



Transcript of
Staffing 360 Solutions, Inc.
Fiscal 2020 Year End Results Conference Call
April 21st, 2021

Participants

Brendan Flood, Chairman & Chief Executive Officer
Khalid Anwar, Principal Accounting & Principal Financial Officer

Analysts

William Gregozeski - Greenridge Global

Presentation

Operator

Greetings, everyone, and welcome to the Staffing 360 Solutions Fiscal 2020 Year End Results Conference Call.

At this time, all participants are in 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 *0 on your 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 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, April 21, 2021, and Staffing 360 Solutions expressly disclaims any obligation to revise or update any forward-looking statements after the date of this conference call.

During these prepared comments, the Company may make reference to certain non-GAAP measures such as Adjusted EBITDA, which, where applicable, reconciliations have been provided for these non-GAAP measures to the most directly comparable GAAP measures.

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, Operator, and thank you to everyone who has joined us for Staffing 360's Fiscal Full Year 2020 and Fourth Quarter Financial Results Conference Call. I'm joined today by Khalid Anwar, our Principal Accounting and Principal Financial Officer.

I begin my remarks by saying that I hope everyone is staying healthy and safe. We are excited about and encouraged by the COVID-19 vaccine progress. The wellbeing of our staff, contractors, and clients continues to be our key priority during this worldwide outbreak. As we look forward, we can start to see an end to this crisis and the beginnings of recovery in our two core markets of the United States and United Kingdom. While safety will always be at the forefront, the growth and health of our business is our focus as we look towards 2021.

During my remarks, I will outline how this pandemic has impacted us and how we are positioned as we make our way through what is hopefully the exit. I'll now give an overview of our financial and operational performance covering the full year 2020 before commenting on the fourth quarter's performance. I will hand the call over to Khalid for additional details in our financial statements, after which I'll conclude by outlining what we're seeing operationally in the early part of 2021 and what our near-term plans are in relation to our acquisition strategy and our intended continuing refinancing of our business. The line will then be opened by the Operator for questions.

Our full year revenue for 2020 was \$204.5 million, a 26.6% decrease from 2019 and in line with what we had earlier pre-announced. Gross profit of \$34.8 million was down 28% from the prior year.

In addition to the impact of the pandemic, there were a number of events in 2020 that are worthy of note.

In late March/early April, we made bold moves in our cost space and took \$5.5 million of overhead out on an annualized basis, mostly people, and took a further \$1 million out as we entered the fourth quarter. This resulted in a leaner organization and allowed us to manage against the worst impact of the pandemic into what we are cautiously optimistic is a recovery phase.

In December 2019, we had 282 internal employees, and in December 2020, we had 196 employees. In the past 12 months, we have closed three of our branch locations and relocated the client activity from them to other branches. These were all opportunities to exit leases and save additional overhead. As we see the recovery coming, we will have a stronger business base with which to execute on growth.

During the month of May, we qualified for and received \$19.4 million of Paycheck Protection Program monies from the Small Business Administration. We used these loans for the purposes for which they were intended and are now going through the forgiveness process. At this moment in time, we have not received forgiveness on any of the loans.

In September 2020, we disposed of, to its management, the firstPRO business in Atlanta, Georgia. Including the intangibles impairment that we recognized in Q1, we had overall a hit of approximately \$3 million to our P&L for this business in 2020. Our press release on Monday has outlined the fourth-quarter performance with and without this business and I will reiterate those statistics shortly.

Our cash management was very strong across the year. We recognized early the potential impact that the pandemic might have and swiftly tightened our controls over receivables during Q1 and onwards, particularly in the U.K. where we reduced our DSOs materially. We had only one bad debt during the year. A U.S. client took a hit from the closure of the restaurant trade and filed for Chapter 11. As a result, we experienced a \$900,000 bad debt.

This cash management allied to the stimulus programs in both the United States, particularly the FICA Deferral Program, and the United Kingdom allowed us to manage our debt balances and we further managed them with the capital raises in December and February, resulting in our debts, including outstanding interest and the redemption of convertible preference shares, being reduced by 55% from June 2020.

The introduction of the IR35 Tax Legislation in the U.K. had a material impact on our contracting business in that market. Over the course of a three-month period, we had approximately 100 U.K. contractors change their status from temporary contractors to permanent employees, often without a conversion fee, as they had been contracting for a significant period of time. The largest part of this impact was felt in the first quarter of 2020, but with the deferred start date of the legislation to 2021 meant that the uncertainty surrounding it stayed with us longer than we had hoped or expected.

Our U.K. contract revenue in 2020 was 26.4% below 2019 and this legislation, allied to the loss of a payrolling client in July 2019, accounted for the majority of this loss.

Adjusted EBITDA for the year was \$4.7 million, a decrease of \$5.1 million from the \$9.8 million we achieved in 2019.

Our net loss from operations of \$8.8 million was materially down from the \$623,000 profit from the previous year, driven by the reduction in gross profit, the impairment in firstPRO, and the pandemic-related bad debt.

When we look at Quarter 4, given the items just mentioned, it is more meaningful to look at the sequential movements we are seeing. Quarter 4 revenue was \$53.8 million, which, excluding the disposal, was a gain of 15.3% over Q3 with gross profit being up 11%, excluding the disposal. Our Adjusted EBITDA in Q4 was \$1.7 million against \$1.2 million in the third quarter, or \$1.1 million excluding the disposed business. Our press release contains a table showing the trailing 12 months performance.

I will now hand the call over to Khalid for a further update.

Khalid Anwar

Thank you, Brendan, and good morning, everyone.

As Brendan mentioned, our revenues for the fourth quarter of 2020 were \$53.8 million, a decline of approximately 15% over the prior period of \$63.8 million. Q4 revenues comprised \$52.9 million of contract revenue and \$0.9 million of permanent placement revenue. The temporary contract revenue is now approximately \$3.8 million per week, down from approximately \$4.2 million from prior year, excluding the disposed business.

The average headcount was 4,000 at year-end compared with approximately 4,300 in the prior year. The decline of \$10 million in revenues was driven by a combination of IR35 in the U.K. and a decline in sales due to continued impact in our business from the COVID-19 pandemic; offset by favorable foreign exchange of \$0.4 million. Excluding the disposed business, the decline was approximately 11%.

Compared with Q3, revenues have increased from \$48.6 million to \$53.8 million, an increase of approximately 11%. Excluding the disposed business, revenues increased by more than 15% from Q3. The increase in revenues of \$5.2 million is due to continued recovery from the pandemic at our core customers as well as from new customers acquired during the pandemic.

Q4 gross profit of \$8.3 million was unfavorable to prior year by approximately 29%. The decline of \$3.3 million was primarily due to IR35 and impact of the COVID-19 pandemic. Excluding disposed business,

gross profit declined approximately 16%. Q4 gross profit of \$8.3 million was flat versus Q3 2020. Excluding the disposed business, Q4 gross profit increased by approximately 11% from the previous quarter. Again, showing strong improvement in sequential quarter-over-quarter.

For the full year Fiscal 2020, revenues decreased by 26.6% from \$204.5 million as compared with \$278 million for Fiscal 2019. This decline was driven by a combination of IR35 in the U.K. and the loss of key clients, our payrolling business in the U.K. and a client in the U.S. that filed for Chapter 11 Bankruptcy, for which we recognized the bad debt expense of approximately \$880,000.

The remainder of the decline in sales was due to the impact of our business from the COVID-19 pandemic, offset by a favorable foreign exchange of \$0.4 million.

Gross profit for Fiscal 2020 was \$34.8 million, down versus Fiscal 2019 of \$48.3 million, representing gross margin of 17% and 17.3% for each period, respectively. The gross profit decline was approximately 28% due to lower permanent hiring fees compared with prior year, a 44% decline. At the same time, contract business declined by approximately 23% due to the impact of IR35 in the U.K. and COVID-19 pandemic.

Operating expenses for Fiscal 2020 were \$43.6 million, a decrease of approximately 9% over \$47.7 million for Fiscal 2019. As mentioned earlier, the Company aggressively reduced headcount and other discretionary costs—travel, projects, etc.—to bring the business to a sustainable level during the pandemic. SG&A, for example, decreased by approximately \$6.8 million, or 15.4%, from the prior year.

Other expenses for Fiscal 2020 was a \$3 million goodwill impairment charge to firstPRO business that was sold during the year.

Interest expense for Fiscal 2020 declined by \$433,000 from Fiscal 2019 as the Company restructured its debt with Jackson Investment Group, extending it out by two more years.

The net loss for Fiscal 2020 came to \$15.6 million as compared with a net loss of \$4.9 million for Fiscal 2019, a decline of \$10.7 million in net loss.

As Brendan mentioned earlier, the Company raised new capital in the market, first in December 2020 and then in February 2021, and used the proceeds to reduce the Jackson debt and preferred share holdings. This brought the total owed to Jackson from June 2020 of the \$35.7 million to the current level of \$19.2 million, a decrease of \$16.5 million. Furthermore, Series E preferred shares were reduced from a June balance of \$13 million to a current balance of \$6.2 million, a decrease of 52.5%.

The Company's balance sheet has strengthened considerably in its networking capital position—that is, current liabilities minus current assets—which has improved by \$20.8 million from Fiscal 2019. Cash balance of \$10.3 million has improved from \$1.2 million at the end of Fiscal 2019, an increase of \$9.1 million.

I will now turn the call back to Brendan.

Brendan Flood

Thank you, Khalid.

In relation to business flow, what we have seen in the early part of the year is that there is a pent-up demand for our services that translates to positivity that 2021 is going to be a strong year for our industry and for our Company. Business in Q1 is right in line with where we expected it to be. We're seeing the usual seasonal decline in overall Commercial Staffing revenues, but it is not as impactful as in the past.

Our Professional Staffing business streams have continued to show growth into the first quarter. We've increased the strength of our sales capability, especially in Commercial Staffing, and so far this year we have signed 56 new client engagements with the potential to add a further 500 to 1,750 temporary workers across 2021. That is 56 new client engagements and it is only April.

The difference between this pandemic recovery and other economic recoveries in the past is that direct hire or permanent placement appears to be recovering faster than contract or temp hire in our Professional Staffing business streams. The core takeaway is that the economy is gaining momentum and our staffing engagements mirror that positive trend.

In relation to refinancing and mergers and acquisitions, I've already mentioned the extent to which we have already reduced our leverage over the past nine months. We have held a special shareholder meeting in order to increase our authorized share capital and adjourned it twice. It is important to know that without this increase in share capital, it is difficult for us to deliver on our strategic aims of building a profitable \$500 million revenue business. I urge all shareholders to vote in favor of this change to enable us to drive the growth of our Company in the fastest way possible over the next two years.

I've stated on the past two calls that we will revisit M&A in the second half of 2021 and there is no change to that plan. Therefore, although we continue to see strong deal flow, we have no active transactions at this current time.

As we close the books on what has been a challenging year for the entire staffing market, our solid business pipeline and diverse client base provide a measure of stability to our business. While no one can predict, and there are no guarantees, how this pandemic might surge or how the recovery will develop, I remain optimistic as we continue to see increasing recovery, both in the United States and the United Kingdom, supported by our ongoing discussions with clients about their immediate needs and future plans. We are seeing the ongoing growth we expected to materialize, and we look forward to a strong recovery in 2021.

Thank you for giving us your time this morning.

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

Operator

Thank you. We'll take our first question from William Gregozeski of Greenridge Global. Please go ahead.

William Gregozeski

Hi, Brendan.

You talked about the loss of the large payrolling client and the IR35 impact in the U.K. Of the \$67 million you reported for the year, what would be the baseline that you're starting at going forward for that business?

Brendan Flood

It's pretty close to that, William. What we're seeing is that the vast majority of the impacts that we had in 2020, we either experienced in the back half of 2019, or we experienced it in the first quarter of 2020, so the damage was pretty well done.

What we're seeing now is that there are a number of pitches that are being made similar to the sales capability in the Commercial Staffing business growing. Our market aim in the U.K. has been to move to larger and larger clients. We have a number of pitches out that we feel very confident that the \$67 million will improve materially across 2021.

The damage was done very early in the year. The number that we have for the entire year is pretty well the base number that we're starting from.

William Gregozeski

Okay, and then looking in the U.S., the commercial side, you really didn't get hit as bad, with the food service clients and everything. How do you see that looking for 2021?

Brendan Flood

We were fortunate or otherwise that 67% of our Commercial Staffing business was deemed to be essential and therefore those clients didn't close down. We have been working towards through the back end of 2020 to beef up our sales function and we hired a guy called Mike Ragone to come in as the Senior Vice President looking after our sales and Commercial Staffing. The more rigor and focus that he has brought along with the directors that run our day-to-day operations have led to those 56 additional contracts that have been signed since the first of January. As I mentioned in the commentary, those 56 opportunities bring us anything from 500 contractors to 1,750 contractors all in. It is our full expectation that we are going to sign some more contracts as the year unfolds.

The challenge we have is that the stimulus program that still continues and is scheduled to continue for a number of months pays additional unemployment benefit. There are a number of people who are not returning to the market as quickly as we would expect them to do. As that stimulus program reduces, our ability to place temporary workers at our clients rose fairly exponentially this year. The only challenge we have right now is making sure that we can find sufficient candidates to fulfill our client needs, because we have a lot of clients. We are not experiencing client shortage.

William Gregozeski

Okay, and then on the professional side in the U.S., it sounds like you mentioned you're seeing more permanent placement now. Do you think at some point this year it'll switch back into more normalized levels between temporary and permanent?

Brendan Flood

A lot of the permanent placement we're seeing in the U.K. Professional stream as opposed to the U.S. Professional stream. The U.S. Professional stream is now our smallest business, and it is made up of Lighthouse Professional Services, so we just have one brand between Connecticut and Massachusetts. That said, on the contracting side of that business, we had dropped from 225 contractors early in 2020 to as low as 142 around the August timeframe. We're now up to that 185 to 190 and we expect to go over 200 again in the very near term. The contract recovery in the U.S. businesses has been quite spectacular.

What the U.S. business has gained from a permanent perspective is the relationship that has developed with the U.K., and specifically the JM Group's largest client, which is Equiniti. We have been placing permanent employees for Equiniti in the U.K., in Poland, and also in Minnesota.

There is a lot of inter-brand action going on. I think one of the things which I may have mentioned on a previous call, it's a challenge working from home, but when you have a lot of Zoom calls and you have a

lot of Zoom calls and training calls, and learning and development calls, people get to know each other significantly better than they ever knew each other before, and I would say that there isn't one person in our operation that doesn't know at least 20 or 30 people in other brands that they never knew before this happened.

All that getting-to-know-you session has allowed our various brands to work far more intimately with each other than they ever believed capable in the past. There's a lot of work between the JM Group and Lighthouse. There's a lot of work between KRI and Monroe. There's a lot of work between Clement May and CBSbutler. There is a lot of work between Longbridge and Clement May. It's actually very pleasing to see the extent to which all of our management teams are truly working with each other collaboratively every single day of the week.

William Gregozeski

Okay, and then last question. You mentioned asking shareholders to vote, which, certainly, everyone should vote their shares. Do you plan to have another meeting? Or what's your plan to get the authorized shares issue taken care of so you guys can move forward?

Brendan Flood

We had a second adjourned meeting yesterday, at which point we only had 48% of the shares voted still, so we didn't reach a quorum. We're looking at our alternatives. We will most likely set a new record date and start all over again, because the level of liquidity we have in our stock suggests that the vast majority of people who were, or a lot of people who are holders of record on the fourteenth of February, no longer hold those shares. We're discussing it internally, but most likely we are going to have to set a new record date and try again.

William Gregozeski

Okay. Thanks, Brendan.

Brendan Flood

We will advertise it and market it a little bit stronger this time, because it's imperative that our shareholders understand that the stated strategic goal of making a \$500 million profitable business requires an amount of stock to use as currency and to use as the ability to generate wealth in order to make those acquisitions that are required to get to \$500 million.

William Gregozeski

All right. Thank you.

Operator

We'll now take a question from Mr. Ken Nitz. Please go ahead.

Mr. Nitz, your line is open.

We don't seem to have a response from Mr. Nitz.

We're through with the questions at this time. I would like to turn the call back to Mr. Flood for a brief closing comment. Thank you.

Brendan Flood

Thank you, Operator.

The entire staffing industry and the economies of our two main markets are making progress towards working through unprecedented and challenging times. I am confident that we've been on the forefront of meeting those challenges, and only time will tell whether the challenges will become greater or subside. Our productivity remains strong and our sales pipeline is active and looking robust. My confidence is still firm that we will come out of this downturn better and stronger than we went into it.

I thank our entire team for working tirelessly throughout 2020, under extremely difficult circumstances. Their actions are responsible for seeing us through a very challenging year.

In these unprecedented times, I also extend my appreciation and gratitude to all the stakeholders in Staffing 360 Solutions, from our employees to our customers, vendors, advisors, and shareholders, that helped us navigate throughout the year.

As our industry continues to be committed to getting people back to work as quickly as possible, we are playing our part in that. We closed the books on 2020 having set ourselves up for a successful future and a planned recovery. We look forward to continuing to drive improvements in our operational performance and to continuing to drive and maintain shareholder value as we progress in our path to build a profitable \$500 million revenue company.

I wish you good health and safety.

Operator, that is the end of our call.

Operator

Thank you. Ladies and gentlemen, thank you for your participation. The presentation is now over.