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

Tuesday, December 19, 2023, 11:00 AM EST

Audience Event Link:
https://event.webcasts.com/starthere.jsp?ei=1647908&tp_key=8c6f8d19cd

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 fourth quarter and year ended September 30, 2023 earnings and 2024 update webcast conference call. I'm Derek Dewan, Chairman and Chief Executive Officer of GEE Group, and will be hosting today's call. Joining me as a co-presenter is Kim Thorpe, our Senior Vice President and Chief Financial Officer. Thank you for joining us today.

Derek Dewan

It is our pleasure to share with you GEE Group's results for the fiscal year and fourth quarter ended September 30, 2023, and provide you with our outlook for the fiscal year 2024 and the foreseeable future. Some comments Kim and I will make may be considered forward looking, including predictions, estimates, expectations and other statements about our future performance. These represent our current judgments of what the future holds and are subject to risks and uncertainties that actual results may differ materially from our forward-looking statements. These risks and uncertainties are described below under the caption, "Forward-Looking Statements Safe Harbor" and in Monday's earnings press release and our most recent Form 10-Q, Form 10-K and other SEC filings under the captions, "Cautionary Statement Regarding Forward Looking Statements" and, "Forward-Looking Statements Safe Harbor". We assume no obligation to update statements made on today's call.

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

Having turned in record performance and results for the fiscal 2022 year, we encountered significant macroeconomic and staffing industry particular headwinds in fiscal 2023, which negatively impacted our full fiscal year and fourth quarter ended September 30, 2023. Consolidated revenues were $152.4 million for the fiscal year and revenues for our fiscal fourth quarter were $34.3 million. Gross profit and gross margin were $52.9 million and $11.6 million, and 34.7% and 34.0%, for the fiscal year and fourth quarter ended September 30, 2023, respectively. Our consolidated non-GAAP adjusted EBITDA for fiscal 2023 was $7.0 million, down $5.5 million, or 44%, compared to fiscal 2022. Non-GAAP adjusted EBITDA for the fiscal 2023 fourth quarter was $1.2 million, up $0.2 million, or 23%, compared to the fiscal 2022 fourth quarter. We were able to achieve consolidated net income of $9.4 million, or $0.08 per diluted share, for the 2023 fiscal year. Consolidated net income for the fiscal 2023 fourth quarter was $0.2 million, and slightly above breakeven per diluted share. As Kim will explain further, the prior fiscal year's results were well above normal led by record high demand for direct hire placement services fueled by a post COVID-19 bounce upward in hiring. The pull back in demand for direct hire placement services and in certain administrative, clerical and light industrial contract services in 2023 contributed to the shortfall in 2023 results compared with last year's numbers. Fiscal 2023's performance still compares favorably with our industry peers taking into account the operating environment, and particularly, in terms of the growth we achieved in our combined professional IT contract services businesses and brands.

Before I turn it over to Kim, I would like to share some important achievements and milestones during the quarter. First, the September 2023 quarter was our ninth consecutive quarter of profitability and free cash flow generation since we completed our deleveraging initiatives in June of 2021. Despite fiscal 2023's lower results compared to fiscal 2022, our operating performance and financial results have been on par with, and better in certain respects, than our larger industry peers. We believe our IT contract services brands' demonstrated the ability to grow under difficult conditions, and in particular, positions us well for future growth and further increasing shareholder value.

We implemented our $20 million share repurchase program in late-April 2023, which has served as a key component of our capital allocation plans in fiscal 2023. As of September 30, 2023, we had repurchased 3.4 million shares of our common shares and, as of December 15, 2023, we have repurchased 5.8 million JOB shares, or 5% of our outstanding shares at the beginning of the program.

I want to assure everyone that we believe that our stock is undervalued and has substantial room to grow. As a matter of fact, many, if not most, publicly traded staffing firms are trading below market indices and their 52-week highs due to economic concerns. Measuring forward from the time we announced the funding of our follow-on offering on April 19, 2021, GEE Group stock has outperformed most of its public staffing industry peers, including several of the largest players.

Despite the macroeconomic and staffing industry specific headwinds facing us, we are continuing to focus on the growth of our businesses and taking other definitive actions to help grow shareholder value. In addition to repurchasing 5% of our outstanding shares in 2023, we added three new independent directors to our board in the fall, including the managing director of our largest shareholder, appointed a lead independent director and committed to undertake a review of strategic alternatives available to us with a view towards unlocking shareholder value. Most recently, we have engaged the investment baking firm, DC Advisory, to assist us with the review of strategic alternatives which includes capital allocation strategies, mergers, acquisitions, etc.

Finally, before I turn it over to Kim, I want to once again thank our wonderful, dedicated employees and associates. They work extremely hard every day to ensure that our clients get the very best service. They are a key factor in our achievements and the most important driver of our Company’s future 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 fiscal 2023 annual and fourth quarter results. Kim.

Kim Thorpe

Thank you, Derek, and good morning. As Derek mentioned, revenues for fiscal 2023 were $152.4 million, down 8% as compared with fiscal 2022 revenues of $165.1 million. Revenues for the fourth quarter of fiscal 2023 were $34.3 million, down approximately 18% as compared with the fourth quarter of fiscal 2022. The lower revenues in fiscal 2023 were primarily the result of the macroeconomic forces including inflation, rising interest rates and the resulting negative impact on the labor market and hiring environment which impacted the entire staffing industry. Fiscal 2023 followed a period of recovery experienced in 2022 which was primarily due to a post COVID-19 bounce upward in employment. As Derek mentioned, the pull back in demand for direct hire placement services and in certain administrative, clerical and light industrial contract services in 2023 that contributed to the shortfall in 2023 results were primarily the result of these headwinds. While fiscal 2023 results were lower overall, the Company once again was profitable and generated good positive cash flow from operations, as it has consistently done since completion of the significant deleveraging initiatives and a follow-on offering during the quarter ended June 30, 2021. We also believe our top line performance has been in line with our industry peers and above average in certain respects, including the performance our IT brands. Our lowest performing businesses continued to be those serving light industrial and administrative and office clerical markets. At this stage, we remain cautiously optimistic about our ability and timing to return to growth once again, which we expect to be led by our IT brands and our other professional services businesses, and with the anticipation that the uncertainties and unknowns about the economy and labor environments weighing on our businesses begin to lessen during fiscal 2024.

Professional and industrial contract staffing services contributed $133.0 million and $30.7 million, or 87% and 90% of revenues for the fiscal 2023 year and fourth quarter, respectively. Professional contract services revenue, our largest contract services segment, represents 86% of all contract services revenue, and 79% of consolidated revenue, and decreased $2.5 million, or 2%, compared to fiscal 2022. The bright spots in this comparison were our professional IT brands' contract services revenues which grew 3% year-over-year. IT contract services revenues were 59% of all professional services contract revenue and IT direct hire and contract services revenue combined represented 49% of consolidated revenues for fiscal 2023.

Direct hire placement revenues for fiscal 2023 were $19.4 million, down $7.2 million, or 27% compared with fiscal 2022. Direct hire placement revenues for the fiscal 2023 fourth quarter were $3.6 million, down $2.9 million, or 45% as compared with the fiscal 2022 fourth quarter. As Derek and I mentioned earlier, fiscal 2022 was a record high year for direct hire placement services.

Industrial staffing services revenues were $13.0 million and $3.0 million and represented 9% of total revenue for both the fiscal year and fourth quarter ended September 30, 2023, respectively. We continue to experience growth challenges in our light industrial markets which we attribute to increased competition for business and temporary labor, which has occurred since the COVID-19 pandemic. Among the newer post-COVID 19 competitors for labor are emerging B2C firms, such as UBER, Lyft and Door Dash. These firms are able to compete effectively due to the additional independence and flexibility they offer workers.

Recent inflation also has led us to increase hourly wages and benefits for our temporary workers in our light industrial business in Ohio. These conditions also have helped drive increased competition among staffing firms in Ohio for laborers to fill temporary staffing job orders. We are continuing to actively develop and implement new sales and recruiting programs to help attract and retain candidates and restore growth in our industrial business. We also have implemented price increases in Ohio, which have improved spreads and helped to mitigate the impact of inflation on labor conditions there.

Consolidated gross profits and gross margins were $52.9 million, or 34.7%, and $11.6 million, or 34.0%, for the fiscal year and fourth quarter ended September 30, 2023, respectively. The declines in gross profit and gross margin, again, are mainly attributable to lower revenues, including most notably, direct hire placement business, which has a 100% gross margin. On the contract side, increases in contractor pay associated with recent inflation also caused some spread compression within our professional services businesses. The Company continues to focus on counter-inflationary measures including increases in mark-ups, bill rates and spreads in order to improve margins and profitability. Despite lower year-over-year gross profit and gross margins, our current margins remain relatively high and are very competitive as compared to the Company's industry peers.

Selling, general and administrative expenses (SG&A) for the fiscal year and fourth quarter ended September 30, 2023 decreased $4.3 million and $3.2 million, respectively, as compared to the comparable fiscal 2022 periods. SG&A expenses were 31.2% and 33.0% of revenues for the fiscal year and fourth quarter ended September 30, 2023, respectively, as compared with 31.4% and 34.8% of revenues for the fiscal year and fourth quarter ended September 30, 2022, respectively. In the fiscal fourth quarter of 2023, the Company's SG&A included $700 thousand in legal and corporate expenses related to negotiations with shareholder activists and associated compliance matters. Excluding the effect of these SG&A expenses, the ratio of SG&A expenses to revenues would have been 30.9% and 30.7% for the fiscal year and fourth quarter ended September 30, 2023, respectively. In late February and March 2023, the Company implemented certain cost reductions with estimated annual savings of approximately $4.0 million. Despite the significant declines in revenues, these cost reductions have helped achieve lower SG&A and total operating expense ratios in fiscal 2023 vs. fiscal 2022 despite lower revenues. The Company monitors operating costs including the impacts of inflation with a view towards identifying and taking advantage of potential cost reductions on a routine basis.

We achieved net income for fiscal 2023 of $9.4 million, or $0.08 per diluted share, as compared with net income of $19.6 million, or $0.17 per diluted share, for fiscal 2022. Adjusted net income (loss), which is a non-GAAP financial measure, for the fiscal year and fourth quarter ended September 30, 2023 was $11.1 million, or $0.10 per diluted share, and $1.1 million, or $0.01 per diluted share, respectively, as compared with $7.7 million, or $0.07 per diluted share, and $(400) thousand, or $0.00 per diluted share for the fiscal year and fourth quarter ended September 30, 2022, respectively. The Company recognized a net deferred tax benefit of $7.2 million for the fiscal year ended September 30, 2023, which accounted for approximately $0.06 of this period's earnings per share. The elimination of our former long-standing 100% deferred tax asset valuation allowance that resulted in this large net deferred tax benefit has been another positive achievement for our Company.

Adjusted EBITDA, which is a non-GAAP financial measure, for the fiscal year and fourth quarter ended September 30, 2023, was $7.0 million and $1.2 million, as compared with $12.5 million and $1.0 million, respectively, for the comparable fiscal 2022 periods. Several factors we've covered, including notably, the decrease in fiscal 2023 revenues from fiscal 2022's record highs, as well as economic headwinds, inflationary pressures and rising interest rates present this year account for these declines. As I mentioned a moment ago, we continue to monitor operating costs for potential cost reductions on a routine basis, and also will take other definitive actions in order to improve our margins and profitability.

Our current or working capital ratio at September 30, 2023 was 3.7-to-1, up 100 basis points from 2.7-to-1, at September 30, 2022. Free cash flow (a non-GAAP financial measure) for the fiscal year ended September 30, 2023 was $5.8 million as compared with $9.1 million for fiscal 2022.

Our liquidity position remains strong and we have no outstanding debt. Our net book value per share and net tangible book value per share were $0.98 and $0.36, respectively, as of September 30, 2023. Net book value per share is up $0.10, and net tangible book value per share is up $0.11, compared with $0.88 and $0.25, respectively, as of September 30, 2022.

To conclude, we remain cautiously optimistic in our outlook for fiscal 2024, with appropriate consideration of macroeconomic and labor market-related uncertainties and unknowns that exist in our operating environment. Before I turn it back over to Derek, please note that reconciliations of GEE Group's non-GAAP financial measures discussed today with their GAAP counterparts, can be found in supplemental schedules included in our earnings press release.

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

Derek Dewan

Thank you, Kim. The fiscal 2023 fourth quarter marked our ninth consecutive quarter of strong operating performance since de-leveraging the Company. Having consistently achieved higher margins and free cash flow over the years, we continue to build a positive track record, as well as positive momentum for the future. At September 30, 2023, the Company had no debt and approximately $22.5 million in cash with $11.3 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 headwinds, staffing industry specific challenges and unforeseen events, we will continue to work hard for the benefit of our shareholders and expect to deliver solid results for the upcoming fiscal 2024 year and beyond, and significantly increase shareholder value.

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

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

Question-and-Answer Session to Follow

Forward-looking Statements Safe Harbor

In addition to historical information, this press release contains statements relating to possible future events and/or the Company's future results (including results of business operations, certain projections, future financial condition, pro forma financial information, and business trends and prospects) that are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1934, as amended, (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995 and are subject to the "safe harbor" created by those sections. The statements made in this press release that are not historical facts are forward-looking statements that are predictive in nature and depend upon or refer to future events. These forward-looking statements include without limitation information relating to our intended share repurchases, the amount and timing of share repurchases, the possibility that the share repurchase program may be discontinued or suspended, anticipated cash flow generation and expected shareholder benefits. Such forward-looking statements often contain, or are prefaced by, words such as "will", "may," "plans," "expects," "anticipates," "projects," "predicts," "pro forma", "estimates," "aims," "believes," "hopes," "potential," "intends," "suggests," "appears," "seeks," or variations of such words or similar words and expressions. Forward-looking statements are not guarantees of future performance, are based on certain assumptions, and are subject to various known risks and uncertainties, many of which are beyond the Company's control, and cannot be predicted or quantified and, consequently, as a result of a number of factors, the Company's actual results could differ materially from those expressed or implied by such forward-looking statements. 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.

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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