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

Thursday, May 16, 2024, 11:00 AM EDT

Audience Event Link:

https://event.webcasts.com/starthere.jsp?ei=1672083&tp_key=2c7f223e76

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 second quarter and first half ended March 31, 2024 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 second quarter and first half ended March 31, 2024, 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 Wednesday's earnings press release 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.

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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 have faced very difficult and challenging conditions so far in the fiscal 2024 first half, mainly stemming from on-going macroeconomic and labor market instability, volatility and uncertainty, particularly, as they have affected businesses' use of contingent labor and the hiring of full-time personnel. As we reported in the past, the demand environment for us and our industry peers began to soften in the middle part of calendar 2023 following a robust hiring of both contract labor and permanent employees in calendar 2021 and 2022, much of which was attributable to a post COVID-19 bounce in employment. Many IT projects and corporate expansion activities requiring additional labor have been put on hold with some layoffs implemented in conjunction with a hiring freeze. These conditions have continued to negatively impact job orders so far in the first half of calendar 2024. Consolidated revenues were $28.0 million for the fiscal 2024 second quarter, and $58.7 million for the first half of fiscal 2024. Gross profit and gross margin were $8.7 million and 31.3%, respectively, for the fiscal 2024 second quarter and $18.5 million and 31.5% for the first half of fiscal 2024. Consolidated non-GAAP adjusted EBITDA was negative at $(600) thousand for the fiscal 2024 second quarter, and negative $(800) thousand for the first half of fiscal 2024.

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We reported a net loss of $(1.0) million, or $(0.01) per diluted share, for the fiscal 2024 second quarter, and a net loss of $(2.6) million, or $(0.02) per diluted share, for the first half of fiscal 2024.

The prior fiscal 2023 second quarter and first half results were solid although lower when compared to 2022's best ever results, which included record high demand for direct hire placement services, and many special projects on the contract side driven by a post-COVID recovery resulting in an "upward bounce" in hiring at that time. The pullback in demand for direct hire placement services, in particular, which began in the middle part of calendar 2023 has continued into the first half of 2024, so far, and contributed to the lower fiscal 2024 second quarter and first half results. Performance also is down nearly universally among our industry peers as we all are facing similar challenges. Industry observers have labeled our current situation, "the Big Stay." Employers are holding tight onto their good reliable employees, so turnover and replacement hiring of full-time personnel are down, accordingly. On the contract side, our clients continue to postpone projects in many areas including IT software implementation and systems upgrades, accounting and finance special work and manufacturing production and facilities expansion, resulting in fewer contractor assignments. The good news in this is that our client retention itself remains outstanding, even though orders are down from normal levels across nearly all verticals. Additionally, we are beginning to see signs of improvement in some of the leading indicators we have been tracking. These positive trends have been mentioned in recent reports covering the staffing industry and by other peer group companies in their press releases and public filings. It remains unclear at this juncture, however, whether they are sustainable and as to when exactly the challenges faced by us and the U.S. Staffing Industry, overall, may be expected to meaningfully subside. So, as indicated in our earnings press release, we remain cautiously optimistic in our outlook.

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Before I turn it over to Kim, I would like to touch on some other recent important developments. Less than a month ago, we announced the completion of the Company's review of strategic alternatives undertaken by our Board of Directors in conjunction with its M&A Committee with the assistance of the investment banking firm, DC Advisory. We are now well underway formulating our plans and budgets with which to execute on the M&A Committee's and DC Advisory's recommendations, which include making prudent investments to grow both organically and through mergers and acquisitions. Without going into details for now, armed with considerable excess cash and potential available financing, we already have begun both, adding and training new revenue producers and revving up sales initiatives in key markets; and also, revisiting our M&A targets list and socializing with several targets at this stage.

We paused share repurchases on December 31, 2023, having purchased 6.1 million shares of GEE Group Inc. common stock, or just over 5% of our outstanding shares at the beginning of the program. For now, our Board and management agree that it is judicious to discontinue share repurchases for the time being, at least until we gain more clarity on when market conditions may improve; and until then, how much of our excess cash should be held in reserve. Share repurchases always will be a part of our capital allocation strategy and a bona fide alternative use of our excess capital, and implemented if and when prudent. However, in the context of our overall growth strategy, it is not by itself a bona fide long-term course of action to maximize enterprise value and increase shareholder value.

Also, there are some other bright spots in our outlook. It is still too early to predict when a definitive upward turn in our existing down cycle will occur, however, we are seeing some positive results from our recent investments to accelerate growth. Price and spread improvements in our professional verticals are beginning to take hold and job orders were up in April. Our revenues for April and revenues per billing day, are coming in higher than both the month of March 2024, and the average monthly revenues for the entire quarter. We also have continued to achieve excellent client retention, most notably among our largest clients, throughout the current cycle. We view continued good client retention to be a positive sign for things to come as the cycle begins to improve.

I want to assure everyone once again that our sole focus is to manage through this downturn and to restore growth as quickly as possible. We have a strong balance sheet with substantial liquidity in the form of cash and borrowing capacity and are well prepared to do both. We also continue to assert that our stock is undervalued, and especially so, based upon recent trading at levels very near and even slightly below tangible book value. Also, while our stock price has been down since the last earnings release, only a small portion of our float is actually trading at this low a level; further evidence that it is undervalued and has substantial room to grow, especially from here.

Finally, before I turn it over to Kim, I once again wish to 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 prior 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 second quarter and year to date results. Kim.

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Kim Thorpe

Thank you, Derek, and good morning. As Derek mentioned, consolidated revenues for the three and six-month periods ended March 31, 2024, were $28.0 million and $58.7 million, down 28% and 27%, respectively, compared to the same fiscal 2023 periods.

Professional and industrial contract staffing services revenues for the fiscal 2024 second quarter were $25.6 million, down 25%, as compared to the fiscal 2023 second quarter. Professional and industrial contract staffing services revenues for the first half of fiscal 2024 were $53.2 million, down 23%, as compared with the first half of fiscal 2023. Professional contract services revenue, which represents 90% of all contract services revenue and 82% of total revenue, decreased $7.6 million, or 25%, quarter over quarter. In the first half of fiscal 2024, professional contract services revenue represented 91% of all contract services revenue and 82% of total revenues, and decreased $14.3 million, or 23%, as compared with the first half of fiscal 2023. Industrial contract services revenue, which represents 10% of all contract services revenue and 9% of total revenue, decreased $800 thousand, or 24%, quarter over quarter. In the first half of fiscal 2024, industrial contract services revenue represented 9% of all contract services revenue and 8% of total revenues, and decreased $1.9 million, or 28%, as compared with fiscal 2023's first half.

Direct hire revenues for the fiscal 2024 second quarter were $2.4 million, down 50%, as compared with fiscal 2023 second quarter revenues, and were $5.5 million for the first half of fiscal 2024, down 48% from the first half of fiscal 2023.

The effects of the economic and labor market conditions referred to by Derek have resulted in declines in job orders for temporary and direct hire personnel from clients and the decline in our revenues in virtually all our professional verticals. Recruiting qualified temporary labor to fill job orders for our industrial division led to the decreases in contract revenues for that business. The "Big Stay", as its called, has been widely chronicled throughout the staffing industry by our observers and has led to an overall decline in demand for permanent hires.

Gross profit for the fiscal 2024 second quarter was $8.7 million, down 34% as compared with the fiscal 2023 second quarter gross profit. Gross profit for the first half of fiscal 2024 was $18.5 million, down 33% as compared with the first half of fiscal 2023. Our overall gross margins were 31.3% and 34.0% for the fiscal 2024 and 2023 second quarters, respectively. These decreases in gross profit and gross margin are mainly attributable to the decline in the percentage of direct hire revenue, which has 100% gross margin, to total revenue. Our Professional Contract Services gross margin was 25.7% for the fiscal 2024 second quarter compared with 25.4% for the fiscal 2023 second quarter, an improvement of 30 basis points. The gross margin for Professional Contract Services was 25.3% for the first half of fiscal 2024, as compared with 25.4% for the first half of fiscal 2023, a slight decline of 10 basis points. Our Industrial Contract Services gross margin was 15.2% for the fiscal 2024 second quarter, compared with 16.5% for the fiscal 2023 second quarter, which was a decline of 130 basis points. In addition to fewer job orders, we continue to face challenges with our industrial business including sourcing and recruiting qualified candidates as well as increased competition. Despite lower overall gross profit and gross margins so far in 2024, our current margins remain relatively high as compared with those of our competitors.

Selling, general and administrative expenses (SG&A) for the fiscal 2024 second quarter were $10.0 million, down 15% as compared with the fiscal 2023 second quarter. SG&A expenses for the first half of fiscal 2024 were $20.6 million, down 16% as compared with the first half of fiscal 2023. SG&A expenses were 35.7% of revenues for the fiscal 2024 second quarter, compared with 30.1% for the fiscal 2023 second quarter. The increase in SG&A relative to revenue is mainly attributable to our fixed costs including personnel-related expenses, occupancy costs, software subscriptions for applicant sourcing and tracking, and others, which became proportionally higher relative to lower revenues, and to a lesser extent, certain non-recurring expenses not associated with core business operations. Management has made a concerted effort to reduce SG&A and will continue to do in a manner that will not hinder revenue growth as the business environment improves.

In addition, we have begun to selectively add and train new revenue producing personnel and launch sales initiatives in key markets in order to enhance our resources to obtain new clients and new job orders. Our management team is experienced in managing through cyclical conditions such as the ones we are now experiencing, and these investments are being made in anticipation of an anticipated eventual recovery.

We reported a net loss for the fiscal 2024 second quarter of $(1.0) million, or $(0.01) per diluted share, down $1.7 million as compared with net income of $700 thousand, or $0.01 per diluted share, for the fiscal 2023 second quarter. Our net loss for the first half of fiscal 2024 was $(2.6) million, or $(0.02) per diluted share, down $3.9 million as compared with net income of $1.3 million, or $0.01 per diluted share, for the first half of fiscal 2023. Adjusted net loss, which is a non-GAAP financial measure, for the fiscal 2024 second quarter was $(400) thousand, down $1.2 million as compared with adjusted net income of $800 thousand for the fiscal 2023 second quarter.

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Our adjusted net loss for the first half of fiscal 2024 was $(1.3) million, down $3.2 million, as compared with adjusted net income of $1.9 million for the first half of fiscal 2023.

EBITDA, which is a non-GAAP financial measure, for the fiscal 2024 second quarter was negative $(1.2) million, down $2.7 million as compared with $1.5 million for the fiscal 2023 second quarter. EBITDA for the first half of fiscal 2024 was negative $(2.1) million, down $5.2 million, as compared with $3.1 million for the first half of fiscal 2023. Adjusted EBITDA, which also is a non-GAAP financial measure, for the fiscal 2024 second quarter was negative $(600) thousand, down $2.3 million as compared with $1.7 million for the fiscal 2023 second quarter. Our adjusted EBITDA for the first half of fiscal 2024 was $(800) thousand, down $4.5 million, as compared with $3.7 million for the first half of fiscal 2023.

Our current or working capital ratio as of March 31, 2024, was 3.9-to-1, up from 3.6-to-1, as of September 30, 2023. We reported positive cash flow from operating activities and free cash flow, which is a non-GAAP measure, of $400 thousand for the fiscal 2024 second half ended March 31, 2024.

Our liquidity position remains very strong and we have an undrawn ABL credit facility and no outstanding debt. Our net book value per share and net tangible book value per share were $0.92 and $0.32, respectively, as of March 31, 2024.

In conclusion, while we're disappointed with our fiscal 2024 second quarter results and remain cautious in our near term outlook, we do remain optimistic for the long term and have demonstrated that we can generate substantial earnings consistently under more favorable macroeconomic conditions and a more conducive environment for the staffing industry.

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 March 31, 2024, the Company had $21.2 million in cash and another $8.2 million in availability under its bank ABL credit facility. Despite economic headwinds and staffing industry specific challenges impacting demand for our services, we are aggressively managing and preparing our business for an inevitable recovery. As I mentioned in our earnings press release and again in my opening remarks, we are moving aggressively not only to prepare for an eventual recovery, but also to restore growth sooner, to be driven by both organic and M&A growth plans and other initiatives. 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.

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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