Greenridge Global Equity Research

Staffing 360 Solutions, Inc.

Nasdaq: STAF

Maintaining Rating & Target
BUY, $3.00

January 12, 2017

MARKET DATA

Share Price:	0.73
Market Cap:	7.10 M
52wk Range:	0.62 - 4.76
Ave. Volume:	156,000
Basic S/O:	9.72 M
Fully Diluted S/O:	12.24 M
Float:	6.46 M
Institutional %:	19%
Insider %:	14%

FINANCIAL DATA (mrq)

Cash:	1.20 M
ST Debt:	3.70 M
LT Debt:	4.00 M
Book Value:	8.41 M
aEBITDA (ttm):	5.37 M
CFFO (ttm):	N/A

Auditor: RBSM LLP

USD	2015A	2016A	2017e	2018e
Revenue (in Millions)				
Aug	32.58	35.88	47.75A	51.35
Nov	33.10	41.35	47.14A	51.17
Feb	30.96	43.95	46.52	50.40
May	32.19	44.36	47.99	52.01
REV	**128.83**	**165.55**	**189.40**	**204.92**
P/S	*0.06*	*0.04*	*0.04*	*0.03*
EPS (Diluted)				
Aug	(1.43)	(0.38)	(0.18)A	(0.05)
Nov	(2.47)	(0.73)	(0.16)A	(0.10)
Feb	0.02	(0.34)	(0.13)	(0.07)
May	(1.06)	(0.52)	(0.05)	(0.04)
EPS	**(4.72)**	**(1.98)**	**(0.57)**	**(0.27)**
P/E	*N/A*	*N/A*	*N/A*	*N/A*

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Another Quarter of Improving Operational Results

Q2:17 Results Just Shy of Estimates. STAF reported second quarter revenue of $47.1 million, shy of our $49.8 million estimate on slightly lower organic growth than we had modeled (7% versus 8%). Gross margin was also weaker than expected at 17.2%, down from 18.1% in the year ago period on an increase in Light Industrial revenue relative to Professional revenue, along with a weakening of the British Pound. Operating expenses fell $1.0 million year-over-year, in part on changes in workers comp claims. Operating Loss for the quarter was $69,000, well ahead of the year ago period which posted a loss of $1.6 million. Net Loss to Common was $1.5 million, or $0.16 per share. Adjusted EBITDA for the quarter was $1.39 million, better than the year ago period aEBITDA of $1.27 million.

Amended Hillair Debt. On January 3, STAF announced it amended its debt with Hillair Capital. Roughly $2.0 million of its 2015 8% convertible debt was due in the next year , along with $728,000 of its 2016 8% convertible debt. The amendment included the conversion of the 2016 debt into 600,000 shares at $1.21 per share (well above market price), the extension of the 2015 debt to October 1, 2018, with no interest due until October 1, 2017. In exchange, Hillair received a lower conversion price on the 2015 debt (reduced from $10 to $3) and the addition of $1.11 million in principal on the old balance of principal and accrued interest. This deal gives STAF more cash to use in the near term for acquisitions, which we have long called for to boost operating cash flow. The Company noted on the conference call there will likely be a non-cash debt modification charge tied to this amendment in the current quarter.

Model Update. With Q2 results close to our estimates and the Company continuing to perform well operationally, the only significant change to our model was the impact of the new shares from the amended Hillair debt.

Maintaining Rating & Target. STAF posted another quarter of improving operational results. With the terms of the amended debt and the ongoing Series E offering, it looks like the Company should have more capital and flexibility to make acquisitions and generate more cash to pay down existing debt. With continued positive developments we are reiterating our Buy rating and $3.00 target price on Staffing 360 Solutions. Our target price is based on an EV/aEBITDA multiple of roughly 6.0 times our forward twelve month aEBITDA estimate of $6.3 million.

PLEASE SEE PAGES 4 & 5 FOR IMPORTANT DISCLOSURES

RISKS

Out of Compliance on Debt
STAF has not been in compliance with its covenants on the MidCap debt, but has received waivers to date on the shortcomings. Failure to meet the covenants and/or receive waivers in the future could result in the Company losing its US assets, as MidCap has a first lien on these assets.

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.

Cash Shortfall
The Company has a sizable amount of debt and other liability obligations that will come due in the next two years. We do not expect current operations will support payment of these obligations, which may require some mix of the share issuance, debt extensions and sale of new shares.

Acquisitions May Not Perform As Expected
Although it has a relatively hands-off approach to its acquired companies, there are no guarantees the acquired companies will perform at the same or greater level than when private.

Economic Conditions
The Company's results are dependent on the continued, and increased demand from clients in each of its five pillars. Lower growth in the economy as a whole or in each of its target segments could produce lower than expected revenue.

Availability of Skilled Labor
STAF is dependent on having an adequate supply of skilled labor to meet client needs. A lack of qualified candidates could impair growth.

Continued Use of Flexible Workforce
The Company has and expects to continue to benefit from the shift from a workforce of salaried employees to a mix of salaried and temporary and outsourced labor. A shift back to a primarily internal workforce could result in STAF losing revenue and clients.

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.

Social Media
There has been an increase in usage of professional social media sites, like LinkedIn, by employers to connect to potential employees rather than using staffing firms for permanent placement services. However, for the temporary staffing segment, these social media sites have been a source of new contract employees.

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

Material Weaknesses in Internal Controls
As of May 31, 2016, the Company found an inadequate segregation of duties, ineffective controls over financial disclosure and reporting processes, and a lack of accounting personnel with adequate training and experience. STAF found these after an internal test, but did not have its auditor do a third party test of internal controls.

ESTIMATED INCOME STATEMENT

(in 000s of USD)	Q1:16A	Q2:16A	Q3:16A	Q4:16A	2016A	Q1:17A	Q2:17A	Q3:17e	Q4:17e	2017e	Q1:18A	Q2:18e	Q3:18e	Q4:18e	2018e
Revenue	**35,884**	**41,350**	**43,954**	**44,364**	**165,552**	**47,750**	**47,137**	**46,515**	**47,999**	**189,401**	**51,347**	**51,167**	**50,396**	**52,006**	**204,916**
Cost of Revenue	29,563	33,880	36,363	36,699	136,505	39,261	39,040	38,342	39,566	156,209	42,341	42,188	41,550	42,878	168,958
Gross Profit	**6,321**	**7,470**	**7,591**	**7,665**	**29,047**	**8,489**	**8,097**	**8,173**	**8,433**	**33,192**	**9,006**	**8,979**	**8,846**	**9,128**	**35,959**
SG&A	6,158				30,781	7,685		7,619	7,557	22,861	8,043	8,571	8,178	8,115	32,907
Depreciation & Amortization	737				2,864	758		858	858	(5,691)	858	858	859	829	3,406
Operating Income	**(574)**	**(1,664)**	**(651)**	**3,720**	**(4,598)**	**46**	**(69)**	**(304)**	**18**	**(310)**	**104**	**(450)**	**(191)**	**184**	**(354)**
Interest Expense	(526)					(643)		(361)	(355)		(417)	(403)	(392)	(391)	(1,603)
Amort. Debt Financing Fees	(414)					(409)		(640)	(190)		(175)	(175)	(175)	(175)	(700)
Amort. Of Bene Conversion	(173)					(185)		-	-		-	-	-	-	-
Other Income	30					(34)		25	25		25	25	25	25	100
Net Income Before Taxes	**(1,657)**	**(3,220)**	**(1,834)**	**(2,757)**	**(9,468)**	**(1,225)**	**(1,398)**	**(1,280)**	**(502)**	**(4,405)**	**(463)**	**(1,003)**	**(733)**	**(357)**	**(2,557)**
Income Taxes	(35)	42	(8)	(16)	(17)	(69)	(28)	72	22	(3)	19	100	59	3	180
Net Income	**(1,692)**	**(3,178)**	**(1,842)**	**(2,773)**	**(9,485)**	**(1,294)**	**(1,426)**	**(1,209)**	**(480)**	**(4,408)**	**(444)**	**(904)**	**(674)**	**(354)**	**(2,376)**
Minority Interest	(15)	206	(213)	50	28	-	-	-	-	-	-	-	-	-	-
Net Income to Staffing 360	**(1,677)**	**(3,384)**	**(1,629)**	**(2,823)**	**(9,513)**	**(1,294)**	**(1,426)**	**(1,209)**	**(480)**	**(4,408)**	**(444)**	**(904)**	**(674)**	**(354)**	**(2,376)**
Series A Preferred Dividend	50	50	50	50	200	50	50	50	50	200	50	50	50	50	200
Net Income to Common	**(1,727)**	**(3,434)**	**(1,679)**	**(2,873)**	**(9,713)**	**(1,344)**	**(1,476)**	**(1,259)**	**(530)**	**(4,608)**	**(494)**	**(953)**	**(724)**	**(404)**	**(2,576)**
Basic EPS	**(0.38)**	**(0.73)**	**(0.34)**	**(0.52)**	**(1.98)**	**(0.19)**	**(0.16)**	**(0.13)**	**(0.05)**	**(0.52)**	**(0.05)**	**(0.10)**	**(0.07)**	**(0.04)**	**(0.27)**
Basic S/O	4,493	4,707	4,910	5,530	4,910	7,080	9,116	9,716	9,716	8,907	9,716	9,716	9,716	9,716	9,716
Diluted EPS	**(0.38)**	**(0.73)**	**(0.34)**	**(0.52)**	**(1.98)**	**(0.19)**	**(0.16)**	**(0.13)**	**(0.05)**	**(0.52)**	**(0.05)**	**(0.10)**	**(0.07)**	**(0.04)**	**(0.27)**
Diluted S/O	4,493	4,707	4,910	5,530	4,910	7,080	9,116	9,716	9,716	8,907	9,716	9,716	9,716	9,716	9,716
Adjusted EBITDA	***619***	***1,265***			***4,100***	***1,758***	***1,393***	***1,089***	***1,862***	***6,102***	***1,963***	***1,408***	***1,667***	***2,042***	***7,080***

	Q1:16A	Q2:16A	Q3:16A	Q4:16A	2016A	Q1:17A	Q2:17A	Q3:17e	Q4:17e	2017e	Q1:18A	Q2:18e	Q3:18e	Q4:18e	2018e
Gross Margin	17.62%	18.07%	17.27%	17.28%	17.55%	17.78%	17.18%	17.57%	17.57%	17.52%	17.54%	17.55%	17.55%	17.55%	17.55%
Operating Margin	-1.60%	-4.02%	-1.48%	8.39%	-2.78%	0.10%	-0.15%	-0.65%	0.04%	-0.16%	0.20%	-0.88%	-0.38%	0.35%	-0.17%
aEBITDA Margin	1.73%	3.06%	0.00%	0.00%	2.48%	3.68%	2.96%	2.34%	3.88%	3.22%	3.82%	2.75%	3.31%	3.93%	3.45%
Pre-Tax Margin	-4.62%	-7.79%	-4.17%	-6.21%	-5.72%	-2.57%	-2.97%	-2.75%	-1.05%	-2.33%	-0.90%	-1.96%	-1.45%	-0.69%	-1.25%
Net Margin	-4.81%	-8.30%	-3.82%	-6.48%	-5.87%	-2.81%	-3.13%	-2.71%	-1.10%	-2.43%	-0.96%	-1.86%	-1.44%	-0.78%	-1.26%

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

NOTE: STAF reclassified certain banking fees from operating expenses to interest expense in Q4:16, hence the missing aEBITDA quarterly results for Q3-Q4:16. A complete Income Statement was not released with the earnings results yesterday, and the 10-Q is expected shortly.

DISCLOSURES

Distribution of Ratings

			I.B. last 12 months	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY	5	63%	0	0%
HOLD	3	37%	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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