Transcript of
Staffing 360 Solutions, Inc.
Investor Conference Call
September 27, 2017

Participants

Brendan Flood – Executive Chairman
Matt Briand – President and Chief Executive Officer
David Faiman – Chief Financial Officer

Presentation

Operator
Greetings, and welcome to the Staffing 360 Solutions Special Investor Update Conference Call. At this time, all participants are in a listen-only mode. A 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, Brendan Flood, Executive Chairman of Staffing 360 Solutions. Thank you, Mr. Flood. You may begin.

Brendan Flood – Executive Chairman
Thank you, operator, and thank you to everyone who has joined us for this special update conference call. I'm joined today by Matt Briand, President and Chief Executive Officer; and by David Faiman, Chief Financial Officer. I want to bring to your attention that a webcast and a replay of this conference call is available by following the link contained on the bottom of the press release announcing this call and that this will also be available on Staffing 360's website, www.staffing360solutions.com.

Before we get started, I'll take a moment to read the Safe Harbor statement regarding today's conference call. This conference call will contain certain 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, September 27, 2017 and Staffing 360 Solutions expressly disclaims any obligation to revise or update any forward-looking statement after the date of this conference call. During these prepared comments, we may make reference to certain non-GAAP measures, such as adjusted EBITDA.

Now, with that, I'm pleased to provide an overview of recent developments. When I finish my introductory remarks, I will hand the call over to Matt Briand for some additional information on the two acquisitions we've just completed and to David Faiman to discuss the details of the refinancing. Afterwards we will open the call for some questions.

As many of you will be aware, our stated strategy has been to execute on a buy-and-build program and to build an international staffing firm with annualized revenues of $300 million. We've been executing this program within the United States and within the United Kingdom. Last week we announced a number of transformative events that underpin this strategy and have brought us forward in leaps and bounds. We have completed two significant acquisitions, which have increased our annualized revenues from $177 million to $265 million, and more than doubled our pro forma adjusted EBITDA from $5.3 million to $11 million. These acquisitions are CBSbutler in the United Kingdom and *first*PRO in Atlanta, Georgia. You will hear more on the details of these from both Matt and Dave.

In order to complete these acquisitions we entered into a loan agreement with the Jackson Investment Group. We raised with Jackson Investment Group $40 million, which is the largest raise in the history of our company. At the same time, we amended our agreement with MidCap Financial, our revolver provider in United States, to allow greater flexibility, availability and improved rates. These capital changes have allowed the completion of the acquisitions, but also the significant refinancing of all of our non-asset-backed lending debt and has freed up the operating cash flow of the business to be concentrated on business growth and further acquisitions rather than on debt payment servicing, which we've seen in the past.

As a consequence of these transformative events, we've reset our revenue targets and we now believe that a realistic target for achievement in the medium term is the top revenue number of $500 million per annum. We will achieve this through organic growth allied to a continuing acquisition program that will stay loyal to the principles that have made us successful to date.

At this point, I will hand the call over to Matt Briand for some additional information on the acquisitions that we've made. Matt.

Matt Briand – President and Chief Executive Officer

Thank you, Brendan. As you just heard, we're very excited to add CBSbutler and *first*PRO to the Staffing 360 family. Each of these organizations specialize in the placement of professional services candidates, come with a strong management team and have decades of success within the recruitment industry.

Let me start with CBSbutler, a $65 million staffing firm located in Redhill, just a few miles outside of London. CBS has over 50 years in recruitment, specializing in engineering, technical and information technology, contract and permanent placements. The average tenure of their senior management team is over 12 years. CBS has been widely recognized for exceptional delivery service, winning Best Engineering Recruitment Firm 5 out of the last 10 years in the UK Recruiter Awards for Excellence.

Next is *first*PRO, a $20 million revenue staffing company located in Atlanta, Georgia, one of the fastest growing professional services markets, and strategically moves our Staffing 360 US presence outside the Northeast markets. *first*PRO has over 30 years in recruitment, specializing in accounting and finance and information technology, contract and permanent placements. *first*PRO's senior management team also has an average tenure of 12 years and 95% of *first*PRO's client base are local businesses representing all industries.

The addition of CBS and *first*PRO as combined revenues are roughly $85 million bringing Staffing 360's annualized run rate to $265 million. As such, the two new acquisitions shift our revenue segment ratio between professional and light industrial from approximately a 50/50 split to now two-thirds professional and one-third light industrial.

At this point, I will hand the call over to Dave Faiman. Dave.

<u>David Faiman – Chief Financial Officer</u>
Thank you, Matt. Refinancing with Jackson Investment Group resulted in a $40 million, 12% interest-only, 3-year senior note that matures in September of 2020. During this term there is no mandatory principal amortization. However, the note does provide incentive for early payment via prepayment discount. Interest is paid quarterly, with the first payment being due on January 1, 2018.

With respect to our asset-based lending facility with MidCap Financial Trust, the majority of the terms are unchanged. The overall facility is still $25 million, with an accordion for an additional $25 million, and interest is still at LIBOR plus 400 basis points, with a LIBOR floor of 1%. However, now in addition to borrowing 85% against billed receivables we now have the ability to borrow 85% of unbilled receivables with an overall draw cap of that unbilled receivables of $1.3 million. Finally, the maturity of this facility was extended by one year to April 2020.

The proceeds from the Jackson Investment Group financing were used to fund the two acquisitions Matt spoke about, repay substantially all of our non-ABL indebtedness, fund the transaction costs for the acquisitions and the financing, and left some residual cash that we can use for working capital purposes.

With respect to the two acquisitions, the terms of those are as follows. We acquired 100% of the outstanding common stock of CBSbutler Holdings, Limited for upfront cash of £13.9 million, £150,000 of deferred consideration, a maximum earnout of £4.2 million and 500,000 shares of staff common stock. If earned, the earn-out would be paid in 2018.

For *first*PRO Georgia we acquired the net assets, which are comprised mainly of customer relationships for upfront cash consideration of $4.5 million and deferred consideration of $3.5 million to be paid over three years, interest-free. Using our most recently reported results ended July 2, 2017 when we layer in the two acquisitions on a pro forma basis our trailing 12-months revenue will be approximately $265 million, up from $177 million, or a 50% increase, and our trailing pro forma adjusted EBITDA will be approximately $11 million, an increase of over 100% from $5.3 million.

Operator, at this point we'll open the call for questions.

<u>Operator</u>
Thank you. Ladies and gentlemen, at this time we will be conducting a question-and-answer session. [Operator instructions]. One moment while we poll for questions. Our first question comes from the line of Bill Relyea from Midtown Partners. Please proceed with your question.

Q: Good morning. It seems that you've clearly moved geographically in the US to a higher growth area and presumably are these areas also higher profitability that you're looking to focus on outside the Northeast in the US and also the one in England.

<u>Brendan Flood – Executive Chairman</u>
Bill, this is Brendan. I'll start answering, and then maybe Matt and Dave can add some commentary. We've been talking for quite some time about our desire to expand geographically in the United States specifically, particularly given the weather that we experience in the Northeast. Atlanta, Georgia is one of the fastest growing professional staffing, and indeed population cities in the United States, so it ticks several boxes for us. Equally, it's all professional staffing, which is higher margin than our average margin, so it's going to bring our blended margins upwards.

As Matt said, both *first*PRO and CBSbutler are both incredibly well run companies with very strong management teams, so both of them will enhance fairly significantly our average gross margins and also our average EBITDA returns. In the United Kingdom we have until this point had zero exposure to engineering staffing and we have our five strategic pillars of accounting and finance, IT, engineering, administration and light industrial, so this ticks another major box for us in the UK and carries a lot of engineering, a lot of IT to go with the accounting and finance and IT businesses that we currently have with Longbridge Recruitment 360 and the JM Group.

Matt, Dave, do you want to add anything to that?

Matt Briand – President and Chief Executive Officer
Well said, Brendan. This is Matt. I would just echo the statement about again being on the professional services side and having higher gross margin returns versus light industrial. I think the markets aren't so much that as it is the service lines that we're providing, but both businesses offer a good mix between contract placement as well as permanent placement, and while contract maintains a base of recurring consistent revenue, the direct placement helps cover any inevitable dip of hourly contractors, and that could be due to weather, or holidays, etc. So, again we should see stronger margins with the add-on direct placement business as well.

Operator
Our next question comes from the line of William Gregozeski. Please proceed with your question.

Q: Hi, guys. Congratulations on the investment piece and the acquisitions, both huge for the company. You mentioned the gross margins were going to increase on these deals. Can you talk a little bit about what costs you might be able to take out of these by bringing them into the company and if you have any kind of EBITDA margin at both the current revenue run rate and even at the $500 million target run rate.

Brendan Flood – Executive Chairman
Thanks, Bill. Dave, do you want to start with that and then maybe Matt and I will pitch in.

David Faiman – Chief Financial Officer
Sure. With respect to cost takeouts, our $11 million pro forma trailing EBITDA assumes $1.5 million of operating synergies. Of that, $1.2 million would go into effect at the day of closing of these acquisitions, so it's done and dusted. The remaining $300,000 is not a big number. We didn't want to put in a huge go get and then fall short of it. We felt that there was a couple hundred thousand dollars easily out of these two businesses. The lowest hanging fruit are going to be consolidation of insurance plans. *first*PRO is entirely professional. We'll bring them on to our Workers Comp, which after contractor payroll is the largest cost for the company, so we'll save money there, consolidate health and welfare plans. In the UK we have two back offices now, and we'll look for synergies there, whether it be across systems or personnel. There is some opportunity there. But the $11 million assumes only $1.5 million, of which $1.2 million is already done.

Brendan Flood – Executive Chairman
Bill, this is Brendan. Your second point is what do we look like when we're at $500 million? Mature staffing companies are typically delivering EBITDA returns to revenue in the 5% to 10% range, so our expectation and our belief and our plan is that when we're at $500 million our margin will be somewhere in the middle of that, so probably around 7% to 7.5% EBITDA to revenue.

Q: Okay, great. Thank you.

Operator
[Operator instructions]. It appears we have no other questions in the queue at this time. I'd like to hand the call back over to management for closing comments.

Brendan Flood – Executive Chairman

Okay. Thank you Doug. Again, this is Brendan. As a few wrap-up comments, I would like to reiterate a few things. Firstly, our buy-and-build program is working and we will continue with it into the future. We now have a materially improved balance sheet and cash flow. This cash flow will allow us to invest further and deeper into our existing businesses and to continue with our M&A program. We have reviewed our strategic target of $300 million in annualized revenues and we've moved the stake further afield and believe that $500 million in annualized revenues is now an achievable target for us.

To our employees, I would say thank you for everything that you do every day in driving this business forward. And to our loyal shareholders I'd say, we do recognize that you've all been incredibly patient with us while we executed this part of our development, and we thank you heart fully for this patience. You should know that the management team of Staffing 360 Solutions remains committed to growth and revenue, to growth and profit and to growth and shareholder value. Thank you all for your time. Operator that is the end of our call.