

Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

BG Staffing, Inc.

Rating: Speculative Buy

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BGSF \$11.19 — (NYSE MKT)

	2017 A	2018 A	2019 A	2020 E	2021 E
Revenues (in millions)	\$272.6	\$286.9	\$294.3	\$274.2	\$302.1
Earnings per share	\$1.01*	\$1.46**	\$1.28	\$0.49***	\$1.00

52-Week range	\$22.38 – \$5.69	Fiscal year ends:	December
Shares outstanding <small>a/o 08/04/20</small>	10.3 million	Revenue/shares (ttm)	\$27.87
Approximate float	9.1 million	Price/Sales (ttm)	0.4X
Market Capitalization	\$115.3 million	Price/Sales (2021) E	0.4X
Tangible Book value/shr	(\$0.59)	Price/Earnings (ttm)***	13.0X
Price/Book	NMF	Price/Earnings (2021) E	11.2X
Annual dividend per share	\$0.20	Dividend Yield	1.8%

* Excludes a \$0.36 charge - deferred tax asset ** Excludes a \$0.32 gain - revaluation of contingent consideration *** Excludes approximately \$0.52 per share impairment charge

BG Staffing, Inc., headquartered in Plano, Texas, provides staffing services to a variety of industries through its commercial, multifamily, and professional staffing operating segments. BG Staffing has integrated seven US temporary staffing brands.

Key Investment Considerations:

Maintaining Speculative Buy rating and 12-month price target of \$15.50 per share.

On March 11, 2020 the COVID-19 virus was declared a global pandemic. During the final weeks of 1Q20, BGSF began to observe decreases in revenues in all three of its operating segments and in April 2020, a weekly revenue low point was reached of approximately 71% of pre-COVID revenue levels.

In August 2020, BGSF announced that since June 2020, it has seen increased sales activity with many of its client partners having returned to pre-COVID-19 pandemic levels. The return to more normal activity is indicated by revenue rebounding to approximately 91% of pre-COVID levels (base is the first three weeks of March 2020) during the final week of June 2020 and through July 2020.

In 2Q20, the company took action to reduce operating costs by approximately 10% compared to pre-COVID-19 levels. In 2Q20, BGSF borrowed \$4 million on its term loan and reduced its revolving facility balance that provided increased short-term liquidity. BGSF's quarterly dividend was reduced to \$0.05 per share from \$0.30 per share, which should provide approximately \$10 million in additional liquidity.

BGSF reported a 2Q20 loss (on 8-5-20) of (\$0.47) per share on a 15.2% decrease in sales to \$62.6 million. In 2Q19, EPS was \$0.37 on sales of \$73.9 million. 2Q20 included an impairment charge of approximately \$0.52 per share. We projected a loss of (\$0.08) per share on sales of \$59 million.

We project 2020 EPS of \$0.49* (prior was \$0.29) on a 6.8% decrease in sales to \$274.2 million (prior was \$273.8 million). Our forecast reflects 1H20 results and stabilization of the company's operations in 2H20.**

We anticipate a profit and sales rebound in 2021 as COVID-19 pandemic conditions ease. We project 2021 EPS of \$1.00 on 10.2% sales growth to \$302.1 million (unchanged from our prior forecast).

Please view our Disclosures on pages 13 – 15.

Appreciation Potential

We are maintaining our Speculative Buy rating and 12-month price target of \$15.50 per share. Our rating should be supported by a resumption of gross profit growth in 2021 stemming from a return to more normal operations as COVID-19 pandemic conditions ease, as well as the growth forecast for the US staffing industry that should reach \$136.4 billion in 2021 from \$119.4 billion in 2020. The industry had revenue of nearly \$152 billion in 2019.

We forecast gross profit growth of nearly 14% in 2021 after a decrease of 7.2% in 2020. The resumption of gross profit growth should be driven by revenue gains in the real estate segment reflecting 54 locations in operation at the end of 2Q20 (including four from the company's commercial building segment - Talent) and an estimated 58 locations by the end of 2021. This segment had 32 locations in 2016.

The comparative peers in the Staffing & Employment Services industry (source: finviz – on 8/14/20) forward 2021 P/E multiple is 17.2X (prior was 15.6X) with a 15.1% EPS growth rate. Based on our 2021 forecasts, BGSF's 2021 P/E multiple is 11.2X with EPS more than doubling to \$1.00 per share from an estimated \$0.49 per share in 2020.

We anticipate investors should accord a multiple above the peer group due to BGSF's higher 2021 EPS growth. We applied a 18X multiple (unchanged) to our 2021 EPS forecast of \$1.00, discounted for execution risk to obtain a year ahead price target of \$15.50 per share, implying a total (including a 1.8% dividend yield) year-ahead return of approximately 40%.

In our view this stock is suitable for risk-tolerant investors. Revenue and earning gains are most vulnerable when the job market is shrinking (likely to occur through 3Q20) and will also depend on the successful integration of BGSF's acquisitions, as well as successfully managing liquidity (debt levels and dividends).

Overview

BG Staffing, Inc., headquartered in Plano, Texas, is a national provider of temporary staffing services across a diverse set of industries, which operates through the following brands – American Partners, BG Multifamily, Donovan & Watkins, Extrinsic, Instaff, Vision Technology Services, Zycron, L.J. Kushner & Associates, and EdgeRock. BG Staffing, Inc. operates within three industry segments: Light Industrial, Professional, and Real Estate (a specialty segment) that operate in 89 branches, brand offices, and 12 on-site locations that provide services in 44 states and the District of Columbia at August 5, 2020.

The real estate segment provides customers front office and maintenance personnel on a temp and temp-to-direct hire basis to various apartment communities (the multifamily segment) and commercial buildings segment. The division utilizes a centralized recruiting model from recruiting centers in Dallas, Houston, and Austin, Texas, and in Charlotte, North Carolina, and Tampa, Florida. The Light Industrial segment provides temporary workers to distribution and logistics customers needing a flexible workforce (light assembly or manufacturing) and administrative and clerical functions.

COVID-19 Pandemic Developments

In April 2020, overall revenues declined 26% from pre COVID-19 pandemic levels. The company announced that since June 2020, it is seeing increased sales activity and many of its client partners have returned to pre-COVID-19 pandemic levels. The return to more normal activity reflects the company reporting that during the final week of June 2020, revenue was approximately 91% of pre-COVID levels (based on the first three weeks of March 2020). The weekly revenue low point was in April 2020, with revenue falling to approximately 71% of pre-COVID levels. In August 2020, BGSF reported continued revenue improvement during July 2020 with its light industrial, real estate, and professional services averaging approximately 105%, 86% and 90% of pre-COVID levels.

In 2Q20 the company reduced operating costs by approximately 10% compared to the pre COVID-19 levels. The cost containment measures included a hiring freeze, laying off lower performing team members, delaying non-essential capital expenditures, and delaying the start of any new IT Roadmap initiatives. Additional safety and cost

containment measures include the elimination of all travel, client partner visits, meals and entertainment, as well as any conferences and association events, and implementing a companywide work from home program with only essential office visits allowed.

To manage liquidity, the company borrowed \$4 million on its term loan and reduced its revolving facility balance, which should provide increased short-term liquidity, as well as electing to delay the payment of the employer's share of Social Security under the CARES Act. The latter could add as much as \$7 million to accrued payroll expenses in 2020. In May 2020, the company announced its board of directors reduced the quarterly dividend to \$0.05 per share from \$0.30 per share. This could provide over \$10 million in additional liquidity annually.

Growth Strategy

Technology Roadmap

At the start of 2019, a new CIO was hired and was part of the process in developing a technology road map to internally develop a modern technology infrastructure. The primary goal of the road map is to develop technology that will reduce cycle time to fill client orders and onboard applicants, improved internal operations through automation and scalability, and implement secure cloud solutions.

The company completed spending on projects that were active prior to the COVID-19 pandemic and are critical to BGSF's future growth prospects. In March 2020 and May 2020, the company launched a new Website that included applying and onboarding capabilities that facilitate remote interviewing and the real estate division launched its internally developed time keeping automation technology that is replacing paper time cards, respectively. In July 2020, BGSF launch a new enterprise resource planning system along with the implementation of a power business intelligence tool for better reporting and development metrics, a new client contract management system that should increase speed and compliance.

Going Virtual

The stay at home orders stemming from the COVID-19 pandemic had the company launch its first ever companywide cross sales training and sales virtual meeting that resulted 182 new orders, 1,900 conversations, and 13 cross-divisional sales pitches in one afternoon.

In April 2020, the company began training its team members on holding virtual sales meetings and interviews. In May 2020, BGSF began conducting Webinars in its professional brands with record attendance and its social media education and outreach programs have expanded (increasing 21.6% in social media followers with a 145% increase to 1.6 million impressions or clicks across branded sites).

In 2Q20, BFSF's information technology projects included the rollout of the Microsoft Teams and Cloud Voice which allowed the company and its team members to work from remote locations.

Projections

Basis of Forecast

Our forecast reflects the COVID-19 pandemic environment that should result in sales decreasing in 2H20 compared to 2020, although 3Q/4Q 2020 sales should grow sequentially. We anticipate 10.2% growth in 2021 due primarily to a normalization of economic conditions and pent up customer demand.

Economy

In June 2020, the International Monetary Fund (IMF) updated its economic growth estimate for the US to a decline of 8% for 2020 followed by growth of 4.5% in 2021. In April 2020, the IMF projected a decline in US growth of 5.9% for 2020 and growth of 4.7% for 2021. The revisions primarily reflect a more negative impact from the COVID-19 pandemic in 1H20 than originally anticipated and a more gradual recovery than previously forecast.

The advance estimate of US GDP growth (released on July 30, 2020) showed the US economy decreased at an annual rate of 32.9% in 2Q20, greater than the 5% decline reported in 1Q19. The 2Q20 US GDP estimate primarily

reflects decreases in consumer spending, exports, inventory investment, business investment, and housing investment, partially offset by an increase government spending.

The unemployment rate for July 2020 (reported on August 7, 2020) was 10.2% compared to the peak unemployment rate of 14.7% in April 2020. The prior record was 10.8% in November 1982. In July 2020, unemployed people in the US decreased 1.4 million to 16.3 million, while the number of employed was 143.5 million (compared to 133.4 million in April 2020). In July 2020, the labor force participation rate improved to 61.4% from 60.2% in April 2020.

In June 2020, the Federal Reserve Board issued a forecast that calls for a US unemployment rate of 9.3% and 6.5%, respectively in 2020 and 2021.

Operations

In 2020, we project a revenue decline of 6.8% to \$274.2 million (previously \$273.8 million) which reflects a 31.8% decline in real estate segment sales to \$65.8 million. We forecast light industrial segment sales to decrease 16.7% to \$62.1 million. Revenue from the professional staffing segment should grow 18.6% to nearly \$146.3 million due primarily to the acquisitions of LKJ (December 2019) and EdgeRock (February 2020), partly offset by declines in the company's existing professional staffing segment customer base due to the COVID-19 pandemic.

We project a 7.2% decrease in gross profit to \$74.9 million driven by lower sales and gross margin contraction to 27.3% from 27.4% in 2019. We anticipate operating income (excluding a \$7.2 million impairment charge) of \$8.6 million compared to \$19.7 million in 2019 due to a decrease in revenue, gross margin contraction, and operating margin expense increasing to 24.2% from 20.7% in 2019.

We forecast operating expenses (excluding the impairment charge) to increase 8.6% to \$66.3 million. We project a 7.7% increase in SG&A to \$60.5 million due primarily to technology spending in 1H20 and the inclusion of expenses to operate the LKJ and EdgeRock acquisitions. D&A expense should increase 19.3% to \$5.7 million due to amortization expense from the two acquisitions in December 2019 and February 2020.

We project a \$162,000 increase in interest expense to \$1.7 million due to higher debt balances, partly offset by a lower interest rate. We project a net loss per share of (\$0.03) compared to our prior forecast of \$0.29 per share. However, excluding the impairment charge of approximately \$0.52 per share, we estimate EPS of \$0.49 for 2020.

In 2021, we project revenue growth of 10.2% to \$302.1 million (unchanged). Our forecast does not include potential acquisitions in the company's professional staffing segment. We anticipate the company's three segments (real estate, professional services, and light industrial) should experience growth as COVID-19 pandemic conditions ease and pent up customer demand is fulfilled.

We project a 14% increase in gross profit to \$85.4 million driven by gross margin improvement to 28.3% from an estimated 27.3% in 2020. The gross margin improvement reflects revenue growth from the real estate segment, which should deliver a gross margin of 38.2% and comprise 29.2% of total sales, up from an estimated 24% of total sales in 2020. We anticipate operating income increasing to \$15.5 million from an estimated \$8.6 million (excluding \$7.2 million impairment charge) due primarily to revenue growth and gross margin expansion. We anticipate operating margin expense improving to 23.1% from an estimated 24.2% in 2020.

We forecast operating expense to increase 5.5% to \$69.9 million compared to an estimated \$66.3 million (excluding impairment charge). We project a 6.4% increase in SG&A to \$64.4 million to support sales growth. D&A expense should decrease \$224,000 to \$5.5 million. We project operating margin of 5.1% vs. 0.5% due to higher revenue, increased gross margin, and improvement in operating margin expense.

We project a \$101,000 decrease in interest expense to \$1.6 million due to lower debt balances. Our net income forecast is unchanged at \$10.4 million or \$1.00 per share, after income tax expense of \$3.5 million for an income tax rate of 25%.

Finances

For 2020, we project cash earnings of \$12.4 million and a decrease in working capital of \$9.1 million. The decrease in working capital is due primarily to an increase in accruals and decrease in receivables. Borrowings and cash from operations of \$21.5 million should cover capital expenditures, repayment of debt, and payment of common stock dividends (which were reduced to \$0.05 per share per quarter from \$0.30 per share per quarter starting in 2Q20). At the end of 2020, the company's cash balance should remain at zero.

For 2021, we project cash earnings of \$17 million and an increase in working capital of \$8.9 million due primarily to an increase in receivables and decrease in accruals. Cash from operations of \$8.1 million should cover capital expenditures, repayment of debt, and payment of common stock dividends. At the end of 2021, the company's cash balance should remain at zero.

2Q20 and 1H20 Results

Revenues decreased 15.2% to \$62.6 million from \$73.9 million in the year-ago period due to a 51.7% decrease in real estate segment sales to \$11.8 million and a 21.8% decrease in light industrial segment sales to \$14.2 million. Partly offsetting the revenue decrease was a 17% increase in the professional staffing revenue to \$36.6 million

The 17% or \$5.3 million increase in professional staffing segment sales was due to primarily to \$9.8 million in sales from the acquisitions of LKJ (December 2019) and EdgeRock (February 2020), partly offset by a \$4.5 million decrease in existing customer revenue stemming from the COVID-19 pandemic environment. The professional segment had a 20.7% increase in average bill rates, partly offset by a \$600,000 decrease in permanent placements and a 0.6% decrease in billed hours.

The 51.7% or \$12.6 million decrease in real estate segment sales was due primarily to the COVID-19 pandemic environment. New real estate offices contributed approximately \$600,000 to segment sales. The overall decrease in revenue from the real estate segment reflects a 53.7% decrease in billed hours, partly offset by a 4.1% increase in the average bill rate.

The 21.8% or nearly \$4 million decrease in light industrial revenue reflects a 27.1% decrease in billed hours, partly offset by a 5.6% increase in the average bill rate.

Gross profit decreased 19% to \$16.9 million reflecting gross margin compression to 27% from 28.2% in 2Q19. The reduction in gross profit was due primarily to the light industrial and real estate segments (see table on the right), partly offset by gross profit improvement in the professional staffing segment reflecting sales growth and gross margin improving to 28.4% from 28.1% in the year-ago period.

Gross Profit per segment in Millions	2Q20	2Q19	% D
	Light Industrial	2.0	2.7
Real Estate	4.4	9.4	(52.6%)
Professional Staffing	10.4	8.8	18.6%
Gross Profit	\$ 16.9	\$ 20.9	

Operating expenses (excluding an impairment charge of \$7.2 million) increased 2% to nearly \$15.8 million due to a \$240,000 increase in D&A expense to \$1.4 million and a \$69,000 increase in SG&A to \$14.3 million. D&A expense increased due to the acquisitions completed in December 2019 and February 2020.

The company recorded an impairment charge of \$7.2 million due to the company recognizing a \$3.7 million trade name impairment loss and a \$3.5 million client partner list impairment loss.

Operating income (excluding the impairment charge) decreased to nearly \$1.2 million compared to \$5.4 million in the year-ago period. The decrease in operating income was due primarily to lower sales. Operating expense margin was 25.2%, up from 20.9% in 2Q19.

Interest expense was \$430,000, down from \$496,000 due primarily lower interest rates. Net loss was \$4.8 million or (\$0.47) per share compared to net income of \$3.8 million or \$0.37 per share. We estimate, excluding the 2Q20 impairment charge, EPS was approximately \$0.05. We estimated a loss of (\$0.08) per share on revenue of \$59 million.

1H20 Results

Revenues decreased 4.2% to \$136.7 million due to a 27% decline in real estate segment sales to \$31.8 million and a 14.2% decrease in light industrial segment sales to \$31.9 million, offset in part by a 17.9% increase in professional staffing sales to \$73 million.

Gross profit decreased 5.4% to \$37.2 million reflecting lower sales and gross margin compression to 27.2% from 27.6% in the year-ago period. The reduction in gross profit was due primarily to COVID-19 pandemic conditions in 2Q20.

Operating expenses (excluding an impairment charge of \$7.2 million) increased 10.1% to nearly \$33.4 million due to a 9.5% increase in SG&A expenses to \$33.5 million and a \$423,000 increase in D&A expense to \$2.9 million. The increases in SG&A and D&A expense were due primarily to the acquisitions of LJK and EdgeRock.

The company recorded an impairment charge of \$7.2 million (pre-tax, or \$5.4 million post-tax) due to the company recognizing a \$3.7 million trade name impairment loss and a \$3.5 million client partner list impairment loss.

Operating income (excluding the impairment charge) decreased to \$3.8 million compared to \$9 million in the year-ago period. The decrease in operating income was due primarily to lower sales.

Interest expense increased to \$886,000 from \$849,000 in the year-ago period. Net loss was to \$3.3 million or (\$0.32) per share, compared to net income of \$6.3 million or \$0.61 per share. We estimate in the 1H20, excluding the impairment charge, EPS of approximately \$0.20.

Finances

In 1H20, the company had cash earnings of \$6 million and a \$9.1 million decrease in working capital. The decrease in working capital was due primarily to a decrease in receivables. Cash from operations of \$15.1 million and borrowings covered capital investments including acquisitions, repayment of debt, and common stock dividends. Cash at June 28, 2020 was zero.

Capital Structure

At June 28, 2020, the company had total outstanding debt of \$39.6 million. The company's outstanding long-term line of credit was nearly \$10 million (net of \$305,000 of deferred finance fees) and term debt was \$29.7 million (all but \$2.3 million was long-term). The blended interest rate on the credit line and term debt was approximately 2.6%. At June 28, 2020, the company's debt to equity ratio is 0.65 versus 1 for the industry, indicating that BGSF's leverage is less than other staffing and outsourcing service companies. As of June 28, 2020, the company was in compliance with all of its financial covenants, including a minimum debt service ratio and a senior funded indebtedness-to-EBITDA ratio.

On July 16, 2019, BGSF entered into a credit agreement with BMO Harris Bank, N.A. that matures on July 16, 2024. The credit agreement provides for a revolving credit facility permitting borrowings of up to \$35 million. The credit agreement also provides for a term loan commitment allowing for borrowings not to exceed \$30 million. The term loan can be increased to \$40 million under certain conditions. The credit agreement is secured by a first priority security interest in substantially all tangible and intangible property of BGSF and its subsidiaries. The credit

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Revenues per segment in Millions			
Light Industrial	\$ 31.9	\$ 37.1	(14.2%)
Real Estate	31.8	43.6	(27.0%)
Professional Staffing	73.0	61.9	17.9%
Total Revenue	\$ 136.7	\$ 142.6	(4.2%)
Cost of Sales per segment			
Light Industrial	27.3	31.7	(13.9%)
Real Estate	19.7	26.8	(26.4%)
Professional Staffing	52.5	44.8	17.0%
Total Cost of Sales	\$ 99.5	\$ 103.3	(3.7%)
Gross Profit per segment			
Light Industrial	4.6	5.5	(16.2%)
Real Estate	12.1	16.8	(28.0%)
Professional Staffing	20.5	17.1	20.3%
Gross Profit	\$ 37.2	\$ 39.3	(5.4%)
Total Operating Expenses	40.6	30.3	34.0%
Operating Income	(3.4)	9.0	NMF
Total Other Income (Expense)	(0.9)	(0.8)	NMF
Pre-Tax Income	(4.3)	8.2	NMF
Income Tax Expense (Benefit)	(1.0)	1.9	
Net Income (loss)	(3.3)	6.3	
Earnings (loss) per share	\$ (0.32)	\$ 0.61	
Dividend per share	\$ 0.35	\$ 0.60	
Avg Shares Outstanding	10.3	10.4	
Margins			
Gross margin - combined	27.2%	27.6%	
Operating Margin	(2.5%)	6.3%	
Pre-Tax Margins	(3.2%)	5.7%	
Tax Rate	22.8%	22.8%	
Source: company reports			

agreement bears interest either at the base rate plus the applicable margin or LIBOR plus the applicable margin. The company will also pay an unused commitment fee on the daily average unused amount on its revolving facility and term loan. The credit agreement contains customary affirmative covenants as well as negative covenants.

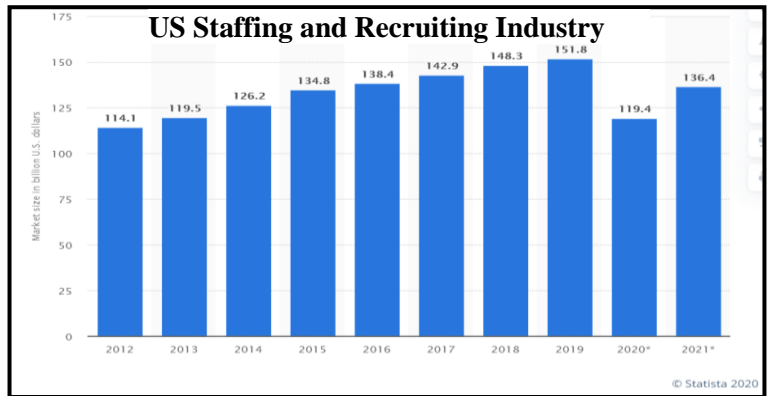
In February 2020, BGSF borrowed \$18.5 million from its term loan in conjunction with the closing of the EdgeRock acquisition. In March 2020, in conjunction with the EdgeRock acquisition, the company entered into a standby letter of credit that expires December 31, 2024 for purposes of protecting a lessor against default on lease payments. At June 28, 2020, the maximum financial exposure from this standby letter of credit is approximately \$100,000, all of which is considered usage against the revolving facility.

In April 2020, the company entered into an interest rate swap agreement with BMO in order to reduce the floating interest rate component on the term loan obligation. The \$25 million amount was effective on June 3, 2020 and designed as a cash flow hedge on the underlying variable rate interest payments against a fixed interest rate that terminates on June 1, 2023.

US Staffing Industry

The temporary staffing industry supplies businesses with workers for predetermined periods of time to supplement existing staff, enabling customers to minimize the cost and effort of workforce planning. Companies in this industry act as intermediaries since demand for a flexible workforce continues to grow, reflecting competitive and economic pressures to reduce costs and respond to changing market conditions.

In June 2020, data provided by Statista projected the US staffing industry to grow 14.2% to \$136.4 billion in 2021 after a decrease of 21.3% in 2020 to \$119.4 billion from \$151.8 billion in 2019.



The 2020 decrease is due to the COVID-19 pandemic that should significantly diminish the industry in 2Q20 and first part of 3Q20. As normalization occurs with regard to the COVID-19 pandemic, industry growth should be robust.

Competition

The staffing services market is competitive with limited barriers to entry. Smaller companies such as BG Staffing face competition from larger organizations that have greater financial and marketing resources. In the staffing industry, price competition for personnel is intense, especially for the company’s professional staffing and commercial segments. Key competitive factors in the industry include pay rates, availability of assignments, and the duration of assignments, as well as responsiveness to requests for placement. BGSF’s challenge is to place prospective temporary workers quickly by having in place appropriate assignments for qualified temporary workers.

Competition in the staffing services industry is from publicly traded companies such as Ciber, Inc., CDI Corp., Computer Task Group Inc., GeeGroup Inc., Kelly Services, Inc., Kforce Inc., ManpowerGroup Inc., On Assignment, Inc., Resources Connection Inc., Robert Half International Inc., TrueBlue, Inc., and Volt Information Sciences, Inc.

Risks

COVID-19 Pandemic

The COVID-19 global pandemic presents concerns that may dramatically affect the company’s ability to conduct normal business operations (such as acquiring new customers or receiving orders from existing customers) effectively. While the trajectory of the COVID-19 pandemic remains uncertain, it is likely that BGSF’s operations including sales to new and existing customers may be directly affected for the remaining 2H20.

Economy

Slowing US economic growth or an unprecedented halt to economic activity is likely to reduce customer demand for workforce solutions. Revenue growth for BG Staffing will be most vulnerable when US employment is at an inflection point (a reversal from peak employment and a low unemployment rate, or a reversal from a high unemployment rate).

Revenue concentration

In 2Q20, four states (Texas – 23%, Tennessee – 15%, Massachusetts – 13% and Maryland – 12%) accounted for 63% of the company's revenues, up from 58% in the year-ago period. If economic conditions deteriorate in any of these regions, the company's operations could be restrained.

Integration

The company's business strategy includes acquisitions that expand its geographic locations in the US and the skills offered to customers, which could raise integration issues.

Interest rates

The Federal Reserve has cut interest rates virtually to zero in 2Q20. However, further changes to interest rates are likely to depend on economic conditions stemming from the COVID-19 pandemic. If economic growth and inflation were to accelerate, it is likely interest rates could increase, which would further increase the company's variable rate term loan and revolving credit facility.

Regulation

The company is subject to Federal and state labor and employment laws and regulations. The cost to comply or the inability to comply with such laws and regulations could disrupt operations or increase costs.

Workers compensation

The company provides workers' compensation insurance for its temporary workers. While the policies are renewed annually in 1Q, there can be uncertainty in obtaining appropriate types or levels of insurance in the future or that adequate replacement policies will be available on acceptable terms. The loss of workers' compensation insurance coverage would prevent the company from doing business in the majority of its markets.

Seasonality

Operations are affected by billing days in a quarter and the seasonality of a customer's business. Demand for BGSF's commercial segment increases in the second and third quarters, peaking in the fourth quarter, and slowing in the first quarter due primarily to customer shutdowns and winter weather conditions. In addition, the cost of services typically increases in the first quarter due primarily to the reset of payroll taxes.

Shareholder Control

Officers and directors and three large shareholders collectively own 17.7% of the outstanding voting stock (as of the SEC filing in March 2020). This group could potentially influence the outcome of matters requiring stockholder approval, which may or may not be in the best interests of the other shareholders.

Miscellaneous Risk

The company's financial results and equity values are subject to other risks and uncertainties, including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume

During the last three months to August 17, 2020, average daily volume was 101,500 compared to average daily volume of 61,400 in 2019. The company has a float of 9.1 million shares and shares outstanding of approximately 10.3 million.

BG Staffing, Inc.
Consolidated Balance Sheets
FY2017 – FY2021E
(in thousands)

	2017 A	2018 A	2019 A	2Q20A	2020 E	2021 E
ASSETS						
Current assets:						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts receivable, net	36,708	37,607	39,424	37,762	36,557	41,123
Prepaid expense and other current assets	948	984	1,224	1,823	1,645	1,813
Income taxes receivable	191	-	70	-	-	-
Other current assets	143	23	20	516	516	545
Total current assets	37,990	38,614	40,737	40,101	38,718	43,481
Property and equipment, net	2,040	2,557	3,545	4,157	4,160	4,200
Security deposits	2,907	3,209	3,843	4,119	4,169	4,169
Right-of-use asset - operating lease, net	-	-	4,386	6,250	6,250	6,250
Deferred income taxes	6,403	4,871	4,072	4,514	4,514	4,514
Intangible assets, net	37,323	33,034	33,808	36,441	36,441	30,000
Goodwill	17,970	17,984	25,195	31,373	31,373	31,373
Total assets	\$ 104,633	\$ 100,269	\$ 115,586	\$ 126,956	\$ 125,625	\$ 123,987
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Debt	2,924	4,243	375	2,250	1,300	300
Accrued interest	331	309	73	279	279	279
Accounts payable	1,910	146	479	127	625	478
Accrued payroll and expenses	11,541	10,411	10,080	12,834	18,000	14,000
Accrued workers' compensation	592	531	405	-	-	-
Contingent consideration	4,299	2,364	-	1,184	1,000	1,000
Lease liability	-	-	1,278	1,764	1,764	2,000
Other current liabilities	74	-	1,017	-	-	-
Taxes payable	-	56	-	46	46	46
Total current liabilities	21,670	18,059	13,707	18,485	23,014	18,103
Line of credit	20,620	10,079	19,994	9,950	9,950	9,950
Long-term debt	20,579	5,768	7,125	27,425	22,350	19,350
Lease liability	-	-	4,129	5,419	3,089	8,262
Other long-term liabilities and contingent consideration	2,629	662	2,174	3,954	3,954	3,954
Stockholders' equity:						
Common stock, \$0.01 par value; authorized 19,500,000 shares;	88	78	76	76	76	76
Additional paid-in capital	37,675	57,624	58,615	59,994	59,390	60,490
Retained earnings (Deficit)	1,372	7,999	8,964	1,825	3,974	3,974
Accumulated other comprehensive loss	-	-	-	(172)	(172)	(172)
Total stockholders' equity	39,135	65,702	67,655	61,723	63,268	64,368
Total liabilities and stockholders' equity	\$ 104,633	\$ 100,269	\$ 114,784	\$ 126,956	\$ 125,625	\$ 123,987
SHARES OUT	8,760	10,160	10,245	10,307	10,310	10,320

Source: Company reports and Taglich Brothers estimates

BG Staffing, Inc.
Annual Income Statement
FY2017 – FY2021E
(in thousands)

	2017 A	2018 A	2019 A	2020 E	2021 E
Revenues	\$ 272,600	\$ 286,863	\$ 294,314	\$ 274,174	\$ 302,125
Cost of services	<u>204,198</u>	<u>210,268</u>	<u>213,632</u>	<u>199,278</u>	<u>216,710</u>
Gross Profit	<u>68,402</u>	<u>76,595</u>	<u>80,681</u>	<u>74,896</u>	<u>85,415</u>
Operating Expenses:					
SG&A	44,349	47,291	56,200	60,510	64,410
Impairment losses	-	-	-	7,240	-
Depreciation and amortization	6,292	5,044	4,820	5,749	5,525
Total Operating Expenses	<u>50,641</u>	<u>52,336</u>	<u>61,020</u>	<u>73,498</u>	<u>69,935</u>
Operating Income (loss)	17,761	24,260	19,661	1,398	15,480
Other income (expense)					
Extinguishment of debt	-	-	(541)	-	-
Interest expense	<u>(3,253)</u>	<u>(2,850)</u>	<u>(1,569)</u>	<u>(1,731)</u>	<u>(1,630)</u>
Total Other Income (expense)	<u>(3,253)</u>	<u>(2,850)</u>	<u>(2,110)</u>	<u>(1,731)</u>	<u>(1,630)</u>
Income (loss) before taxes	14,508	21,409	17,552	(333)	13,850
Income Tax Expense (Benefit)	<u>8,659</u>	<u>3,860</u>	<u>4,305</u>	<u>17</u>	<u>3,465</u>
Net Income (loss)	<u>5,848</u>	<u>17,550</u>	<u>13,247</u>	<u>(350)</u>	<u>10,385</u>
Earnings (loss) per share	<u>\$ 0.65</u>	<u>\$ 1.78</u>	<u>\$ 1.28</u>	<u>\$ (0.03)</u>	<u>\$ 1.00</u>
Dividend per share	\$ 1.00	\$ 1.15	\$ 1.20	\$ 0.45	\$ 0.20
Avg Shares Outstanding	9,038	9,833	10,351	10,369	10,413
EBITDA - Adjusted	\$ 24,500	\$ 27,891	\$ 26,210	\$ 16,193	\$ 22,005
Margin Analysis					
Gross margin	25.1%	26.7%	27.4%	27.3%	28.3%
SG&A	16.3%	16.5%	19.1%	22.1%	21.3%
Depreciation and amortization	2.3%	1.8%	1.6%	2.1%	1.8%
Operating margin	6.5%	8.5%	6.7%	0.5%	5.1%
Pre-tax margin	5.3%	7.5%	6.0%	(0.1%)	4.6%
Tax rate	59.7%	18.0%	24.5%	(5.2%)	25.0%
YEAR / YEAR GROWTH					
Total Revenues	7.4%	5.2%	2.6%	(6.8%)	10.2%

Source: Company reports and Taglich Brothers estimates

BG Staffing, Inc.
Income Statement Model
Quarters FY2019A – 2021E
(in thousands)

	Q1 19 A	Q2 19 A	Q3 19 A	Q4 19 A	2019 A	Q1 20A	Q2 20 A	Q3 20 E	Q4 20 E	2020 E	Q1 21E	Q2 21 E	Q3 21 E	Q4 21 E	2021 E
Revenues	\$ 68,776	\$ 73,858	\$ 79,364	\$ 72,315	\$ 294,314	\$ 74,067	\$ 62,606	\$ 65,500	\$ 72,000	\$ 274,174	\$ 73,000	\$ 76,975	\$ 78,000	\$ 74,150	\$ 302,125
Cost of services	50,337	52,995	57,188	53,112	213,632	53,792	45,701	47,480	52,305	199,278	52,825	54,930	55,430	53,525	216,710
Gross Profit	18,439	20,863	22,177	19,203	80,681	20,276	16,905	18,020	19,695	74,896	20,175	22,045	22,570	20,625	85,415
Operating Expenses:															
SG&A	13,620	14,238	14,503	13,839	56,200	16,204	14,306	14,500	15,500	60,510	15,900	16,325	16,500	15,685	64,410
Impairment losses	-	-	-	-	-	-	7,240	-	-	7,240	-	-	-	-	-
Depreciation and amortization	1,232	1,204	1,197	1,188	4,820	1,415	1,444	1,445	1,445	5,749	1,400	1,385	1,375	1,365	5,525
Total Operating Expenses	14,852	15,442	15,700	15,026	61,020	17,618	22,990	15,945	16,945	73,498	17,300	17,710	17,875	17,050	69,935
Operating Income (loss)	3,587	5,421	6,477	4,177	19,661	2,657	(6,085)	2,075	2,750	1,398	2,875	4,335	4,695	3,575	15,480
Other income (expense)															
Extinguishment of debt	-	-	(541)	-	(541)	-	-	-	-	-	-	-	-	-	-
Interest expense	(353)	(496)	(395)	(324)	(1,569)	(456)	(430)	(425)	(420)	(1,731)	(415)	(410)	(405)	(400)	(1,630)
Total Other Income (expense)	(353)	(496)	(936)	(324)	(2,110)	(456)	(430)	(425)	(420)	(1,731)	(415)	(410)	(405)	(400)	(1,630)
Income (loss) before taxes	3,233	4,925	5,541	3,853	17,552	2,201	(6,514)	1,650	2,330	(333)	2,460	3,925	4,290	3,175	13,850
Income Tax Expense (Benefit)	737	1,123	1,334	1,111	4,305	703	(1,685)	415	585	17	615	980	1,075	795	3,465
Net Income (loss)	2,496	3,802	4,207	2,742	13,247	1,499	(4,829)	1,235	1,745	(350)	1,845	2,945	3,215	2,380	10,385
Earnings (loss) per share	\$ 0.24	\$ 0.37	\$ 0.41	\$ 0.26	\$ 1.28	\$ 0.14	\$ (0.47)	\$ 0.12	\$ 0.17	\$ (0.03)	\$ 0.18	\$ 0.28	\$ 0.31	\$ 0.23	\$ 1.00
Dividend per share	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.30	\$ 1.20	\$ 0.30	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.45	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.20
Avg Shares Outstanding	10,404	10,362	10,344	10,349	10,351	10,383	10,307	10,390	10,395	10,369	10,400	10,410	10,415	10,425	10,413
EBITDA - Adjusted	\$ 5,159	\$ 6,848	\$ 8,296	\$ 5,907	\$ 26,210	\$ 4,806	\$ 3,272	\$ 3,720	\$ 4,395	\$ 16,193	\$ 4,525	\$ 5,970	\$ 6,320	\$ 5,190	\$ 22,005
Margin Analysis															
Gross margin	26.8%	28.2%	27.9%	26.6%	27.4%	27.4%	27.0%	27.5%	27.4%	27.3%	27.6%	28.6%	28.9%	27.8%	28.3%
SG&A	19.8%	19.3%	18.3%	19.1%	19.1%	21.9%	22.9%	22.1%	21.5%	22.1%	21.8%	21.2%	21.2%	21.2%	21.3%
Depreciation and amortization	1.8%	1.6%	1.5%	1.6%	1.6%	1.9%	2.3%	2.2%	2.0%	2.1%	1.9%	1.8%	1.8%	1.8%	1.8%
Operating margin	5.2%	7.3%	8.2%	5.8%	6.7%	3.6%	(9.7%)	3.2%	3.8%	0.5%	3.9%	5.6%	6.0%	4.8%	5.1%
Pre-tax margin	4.7%	6.7%	7.0%	5.3%	6.0%	3.0%	(10.4%)	2.5%	3.2%	(0.1%)	3.4%	5.1%	5.5%	4.3%	4.6%
Tax rate	22.8%	22.8%	24.1%	28.8%	24.5%	31.9%	25.9%	25.2%	25.1%	(5.2%)	25.0%	25.0%	25.1%	25.0%	25.0%
YEAR / YEAR GROWTH															
Total Revenues	2.9%	4.1%	3.0%	0.4%	2.6%	7.7%	(15.2%)	(17.5%)	(0.4%)	(6.8%)	(1.4%)	23.0%	19.1%	3.0%	10.2%

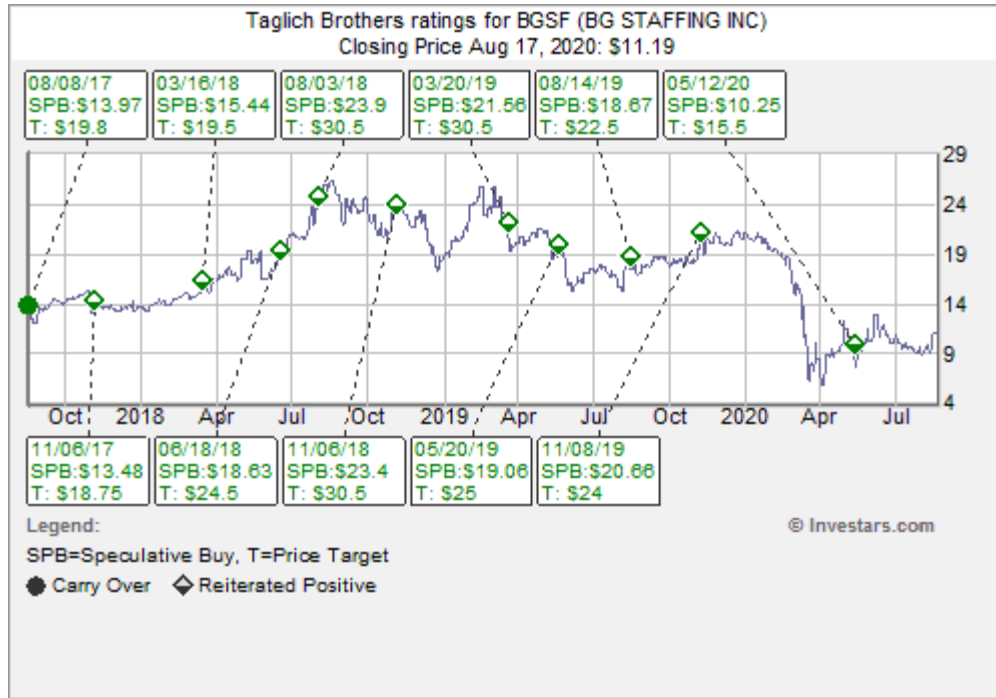
Source: Company reports and Taglich Brothers estimates

BG Staffing, Inc.
Cash Flow Statement
FY2017 – FY2021E
(in thousands)

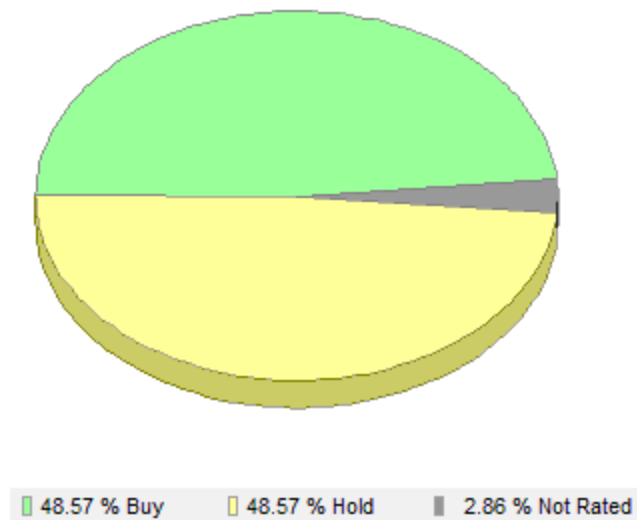
	<u>FY2017A</u>	<u>FY2018A</u>	<u>FY2019A</u>	<u>6 Mos.20A</u>	<u>FY2020E</u>	<u>FY2021E</u>
<i>Cash Flows from Operating Activities</i>						
Net Income (loss)	\$ 5,848	\$ 17,550	\$ 13,247	\$ (3,330)	\$ (350)	\$ 10,385
Depreciation and amortization	6,292	5,044	4,820	2,859	5,749	5,525
Impairment losses	-	-	-	7,240	7,240	-
Disposal of property and equipment	17	18	31	-	-	-
Extinguishment of related party debt and debt	-	-	541	-	-	-
Contingent consideration adjustment	(226)	(3,775)	-	-	-	-
Amortization of deferred financing costs	251	454	173	37	37	-
Amortization of debt discounts	-	-	-	-	-	-
Interest expense on earnout payable	1,208	624	124	97	190	-
Provision for doubtful accounts	761	41	128	100	100	-
Stock based compensation	447	1,069	953	386	775	1,100
Deferred income taxes	3,110	1,532	799	(1,353)	(1,353)	-
Cash earnings (burn)	<u>17,709</u>	<u>22,556</u>	<u>20,816</u>	<u>6,035</u>	<u>12,387</u>	<u>17,010</u>
<i>Changes In:</i>						
Accounts receivable	1,434	(939)	(1,758)	8,293	2,867	(4,566)
Prepaid expenses	102	(36)	(727)	(568)	(421)	(168)
Other current assets	27	121	3	(7)	(496)	(29)
Security deposits	(245)	(302)	(475)	(190)	(326)	-
Accrued interest	230	(22)	(236)	206	(206)	-
Accounts payable	(556)	(1,763)	676	(372)	146	(147)
Accrued payroll and expenses	285	(1,129)	(82)	15	7,920	(4,000)
Accrued workers' compensation	(162)	(61)	(126)	-	(405)	-
Other current and long-term liabilities - includes Contingent Consideration	(377)	(243)	17	1,678	(17)	-
Operating leases	-	-	(28)	(50)	-	-
Accrued taxes	(384)	247	(125)	60	46	-
Net (increase)/decrease in Working Capital	<u>354</u>	<u>(4,129)</u>	<u>(2,862)</u>	<u>9,067</u>	<u>9,108</u>	<u>(8,910)</u>
Net cash Provided (used) by Operations	<u>18,064</u>	<u>18,426</u>	<u>17,954</u>	<u>15,102</u>	<u>21,495</u>	<u>8,100</u>
<i>Cash Flows from Investing Activities</i>						
Business acquired, net of cash received	(24,500)	-	(7,500)	(21,680)	(21,680)	-
Capital expenditures	(1,146)	(924)	(2,230)	(1,897)	(2,000)	(2,000)
Proceeds from sale of property and equipment	2	-	0	-	-	-
Cash flow provided (used in) Investing Activities	<u>(25,643)</u>	<u>(924)</u>	<u>(9,729)</u>	<u>(23,577)</u>	<u>(23,680)</u>	<u>(2,000)</u>
<i>Cash Flows from Financing Activities</i>						
Borrowings (net) under line of credit	(2,515)	(10,718)	9,695	(10,081)	(10,081)	(1,000)
Proceeds from issuance of long-term debt	25,000	-	7,500	22,500	22,500	-
Principal payments on long-term debt	(1,113)	(13,767)	(10,121)	(325)	(5,400)	(3,000)
Issuance of common stock	86	22,205	38	-	-	-
Contingent consideration paid	(4,024)	(963)	(2,672)	-	(184)	-
Dividends	(8,736)	(10,922)	(12,282)	(3,608)	(4,640)	(2,100)
Retirement of vested stock options	-	(3,335)	-	-	-	-
Deferred financing and share issuance costs	(1,119)	(4)	(382)	(10)	(10)	-
Net cash provided (used) by Financing	<u>7,580</u>	<u>(17,502)</u>	<u>(8,225)</u>	<u>8,476</u>	<u>2,185</u>	<u>(6,100)</u>
Net change in Cash	-	-	-	-	-	-
Cash Beginning of Period	-	-	-	-	-	-
Cash End of Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	11
Hold		
Sell		
Not Rated		

Important Disclosures

As of August 17, 2020, Taglich Brothers, Inc. and/or its affiliates, own more than 1% of BGSF common stock. Michael Taglich, President of Taglich Brothers, Inc. owns or has a controlling interest in 356,890 shares of BGSF common stock and 620 restricted warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 374,045 shares of BGSF common stock and 620 restricted warrants. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 21,200 shares of common stock, as well as 41,771 restricted common stock, 1,613 restricted warrants, and 26,248 derivative securities. Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. owns or has a controlling interest in 3,000 shares of common stock, as well as 2,822 restricted warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 5,727 shares of BGSF common stock. Other employees at Taglich Brothers, Inc. own or have a controlling interest in 620 restricted warrants. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In 2010, 2011, and 2012, Taglich Brothers Inc. served as the placement agent for \$2.3 million in notes, 8.5 million class A units, and 6 million class A units, respectively. In December 2014, Taglich Brothers Inc. was the sole placement agent for 956,050 shares of BGSF common stock. In October 2015, Taglich Brothers Inc. participated as a co-placement agent for a 584,579 common stock block trade by two selling shareholders. In June 2016, Taglich Brothers acted as a co-book-running manager 1.1 million common stock offering. In May 2018, Taglich Brothers, Inc. acted as joint book-running managers for a 1.3 million common stock offering. In May 2018, affiliates of Taglich Brothers, Inc. beneficially own more than 10% of BGSF's outstanding common shares and certain associates of Taglich Brothers, Inc. and its affiliates are members of BGSF's board of Directors. Taglich Private Equity, LLC had an advisory agreement with the predecessor company to BG Staffing, Inc. In 2007 to 2013, Taglich Private Equity received an annual advisory fee of \$175,000.

All research issued by Taglich Brothers, Inc. is based on public information. BG Staffing, Inc. does not pay Taglich Brothers, Inc. for the creation and dissemination of research reports.

General Disclosures

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

Analyst Certification

I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Public Companies mentioned in this report:

Ciber, Inc.	(NYSE: CBR)	CDI Corp.	(NYSE: CDI)
Computer Task Group Inc.	(NYSE: CTG)	Kelly Services, Inc.	(NASDAQ: KELYA)
Kforce Inc.	(NASDAQ: KFRC)	Resources Connection Inc.	(NASDAQ: RECN)
GeeGroup Inc.	(NYSE MKT: JOB)		

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long-term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Discontinued – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company-specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.