GEE Group Inc. (JOB) fiscal Q3 2021 Earnings Conference Call Prepared Remarks
August 17, 2021, 10:00 AM ET

Company Participants

Derek Dewan – Chairman and CEO

Kim Thorpe – Chief Financial Officer

Operator

Hello, and welcome to the GEE Group fiscal third quarter 2021earnings presentation. Our hosts for today's call are Mr. Derek Dewan, Chairman and CEO of GEE Group, and Mr. Kim Thorpe, Chief Financial Officer. Mr. Dewan, you may begin.

Derek Dewan

Hello, everyone. Thank you for joining us today. It is our pleasure to share with you GEE Group's results for the fiscal third quarter ended June 30, 2021. Some comments Kim and I will make on today's call may be considered forward looking, including predictions and estimates about our future performance. These statements represent our current judgment of what the future holds. However, they are subject to risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. These risks and uncertainties are described in yesterday's press release and our most recent Form 10-K and Form 10-Q filed with the SEC under the captions, "Cautionary Statement Regarding Forward Looking Statements" and, "Forward-looking Statements Safe Harbor". We assume no obligation to update the statements made on today's call.

During this presentation, we also will mention and reference some non-GAAP financial measures. Reconciliations and further explanations of these measures are included in supplemental schedules to our earnings press release. Our presentation of revenues, cost of services, gross profits and gross margins and the related growth rates also includes results for our Professional and Industrial Services segments. For your convenience, our prepared remarks for today's call are available in the Investor Center of our website, www.geegroup.com.

We achieved near record levels of revenues and earnings in the fiscal third quarter due to a relatively broad-based, acceleration in demand for our permanent placement and contract staffing services. We were particularly pleased with the strength of our permanent placement results, which grew year-over-year by approximately 78% and approximately 51% sequentially over the 2021 fiscal second quarter. I am very proud of our core staffing recruiters, business development and field leadership in addition to our corporate services professionals all of whom are the key to our success.

For the 2021fiscal third quarter, consolidated revenues were approximately $38.1 million, up 43% from last year's fiscal third quarter. Net loss per diluted share in the fiscal third quarter was approximately negative $(0.01), a major improvement compared to approximately negative

$(0.10) in the comparable fiscal 2020 third quarter. However, but for the effects of net gains and losses on extinguished debt and the last amount of interest expense incurred on our now paid-off high-cost senior debt, we would have reported net income this quarter. Our fiscal third quarter 2021 results also were either on par with or improved relative to those reported for the comparable pre-pandemic fiscal third quarter of 2019.

At this time, I'll turn the call over to our CFO, Kim Thorpe who will further elaborate upon the results for the 2021 fiscal third quarter.

Kim Thorpe

Thank you, Derek, and hello, everyone. As Derek noted, consolidated revenues of approximately $38.1 million in the fiscal 2021 third quarter were up approximately 43% year-over-year as compared to the 2020 fiscal third quarter and up 10% sequentially. Professional staffing services revenues were approximately $34.3 million, up approximately 45% from the comparable prior year third quarter and up approximately 12% sequentially from the 2021 fiscal second quarter. Industrial staffing services revenues were approximately $3.8 million, up approximately 31% on a year-over-year basis and down approximately 6% sequentially as compared to the 2021 fiscal second quarter. Today, we have 31 staffing locations in eleven states, including 27 branch offices and 4 additional markets that are "virtual" where our staff members work remotely.

In the fiscal third quarter, there were approximately 63 billing days, which is about 1 billing day less than the same quarter one year ago and approximately 3 billing days higher than the sequential prior quarter. The current fourth quarter, which is our last fiscal 2021 quarter has 63 billing days, compared to 64 billing days in the fiscal fourth quarter one year ago. Contract Staffing Services bill rates for the quarter increased approximately 9% compared to one year ago, including the effects of changes in the mix of revenues.

Professional Direct Hire or "Permanent Placement" Services revenues were up approximately 78% year-over-year and approximately 51% sequentially as compared to the 2021fiscal second quarter. They comprised approximately 16% of total revenues for the Professional Services business segment and approximately 15% of all contract and direct hire revenues. Professional Contract Services segment revenues also grew nicely, up approximately 40% year-over-year and approximately 6% sequentially over the 2021 fiscal second quarter. Our IT services end markets at Agile, Access Data, Paladin Consulting and SNI accounted for approximately 45% of the Professional Services business segment revenues and were up approximately 12% year-over-year and approximately 13% sequentially. The other Professional Services end markets (Finance, Accounting, Administrative & Office, Engineering, Healthcare, and other) accounted for the remaining approximately 55.0% of Professional Services business revenues and were up approximately 45% year-over-year and 12% sequentially over the immediate prior quarter.

Industrial Services business segment revenues for the quarter were up approximately 31% year-over-year and down approximately (6%) sequentially from the 2021 fiscal second quarter. The year-over-year increase is consistent with the recovery from the COVID-19 pandemic. The sequential decrease is related to a number of factors including slower volume recovery coupled with a lower number of temporary laborers returning to work relative to a strong demand environment which resulted in an increasing number of unfilled orders. Our own experience has been consistent with the widely held observation that this is due mainly to the abundance of enhanced unemployment benefits, generous stimulus payments and refundable credits made available by state and the federal governments . However, as these "payments" begin to scale down or terminate, we expect the supply of labor will increase and anticipate an increase in filled orders and related revenue.

Fiscal third quarter consolidated gross profit dollars were up approximately 43% year-over-year and up approximately 27% sequentially as compared to the 2021 fiscal second quarter. Our Professional staffing segment, fiscal third quarter gross profit dollars were up approximately 54% year over year and approximately 26% sequentially as compared to the immediately preceding quarter. Consolidated gross margin percentages were nearly level year over year and were up approximately 490 basis points, or just under 5 percentage points, sequentially as compared to the 2021 fiscal second quarter. As I mentioned a moment ago, our permanent placement revenues in the fiscal third quarter were approximately 15% of consolidated revenues, compared with approximately 12% of consolidated revenues during the same quarter a year ago and approximately 11% in the sequential prior quarter. This higher mix of permanent placement revenue helped improve our gross margin. A higher industrial gross margin driven by a relatively significant workers compensation premium refund credit also helped the year ago quarter's relatively high consolidated gross margin.

Selling, general and administrative ("SG&A") expenses were approximately 29% of consolidated revenues, compared with approximately 38% of revenues in the fiscal third quarter of 2020. In addition to substantially higher revenue relative to fixed costs overall, this improvement is the result of higher productivity and compensation expense savings, lower occupancy costs, lower job boards advertising costs, and lower travel and entertainment.

Net (loss) attributable to common shareholders was approximately negative \$(0.9) million, or approximately negative \$(0.01) per diluted share for the quarter. Excluding the effects of net gains and losses on non-recurring debt extinguishments and interest on former high-cost senior debt retired, net income would have been approximately \$1.6 million, or approximately \$0.02 per diluted share. Net income attributable to common shareholders in the same quarter a year ago was approximately \$31.7 million and earnings per diluted share was approximately \$1.88. Last year's fiscal third quarter results reflected substantial net gains on settlements and retirements of subordinated debt and mezzanine preferred stock for the benefit of common shareholders in the amounts of approximately \$12.3 million and \$24.5 million, respectively.

Adjusted EBITDA, which is a non-GAAP financial measure, was approximately $3.1 million for the quarter, up approximately $1.7 million, or approximately 129%, year-over-year-and up approximately $1.1 million, or approximately 52% sequentially as compared to the immediately preceding quarter. This overall improvement reflects a combination of top line recovery and growth since the beginning of the COVID-19 pandemic, cost savings stemming from integration and restructuring activities undertaken following our SNI acquisition and, most recently, cost saving measures to mitigate the negative effects of COVID-19. These have resulted in the higher productivity, lower compensation cost, lower occupancy-related costs, lower job board advertising costs, and lower travel and entertainment reflected in our SG&A. A reconciliation of our net loss to our adjusted EBITDA for the quarter can be found in a supplemental schedule in yesterday's earnings release.

To conclude, our working capital ratio at June 30, 2021 was 1.2 to 1, which includes approximately $11 million in the Cares Act Payroll Protection Plan loans for which forgiveness has been requested. Consolidated accounts receivable, net, at the end of the fiscal third quarter were $20.3 million, and implied days sales, outstanding or DSO was approximately 49 days. Also, as Derek mentioned in his opening remarks, the SBA has so far forgiven 5 of the nine PPP loans held by our operating companies in the aggregate amount of approximately $3.4 million.

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

Derek Dewan

Thank you, Kim. The 2021 fiscal third quarter has been a turning point for GEE Group. In addition to our good results, hallmarks include the successful completion of our follow-on public offering in which we raised approximately $52.5 million in cash, the closing of our new $20 million bank senior asset-backed credit facility, and the pay-off and retirement of $60 million in former high-cost senior debt and fees. In addition, the SBA has forgiven the first 5 of the nine PPP loans held by our operating companies in the aggregate amount of $3.4 million and we have forgiveness applications pending for the remaining four. We reduced our senior debt leverage from over approximately 12-to-1 at September 30, 2020 to approximately 1.6 to 1 as of June 30, 2021. And, at June 30, 2021, we had approximately $7.4 million of cash in the bank and approximately $13.1 million in availability under our new bank ABL facility. This all greatly enhances both the current enterprise value of our Company and businesses, as well as our fundamentals and prospects for future profitable growth.

A year ago, the world faced an uncertain future with extraordinary challenges ahead. Along the way, we have continued to work tirelessly to help our clients safely and successfully endure this unprecedented period. We also strengthened our commitment to our professionals, enabling them to help clients with critical talent needs and find solutions across broad resource pools. As a result, we closed the quarter with an employee base that is more engaged and productive than ever, with near record high revenues, and strong momentum leading into our final fiscal quarter of 2021.

Supported by the strengths of our specialty brands, our talented people, our investments in technology and our professional business model, we are excited about the continued ability to find meaningful and exciting employment for the people we place and provide clients access to the specialized talent they need to grow and the deep subject matter expertise they need to confidently compete in a dynamic world.

Finally, we'd like to thank our wonderful employees for their professionalism, hard work and dedication, without which, we could not have accomplished all the good things we have this quarter and this past year.

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

Forward-looking Statements Safe Harbor

In addition to historical information, these prepared remarks contain statements relating to possible future events and/or 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 these prepared remarks that are not strictly historical facts are forward-looking statements that are predictive in nature and depend upon or refer to future events. 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. Consequently, as a result these and other factors, the Company's actual results may differ materially from those expressed or implied by such forward-looking statements.

The international pandemic, the "Novel Coronavirus" ("COVID"-19), has been detrimental to and continues to negatively impact and disrupt the Company's business operations. The health outbreak has caused a significant negative effect on the global economy and employment, in general, including the lack of demand for the Company's services which is exacerbated by government and client directed "quarantines", "remote working", "shut-downs" and "social distancing". While incidences of COVID-19 have generally subsided since its initial outbreak, there continue to be signs of the virus, including emergence of variants of the original strain. Therefore, there is no assurance that conditions will continue to improve and could 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 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 sales people; (xii) the Company's failure to recruit qualified candidates to provide to clients as temporary workers under contract or for full-time hire; (xiii) the adverse impact of geopolitical events, government mandates, natural disasters or health crises, force majeure occurrences, global pandemics (such as “COVID-19” referred to above), 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, 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 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).

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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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