



ShiftPixy, Inc.

Q2 FY24 beats on lower expenses. Tax liabilities remain a concern. Lowering PT to \$4.00

Q2 EPS beat on lower operating expenses: On April 18, PIXY reported its Q2 FY24 (ending February) results. Revenue was \$3.8 million (-17% yoy), in line our estimate and prior quarter compare. Pro forma EPS was \$(0.87), ahead of our estimate of \$(1.01). The company did not provide any forward guidance and we are the only brokerage publishing estimates for the company.

Operating expenses lower than expected due to cost-cutting. Operating expenses came in at \$4.9 million in the quarter, versus our estimate of \$5.6 million. The majority of expense savings versus our estimates were in the salaries and professional fees categories. Overall, operating loss was \$4.7 million versus our estimate of \$5.3 million for the quarter.

Core business challenging: Though revenue was flat sequentially, gross profit margin declined from 12% in Q1 to 7% in Q2 of FY2024, indicating that core business conditions remain challenging.

Adjusting estimates: We are raising our FY24 EPS estimate to \$(3.54) from \$(4.59) on lower expenses and higher share count. For FY25, we are raising our estimate to \$(3.39) from \$(4.26). Our revenue estimates are unchanged at \$15.8 million and \$19.5 million, respectively.

New roll-up strategy underway: On March 20, ShiftPixy announced that it had secured a \$100 million line of financing from Forstmann & Co to acquire other firms in the human capital sector. On March 25, the company announced that it had acquired an unnamed staffing company in California with 94 customers and 35,800 worksite employees. On April 2, the company announced it had obtained a second purchase agreement to acquire staffing operations from an unnamed company comprising 10,000 temporary employees and serving 100 customers in the Western US.

Tax liabilities a concern. The company has been delinquent with respect to remitting payroll taxes on behalf of its clients to the IRS and State taxing authorities. The company's balance sheet indicates that these liabilities have risen to \$34.4 million in Q4, up from \$31.8 million in the previous quarter.

Solvency concerns: On December 12, 2023, the company received a lien from the IRS, meaning the IRS could levy the company's bank accounts. In February 2024, the Company received a Notice of Determination from the IRS wherein the IRS denied the company's appeal for relief. If PIXY cannot get the outstanding penalties and interest abated or raise the necessary capital to fund its payroll tax obligations, it may lead to the company filing for bankruptcy.

Balance Sheet: ShiftPixy exited the February quarter with \$21,000 in cash. The company's total shareholder deficit was \$59 million, and payables and tax liabilities amounted to \$24.5 million and \$34.4 million, respectively, versus total assets of \$4.5 million. In March, the company announced a \$5 million ATM offering which should provide another quarter of runway. While ShiftPixy has been able to reduce cash burn by extending payables and deferring tax remittances, the company will require considerable amounts of additional financing to address its delinquent tax liabilities and fund operations while it attempts to grow its core business.

Lowering PT on higher risk: We are maintaining our BUY but lowering our 12-month price target to \$4.00 to reflect increased balance sheet risk. Our price target is based on a NPV analysis, representing 116% upside from the current share price. We believe this valuation appropriately balances out the company's high risks with the company's high growth prospects and turnaround potential.

Company Description

Based in Sunrise, FL, ShiftPixy is a human resources solutions company that matches gig workers to flexible employment in the restaurant industry.

United States
Human Resource and Employment Services

May 1, 2024

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COMPANY UPDATE

Rating: BUY

Ticker: PIXY

Price: \$1.85

Target: \$4.00
From \$7.00

Stock Data

Exchange:	NasdaqCM
52-week Range:	\$1.54-84.72
Shares Outstanding (million):	6.8
Market cap (\$million):	\$12.6
EV (\$million):	\$12.6
Debt (\$million):	\$0
Cash (\$million):	\$0.02
Avg. Daily Trading Vol. (\$ mil):	\$1.3
Float (million shares):	2.0
Short Interest (000 shares):	0.02
Dividend, annual (yield):	NA

Revenues (US\$ million)

	<u>FY24E</u> <u>(Cur.)</u>	<u>FY24E</u> <u>(Old.)</u>	<u>FY25E</u> <u>(Cur.)</u>	<u>FY25E</u> <u>(Old.)</u>
Q1 Nov	3.8A		4.6E	
Q2 Feb	3.8A		4.7E	4.6E
Q3 May	4.0E		5.0E	
Q4 Aug	<u>4.2E</u>		<u>5.3E</u>	
Total	15.8E		19.5E	
EV/Rev	0.8x		0.6x	

Earnings per Share (pro forma)

	<u>FY24E</u> <u>(Cur.)</u>	<u>FY24E</u> <u>(Old.)</u>	<u>FY25E</u> <u>(Cur.)</u>	<u>FY25E</u> <u>(Old.)</u>
Q1 Nov	\$(1.91)A		\$(0.81)E	\$(1.02)E
Q2 Feb	\$(0.87)A	\$(1.01)E	\$(0.83)E	\$(1.05)E
Q3 May	\$(0.79)E	\$(1.00)E	\$(0.81)E	\$(1.02)E
Q4 Aug	<u>\$(0.88)E</u>	<u>\$(1.10)E</u>	<u>\$(0.93)E</u>	<u>\$(1.18)E</u>
Total	<u>\$(3.54)E</u>	<u>\$(4.59)E</u>	<u>\$(3.39)E</u>	<u>\$(4.26)E</u>
P/E	NM		NM	

* Reflects a 1:100 reverse stock split in August 2022

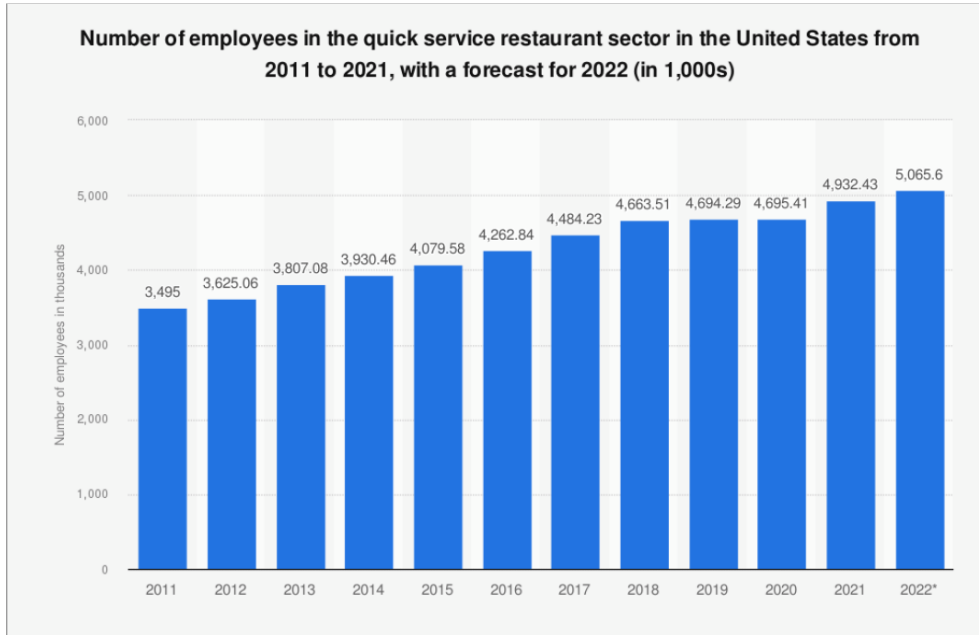
** Reflects a 1:24 reverse stock split in October 2023

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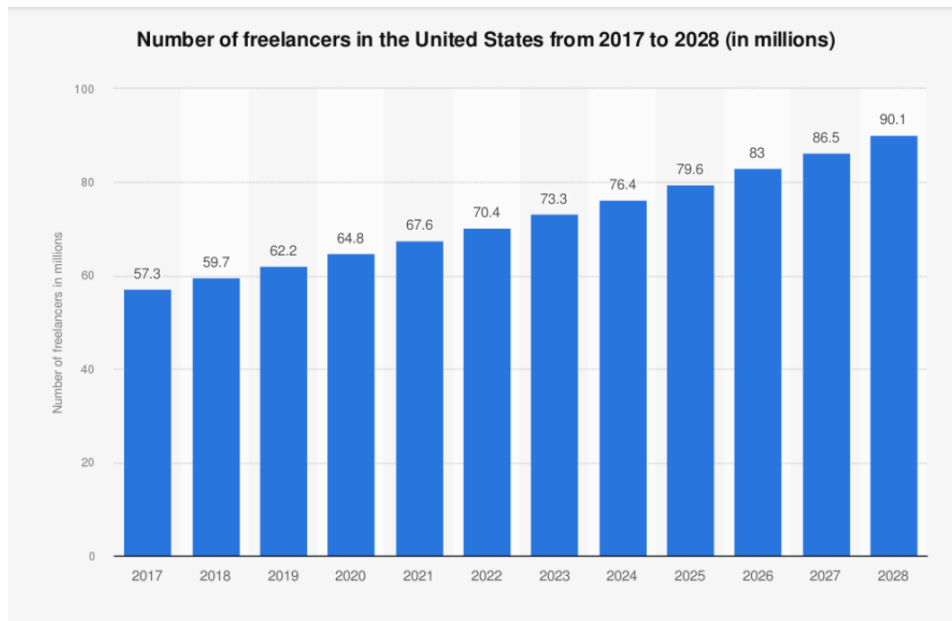
For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report, beginning on page 10.

Exhibit 1: US Employment in the QSR Industry



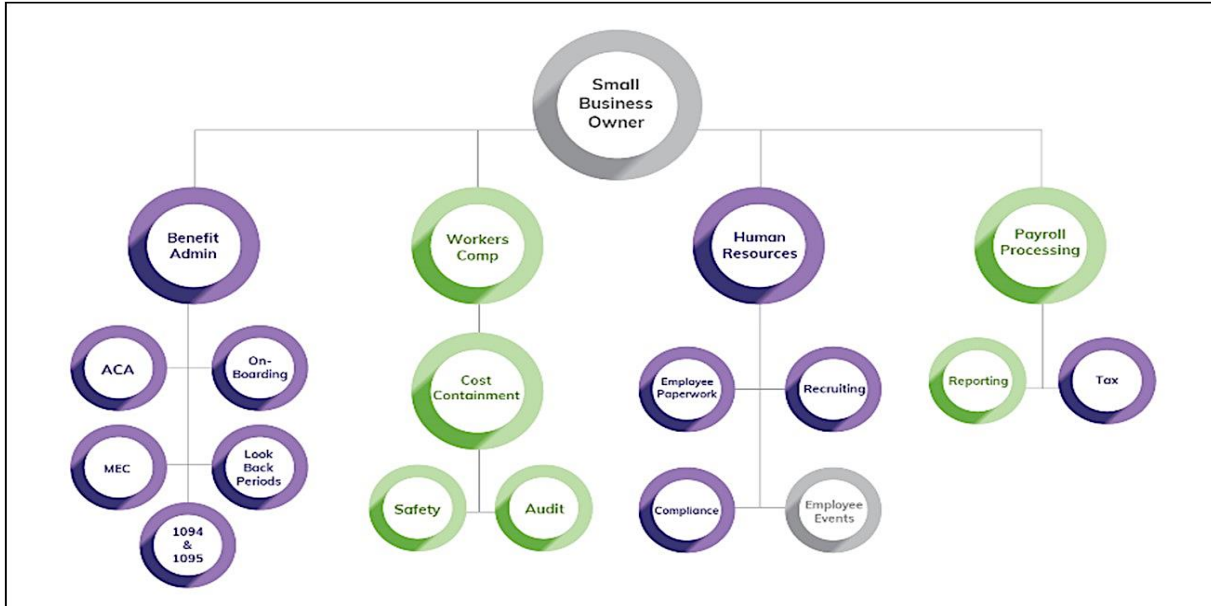
Source: IBISWorld, Statista

Exhibit 2: Number of US Independent Workers, 2017-2028



Source: Upwork, Edelman, Statista

Exhibit 3: Small Business Reporting and Administrative Burden



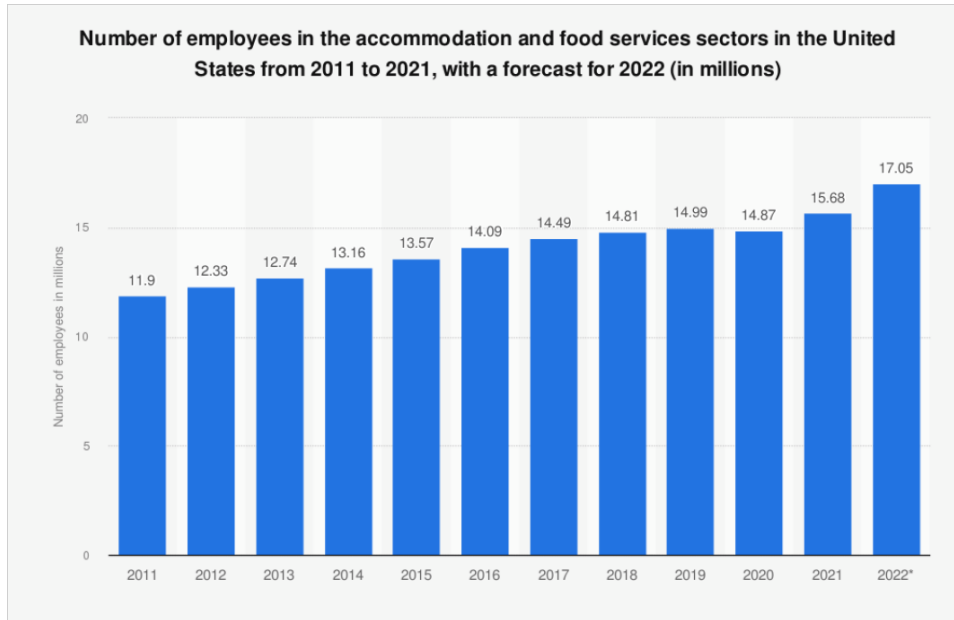
Source: Company Reports

Exhibit 4: ShiftPixy, Inc. HRIS Technology Platform



Source: Company Reports

Exhibit 5: US employment, food service and accommodation sectors



Source: IBISWorld, Statista

Exhibit 6: ShiftPixy Go to Market Strategy – Initial Food Markets



Source: Company Reports

Exhibit 7: ShiftPixy Billings and Revenue Breakdown, Q1 FY24 vs. Q1 FY23

Revenue:	For the Three Months Ended		For the Six Months Ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
EAS/HCM	\$ 0.4	\$ 1.6	\$ 1.0	\$ 3.0
Staffing	3.4	3.0	6.6	6.8
	<u>\$ 3.8</u>	<u>\$ 4.6</u>	<u>\$ 7.6</u>	<u>\$ 9.8</u>

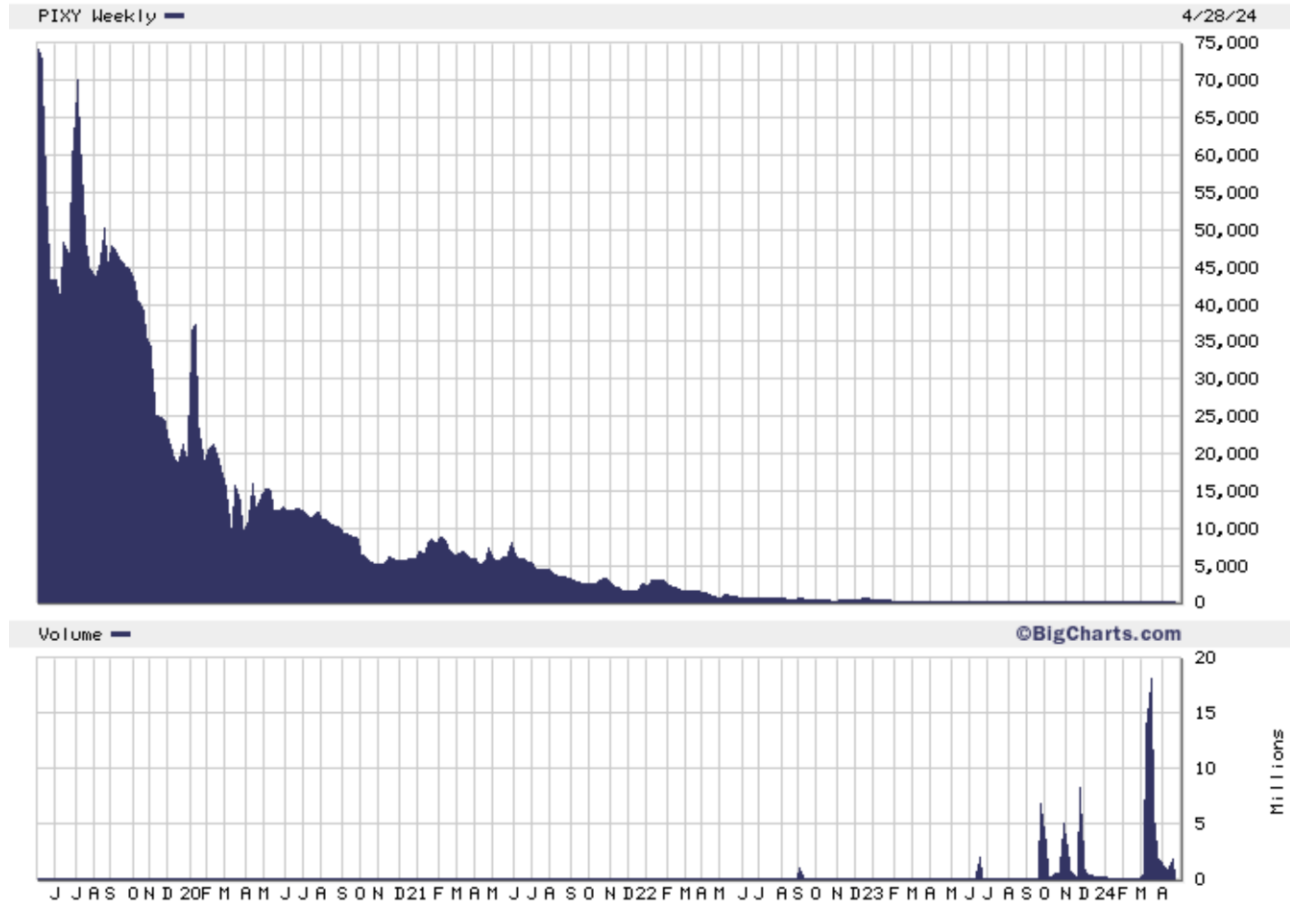
EAS/HCM revenue is presented net, \$4.1 million and \$12.0 million gross billings less WSE payroll costs of \$3.7 million and \$11.0 million for the three and six months ended February 29, 2024, and \$12 million and \$23.6 million, respectively gross billings less WSE payroll costs of \$10.4 million and \$20.6 million for the three and six months ended February 28, 2023, respectively.

For the three and six months ended February 29, 2024, and February 28, 2023, the following geographical States represented more than 10% of total revenues:

Region:	For the Three Months Ended		For the Six Months Ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
California	27.0%	43.6%	26.6%	46.3%
Washington	7.1%	11.1%	12.8%	11.7%
New York	23.4%	1.0%	17.0%	0.9%
New Mexico	16.3%	12.9%	20.7%	11.7%

Source: Company Reports

Exhibit 8: ShiftPixy, Inc. Daily Stock Price (5 Years)



* Reflects a 1:100 reverse stock split in August 2022
 ** Reflects a 1:24 reverse stock split in October 2023

Source: <https://bigcharts.marketwatch.com/>

ShiftPixy

Balance Sheet (\$ mils)	Aug-21	Aug-22	Nov-22	Feb-23	May-23	Aug-23	Nov-23	Feb-24	May-24	Aug-24	Nov-24	Feb-25	May-25	Aug-25
Fiscal Year End: August 31	Q4A	Q4A	Q1A	Q2A	Q3A	Q4A	Q1A	Q2A	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E
Current Assets														
Cash and Cash Equivalents	1.2	0.6	0.9	0.8	0.1	0.1	1.5	0.0	1.9	(2.7)	(5.5)	(10.7)	(14.4)	(18.4)
Cash and Marketable Securities Held in Trust Account (1)	0.0	117.0	117.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts Receivables	0.5	0.3	0.2	0.7	0.5	0.6	0.4	0.6	0.7	0.7	0.7	0.8	0.8	0.9
Unbilled Accounts Receivable	2.7	2.1	2.7	2.2	2.0	1.8	1.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Notes Receivables-net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prepaid Expenses	0.6	0.7	0.5	0.2	0.3	0.8	0.6	0.5	0.2	0.2	0.2	0.2	0.2	0.2
Other Current Assets	0.1	0.2	0.3	0.3	0.3	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Deposits-workers Compensation	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Assets of Discontinued Operations	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Assets	5.7	120.9	122.3	4.2	3.3	3.8	4.7	2.3	3.8	(0.8)	(3.4)	(8.6)	(12.3)	(16.3)
Noncurrent Assets														
Fixed Assets	2.8	2.8	3.0	2.8	2.7	1.6	1.5	1.3	1.2	1.1	0.9	0.8	0.6	0.5
Deposits-workers Compensation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Notes Receivables-net	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Right-of-use - Operating Lease	0.0	4.1	4.0	3.8	3.6	0.9	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Deferred Charges	48.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-current Assets of Discontinued Operations	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposits and Other Assets	0.9	0.9	0.9	1.0	1.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Deposits-workers Compensation	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	62.9	128.6	130.3	11.8	10.6	6.5	7.2	4.5	5.8	1.1	(1.6)	(7.0)	(10.8)	(14.9)
Current Liabilities														
Accounts Payable	6.6	17.1	15.8	16.5	18.3	16.7	24.4	24.5	27.3	28.3	31.0	31.4	33.1	35.0
Payroll Tax Related Liabilities	7.9	16.1	18.8	20.9	24.4	29.6	31.8	34.4	34.4	34.4	34.4	34.4	34.4	34.4
Payroll Related Liabilities						2.9	2.9	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Accrued Workers' Compensation Costs	0.7	0.6	0.6	0.4	0.4	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Convertible Notes, Net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Derivative Liability	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Current Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Liabilities of Discontinued Operations	1.5	1.4	1.4	1.6	1.8	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Registration Rights Penalties Accrual	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Class a Common shares subject to possible redemption 11,501	0.0	117.0	117.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	16.6	152.1	154.4	39.5	44.9	54.8	59.1	61.2	63.9	65.0	67.7	68.0	69.7	71.7
Noncurrent Liabilities														
Accrued Workers' Compensation Costs	1.6	1.2	1.2	0.9	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payroll and Related Liabilities - Long Term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Convertible Notes, Net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Lease Liability, Noncurrent	0.0	3.5	3.5	3.2	3.0	2.8	2.6	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Minority Interest	47.5	9.5	9.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Class a Common Shares Subject to Possible Redemption 11,51	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-current Liabilities of Discontinued Operation	3.8	3.3	3.4	3.8	4.1		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	69.5	169.6	171.9	47.5	53.0	57.6	61.7	63.5	66.2	67.3	70.0	70.3	72.0	74.0
Shareholders' Equity														
Common Stock - Par Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additional Paid in Capital	142.8	151.7	156.5	168.2	169.0	175.2	177.4	177.6	181.6	181.6	181.6	181.6	181.6	181.6
Treasury Stock - Common	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulated Deficit	(149.3)	(192.7)	(198.1)	(203.9)	(211.4)	(226.4)	(231.9)	(236.6)	(242.0)	(247.7)	(253.2)	(258.9)	(264.4)	(270.5)
Stock Subscription Receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Shareholders Equity	(6.5)	(41.0)	(41.7)	(35.7)	(42.4)	(51.1)	(54.5)	(59.0)	(60.4)	(66.1)	(71.6)	(77.3)	(82.8)	(88.9)
Total Liabilities & Shareholders Equity	62.9	128.6	130.3	11.8	10.6	6.5	7.2	4.5	5.8	1.1	(1.6)	(7.0)	(10.8)	(14.9)

Balance Sheet Drivers

	Aug-21	Aug-22	Nov-22	Feb-23	May-23	Aug-23	Nov-23	Feb-24	May-24	Aug-24	Nov-24	Feb-25	May-25	Aug-25
	Q4A	Q4A	Q1A	Q2A	Q3A	Q4A	Q1A	Q2A	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E
Book & Cash Value (per share)														
Book Value per Share (diluted)	(416.54)	(2,443.45)	(104.88)	(88.34)	(101.18)	(106.84)	(18.76)	(10.93)	(8.88)	(9.73)	(10.54)	(11.37)	(12.18)	(13.07)
Cash per Share (diluted)	76.26	7,009.81	298.64	2.02	0.34	0.16	0.51	0.00	0.27	(0.40)	(0.80)	(1.57)	(2.12)	(2.71)
Net cash per Share (diluted)	76.26	7,009.81	298.64	2.02	0.34	0.16	0.51	0.00	0.27	(0.40)	(0.80)	(1.57)	(2.12)	(2.71)

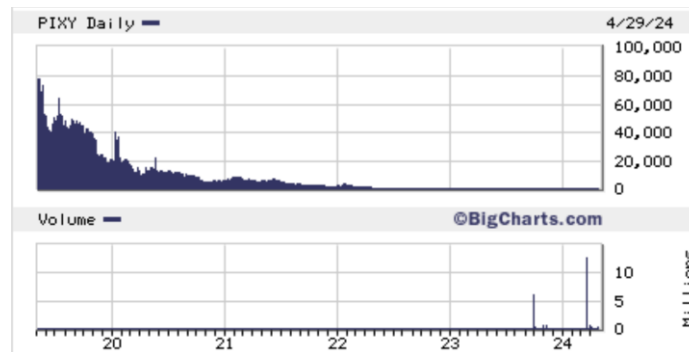
Source: Company reports, Ascendant Capital Markets estimates

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ShiftPixy, Inc.

- Ascendant Capital Markets, LLC has not received compensation for advisory or investment banking services from the company in the past 12 months.



Report	Date	Rating	PT
1	28-Feb-23	BUY	\$144.00
2	8-May-23	BUY	\$66.00
3	10-Aug-23	BUY	\$31.20
4	8-Jan-24	BUY	\$7.00
5	1-May-24	BUY	\$4.00

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BUY: We expect the stock to provide a total return of 15% or more within a 12-month period.

HOLD: We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

SELL: We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

Ratings Distribution and Investment Banking Disclosure (As of April 15, 2024)

	Investment Banking Services Past 12 Months			
	Count	Percent	Count	Percent
Buy	55	98%	18	33%
Hold	0	0%	0	0%
Sell	1	2%	0	0%
Total	56	100%	18	32%

Other Important Disclosures

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