

Staffing 360 Solutions, Inc.

Nasdaq: STAF

Maintaining Rating & Raising Target**BUY, \$4.50****May 20, 2022****MARKET DATA**

Share Price:	\$ 0.7523
Market Cap:	\$ 13.17 M
52wk Range:	\$ 0.52 - \$ 6.75
Ave. Volume:	175,000
Basic S/O:	17.50 M
Fully Diluted S/O:	30.63 M
Float:	15.33 M
Institutional %:	N/A
Insider %:	N/A
Dividend (Yield)	\$ 0.00 (N/A)

FINANCIAL DATA (mrq)

Cash:	2.23 M
ST Debt:	13.92 M
LT Debt:	0.43 M
Book Value:	21.87 M
aEBITDA (ttm):	5.71 M
CFFO (ttm):	(13.11) M
Auditor:	BDO USA LLP

	USD	2019A	2020A	2021e	2022e
Revenue (in Millions)					
Mar	73.83	58.69	48.95A	54.97	
Jun	73.50	43.36	50.53A	64.64	
Sep	67.32	48.64	47.50A	77.57	
Dec	63.83	53.83	55.95	80.76	
REV	278.48	204.53	202.93	277.95	
<i>P/S</i>	<i>0.05</i>	<i>0.06</i>	<i>0.06</i>	<i>0.05</i>	

EPS (to Common - Diluted)

Mar	(0.34)	(5.38)	(0.51)A	0.04
Jun	(1.51)	(3.55)	0.67A	0.03
Sep	(1.18)	(2.35)	0.68A	0.06
Dec	(2.16)	(4.82)	0.06	0.07
EPS	(5.40)	(15.84)	1.06	0.21
<i>P/E</i>	<i>N/A</i>	<i>N/A</i>	<i>0.71</i>	<i>3.57</i>

Dividend

DIV	0.18	0.00	0.00	0.00
<i>Yield</i>	<i>23.9%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>

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Headway Acquisition Completed

Headway Acquisition Completed. Yesterday, STAF announced it completed the acquisition of Headway Workforce Solutions for up to \$14 million in stock and cash. Headway provides recruitment and staffing services, and employer of record (EOR) services in all 50 states with a technology-first operating model. Headway reported unaudited Revenue of \$85 million in 2021. Given the nature of the EOR business, we expect gross margins for Headway will be lower than STAF's current subsidiaries, but EBITDA margins could be close to the margins for STAF's existing business due to the heavy use of technology and non-commissioned employees in its staffing functions. With Headway's national footprint, we would also expect STAF to begin expanding into new markets, initially targeting Headway's EOR clients, as well as marketing Headway's EOR services to the Company's staffing clients.

The deal was structured favorably for STAF, whereby it issued \$9,000,000 in Series H Preferred Stock, which carries a 12% dividend and is convertible into 3,500,000 shares of common stock, at \$2.57 per share, a 240% premium to yesterday's closing price. The dividend payout adjusts to 15% after three years if not redeemed or converted. The sellers can earn up to \$5,000,000 in cash based on 2.5 times the adjusted EBITDA of Headway from May 1, 2022 through April 30, 2023. Given the relatively low hurdle of \$2,000,000 in aEBITDA on an \$85 million Revenue business, we would expect the full amount to be paid out next year. We also note that private EOR companies have recently raised money at Revenue multiples of more than 4x (Oyster and Velocity Global), whereas STAF purchased Headway at well below 1x.

Model Update. We added in Headway's \$85 million of Revenue to our model, and assumed its blended gross margin is around 9%. Operating expenses for Headway should not be too large given the relatively small, fixed payment workforce and heavy use of technology in its placement services. We expect the acquisition to be immediately accretive and believe the earnout could be mostly self-funded by Headway over the next twelve months. The net impact to our model is an increase in 2022 Revenue from \$222.62 million to \$277.95 million, and adjusted EBITDA increasing from \$10.3 million to \$12.6 million. We will introduce estimates for 2023 once the delayed earnings results are released.

Reverse Split Update. On May 16, the Company filed its Proxy for the reverse split vote to maintain its Nasdaq listing. The shareholder vote will be conducted on June 23, as previously noted, with the reverse split going into effect on June 24. STAF will have until July 11 to have the stock trade above \$1.00 for ten consecutive trading days.

COMPANY UPDATE (continued)

Delay In Results Filings. There have been no updates as to the timing of the release of the 10-K or 10-Q for the first quarter. As Nasdaq has accepted the Company's plan to do a reverse split to maintain its listing status without requiring these documents to be filed we do not expect there to be any issues that arise out of the delayed filings.

Maintaining Rating & Raising Target. The Headway transaction looks to be a great deal for STAF and its shareholders, adding a large Revenue stream, opening the Company to the EOR business, and enabling it to spread nationally with a technology-driven focus. We continue to wait for Q4:21 and Q1:22 results, but expect 2022 to be a big year for Staffing 360. As such, we are reiterating our Buy rating and raising our target price on Staffing 360 Solutions from \$4.00 to \$4.50. Our target price is based on an EV/aEBITDA multiple of roughly 7.0 times our forward twelve month aEBITDA estimate of \$12.6 million and a forward EV/Revenue multiple of 0.3.

RISKS

Influence of Jackson Investment Group

JIG has been heavily diluted recently and no longer owns over 50% of the potentially issuable shares of STAF, however it still holds roughly \$8.5 million in debt. There is no certainty STAF will be able to re-finance JIG in the near future.

Cash Shortfall

There are no assurances STAF will generate enough cash from operations and/or warrant exercises to repay the remainder of its JIG debt by September 2022.

Availability of Labor

STAF is dependent on having an adequate supply of skilled labor to meet client needs. Should workers continue to shy away from the job market the Company's results may be weaker than we currently expect.

Impact of COVID-19

The Company's business has been hit hard by the restrictions imposed by COVID-19, especially in regards to the Professional business. Increased restrictions and/or lockdowns in the US and UK could have severe negative impacts on STAF's future results.

Dependence on Growth Capital

As a company engaging in a rollup strategy, STAF is dependent on the availability of capital once it has found acquisition candidates. The Company has missed on potential acquisitions in the past due to a lack of immediate capital and may do so again in the future.

Acquisitions May Not Perform As Expected

Although it has a relatively hands-off approach to its acquired companies, there are no guarantees the companies STAF acquires will perform at the same or greater level than when private or keep the purchased client list.

Economic Conditions

Lower growth in the economy as a whole or in each of its target segments could produce lower than expected revenue, as could low unemployment in its areas of operations as employers convert temporary staff to permanent. Complete shutdowns, like those during the COVID-19 pandemic, could have a significant impact on STAF's results and cash flow.

Highly Competitive Industry

The staffing industry in the US and UK is highly competitive with little start up capital required. As such, there are numerous firms in both countries seeking to work with the clients and employees of the Company, some of which have a greater global footprint and more resources available than STAF does.

Currency Fluctuations

Weakness in the British Pound would reduce sales and earnings of the Company, which reports results in US Dollars.

Lawsuit Against Seller of Key Resources

STAF is in the midst of dualling lawsuits against the seller of Key Resources surrounding the need to pay certain earn-outs due to misrepresentations made by the seller at the time of the acquisition.

Material Weakness

The Company determined it has a material weakness in financial reporting due to an inadequate number of financial personnel. Management intends to hire additional staff or external consultants to remediate the issue.

ESTIMATED INCOME STATEMENT

	Q1:20A	Q2:20A	Q3:20A	Q4:20A	2020A	Q1:21A	Q2:21A	Q3:21A	Q4:21e	2021e	Q1:22e	Q2:22e	Q3:22e	Q4:22e	2022e
<i>(in 000s of USD)</i>															
Revenue	58,692	43,361	48,640	53,834	204,527	48,951	50,530	47,501	55,947	202,929	54,973	64,642	77,572	80,758	277,945
Cost of Revenue	48,044	35,807	40,317	45,546	169,714	40,936	41,511	37,877	45,733	166,057	44,940	53,757	65,474	68,105	232,276
Gross Profit	10,648	7,554	8,323	8,288	34,813	8,015	9,019	9,624	10,213	36,871	10,032	10,885	12,098	12,653	45,669
SG&A	10,961	8,257	9,391	8,897	37,506	7,929	9,419	8,463	7,831	33,642	7,933	8,731	9,110	9,398	35,172
Depreciation & Amortization	785	759	768	806	3,118	731	703	688	688	2,810	688	750	750	750	2,938
Impairment - Goodwill	2,969	-	-	-	2,969	-	-	-	-	-	-	-	-	-	-
Operating Income	(4,067)	(1,462)	(1,836)	(1,415)	(8,780)	(645)	(1,103)	473	1,695	420	1,412	1,404	2,238	2,505	7,559
Interest Expense	(2,417)	(2,114)	(1,746)	(1,477)	(7,754)	(1,241)	(1,185)	(1,006)	(531)	(3,963)	(519)	(576)	(627)	(640)	(2,362)
PPP Forgiveness & Other Income	(14)	(25)	161	3	125	107	10,101	9,504	-	19,712	-	-	-	-	-
FX Re-measurement on Note	(675)	(115)	442	932	584	128	(32)	(315)	-	(219)	-	-	-	-	-
Gain from Sale of Business	-	-	220	(96)	124	-	-	-	-	-	-	-	-	-	-
Restructuring	-	-	-	(41)	(41)	-	-	-	-	-	-	-	-	-	-
Net Income Before Taxes	(7,173)	(3,716)	(2,759)	(2,094)	(15,742)	(1,651)	7,781	8,844	1,164	15,950	893	829	1,611	1,865	5,197
Income Taxes	176	(47)	118	(147)	100	(37)	67	(131)	(199)	(300)	(158)	(149)	(266)	(304)	(878)
Net Income to Staffing 360	(6,997)	(3,763)	(2,641)	(2,241)	(15,642)	(1,688)	7,848	8,713	965	15,838	734	680	1,345	1,561	4,320
Series A Preferred Dividends	31	31	31	32	125	-	-	-	-	-	-	-	-	-	-
Series E/G Preferred Dividends	390	1,168	553	361	2,472	245	197	43	-	485	-	-	-	-	-
Series E-1/G-1 Preferred Dividends	182	185	208	181	756	144	126	40	-	310	-	-	-	-	-
Deemed Dividend	-	-	-	4,690	4,690	389	1,409	-	-	1,798	-	-	-	-	-
Allocated to Participating Securities	-	-	-	-	-	-	1,261	1,077	-	2,338	-	-	-	-	-
Net Income to Common	(7,600)	(5,147)	(3,433)	(7,505)	(23,685)	(2,466)	4,855	7,553	965	10,907	734	545	1,075	1,291	3,645
Basic EPS	(5.38)	(3.55)	(2.35)	(4.82)	(15.84)	(0.51)	0.75	0.70	0.06	1.10	0.04	0.03	0.06	0.07	0.21
Basic S/O	1,412	1,448	1,463	1,557	1,495	4,812	6,441	10,791	17,502	9,887	17,509	17,518	17,526	17,535	17,522
Diluted EPS	(5.38)	(3.55)	(2.35)	(4.82)	(15.84)	(0.51)	0.67	0.68	0.06	1.06	0.04	0.03	0.06	0.07	0.21
Diluted S/O	1,412	1,448	1,463	1,557	1,495	4,812	7,774	11,079	17,506	10,293	17,506	17,506	17,506	18,403	17,730
Adjusted EBITDA	1,211	521	1,214	1,719	4,665	1,132	1,372	1,490	2,796	6,790	2,613	2,918	3,402	3,668	12,600
TTM Adjusted EBITDA	8,954	7,116	5,441	4,665		4,586	5,432	5,713							
Q1:20A	Q2:20A	Q3:20A	Q4:20A	2020A	Q1:21A	Q2:21A	Q3:21A	Q4:21e	2021e	Q1:22e	Q2:22e	Q3:22e	Q4:22e	2022e	
18.14%	17.42%	17.11%	15.40%	17.02%	16.37%	17.85%	20.26%	18.26%	18.17%	18.25%	16.84%	15.60%	15.67%	16.43%	
-6.93%	-3.37%	-3.77%	-2.63%	-4.29%	-1.32%	-2.18%	1.00%	3.03%	0.21%	2.57%	2.17%	2.89%	3.10%	2.72%	
2.06%	1.20%	2.50%	3.19%	2.28%	2.31%	2.72%	3.14%	5.00%	3.35%	4.75%	4.51%	4.39%	4.54%	4.53%	
-12.22%	-8.57%	-5.67%	-3.89%	-7.70%	-3.37%	15.40%	18.62%	2.08%	7.86%	1.62%	1.28%	2.08%	2.31%	1.87%	
-12.95%	-11.87%	-7.06%	-13.94%	-11.58%	-5.04%	9.61%	15.90%	1.72%	5.37%	1.34%	0.84%	1.39%	1.60%	1.31%	

Source: STAF documents filed with the SEC and Greenridge Global estimates

DISCLOSURES

Distribution of Ratings

Rating	Count	Percent	<u>I.B. last 12 months</u>	
			Count	Percent
BUY	9	100%	0	0%
HOLD	0	0%	0	0%
SELL	0	0%	0	0%
NO RATING	0	0%	0	0%

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- BUY:** Describes undervalued stocks we expect to provide a total return (capital appreciation + yield) of 15% or more in the next twelve month period.
- HOLD:** Describes fully valued stocks we expect to provide a total return (capital appreciation + yield) of plus or minus 15% in the next twelve month period.
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- NO RATING:** Describes stocks that have their investment rating and/or target price temporarily removed for fundamental or compliance-based reasons.

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Other Disclosures

<u>Company</u>	<u>Disclosures</u>
Staffing 360 Solutions, Inc.	3, 8

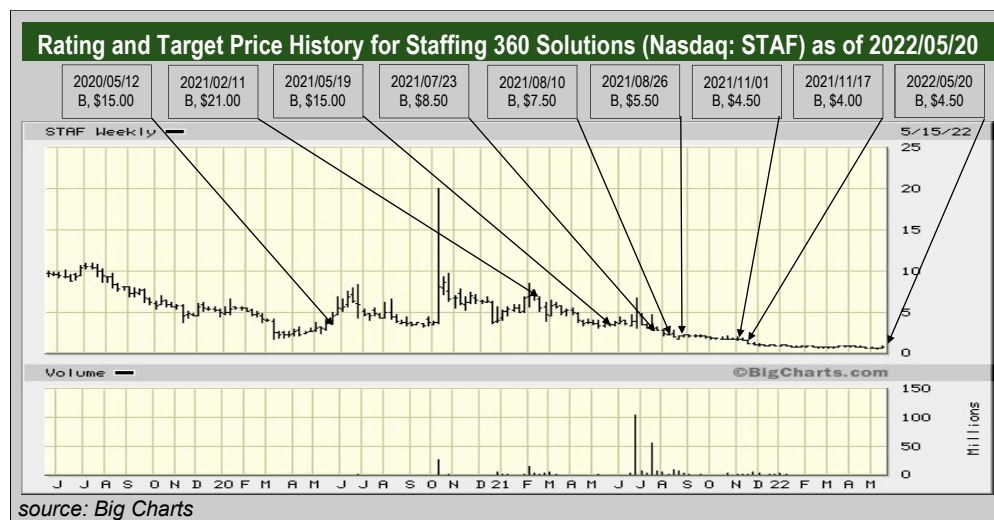
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DISCLOSURES (continued)

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