Transcript of
Staffing 360 Solutions, Inc.
Fiscal Q4 & YE 2021 Results Conference Call
June 30th, 2022

Corporate Participants

Brendan Flood, Chairman & Chief Executive Officer
Khalid Anwar, Principal Accounting & Principal Financial Officer
Terri MacInnis, VP of Investor Relations, Bibicoff + MacInnis, Inc.

Presentation

Operator

Good day and welcome to the Staffing 360 Solutions' Year End Results Conference Call.

Today's conference is being recorded.

At this time, I would like to turn the conference over to Terri MacInnis, VP of IR at Bibicoff and MacInnis. Please go ahead.

Terri MacInnis

Thank you, Operator. Greetings to all and welcome to the Staffing 360 Solutions’ Fiscal Q4 Year End 2021 Results Conference Call.

A brief question-and-answer session will follow the formal presentation in which Management will answer questions previously submitted via email. As a reminder, this call 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 several significant risks and uncertainties and 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, June 30, 2022, 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, the Company may refer 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, President, and Chief Executive Officer of Staffing 360 Solutions. Brendan, please begin.

Brendan Flood

Thank you, Terri, and welcome to everyone who has joined us for Staffing 360 Solutions' Fiscal Q4 and 2021 Year End Financial Results Conference Call.

I am joined today by Khalid Anwar, our Principal Accounting and Principal Financial Officer.

Our much-delayed audit is now completed, and I am pleased to speak to you today to briefly review last year's results and our plans for improving upon them, and then spend time talking about the brighter horizon before us after our accretive acquisition in May of Headway Workforce Solutions.

Headway brings approximately $85 million of revenue and the leading edge proprietary technological platform and delivery methodology critical to the future of national human capital management. Headway sits within our Professional Staffing U.S. business stream but will also work closely with our Commercial Staffing business stream. We view Headway as an important value creator for shareholders as it supports and accelerates both our business model and our growth strategy.

Although it seems like ancient history now, I think it is worth noting that we successfully navigated the ongoing social and economic vagaries of 2021 and are making our way through those similar conditions in 2022. We have maintained our focus to make the hard choices to continue to position our Company for future growth and success, and we now have a materially improving outlook for 2022, improved by our recent acquisition of Headway Workforce Solutions.

We continued to make progress across several important metrics throughout the fourth quarter of the year and are now positioned for a particularly strong second half of 2022. There is no doubt about it, 2021 was certainly a challenging year for our industry and for us in particular. We adapted and reacted to the ebb and flow of business and to the differing recovery phases in our markets.

We particularly benefited from our early, swift, and strong reorganization at the onset of the pandemic, the lowered overall spending by the Company, the capital raises improving our balance sheet, and subsequent meaningful debt reduction. These factors and others combine to leave us optimistic about our ability to deliver materially improved results in 2022.

We remain optimistic based on our internal progress and the roadmap ahead. Both are bolstered by the economic recovery advancements in the United States and the United Kingdom although we are closely watching the impact of inflationary pressures in both markets.

I am pleased to note that we still see a considerable and increasing pipeline of opportunities in the staffing industry, and M&A deal flow remains active, and of course, as always, an essential and significant priority for us is the continued wellbeing of our staff, contractors, and clients. We nurture our Company culture by continuing to lead with values and lead with a shared purpose.

The format of our call today will begin with my brief overview of our financial results, with Khalid providing more detail on the financials. After that, I'll discuss the many reasons for my confidence in the business outlook for both Staffing 360 and our industry into 2022 and beyond. I will then address the questions which were submitted to us via email.

As outlined in Monday's news release, revenue for 2021 was $197.8 million, a drop of 3.3% year-on-year, but slightly up when excluding *first*PRO, which was disposed of in September 2020. Gross profit was down 2.7% at $33.9 million but improved by 8.6% when *first*PRO is excluded. Net income improved by $23.8 million year-on-year, greatly enhanced by the forgiveness of four PPP loans amounting to $19.6 million, including interest.

Another strong contributor to bottom line improvement was the reduction in our debt burden. We have continued to reduce our non-receivables debt and redeemable preference shares, which were approximately $72.3 million in June 2020, down to $9.5 million at the end of 2021 year. As a consequence, our interest burden reduced from $7.2 million in 2020 to $3.9 million in 2021.

Overall, we continue to have work to do and are armed with a realistic plan to achieve cash flow break-even, and to demonstrate our persistent ability to change, adapt, grow, and prepare for future success.

With that, I will hand the call over Khalid Anwar, our Principal Financial and Accounting Officer for a further financial update. Khalid?

Khalid Anwar

Thank you, Brendan, and good morning, everyone.

For the full year Fiscal 2021, revenues are $197.8 million, decreased by 3.3% from $204.5 million in 2020. This decline was driven by a combination of continued impact of COVID during most of 2021, IR35 in the U.K., and divestment of our f*irst*PRO business in September of 2020. Excluding the divested business, revenues increased just slightly.

Gross profit for Fiscal 2021 was $33.9 million, posting a decrease of $945,000 or 2.7%. Excluding the divested business, gross profit increased by $2.7 million or an increase of 8.6%. This was due to increase in direct hire revenue by about $0.7 million or 16%. Gross profit in contract business grew by $2 million or 7.4%. This is despite the adverse impact of IR35 in U.K.

Operating expenses for the year came to $41.2 million, a decrease of 5.6% over last year's amount of $43.6 million. As mentioned earlier, the Company aggressively reduced headcount and other discretionary costs like professional fees to bring the base cost structure to a more sustainable level. SG&A, for example, decreased by approximately $2.2 million or 5.8% from prior year. Operating expense included $3.1 million of goodwill impairment charges to our U.K. business.

The Company recognized other income of $19.6 million to receive 100% forgiveness on its four PPP loans. On the other hand, the Company recognized a loss of $260,000 on FX remeasurement of intercompany loans compared with a gain of $584,000 in 2020, and unfavorable variance of $844,000 on currency movements.

Interest expense for Fiscal 2021 declined by $3.3 million for Fiscal 2020 as the Company aggressively reduces debt with Jackson Investment Group.

The net income for Fiscal 2021 came to $8.2 million as compared with a net loss of $15.6 million for Fiscal 2020, an increase of $23.8 million. EBITDA of $14.8 million was higher from last year by $19.6 million, primarily due to PPP loan forgiveness. Adjusted EBITDA of $2.4 million was unfavorable to Fiscal 2020 by $2.2 million.

On the balance sheet side, total long-term debt for the Company is now down to only $9.5 million. At the same time, the Company has been able to bring its receivables down so that the DSO has come down to only 38 days from 43 days last year, a decrease of six days.

I will now turn the call back to Brendan. Thank you.

Brendan Flood

Thank you, Khalid.

As we look at our three business streams, we can see that they are broadly performing in line with the markets in which they operate. Revenue in Commercial Staffing was up 4.3% for the year, where most of the market was flat. Gross profit improved in that segment by 9.5% as we engaged in a more consultative approach with our clients in relation to the need to recognize pay rate improvements and other measures to retain staff.

Professional Staffing in the U.S., excluding the disposed of *first*PRO, improved by 5.4% with permanent placement growing by 92% over 2020. In the current tight markets, we recognize that permanent hiring will be a material feature in our results in 2022. This growth in permanent placement was also seen in the Professional Staffing U.K. business, where we saw an increase of 6%.

We continue to operate in tight labor markets. Supply and demand of labor are mismatched and are a major factor in rising wages. In this candidate-driven market, our high touch client relationship management continues to focus on helping to educate clients on required higher pay rates to stay competitive with a depleted pool of workers.

We still expect that pent-up demand for staffing will help to accelerate growth. We have a solid runway with building momentum and continue to believe that the next year or two could be the biggest years in the staffing industry's history.

Our outlook for 2022 is very optimistic. Both our industry and Staffing 360 Solutions are now in a continuing growth period with a strong recovery expected into 2023. Temporary or Contract Staffing has been a little slower to recover than expected, but I am pleased to report that we are now seeing encouraging signs as average weekly revenue numbers for our Temporary and Contract Staffing business are showing 12.7% growth year-on-year.

Twenty-twenty-one delivered $197.8 million of revenue compared with $196.8 million in 2020, excluding the sale of *first*PRO, with gross profit of $33.9 million or $31.2 million in 2020, excluding the disposal. While we do not issue specific guidance, we expect material improvement of both the revenues and gross profit numbers in the second half of the current year, and these will be greater still with the recent acquisition of Headway.

While focusing on improving our business, our internal corporate focus has simultaneously been on refinancing out balance sheet and continuing as always to look after and prioritize the safety of our employees, their families, and our contractors. Securing our financial future has been one of the core issues that we have been dealing with for several years.

There is no certainty that access to capital will last and it's important to note that this recent period allowed us to take a huge cash flow burden off our shoulders, which will be instrumental in allowing us to invest further in our operations so that we can more readily exploit the improving market that sits before us; $9.5 million of non-receivables debt is very manageable and is not a drain in our operating cash flow but still does place some restrictions on our operating and M&A decisions.

I am pleased now to turn to a discussion of our accretive acquisition of Headway Workforce Solutions, and the enormous opportunity to provide our collective clients with deepened and expanded offerings.

Headway has a deep history of providing customized technology and contract-based workforce solutions in all 50 states. Headway reported unaudited revenues of approximately $85 million in the year to September 2021, and it is profitable.

New online technology is driving staffing efficiency, and we have now established ourselves in that arena, poised to become a key player in our industry. As one of the largest U.S. providers of survey research personnel and a proprietary database of three million candidates, Headway's unique survey niche is a valuable tool and differentiator, providing these services in almost every zip code in the United States.

The integration of our business is well underway and proceeding smoothly. The proven e-recruiting technologies Headway designed not only improve customer reach and satisfaction but enhance operating margins. The pandemic has proven that a brick-and-mortar presence is no longer necessary to swiftly deliver the best candidates to clients. I believe that the future leaders in human capital will be those companies with scale, technology, and processes. We are now positioned to take our place in that future.

At this point, I would like to answer some of the questions submitted by email, after which I will end our call with a brief closing comment. Some of your questions were answered in our prepared remarks and others were duplicative or have been combined.

Our first question is, “Does the war in Ukraine affect your business?” The simple answer is we have no operations in Ukraine or in Russia. The potential impacts on the war on surrounding and European countries and the global economy are dynamic and are yet to be determined for our industry.

Another question asks, “Now that the reverse split is completed, are you in compliance to maintain your NASDAQ listing?” We anticipate the first quarter 10-Q to be completed within the next couple of weeks, and then we will be in full compliance with all the instructions that we have received from NASDAQ.

A more personal question is being asked about the thinking behind the Board awarding me a $500,000 bonus in January, given the financial performance on the stock price. So, the answer is despite the number in the 10-K not being the basis upon which a party will be thrown, it is clear that we managed our way through a major financial downturn and came out of it to the extent that we are out of it stronger than we went in.

At a very early point in the pandemic, we removed $6 million in overhead and efficiently ran a leaner organization through the expected reductions in revenue. Additionally, we managed to get a large benefit from the U.S. and U.K. government pandemic programs. Furthermore, the capital raises in difficult environment meant that we reduced our debt to redeemable preference shares from a burden of $72 million to less than $10 million.

While the value of my bonus was not my decision, nor was I involved in its awarding, there are many complex and diverse areas in managing business that are not revenue. These areas need to be actively managed and corrected to put us in a place where we can now drive revenue and cash flow growth.

Our next question is, “Why aren't Management and the Board of Directors buying shares in the open market at these historically depressed prices as a tangible expression of your confidence?” Management and Directors are bound by insider trading rules regarding possession of inside information. There is regularly a lot going on behind the scenes and very often there are no or few open trading windows.

A recent example is the acquisition of Headway. Discussions began many, many months ago. All the Senior Managers and Directors were aware of and involved in this acquisition. While in possession of material non-public information, the purchase of shares is not allowed. Personally, I have historically gone to the market seven times to acquire stock and these purchases are a matter of public record.

Next question is, “What is the biggest challenge to becoming a profitable company?” The biggest challenge we have right now is to continue to grow and to leverage our cost space. We believe we are well-positioned to do that.

Our next question is, “What is the game plan to pay the remaining debt? Would this require another dilution?” It is our intention to grow and to become a profitable $500 million revenue business. Some of this will be achieved through debt and some of it will be achieved through equity. In all cases, the acquisitions will need to be accretive to get through our internal approval processes. We expect the payment of our remaining debt to be absorbed within one of these activities.

“What makes staff an attractive investment?” We have always had our eyes on the future while attending to the present. The acquisition of Headway in the U.S., the introduction of centralized recruiting hubs in both the U.S. and the U.K., the determination of new sales markets in the U.S. allied to the improvements in our balance sheet make the forward view of our performance more enticing for investors. However, as with all forward-looking views, they are not without their risks, all of which are outlined in our 10-K.

Continuing with questions regarding the recent acquisition of Headway. Our next question asks, “How did you come to its valuation? What net income on EBITDA did Headway report in 2021?” The purchase price of the acquisition was $14,014,625. Of this, there was a cash payment of $14,625 to acquire some very small shareholdings. The remainder of the purchase was made up of 9 million convertible preference H shares redeemable in three years and convertible on a post-split basis into 350,000 common shares at $25.71 per share and includes a cash earn-out of $5 million payable in September 2023.

Headway is an immediately accretive acquisition, having approximately $85 million in revenue and $9.6 million in gross profit. As required by the SEC, work in the 8-K is underway that will announce the clear audited numbers of Headway, expected around the end of July. It is not uncommon for a privately held company to be acquired before an audit is completed.

I see continued consolidation in the industry and believe that future winners in human capital will be the enterprises with scale that have taken advantage of technology and processes. Our combined companies make us a formidable entity on the cusp of a major growth dynamic. We believe that one plus one equals three for our combined businesses. The technical resources of Headway's core, center for operational and recruitment excellence, and important e-advance recruiting, cutting edge tools and technology, immediately will give us a national footprint for nationwide recruiting.

This concludes our Q&A session. Of course, before I close, I want to take a moment to acknowledge our talented staff and Management team. They demonstrate exceptional talent and resilience as they work with integrity and purpose in these continuing less-than-ideal conditions.

You have heard me speak about the fact that our Company has reached a key inflection point in its evolution. We continue to build upon our improved financial foundation and anticipate driving shareholder value as we progress on our path toward our goal to build a $500 million profitable revenue company.

Twenty-twenty-one was a year of focus and adaptation. We worked through the shifting sands, endured, and have merged better, stronger, and more agile for it. The demand for labor and our solutions continues to be strong, and one of the key drivers of our success.

I have said it before, the cornerstone of our future success is a combination of superior service to clients combined with cutting edge technology. Bolstered by the benefits of the merger and a renewed sense of optimism in the staffing market, today we stand ready to deliver.

Thank you all. I wish you continued good health and look forward to speaking with you again to discuss Q2 results and how performance continues to improve across 2022.

Operator, that concludes our call.

Operator

Thank you for your participation. You may now disconnect your line.