May 15, 2020

GEE Group Announces Results for the Fiscal 2020 Second Quarter

JACKSONVILLE, FL / ACCESSWIRE / May 15, 2020/ GEE Group Inc. (NYSE American:JOB) ("the Company" or "GEE Group"), a provider of professional staffing services and human resource solutions, today announced results for the second quarter ended March 31, 2020.

2020 Fiscal Second Quarter Highlights

- Revenue for the fiscal 2020 second quarter was approximately $34.7 million, down by approximately 4%, a decrease from the $36.2 million recorded in the second quarter of fiscal 2019. Contract staffing services contributed approximately $30.3 million or approximately 87% of revenue and direct placement services contributed approximately $4.4 million or approximately 13% of revenue. This compares to contract staffing services of approximately $31.8 million or approximately 88% of revenue and direct hire placement services of approximately $4.4 million or approximately 12% of revenue respectively for the same quarter of fiscal 2019. The decrease in contract staffing services revenue of approximately $1.5 million, or approximately 5% , for the three months ended March 31, 2020 compared to the three months ended March 31, 2019 was primarily attributable to the "Novel Coronavirus" outbreak (COVID-19), a pandemic that resulted in a slowing of the hiring of contingent labor and resulting in state and local government mandates in March that caused the Company's clients to close their offices and facilities, requiring certain employees to "work from home", others to go on "furlough" or be "laid-off" and to "suspend" the use of GEE Group's contract workers on assignment. Direct hire placement revenue for the three months ended March 31, 2020 was approximately $4.4 million which was an increase of approximately $66,000 compared to the three months ended March 31, 2019. The increase in direct hire placement revenue was mostly attributable to strong demand in the earlier months of the fiscal 2020 second quarter with weakening demand in the latter part of March due primarily of the impact of the coronavirus.
- Revenue from the combined professional contract staffing and professional direct hire placement services, which is comprised of staffing and solutions in the information technology, engineering, healthcare, legal, and finance and accounting specialties, was approximately $30.2 million, and represents approximately 87% of total revenue for the 2020 fiscal second quarter.
- Overall gross margin for the fiscal second quarter ended March 31, 2020 (including direct placement services) was approximately 34.4% compared to approximately 32.4% for the fiscal second quarter ended March 31, 2019. The change in the overall gross margin was due to improvement in professional and industrial contract staffing services gross margin and, to a lesser extent, greater direct hire placement revenue (which is recorded at 100% gross margin) in the fiscal 2020 second quarter. Professional contract staffing services gross margin (excluding direct placement

services) for the 2020 fiscal second quarter was approximately 26.6 % compared to approximately 24.9% for the 2019 fiscal second quarter. The change in professional contract staffing services gross margin was due to various factors including increased revenue from the Company's higher margin information technology business as compared to the prior fiscal second quarter. Industrial contract staffing services gross margin for the 2020 fiscal second quarter was approximately 14.1% compared to approximately 13.6% for the 2019 fiscal second quarter. The increase in industrial contract staffing services gross margin was due to an increase in the estimated amounts of return premiums the Company was eligible to receive under the Ohio Bureau of Workers' Compensation retrospectively-rated insurance program.

- Selling, general and administrative expenses (SG&A) increased by approximately $1million and was approximately 36.9% as a percentage of revenue for the 2020 fiscal second quarter, compared to approximately 30.5% for the 2019 fiscal second quarter. The increase in SG&A expenses is primarily attributable to increases made in the Company's allowance for doubtful accounts, including an increase in GEE Group's allowance for fall-offs.
- GAAP loss from operations was approximately $2.4 million for the 2020 fiscal second quarter, compared to GAAP loss from operations of approximately $821,000 for the comparable 2019 fiscal second quarter.
- GAAP net loss for the 2020 fiscal second quarter was approximately $5.4 million, compared to GAAP net loss of approximately $3.9 million for the comparable 2019 fiscal second quarter.
- Adjusted earnings before interest, taxes, depreciation, amortization, noncash stock and stock option expenses, acquisition, integration and restructuring expenses (adjusted EBITDA, a non-GAAP financial measure) for the 2020 fiscal second quarter was approximately $783,000 vs. approximately $1.90 million for the comparable prior fiscal year second quarter **(see non-GAAP adjusted EBITDA reconciliation to GAAP net income (net loss) attached to this press release)**.
- Select GAAP financial information as of March 31, 2020: GAAP net working capital of approximately $9.5 million; GAAP current ratio of approximately 1.8 to 1.0.
- Revolving Credit Facility and Term Loan: GEE Group amended its Revolving Credit, Term Loan and Security Agreement April 28, 2020 ("Amendment 7") and May 5, 2020 ("Amendment 8"). The Company believes the loan modifications are beneficial, provide more financial flexibility, improve cash flow and will better meet its needs as it navigates through the COVID-19 pandemic and executes its growth strategy. The amendments provide for a significantly lower "cash-pay" interest rate, deferred "PIK" interest, deferred principal payments until June 2021 and a two-year extension of the maturity date to June 30, 2023. The amendments also provide for greater flexibility on loan covenants and other changes that GEE Group views as favorable. Additionally, Amendment 8 provided the authority for the Company to apply for and secure financial relief under the "CARES Act", in particular, loans pursuant to the "Payroll Protection Plan" ("PPP"). In the early part of May, 2020, GEE Group received funds in the aggregate of approximately $19.8 million in the form of unsecured PPP loans. See previously filed Forms 8K regarding the loan amendments and Form 10Q for the period ended March 31, 2020 filed with the SEC for a more complete description and a complete copy of the amendments.
- COVID-19 Update and Impact on Business Operations: As discussed in the "revenue section", the Company experienced an initial decline in business from the impact of the coronavirus from customer layoffs of permanent and temporary workers, remote

working, quarantines, shut-downs and hiring freezes commencing in March, with an acceleration of the negative impact beginning in the middle of the month through the end of the fiscal 2020 second quarter. GEE Group's direct hire placement (F&A), industrial staffing, and office support and accounting-related temporary staffing services experienced declines ranging from 30%, and in some cases as high as 50%, toward the latter part of March. IT direct hire placement and IT staffing services were not materially impacted during that period and some IT business units were unaffected. The aforementioned trends continued into April and through much of May. However, it is anticipated that as government mandated lock-downs are lifted, client companies will begin to re-open their offices, start-up their manufacturing facilities and re-connect with supply-chains, the Company's job orders will gradually increase and billable contract headcount and, to a lesser extent, direct hire placement will gradually increase. The Company has taken appropriate measures to adjust its cost structure and has initiated an expense reduction program to account for the reduction in revenue including lowering personnel costs through pay-cuts, furloughs, lay-offs and hiring freezes. Also, other expenses such as interest expenses, rent, job boards and nonessential costs have been reduced, deferred or eliminated. Subsequent to the implementation of the reductions in personnel and reductions in wages, GEE Group secured funds from the CARES Act Payroll Protection Plan ("PPP") as described above. This allowed the Company to restore compensation levels and gradually bring back furloughed employees and selectively add new talent. Thus, GEE Group is well positioned to serve its existing and new customers as the economy stabilizes and the anticipated demand for human resources gradually increases in the U.S. There is no assurance that the expected improvement in the Company's business will occur, that a further outbreak of the coronavirus or another pandemic will not further derail an economic recovery and that a further decline in the demand for employment including the need for the Company's temporary staffing and direct hire services will not happen. These unanticipated but possible series of events would cause a "material adverse effect" to GEE's operations and on its financial results. The Company expects to take immediate and preventative actions to mitigate the impact of the aforementioned negative circumstances if they arise.

The aforementioned 2020 Fiscal Second Quarter Highlights and Financial Information should be read in conjunction with all of the financial and other information included in GEE Group's Quarterly Reports filed with the SEC on Form 10Q for the respective periods, Current Reports on Forms 8K & 8K/A and Information Statements on Schedules 14A & 14C filed with the SEC, and Annual Reports on Form 10K filed with the SEC for the fiscal years ended in 2017, 2018, and 2019. Also, the discussion of financial results in this press release and disclosures regarding the use of non-GAAP financial measures and related schedules attached hereto which reconcile non-GAAP financial measures to the financial information prescribed by GAAP are important to readers to help gain a more comprehensive understanding of the Company's financial results. The non-GAAP financial measures and metrics of financial results or financial performance presented herein are not a substitute for the financial measures provided by GAAP and should not be considered as alternatives, replacements or superior to financial measures presented in accordance with GAAP. Financial information provided in this press release may consist of estimates, projections and certain assumptions that are considered forward looking statements and that are predictive in nature and depend on future events. The estimates and assumptions and related

projected financial results may not be realized nor are they guarantees of future performance.

GEE Group uses the above-mentioned non-GAAP financial measures internally to evaluate its operating performance and for planning purposes and believes that these are useful financial measures also used by investors .These non-GAAP financial measures are not a substitute for nor superior to financial measures provided by GAAP and all measures and disclosures of financial information pursuant to GAAP as reflected in the Form 10Q filed with the SEC for the respective periods should be read to obtain a comprehensive and thorough understanding of the Company's financial results. The reconciliation of non-GAAP adjusted EBITDA to GAAP net income (net loss) is provided in a schedule that is a part of this press release.

Management Comments

Derek E. Dewan, Chairman and Chief Executive Officer of GEE Group, commented, "Our hard -working and dedicated personnel have adapted well to a "remote working" environment and are well-positioned to fill job orders related to the needs of our clients despite the significant challenges created by the coronavirus. We are encouraged about the "new world order" and the changes in the way people work, which we believe will result in the increased use of contingent labor and a further acceptance of remote-working in the ‘gig economy'. The disruption to businesses and harsh economic effects attributable to COVID-19 have been without precedent. However, the Company has adapted well to serve clients remotely, made critical investments in IT infrastructure and will continue to capitalize on the business opportunities in the high-tech and accounting/finance verticals as governmental "lock-downs" are lifted. The Company continues to focus on internal growth and increasing market share through targeted sales and marketing efforts directed to existing and new customers. Additionally, GEE Group will capitalize on opportunities to selectively increase revenue-producing headcount in key markets with an emphasis on the specialized needs of customers in light of the coronavirus, in particular the higher demand verticals, including information technology, finance and accounting, engineering and healthcare."

Mr. Dewan added, "GEE's enhanced and streamlined service delivery capability, both remotely and on-premises, in providing professional staffing services and human resource solutions, coupled with its strategic geographic coverage, will help the Company achieve sustained organic growth in revenue and profitability while delivering exceptional customer service and rewarding careers for our employees and associates."

Use of Non-GAAP Financial Measures

To supplement the Company's consolidated financial statements presented on a GAAP basis, the Company discloses certain financial information including non-GAAP adjusted EBITDA because management uses these supplemental non-GAAP financial measures to help evaluate performance period over period, to analyze the underlying trends in its business, to establish operational goals, to provide additional measures of operating performance, including using the information for internal planning relating to the Company's ability to meet debt service, make capital expenditures and provide working capital needs. In addition, the Company believes investors already use these non-GAAP measures to monitor the Company's performance. Non-GAAP adjusted EBITDA is defined by the Company as net income or net loss before interest,

taxes, depreciation and amortization (EBITDA) plus non-cash stock option and stock-based compensation expenses, the change in contingent consideration and acquisition, integration and restructuring costs. Non-GAAP adjusted EBITDA is not a term defined by GAAP and, as a result, the Company's measure of non-GAAP adjusted EBITDA might not be comparable to similarly titled measures used by other companies. 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 for GAAP on the Consolidated Statements of Income, cash and cash flows as reported for 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 financial statements prepared in accordance with GAAP included in GEE Group's Form 10Q and Form 10K filed for the respective fiscal periods with the SEC. Reconciliation of GAAP net income or GAAP net loss to non-GAAP adjusted EBITDA is attached hereto.

Reconciliation of Non-GAAP Adjusted EBITDA to
GAAP Net Loss
Second Quarter Ended March 31,
(In thousands)

	2020	2019
GAAP net loss	$ (5,428)	$ (3,890)
Interest expense	3,065	3,085
Income taxes	10	(16)
Depreciation	69	101
Amortization	1,398	1,397
Non-cash stock compensation	356	549
Acquisition, integration & restructuring	1,313	592
Other		61
Non-GAAP adjusted EBITDA	$ 783	$ 1,879

Reconciliation of Non-GAAP Adjusted EBITDA to
GAAP Net Loss
Six Month Periods Ended March 31,
(In thousands)

	2020	2019
GAAP net loss	$ (8,991)	$ (7,342)
Interest expense	6,284	6,033

Income taxes	181	506
Depreciation	148	180
Amortization	2,795	2,793
Non-cash stock compensation	953	1,130
Acquisition, integration & restructuring	1,690	2,043
Other		(191)
Non-GAAP adjusted EBITDA	$ 3,060	$ 5,152

About GEE Group

GEE Group Inc. 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, staffs medical scribes who assist physicians in emergency departments of hospitals and in medical practices by providing required documentation for patient care in connection with 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.

Forward-Looking Statements

In addition to historical information, this press release contains statements relating to 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. 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 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, 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". There is no assurance that conditions will not 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 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.

Contact:

GEE Group Inc.
Kim Thorpe
904.512.7504
invest@genp.com

Financial Tables Follow

GEE GROUP INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)
(In Thousands)

	March 31, 2020
ASSETS	
CURRENT ASSETS:	
Cash	$ 2,379
Accounts receivable, less allowances ($2,250 and $515, respectively)	17,262

Prepaid expenses and other current assets	1,583
Total current assets	21,224
Property and equipment, net	812
Goodwill	72,293
Intangible assets, net	21,086
Right-of-use assets	5,497
Other long-term assets	286
TOTAL ASSETS	$ 121,198
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 2,459
Acquisition deposit for working capital guarantee	183
Accrued compensation	5,820
Short-term portion of term loan, net of discount	-
Subordinated debt	-
Current operating lease liabilities	1,616
Other current liabilities	1,629
Total current liabilities	11,707
Deferred taxes	367
Revolving credit facility	15,015
Term loan, net of discount	40,772
Subordinated debt	1,000
Subordinated convertible debt (includes $1,428 and $1,269, net of discount, respectively, due to related parties)	18,113
Noncurrent operating lease liabilities	4,396
Other long-term liabilities	159
Total long-term liabilities	79,822
Commitments and contingencies	
MEZZANINE EQUITY	
Preferred stock; no par value; authorized - 20,000 shares -	
Preferred series A stock; authorized -160 shares; issued and outstanding - none	-
Preferred series B stock; authorized - 5,950 shares; issued and outstanding - 5,566 and 5,566 at March 31, 2020 and September 30, 2019, respectively; liquidation value of the preferred series B stock is approximately $27,050 and $27,050 at March 31, 2020 and September 30, 2019, respectively	27,551
Preferred series C stock; authorized - 3,000 shares; issued and outstanding - 144 and 60 at March 31, 2020 and September 30, 2019, respectively; liquidation value of the preferred series C stock is approximately $144 and $60 at March 31, 2020 and September 30, 2019, respectively	144
Total mezzanine equity	27,695
SHAREHOLDERS' EQUITY	
Common stock, no-par value; authorized - 200,000 shares; issued and outstanding - 14,557 shares at March 31, 2020 and	

12,538 shares at September 30, 2019, respectively	-
Additional paid in capital	51,746
Accumulated deficit	(49,772
Total shareholders' equity	1,974
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 121,198

GEE GROUP INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
(In Thousands)

	Three Months Ended March 31,		Six Month Ended March 31,	
	2020	**2019**	**2020**	**20**
NET REVENUES:				
Contract staffing services	$ 30,265	$ 31,827	$ 63,342	$ 65,
Direct hire placement services	4,416	4,350	8,895	8,
NET REVENUES	34,681	36,177	72,237	74,
Cost of contract services	22,767	24,459	47,729	50,
GROSS PROFIT	11,914	11,718	24,508	24,
Selling, general and administrative expenses (including noncash stock-based compensation expense of $356 and $549, and $953 and $1,130 respectively)	12,800	11,041	24,091	22,
Depreciation expense	69	101	148	
Amortization of intangible assets	1,398	1,397	2,795	2,
LOSS FROM OPERATIONS	(2,353)	(821)	(2,526)	(
Interest expense	(3,065)	(3,085)	(6,284)	(6,
LOSS BEFORE INCOME TAX PROVISION	(5,418)	(3,906)	(8,810)	(6,
Provision for income tax	(10)	16	(181)	(
NET LOSS	$ (5,428)	$ (3,890)	$ (8,991)	$ (7,
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (5,428)	$ (3,890)	$ (8,991)	$ (7,
BASIC AND DILUTED LOSS PER SHARE	$ (0.38)	$ (0.34)	$ (0.66)	$ (
WEIGHTED AVERAGE NUMBER OF SHARES - BASIC AND DILUTED	14,262	11,414	13,661	11,

SOURCE: GEE Group Inc.

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