Zacks Small-Cap Research

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Labor Smart Inc (LTNC-OTCBB)

LTNC: *Drawing Parallels Between Labor Smart and Early Stage True Blue*

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	05/22/2013
Current Price (3/10/14)	$0.31
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. In roughly two short years, the company has grown its footprint to 16 branches operating in nine states, up from only two in 2011, and annual revenue to $16.6 million in 2013, up from only $0.16 million in 2011. With a seasoned industry veteran at the helm, an experienced operating team, an ambitious growth strategy and the tailwind of favorable sector dynamics, we maintain our Outperform rating on Labor Smart shares.

SUMMARY DATA

52-Week High	**$0.75**
52-Week Low	**$0.17**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**101,182**
Shares Outstanding (mil)	**22**
Market Capitalization ($mil)	**$6.8**
Short Interest Ratio (days)	**0.2**
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	5.799 E	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	-$0.02 E	-$0.12 E
2014	-$0.02 E	-$0.02 E	-$0.02 E	-$0.04 E	-$0.11 E

Quarters may not sum to total due to rounding.

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

2011 May- Dec **Disclosure Section begins on page 6**

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KEY POINTS

- We compare Labor Smart's (LTNC-OTC BB) January 2012 to February 2014 revenue trends to True Blue's December 1993 to January 1996 trends and believe the **growth rates are similar.**
- While month to month lumpiness occurs for both, the **upward trends are alike**, in our view. There are other parallels, as well, we believe, including double digit same-store sales gains and strong branch expansion over the respective periods.
- Labor Smart's **2014 same-store sales growth has been robust**, with January 2014 same-store up an impressive 90% versus January 2013 and February 2014 up 23% year-over-year. We believe the sequential decline largely reflects the negative impact of severe weather conditions.
- January 2014 achieved the second highest monthly revenue since Labor Smart launched operations, which is noteworthy, we believe, as the month tends to be seasonally slow for on demand staffing.
- Earlier this year, Labor Smart opened its 16th office in St. Petersburg, Florida. We believe that Florida is one of the most attractive markets for on demand labor.
- The St. Petersburg office is the first of three new branches planned for early 2014, with others scheduled to open in Houston, Texas and Denver, Colorado in the near-term. In all, **the company expects to roughly double its footprint by the end of the year and targets a footprint of 100 branches by 2017.**
- The company also **improved the terms in its financing agreement** with Transfac Capital, which we believe gives Labor Smart greater financial flexibility and likely reflects its growing revenue and scale.
- 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.

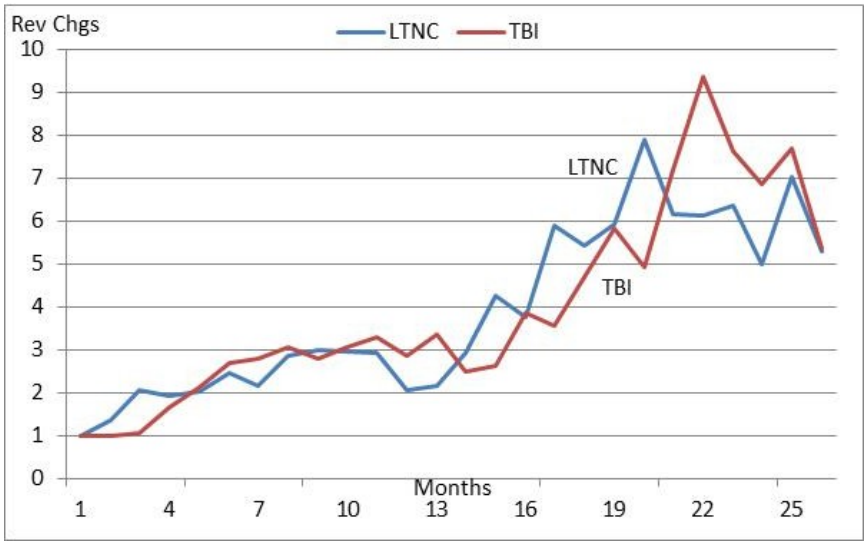
RESEMBLANCE TO EARLY STAGE TRUE BLUE

Parallels to Emerging TBI Comparing Labor Smart (LTNC-OTC BB) to staffing company True Blue (TBI-not rated) during its early days shows significant similarities, we believe. We compare Labor Smart's January 2012 to February 2014 revenue trends to True Blue's December 1993 to January 1996 trends. Although the absolute dollar levels differ,[1] the growth rates are similar, we believe. Plotting their revenue over the respective periods graphically illustrates the parallels, in our view.

In the graph below, we plot the respective revenue streams of each company relative to Month 1. For example, Labor Smart reported revenue of $267,080 and $364,636 for January 2012 and February 2012, respectively. In the graph, LTNC's January's $267,080 equals 1.00 and February's $364,636 equals 1.37 ($364,636 / $267,080). While month to month lumpiness occurs for both, the upward trends are similar, in our view. There are other parallels, as well, we believe. Both reported double digit same-store sales gains and strong branch expansion over the respective periods. Today, True Blue commands a market cap of $1.15 billion and generated 2013 annual revenue of $1.7 billion from an office network of 757 branch offices.

[1] TBI's revenue: $1.4M in Dec. 1993 & $7.5M in Jan. 1996. LTNC's revenue: $267K in Jan. 2012 & $1.4M in Feb. 2014.

LTNC Revenue Trends 1/12-2/14 vs. TBI Revenue Trends 12/93-1/96



Source: Company reports

2014 TRENDS STRONG

Same-Store Sales Growth Labor Smart's same-store sales growth has been robust in 2014. In January 2014, same-store growth at the branches that were in operation for at least one year was an impressive 90% versus January 2013. In February 2014, same-store sales were up 23% year-over-year. We believe the sequential decline largely reflects the negative impact of severe weather conditions during much of February.

Strength in Seasonally Slow Month January 2014 achieved the second highest monthly revenue since Labor Smart launched operations. The January metric was noteworthy, we believe, as the month tends to be seasonally slow for on demand staffing industry, according to management. During the early part of the month, customers are ramping back up to full operations, following the year-end holiday season.

Branch Expansion Labor Smart opened nine new offices during 2013, organically and through the acquisition of Qwik Staffing Solutions in 2Q13. Labor Smart continues to expand its footprint with new office openings. Earlier this year, Labor Smart 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.

The St. Petersburg office is the first of three new branches planned for early 2014, with others scheduled to open in Houston, Texas and Denver, Colorado in the near-term. In all, the company expects to roughly double its footprint by the end of the year. Labor Smart targets a footprint of 100 branches by 2017.

As the company executes its growth strategy, we expect continued same-store sales gains, a growing footprint, increasing scale and margin improvement. Separately, we have also updated our projections to reflect the company's 2013 reported revenue and to initiate quarterly 2014 estimates.

RECENT NEWS

Earlier this month, the company announced that it had improved the financial terms in its financing agreement with Transfac Capital. The company can now obtain advance finance of up to 85% of its receivables, up from up to 70% before the two amended their agreement. This gives Labor Smart greater financial flexibility, in our view, and likely reflects the company's growing scale and revenue base.

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, although the company maintains workers' compensation insurance for its on demand workers to mitigate risk.

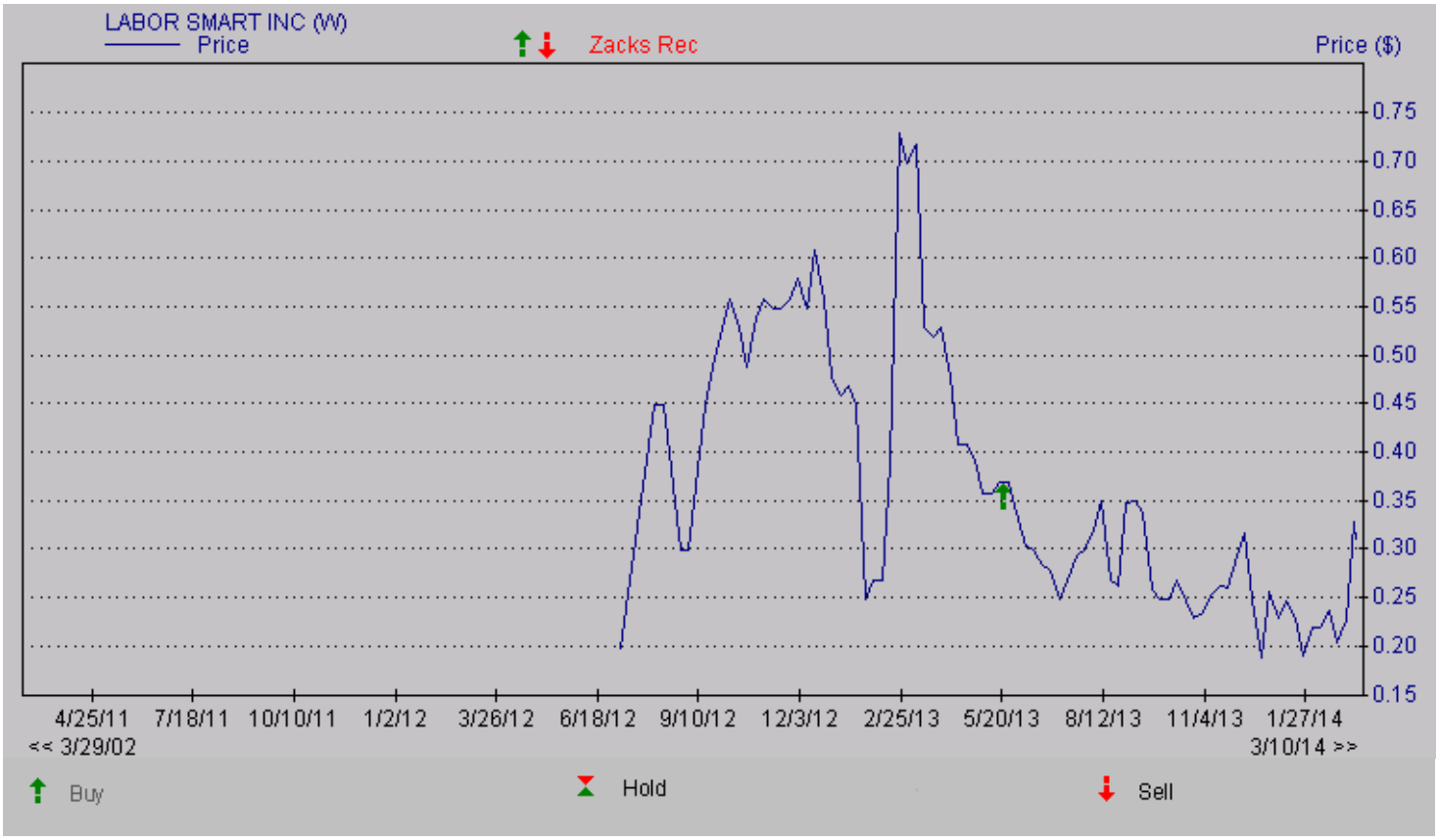
PROJECTED INCOME STATEMENT

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

	1Q13A	2Q13A	3Q13A	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E
Revenues	**$2,503,872**	**$4,037,040**	**$5,345,172**	**$4,672,065**	**$16,558,149**	**$5,798,800**	**$7,267,390**	**$8,367,486**	**$9,138,119**	**$30,571,795**
Cost of services	2,152,476	3,427,674	4,435,363	3,873,266	13,888,779	4,813,004	6,031,934	6,945,013	7,584,638	25,374,590
Gross Profit	**351,396**	**609,366**	**909,809**	**798,799**	**2,669,370**	**985,796**	**1,235,456**	**1,422,473**	**1,553,480**	**5,197,205**
Professional fees	62,500	297,056	57,045	60,644	477,245	81,250	80,438	95,058	104,347	361,092
Stock based compensation	250,616	23,954	69,483	243,172	587,225	288,208	287,807	287,448	327,395	1,190,859
Payroll expenses	160,076	300,519	388,385	374,803	1,223,783	446,508	559,589	644,296	688,349	2,338,742
Bad debt expense					-					
General and administrative	249,167	496,738	529,440	468,504	1,743,849	475,502	595,926	686,134	749,326	2,506,887
Loss on sale of receivables	35,522	57,838	32,242	36,598	162,200	40,850	41,618	40,487	44,902	167,856
Total operating expenses	757,881	1,176,105	1,076,595	1,183,721	4,194,302	1,332,318	1,565,378	1,753,423	1,914,319	6,565,437
Operating income/(loss)	(406,485)	(566,739)	(166,786)	(384,922)	(1,524,932)	(346,522)	(329,921)	(330,950)	(360,838)	(1,368,232)
Interest expense	(7,630)	(194,854)	(272,437)	(7,653)	(482,574)	(65,385)	(66,039)	(66,699)	(84,994)	(283,117)
Interest income	73			75	148	-	-	-	223	223
Financing costs	(233,746)		4,297	(23,421)	(252,870)	-	-	-	(280,846)	(280,846)
Realized loss on trading securi	(185)	(26)			(211)	-	-	-		
Other	(1,170)	-	15,912	(1,000)	13,742	(250)	(253)	(255)	(242)	(1,000)
Total other income (expenses)	(242,658)	(194,880)	(252,228)	(31,999)	(721,765)	(65,635)	(66,291)	(66,954)	(365,859)	(564,740)
Net income (loss) before taxes	(649,143)	(761,619)	(419,014)	(416,922)	(2,246,698)	(412,157)	(396,212)	(397,904)	(726,698)	(1,932,971)
Income tax expense	-	-	-	-	-	-	-	-	-	-
Net income (loss) after taxes	(649,143)	(761,619)	(419,014)	(416,922)	(2,246,698)	(412,157)	(396,212)	(397,904)	(726,698)	(1,932,971)
Unrealized gain on marketable	2,381	(7,152)	1,399	2,381	(991)	-	-	-	(9)	(9)
Comprehensive income (loss)	(646,762)	(768,771)	(417,615)	(414,541)	(2,247,689)	(412,157)	(396,212)	(397,904)	(726,707)	(1,932,980)
EPS or loss per share	**($0.04)**	**($0.04)**	**($0.02)**	**($0.02)**	**($0.12)**	**($0.02)**	**($0.02)**	**($0.02)**	**($0.04)**	**($0.11)**
Average shares outstanding	18,029,377	19,373,074	19,436,806	18,029,380	18,717,159	18,029,480	18,537,273	18,680,180	18,214,279	18,365,303
Y/Y revenue growth (%)	112%	136%	148%	119%	131%	132%	80%	57%	96%	84%
Gross margin	14.0%	15.1%	17.0%	17.1%	16.1%	17.0%	17.0%	17.0%	17.0%	17.0%
Payroll expenses % revenue	6.4%	7.4%	7.3%	8.0%	7.4%	7.7%	7.7%	7.7%	7.6%	7.7%
G&A % revenue	10.0%	12.3%	9.9%	10.0%	10.5%	8.2%	8.2%	8.2%	8.2%	8.2%

Source: Company reports, Zacks estimates

HISTORICAL ZACKS RECOMMENDATIONS



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