GEE Group Inc. (NYSE American: JOB) Fiscal 2024 First Quarter Ended December 31, 2023 Earnings and Update Webcast Conference Call: Prepared Remarks

Wednesday, February 14, 2024, 11:00 AM EST

Audience Event Link:
https://event.webcasts.com/starthere.jsp?ei=1657131&tp_key=ecedad71e7

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 2024 first quarter ended December 31, 2023 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 2024 first quarter ended December 31, 2023, and provide you with our outlook for the remainder of the 2024 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 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.

We faced significant difficulties in the fiscal 2024 first quarter ended December 31, 2023 mainly stemming from economic and labor market instability and uncertainty.. Economic and market conditions for us and our industry began to worsen earlier in calendar 2023 following a COVID-19 bounce in 2022, and worsened even more in the second half of calendar 2023, leading to the significant decline in results from the comparable fiscal 2023 first quarter ended December 31, 2022. Consolidated revenues were $30.6 million for the fiscal 2024 first quarter. Gross profit and gross margin were $9.7 million and 31.8%, respectively, for the fiscal 2024 first quarter. Consolidated non-GAAP adjusted EBITDA was$(200) thousand and we reported a net loss of $(1.6) million, or $(0.01) per diluted share, for the fiscal 2024 first quarter.

The prior fiscal 2023 first quarter results were above normal led by record high demand for direct hire placement services in 2022 driven by the post-COVID recovery bounce at that time. The pullback in demand for direct hire placement services, in particular, contributed to the significant shortfall in fiscal 2024 first quarter results relative to those of the first quarter of fiscal 2023. Our performance still compares and tracks consistently with our industry peers as we all are facing similar challenges. The challenges being faced by the U.S. Staffing Industry, as a whole, and including us, are expected to continue through at least the first half of calendar 2024.

Before I turn it over to Kim, I would like to touch on some recent achievements. We concluded our share repurchase program on December 31, 2023 under which we purchased 6.1 million shares of JOB common stock, or just over 5% of our outstanding shares at the beginning of the program. In December 2023, our M&A Committee of the Board of Directors engaged the investment banking firm, DC Advisory, to assist the Company with the review of strategic alternatives which includes capital allocation strategies, mergers, acquisitions, and others, including future share repurchases. We expect to receive DC Advisory's initial findings to be presented to the M&A Committee as soon as this week or next.

I want to assure everyone that our sole focus now and into the immediate future is to manage though this downturn with the objective of minimizing its negative impacts on our businesses and preparing for an eventual recovery. We have hardened our balance sheet with substantial liquidity in the form of cash and borrowing capacity and are very well prepared to successfully navigate our present poor economic conditions. We also continue to believe that our stock is undervalued and has substantial room to grow.

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 2024 first quarter results. Kim.

Kim Thorpe

Thank you, Derek, and good morning. As Derek mentioned, revenues for the fiscal 2024 first quarter were $30.6 million, down 26% as compared with the fiscal 2023 first quarter revenue of $41.1 million. As Derek mentioned, results for the fiscal 2024 first quarter declined in comparison to the fiscal 2023 first quarter due mainly to significant worsening of economic conditions. We also achieved record performance in the 2022 calendar year, including the fiscal 2023 first quarter ended December 31, 2022, driven by what some in our industry refer to as a post-COVID-19 bounce employment recovery trends. This gave way to returning concerns about uncertainties surrounding the economy that have negatively impacted labor markets throughout 2023, and worsened in the later portion of calendar 2023, leading to further decreases in orders and placements for our businesses in the fiscal 2024 first quarter.

Professional and industrial contract staffing services revenues for the fiscal 2024 first quarter were $27.6 million, down 22% as compared to the fiscal 2023 first quarter. Professional contract services revenue, which represents 91% of all contract services revenue and 82% of total revenue, decreased $6.7 million, or 21%, quarter over quarter. Industrial contract services revenue, which represents 9% of all contract services revenue and 8% of total revenue, decreased $1.1 million, or 31%, quarter over quarter. The economic and labor market factors previously discussed contributed to a decline in orders from clients, as well as temporary labor to fill orders, leading to the decrease in contract revenues.

Direct hire revenues for the fiscal 2024 first quarter were $3.1 million, down 47% as compared with fiscal 2023 first quarter revenues. As Derek and I mentioned earlier, the fiscal 2023 first quarter ended December 31, 2022, was part of a record high calendar year for direct hire placements. Furthermore, direct hire placements versus temporary placements are usually the first to be negatively impacted in an economic downturn such as that experiences from 2022's post-COVID-19 bounce, to the resurgence of economic and labor uncertainties in 2023.

Gross profit for the fiscal 2024 first quarter was $9.7 million, down 32% as compared with fiscal 2023 first quarter gross profit of $14.4 million. Our overall gross margins were 31.8% and 35.0%

for the fiscal 2024 and 2023 first quarters, respectively. These decreases in gross profit and gross margin are mainly attributable to the decline in direct hire business, which has 100% gross margin. Our Professional Contract Services gross margin was 25.0% for the fiscal 2024 first quarter compared with 25.4% for the fiscal 2023 first quarter, a decline of only 40 basis points. Our Light Industrial Services gross margin was 16.0% for the fiscal 2024 first quarter, compared with 15.5% for the fiscal 2023 first quarter, which was an increase of 50 basis points. Despite lower quarter-over-quarter overall gross profit and gross margins, our current margins remain relatively high as compared with those of our competitors.

Selling, general and administrative expenses (SG&A) for the fiscal 2024 first quarter were $10.6 million, down 17% as compared with the fiscal 2023 first quarter. SG&A expenses were 34.6% of revenues for the fiscal 2024 first quarter, compared with 31.1% for the fiscal 2023 first quarter. The increase in SG&A relative to revenue is primarily attributable to fixed costs including personnel-related expenses, occupancy costs, software subscriptions for applicant sourcing and tracking, and others, which increased proportionally relative to lower revenues, and to a lesser extent, certain non-recurring expenses not associated with core business operations.

We reported a net loss for the fiscal 2024 first quarter of $(1.6) million, or $(0.01) per diluted share, down $2.3 million as compared with net income of $700 thousand, or $0.01 per diluted share, for the fiscal 2023 first quarter. Adjusted net loss, which is a non-GAAP financial measure, for the fiscal 2024 first quarter was $(900) thousand, or $(0.01) per diluted share, down $2.0 million as compared with $1.1 million, or $0.01 per diluted share, for the fiscal 2023 first quarter. Our reported net losses for the fiscal 2024 first quarter are mainly a result of the decreases in revenues and gross profit, and gross margin on lower direct hire placement business previously discussed.

Adjusted EBITDA, which is a non-GAAP financial measure, for the fiscal 2024 first quarter was $(200) thousand, down $2.2 million as compared with $2.0 million for the fiscal 2023 first quarter.

Our current or working capital ratio as of December 31, 2023, was 4.2-to-1, up 60 basis points from 3.6-to-1, as of September 30, 2023. We reported negative cash flow from operating activities of $(900) thousand for the fiscal 2024 first quarter ended December 31, 2023.

Our liquidity position remains very strong and we have no outstanding debt. Our net book value per share and net tangible book value per share were $0.93 and $0.33, respectively, as of December 31, 2023.

To conclude, we're disappointed with our fiscal 2024 first quarter results, and we remain cautious in our outlook for the remainder of fiscal 2024, considering current economic and labor market uncertainties. More importantly, we do remain optimistic for the long term and have demonstrated that we can produce earnings consistently under better economic conditions.

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. At December 31, 2023, the Company had $19.9 million in cash and another $9.3 million in availability under its bank ABL facility. Despite economic headwinds and staffing industry specific challenges impacting demand for our services, we are aggressively managing and preparing our businesses for an inevitable recovery. We will continue to work hard for the benefit of our shareholders, including consistently evaluating strategic uses of GEE Group's capital to maximize shareholder returns.

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, 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. 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”) 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 certain non-GAAP financial measures, including adjusted net income (loss), EBITDA, and Adjusted EBITDA, 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 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 (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 other gains or losses (Adjusted EBITDA). The financial information tables that accompany our earnings press release include reconciliations of GAAP net income (loss) to the non-GAAP financial measures, EBITDA and Adjusted EBITDA.

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 (loss) and income (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 SEC.

About GEE Group Inc.

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.

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