Staffing 360 Solutions, Inc.

Nasdaq: STAF

Maintaining Rating & Target
BUY, $20.00

July 20, 2022

MARKET DATA

Share Price:	$ 3.99
Market Cap:	$ 9.69 M
52wk Range:	$ 3.51 - $ 31.90
Ave. Volume:	39,000
Basic S/O:	2.43 M
Fully Diluted S/O:	3.84 M
Float:	2.30 M
Institutional %:	N/A
Insider %:	N/A
Dividend (Yield)	$ 0.00 (N/A)

FINANCIAL DATA *(mrq)*

Cash:	1.36 M
ST Debt:	9.32 M
LT Debt:	0.12 M
Book Value:	20.84 M
aEBITDA (ttm):	2.11 M
CFFO (ttm):	(17.66) M
Auditor:	BDO USA LLP

USD	2020A	2021A	2022e	2023e
Revenue (in Millions)				
Mar	58.69	48.95	49.89A	76.98
Jun	43.36	50.53	60.56	78.47
Sep	48.64	47.50	75.21	78.77
Dec	53.83	50.79	74.82	77.36
REV	**204.53**	**197.77**	**260.48**	**311.58**
P/S	*0.05*	*0.05*	*0.04*	*0.03*
EPS (Diluted)				
Mar	(53.81)	(5.12)	(1.33)A	0.38
Jun	(35.54)	6.66	(0.32)	0.28
Sep	(23.47)	6.82	0.17	0.27
Dec	(48.22)	(3.85)	0.12	0.22
EPS	**(158.41)**	**3.73**	**(0.93)**	**1.14**
P/E	*N/A*	*1.07*	*N/A*	*3.50*
Dividend				
DIV	0.00	0.00	0.00	0.00
Yield	*0.0%*	*0.0%*	*0.0%*	*0.0%*

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Nasdaq Compliance Regained

Nasdaq Compliance Regained. Yesterday, the Company announced it regained compliance with the listing requirements of Nasdaq, which followed the release of its 10-K and 10-Q and the 1:10 reverse split.

Q1 Results Released. STAF reported first quarter results with Revenue of $49.9 million, slightly off our estimate on continued difficulty in retaining temp workers on the Commercial staffing side of the business. The Professional segments performed well, with the US business up 14.8% and the UK business up 12.6%. Within the Professional segment, the Company continued to see increased demand for permanent placement services, with Revenue up 49.2% from the year ago period, to $2.6 million. Revenue was also negatively impacted by $487,000 from currency translation. Gross Margins saw improvement, but the Commercial segment was weaker for the same reason noted above. SG&A increased to $8.9 million due in large part to nearly $1.2 million in non-recurring fees related to legal and acquisition costs. Net Loss for the quarter was $2.3 million, or $1.33 per share. Adjusted EBITDA was $808,000, missing our estimate due to the weakness in the Commercial segment.

Launch of First Organic Brand. Last week, STAF announced it launched Butler, Bridge & May, its first organic brand launch. The UK-based business will focus on placements for the Administrative segment of the Professional market, initially placing Executive Assistants, Talent Acquisition Managers, and HR professionals. The new business is a partnership between its CBSbutler, JM Longbridge Group and Clement May subsidiaries. We do not expect this to add a material amount of Revenue this year, but should slowly ramp up over time.

Model Update. We made a few minor tweaks to the model, mostly related to the Commercial segment, and added in additional expenses in Q2 related to non-recurring items. Other than a reduction in EPS in Q2, little else changed.

Maintaining Rating & Target. With no significant changes to its operations, the market or our estimates, we are reiterating our Buy rating and $20.00 target price on Staffing 360 Solutions. We note that the earnings results moving forward, which include Headway, should begin to look much better, especially on the bottom line. Our target price is based on an EV/aEBITDA multiple of roughly 7.0 times our forward twelve month aEBITDA estimate of $10.4 million and a forward EV/Revenue multiple of 0.3.

PLEASE SEE PAGES 4 & 5 FOR IMPORTANT DISCLOSURES

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

(in 000s of USD)	Q1:21A	Q2:21A	Q3:21A	Q4:21A	2021A	Q1:22A	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**	**49,893**	**60,560**	**75,209**	**74,822**	**260,483**	**76,952**	**78,423**	**78,666**	**77,357**	**311,397**
Cost of Revenue	40,936	41,511	37,877	43,579	163,903	41,380	50,647	63,877	63,580	219,484	65,414	66,708	66,840	65,707	264,670
Gross Profit	**8,015**	**9,019**	**9,624**	**7,209**	**33,867**	**8,513**	**9,913**	**11,331**	**11,242**	**40,999**	**11,537**	**11,715**	**11,825**	**11,650**	**46,727**
SG&A	7,929	9,419	8,463	9,494	35,305	8,909	9,088	9,095	9,133	36,224	9,065	9,217	9,328	9,330	36,940
Depreciation & Amortization	731	703	688	636	2,758	655	750	750	750	2,905	750	750	750	750	3,000
Impairment - Goodwill	-	-	-	3,104	3,104	-	-	-	-	-	-	-	-	-	-
Operating Income	**(645)**	**(1,103)**	**473**	**(6,025)**	**(7,300)**	**(1,051)**	**75**	**1,487**	**1,359**	**1,870**	**1,722**	**1,747**	**1,747**	**1,570**	**6,786**
Interest Expense	(1,241)	(1,185)	(1,006)	(783)	(4,215)	(766)	(559)	(618)	(616)	(2,559)	(331)	(362)	(363)	(358)	(1,414)
Other Income (& PPP Forgiveness)	107	10,101	9,692	(324)	19,576	(58)	-	-	-	(58)	-	-	-	-	-
FX Re-measurement on Note	128	(32)	(315)	(41)	(260)	(443)	-	-	-	(443)	-	-	-	-	-
Net Income Before Taxes	**(1,651)**	**7,781**	**8,844**	**(7,173)**	**7,801**	**(2,318)**	**(484)**	**869**	**743**	**(1,190)**	**1,392**	**1,385**	**1,384**	**1,212**	**5,373**
Income Taxes	(37)	67	(131)	458	357	(6)	48	(155)	(136)	(249)	(233)	(232)	(232)	(206)	(904)
Net Income to Staffing 360	**(1,688)**	**7,848**	**8,713**	**(6,715)**	**8,158**	**(2,324)**	**(436)**	**714**	**607**	**(1,439)**	**1,158**	**1,153**	**1,152**	**1,006**	**4,469**
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**	**(2,324)**	**(571)**	**444**	**337**	**(2,114)**	**1,158**	**883**	**882**	**736**	**3,659**
Basic EPS	**(5.12)**	**7.54**	**7.00**	**(3.85)**	**3.33**	**(1.33)**	**(0.32)**	**0.18**	**0.14**	**(1.01)**	**0.48**	**0.36**	**0.36**	**0.30**	**1.50**
Basic S/O	481	644	1,079	1,757	952	1,753	1,771	2,429	2,430	2,096	2,431	2,432	2,433	2,434	2,432
Diluted EPS	**(5.12)**	**6.66**	**6.82**	**(3.85)**	**3.73**	**(1.33)**	**(0.32)**	**0.17**	**0.12**	**(0.93)**	**0.38**	**0.28**	**0.27**	**0.22**	**1.14**
Diluted S/O	481	777	1,108	1,757	1,063	1,753	1,771	2,663	2,871	2,264	3,032	3,161	3,264	3,349	3,202
Adjusted EBITDA	***1,132***	***1,372***	***1,490***	***(1,560)***	***2,434***	***808***	***1,989***	***2,800***	***2,672***	***8,269***	***2,986***	***3,011***	***3,011***	***2,833***	***11,840***
TTM Adjusted EBITDA	***4,586***	***5,432***	***5,713***	***2,434***											

	Q1:21A	Q2:21A	Q3:21A	Q4:21A	2021A	Q1:22A	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%	17.06%	16.37%	15.07%	15.02%	15.74%	14.99%	14.94%	15.03%	15.06%	15.01%
Operating Margin	-1.32%	-2.18%	1.00%	-11.86%	-3.69%	-2.11%	0.12%	1.98%	1.82%	0.72%	2.24%	2.23%	2.22%	2.03%	2.18%
aEBITDA Margin	2.31%	2.72%	3.14%	-3.07%	1.23%	1.62%	3.28%	3.72%	3.57%	3.17%	3.88%	3.84%	3.83%	3.66%	3.80%
Pre-Tax Margin	-3.37%	15.40%	18.62%	-14.12%	3.94%	-4.65%	-0.80%	1.16%	0.99%	-0.46%	1.81%	1.77%	1.76%	1.57%	1.73%
Net Margin	-5.04%	9.61%	15.90%	-13.33%	1.60%	-4.66%	-0.94%	0.59%	0.45%	-0.81%	1.51%	1.13%	1.12%	0.95%	1.18%

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

DISCLOSURES

Distribution of Ratings

			I.B. last 12 months	
Rating	**Count**	**Percent**	**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

Company	Disclosures
Staffing 360 Solutions, Inc.	3, 8

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DISCLOSURES (continued)

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Rating History

source: Big Charts

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