



***GEE Group Inc. (NYSE American: JOB) Fiscal Third Quarter Ended June 30, 2023
Earnings and Update Webcast Conference Call: Prepared Remarks***

Tuesday, August 15, 2023, 11:00 AM EDT

Audience Event Link:

https://event.webcasts.com/starthere.jsp?ei=1627834&tp_key=f8239883c1

Company Participants

Derek Dewan – Chairman and Chief Executive Officer

Kim Thorpe – Senior Vice President and Chief Financial Officer

Intro – Derek Dewan

Hello, and welcome to the GEE Group fiscal 2023 third quarter ended June 30, 2023 earnings and update webcast conference call. I’m Derek Dewan, Chairman and Chief Executive Officer of GEE Group, and will be hosting today’s call. Joining me as a co-presenter is Kim Thorpe, our Senior Vice President and Chief Financial Officer. Thank you for joining us today.

Derek Dewan

It is our pleasure to share with you GEE Group’s results for the 2023 fiscal third quarter ended June 30, 2023, and provide you with our outlook for the remainder of the 2023 fiscal year and the foreseeable future. Some comments Kim and I will make may be considered forward looking, including predictions, estimates, expectations and other statements about our future performance. These represent our current judgments of what the future holds and are subject to risks and uncertainties that actual results may differ materially from our forward-looking statements. These risks and uncertainties are described below under the caption, “Forward-Looking Statements Safe Harbor” and in Monday’s earnings press release and our most recent Form 10-Q, 10-K and other SEC filings under the captions, “Cautionary Statement Regarding Forward Looking Statements” and, “Forward-Looking Statements Safe Harbor”. We assume no obligation to update statements made on today’s call.



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During this presentation, we also will talk about some non-GAAP financial measures. Reconciliations and explanations of the non-GAAP financial measures we will address today are included in the earnings press release. Our presentation of financial amounts, and related items including growth rates, margins and trend metrics are rounded, or based upon rounded amounts, for purposes of this call and all amounts, percentages and related items presented are approximations, accordingly. For your convenience, our prepared remarks for today's call are available in the Investor Center of our website, www.geegroup.com.

We once again achieved very good results in the fiscal 2023 third quarter beginning with consolidated revenues of \$38.2 million. Our consolidated gross profit and gross margin were \$13.7 million, and 35.8%, respectively. Our consolidated non-GAAP adjusted EBITDA for the fiscal 2023 third quarter was \$2.1 million. We achieved consolidated net income of \$7.9 million or \$0.07 per diluted share, for our fiscal 2023 third quarter. As Kim will explain further, the prior fiscal year's third quarter and year to date results were well above normal due to record high demand for direct hire placement services, which is why we did not beat last year's numbers. Fiscal 2023's performance so far still compares favorably taking into account the operating environment, and particularly, in terms of the significant growth we achieved in our combined professional IT contract businesses and brands.

Before I turn it over to Kim, I would like to share some important achievements and milestones during the quarter. First, the June 2023 quarter was our eighth consecutive quarter of profitability and free cash generation since we completed our restructuring and deleveraging initiatives in June 2021. Our operating performance and financial results have been on par with and better in some



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respects, that our larger industry peers, led by significant growth in our IT brands and positions us well for future growth and further increasing shareholder value. Our performance through the June 2023 quarter also allowed us to recognize a deferred tax benefit of \$6.8 million. This event alone added approximately \$0.06 to this quarter's earnings per share. Kim will cover this very positive development in a few moments.

We implemented our \$20 million share repurchase program in late-April 2023, which now comprises a key component of our capital allocation plans. As of June 30, 2023, we had repurchased 870 thousand of our common shares and, to date, we have repurchased nearly 1.5 million JOB shares. At current prices, we intend to continue share repurchases and also are working on enhancements to the repurchase program.

I want to assure everyone that we fully recognize our stock is presently undervalued and has substantial room to grow. As a matter of fact, most publicly traded staffing firms, are trading well below market indices and their 52-week highs due to environmental concerns and, therefore, we believe our entire industry group, including JOB, has tremendous upside potential. Measuring forward from the time we announced the funding of our follow-on offering on April 19, 2021, GEE Group stock has outperformed most of its public staffing industry peers, including several of the largest players.



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Finally, before I turn it over to Kim, I want to once again thank our wonderful dedicated people. They work extremely hard every day to ensure that our clients get the very best service. They are the key factor in the outstanding performance GEE Group achieved in fiscal 2022, and so far in fiscal 2023, and will continue to be the most important driver of our Company's future success.

At this time, I'll turn the call over to our CFO, Kim Thorpe, who will further elaborate on our fiscal 2023 third quarter results. Kim.

Kim Thorpe

Thank you, Derek, and good morning. Our consolidated revenues for the three and nine-months ended June 30, 2023 were \$38.2 million and \$118.2 million, which were lower overall, in comparison with the comparable fiscal 2022 periods. The lower fiscal 2023 revenues were mainly attributable to 2022's record high performance in direct hire placement revenues. Despite this and the headwinds we've faced so far in fiscal 2023, there are some notable positive results, including substantive growth in our professional contract services businesses, led by our IT brands. Our financial performance so far in fiscal 2023 also is on par and better in several respects, with that of other publicly traded staffing companies and we remain reasonably optimistic about performance for the remainder of the fiscal year.

Professional and industrial contract staffing services revenues for fiscal 2023's third quarter were \$33.0 million, which is near level, as compared to fiscal 2022's third quarter contract staffing services revenue. Professional contract services revenue, our largest contract services segment, represents 90% of all contract services revenue, and 78% of consolidated revenue, and increased \$0.8 million, or 3%, quarter over quarter. The bright spots in this comparison were that our



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professional FA&O (finance, accounting and office) and IT contract services revenues both grew in the quarter, with IT revenues achieving 9% growth year to date. IT contract services has now grown to 59% of all professional services contract revenue and IT direct hire and contract services revenue combined represented 49% of consolidated revenue.

Direct hire placement revenue for the fiscal 2023 third quarter was \$5.2 million, compared with the fiscal 2022 third quarter revenue of \$8.0 million. As Derek and I mentioned earlier, fiscal 2022 was a record high year for direct hire placement services and, in fact, our June 2022 quarter set the record as our highest June quarter ever for direct hire placement services. Our direct hire placement revenue for nine-month period ended June 30, 2023 was \$15.8 million.

Industrial staffing services revenues were \$3.2 million and represented 8% of total revenue for fiscal 2023's third quarter ended June 30, 2023. We continue to experience growth challenges in our light industrial markets, which we attribute, in part, to the lingering presence of some COVID-19 holdover relief programs available to workers in Ohio. We believe these programs tend to cause our light industrial temporary workers to moderate or reduce their work hours in order to balance income streams in favor of preserving government subsidized benefits which they may lose if their earned income is too high. Recent inflation also has led us to increase hourly wages and benefits for contingent workers in our light industrial business in Ohio. These conditions also increase competition among staffing firms in Ohio for laborers to fill temporary staffing job orders. We are actively introducing new sales and recruiting programs to help attract and retain candidates and restore growth in our industrial business. We also have implemented price increases in Ohio,



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which have been successful to an extent in helping mitigate the impact of inflation and labor conditions there.

Gross profit for the fiscal 2023 third quarter was \$13.7 million, down \$2.8 million, or 17%, compared with fiscal 2022 third quarter gross profit of \$16.5 million. Our overall gross margins were 35.8% and 40.1% for the fiscal 2023 and 2022 third quarters, respectively. The declines in gross profit and gross margin, again, are mainly attributable to lower direct hire placement business, which has 100% gross margin. On the contract side, increases in contractor pay associated with recent inflation also caused some spread compression within our professional services businesses. The Company has recently stepped up counter-inflationary increases in mark-ups, bill rates and spreads in order to address recent margin compression. Despite lower quarter over quarter gross profit and gross margins, our current margins remain relatively high and are very competitive as compared to the Company's peer group.

Selling, general and administrative expenses (SG&A) for the fiscal 2023 third quarter ended June 30, 2023 decreased by \$1.1 million, or 9%, compared with fiscal 2022's third quarter. SG&A expenses were 30.8% of revenues for fiscal 2023's third quarter, compared with 31.3% for the third quarter of fiscal 2022. In late February and March 2023, the Company implemented certain cost reductions with estimated annual savings of approximately \$4.0 million. The Company monitors operating costs including the impacts of inflation with a view towards identifying and taking advantage of potential cost reductions on a routine basis. We are now beginning to see the benefits of our counter-inflationary measures and other targeted cost reductions to help improve our expense ratios and margins.



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We achieved net income for fiscal 2023's third quarter of \$7.9 million, or \$0.07 per diluted share, as compared with net income of \$2.6 million, or \$0.02 per diluted share, for fiscal 2022's third quarter. The quarter over quarter increase is mainly attributable to the deferred tax benefit of \$6.8 million recognized in the quarter associated with the reversal of what was a 100% allowance carried as an offset to our deferred tax assets. To put the significance of this further into perspective, we have been required to carry this 100% valuation allowance since the acquisition of General Employment Enterprises by Scribe Solutions in 2014, that formed our, your Company, GEE Group Inc., as it stands today. The tests and criteria that must be met to accomplish the release of this allowance are highly technical and highly scrutinized by management and our independent auditors. However, in the simplest of terms, and as Derek touched upon in his opening, it also is significant in that the Company was required to demonstrate both with its historical profitability and outlook, that it is no longer required. Adjusted net income, which is a non-GAAP financial measure, for the fiscal 2023 third quarter was \$8.1 million, or \$0.07 per diluted share, as compared with \$3.1 million, or \$0.03 per diluted share, for the fiscal 2022 third quarter.

Adjusted EBITDA, which is a non-GAAP financial measure, for the fiscal 2023 third quarter and year-to-date ended June 30, 2023, was \$2.1 million and \$5.8 million, as compared with \$4.2 million and \$11.5 million, respectively, for the comparable fiscal 2022 periods. Several factors we've covered, including notably, the decrease in fiscal 2023 direct hire revenues so far from fiscal 2022's record highs, as well as inflationary pressures present this year, particularly on wages, account for these declines. We also expect the cost reductions we implemented in February and



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March this year to continue to help mitigate inflationary increases on costs and expenses going forward, and we will take other measures necessary to improve our margins and profitability.

Our current or working capital ratio at June 30, 2023 was 4.1-to-1, up 139 basis points from 2.7-to-1, at September 30, 2022. Adjusted free cash flow, which is a non-GAAP financial measure, for the nine-months ended June 30, 2023 was \$4.3 million, and excluded the effects of the second and final installment of deferred FICA taxes of \$1.8 million that were deferred under the CARES Act which were paid in December 2022.

Our liquidity position remains strong and we have no outstanding debt. Our net book value per share was \$0.96 at June 30, 2023, and our net tangible book value per share was \$0.35, both up significantly since September 30, 2022. And, the Company has repurchased nearly 1.5 million shares of our common stock in open market purchases at an average price of \$0.52 per share to date since the program was authorized on April 27, 2023.

To conclude, we remain positive in our outlook for fiscal 2023, with appropriate consideration of the uncertainties and unknowns that exist in our operating environment. Before I turn it back over to Derek, please note that reconciliations of GEE Group's non-GAAP financial measures discussed today with their GAAP counterparts, can be found in supplemental schedules included in our earnings press release.

Now, I'll turn the call back over to Derek.

Derek Dewan



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Thank you, Kim. The fiscal 2023 third quarter marked our eighth consecutive quarter of strong operating performance since de-leveraging the Company. Having consistently achieved higher margins and free cash flow for the last eight quarters, we continue to build a positive track record, as well as positive momentum for the future. At June 30, 2023, the Company had no debt and over \$20.7 million in cash with \$12.4 million in availability under its bank ABL facility. GEE Group's prospects today for future profitable growth continue to expand and improve. Despite macroeconomic headwinds and unforeseen events, we will continue to work hard for the benefit of our shareholders and expect to deliver solid results for fiscal 2023 and beyond, and significantly increase shareholder value.

Before we pause to take your questions, I want to again say a special thank you to all our wonderful people for their professionalism, hard work and dedication. Without them, we could not have accomplished all the good things we have shared with you today.

Now, Kim and I would be happy to answer your questions. Please ask just one question and rejoin the queue with a follow-up, as needed. If there's time, we'll come back to you for additional questions.

Question-and-Answer Session to Follow

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Forward-looking Statements Safe Harbor



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In addition to historical information, this press release contains statements relating to possible future events and/or the Company's future results (including results of business operations, certain projections, future financial condition, pro forma financial information, and business trends and prospects) that are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1934, as amended, (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995 and are subject to the "safe harbor" created by those sections. The statements made in this press release that are not historical facts are forward-looking statements that are predictive in nature and depend upon or refer to future events. These forward-looking statements include without limitation information relating to our intended share repurchases, the amount and timing of share repurchases, the possibility that the share repurchase program may be discontinued or suspended, anticipated cash flow generation and expected shareholder benefits. Such forward-looking statements often contain, or are prefaced by, words such as "will", "may," "plans," "expects," "anticipates," "projects," "predicts," "pro forma", "estimates," "aims," "believes," "hopes," "potential," "intends," "suggests," "appears," "seeks," or variations of such words or similar words and expressions. Forward-looking statements are not guarantees of future performance, are based on certain assumptions, and are subject to various known risks and uncertainties, many of which are beyond the Company's control, and cannot be predicted or quantified and, consequently, as a result of a number of factors, the Company's actual results could differ materially from those expressed or implied by such forward-looking statements. The international pandemic, the "Novel Coronavirus" ("COVID"-19), has been detrimental and may continue to negatively impact and disrupt the Company's business operations. The health outbreak has caused a significant negative effect on the global economy, employment in general including the lack of demand for the Company's services which was exacerbated by government and client directed "quarantines", "remote working", "shut-downs" and "social distancing". There is no assurance that conditions will not persist or worsen and further negatively impact GEE Group. Certain other factors that might cause the Company's actual results to differ materially from those in the forward-looking statements include, without limitation: (i) the loss, default or bankruptcy of one or more customers; (ii) changes in general, regional, national or international economic conditions; (iii) an act of war or terrorism, industrial accidents, or cyber security breach that disrupts business; (iv) changes in the law and regulations; (v) the effect of liabilities and other claims asserted against the Company including the failure to repay indebtedness or comply with lender covenants including the lack of liquidity to support business operations and the inability to refinance debt, failure to obtain necessary financing or the inability to access the capital markets and/or obtain alternative sources



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of capital; (vi) changes in the size and nature of the Company's competition; (vii) the loss of one or more key executives; (viii) increased credit risk from customers; (ix) the Company's failure to grow internally or by acquisition or the failure to successfully integrate acquisitions; (x) the Company's failure to improve operating margins and realize cost efficiencies and economies of scale; (xi) the Company's failure to attract, hire and retain quality recruiters, account managers and salesmen; (xii) the Company's failure to recruit qualified candidates to place at customers for contract or full-time hire; (xiii) the adverse impact of geopolitical events, government mandates, natural disasters or health crises, force majeure occurrences, global pandemics such as the deadly "coronavirus" (COVID-19) or other harmful viral or non-viral rapidly spreading diseases and such other factors as set forth under the heading "Forward-Looking Statements" in the Company's annual reports on Form 10-K, its quarterly reports on Form 10-Q and in the Company's other filings with the Securities and Exchange Commission (SEC). More detailed information about the Company and the risk factors that may affect the realization of forward-looking statements is set forth in the Company's filings with the SEC. Investors and security holders are urged to read these documents free of charge on the SEC's web site at <http://www.sec.gov>. The Company is under no obligation to (and expressly disclaims any such obligation to) and does not intend to publicly update, revise, or alter its forward-looking statements whether as a result of new information, future events or otherwise.

Non-GAAP Financial Measures

Statements in these prepared remarks and references to financial information include the non-GAAP financial measures, EBITDA, Adjusted EBITDA and Senior Debt leverage ratio, which are provided as additional information to supplement the Company's consolidated financial statements presented on a GAAP basis. These non-GAAP financial measures are used by management internally for planning purposes, to help evaluate the Company's performance period over period,



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to analyze the underlying trends in its business, to establish operational goals and to provide additional measures of operating performance. GEE Group also uses the non-GAAP financial information to assess the Company's liquidity position, to help determine its ability to meet debt service, to make capital expenditures and to provide for its working capital needs. In addition, the Company believes that the non-GAAP financial measures presented herein are meaningful to investors and are utilized by them to enhance the overall understanding of the Company's financial performance. Non-GAAP financial measures do not serve as an alternative to or substitute for the consolidated quarterly and annual financial statements presented in accordance with accounting principles generally accepted in the United States ("GAAP"). The non-GAAP financial measures presented herein might not be calculated in the same manner as, and thus might not be comparable to, similarly titled measures reported by other companies. Non-GAAP EBITDA and non-GAAP Adjusted EBITDA as determined by the Company provide measures of operating results in a manner that is focused on the Company's core business on an ongoing basis, by removing the effects of non-operating and certain non-cash and non-recurring expenses. Non-GAAP EBITDA and non-GAAP Adjusted EBITDA as determined by the Company are computed as net income or net loss before interest, taxes, depreciation and amortization (EBITDA), plus non-cash stock option and stock-based compensation expenses and acquisition, integration and strategic planning expenses, and excluding gains or losses on extinguishment of debt and other gains and losses (Adjusted EBITDA). The financial information tables that accompany our earnings press release include reconciliations of GAAP net income (net loss) and GAAP net operating income (net operating loss) to the non-GAAP financial measures, EBITDA and Adjusted EBITDA. The non-GAAP financial measure, Senior Debt Leverage, is a ratio of the Company's Senior Debt to the trailing 12 months ("ttm") Adjusted EBITDA and provides information about the Company's compliance with loan covenants. The calculation of Senior Debt Leverage is presented in the reconciliations of GAAP financial measures to non-GAAP financial measures that accompany our earnings press release. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flow that either excludes or includes amounts that are not normally included in the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP financial measures discussed above, however, should be considered in addition to, and not as a substitute for, or superior to net income or net loss and income or loss from operations as reported in accordance with GAAP on the Consolidated Statements of Income, cash and cash flows as reported in accordance with GAAP on the Consolidated Statement of Cash Flows or other measures of financial performance prepared in accordance with GAAP, and as reflected on the Company's consolidated financial statements



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prepared in accordance with GAAP included in GEE Group's Form 10-Q and Form 10-K filed for the respective fiscal periods with the Securities and Exchange Commission (SEC).

About GEE Group Inc.

GEE Group Inc. (NYSE American: JOB) is a provider of specialized staffing solutions and is the successor to employment offices doing business since 1893. The Company operates in two industry segments, providing professional staffing services and solutions in the information technology, engineering, finance and accounting specialties and commercial staffing services through the names of Access Data Consulting, Agile Resources, Ashley Ellis, General Employment, Omni-One, Paladin Consulting and Triad. Also, in the healthcare sector, GEE Group, through its Scribe Solutions brand, provides medical scribes who assist healthcare professionals by preparing and maintaining required documentation for patient care utilizing electronic medical records (EMR). Additionally, the Company provides contract and direct hire professional staffing services through the following SNI brands: Accounting Now®, SNI Technology®, Legal Now®, SNI Financial®, Staffing Now®, SNI Energy®, and SNI Certes.

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