

JOB Earnings Call Transcript

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Derek Dewan: Hello and welcome to the GEE Group Fiscal 2025 Second Quarter and First Half Ended March 31, 2025 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. It is our pleasure to share with you GEE Group's results for the fiscal 2025 second quarter and first half ended March 31, 2025, and provide you with our outlook for the remaining fiscal year 2025 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 judgment 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 Thursday's earnings press release, and our most recent Forms 10-Q, 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 statements made on today's call. Throughout this presentation, we will refer to the periods being presented as this quarter or the quarter or this year-to-date or the year-to-date, which refers to the three-month or six-month periods ended March 31, 2025, respectively. Likewise, when we refer to the prior year quarter or prior year-to-date, we are referring to the comparable prior three-month or six-month periods ended March 31, 2024, respectively. During this presentation, we will also talk about some non-GAAP financial measures. Reconciliations and explanations of the non-GAAP financial 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. Now on to today's prepared remarks. Beginning in the second half of 2023, throughout 2024 and so far in 2025, we have encountered and continue to face very difficult and challenging conditions in the hiring environment for our staffing services. These have stemmed from what is now acknowledged as over hiring that took place in 2021 and 2022 in the immediate aftermath of the pandemic, and the macroeconomic uncertainty, interest rate volatility and inflation that followed. These conditions have produced a near universal cooling effect on US employment, including businesses' use of contingent labor and the hiring of full-time personnel. Since the latter part of 2023, many client initiatives, such as IT projects and corporate expansion activities requiring additional labor, in general, have been put on hold. Instead, many of the businesses we serve have implemented and proceeded with layoffs and hiring freezes, and in many cases, have focused on retaining their existing employees rather than adding new employees. Companies and businesses are cautiously assessing interest rates and market conditions, including recent tariff activities, to ensure their investments in technology and human capital are strategic and sustainable. Artificial intelligence, or AI, also is gaining ground at an accelerated pace and is further complicating the HR and project planning opportunities and risks facing virtually all companies, including consumers of our services. These conditions have continued to have a cooling effect upon job orders for both temporary help and

direct hire placements. Thus, our financial results for the 2025 fiscal second quarter and first half ended March 31, 2025, have been negatively impacted by these conditions. The company's contract and direct placement services are currently provided under the Professional Staffing Services operating division or segment. We finalized our plans to sell the company's former Industrial Staffing Services segment in the quarter and are actively negotiating the sale currently. Therefore, it has been classified as a discontinued operation as of March 31, 2025 and is excluded from the results of operations reported below as well as in the condensed consolidated financial statements included in our quarterly report on Form 10-Q for this quarter, unless otherwise stated. Consolidated revenues were \$24.5 million for the quarter and \$48.5 million year-to-date. Gross profits and gross margins were \$8.4 million and 34.1%, respectively, for the quarter and \$16.3 million and 33.6%, respectively, year-to-date. Consolidated non-GAAP adjusted EBITDA was negative \$600,000 for the quarter, negative \$900,000 year-to-date. We reported a net loss from continuing operations of \$33 million or \$0.30 per diluted share for the quarter, and a net loss from continuing operations of \$33.6 million or \$0.31 per diluted share year-to-date. The losses from continuing operations are primarily the result of a \$22 million noncash goodwill impairment charge and a \$9.9 million noncash charge corresponding with the establishment of a valuation allowance related to our net deferred tax assets recorded as of March 31, 2025. Both of these noncash charges are the result of the application of the prescribed accounting rules to the company's current and expected near-term performance in light of the current and anticipated macroeconomic conditions impacting the demand for our services and the staffing industry as a whole. We are not sitting on our hands or taking our current situation for granted. We are working aggressively taking actions to adjust and enhance our strategic focus, growth plans and financial performance and results. As we announced earlier, we have ramped up our M&A; activities and completed our first such transaction in the quarter and are in the process of evaluation and diligence on several others. At the same time, we are focused on continuing to streamline our core operations, significantly reducing costs and improving the productivity of our field personnel. In addition to the expense reduction and integration initiatives, which we began last fall, we have added a renewed focus on VMS and MSP sourced business, including the use of special offshore recruiting resources and acceleration of the integration and use of AI technology into our recruiting sales and other processes. Importantly, we anticipate achieving additional economies of scale, improvements in our productivity, and restoring profitability as soon as possible. Our goal and expectation is to become profitable again in the latter part of 2025 or early in 2026. In addition to these near-term initiatives, we are working closely with our frontline leaders in the field across all our verticals to help them continue to aggressively pursue new business and take market share as well as opportunities to grow and expand existing client revenues. We are beginning to realize some positive results. When anticipated recovery does occur in the future, I am very confident that we are well positioned to meet the increased demand from existing customers and win new business. As you also know, we paused share repurchases on December 31st, 2023, having repurchased just over 5% of our outstanding shares as of the beginning of the program. Share repurchases always will be considered as an alternative component of our capital allocation strategy and a bonafide alternative use of excess capital in the future. If and when considered prudent, our focus on strategic accretive mergers and acquisitions will continue as well. Before I turn it over to Kim, I want to reassure everyone that we fully intend to successfully manage through the challenges outlined previously and restore growth profitability as quickly as possible. GEE Group has a strong balance sheet with substantial liquidity in the form of cash and borrowing capacity. The company is well positioned to grow internally and to be acquisitive. We also continue to believe that our stock is undervalued and especially so based upon recent trading at levels very near and even slightly below tangible book value, and that there is a good opportunity for upward movement in the share price once we are able to operate again in more normal economic and labor conditions and continue to execute on our capital allocation strategy as well. Management and our Board of Directors share and have embraced the primary objective of restoring and accelerating profitability and growing shareholder value. Finally, 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 2025 second quarter and year-to-date results. Kim?

Kim Thorpe: Thank you, Derek, and good morning. As Derek mentioned, consolidated revenues for the quarter and year-to-date were \$24.5 million and \$48.5 million, down 4% and 10%, respectively from the comparable prior periods. Professional contract staffing services revenues for the quarter and year-to-date were \$21.5 million and \$43 million, down 7% and 11%, respectively, from the comparable prior year periods. Direct hire placement revenues for the quarter and the year-to-date were \$3 million and \$5.5 million, up 22% for the quarter and slightly above even as compared with the prior six-month period. Our top line performance this quarter and year-to-date has continued to be directly impacted by the difficult economic and labor market conditions facing us in the staffing industry referenced by Derek in his opening remarks. Gross profit and gross margin for the quarter and year-to-date were \$8.4 million and 34.1%, and \$16.3 million and 33.6%, respectively, compared with \$8.4 million and 32.8% and \$17.7 million and 33%, respectively, compared with the prior year periods comparable. The net increases in our gross margins are primarily attributable in the quarter to the increase in the mix of direct hire placement revenues, which have 100% gross margin in relation to total revenue. Selling, general and administrative expenses or SG&A; for the quarter were \$9.3 million, down 3% as compared with the prior year quarter. SG&A; expenses year-to-date were \$17.7 million, down 10%, as compared with the prior year-to-date. SG&A; expenses were 38% of revenues for the quarter compared with 37.3% for the prior year quarter and were 36.6% of revenues year-to-date as compared with 36.7% for the prior year-to-date. Our slightly higher SG&A; percentages of revenues during fiscal 2025 second quarter and year-to-date was attributable mainly to lower levels of revenue in relation to our fixed SG&A;, including mainly fixed personnel-related expenses, occupancy costs, job boards and applicant tracking systems. We plan to return to profitability through an increase in revenue and by significantly lowering our SG&A; expenses going forward accordingly. Our goal is to return to profitability, as Derek mentioned, in the latter part of 2025 and early to mid-2026. Our loss from continuing operations for the quarter was \$33 million or \$0.30 per diluted share as compared with a net loss of \$900,000 or \$0.01 per diluted share for the prior year quarter. Loss from continuing operations year-to-date was \$33.6 million or a negative \$0.31 per diluted share as compared with loss from operations of \$2.4 million or \$0.02 per diluted share for the prior year-to-date. As Derek previously explained, the increases in losses from continuing operations are primarily attributable to a \$22 million noncash goodwill impairment charge and a \$9.9 million noncash charge corresponding with the establishment of a valuation allowance related to our deferred tax assets recorded as of March 31, 2025. EBITDA, which is a non-GAAP financial measure for the quarter and year-to-date were negative \$900,000 and negative \$1.5 million, respectively, compared with negative \$1.2 million and negative \$2 million for the comparable prior year periods. Adjusted EBITDA, which also is a non-GAAP financial measure, for the quarter and year-to-date were negative \$600,000 and negative \$900,000, respectively compared with negative \$600,000 and negative \$700,000 for the comparable prior year periods. Our current or working capital ratio as of March 31, 2025, was a robust 3.9:1. Free cash flow, a non-GAAP financial measures, including cash flows from discontinued operations, for the fiscal year and first half was a negative \$1.1 million as compared with positive cash flow of \$400,000 for the fiscal 2024 first half. Our liquidity position as of March 31, 2025 remained very strong with \$18.7 million in cash, an undrawn ABL facility of \$7.4 million and net working capital of \$24.1 million. We had no outstanding debt. Our net book value per share and net tangible book value share were \$0.46 and \$0.23, respectively, as of March 31, 2025. The decrease in net book value per share since fiscal 2024, again, was primarily the result of the noncash impairment and deferred tax valuation related noncash charges taken in the fiscal second quarter ended March 31, 2025. Importantly, these charges had no effect on our cash position, tangible assets, net working capital or net tangible book value. In conclusion, while we obviously are disappointed with our results and face headwinds, causing us to remain appropriately cautious in the near-term, we do remain optimistic and are preparing for the long-term, including making technological advancements and other enhancements, such as a focus and prioritization of the integration of AI across our business verticals for use in our sales and recruiting processes and leveraging our offshore recruiting team to maximize productivity and efficiency. Having completed our acquisition of Hornet Staffing this quarter, we also intend to continue to pursue other accretive opportunities in a very disciplined and prudent manner. Before I turn it back over to Derek, please note

that the reconciliations of GEE Group's non-GAAP financial measures discussed today with their GAAP counterparts can be found in supplement schedules included in our March 31, 2025 second quarter and year-to-date earnings press release. Now I'll turn the call back over to Derek. Derek?

Derek Dewan: Thank you, Kim. Despite macroeconomic headwinds and staffing industry-specific challenges impacting the demand for our services, we are aggressively managing and preparing our business to mitigate losses, restore profitability and be prepared for an anticipated recovery. What we hope you take away from our earnings press release and our remarks today is that we are moving aggressively not only to prepare for a more conducive and growth-oriented labor market, but also to restore profitability through expense reduction and revenue growth by continuing with the execution on both organic and M&A; growth plans and 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. We are very pleased with our recent acquisition of Hornet Staffing and the value and opportunities it brings and have identified other acquisition opportunities that we believe can offer additional growth and profitability platforms for us. Before we pause to take 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. [Operator Instructions] Thank you. The first question that we have is, can you provide any additional color on the status of the current M&A; pipeline and the number of deals you're looking at? We happily can tell you that the pipeline is robust and full. One of the secondary questions that we have, as a follow-up said, in this environment, you must be cautious when looking at targets to make sure that they've leveled off from the decline that the industry has experienced, starting in the latter part of 2023, continuing through 2024 and the first part of '25. That, in fact, we're doing and we're tracking closely the current performance of the targets. We believe there's a lot of flatlining at this point and will allow us to proceed on these deals. Another question would be -- is do you have any letters of intent that are outstanding and of course they're nonbinding? I can say yes. The other question we have related to M&A;, do you expect to get M&A; done in this fiscal year? The answer is yes. Kim, the next question that we have deals with the pipeline. We got that. 10-Q, Kim it said, in the 10-Q, the discussion of M&A; was not prominent. I don't think that was by design. Can you comment on that?

Kim Thorpe: Yes. When we drafted the 10-Q this quarter and looked back at the 10-Q last quarter, our intention was just to be a little more brief. But we do still make reference to what I believe the questioner is asking about, which were the strategic initiatives where we talked about M&A; as such. But bottom line is M&A; continues to be a prominent piece of our near-term and long-term strategy. However, we are being cautious about it because our entire industry is now in a place where revenues are at lower levels. So again we're just being very conservative and being very prudent about how we identify and move forward with targets. But nothing other than that is -- nothing has actually fundamentally changed.

Derek Dewan: Okay. Thank you. Kim, will you comment on the status of the industrial business and its potential sale?

Kim Thorpe: Yes. There's a question here that wants to know, in sum, it's basically what took you so long on the industrial sale? Actually, the sale was commissioned as part of the strategic alternatives review last April. Not this immediate April, but April prior. But it took some time for management to do some work at the business. And then also to run a process, we did not use professional institutional advisers. So we ran it internally based on relationships and introductions that we reached out for and it's a process. But more or less, we think that it's gone very well and that the end result will be good and it should close sooner.

Derek Dewan: Thank you. Another question we have is regarding the potential for share repurchases and stock buybacks. And would you do these in conjunction with M&A; in lieu of or otherwise? We recently had a Board meeting and we had a deep discussion of both M&A; and share repurchases. I can tell you that both are on the list of enhancing shareholder value. And the timing of execution of either of those or both will be determined by visibility on our existing business. We'd like to be in a net neutral or positive cash flow position before we move forward on share repurchases. But we believe that both of those, share repurchases and M&A;, can be done in tandem. And there has been a lot of attention put on both by our directors and senior management. So rest assured, we will deploy the

capital appropriately and judiciously. We have been very careful not to make bad moves during an environment that is, what I would call, volatile for the industry, with global macroeconomic challenges as well. We see on the horizon that those challenges will start to be more muted and will eventually turn around. So we are very excited about the opportunity that we can improve shareholder value this fiscal year and next, and that we have the liquidity to do it. And Kim I'll let you add your thoughts on that too.

Kim Thorpe: Yes. I mean, I'm sorry, Derek, I was reading another question and devising an answer.

Derek Dewan: That's okay. So really the tandem of both stock buybacks and M&A; and I don't think one is in lieu of the other. I think that we've given a deep consideration and have both of those on the agenda for opportunities moving forward. And that's what I was commenting on.

Kim Thorpe: Yes, I don't have anything to add. I agree. Yes.

Derek Dewan: Okay. Great. Kim, take the next question that you were taking a look at.

Kim Thorpe: Yes. I've got kind of a lengthy question here and I want to -- I'm not going to read it entirely because it's a little bit long. But basically the idea is we commented back in December of 2023 when the stock price was around \$0.49. We've made -- I made a comment and provided an analysis of why we thought that was a good stock price and basically verbally walked through some math to get there, including the application of the control premium and things of that nature. But without getting into all that, the point of the question is, GEE, you thought \$0.49 didn't give any value to the business at December 2023. Now, the stock is trading at \$0.18 and basically you're saying there's no value being given to the operating business. And it's, basically the point is, how do I get from 2023 to now? And the answer is very simple. On December 19, 2023, we were just beginning to see the severity of the downturn in the market, and it's been a long time since then to get to where we are now. And 2024, turned out to be much, much worse than we were forecasting in 2023. But what I would say to the writer of the question here is, if I take the \$0.18 a share and our \$0.23 of tangible book value, that's still 27% above \$0.18. So the value of the businesses do change over time. And in our case, in 2023, we were projecting revenues that were one-third higher than where they are now. So it's been very much a situation of dealing with a very, very challenging business environment that, frankly, is affecting the entire staffing industry. You could post this question or one like it to almost every other competitor of ours out there.

Derek Dewan: Thank you, Kim.

Kim Thorpe: Sure.

Derek Dewan: Another question is whether or not the lack of action on either share repurchases or more aggressive acquisition activity is indicative of a strategy? And the answer is no, both are very focused upon. And the expectation is to use our capital appropriately for acquisitions and potential share repurchases as well. The pause was due to economic uncertainty at the time and trying to gauge the level of liquidity we need to maintain in the near-term in order to execute appropriately on our strategy. And we believe, at this point, shareholders would like to see activity. We concur with that. So we get a little more visibility in 2025, which we think is somewhat stable at this point. And we hope that it stays that way and it actually turns into more prosperity when some of these macro factors settle down with interest rates, tariffs, inflation, tax cuts and so forth. Our customers will be more confident on their growth plans, and we'll open the spigot a bit so we can get organic growth. The M&A; activity can speed up and any capital allocation regarding share repurchases that are prudent at that point will be implemented hopefully. So these are the things that we're focused on, having deep discussions on. And I can assure you that you as shareholders will see activity this year. We're excited about the prospect because we've positioned ourselves. We're very close to breakeven financially, we're going to get to the profitability that we need and then move forward on external growth and capital allocation, as I discussed. Another question, Kim, that we got is regarding the sale of industrial, what would we do with the proceeds? The answer to that is execute our growth strategy, which includes M&A;, potential capital allocation for repurchases and so forth.

Kim Thorpe: Correct.

Derek Dewan: Any other -- go ahead, Kim.

Kim Thorpe: No, we'll bring the proceeds back into our cash reserves and then we'll -- it'll be managed in due course as the Board and management hammer out our capital allocation strategy and plans in the near-term.

Derek Dewan: Yes. Another question is that do we have any expectation of our larger shareholders, Red Oak and Goldenwise? Any activity that we know about? The answer is no unusual activity there. Both have been good shareholders and supportive. And would like to see obviously the stock price move forward and us to execute more rapidly on our strategy and we concur with both of those. So we're aligned at this point. Insider purchases. I think that Mr. Sandberg and Mr. Waterfield as newer Board members have made purchases of significant size. And I think most of us are pretty good excise equity holders. And insider purchases can happen, although we have to move around potential nonpublic information that will be not public because of our execution of our growth strategy and capital allocation. But we can do that in tandem with what we want to do, we just have to be careful of how we do it. Kim, do you want to take another question?

Kim Thorpe: Yes. What are you planning on doing specifically to reduce SG&A? We have several things we're doing. Obviously, we're constantly reviewing the performance of the different businesses and we're also looking at occupancy costs and job boards and all kinds of different things. We do have plans to take some costs out. Two things in particular that we think are going to be very helpful and contribute over the next 12 months to taking out significant costs are more of an assertive move into use of offshore recruiters, which are lower cost and that can open up more VMS, MSP high volume business to us. That's one. And the second one is artificial intelligence, AI. We believe AI has a lot of opportunity, presents a lot of opportunity for us to make our recruiting not only more efficient, but higher quality as well as facing our clients and our sales processes. It's getting a lot -- there's a lot going on out there right now. And so I wouldn't -- I would expect that you'll hear some stuff from us on both those accounts going forward in the near future.

Derek Dewan: Okay. I think we covered most of the questions thus far. I think that the majority of the questions dealt with M&A, capital allocation regarding potential share repurchases and kind of overall operational efficiencies to be gained this fiscal year. And of course restoring profitability back to where it needs to be. So I can assure you that each of those has a lot of attention from senior management and our directors. We expect to execute very aggressively on all fronts and take advantage of the uptick or upswing in the industry, which we anticipate the latter part of the year moving into 2026. And in any event, even with a flat business environment, we can get market share from competitors. Be more aggressive there as well. And we're pretty excited about the opportunity to get back to the road to prosperity. So at this point, we're going to terminate the call, but I really appreciate those shareholders that are on and other interested parties. And I can tell you, we're working very hard to get performance to where it needs to be, which will also obviously influence share price. Thanks again for joining us and that concludes our call.

End of Q&A;