss of $2.5 million for the fourth quarter, a $1.4 million decline from prior year's fourth quarter net loss. Although, EBITDA declined 65.6% from prior year's quarter to $0.7 million, we continued the trend of positive EBITDA for the eighth consecutive quarter.

I will now hand the call over to Alicia Barker, our Executive Vice President and Chief Operating Officer.

Alicia Barker
Thank you, Sharnika. Thank you, Brendan. And thank you to everyone, for giving us some of your time today.

We know these are stressful times with many of us working remotely and developing a new appreciation for teachers that they have always deserved. Unfortunately, we doubt that there are many of us on this call who have not somehow been impacted by COVID-19. All of us at Staffing 360 Solutions extend our deepest sympathies to you and your loved ones, and our continued wishes for your good health.

The last time our Board of Directors met in-person was February 25th, 2020. We discussed our growing concern about the coronavirus and the potential impact to our business at that time. We issued our first guidance to all our employees in the first week of March. By the second week, guidance and communication had been issued to all our contractors and clients.

On March 11th, the decision was made that our corporate headquarters in New York would operate remotely, and we quickly laid out a plan to shift the rest of the business in the U.K. and the U.S. remote. We conducted IT resiliency testing in our key locations and had executed guidance for our workforce to be fully remote well before the first lockdown or shelter-in-place orders were issued.

We had plan A, plan B and plan C for ensuring payroll for all of our contractors. In our professional business stream that is a relatively straightforward process. In our commercial business, with many low-income workers who do not have technology or direct deposit, it's anything but. Well, thanks to all of the support service teams involved in our efforts, we've been very successful to-date.

As Brendan mentioned, the safety of our staff and contractors is paramount to us. This priority has resulted in high levels of productivity. I am extremely proud of the work that our Executive team has executed under Brendan's stewardship. It is the result of this priority that we have been so successful in all-company communications and regular contractor and client communications. We have hosted multiple town hall calls with over 80% of our workforce in attendance.

To-date, we have been extremely fortunate with the health of our staff, in spite of almost two dozen of our internal Staffing 360 employees working with our clients and contractors on site at our client's facilities. We employ thousands of essential workers across the United States and the United Kingdom. Keeping all of them as safe as possible has been a full-time job for all of us. We are proud and so fortunate that we have not lost even one employee or contractor in the battle against this virus.

Unfortunately, and out of necessity and responsible fiscal management, we also had to quickly execute a reduction in force and furlough plan which resulted in a net savings of $4.5 million across both geographies. We executed a plan to dramatically cut costs in other areas and have worked with our landlords in our key geographies to defer rent in an effort to preserve cash flow.

At this point, we are now focused on our reopening plan, which will look different in different countries and states. Of course, we will look to health agencies and government for guidance, but our decisions as to when and how to reopen will be ours and ours alone.

We will continue to be as careful now as we have been since the beginning of this pandemic, and I have full faith in our Leadership and employees to carry out this plan with the same level of care, professionalism and detail that we did when executing our remote workforce.

I will now hand the call back to Brendan.

Brendan Flood
Thank you, Alicia.

No earnings call in this environment would be complete without discussing some of the economic aspects of the coronavirus. From the beginning of April, we have participated in the Employer Payroll Tax Deferral program in the U.S., and are working on other stimulus programs available there, Paycheck Protection Program and the Main Street Loan Initiatives.

In the U.K., we're taking advantage of the recently introduced furloughing policy of the U.K. Government, and our U.K. banker HSBC has been very proactive in ensuring continued liquidity for that part of our business. Will these stimulus programs be enough? Only time will tell.

In relation to trading, what we have seen in the early part of the year is that we were gaining strong traction across late January and through to the middle of March, so our revenue for the first quarter, allowing for seasonal issues and commercial staffing was about 10% down on Q4, with gross profit similarly affected. Overall, our first quarter was in line with where we expected it to be.

We have no reason to see the market in any different way to other staffing firms that have already opined upon it. Twenty-Twenty will be a challenging year. Shelter-in-place and lockdown restrictions have made March and April difficult months, and this continued into May. These restrictions have started to ease in certain states and in certain business sectors.

Given that about 65% of our commercial staffing business is involved in food manufacturing or its related supply chain, we have had some economic protection that has not been enjoyed by many of our friends in the staffing industry. We do see some recovery based on discussions with clients about their needs and plans in the second half, and a much stronger recovery in 2021.

In relation to refinancing and M&A, we have withdrawn from the actions we were taking until we can see the full, or as much as possible, impact of the pandemic and potential recession coming from it. We still intend to refinance our balance sheet, and we will work diligently towards that, but it will not be through the exercise in which we have spent the previous few quarters working. But in markets such as this one, there are always opportunities for growth, and we are also working diligently on these. There will be further updates on this over time.

Thank you for giving us your time this morning. I wish you good health and safety. Operator, at this point I would like to hand the call over to you for the Q&A session.

Operator

Question-and-Answer Session
If you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you are using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star, one to ask a question.

We'll take our first question from William Gregozeski with Greenridge Global.

William Gregozeski
Hi Brendan. You mentioned having some protection with being in the food production industry, and then obviously, you are in IT and spaces like that. Can you give a sense for, how much of a hit you guys took in March and April? What you're looking at now, as far as—I mean, obviously, you mentioned other staffing companies were getting hit harder, can you give us a sense of kind of what hit you've taken so far?

Brendan Flood
Sure. So, put it in a little bit of context, Bill. The commercial stuffing business is roughly 50% of our total revenue, and two-thirds of that is in food manufacturing or supply chain. The next biggest part, about 40% of the business, is in the U.K., which is all professional staffing. So, what we have found on our professional staffing side is that most of our professional contractors can work from home.

However, we have probably seen about a 25% decline across late March and into April, despite that. And we have also been challenged in terms of permanent placement business, where a lot of the interviews are being done through conference calls and video calls, but most clients want the final interview to be in-person. So, there is a lot of pent-up demand that we are expecting to see, as soon as all of the various restrictions get lifted.

In terms of general size, I mentioned on the call that our first quarter was about 10% lower than quarter four. We will expect to see something in the order of a 15% to 20% decline further into the second quarter. So, in relation to how the market itself is generally reacting, I think we have been pretty strong. We acted very quickly, but also, we're protected by the various diverse product range that we have, especially in the commercial staffing business. So, we would be down something in the order of 15% to 20% in the second quarter.

William Gregozeski
That 15% to 20% is in comparison to which quarter?

Brendan Flood
Quarter one.

William Gregozeski
Okay. All right. The $4.5 million cost cutting, is all of that going to be permanent or is some of that temporary until we get out of those?

Brendan Flood
We hope that some of its temporary because some of it involves people who are furloughed. Our ability to bring people back from furlough will be driven, specifically, by the demand of our clients. Probably at least 50% of it is absolutely permanent. The rest is dependent upon recovery.

In addition to the $4.5 million we have identified a further $1 million of non-people related costs that we have similarly taken out of the business over the course of the last four to five weeks.

William Gregozeski
Okay. All right. Then you mentioned the M&A stuff and refinances on hold. Should we expect then that the bridge you got from Jackson in August will probably remain outstanding until the other part comes due or you refinance the whole thing?

Brendan Flood
We'll refinance the whole thing, but the bridge in December, I would expect that we are going to close that out before the end of June, maybe we'll tickle into July.

William Gregozeski
Okay. All right. Thank you.

Operator
As a reminder if you would like to ask a question please press star, one at this time. Again, that is star, one to ask a question. We'll take our next question from Paul Denby with Denby Enterprises.

Paul Denby
Hi, Brendan. Hope everybody is staying safe. Can you hear me?

Brendan Flood
Thanks Paul. Everybody is safe so far. Well, thank you for that.

Paul Denby
Can you give us a little more color on the different programs that you are applying for between the U.K. and the U.S., as far as these PPP programs? When you will know whether you are going to receive any help from either one of these countries?

Brendan Flood
Okay. I will start with the U.K. and move to the U.S. So, in the U.K., the U.K. Government introduced a furlough program, which furlough is not really a word that has been particularly well-understood or known in the U.K. But the British government has allowed companies to furlough employees, and the government will pick up 80% of their salary costs up to a maximum of £2,500 per month. So, at the moment, we have 11 employees and four, five contractors who are currently on furlough.

That furlough program is—as of this morning has been extended through to the end of October. So, there is plenty of time in order to make sure that the demand is sufficient to bring those people back. In addition to that, there are VAT deferrals or sales tax deferrals that the government will allow us to defer the payment of the (audio interference) about £700,000. In the summer it will be deferred until the end of next March. Our bank, as I mentioned HSBC have been very proactive, and they have given us a £1 million, three-year low interest loan to help us with the liquidity of the U.K. business over that period.

Then moving to the U.S., as I mentioned we are in the FICO deferral program, which is saving us about $100,000 per week, from the beginning of April. We have applied for the Paycheck Protection Program, and we have been advised that we have an allocation of $10 million with the Small Business Administration. But we are still working our way through the paperwork. I would think in timing wise and we will obviously announce to the market as in when this happens, but it should happen across the course of the next two weeks.

We have started to study the Main Street Lending Program, but as the rules have not really been established and kind of its fluid right now, we're not sure exactly the extent to which we qualify and to the value to which we would qualify. But assuming we do, and we have a great faith and belief that the way in which the various programs will be structured, will allow a company of our size to take part. We would start using that program to refinance the tax and investment through debt.

Paul Denby
Okay. Sounds pretty promising.

Brendan Flood
Yes. We are feeling very positive about it.

Paul Denby
Okay. Thanks for your time.

Brendan Flood
Thanks, Paul.

Operator
There are no further questions at this time. Mr. Flood, I will turn the call back to you for any additional or closing remarks.

Brendan Flood
Okay. Thank you again, Christine.

The entire industry and the economies of our two main markets are working through unprecedented and challenging times. I am confident that we have been to the forefront of meeting those challenges, and time will tell whether the challenges will become greater or not. We are hoping for the best and as it's our responsibility planning for a less favorable outcomes.

I extend my thanks and appreciation to our talented and hardworking staff and Management team; whose actions are responsible for seeing us through the first phase of this storm.

I also like to commend the governments of both the U.S. and the U.K. for the stimulus activities that have been undertaken to-date, and those that may still come. Our industry is committed to getting people back to work as quickly as possible, and we will play our part in that.

We look forward to continuing to drive improvements through our operational performance, and to continuing to drive them and maintain Shareholder value, as we progress on our path to build a profitable $500 million revenue company.

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

Operator
That concludes today's call. Thank you for your participation. You may now disconnect.