GEE Group Inc. (NYSE American: JOB) Fiscal First Quarter Earnings and 2022 Update Webcast Conference Call: Prepared Remarks

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Company Participants

Derek Dewan – Chairman and Chief Executive Officer

Kim Thorpe – Senior Vice President & Chief Financial Officer

Intro – Derek Dewan

Hello, and welcome to the GEE Group fiscal first quarter ended December 31, 2021 earnings and update webcast conference call. I'm Derek Dewan, Chairman and Chief Executive Officer of GEE Group. I 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 fiscal first quarter ended December 31, 2021 and provide you with our outlook for the remainder of our 2022 fiscal year. Some comments Kim and I will make may be considered forward looking, including predictions and estimates 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 in Monday's earnings press release and our most recent Form 10-Q 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.

During this presentation, we also will talk about some non-GAAP financial measures. Reconciliations and explanations of these measures are included in Monday's earnings press release. Our presentation of financial amounts, and related amounts including growth rates, margins and trends 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.

With that business behind us, I am very happy to report that our first quarter of our 2022 fiscal year, was another outstanding quarter, and arguably one of our best ever, beginning with net income of $16.7 million, or $0.14 per diluted share, consolidated revenues of $42.8 million, and gross profit and gross margin of $15.6 million and 36.4%, respectively. Our non-GAAP adjusted EBITDA for the quarter was $3.9 million, which represents a 9.1% margin to revenue.

This is the third consecutive quarter of solid growth and improvement, since the June 30, 2021 quarter, during which we completed the final steps in eliminating of over $100 million in debt and elimination of $12 million in annual interest costs. We are very pleased with these results, in particular, because customarily the strongest performing quarters are our quarters ending in June and September. The 2022 fiscal first quarter performance not only exceeded the comparable prior year quarter, it also outperformed each of the two sequential prior quarters ended September 30, 2021 and June 30, 2021.

The 24% overall growth rate in revenues was achievable, in part, because U.S. labor markets continued to harden and trend back toward pre-COVID-19 levels. Our people took it from there by delivering outstanding value to our clients for their HR dollars spent with us.

As previously reported in December, we obtained forgiveness from the SBA for the remaining CAREs Act PPP loans and related interest; $16.8 million, in the aggregate. This resulted in a gains from debt extinguishment and accounted for our larger than usual net income of $16.7 million, or $0.14 per diluted share, and a substantial portion of the improvement when compared with the fiscal 2021 first quarter's results. However, even excluding the effects of the $16.7 million in gains, a non-cash goodwill impairment charge of $2.2 million, and $509,000 of accrued severance pay, our diluted EPS would have been $0.02 in the fiscal 2022 first quarter, compared with

negative $(0.02) for the fiscal 2021 first quarter, a $.04 per share improvement. As Kim will explain in a few moments, when prior quarters are adjusted to remove similar non-recurring and non-operating items, our pro forma diluted EPS for the trailing twelve-month period ended December 31, 2021 is $0.10 per diluted share, which represents a pro forma 16.7% annualized return on yesterday's closing share price of $0.60 per share.

Our non-GAAP adjusted EBITDA for the 2022 fiscal first quarter was $3.9 million. Non-GAAP adjusted EBITDA for the trailing twelve months ended December 31, 2021, was $12.6 million.

Before I turn it over to Kim, I just want to say again how very proud and amazed I am by our dedicated employees. They are the key to our success.

At this time, I'll turn the call over to our Senior Vice President and Chief Financial Officer, Kim Thorpe, who will further elaborate on our results for the 2022 fiscal first quarter. Kim.

Kim Thorpe

Thank you, Derek, and good morning. As Derek said, consolidated revenues were $42.8 million in the fiscal 2022 first quarter. This was up 24% from the fiscal 2021 first quarter. The 2022 fiscal first quarter is the 4th consecutive quarter of revenue growth over prior year comparable quarters since the beginning of the pandemic and the 3rd consecutive quarter of double digit top line organic growth. Our professional staffing services segment revenues were $38.8 million, up 31% from the fiscal 2021 first quarter.

Professional direct hire or "permanent placement" services revenues were up 82% over the comparable prior year quarter. They comprised 16% of total revenues for the professional services business segment and 14% of all revenues. Professional contract services revenues in the fiscal 2022 first quarter also grew nicely, up 25% over the fiscal 2021 first quarter. Our IT services end markets at Agile, Access Data, Paladin Consulting and SNI Technology accounted for 48% of our

professional services business segment revenues and were up 21% year-over-year. The other professional services end markets (Finance, Accounting, Administrative & Office, Engineering, Healthcare, and other) accounted for the remaining 52% of professional services business revenues and were up 43% year-over-year.

The industrial services business segment revenues, representing 10% of total revenues for the quarter, were down $1 million as compared to the fiscal 2021 first quarter. We experienced a resurgence of pandemic-like conditions associated with the delta and then omicron variants in our Ohio markets, including recurring school and business closings and interruptions which were reminiscent in some respects of the early COVID-19 pandemic. As these conditions begin to recede and we exit the winter months and weather interruptions such as the recent winter storms experienced across the U.S., we expect our light industrial business to begin to recover and grow again.

Collectively, our professional services segment direct hire and contract revenues comprised 90% and 85% of our consolidated revenues for the fiscal first quarters of 2022 and 2021, respectively. Looking at our consolidated revenue from the viewpoint of all contract services, both professional and light industrial combined, compared with direct hire, all of which is professional, combined contract revenues were 86% and 90% of our consolidated revenues for the fiscal first quarters of 2022 and 2021, respectively. Direct hire revenues were 14% and 10%, respectively. As Derek mentioned, our direct hire revenue performance was outstanding once again in the fiscal 2022 first quarter, and with a 100% gross margin, was instrumental in achieving our outstanding first quarter results.

Consolidated gross profit dollars were strong at $15.6 million, up 24% in the 2022 fiscal first quarter as compared to the 2021 fiscal first quarter. Our professional staffing segment 2022 fiscal first quarter gross profit dollars were up 46% as compared to the comparable prior year fiscal first

quarter. The consolidated gross margin percentage for the fiscal 2022 first quarter improved over the fiscal 2021 first quarter; and, both quarters were strong at 36.4% and 36.3%, respectively.

Selling, general and administrative ("SG&A") expenses were approximately 29% of fiscal first quarter 2022 consolidated revenues, compared with approximately 27% of revenues for the 2021 fiscal first quarter. Higher incentive and bonus compensation associated with near record revenue production and $509,000 of accrued severance pay contributed to this higher fiscal 2022 first quarter percentage ratio. The Company continues to benefit from higher productivity and operating expense savings in several areas achieved during the pandemic.

As Derek mentioned in his remarks, we achieved net income of $16.7 million, or $0.14 per diluted share in the 2022 fiscal first quarter, which was larger than normal due to the gains on forgiveness of our four remaining PPP loans. The 2022 fiscal first quarter results also included two non-recurring or non-operating charges; a $2.15 million non-cash goodwill impairment charge and a $509,000 accrued severance package associated with an eliminated position. Pro forma net income, that is, excluding the effects of these three items, was $0.02 in 2022 fiscal first quarter compared with negative $(0.02) for 2021 fiscal first quarter, a $.04 per share improvement.

Our pro forma diluted EPS, excluding the effects of similar non-operating and/or non-recurring items for the prior three fiscal quarters, would have been $0.03, $0.02 and $0.03 per share for the fiscal quarters ended September 30, 2021, June 30, 2021, and March 31, 2021, respectively. This results in pro forma diluted EPS for the trailing twelve-month period ended December 31, 2021 of $0.10 per share and the 16.7% annualized return on our common stock as Derek reported a moment ago.

For those of you who participated in our 2021 follow on offering, recall that one of the main objectives of that offering was to redirect the 16% interest we were paying to senior lenders to the benefit of our common shareholders instead. These are our first instalments towards that objective.

Adjusted EBITDA, which is a non-GAAP financial measure, was $3.9 million for the 2022 fiscal first quarter, up $300,000 or 8%, over the prior quarter. Non-GAAP adjusted EBITDA for the trailing twelve months ended December 31, 2021, was $12.6 million, up $300,000 or 2.4%, from our adjusted EBITDA for the fiscal year ended September 30, 2021.

As we reported last quarter, these results continue the growth trend since the onset of the COVID-19 pandemic combined with cost savings from integration and restructuring activities both before and after the effects of COVID-19. These measures have resulted in the higher productivity, lower operating costs, improvements in earnings and quality of earnings, and solid cash flow generated from operations. With the many improvements we've now made, we believe the positive trends in the Company's results are sustainable. A reconciliation of GEE Group's GAAP net income to the Company's non-GAAP adjusted EBITDA for the quarters can be found in a supplemental schedule in our earnings press release.

To conclude, our current or working capital ratio at December 31, 2021 was 2.5 to 1. As of December 31, 2021, the Company had consolidated accounts receivable, net, of $21.2 million and implied days' sales outstanding, or DSO, was approximately 46 days. We reported positive cash flow from operating activities of $2.3 million for the 2022 first quarter. Our liquidity position is very strong. Finally, our net book value per share was $0.86 per share at December 31, 2021.

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

Derek Dewan

Thank you, Kim. The 2022 fiscal first quarter is one of our best ever and a great start for fiscal 2022. At December 31, 2021, the Company had $12 million of cash in the bank and no borrowings outstanding on its bank ABL credit facility with over $13 million in availability. Now that all of our former CAREs Act PPP loans have been forgiven by the SBA, our debt leverage is nil. This

all greatly enhances both the current enterprise value and financial fundamentals of our Company and significantly improves GEE Group's prospects for future profitable growth in 2022 and beyond. We are well-positioned to augment organic growth with strategic acquisitions.

GEE Group has continued its strong momentum from the fourth quarter of fiscal 2021 into fiscal 2022, and we expect to report good results for the remainder of our 2022 fiscal year and beyond.

Finally, we'd like to again 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 via email 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).

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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