



***GEE Group Inc. (NYSE American: JOB) 2023 Fiscal First Quarter Ended December 31,  
2022 Earnings and Update Webcast Conference Call: Prepared Remarks***

***Wednesday, February 15, 2023, 11:00 AM EST***

**Audience Event Link:**

[https://event.webcasts.com/starthere.jsp?ei=1599248&tp\\_key=8f9e6a43f6](https://event.webcasts.com/starthere.jsp?ei=1599248&tp_key=8f9e6a43f6)

**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 first quarter ended December 31, 2022 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 2023 fiscal first quarter ended December 31, 2022, 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 Tuesday's earnings press 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". 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 the non-GAAP measures we will address today are included



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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](http://www.geegroup.com).

We once again achieved very good results in fiscal 2023 first quarter beginning with consolidated revenues of \$41.1 million. Our consolidated gross profit and gross margin were \$14.4 million, and 35.0%, respectively, for the fiscal first quarter ended December 31, 2022. Our consolidated non-GAAP adjusted EBITDA for the fiscal 2023 first quarter was \$2.0 million. We achieved consolidated net income of \$700 thousand, or \$0.01 per diluted share, for our fiscal 2023 first quarter. As Kim will explain further, the prior fiscal year's first quarter results were above average due to peak demand for direct hire and a significant amount of non-recurring COVID-19-related project work. The current fiscal first quarter still compares favorably, taking into account the unique opportunities present in last year's first quarter, and particularly in terms of growth in our professional IT contract businesses.

Before I turn it over to Kim, I want to say "thank you" to our wonderful dedicated employees and associates. They work extremely hard every day to insure that our clients get the very best service. This was a key factor in the stellar performance of GEE Group in fiscal 2022 and so far in fiscal 2023, and will continue to be the most important underpinning 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 first quarter results. Kim.

**Kim Thorpe**



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Thank you, Derek, and good morning. Once again, revenue for the fiscal 2023 first quarter was \$41.1 million, which is \$1.7 million, or 4% lower, compared with the fiscal 2022 first quarter revenue of \$42.8 million. As Derek eluded to, revenue for the prior fiscal 2022 first quarter included above average performance in our direct hire revenue, as well as professional contract revenue of \$2.3 million generated from the discreet projects for clients serving as COVID-19 responders. The COVID-19 related projects successful concluded during December 2021 and January 2022, and are non-recurring in nature. Excluding the effects of them alone, our remaining total revenue increased \$600 thousand, or 2%, quarter over quarter.

Professional and industrial contract staffing services revenues for fiscal 2023's first quarter were \$35.4 million, which is \$1.3 million, or 3% lower, as compared to fiscal 2022's first quarter contract staffing services revenue. Professional contract services revenue, which represents 90% of all contract services revenue and 77% of total revenue, increased \$1.5 million, or 5%, quarter over quarter, excluding the effects of the nonrecurring COVID-19-related projects revenue. Professional IT contract services revenue grew 15% quarter over quarter. IT contract services represents 60% of all professional services contract revenue, 49% of total revenue, and is our highest priority growth specialty.

Direct hire revenue for the fiscal 2023 first quarter was \$5.7 million, down \$500 thousand, or 8%, compared with the fiscal 2022 first quarter direct hire revenue of \$6.2 million. Considering its inherent sensitivity to macroeconomic conditions, we are pleased with this level of direct hire production and remain cautiously optimistic about our overall direct hire revenue potential for fiscal 2023. Direct hire revenue for Q1 2023 annualized still exceeds fiscal 2019, 2020 and 2021 results.



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The increases in our quarter over quarter professional contract staffing services revenues and total revenues, absent fiscal 2022's non-recurring COVID-19 projects, and in our professional IT contract staffing services sector, in particular, are the result of increasing demand and our strategic and tactical initiatives to meet this demand in the new post-COVID-19 U.S. economy and workforce. Two recent indicators, the outstanding December jobs report and, in contrast, recent significant lay-offs of IT professionals by larger employers, also are positive indicators for the remainder of fiscal 2023. Recent lower unemployment trends suggest increasing demand for our services, while recent IT corporate downsizing actions mean more IT candidates available to fill demand.

Industrial staffing services revenues were \$3.6 million and represented 9% of total revenue for fiscal 2023's first quarter ended December 31, 2022. We continue to experience growth challenges in our industrial markets associated with economic and lingering post-COVID-19 conditions. Recent inflation also has led to significant increases in hourly wages in our industrial business, while at the same time, certain state and local COVID-19 and unemployment relief programs remain active in Ohio. We are finding that the combination of higher wages and benefits tends to cause many of the Company's temporary laborers to seek to moderate or reduce their hours in order to balance income streams and preserve their welfare and other government benefits and subsidies. This, in turn, has the effect of increasing competition among staffing firms in Ohio to fill temporary labor orders. We are actively introducing new sales and recruiting programs and price increases to restore growth and enhance profitability in our industrial business.

Gross profit for the fiscal 2023 first quarter was \$14.4 million, down \$1.2 million, or 8%, compared with fiscal 2022 first quarter gross profit of \$15.6 million. Our overall gross margins were 35.0% and 36.4% for the fiscal 2023 and 2022 first quarters, respectively. The decrease in gross profit



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and gross margin is mainly attributable to lower direct hire business, which has 100% gross margin, and increases in contractor pay associated with the recent rise in inflation resulting in some spread compression within our professional services businesses. The Company has recently stepped up counter-inflationary increases in bill rates and spreads in order to increase gross margin. Despite slightly lower quarter over quarter gross margin, it remains relatively high, as compared with those of our competitors.

Selling, general and administrative expenses (SG&A) for the fiscal 2023's first quarter ended December 31, 2022, increased \$400 thousand, or 4%, compared with fiscal 2022's first quarter. SG&A expenses were 31% of revenues for fiscal 2023's first quarter, compared with 29% for the first quarter of fiscal 2022. Inflationary increases in costs, including strategic investments in sales, recruiting and management resources to take advantage of future growth opportunities account for the significant portion of the quarter over quarter increase. We expect these strategic investments to begin contributing to top line growth this fiscal year. In addition, we expect the implementation of counter-inflationary increases in bill rates and spreads I just spoke of and other targeted cost reductions to help improve our expense ratio and operating margin.

We achieved net income for fiscal 2023's first quarter of \$700 thousand, or \$0.01 per diluted share, as compared with net income of \$16.7 million, or \$0.14 per diluted share, for fiscal 2022's first quarter. Adjusted net income, which is a non-GAAP financial measure, for the fiscal 2023 first quarter was \$1.1 million, or \$0.01 per diluted share, down \$1.6 million, or 59%, as compared with \$2.7 million, or \$0.02 per diluted share, for the fiscal 2022 first quarter. The fiscal 2022 first quarter net income included gains on the forgiveness of former PPP loans of \$16.8 million, and a non-cash goodwill impairment charge of \$2.15 million.



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Adjusted EBITDA, which is a non-GAAP financial measure, for the fiscal 2023 first quarter ended December 31, 2022, was \$2.0 million, down \$1.9 million, or 49%, as compared with \$3.9 million for the fiscal 2022 first quarter.

The overall declines in our net income, non-GAAP adjusted net income, and non-GAAP adjusted EBITDA quarter over quarter are mainly due to the increases in compensation and certain other operating expenses since the fiscal 2022 first quarter. As I indicated a moment ago, we expect the strategic investments in personnel and price increases to begin contributing to top line growth and in combination with targeted cost reductions begin to have positive effects on our margins and profitability during the remainder of fiscal 2023.

Our current or working capital ratio at December 31, 2022 was 3.6 to 1, up 90 basis points from 2.7 to 1, at September 30, 2022. We reported a small negative cash flow from operating activities of \$300 thousand for the 2023 fiscal first quarter ended December 31, 2022 due to extraordinary payments. Operating cash flow for the 2023 fiscal first quarter was reduced by payment of the second and final installment of deferred FICA taxes of \$1.8 million that were deferred under the CARES Act, and \$1.1 million in aggregate annual cash bonus payments. Excluding the effects of the non-recurring deferred FICA payment and aggregate annual cash bonus payments, non-GAAP adjusted free cash flow would have been \$2.5 million.

Our liquidity position is strong and we have no outstanding debt. Our net book value per share was \$0.89 at December 31, 2022, and our net tangible book value per share was \$0.26.

To conclude, we remain positive and optimistic in our outlook for the remainder of fiscal 2023, with appropriate considerations regarding lingering macroeconomic uncertainty. Before I turn it back over to Derek, please note that reconciliations of GEE Group's non-GAAP financial



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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**

Thank you, Kim. The fiscal 2023 first quarter marked our sixth consecutive quarter of strong operating performance. Having consistently achieved solid margins and free cash flow for the last six quarters, we continue to build a positive track record, as well as strong momentum for the future. At December 31, 2022, the Company had over \$18.5 million in cash and another \$13.0 million in availability under its bank ABL credit facility. GEE Group's prospects today for future profitable growth continue to expand and improve. Despite macroeconomic challenges or unforeseen events, we believe we can continue to produce solid results for this fiscal year and beyond.

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**

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





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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.

**Use of Non-GAAP Financial Measures**

Statements in these prepared remarks include references to non-GAAP financial measures. The Company presents and highlights certain non-GAAP financial measures including Adjusted Net Income, EBITDA, Adjusted EBITDA, Free Cash Flow and Adjusted Free Cash Flow. Management and the board of directors use and refer to these non-GAAP financial measures internally as a supplement to financial information presented in accordance with U.S. GAAP. Non-GAAP financial measures are used for purposes of evaluating operating performance, financial planning purposes, establishing operational and budgetary goals, setting financial goals for incentive compensation plans, analysis of debt service capacity, capital expenditure planning and determining working capital needs. The Company also believes that these non-GAAP financial measures also are considered useful by investors.

Non-GAAP Adjusted Net Income is defined as Net Income adjusted for non-cash stock compensation expenses, acquisition, integration, restructuring and other non-recurring expenses, capital markets-related expenses, gains or losses on extinguishment of debt and noncash goodwill impairment charges.

Commented [KTI]: This needs to be updated to conform with more recent FWLKG statement and risk factor disclosures.



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Non-GAAP EBITDA is defined as net income before interest, taxes, depreciation and amortization. Non-GAAP adjusted EBITDA is defined as EBITDA, adjusted for the same items used to derive non-GAAP adjusted net income (loss). Non-GAAP free cash flow and non-GAAP adjusted free cash flow are defined as cash flow from operating activities, less capital expenditures and certain nonrecurring items. Non-GAAP adjusted net income, EBITDA, adjusted EBITDA, free cash flow and adjusted free cash flow are not terms proscribed or defined by GAAP and, as a result, the Company's measure of them may 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 excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP financial measures discussed above should be considered in addition to, and not as substitutes for, nor as being superior to net income reported in the consolidated statements of income, cash and cash flows reported in the consolidated statements of cash flows, or other measures of financial performance reflected in the Company's consolidated financial statements prepared in accordance with U.S. GAAP included in Forms 10-Q and 10-K filed with the SEC, which should be read and referred to in order to obtain a comprehensive and thorough understanding of the Company's financial results.

The reconciliations of: (1) net income to non-GAAP adjusted net income, (2) net income to non-GAAP EBITDA and non-GAAP adjusted EBITDA, and (3) net cash from operating activities to non-GAAP free cash flow and non-GAAP adjusted free cash flow referred to in the prepared remarks are provided in schedules as part of the Company's 2023 Fiscal First Quarter Earnings press release and related Form 8-K filed with the 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



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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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