

Staffing 360 Solutions, Inc.

Nasdaq: STAF

Maintaining Rating & Reducing Target**BUY, \$20.00**

July 5, 2022

Dilutive \$4M Stock Sale Announced**MARKET DATA**

Share Price:	\$ 6.18
Market Cap:	\$ 14.96 M
52wk Range:	\$ 5.20 - \$ 48.40
Ave. Volume:	20,000
Basic S/O:	2.42 M
Fully Diluted S/O:	3.73 M
Float:	2.30 M
Institutional %:	N/A
Insider %:	N/A
Dividend (Yield)	\$ 0.00 (N/A)

FINANCIAL DATA (mrq)

Cash:	4.56 M
ST Debt:	9.22 M
LT Debt:	0.28 M
Book Value:	23.33 M
aEBITDA (ttm):	2.43 M
CFFO (ttm):	(14.63) M
Auditor:	BDO USA LLP

	USD	2020A	2021A	2022e	2023e
Revenue (in Millions)					
Mar	58.69	48.95	51.57	51.57	76.98
Jun	43.36	50.53	60.61	60.61	78.47
Sep	48.64	47.50	75.31	75.31	78.77
Dec	53.83	50.79	74.82	74.82	77.36
REV	204.53	197.77	262.31	262.31	311.58
<i>P/S</i>	<i>0.07</i>	<i>0.08</i>	<i>0.06</i>	<i>0.06</i>	<i>0.05</i>

EPS (Diluted)

Mar	(53.81)	(5.12)	0.04	0.04	0.39
Jun	(35.54)	6.66	(0.10)	(0.10)	0.28
Sep	(23.47)	6.82	0.23	0.23	0.27
Dec	(48.22)	(3.85)	0.16	0.16	0.21
EPS	(158.41)	3.73	0.43	0.43	1.14
<i>P/E</i>	<i>N/A</i>	<i>1.66</i>	<i>14.37</i>	<i>14.37</i>	<i>5.42</i>

Dividend

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

William Gregozeski, CFA
 wgregozeski@greenridgeglobal.com
 +1 414 435 1110

Dilutive \$4 Million Stock Sale. After the close on Friday, the Company announced it raised \$4 million from the sale of 657,858 shares at \$6.10. The deal also included 100% warrant coverage, with the warrants having a 5.5 year term and exercise price of \$5.85. STAF also amended 657,858 of previously issued warrants to these investors, which covers nearly all of the 2021 registered direct sale warrants. The exercise price on these warrants will be reduced from a range of \$18.50 to \$38.00 down to \$5.85, and the duration will be increased to 5.5 years. The funds raised were earmarked for working capital needs. After the 1:10 reverse, this deal brings a rather large amount of dilution to the Company, as these shareholders now control a significant portion of the fully diluted sharecount.

Q4:21 Results Impacted By One-Time Items. Fourth quarter results included Revenue of \$50.79 million, a decline from the year ago period despite most of the market showing growth. The Light Industrial segment saw a 9.8% decline, as it continued to have difficulty retaining temp workers in an environment where employers competed for these workers with progressively higher pay and bonuses. Revenue on the Professional side fell 1.9% in the UK, and increased 16.3% in the US. Also of note, Permanent Placement Revenue increased 42.3% year-over-year, to \$1.31 million, as more employers began seeking long-term options rather than losing temp workers. Gross margins in the US Commercial and Professional segments increased from the year ago period, while GM in the UK plummeted to 3.2%, as it appears there were one-time items included in COGS. SG&A was \$9.49 million, and included \$0.71 million in acquisition, capital raising and other one-time items. The Company took a \$3.1 million Goodwill Impairment on the UK business due to the impact Covid has had. Loss from Operations was \$6.03 million, and Net Loss to Common was \$6.77 million. All in all, it appears the three month delay on the 10-K was solely related to the Goodwill Impairment and the one-time items included in the UK COGS, neither of which are a cause for concern for future periods.

Model Update. We made a number of changes to our model, including near term Revenue from the Light Industrial and UK businesses, cutting margins on the UK business slightly, introducing 2023 estimates, and including the new shares, warrants and adjusted warrants to the cap table. The net impact was sizable on the bottom line, with our Net Profit estimate in 2022 dropping from \$3.65 million to \$0.97 million.

Maintaining Rating & Reducing Target. Operationally, it still appears 2022 will be a good year, however more information should be revealed as STAF gets back on track with normal reporting. The heavy dilution from Friday's raise had the biggest impact on the model, and thus our target price, which we are reducing from \$45.00 to \$20.00. Based on the current share price, we still rate Staffing 360 Solutions a Buy. Our target price is based on an EV/aEBITDA multiple of roughly 7.0 times our forward twelve month aEBITDA estimate of \$9.4 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 and Potential Dilution

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. It is possible it could raise funds for repayment via stock issuance, which could result in significant dilution to current shareholders.

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 and with goodwill assessment relating to a lack of process for determining the valuation of goodwill assets. Management intends to hire additional staff or external consultants to remediate the issue.

ESTIMATED INCOME STATEMENT

	<i>(in 000s of USD)</i>														
	Q1:21A	Q2:21A	Q3:21A	Q4:21A	2021A	Q1:22e	Q2:22e	Q3:22e	Q4:22e	2022e	Q1:223e	Q2:23e	Q3:23e	Q4:23e	2023e
Revenue	48,951	50,530	47,501	50,788	197,770	51,571	60,607	75,309	74,822	262,309	76,980	78,472	78,770	77,357	311,579
Cost of Revenue	40,936	41,511	37,877	43,579	163,903	42,465	50,634	63,918	63,580	220,597	65,385	66,695	66,883	65,707	264,670
Gross Profit	8,015	9,019	9,624	7,209	33,867	9,106	9,973	11,391	11,242	41,712	11,595	11,777	11,887	11,650	46,909
SG&A	7,929	9,419	8,463	9,494	35,305	7,844	8,691	8,952	8,983	34,470	9,117	9,271	9,385	9,380	37,153
Depreciation & Amortization	731	703	688	636	2,758	636	750	750	750	2,886	750	750	750	750	3,000
Impairment - Goodwill	-	-	-	3,104	3,104	-	-	-	-	-	-	-	-	-	-
Operating Income	(645)	(1,103)	473	(6,025)	(7,300)	626	532	1,689	1,509	4,356	1,728	1,756	1,752	1,520	6,756
Interest Expense	(1,241)	(1,185)	(1,006)	(783)	(4,215)	(507)	(560)	(618)	(616)	(2,301)	(331)	(362)	(363)	(358)	(1,414)
PPP Forgiveness & Other Income	107	10,101	9,692	(324)	19,576	-	-	-	-	-	-	-	-	-	-
FX Re-measurement on Note	128	(32)	(315)	(41)	(260)	-	-	-	-	-	-	-	-	-	-
Net Income Before Taxes	(1,651)	7,781	8,844	(7,173)	7,801	119	(28)	1,071	893	2,056	1,397	1,394	1,389	1,162	5,342
Income Taxes	(37)	67	(131)	458	357	(42)	(20)	(185)	(158)	(406)	(234)	(234)	(233)	(199)	(899)
Net Income	(1,688)	7,848	8,713	(6,715)	8,158	77	(48)	886	734	1,649	1,163	1,160	1,156	963	4,442
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income to Staffing 360	(1,688)	7,848	8,713	(6,715)	8,158	77	(48)	886	734	1,649	1,163	1,160	1,156	963	4,442
Series E/G Preferred Dividends	245	197	43	-	485	-	-	-	-	-	-	-	-	-	-
Series E-1/G-1 Preferred Dividends	144	126	40	-	310	-	-	-	-	-	-	-	-	-	-
Series H Preferred Dividends	-	-	-	-	-	-	135	270	270	675	270	270	270	270	1,080
Deemed Dividend	389	1,409	-	-	1,798	-	-	-	-	-	-	-	-	-	-
Allocated to Participating Securities	-	1,261	1,077	57	2,395	-	-	-	-	-	-	-	-	-	-
Net Income to Common	(2,466)	4,855	7,553	(6,772)	3,170	77	(183)	616	464	974	1,163	890	886	693	3,632
Basic EPS	(5.12)	7.54	7.00	(3.85)	3.33	0.04	(0.10)	0.25	0.19	0.46	0.48	0.37	0.36	0.28	1.49
Basic S/O	481	644	1,079	1,757	952	1,758	1,769	2,428	2,429	2,096	2,429	2,430	2,431	2,432	2,431
Diluted EPS	(5.12)	6.66	6.82	(3.85)	3.73	0.04	(0.10)	0.23	0.16	0.43	0.39	0.28	0.27	0.21	1.14
Diluted S/O	481	777	1,108	1,757	1,063	1,759	1,769	2,661	2,867	2,264	3,020	3,140	3,235	3,314	3,177
Adjusted EBITDA	1,132	1,372	1,490	(1,560)	2,434	1,775	2,045	2,853	2,672	9,346	2,991	3,270	2,915	2,683	11,859
TTM Adjusted EBITDA	4,586	5,432	5,713	2,434											
	Q1:21A	Q2:21A	Q3:21A	Q4:21A	2021A	Q1:22e	Q2:22e	Q3:22e	Q4:22e	2022e	Q1:223e	Q2:23e	Q3:23e	Q4:23e	2023e
Gross Margin	16.37%	17.85%	20.26%	14.19%	17.12%	17.66%	16.46%	15.13%	15.02%	15.90%	15.06%	15.01%	15.09%	15.06%	15.06%
Operating Margin	-1.32%	-2.18%	1.00%	-11.86%	-3.69%	1.21%	0.88%	2.24%	2.02%	1.66%	2.24%	2.24%	2.22%	1.96%	2.17%
aEBITDA Margin	2.31%	2.72%	3.14%	-3.07%	1.23%	3.44%	3.37%	3.79%	3.57%	3.56%	3.89%	4.17%	3.70%	3.47%	3.81%
Pre-Tax Margin	-3.37%	15.40%	18.62%	-14.12%	3.94%	0.23%	-0.05%	1.42%	1.19%	0.78%	1.82%	1.78%	1.76%	1.50%	1.71%
Net Margin	-5.04%	9.61%	15.90%	-13.33%	1.60%	0.15%	-0.30%	0.82%	0.62%	0.37%	1.51%	1.13%	1.12%	0.90%	1.17%

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	8	100%	0	0%
HOLD	0	0%	0	0%
SELL	0	0%	0	0%
NO RATING	0	0%	0	0%

Explanation of Ratings

- 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.
- SELL:** Describes overvalued stocks we expect to provide a total negative return (capital depreciation + yield) of 15% or more in the next twelve month period.
- NO RATING:** Describes stocks that have their investment rating and/or target price temporarily removed for fundamental or compliance-based reasons.

Analyst Certification

I, William Gregozeski, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security and subject company. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Other Disclosures

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

- Greenridge Global makes a market in the security of the subject company.
- The analyst serves as an officer, director, or advisory board member of the subject company.
- The analyst or a member of the analyst's household has a financial interest in the securities of the subject company, including, but not limited to a long position, short position, rights, warrants, futures, or options.
- Greenridge Global or an affiliate of Greenridge Global has managed or co-managed a public offering of the security of the subject company in the last 12 months.
- Greenridge Global or an affiliate of Greenridge Global has received compensation for investment banking services from the subject company in the last 12 months.
- Greenridge Global expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.
- Greenridge Global or an affiliate of Greenridge Global beneficially own 1% or more of the common stock of the subject company as calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934.
- The subject company is, or during the past 12 months was, a client of Greenridge Global, which provided non-investment banking, securities-related services to, and received compensation from, the subject company for such services.
- An affiliate of Greenridge Global received compensation from the subject company for products or services other than investment banking services during the past 2 months.

DISCLOSURES (continued)

Other Disclosures

This report has been prepared by Greenridge Global LLC, an unregistered US-based financial services firm, employing appropriate expertise and in the belief that it is fair and not misleading. The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified, therefore, we do not guarantee its accuracy. Any opinion or estimates expressed in this report constitute our best judgment as of the date of the report and are subject to change without notice. Greenridge Global seeks to update its research as appropriate, but various regulations may prevent Greenridge Global from doing so. This report was prepared solely for informational purposes for Greenridge’s institutional clients and does not constitute a personal recommendation, solicitation or offer to buy or sell any security, or take into account the particular investment objectives, financial situations, or needs of individual clients. The securities described herein may not be qualified for purchase in all jurisdictions or be suitable for all investors. Each investor should consider whether any information regarding securities mentioned in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. Additional and supporting information is available upon request.

Rating History



Greenridge Global’s research reports are disseminated and available electronically, and in some cases, printed form. Electronic research is simultaneously available to all clients. This report or any portion herein may not be reprinted, sold or redistributed without the written consent of Greenridge Global LLC. For information on how to be added to Greenridge’s research distribution list please contact:

William Gregozeski, CFA
+1 414 435 1110
wgregozeski@greenridgeglobal.com

Greenridge Global LLC
104 E. Locust St.
Columbia, IL 62236 USA
www.greenridgeglobal.com