# Transcript of
# Staffing 360 Solutions, Inc.
## First Quarter 2018 Financial Results Conference Call
## May 14, 2018

## Participants

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

## Analysts

William Gregozeski - Greenridge Global
Michael Shaw - Wells Fargo
Michael Strub - Private Investor

## Presentation

**Operator**
Greetings, ladies and gentlemen, and welcome to the Staffing 360 Solutions' First Quarter 2018 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.

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 14, 2018, and Staffing 360 expressly disclaims any obligation to revise or update any forward-looking statement after the date of this conference call. During these prepared comments, Staffing 360 may make reference to certain non-GAAP measurements, such as adjusted EBITDA, where applicable Staffing 360 has provided reconciliation for 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 - President, CEO & Executive Chairman**
Thank you, operator, and thank you to everyone who has joined us for Staffing 360's Fiscal First Quarter 2018 Earnings Conference Call. I'm joined today by David Faiman, our Chief Financial Officer. I want to bring to your attention that a webcast and replay of this conference call is available by following the link contained in the bottom of the press release announcing this call, and that this will also be available on Staffing 360's website, www.staffing360solutions.com.

Now with that said, I'll start my remarks with an overview of our financial and operational first quarter 2018 performance, recent business developments and our strategy going forward. Then I'll hand the call over to David Faiman to discuss our financial statements for the quarter before opening the line for questions.

While Q1 is typically our weakest quarter of the year due to seasonality and weather factors, during the first quarter of 2018, due to the execution of our business plan, we were able to achieve substantial growth in revenues and gross profits of 37% and 58%, respectively, over the same quarter of 2017. Specifically, our Q1 revenue was $55.8 million and gross profit was $11.6 million. Both of these were record numbers for us. Gross margin at 20.8% was also a new high point. Adjusted EBITDA of $1.6 million showed a 57% increase over the same period of last year.

Q1 2018 is the first quarter in which we have managed the business under our new alignment of Commercial Staffing U.S., Professional Staffing U.S. and Professional Staffing U.K. For the first quarter, the breakdown of gross profit delivered across the business streams was 36% in Professional Staffing U.S. and 32% in each of the other two streams, so pretty well balanced across the three streams. The poor weather, mostly in northeastern United States, impacted our Commercial Staffing business, and we noticed a 5% decrease in revenue for this segment, while Professional Staffing U.S. and Professional Staffing U.K. grew by 25% and 199%, respectively.

The management realignment exercise that we kicked off at the beginning of the year has been embraced by all of the subsidiary management teams, and our management teams are working very effectively together. Early indications for Q2 are showing the same levels of revenue and gross profit improvement year-over-year. During the first quarter, we hired an additional 15 revenue-generating employees who will have an impact on the remainder of the year, and we continue to sign new clients and to reengage with former clients. I'll look forward to talking about these further in the next few quarters.

We have continued to talk to possible M&A targets and maintain our view that quality of businesses available in the market is very high.

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

**David Faiman - CFO**

Thank you, Brendan, and good morning, everyone. For the first quarter of 2018, revenue was $55.8 million, with an increase of 37% over the prior year first quarter of $40.7 million. Revenue included $17.9 million from the acquisition of CBSbutler and firstPRO that we closed in September 2017 and $0.8 million from favorable foreign currency translation. This is partially offset by a decline of $3.6 million driven by our exit of low-margin revenue in 2017 and a higher number of weather-related stoppages for our northeast clients in Q1 2018 versus 2017.

Revenue during the quarter was comprised of $53 million of temporary contract revenue and $2.8 million of permanent placement revenue, compared against $39.9 million and $0.8 million of temporary and permanent placement revenue in Q1 2017, respectively. The temporary contract revenue in Q1 2018 is now $4,077 per week, up from $3,131 per week in the prior year first quarter.

Gross profit for the first quarter of 2018 of $11.6 million was an increase of $7.3 million or 58% over the prior year. Stronger margins in the Commercial segment, higher margin revenue from the two acquisitions, higher permanent placement revenue and continued lower workers' compensation costs were all contributing factors. This has the impact of driving gross margin to 20.8% versus 18% over the prior year, a 280 basis point improvement.

Operating expenses were $12 million or $4.1 million higher versus the prior year. Of this increase, over 90% or $3.7 million of that $4.1 million increase stem from the two acquisitions, while the remainder, approximately $500,000, is attributable to higher commissions and the higher gross profit.

Other expenses for Q1 2018 was $0.7 million, a decrease of 71.7% from $2.5 million in Q1 of 2017. The decrease is mainly driven by a loss and extinguishment of convertible notes in Q1 of 2017, coupled with gains in Q1 of 2018 from fair value in warrants and remeasuring the company's intercompany note. These are partially offset by higher interest on the higher debt.

This performance translated into a loss from operations of $0.4 million and net loss of $1.3 million compared to a loss from operations of $0.6 million and a net loss of $3.1 million in the prior year. Adding back the noncash adjustments and nonrecurring cash cost, adjusted EBITDA grew to $1.6 million from $1 million in the prior year first quarter, a 57% improvement. Finally, including the two acquisitions on a pro forma basis, as if they had been owned for the entire year, our trailing 12-month adjusted EBITDA was $10.3 million.

Turning to the balance sheet. As previously noted, the transactions we've completed during 2017 and early 2018 have strengthened our financial position. In February of 2018, we completed the refinancing of our UK borrowing facilities, restructuring them into a factoring arrangement, whereby 90% of the sold receivables are funded upfront with the remaining 10% collected later. This has two accounting impacts, first, on the balance sheet, sold accounts receivable are no longer carried on the balance sheet and historical secured borrowing lines is also removed.

The second accounting impact is to the cash flow statement, where the deferred 10% portion is treated as an investing cash flow instead of operating cash flow. As a result, we reported an unusually high operating cash flow in Q1 of 2018 of $8.8 million for the quarter, with an additional $1.3 million of collections reported in investing cash flows. The net of these movements, along with net cash and our secured borrowing lines, was $400,000 compared against the net use of $1.1 million.

Operator, at this point, we're turning the call back over for Q&A session.

**Operator**
Thank you. [Operator instructions]. Our first question is from William Gregozeski with Greenridge Global. Please proceed.

**Q:** With regards to the acquired revenue, what was the growth assuming you owned that—just those two acquired businesses last year? What was that organic growth of those businesses?

**David Faiman - CFO**
Just the two businesses? They were flat Q1 to Q1.

**Q:** Okay. And the press release says that there was the partially offset from getting out of the low-margin business. If that was gone last year, why is that still a comp for this year?

**David Faiman - CFO**
Well, remember that we're raising that throughout the year. So in Q1 versus Q1 of last year, there is a sort of cumulative impact in Q1 of this year, relative to Q1 of last year.

**Q:** Okay. So just because you were still exiting it out through the rest of the last year?

**David Faiman - CFO**
Correct.

**Q:** Well, just to confirm again, that's done with, going forward?

**David Faiman - CFO**
Correct.

**Q:** Okay. And then was there any plan—sorry, go ahead.

**Brendan Flood - President, CEO & Executive Chairman**
Well, I was just going to say, just reiterate, this is Brendan, one comment I made on the last call, is that we're not against lower-margin business in and of itself so long as the execution cost of that business allows the EBITDA margin to improve. So there are a number of reasons why we would get rid of a particular contract. And that

specific contract was a low-margin business that was only ever going to trend to be a significantly lower-margin business.

**Q:** Okay. And then did you guys get your plan for the NASDAQ listing requirements approved?

**Brendan Flood - President, CEO & Executive Chairman**
So we're working on it. It is due on the 18th. We fully expect to file it. We fully expect to have a full and detailed plan. And then we'll hand ourselves over to NASDAQ to continue the conversation with them.

**Q:** Okay. And then last question is, when do you think the 10-Q will be filed?

**David Faiman - CFO**
Later today. We just wanted to get the call done, and it will be filed in a couple of hours.

**Operator**
Our next question is from Michael Shaw with Wells Fargo. Please proceed.

**Q:** I just had a quick question regarding some of the stuff—it builds off of what Bill's questions were. It has to do with how are the old businesses versus the new businesses. So you said the revenue is roughly flat and I was curious about the breakdown on the EBITDA between the two because from what I see, a year ago, the adjusted EBITDA was about $1 million for the existing businesses and $1.2 million for the new businesses, and I was wondering how that broke down this year.

**David Faiman - CFO**
So we don't—it gets harder and harder as you go down the P&L to split out the profitability below gross profit as we try to merge back offices and those things together. So I don't really have a split out that I'd be comfortable quoting between the acquired companies and the legacy company on a profitability basis.

**Operator**
[Operator instructions]. We have another follow-up question from Michael Shaw with Wells Fargo. Please proceed.

**Q:** Yes, I think I got cut off. So I mean, am I right in thinking that last year the adjusted EBITDA was about $2.2 million, and this year, it's about $1.6 million?

**David Faiman - CFO**
So, $2.2 million, for what, on a pro forma basis?

**Q:** Yes.

**David Faiman - CFO**
Yes, that's probably pretty close, given that we were doing—or maybe close to the $2 million as I think about it. So if we were saying that we're doing about $10 million to $11 million plus on a pro forma basis as if we owned it, it's probably closer to $2 million, but we did have some difficulty in the US with the weather. It was pretty rough winter for us, so that's unfortunately [indiscernible].

**Operator**
Our next question is from Michael Strub [ph], Private Investor. Please proceed.

**Q:** My question is really relatively simple, and people don't usually ask these kind of questions, and I'm not sure why not. As just an individual, I don't understand, a lot of times these things that you report sound really positive to me as far as I can understand them. Again, obviously, the stock price never changes. And I just don't understand why and I'm not sure if my exit strategy will ever be with this company. I didn't know if anybody had an opinion about that or is that just not a smart question. I'm sorry.

**Brendan Flood - President, CEO & Executive Chairman**

Michael, thanks for the questions. This is Brendan. I don't doubt for a moment that it's a very smart question, and that's a question that we get asked on a regular basis. So I do agree that the message that we give is generally very positive. And as we acquire more things, it gives us a greater opportunity to remove the duplicative costs that we have across various businesses. It allows us to drive a greater degree of conversion of our gross profit into EBITDA.

We have had some issues in terms of the amount of accounting charges that we've had as we've restructured some of our historical debt and moved our business away from having maybe 15 different lenders to what is now effectively a single lender. So, we are very confident, and I say that with a measured approach that we continue to do what we're doing that at a certain point, the stock market will catch up with us and will give credit and bring us back into alignment with our peer group in the Staffing sector.

**Operator**

Ladies and gentlemen, we have reached the end of our question and answer session. I would like to turn the call back over to management for closing remarks.

**Brendan Flood - President, CEO & Executive Chairman**

Okay. Thank you, operator. So as we continue to drive improvements in our operational performance, to drive organic growth and to deliver on our promises, we will expand our messaging to the capital markets about our performance and opportunities and the expectation that our stock price will start to move to an acceptable and normal level in relation to our industry peers. As a management team, we remain committed to growth in revenue, to growth in earnings and to growth in shareholder value.

Thank you all, and we look forward to speaking with you again in mid-August when we report our second quarter and first half 2018 results. Operator, that is the end of our call.