*Transcript of*
*Staffing 360 Solutions, Inc.*
**Fiscal Q3 2021 Results Conference Call**
**November 16th, 2021**

## Corporate Participants

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

## Participants

William (Bill) Gregozeski, Greenridge Global
Peter Nitz, Private Investor

## Presentation

**Operator**

Good day, everyone, and welcome to the Staffing 360 Solutions' Fiscal Q3 Results Conference Call.

Today's conference is being recorded.

At this time, I'd like to turn the conference over to Terri MacInnis, VP of Investor Relations with Bibicoff and MacInnis, Inc. Please go ahead, ma'am.

**Terri MacInnis**

Thank you, Shannon. Greetings to all and welcome Staffing 360 Solutions' Fiscal Q3 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 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, November 16, 2021, and Staffing 360 Solutions expressly disclaims any obligations to revise or to 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 measurements, 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, you may begin.

**Brendan Flood**

Thank you, Terri, and welcome to everyone who has joined us for Staffing 360's Fiscal Q3 2021 financial results conference call. I'm joined today by Khalid Anwar, our Principal Accounting and Principal Financial Officer.

I'm pleased to speak to you today about the continuing progress we have made and the improved results we have delivered in the third quarter. We have made meaningful progress across a number of important financial metrics in the third quarter and are positioned to finish the year strongly. I am still optimistic about the vast and growing pipeline of opportunities in the staffing business and also about the progress being made towards economic recovery in the United States and the United Kingdom. The well-being of our staff, contractors and clients continues to be a vital and key priority for us.

The format of our call today will begin with my overview of our improved quarterly results, which include positive net income from operations, net income and earnings per share in Q3. Then Khalid will provide more detail on the financials. Next, I'll discuss how we continue to make excellent progress through the current environment, and I will add more color about our strong quarter and our optimistic view of the business outlook. The line will then be opened for your questions.

As outlined in yesterday's press release, revenue for Q3 2021 was $47.5 million with gross profit at $9.6 million. Excluding *first*PRO, which was disposed of in September 2020, revenue growth was 2% year-on-year and gross profit showed a markedly improved 29% uplift. As many of our fellow public company staffing companies have found, the return of available workers since the seeming end of the stimulus check program has been slower than anticipated. As a consequence of this, we have concentrated on driving gross profit and EBITDA growth sometimes at the expense of revenue. Gross profit and EBITDA are the staffing industry standard for true measures of performance.

On a Year-To-Date basis, we are within just a couple of percentage points from returning to 2020's revenue and we're ahead of 2020 at the gross profit level. Excluding the disposed business, Year-To-Date we are up 2.8% in revenue and 16.4% in gross profit.

Our Adjusted EBITDA for Q3 was $1.5 million, which was up 23% on the prior year and growth of 9% sequentially from Q2 2021. On a non-adjusted basis, we delivered EBITDA of $10.5 million having received forgiveness of the remaining Paycheck Protection Program loans of $9.4 million, giving us total forgiveness of $19.4 million across Quarters 2 and 3, or $19.6 million including accrued interest. As a result of our strengthened balance sheet, interest burden has been reduced by 49% from where it was a year ago, which has led to $8.7 million in net income for the third quarter against a net loss in 2020 of a $4.9 million, excluding the divested business.

I'm pleased to report that we've continued to reduce our non-receivables debt and redeemable preference shares, which were approximately $72.3 million in June 2020, down to $13.5 million at the quarter-end, and down further to $9 million subsequent to the end of the quarter. Year-To-Date, we have positive net income of $14.9 million against the prior year loss of $12.6 million, excluding the divested business, an improvement of $27.5 million. Excluding the $19.4 million of PPP forgiveness, our net income has improved by $8.1 million Year-on-Year.

Overall, we're very pleased with the outcome of this quarter. With that, I will hand the call over to 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 third quarter of 2021 revenues of $47.5 million reflect a decrease of 2.3% over the prior year of $48.6 million. Excluding the divested business, *first*PRO, revenues actually increased by about 2%.

Revenues during the quarter were comprised of $46.2 million of temporary contractor revenue and $1.3 million of permanent placement revenue. The temporary contract revenue is now running at approximately $3,600 per week. After adjusting for the divested business, contract revenue is running slightly higher than prior year's third quarter. We ended the quarter with more than 3,600 temporary employee contractors, an increase of more than 100 from the last quarter. At the end of the October 10 contractors are up by about another 100.

Gross profit for the quarter of $9.6 million increased by $1.3 million or 15.6% over the comparative third quarter of the prior year. Excluding the divested business, gross profit increased by $2.2 million or 28.8%. Gross margin for the quarter was 20.3% compared with 17.1% in the prior year's second quarter. Excluding the divested business, gross margins for Q2 2020 was 16.0%.

Operating expenses for the quarter were $9.2 million, a decrease of 9.9% or $1 million from same time last year. Excluding the divested business, operating expenses were flat compared with the same time last year. Higher commissions due to the growth in the business and higher insurance costs were offset by lower one-time cost and overall reduction in general and administrative costs. Operating income of $473,000 was favorable from last year by $2.3 million, a significant improvement. Excluding the divested business, that favorability was still significant at $2.2 million.

In Q3 of this year, the Company recorded a loss of $316,000 on FX remeasurement of intercompany loan compared with a gain of $443,000 and unpayable variance of $758,000 on currency movements.

Other income of $8.3 million includes the 100% forgiveness of $9.4 million of the PPP loans for the last—for the three remaining subsidiaries, plus accrued interest of $102,000. Interest expense of $800,000 is about half of the interest expense from last year, helped by the Company's continued efforts to reduce its debt load over the last several months. As you know, these efforts continued into the fourth quarter.

This quarterly performance translated into $8.7 million of net income versus a loss of $2.6 million last year. This is a significant improvement from last year by $11.4 million. Excluding the gain from PPP loan forgiveness, net loss narrows to $700,000 versus a loss of $2.6 million in the prior year. Excluding divested business, the prior year loss was $5 million.

EBITDA of $10.5 million improved significantly from a loss of $247,000, or a loss of $2.6 million excluding the divested business. This includes the $2.2 million on loss of sale of firstPRO. Adjusted EBITDA of $1.5 million was higher by $277,000 from Q3 last year, an increase of 23%. Year-To-Date Adjusted EBITDA of $4 million was favorable to last year by $1 million, an increase of 35.5%.

Also, more progress in the fourth quarter:

The Company sold shares in the market, raising an additional $9.25 million and importantly, paid down $4.5 million in additional debt after transaction fees and working capital needs. On a Year-To-Date basis, the Company eliminated $2.2 million in interest expense since December 2020, having raised more than $52 million via stock offerings and has reduced its total debt by $62.2 million.

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

**Brendan Flood**

Thank you, Khalid.

Economists in the business press have recently cited evidence that we will have stronger job growth going into next year and that the economy is making progress towards the Federal Reserve's goal of maximum employment. As the pandemic eases, millions of job vacancies have and are being created. We continue to expect that pent-up demand for staffing will help to accelerate growth. We have a good 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 strong. As I've mentioned before, we see the same similarities in the staffing market recovery and opportunity as do our peers. We reiterate our previous comments that our industry and Staffing 360 Solutions are now in a continuing growth period, with a strong recovery expected to last well into 2022.

I remind you that one main difference between this economic downturn and those that have gone before is the strong recovery this time in permanent placement business (or "direct hire") over temporary contracting. As the anticipated return to work following the end of the Stimulus Check Program has been slower than anyone expected, we concentrated on meeting this direct hire need principally in the Professional Staffing Business Streams.

Excluding the disposed business, our permanent placement gross profit was up 34% Year-over-Year in Q3. We expect continuing strength in Q4. Our professional business in the U.S., Lighthouse Professional Services reported that direct hire gross profit grew by more than 150% Year-over-Year in Q3. Professional Staffing in total, i.e., all of our non-light industrial businesses, grew by 57% Year-over-Year.

Temporary or contract staffing has been a little slower to recover that unexpected, but as we are now several weeks into Q4, I'm pleased to see, as Khalid has mentioned, that we're seeing average weekly revenue numbers for our temporary and contract businesses growing.

The second half of last year delivered $102.5 million of revenue, or $100.5 million excluding the sale of firstPRO, with gross profit of $15.8 million, excluding the disposal. While we're not issuing specific guidance, we do continue to expect to beat both the revenue and gross profit numbers in the second half of the current year, with improvement in gross profit being more significant than the improvement in revenue for the reasons explained earlier.

In summary, Staffing 360 Solutions continues to productively adapt and to react to the manner in which our markets are growing and recovering. We continue to benefit from: our early swift and strong reorganization at the onset of the pandemic; the economic recovery in both the U.S. and the U.K.; and continued lower overall spending by the Company.

I'm very pleased to talk about some of our recent business wins:

We continue to sign up new customers within our commercial staffing business, and we have now executed on 107 new contracts since the beginning of the year. Our largest U.K. client is progressing through the legal documentation for what has now become a five-year extension to our framework agreement. This is on the heels of our being awarded last quarter, the exclusive Managed Service Provider position for all of its IT recruitment globally. That program began in July and continues for at least two years.

A large U.K. client continues to drive its growth with our support in both the U.K. and the U.S.

In the U.S., we continue to see a candidate-driven market, especially during the recovery from the end of the stimulus check program. A large portion of our client relationship management continues to focus on helping to educate clients on required higher pay rates to compete over a depleted pool of workers in this “new normal.”

While business has been good and improving, our internal corporate focus has simultaneously been on refinancing our balance sheet and continuing to look after and prioritize the safety of our employees, their families, and our contractors. In line with Biden Administration's announcement with respect to employers with more than 100 employees being mandated to either be vaccinated or regularly tested, we will continue to comply with all legislation and have started working with our clients and candidates to ensure that we will be fully compliant when the emergency temporary standard comes into effect in January, subject to the legal challenge that it is facing.

Securing our financial future continues to be one of the core issues that we've been dealing with for several years. There was no certainty that access to capital will last, and it is important to note that this recent period has 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. $13.5 million in non-receivables debt reduced to $9 million post balance sheet is very manageable and is not a drain on our operating cash flow, but it does place some restrictions on our operating and M&A decisions.

We have already begun to focus on M&A and been in discussions with several parties, though nothing is sufficiently far along in those discussions to highlight in detail right now. We believe that even though M&A deal flow is high and there was competition for growth, the fragmented nature of the staffing markets still allows for accretive and attractively priced acquisitions to be found.

With all of that said, I thank you for your time and attention. I wish you good health and safety. Operator, now I'd like to hand the call over to you for our Q&A session.

**Operator**

Thank you. We will now conduct a question-and-answer session.

**William (Bill) Gregozeski**

Hey, Brendan. Talk a little bit about any difficulty you're having in filling the openings you have and keeping those workers in place?

**Brendan Flood**

Sure. We're experiencing somewhat the same difficulties that all of our peers are having out there: that the speed at which people are coming back to the market is not as great as we all expected. It is starting to improve, but there are ways and means in which workers who've been out of the workforce for a year, maybe 18 months, are finding different ways in which to receive some kind of stimulus from the government.

We are additionally seeing that a number of candidates are starting jobs, but they're shopping around. They might start on Monday, and they'll disappear and find a higher paid job by Wednesday, which is a great challenge for us. We recently had a meeting in New York with the entire leadership team of the Commercial Staffing business, which is where this is principally an issue and we worked through a whole load of attraction and retention strategies that we're going to engage in over the next six months to work out exactly where we can find our candidates from and how we can retain them going forward.

I would love to tell you exactly what they are, Bill, but everybody's probably listened to this call or will listen to read the transcript at some point, so we would like to make sure that we get the jump on our competitors out there without having to tell them exactly what it is that we're going to do. But we did come away from that meeting with probably about 15 different action points that we believe will make a material improvement for us in the next three to six months.

**William (Bill) Gregozeski**

Okay. All right. Great. Thanks. Congratulations on the big debt reduction too.

**Brendan Flood**

Thank you very much.

**Operator**

Our next question will come from Peter Nitz

**Peter Nitz**

Gentlemen, that's pretty good progress this quarter. It seems to me like you've had a greater success on lower margin business than you have on other [businesses] and this was leading to a larger gross profit. Can you talk about that?

**Brendan Flood**

Sure. Thanks, Peter. One of the things that we've done internally over the course of the last year to 18 months is to increase the level of visibility and transparency that we have in terms of our internal financial statements. Historically, stuff like workers' compensation claims, EEOC claims—which we don't have very many of them relatively—but there is a certain number of costs that weren't as visible to the organization as they probably should be.

What we've been looking at while it's been somewhat difficult to get all of these candidates back into the marketplace is to determine exactly where we're incurring our workers' comp claims exactly where we may be incurring some EEOC claims and determining whether there are individual clients that are more problematic than other clients. We have over the last number of months said goodbye to three clients who we determined that were not sufficiently safe, and that were increasing our workers' compensation liabilities to the point where we weren't really making any money from them.

We've effectively taken those items out which were impacting our gross profits and therefore in a mixed basis, we end up with a higher gross profit number, which you can see in our financial statements. I think it comes down, Peter, to a lot more visibility, a lot more accountability, and all of these sales and recruitment and operations functions working more readily together than they probably ever have before.

**Peter Nitz**

Thank you.

**Operator**

We have no further questions. I'd now like to turn the call back over to Brendan Flood for a brief closing comment.

**Brendan Flood**

Thank you, Operator. As always, but especially in these unique times, I commend our talented staff and management team for continuing to successfully navigate the new normal with integrity and purpose in these continuing less than ideal conditions. We believe that our company has reached a key inflection point in its evolution.

We continue to build upon our improved financial foundation and anticipate that we will keep on driving improvements to our operational performance and to maintain and drive shareholder value, as we progress in our path towards our goal to build a profitable $500 million revenue company.

Thank you all. I wish you continued good health and a happy holiday season. I look forward to speaking with you again to discuss what we anticipate will be further improved Q4 results.

Operator, that is the end of our call.

**Operator**

**Thank you. Everyone, this concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.**