GEE Group Inc. (NYSE American: JOB) Fiscal Fourth Quarter & FYE 9-30-21 Earnings and 2022 Update Webcast Conference Call: Prepared Remarks

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Company Participants

Derek Dewan – Chairman and Chief Executive Officer

Kim Thorpe – Senior Vice President & Chief Financial Officer

Operator

Hello, and welcome to the GEE Group fiscal fourth quarter and fiscal year ended September 30, 2021 earnings and 2022 update webcast conference call. Our hosts for today's call are Mr. Derek Dewan, Chairman and Chief Executive Officer of GEE Group, and Mr. Kim Thorpe, Senior Vice President and Chief Financial Officer. Mr. Dewan, you may begin.

Derek Dewan

Hello, everyone. Thank you for joining us today. It is our pleasure to share with you GEE Group's results for the fiscal fourth quarter and year ended September 30, 2021. Some comments Kim and I will make on today's call may be considered forward looking, including predictions and estimates about our future performance. These statements represent our current judgment of what the future holds and are subject to risks and uncertainties that actual results may differ materially from these forward-looking statements. These risks and uncertainties are described in last week's earnings press release and our most recent 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 the statements made on today's call.

During this presentation, we also will mention and reference some non-GAAP financial measures. Reconciliations and further explanations of these measures are included in supplemental schedules to our earnings press release last week. Our presentation of revenues, cost of services, gross profits and gross margins and the related growth rates and trends are rounded, or based upon rounded amounts, for purposes of this call and all amounts, percentages and related items should be considered 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 achieved near record levels of revenues of $41.5 million, and non-GAAP adjusted EBITDA of $3.6 million, in our 2021 fiscal fourth quarter due to increased demand for our permanent placement and contract staffing services. We were particularly pleased with the strength of our permanent placement revenue, which nearly doubled over the 2020 fiscal fourth quarter, and exceeded the 2021 sequential third quarter. Permanent placement revenue for the full fiscal year, 2021, beat both 2020 and 2019.

Our contract revenue for our fiscal 2021 fourth quarter also grew by double digits over fiscal 2020's fourth quarter and was higher than the 2021 sequential third quarter. Contract revenue for the full fiscal year, 2021, beat 2020, and nearly equaled 2019, coming in just 3% lower.

In fact, we set our 2019 higher pre-pandemic results as the benchmark for our 2021 fiscal year performance and although revenue came in just under fiscal 2019, we bested virtually all other 2019 financial results, including GAAP and non-GAAP profit measures, even with COVID-19 and its variants still very much in the picture.

For the 2021 fiscal fourth quarter, we reported net income of $3.0 million, or $0.03 per diluted share; a significant improvement compared with the fiscal 2020 fourth quarter's significant loss per diluted share. Pro forma diluted EPS excluding the effects of former debt and related interest and gains and losses on debt extinguishments, was $0.02 in Q4 2021 compared with negative $(0.01) for Q4 2020, a $.03 per share improvement. Our net income and diluted EPS were approximately breakeven for the 2021 full fiscal year. Our estimated pro forma diluted EPS for the full fiscal year 2021, again after removing the effects of former debt and related items, beat the 2020 full fiscal year.

Our non-GAAP adjusted EBITDA and non-GAAP EBITDA for the 2021 fiscal fourth quarter were $3.6 million and $3.4 million, respectively, the difference between the two represented nearly entirely by our non-cash stock compensation expense for the quarter. Non-GAAP adjusted EBITDA and non-GAAP EBITDA for the 2021 full year were $12.3 million and $10.9 million, respectively.

As I said last quarter and it is worth repeating, our dedicated and hard-working employees have stepped up to the significant challenges that have faced us. I am very proud of our recruiters, business development and field leadership, and our corporate support team, all of whom are the key to our success. Our people continue to amaze us every day with their positive “can do” attitudes, innovativeness, and good old fashioned work ethic.

As you know, we also recently announced obtaining forgiveness from the SBA for the remaining CAREs Act PPP loans and related interest; $16.7 million, in the aggregate, which our businesses qualified for and initially obtained in April and early-May 2020. At that time, we had over $100 million in high-cost debt, our consolidated net book value was less than $2 million, and we were entering into one of the most uncertain and precarious periods our country and the world has faced during our lifetimes. We likely would not have survived these circumstances without the CAREs Act assistance we were able to obtain and we are certainly grateful to our leaders in Washington for their foresight in helping our businesses and other small businesses across the nation through this unprecedented pandemic.

At this time, I’ll turn the call over the presentation to our Senior Vice President and Chief Financial Officer, Kim Thorpe, who will further elaborate on our results for the 2021 fiscal fourth quarter and full year. Kim.

Kim Thorpe

Thank you, Derek, and good morning, everyone. As Derek said, consolidated revenues were $41.5 million in the fiscal 2021 fourth quarter. This was up 34% from the fiscal 2020 fourth quarter, up 9% sequentially from the fiscal 2021 third quarter, and up 7% from fiscal 2019's fiscal fourth quarter. Our professional staffing services segment revenues were $37.0 million, up 40% from the fiscal 2020 fourth quarter, up 8% sequentially from the 2021 fiscal third quarter, and up 12% from fiscal 2019's fiscal fourth quarter.

Professional direct hire or "permanent placement" services revenues were up 96% year-over-year and 18% sequentially as compared to the 2021 fiscal third quarter. They comprised 18% of total revenues for the professional services business segment and 16% of consolidated contract and direct hire revenues. Professional contract services revenues in the fiscal 2021 fourth quarter also grew nicely, up 40% year-over-year and 8% sequentially over the 2021 fiscal third quarter. Our IT services end markets at Agile, Access Data, Paladin Consulting and SNI accounted for 48% of our professional services business segment revenues and were up 25% year-over-year and 14% sequentially. The other professional services end markets (Finance, Accounting, Administrative & Office, Engineering, Healthcare, and other) accounted for the remaining 52% of professional services business revenues and were up 57% year-over-year and 3% sequentially over the immediate prior quarter.

Industrial Services business segment revenues for the quarter were down (3%) year-over-year and up 16% sequentially from the 2021 fiscal third quarter. The year-over-year decrease is due to the lagging recovery in this end market as temporary laborers in our light industrial segment have not come back into the workforce as quickly as others since the COVID-19 pandemic. We pointed out earlier that, as government stimulus monies including enhanced unemployment benefits and advance payment child care credits begin to scale down or terminate, we expect the supply of labor would increase and we anticipate an increase in filled orders and related revenue in fiscal 2022. We believe the large sequential increase in Q4 2021 versus Q3 2021 is a positive recent trend indicating that temporary laborers are beginning to return to work in greater numbers.

All our professional services segment direct hire and contract revenues comprised 89% and 88% of our consolidated revenues for the fiscal fourth quarter and the full fiscal year 2021, respectively. Looking at our consolidated revenue from the viewpoint of all contract services, both professional and light industrial combined, compared with direct hire, all of which is professional, combined contract revenues were 84% and 88% of our consolidated revenues for the fiscal fourth quarter and the full fiscal year 2021, respectively. Direct hire revenues were 16% and 12%, respectively. As Derek mentioned, our direct hire revenue performance was outstanding in Q4 2021. The higher mix of direct hire, which has a 100% gross margin, was instrumental in achieving our outstanding fiscal 2021 fourth quarter results.

Fiscal fourth quarter consolidated gross profit dollars were up 45% year-over-year and up 10% sequentially as compared to the 2021 fiscal third quarter. Our professional staffing segment 2021 fiscal fourth quarter gross profit dollars were up 57% year over year and 11%, sequentially, as compared to the immediately preceding quarter. The consolidated gross margin percentage for Q4 2021 was up 2.7 percentage points year over year and up 0.4 percentage points, sequentially, as compared to the 2021 fiscal third quarter. As I just mentioned, our permanent placements carry 100% gross margin, so the higher mix helped improve our gross margin.

Selling, general and administrative ("SG&A") expenses were approximately 29% of consolidated revenues, compared with approximately 33% of revenues in the fiscal fourth quarter of 2020. In addition to substantially higher revenue relative to fixed costs overall, this four-percentage point improvement is the result of higher productivity and compensation expense savings, lower occupancy costs, lower job boards advertising costs, and lower travel and entertainment expenses.

For the 2021 fiscal fourth quarter, we reported net income of $3.0 million, or $0.03 per diluted share; a significant improvement compared to negative $(0.58) in the comparable fiscal 2020 fourth quarter. Pro forma diluted EPS, that is, excluding the effects of former debt and related interest and gains and losses on debt extinguishments, was $0.02 in Q4 2021 compared with negative $(0.01) for Q4 2020, a $.03 per share improvement. Our net income and diluted EPS were approximately breakeven for the 2021 full fiscal year. Our estimated pro forma diluted EPS and loss per share for the full fiscal years 2021 and 2020, respectively, again after removing the effects of former debt and related items, and a noncash goodwill impairment charge, were $0.06 diluted EPS per share for fiscal 2021, as compared with a pro forma diluted loss per share of $(0.13) for the 2020 full fiscal year.

Adjusted EBITDA, which is a non-GAAP financial measure, was $3.6 million for the 2021 fiscal fourth quarter, up $1.9 million, or 112%, year-over-year-and up approximately $0.5 million, or 16% sequentially as compared to the immediately preceding quarter. Non-GAAP EBITDA was $3.4 million for the 2021 fiscal fourth quarter, with the main difference being non-cash stock compensation expense. This overall improvement is a continuation of the recovery and growth trend since the onset of the COVID-19 pandemic and cost savings from integration and restructuring activities both before and after the effects of COVID-19 which we addressed last quarter. These measures have resulted in the higher productivity, lower compensation cost, lower occupancy-related costs, lower job board advertising costs, and lower travel and entertainment expenses reflected in our SG&A. Importantly, in addition to these improvements in earnings and quality of earnings, we also are generating solid cash from operations once again. With the many improvements we've now made, we expect these positive trends in the Company's results to be sustainable. A reconciliation of GEE Group's GAAP net income to the Company's non-GAAP adjusted EBITDA and non-GAAP EBITDA for the quarter can be found in a supplemental schedule in our earnings press release.

To conclude, our current or working capital ratio at September 30, 2021 was 1.1 to 1, which included approximately $16.8 million in current liabilities related to the Cares Act Payroll Protection Plan loans. As Derek mentioned in his opening remarks, forgiveness has been received from the SBA for all our remaining loans since the end of the 2021 fiscal fourth quarter and year end. Thus, after giving full effect to the PPP loan forgiveness, our pro forma current ratio at September 30, 2021, was 2.3. Consolidated accounts receivable, net, at the end of the fiscal fourth quarter were $23.1 million, and implied days sales, outstanding or DSO, was approximately 46 days. Last, but not least, our liquidity and cash flow have dramatically improved.

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

Derek Dewan

Thank you, Kim. The 2021 fiscal fourth quarter and fiscal year have been a turning point for GEE Group. In addition to our good results, hallmarks include the successful completion of our follow-on public offering in which we raised approximately $52.5 million in cash, the closing of our new, "favorably priced" $20 million bank senior asset-backed ("ABL") credit facility, and the pay-off and retirement of $60 million in former high-cost senior debt and fees. As Kim mentioned, our liquidity and cash flow have dramatically improved. At September 30, 2021, the Company had $10 million of cash in the bank and over $15 million in availability under GEE Group's new bank ABL facility. Now that all of our former CAREs Act PPP loans have been forgiven by the SBA, our debt leverage is nil. This all greatly enhances both the current enterprise value and financial fundamentals of our Company and significantly improves GEE Group's prospects for future profitable growth in 2022 and beyond.

A year ago, the world faced an uncertain future with extraordinary challenges for businesses created by the pandemic. Along the way, we have continued to work tirelessly and creatively, from GEE Group's offices and virtually to help our clients safely and successfully navigate through this unprecedented period. We also strengthened our commitment to our professionals, equipping them with state of the art technology to work remotely and providing them the tools necessary to help clients with their critical talent needs despite changes in the workplace environment. As a result, we closed the fourth quarter with an employee base that is more engaged and productive than ever, with near record high revenues, creating positive, strong momentum leading into fiscal year 2022.

Supported by the strengths of our specialty brands and high-end verticals, deep subject matter expertise, our investments in recruiting and account management personnel and our refined, streamlined professional business model, we are excited about the continued ability to find meaningful and exciting employment for the people we place and provide clients access to the specialized talent they need to grow their business and successfully compete in a dynamic world.

GEE Group continued its strong momentum from the fourth quarter of fiscal 2021 into fiscal 2022, and we expect to report strong results for the first quarter ending December 31, 2021 and beyond.

Finally, we'd like to again thank our wonderful employees for their professionalism, hard work and dedication, without which, we could not have accomplished all the good things we have this quarter and this past year.

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

Question-and-Answer Session to Follow

Forward-looking Statements Safe Harbor

In addition to historical information, these prepared remarks contain statements relating to possible future events and/or future results (including results of business operations, certain projections, future financial condition, pro forma financial information, and business trends and prospects) that are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1934, as amended, (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995 and are subject to the "safe harbor" created by those sections. The statements made in these prepared remarks that are not strictly historical facts are forward-looking statements that are predictive in nature and depend upon or refer to future events. Such forward-looking statements often contain, or are prefaced by, words such as "will", "may," "plans," "expects," "anticipates," "projects," "predicts," "pro forma", "estimates," "aims," "believes," "hopes," "potential," "intends," "suggests," "appears," "seeks," or variations of such words or similar words and expressions. Forward-looking statements are not guarantees of future performance, are based on certain assumptions, and are subject to various known risks and uncertainties, many of which are beyond the Company's control, and cannot be predicted or quantified. Consequently, as a result these and other factors, the Company's actual results may differ materially from those expressed or implied by such forward-looking statements.

The international pandemic, the "Novel Coronavirus" ("COVID"-19), has been detrimental to and continues to negatively impact and disrupt the Company's business operations. The health outbreak has caused a significant negative effect on the global economy and employment, in general, including the lack of demand for the Company's services which is exacerbated by government and client directed "quarantines", "remote working", "shut-downs" and "social distancing". While incidences of COVID-19 have generally subsided since its initial outbreak, there continue to be signs of the virus, including emergence of variants of the original strain. Therefore, there is no assurance that conditions will continue to improve and could worsen and further negatively impact GEE Group. Certain other factors that might cause the Company's actual results to differ materially from those in the forward-looking statements include, without limitation: (i) the loss, default or bankruptcy of one or more customers; (ii) changes in general, regional, national or international economic conditions; (iii) an act of war or terrorism, industrial accidents, or cyber security breach that disrupts business; (iv) changes in the law and regulations; (v) the effect of liabilities and other claims asserted against the Company including the failure to repay indebtedness or comply with lender covenants including the lack of liquidity to support business operations and the inability to refinance debt, failure to obtain necessary financing or the inability to access the capital markets and/or obtain alternative sources of capital; (vi) changes in the size and nature of the Company's competition; (vii) the loss of one or more key executives; (viii) increased credit risk from customers; (ix) the Company's failure to grow internally or by acquisition or the failure to successfully integrate acquisitions; (x) the Company's failure to improve operating margins and realize cost efficiencies and economies of scale; (xi) the Company's failure to attract, hire and retain quality recruiters, account managers and sales people; (xii) the Company's failure to recruit qualified candidates to provide to clients as temporary workers under contract or for full-time hire; (xiii) the adverse impact of geopolitical events, government mandates, natural disasters or health crises, force majeure occurrences, global pandemics (such as “COVID-19” referred to above), or other harmful viral or non-viral rapidly spreading diseases; and such other factors as set forth under the heading "Forward-Looking Statements" in the Company's annual reports on Form 10-K, its quarterly reports on Form 10-Q and in the Company's other filings with the Securities and Exchange Commission (SEC).

More detailed information about the Company and the risk factors that may affect the realization of forward-looking statements is set forth in the Company's filings with the SEC. Investors and security holders are urged to read these documents free of charge on the SEC's web site at http://www.sec.gov. The Company is under no obligation to (and expressly disclaims any such obligation to) and does not intend to publicly update, revise, or alter its forward-looking statements whether as a result of new information, future events or otherwise.

Non-GAAP Financial Measures

Statements in these prepared remarks and references to financial information include the non-GAAP financial measures, EBITDA, Adjusted EBITDA and Senior Debt leverage ratio, which are provided as additional information to supplement the Company’s consolidated financial statements presented on a GAAP basis. These non-GAAP financial measures are used by management internally for planning purposes, to help evaluate the Company’s performance period over period, to analyze the underlying trends in its business, to establish operational goals and to provide additional measures of operating performance. GEE Group also uses the non-GAAP financial information to assess the Company's liquidity position, to help determine its ability to meet debt service, to make capital expenditures and to provide for its working capital needs. In addition, the Company believes that the non-GAAP financial measures presented herein are meaningful to investors and are utilized by them to enhance the overall understanding of the Company's financial performance. Non-GAAP financial measures do not serve as an alternative to or substitute for the consolidated quarterly and annual financial statements presented in accordance with accounting principles generally accepted in the United States ("GAAP"). The non-GAAP financial measures presented herein might not be calculated in the same manner as, and thus might not be comparable to, similarly titled measures reported by other companies. Non-GAAP EBITDA and non-GAAP Adjusted EBITDA as determined by the Company provide measures of operating results in a manner that is focused on the Company's core business on an ongoing basis, by removing the effects of non-operating and certain non-cash and non-recurring expenses. Non-GAAP EBITDA and non-GAAP Adjusted EBITDA as determined by the Company are computed as net income or net loss before interest, taxes, depreciation and amortization (EBITDA), plus non-cash stock option and stock-based compensation expenses and acquisition, integration and strategic planning expenses, and excluding gains or losses on extinguishment of debt and other gains and losses (Adjusted EBITDA). The financial information tables that accompany our earnings press release include reconciliations of GAAP net income (net loss) and GAAP net operating income (net operating loss) to the non-GAAP financial measures, EBITDA and Adjusted EBITDA. The non-GAAP financial measure, Senior Debt Leverage, is a ratio of the Company's Senior Debt to the trailing 12 months ("ttm") Adjusted EBITDA and provides information about the Company's compliance with loan covenants. The calculation of Senior Debt Leverage is presented in the reconciliations of GAAP financial measures to non-GAAP financial measures that accompany our earnings press release. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flow that either excludes or includes amounts that are not normally included in the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP financial measures discussed above, however, should be considered in addition to, and not as a substitute for, or superior to net income or net loss and income or loss from operations as reported in accordance with GAAP on the Consolidated Statements of Income, cash and cash flows as reported in accordance with GAAP on the Consolidated Statement of Cash Flows or other measures of financial performance prepared in accordance with GAAP, and as reflected on the Company's consolidated financial statements prepared in accordance with GAAP included in GEE Group's Form 10-Q and Form 10-K filed for the respective fiscal periods with the Securities and Exchange Commission (SEC).

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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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