Transcript of
Staffing 360 Solutions, Inc.
Fiscal Third Quarter 2016 Earnings Conference Call
April 12, 2016

Participants

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

Analysts

William Gregozeski – Greenridge Global

Presentation

Operator
Greetings, ladies and gentlemen, and welcome to the Staffing 360 Solutions Fiscal Third Quarter 2016 Earnings Conference call. At this time, all participants are in listen-only mode. A brief question and answer session will follow the formal presentation. As a reminder, this conference is being recorded.

It is now my pleasure to introduce Darren Mitton, Executive Vice President of Staffing 360 Solutions. Mr. Mitton, you may begin.

Darren Minton – Executive Vice President
Thank you, Melissa. Thank you to everyone who has joined us today for Staffing 360's Third Quarter 2016 Earnings Conference call. I'm joined here today by Brendan Flood, Staffing 360's Executive Chairman; Matt Briand, our President and CEO, and David Faiman, our new 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 on the bottom of the press release announced this morning. It's also available on Staffing 360's website, which is www.staffing360solutions.com.

Now before we get started, I'll take a brief moment to read the Safe Harbor statements regarding today's conference call. This conference call will contain forward-looking statements within the meaning of the US Federal Securities laws concerning Staffing 360 Solutions, Inc.

Forward-looking statements are subject to number of significant risks and uncertainties, and actual results may differ materially. Please refer to the company's filings with the SEC, which may 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, April 12, 2016, and Staffing 360 Solutions expressly disclaims any obligation to revise or update any forward-looking statements after the date of this conference call.

Finally, we make reference to several non-GAAP measures such as adjusted EBITDA. This is reconciled from net loss to adjusted EBITDA, and it's provided in this morning's press release.

Now with that I'd like to turn the call over to Staffing 360's Executive Chairman, Brendan Flood. Brendan?

Brendan Flood – Executive Chairman

Thank you, Darren and good morning to everybody in the United States and good afternoon to everybody listening in the United Kingdom.

As per usual, I will make a few opening high level remarks. I will then hand the call over to Matt Briand for some extra color on the performance of our operation and then to David Faiman who will add some detail on the financial statements. At that point, I will provide a summary of our core initiatives before opening the call to a Q&A session.

During the course of our third quarter, we delivered a new record level of revenue, a record level of gross profit, and positive adjusted EBITDA for the sixth quarter in a row. We were also operating cash flow positive. Despite making six acquisitions in a little over two years, we have kept our eyes keenly on our strategy target of $300 million in annualized revenues, a strong M&A program with intelligent integration, and a firm handle on the financial drivers and seasonal issues within each of our businesses, which is why I am very pleased that we have strengthened our management team with the arrival of David Faiman as our new Chief Financial Officer.

Subsequent to the end of our third quarter, our form S-3 universal shelf registration was declared effective by the SEC, which is very exciting for us. The S-3 has a number of impacts. It registers approximately 4.6 million of previously unregistered shares, thereby increasing the total amount of the free flow shares and adding to the liquidity of our stock.

In addition, we initiated a tender offer to clean up our warrant overhang by offering warrant holders the option to convert to common stock at a ratio of 20:100. And finally and perhaps most importantly, the registration allows us to tap the public markets for additional capital, which we successfully tested last week when we raised $2 million in equity. We were very pleased with the response and the offer then closed within two working days from start to finish.

Recently, we received a huge boost with our analyst coverage since becoming a NASDAQ listed company with a buy rating. In summary on the opening remarks, we are very pleased with were we are in our development plan, and we commend each and every one of our employees for the positive improvements that they deliver on a daily basis.

At this point, I will hand the call over to Matt Briand, our President and CEO, for an update on our operational performance. Matt.

Matt Briand – President and Chief Executive Officer

Thank you, Brendan and mood morning, everyone. Before Dave dives into the financials, I will provide some of the highlights of our operations as we continue to grow organically and implement our acquisition strategy.

First and foremost, Monroe Staffing, our largest brand has been undergoing some expansion recently. As mentioned in our last conference call, Monroe continues to expand its footprint outside of New England. We identified a new office location and conquered North Carolina, our third North Carolina office location, and successfully opened in March of 2016. As a result, Monroe now has over 15 offices across the East Coast and 6 onsite locations.

Lighthouse Placement Services, which became part of our portfolio in July, has been another great addition to the team. Lighthouse enhances our engineering staffing offering through international enterprises and defense contractors in Eastern Massachusetts and New Hampshire. Although we have only had Lighthouse under our belt for two full quarters, they bring $15 million in annualized revenue to the table and another great growth story to the mix.

Speaking of growth, we are also pleased to have the JM Group join the Staffing 360 channel since the acquisition occurred just before the start of fiscal Q3 in November. The JM Group has been one of the UK's leading recruitment firms for over three decades with over $25 million in revenue. In addition, due to the JM Group's proximity to the existing Longbridge office, we talked about some potential synergies during last quarter's earnings.

To that point, we are very pleased to announce on this conference call that our Longbridge operation and the JM Group have officially combined operations and merged office space in London. So now, all of our UK staff are under one roof. We are keeping the brands distinct, however the amount of energy in the space is electric and we are saving approximately $20,000 per month with enhanced synergies between the two groups. Needless to say, we are pleased to have them join in the Staffing 360 journey, which has allowed us to achieve our current $170 million run rate.

Across all of our operations, we are pleased with the revenue of $44 million, especially in our winter quarter, our largest quarterly revenue and gross profit figures in the history of Staffing 360 Solutions. Our employees have done a fantastic job growing the business, and we now have over 4,000 temporary associates.

As mentioned on many of our past earnings calls, we have a pipeline of potential acquisitions that would bring us past our publicly stated goal of $300 million in revenue. As we continue to grow organically and raise capital to fund our acquisition strategy, we believe Staffing 360 is looking forward to a very bright future in 2016.

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

David Faiman – Chief Financial Officer
Thank you, Matt and good morning, everyone. It's a pleasure to be here on my first Staffing 360 Solutions earnings conference call. Despite having only recently joined the team, I can tell you that the flurry of positive developments over the past few weeks and months are setting the stage not only for exciting growth, but also a strengthening of the company's financial profile.

As you may have seen our earnings release this morning, we reported the following: First, revenue of $44 million, which is an increase from $41.3 million sequentially over Q2 of 2016, and $31.0 million in Q3 of 2015. Second, gross profit of $7.6 million, which is an increase of over $7.5 million for Q2 of 2016 and $5.5 million in Q3 of 2015. Adjusted EBITDA of $956,000, which is up over 500% from $149,000 in Q3 of 2015, and positive operating cash flow for the nine months ended February 2016 of $2.2 million versus a use of cash of $1.2 million for the same period in the prior year.

First and foremost, there's no missing the 42% increase in revenue over the prior year. For companies undertaking a buy and build strategy, revenue growth is a critical metric. And while our revenue increase includes a full quarter of the JM Group acquisition, we also realized organic growth of 11%. Allowing for seasonality, our annualized run rate based on $44 million of revenue this quarter puts Staffing 360 comfortably over $170 million, which means we are now more than halfway to our publicly stated mission of $300 million in revenue.

Gross profit of $7.6 million is a 38.2% increase from the $5.5 million in Q3 of the prior year, and reflects gross margins of 17.3% and 17.8% respectively for both periods. The decline in gross margin from the prior year reflects the addition of the JM Group, which operates at a slightly lower margin. Otherwise, each of our businesses have been very successful at maintaining margins as we continue to grow.

Gross profit of $7.6 million is sequentially only slightly higher than our gross profit of $7.5 million, and is a decline in gross margin mainly due to the resetting to our SUTA taxes, which tend to cause an increase in expenses early in the calendar year, but winds down as the year progresses. In Q3 of 2016, the impact of SUTA taxes resetting is approximately $250,000.

Our operating expenses of $8.2 million is an increase of $1.8 million over the prior year, reflecting the addition of costs associated with the Lighthouse Placement Services acquisition we completed in July of 2015, as well as the acquisition of the JM Group this past November.

With that said, as the company has discussed on prior calls, we have made significant strides in managing and reducing our overhead costs, the outcome of which is illustrated when viewing our operating expenses as a percentage of revenue, which was 18.8%, an improvement of 210 basis points from 20.9% from the prior year.

All of the factors discussed have translated into an overall 30% reduction of our operating loss from the prior year and an over 500% increase in our adjusted EBITDA to $956,000 this quarter.

Finally, our net loss in the quarter was $1.7 million versus $78,000 in the same quarter of last year. The increase in the loss is primarily due to non-cash accounting expenses resulting from some of the actions we have taken to improve the capital structure, as well as a few non-recurring charges.

Last, but certainly not least, I'd like to talk about our operating cash flow. For the nine months ended February 29, 2016, our cash flow from operating activities was a positive $2.2 million, a tremendous improvement over the prior year operating cash flow used of $1.2 million. This massive positive reversal serves to further solidify the notion that the company is at that critical inflexion point where it started to generate positive cash flows and is capable of generating real and meaningful adjusted EBITDA and cash flow results.

In conclusion, I want to reiterate that we're very pleased with our results. We have reported positive adjusted EBITDA six quarters in a row. We have delivered record positive cash flow from operations, and going forward, we see all of this as being sustainable with further additional opportunity for improvement. As dividend profitability begins to take hold, we believe that capital markets will start to reflect the company's financial performance and opportunity.

And at this point, I will hand the call back to Brenda for further remarks.

Brendan Flood – Executive Chairman
Thank you, Dave and welcome to the team. As mentioned on our last call, there are a number of key initiatives for the group during the current calendar year. Most importantly, there is the organic growth of our existing business, and the conversion of this growth into additional EBITDA and cash flow. This is a major reason that we are here, and we'll continue to drive these metrics.

Also, as mentioned on our last conference call, we will host our first ever annual shareholders meeting to give our investors an additional opportunity to meet with the board and with management, and formalize a number of items that have been identified over the past year or so. More details on that to follow.

As we begin to look forward, our main aims for the remainder of 2016 calendar year are: Continued strong organic revenue growth and operational performance; continued M&A activity, including major acquisitions that are in the works, and importantly, continued strengthening of our balance sheet and cash performance.

In conclusion, our business plan continues to work, and we believe that our activities will continue to deliver over the coming quarters.

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

Operator
Our first question comes from the line of William Gregozeski with Greenridge Global.

Q: Now that you're on the NASDAQ and you have the S-3 approved, do you think you'll need to issue more preferred shares? And for the targets in your pipeline, are they more willing to take a greater percentage of stock now that it is NASDAQ listed and there is hopefully a little more liquidity coming?

Brendan Flood – Executive Chairman
So, I'll answer the second part of the question first. The answer is absolutely yes. There is always a trepidation for anybody in taking stock of an OTC company. Now that we're on NASDAQ, the acquisitions that we're talking to within our pipeline are more open to using our stock as a currency.

In relation to preference shares, it will be more about the pragmatism that's required at the point in time that we raise the money. The preference shares that we raised last week, the Series C, were kind of a stepping stone to common stock and those Series C shares are expected to convert into common stock on a one-to-one basis at some point over the next 6 to 12 months.

So, our preferred group is common stock. But, so long as we can structure it so that our common stockholders are not being adversely impacted, we will use preference shares as a pragmatic business decision.

Darren Minton – Executive Vice President
This is Darren speaking. Just as far as the preference shares, as Brendan mentioned they are convertible on a one-for-one basis, the Series B and the Series Cm and they really are very benign. There's no voting rights, dividends or anything else. They're basically a placeholder for conversion into common stock at a future point in time.

Operator
We do have a follow-up question from the line of William Gregozeski with Greenridge Global.

Q: Without going into giving specific guidance, just looking at the five pillars that you compete in just spread across the US and in Europe; so not specific to your territories, what kind of growth rate are you guys seeing for those industries this year?

Matt Briand – President and Chief Executive Officer
I can take that. So, the industry average is high single digit rates and what we're seeing across the five pillars within our organization, we're seeing higher growth rates within our light industrial business and then followed by the professional services, and those are going to be in the low to mid-teens.

Operator
Ladies and gentlemen, that marks the end of our question and answer session today. I'll turn the floor back over to management for any closing comments.

Brendan Flood – Executive Chairman
Thank you, Melissa. So, just to summarize before the end, you've heard me state before that one of our internal mantras is that we do what we say we are going to do. I'm hopeful that the progress that we made over the past 12 months and in our most recent quarter will have given you comfort that this is true, that our activity and momentum is in a positive direction and that we represent an opportunity for tremendous growth.

This is especially a case with things like Staffing 360's first initiation of research coverage and our increased marketability as a NASDAQ listed company. Combined with other great milestones happening in such short order, such as our record quarterly revenue and our S-3 filing becoming effective, which has allowed us to test the waters and raise new capital and to grow our operations and help to right shape our balance sheet, we are at a very strong position to propel our growth and to take our business to the next level. As always, by delivering in our strategic aims, we remain committed to growth in revenue, to growth in earnings and to growth in shareholder value.

Operator, that is the end of our call. Thank you all, again, and have a very pleasant day.