Zacks Small-Cap Research

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Labor Smart Inc (LTNC-OTCBB)

LTNC: *Company Continues to Expand Footprint, Driving Revenue Growth*

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	05/22/2013
Current Price (3/10/14)	$0.22
Target Price	**$0.80**

OUTLOOK

Labor Smart, Inc. is an emerging growth company that serves the on-demand labor market, focusing primarily on filling blue-collar staffing positions on a temporary basis. Labor Smart serves the construction, hospitality and janitorial sectors, among others. The company announced today that it has opened a new branch, bringing its total footprint to 30 locations through organic new branch openings and M&A transactions. We maintain our Outperform rating on Labor Smart shares.

SUMMARY DATA

52-Week High	**$0.50**
52-Week Low	**$0.17**
One-Year Return (%)	**-12**
Beta	**-2.63**
Average Daily Volume (sh)	**93,908**
Shares Outstanding (mil)	**22.6**
Market Capitalization ($mil)	**$4.97**
Short Interest Ratio (days)	**0.1**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**78**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2013 Estimate	**N/A**
P/E using 2014 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Staffing**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011					0.16 A
2012	1.184 A	1.710 A	2.152 A	2.129 A	7.176 A
2013	2.503 A	4.037 A	5.345 A	4.672 A	16.558 A
2014	4.793 A	7.267 E	8.367 E	9.138 E	30.572 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011					$0.00 A
2012	$0.00 A	$0.00 A	-$0.01 A	-$0.02 A	-$0.03 A
2013	-$0.04 A	-$0.04 A	-$0.02 A	-$0.05 A	-$0.14 A
2014	-$0.05 A	-$0.05 E	-$0.05 E	-$0.08 E	-$0.23 E

Quarters may not sum to total due to rounding.

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

2011 May- Dec **Disclosures begins on page 7**

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KEY POINTS

- Labor Smart (LTNC-OTC BB) announced today that it has opened a new branch, bringing its total footprint to 30 locations. Labor Smart has doubled its office network this year compared to 15 offices in operation at the end of 2013.

- Driven largely by footprint expansion and as branches mature we believe, the company has indicated that revenue for the first two months of second quarter 2014 totaled $4.366 million. This represents a 69.1% increase versus $2.582 million registered in the same two months of 2013.

- Earlier this month, the company announced that it has become substantially self-insured in 14 states, which management expects will improve cash flow.

- We believe risks include that the company is highly dependent on its founder and CEO, is under capitalized and has significant funding needs for working capital and to support its growth, has not yet converted strong revenue expansion into positive EPS, competition could increase and customers could shift towards hiring permanent employees, among others.

BRANCH EXPANSION

Earlier today, Labor Smart (LTNC-OTC BB) announced that it has opened a new branch in Montgomery, Alabama. Moreover, the company also indicated that it expects to add two additional offices within the next few weeks. Labor Smart has continued to expand its footprint through organic new office openings and acquisitions. Early this year, the company opened its 16th office in St. Petersburg, Florida. We believe that Florida is one of the most attractive markets for on demand labor. According to the Associated Press (AP), Florida, along with Texas, Arizona, California, and Colorado is experiencing a dramatic shortage of labor for the rebounding construction industry because so many workers exited the industry during the recession.

Then in April 2014, the company announced the opening of two new offices located in Savannah, Georgia and Knoxville, Tennessee. Management noted that it was optimistic about the construction sector in those two markets. That same month, Labor Smart also opened a new office in Denver, Colorado. This office marked Labor Smart's entrance into the western United States. In May 2014, the company announced that it had added new offices in Florida, Louisiana, Mississippi, South Carolina and Alabama.

This brings Labor Smart's footprint to 30 locations. Labor Smart has doubled its footprint this year compared to 2013, when it ended with 15 offices. The company targets a footprint of 100 branches by 2017.

The company also continues to grow revenue through acquisitions. In April 2014, management announced that it had acquired Oklahoma based Shirley's Employment Service for $300,000 less accounts receivable, which management indicated represented roughly 2x projected EBITDA.

REVENUE TRENDS

Revenue Growth Labor Smart continues to generate solid year-over-year revenue increases, we believe. The company has announced that revenue for the first two months of second quarter 2014 totaled $4.366 million. This represents a 69.1% increase versus $2.582 million registered in the same two months of 2013. We believe this growth has been driven primarily by the company's ongoing branch expansion (see below) and as existing branches mature. Management has indicated that it generally takes about nine months for a new branch to reach a steady state of revenue generation.

Total revenue for April 2014 was $1,719,841. This represents a 71.3% improvement over $1,003,791 registered in April 2013. Labor Smart generated $2,647,061 in revenue in May 2014. This represents a 67.7% year-over-year advance. In both 2013 and 2014, the company had five billable weeks during the month of May. Therefore, we believe comparisons are on an apples-to-apples basis.

For the first five months of 2014, the company has generated revenue of $9+ million, which compares to roughly $5.1 million in revenue registered during the first five months of 2013. Management is optimistic about its revenue outlook for summer 2014 overall and that it remains comfortable with its target of $30 million for 2014 revenue.

RECENT NEWS

Self-Insured
Earlier this month, the company announced that it has become substantially self-insured in 14 states. Management expects that this change will improve cash flow.

Change in Fiscal Year Reflects Business Seasonality
In May 2014, the company changed its fiscal year-end from December 31 to a 52-53 week fiscal year that ends on the Friday that is closest to December 31. This modification reflects the seasonality of the company's business.

First Quarter 2014 Results Reported
Last month, the company reported results for its first quarter of 2014. Revenue of $4,792,941 advanced 91.4% compared to $2,503,872 registered in the comparable period of 2013.

On the higher revenue base, the company's gross profit more than tripled to $1.107 million compared to $351,396 in the first quarter 2013 and the gross margin expanded to 23.1% from 14.0%. We have updated our projections to reflect the company's 1Q14 reported results.

Director of Business Development
In March 2014, the company filled the position of Director of Business Development. We believe this is consistent with management's strategy to forge relationships with multi-regional companies in order to drive revenue.

RISKS

- The company is highly dependent on founder and CEO Ryan Schadel.
- Labor Smart is under capitalized and has significant funding needs for working capital and to support its growth. To-date, the company has engaged in short term financings but the cost or supply of capital could make it difficult for Labor Smart to fulfill its planned expansion.
- Given the rapid growth and the infrastructure that Labor Smart has built to fuel this growth, including hiring experienced operating leaders, the company has not yet converted strong revenue expansion into positive EPS at this early stage.
- Competition could increase. The temporary staffing industry is one with few barriers to entry, we believe. Thus, just as Labor Smart has entered as a new player, another company could also launch and complete with Labor Smart.
- Customers could shift towards hiring permanent employees instead of using temporary workers.
- Economic factors could constrain industry growth.
- A worker could get hurt when on assignment.

PROJECTED INCOME STATEMENT

Labor Smart, Inc.
Income Statement and Projections ($ Millions except per share data)

	1Q13A	2Q13A	3Q13A	4Q13A	2013A	1Q14A	2Q14E	3Q14E	4Q14E	2014E
Revenues	**$2,503,872**	**$4,037,040**	**$5,345,172**	**$4,765,801**	**$16,651,885**	**$4,792,941**	**$7,267,390**	**$8,367,486**	**$10,143,978**	**$30,571,795**
Cost of services	2,152,476	3,427,674	4,435,363	3,937,609	13,953,122	3,685,229	6,031,934	6,945,013	8,712,413	25,374,590
Gross Profit	**351,396**	**609,366**	**909,809**	**828,192**	**2,698,763**	**1,107,712**	**1,235,456**	**1,422,473**	**1,431,564**	**5,197,205**
Professional fees	62,500	297,056	57,045	(108,086)	308,515	92,597	80,438	95,058	93,000	361,092
Stock based compensation	250,616	23,954	69,483	457,862	801,915	57,156	287,807	287,448	558,448	1,190,859
Payroll expenses	160,076	300,519	388,385	771,879	1,620,859	443,654	559,589	644,296	691,203	2,338,742
Bad debt expense				215,255	215,255	11,982				11,982
General and administrative	249,167	496,738	529,440	123,532	1,398,877	778,598	595,926	686,134	831,806	2,892,464
Loss on sale of receivables	35,522	57,838	32,242	(34,776)	90,826	-	41,618	40,487	85,752	167,856
Total operating expenses	757,881	1,176,105	1,076,595	1,425,666	4,436,247	1,383,987	1,565,378	1,753,423	2,260,208	6,962,996
Operating income/(loss)	(406,485)	(566,739)	(166,786)	(597,474)	(1,737,484)	(276,275)	(329,921)	(330,950)	(828,644)	(1,765,791)
Interest expense	(7,630)	(194,854)	(272,437)	(560,110)	(1,035,031)	(798,446)	(806,430)	(814,495)	(822,640)	(3,242,011)
Interest income	73			-	73	-	-	-	-	-
Financing costs	(233,746)		4,297	229,449		-	-	-	-	-
Realized loss on trading securit	(185)	(26)		4,451	4,240	(443)	(447)	(452)	(440)	(1,782)
Other	(1,170)	-	15,912	30,480	45,222	10,656	10,763	10,870	10,000	42,289
Total other income (expenses)	(242,658)	(194,880)	(252,228)	(295,730)	(985,496)	(788,233)	(796,115)	(804,076)	(813,080)	(3,201,505)
Net income (loss) before taxes	(649,143)	(761,619)	(419,014)	(893,204)	(2,722,980)	(1,064,508)	(1,126,037)	(1,135,027)	(1,641,724)	(4,967,295)
Income tax expense	-	-	-			-	-	-	-	-
Net income (loss) after taxes	(649,143)	(761,619)	(419,014)	(893,204)	(2,722,980)	(1,064,508)	(1,126,037)	(1,135,027)	(1,641,724)	(4,967,295)
Unrealized gain on marketable s	2,381	(7,152)	1,399	(3,566)	(6,938)	2,151	2,000	2,000	- 2,000	8,151
Comprehensive income (loss)	(646,762)	(768,771)	(417,615)	(896,770)	(2,729,918)	(1,062,357)	(1,124,037)	(1,133,027)	- (1,639,724)	(4,959,144)
EPS or loss per share	**($0.04)**	**($0.04)**	**($0.02)**	**($0.05)**	**($0.14)**	**($0.05)**	**($0.05)**	**($0.05)**	**($0.08)**	**($0.23)**
Average shares outstanding	18,029,377	19,373,074	19,436,806	18,029,380	19,337,142	21,454,557	21,454,557	21,454,557	21,454,557	21,454,557
Y/Y revenue growth (%)	112%	136%	148%	124%	312%	91%	80%	57%	113%	84%
Gross margin	14.0%	15.1%	17.0%	17.4%	16.2%	23.1%	17.0%	17.0%	17.0%	17.0%
Payroll expenses % revenue	6.4%	7.4%	7.3%	8.0%	9.7%	9.3%	7.7%	7.7%	7.6%	7.7%
G&A % revenue	10.0%	12.3%	9.9%	10.0%	8.4%	16.2%	8.2%	8.2%	8.2%	9.5%
Cost of services % revenue	86.0%	84.9%	83.0%	82.6%	83.8%	76.9%	83.0%	83.0%	85.9%	83.0%

Source: Company reports, Zacks estimates

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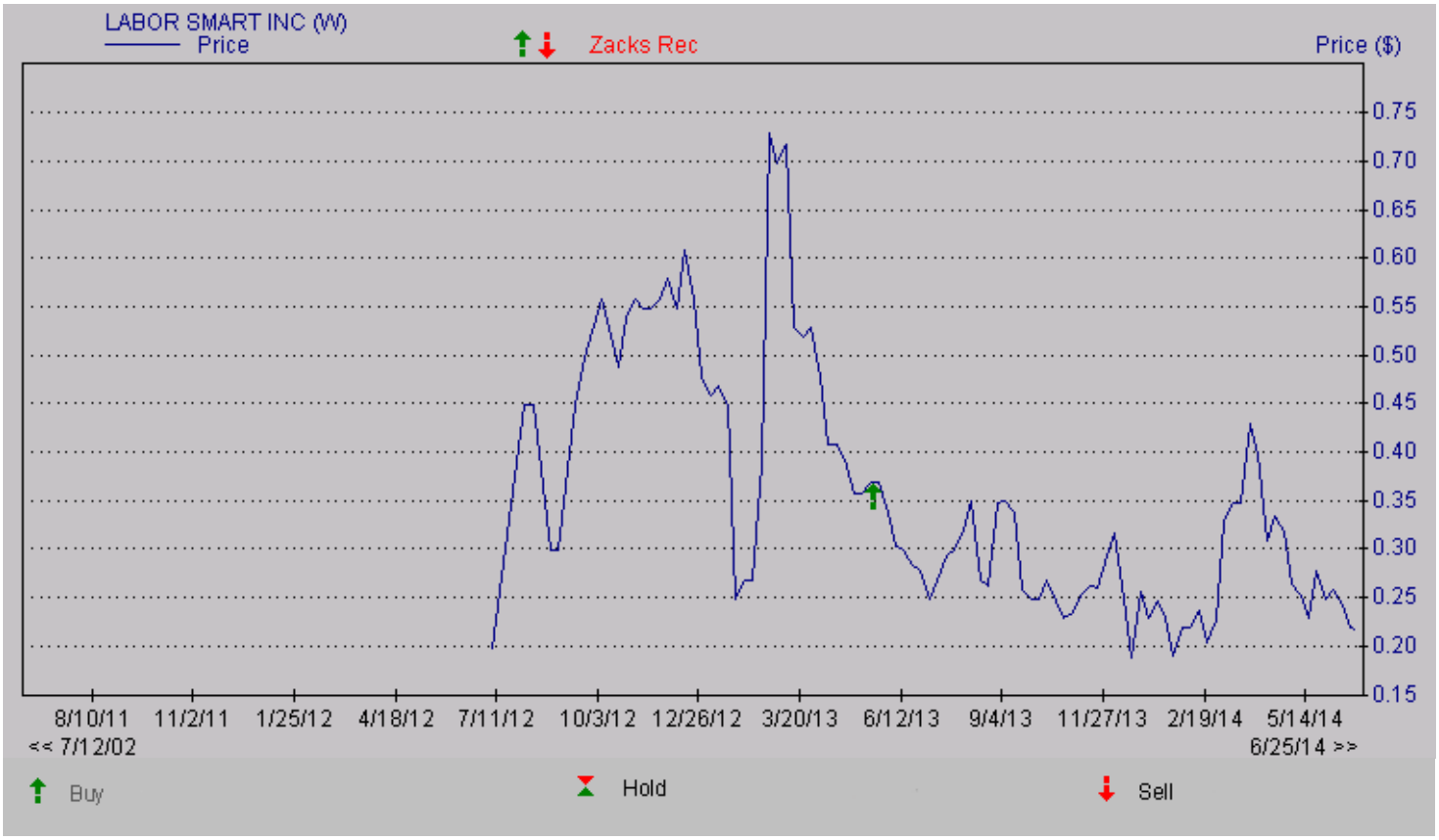

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