



***Transcript of
Staffing 360 Solutions, Inc.
Fiscal Q1 2021 Results Conference Call
May 18th, 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 Q1 2021 Results Conference Call.

At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. 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 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 Solutions' actual results to differ from those contained in our forward-looking statements. All forward-looking statements are made as of today, May 18, 2021, and Staffing 360 Solutions expressly disclaims any obligation to revise or to update any forward-looking statements after the date of this conference call.

During these prepared comments, we may make reference to certain non-GAAP measures, such as Adjusted EBITDA, which, where applicable, we have provided reconciliation of 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 Q1 2021 Financial Results Conference Call. I'm joined today by Khalid Anwar, our Principal Accounting and Principal Financial Officer.

I'm delighted to see the progress that is being made in the COVID-19 vaccination efforts in the United States and the United Kingdom. I will continue to stress that the wellbeing of our staff, contractors and clients continues to be a key priority.

Khalid will provide more depth to our financial results, and then I will provide an update on how we are progressing out of the pandemic and a view on our business outlook. The line will then be opened for questions.

As outlined in our press release of yesterday, revenue for Q1 2021 was \$49 million, with gross profit at \$8 million.

The first quarter of 2020 was the last pre-pandemic quarter, and was also the quarter at the end of which the IR35 legislation in the U.K. was intended to be enacted.

Overall, our first quarter revenue was down 16.6% year-over-year. Excluding the disposed business of *firstPRO*, we saw an 11.3% decline. Gross profit was down 24.7%, or 9.4% excluding the disposal.

On a sequential basis, our Q1 revenue was down 9% against Q4, with gross profit down 3.5%. We typically experience a seasonal drop in our Commercial Staffing revenues in Q1. As mentioned on the Year-End Conference Call, this seasonal drop was not as pronounced as in the past and our Professional Business Streams continue to grow.

Our Adjusted EBITDA for Q1 was \$1.1 million, which was broadly flat year-over-year. Q1 is typically our least profitable quarter, and this year the quarter was further impacted by the trailing economic effects of COVID-19.

The key challenges that we faced during Q1 related to the delayed implementation of the IR35 tax legislation in the UK, which caused some uncertainty in our client base. Thankfully, this is now behind us and projects can get started.

Despite the market uncertainty and the major impacts on both of our US and UK economies, we have used the time prudently to clean up some issues and to put our business on a more solid financial footing. In February, we raised \$19.6 million of new equity, which allowed us to further reduce our debt levels. Overall, our debt levels have broadly halved since last summer, and we continue to manage this burden down. We have filed for forgiveness on our Paycheck Protection Program loans of \$19.4 million. We've had a number of clarification requests from the Small Business Administration, but we continue to await a determination.

I will now hand the call over to Khalid Anwar, our Principal Financial and Accounting Officer, for a further update.

Khalid Anwar

Thank you, Brendan, and good morning, everyone.

For the first quarter of 2021, revenues of \$49 million reflect a decrease of 15.6% over the prior year of \$58.7 million. Excluding the divested business, *firstPRO*, revenues declined by 11.3%. The decline was offset by a favorable foreign currency translation of just under \$1 million. The remaining decline of \$10.7 million was due to the divested business and COVID-19 impacts.

Revenue during the quarter was comprised of \$48 million of temporary contractor revenue and \$1 million of permanent placement revenue. The temporary contractor revenue is now approximately \$3,700 per week, down from approximately \$4,100 per week in the prior year first quarter, after adjusting for the divested business, and is down slightly from the approximately \$3,800 per week in the fourth quarter of 2020.

We ended the quarter with approximately 3,500 temporary contractors, versus approximately the same amount last December.

Gross profit for the quarter of \$8 million decreased \$2.6 million, or 24.7%, over the comparative first quarter of the prior year. Excluding the divested business, gross profit decreased by \$0.8 million, or 9.4%.

Gross margin for the quarter was 16.4%, compared with 18.1% in the prior year first quarter, largely driven by lower permanent revenue from the divested business. Excluding the divested business, gross margin for Q1 2020 was 16%.

Operating expenses for the quarter were \$8.7 million, a decrease of 41.1%, or \$6.1 million. Q1 2020 included goodwill impairment charges of approximately \$3 million of the *firstPRO* reporting unit, which has since been divested. The remaining decrease of \$3.1 million was driven by lower people costs, from steps taken in 2020 in the wake of the pandemic, reduced professional fees, and overall reduction in general and administrative costs.

Loss from operations was \$645,000, versus \$4.1 million in the prior year comparative quarter. Excluding goodwill impairment, comparative loss in Q1 2021 was \$1.1 million.

Other expenses for the quarter totaled \$1 million, versus \$3.1 million in the comparative first quarter of the prior year. The reduction was primarily driven by lower interest expenses of \$1.1 million, helped by the Company's successful efforts to reduce its debt load over the last several months. The gain from remeasuring the Company's Intercompany Note in the first quarter of 2021 of \$128,000 compares with a loss of \$675,000 in the first quarter of 2020. This performance translated into the Company's substantially narrowed net loss of \$1.7 million, compared with a loss of \$7.2 million in the prior year.

EBITDA of \$321,000 improved significantly from a loss of \$4 million for Q1 2020. Adjusted EBITDA of \$1.1 million was slightly below last year's level of \$1.2 million.

Finally, with respect to the operating cash flow, we reported positive cash flow of \$167,000, which is negative cash flow of \$1.7 million. This was the result of successful management of our working capital and our overall cost controls.

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

Brendan Flood

Thank you, Khalid.

We have no reason to see the staffing market any differently than our other peer firms that have already opined upon it, and we reiterate our previous comments made following discussions with our clients about their needs and plans, that we are now in a continuing growth period, with a strong recovery expected in the second half of 2021.

The second quarter of 2020 was our hardest hit quarter of last year. With a solid pipeline of opportunities, our expectation is that we will see a 20% uplift year-over-year for both revenue and gross profit, as all three of our Business Streams are showing positive trends of growth.

In terms of business wins, I mentioned on our last call that we had signed 56 new client contracts in our commercial staffing business. This number has now increased by roughly a dozen. Our largest UK client is working through the legal documentation for a new two-year extension to our framework agreement. A large existing IT client in the UK has awarded us a material contract across continental Europe, and our largest client in Professional Staffing in the U.S. has asked us to extend our reach into three additional states and to look at how we can support them in Asia. As you can see, there is a definite sense of momentum building in this recovery and we are enthusiastic about these and other opportunities.

Our internal corporate focus is on refinancing our balance sheet and continuing to look after the safety of our employees and contractors, encouraging the members of our teams to get vaccinated to help bring our country's back to normality. Consequently, as previously said, we will focus on M&A in the second half of the year, which will soon be upon us.

With that said, I'd like to thank you for your time and attention this morning. I wish you good health and safety.

Operator, now I would like to hand the call over to you for our Q&A session.

Operator

Thank you. Ladies and gentlemen, we will now conduct a question-and-answer session. One moment, please, while we poll for questions.

We'll take our first question from Peter Nitz, a private investor. Go ahead, please.

Peter Nitz

It sounds like you've got some good momentum going. What excites you about the opportunities in 2021?

Brendan Flood

Thanks, Peter. This is Brendan. I think you've hit the nail on the head. It's the level of momentum that we're seeing. The conversations that we're having with our clients are typically about larger opportunities, rather than a person here and a person there. The conversations that we're being brought into are that there's been a lot of pent-up activity that just didn't happen during the course of 2020, and now a lot of projects are being unleashed, a lot of IT developments are restarting.

I just think that everywhere we look, we don't have one person who's a revenue-generator in our organization right now who isn't working extremely hard and fully loaded up with job orders, which is something that we didn't see at this time last year. The challenge we have is, probably, to find candidates, particularly in our Commercial Staffing business, while the stimulus unemployment checks continue, but as they're expected to end in September, we would expect, again, that the second half of 2021 is going to be huge for us, and for the industry, in general.

Operator

Any further questions, Mr. Nitz?

Peter Nitz

No, thank you.

Operator

Thank you. With no additional questions in our queue, I will turn the call back to Brendan for any additional closing comments.

Brendan Flood

Thank you again, Operator.

The speed with which the vaccination programs are rolling out in our two main markets provides us with the confidence to continue to believe that we are coming out of this downturn stronger than when we went in. I extend my thanks and appreciation to our talented, resilient and hardworking staff and management team, whose actions are directly responsible for seeing us through this pandemic storm.

Our industry is committed to getting people back to work as quickly as possible, and we look forward to playing our part in that recovery. Job openings are climbing, and with the Temp Penetration Rate at 1.84% in the U.S., we look forward to it returning to pre-COVID levels of 1.94% quickly.

Since the dawn of the pandemic, we now work smarter and more efficiently. As we build upon our improved financial foundation, we anticipate that we will keep on driving improvements to our operational performance and to continue to drive and maintain shareholder value as we progress on our path toward our goal of building a profitable \$500 million revenue company.

Thank you all, and we look forward to speaking with you again.

Operator, that is the end of our call.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference, you may disconnect your lines at this time. Thank you for your participation.