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Research Report – Update

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

BGSF, Inc.

Rating: Speculative Buy

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BGSF $13.12 — (NYSE MKT)

May 10, 2021

	2018 A	2019 A	2020 A	***2021 E***	***2022 E***
Revenues (in millions)	$286.9	$294.3	$277.9	***$305.6***	***$328.5***
Earnings per share	$1.46*	$1.28	$0.66**	***$0.90***	***$1.30***

52-Week range	$16.91 – $7.26	Fiscal year ends:	December
Shares outstanding a/o 05/05/21	10.3 million	Revenue/shares (ttm)	$26.26
Approximate float	10.0 million	Price/Sales (ttm)	0.5X
Market Capitalization	$135.1 million	Price/Sales (2022) E	0.4X
Tangible Book value/shr	($0.51)	Price/Earnings (ttm)**	22.6X
Price/Book	NMF	Price/Earnings (2022) E	10.1X
Annual dividend per share	$0.40	Dividend Yield	3.0%

** Excludes a $0.32 gain - revaluation of contingent consideration ** Excludes approximately $0.52 per share impairment charge*

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

Key Investment Considerations:

Maintaining Speculative Buy rating but reducing our 12-month price target to $20.50 per share from $22.00 due to a lower sector valuation.

BGSF has positioned its light industrial, professional, and real estate segments to grow operations through 2022 as COVID-19 pandemic conditions ease. The US staffing industry market is projected to reach $135 billion in 2021, up from an estimated $121.5 billion in 2020.

In 2H20, BGSF restructured its real estate segment operations by integrating its multifamily and talent leadership teams. This combination should open new market and business opportunities to equip the segments' professionals with better processes, training, tracking, and improved audit policies, which should drive year-over-year sales growth in 2021 and 2022.

Supporting our growth forecast in the company's highest gross margin real estate segment is the reopening of economic activity in the US and 48 real estate locations in operation at the start of 2Q21 with at least 54 locations anticipated to be in operation at the start of 2022.

BGSF reported 1Q21 EPS (on 5-6-21) of $0.07 on an 8.6% decrease in sales to $67.7 million. In 1Q20, EPS was $0.14 on sales of $74.1 million. We projected EPS of $0.08 on sales of $68 million.

We project 2021 EPS of $0.90 (prior was $0.92) on a 10% increase in sales to $305.6 million (prior was $306 million). Our revised forecast reflects 1Q21 results.

In 2022, we are maintain our EPS projection of $1.30 on sales growth of 7.5% to $328.5 million (unchanged). Our EPS forecast reflects gross margin improvement to 28.3% from an estimated 28% in 2021 and operating margin expense of 22.3% compared to 23.4% in 2021.

Please view our Disclosures on pages 13 – 15.

Appreciation Potential

Maintaining Speculative Buy rating but reducing our 12-month price target to $20.50 per share from $22.00 due to a lower sector valuation. Our rating should be supported by a resumption of gross profit growth in 2021 and 2022 stemming from a return to more normal operations as COVID-19 pandemic conditions ease and US staffing industry growth that should reach $135 billion in 2021, up from an estimated $121.5 billion in 2020.

We forecast gross profit growth of 8.5% in 2022 compared to 12.2% in 2021. In 2020, gross profit decreased 5.5%. The resumption of gross profit growth should be driven by revenue gains in the real estate segment (BGSF's highest margin segment) reflecting 48 locations in operation at the start of 2Q21 with at least 54 locations in operations at the start of 2022.

The comparative peers in the Staffing & Employment Services industry (source: finviz – on 5/7/21) have a forward P/E multiple of 17.6X (prior was 18.8X) with a 30.5% EPS growth rate. Based on our 2022 forecast, BGSF's P/E multiple is 10.1X with EPS growth of 44.4% to $1.30 per share.

We anticipate investors are likely to accord BGSF the peer group multiple as its EPS growth of 44.4% is higher than the peer groups' EPS growth of 30.5%. We applied a 17.6X multiple (prior was 18.8X) to our 2022 EPS forecast of $1.30, discounted for execution risk, to obtain a year ahead price target of $20.50 per share, implying a total (including a 3% dividend yield) year-ahead return of approximately 55%.

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

Overview

BGSF, 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, EdgeRock, and Momentum Solutionz. BGSF, Inc. operates within three industry segments: Light Industrial, Professional, and Real Estate (a specialty segment). The company operates in 46 states and the District of Columbia.

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.

Recent Developments

In 1Q21, the company acquired Momentum Solutionz for $3.8 million cash and contingent consideration of up to $2.2 million based on future performance for two years following the date of acquisition. The company used its credit agreement to fund the acquisition. In 2020, Momentum generated revenue of approximately $3 million.

The acquisition of Momentum Solutionz should enable BGSF to strengthen its information technology (IT) consultants and technology professionals section of the professional services segment. Momentum provides IT consulting and managed workforce solutions for organizations utilizing ERP systems. The IT consulting workforce solutions include strategic planning, software selection, road mapping, cloud migration, and implementation of ERP systems. Momentum provides workforce solutions to clients throughout the US in industries such as hospitals, retail, universities, and mid-size businesses.

COVID-19 Pandemic Response

In 2H20, the company's light industrial segment experienced improved operating performance due primarily to warehouse labor shortages stemming from a significant shift to online shopping during the COVID-19 pandemic environment. While the professional services segment has streamlined its operations, it has also experienced increased customer activity due primarily to higher demand from client partners moving their operations to cloud computing particularly as employees are working from home due to the COVID-19 pandemic environment.

In 3Q20, BGSF restructured its real estate segment operations by integrating its multifamily and talent leadership teams. This combination should open new market and business opportunities to equip the segments' professionals with better processes, training, tracking, and improved audit policies, which should drive a resumption of sales growth for the real estate segment in 2021.

Although the company took action to reduce operating costs in 2020 compared to pre-COVID-19 levels, operating expenses increased 4.4% compared to 2H19 as the company's operations expanded due to the acquisitions of LKJ and EdgeRock.

On November 5, 2020, BGSF announced that its board of directors declared a quarterly cash dividend of $0.10 per share. This increase comes after reducing the prior quarterly dividend of $0.05 per share from $0.30 per share. The relatively quick increase in the quarterly dividend is an indication that the company's cost structure and revenue prospects have improved since 2Q20. In May 2021, the company announced it is maintaining its $0.10 quarterly cash dividend. This is the company's 26th consecutive declared dividend.

Growth Strategy

Technology Roadmap

The primary goal of the company 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.

By the end of 2020, the company completed 14 technology projects out of the 21 identified in 2019. Over the next two years, the company aims to make significant progress on completing the remaining seven projects, including those to improve payroll and human resource systems, as well as implementing a new client contract management system that is aimed at increasing the speed and compliance to which new business contracts are executed. Other projects include enhancing the applicant tracking system, transitioning its data center to the cloud, and increasing cybersecurity.

Going Virtual

The stay at home orders stemming from the COVID-19 pandemic resulted in the company launching its first ever companywide cross sales training and virtual meeting.

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.

Entering 2021, the company's technology platforms should be able accommodate a new environment where companies allow their employees to work from a remote location or a combination of working in person and remotely (the new hybrid work model).

Cross selling

The company aims to increase cross selling opportunities within and between its three operating segments. The company anticipates its can generate 8% of total revenues from cross selling, which should comprise 10% of gross profit in 2021. Helping to drive these initial cross selling results was the 1Q21 acquisition of Momentum Solutionz.

Momentum's expertise fits into its professional segment IT solutions segment and should be able to support broad opportunities to cross sell that segments' capabilities within BGSF's current client partner base.

Projections

<u>Basis of Forecast</u>
Our forecast reflects the streamlining and positioning of the company's operations during the worst of the COVID-19 pandemic environment. As COVID-19 conditions ease we anticipate sustained growth in the company's operations through our forecast period. We also anticipate that a significant portion of the approximately 1,200 open orders should be filled as the company works to educate its customers on how to attract workers in order to fill those job opening that are within the company's light industrial and real estate segments.

<u>Economy</u>
In April 2021, the International Monetary Fund (IMF) revised its economic growth estimate for the US to an increase of 6.4% for 2021 and 3.5% for 2022. In January 2021, the IMF projected US economic growth of 5.1% for 2021 and 2.5% for 2022. The IMF increased their forecast due primarily to the US stimulus package enacted in early 2021 and the progress being made to vaccinate the population.

The advanced estimate of US GDP growth (released on April 29, 2021) showed the US economy increased at an annual rate of 6.4% in 1Q21 compared to a 4.3% gain in 4Q20, up from the worst of COVID-19 pandemic conditions of a 31.4% decline in 2Q20. The 1Q21 increase reflects increases in personal consumption expenditures, nonresidential fixed investment, federal government spending, residential fixed investment, and state and local government spending, partly offset by decreases in private inventory investment and exports.

The unemployment rate for April 2021 (reported on May 7, 2021) was 6.1% compared to the peak unemployment rate of 14.7% in April 2020. In April 2021, unemployed people in the US were approximately 9.8 million, while the number of employed were 151.2 million (compared to 133.2 million in April 2020). In April 2021, the labor force participation rate remained relatively flat at to 61.7% compared to March 2021, but is still below 63.3% in February 2020.

In March 2021, the Federal Reserve Board issued a forecast that calls for a US unemployment rate of 4.5% and 3.9%, respectively in 2021 and 2022, which is an improvement from their December 2020 forecast of 5% and 4.2%, respectively in 2021 and 2022.

<u>Operations</u>
In 2021, we project revenue growth of 10% to nearly $305.6 million (prior was $306 million). 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 12.2% increase in gross profit to nearly $85.6 million driven by sales growth and gross margin expanding to 28% from 27.4% due primarily to a shift in the sales mix to the company's two higher margin segments (real estate and professional services) as COVID-19 pandemic conditions ease. We anticipate operating income increasing to $14 million from $10.8 million (excluding $7.2 million impairment charge) due primarily to revenue growth and operating margin expense improving to 23.4% from 23.6% in 2020.

We forecast operating expense to increase 9.3% to $71.5 million compared to $65.4 million (excluding impairment charge) in 2020. We project a 12.5% increase in SG&A to $68.1 million to support sales growth. D&A expense should decrease to $3.4 million from $5 million. We project operating margin of 4.6% vs. 1.3% due primarily to revenue growth and gross margin expansion.

We project a $67,000 decrease in interest expense to $1.5 million due to a lower average debt balance. Our net income forecast is $9.4 million or $0.90 per share, after income tax expense of $3.1 million for an income tax rate of

24.9%. We previously forecasted net income of $9.5 million or $0.92 per share, after income tax expense of $3.3 million for an income tax rate of 25.5%.

In 2022, we project revenue growth of 7.5% to $328.5 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 pent up customer demand is fulfilled and the company executes on customer cross selling opportunities which should comprise over 10% of total sales from an estimated 8% in 2021.

We project an 8.5% increase in gross profit to $92.8 million driven by gross margin improvement to 28.3% from an estimated 28% in 2021. The gross margin improvement reflects revenue growth from the real estate segment, which should deliver a gross margin of 36.6% and comprise 32.3% of total sales, up from an estimated 29.5% of total sales in 2021. We anticipate operating income increasing 40.5% to $19.7 million from an estimated $14 million due to revenue growth, gross margin expansion, and operating margin expense improving to 22.3% from an estimated 23.4% in 2021.

We forecast operating expense to increase 2.2% to $73.2 million compared to an estimated $71.5 million in 2021. We project a 2.6% increase in SG&A to $69.9 million to support sales growth. D&A expense should decrease $160,000 to nearly $3.3 million. We project operating margin of 6% vs. 4.6% due to higher revenue, increased gross margin, and improvement in operating margin expense.

We project interest expense to be flat at $1.5 million reflecting lower average debt balances offset by a higher average interest rate. We project net income of $13.5 million or $1.30 per share, after income tax expense of nearly $4.7 million for an income tax rate of 25.6%. We previously projected net income of $13.4 million or $1.30 per share, after income tax expense of $4.5 million for an income tax rate of 25.2%.

Finances

For 2021, we project cash earnings of nearly $14 million and an increase in working capital of nearly $4 million due primarily to an increase in receivables and prepaid expenses. Cash from operations of $10 million and borrowings should cover capital expenditures, an acquisition in 1Q21, repayment of debt, and payment of common stock dividends. At the end of 2021, the company's cash balance should remain at zero.

For 2022, we project cash earnings of $17.9 million and an increase in working capital of $7.2 million due primarily to a decrease in accrued taxes and increases in receivables and prepaid expenses. Cash from operations of $10.7 million should cover capital expenditures, repayment of debt, and payment of common stock dividends. At the end of 2022, the company's cash balance should remain at zero.

1Q21 Results

1Q21 Results

Revenues decreased 8.6% to $67.7 million from $74.1 million in 1Q20 due to a 14.3% decrease in professional staffing revenue to $31.1 million and a 7.1% decrease in real estate segment sales to $18.6 million, partly offset by a 1.5% increase in light industrial segment sales to nearly $18 million.

The 14.3% or $5.2 million decrease in professional staffing segment sales was due primarily to the continued impact of COVID-19 pandemic conditions that caused a 19.7% decrease in billed hours and a $200,000 reduction in permanent placement revenue. Partly offsetting the decrease in professional staffing sales was a net contribution of $3.7 million from the 2020 EdgeRock acquisition that occurred midway in 1Q20, as well as a $200,000 contribution from the 1Q21 acquisition of Momentum. The company also had an increase of 9.2% in the average bill rate.

The 7.1% or $1.4 million increase in real estate segment sales was due to the impact of COVID-19 pandemic conditions that resulted in a 14.3% decrease in billed hours, partly offset by an 8.9% increase in average bill rate.

The 1.5% or $267,000 increase in light industrial revenue reflects increased demand in the logistics market that contributed to an 8.5% increase in the average bill rate, partly offset by a a 6.6% decrease in billed hours and

Gross profit decreased 7.2% to $18.8 million from nearly $20.3 million due to lower sales, partly offset by gross margin expansion to 27.8% from 27.4% in 1Q20. Gross profit decrease was due to two out of the company's three segments (see table on the right). Gross margin expansion reflects the professional and light industrial segments gross margin reaching 30% and 14.5%, respectively, compared to 27.8% and 14.3% in the year-ago period. Gross margin in the company's real estate segment decreased to 36.9% from 38.1% in 1Q20.

Gross Profit per segment in Millions	1Q21	2Q20	**% D**
Light Industrial	2.6	2.5	**2.4%**
Real Estate	6.9	7.6	**(10.0%)**
Professional Staffing	9.3	10.1	**(7.5%)**
Gross Profit	**$ 18.8**	**$ 20.3**	

Operating expenses were flat at $17.6 million. SG&A increased 3.2% or nearly $520,000 to $16.7 million due primarily to the 2020 EdgeRock and 2021 Momentum acquisitions that combined added approximately $900,000 in additional operating costs, partly offset by a $400,000 reduction in transaction fees. D&A expense decreased $555,000 to $860,000 reflecting the professional segment fully amortizing intangible assets related to the Vision Technology Services acquisition that occurred in 2015.

Operating income decreased 53.6% to $1.2 million due to lower sales. Operating expense margin was 21.6%, up from 19.9% in 2017.

Interest expense of $377,000 million was down from $456,000 due to a lower average debt balance, partly offset by a slight increase in the interest rate. Net income was $712,000 or $0.07 per share after $143,000 of income tax expense (or 16.8% rate), compared to net income of $1.5 million or $0.14 per share based after $703,000 of income tax expense (or 31.9% rate). We projected net income of $790,000 or $0.08 per share, on sales of $68 million.

Finances

In 1Q21, the company had cash earnings of $1.9 million and a $38,000 decrease in working capital. Cash from operations of $1.9 million and borrowings covered capital investments including acquisitions, repayment of debt, and common stock dividends. Cash at the end of 1Q21 was zero.

Capital Structure

At the end of 1Q21, the company had total outstanding debt of $38.1 million. The company's outstanding long-term line of credit was $9.6 million (net of $249,000 of deferred finance fees) and term debt was $28.6 million (all but $3 million was long-term). The blended interest rate on the credit line and term debt was 2.6% compared to 2.4% 1Q20. The company's debt to equity ratio is 0.6 versus 1 for the industry, indicating that BGSF's leverage is less than other staffing and outsourcing service companies. In 1Q21, 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 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. In 1Q21, 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. In 1Q21, the interest rate swap instrument was effective.

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 April 2021, Staffing Industry Analysts (SIA) issued a revised growth forecast for the US staffing industry indicating that industry revenue could approximate $135 billion in 2021 or an 11% increase from an estimated $121.5 billion in 2020. The forecast includes projected information technology staffing sales to grow 9% in 2021 and 6% in 2022. This segment decreased 5% in 2020.

Industrial staffing sales is forecast to increase 16% after declining 12% in 2020 due primarily to an economic recovery in the manufacturing and hospitality sectors. The report indicated there could be a shortage in industrial staffing caused by skills mismatches and the presence of additional federal unemployment benefits that incentivize candidates to not work.

Competition

The staffing services market is competitive with limited barriers to entry. Smaller companies such as BGSF 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

<u>COVID-19 Pandemic</u>
The COVID-19 global pandemic presents concerns that could dramatically affect the company's ability to conduct normal business operations effectively.

<u>Economy</u>
Slowing US economic growth or an unprecedented halt to economic actively would likely reduce customer demand for workforce solutions. Revenue growth for BGSF, Inc. is 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).

<u>Revenue concentration</u>
In 1Q21, two states (Texas – 28% and Tennessee – 12%) accounted for 40% of the company's revenues, unchanged from 1Q20. If economic conditions deteriorate in any of these regions, the company's operations could be restrained.

<u>Integration</u>
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 is maintaining interest rates at virtually zero since 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 customers' 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 one large shareholders collectively own 9.2% of the outstanding voting stock (as of the SEC filing in September 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 May 7, 2021, average daily volume was 47,700 compared to average daily volume of 82,800 in 2020. The company has a float of 10 million shares and shares outstanding of approximately 10.3 million.

BGSF, Inc.
Consolidated Balance Sheets
FY2018 – FY2022E
(in thousands)

	2018 A	2019 A	2020 A	1Q21A	**2021 E**	**2022 E**
ASSETS						
Current assets:						
Cash and cash equivalents	$ -	$ -	$ -	$ -	**$ -**	**$ -**
Accounts receivable, net	37,607	39,424	41,494	42,888	**45,842**	**47,827**
Prepaid expense and other current assets	1,007	1,244	2,155	2,680	**4,584**	**5,256**
Income taxes receivable	-	70	-	-	**-**	**-**
Total current assets	38,614	40,737	43,649	45,568	**50,426**	**53,083**
Property and equipment, net	2,557	3,545	3,724	4,060	**4,065**	**3,800**
Deposits an other assets	3,209	3,843	5,211	5,166	**5,500**	**6,500**
Right-of-use asset - operating lease, net	-	4,386	6,009	5,874	**5,874**	**6,009**
Deferred income taxes	4,871	4,072	5,828	5,569	**5,569**	**5,828**
Intangible assets, net	33,034	33,808	33,781	36,467	**31,531**	**29,325**
Goodwill	17,984	25,195	32,077	34,155	**34,155**	**34,155**
Total assets	$ 100,269	$ 115,586	$ 130,278	$ 136,860	**$ 137,120**	**$ 138,700**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Debt	4,243	375	2,625	3,000	**3,000**	**3,700**
Accrued interest	309	73	78	106	**106**	**106**
Accounts payable	146	479	220	261	**200**	**100**
Accrued payroll and expenses	10,411	10,485	11,448	13,193	**11,621**	**12,000**
Accrued workers' compensation	531	-	-	-	**-**	**-**
Contingent consideration	2,364	-	-	2,333	**1,000**	**1,000**
Lease liability	-	1,278	2,032	2,052	**2,052**	**1,894**
Other current liabilities	-	1,017	-	3,550	**1,500**	**-**
Taxes payable	56	-	1,861	1,885	**2,307**	**-**
Total current liabilities	18,059	13,707	18,264	26,379	**21,786**	**18,800**
Line of credit	10,079	19,994	5,709	9,563	**7,332**	**6,332**
Long-term debt	5,768	7,125	26,300	25,550	**24,800**	**21,800**
Lease liability	-	4,129	4,904	4,388	**4,388**	**4,362**
Other long-term liabilities and contingent consideration	662	2,174	9,643	5,586	**7,143**	**5,300**
Stockholders' equity:						
Common stock, $0.01 par value; authorized 19,500,000 shares;	78	76	74	74	**74**	**74**
Additional paid-in capital	57,624	59,618	60,457	60,683	**61,397**	**62,497**
Retained earnings (Deficit)	7,999	8,763	5,050	4,728	**10,292**	**19,627**
Accumulated other comprehensive loss	-	-	(123)	(91)	**(91)**	**(91)**
Total stockholders' equity	65,702	68,457	65,458	65,394	**71,671**	**82,106**
Total liabilities and stockholders' equity	$ 100,269	$ 115,586	$ 130,278	$ 136,860	**$ 137,120**	**$ 138,700**
SHARES OUT	10,160	10,245	10,328	10,336	**10,340**	**10,345**

Source: Company reports and Taglich Brothers estimates

BGSF, Inc.
Annual Income Statement
FY2018 – FY2022E
(in thousands)

	2018 A	2019 A	2020 A	**2021 E**	**2022 E**
Revenues	$ 286,863	$ 294,314	$ 277,891	**$ 305,612**	**$ 328,500**
Cost of services	210,268	213,632	201,671	**220,057**	**235,670**
Gross Profit	76,595	80,681	76,220	**85,555**	**92,830**
Operating Expenses:					
SG&A	47,291	56,200	60,559	**68,138**	**69,900**
Gain on contingent consideration	-	-	(76)	-	-
Impairment losses	-	-	7,240	-	-
Depreciation and amortization	5,044	4,820	4,960	**3,410**	**3,250**
Total Operating Expenses	52,336	61,020	72,682	**71,548**	**73,150**
Operating Income (loss)	24,260	19,661	3,538	**14,007**	**19,680**
Other income (expense)					
Extinguishment of debt	-	(541)	-	-	-
Interest expense	(2,850)	(1,569)	(1,584)	**(1,517)**	**(1,495)**
Total Other Income (expense)	(2,850)	(2,110)	(1,584)	**(1,517)**	**(1,495)**
Income (loss) before taxes	21,409	17,552	1,955	**12,490**	**18,185**
Income Tax Expense (Benefit)	3,860	4,305	513	**3,113**	**4,650**
Net Income (loss)	17,550	13,247	1,441	**9,377**	**13,535**
Earnings (loss) per share	$ 1.78	$ 1.28	$ 0.14	**$ 0.90**	**$ 1.30**
Dividend per share	$ 1.15	$ 1.20	$ 0.50	**$ 0.40**	**$ 0.40**
Avg Shares Outstanding	9,833	10,351	10,338	**10,402**	**10,423**
EBITDA - Adjusted	$ 27,891	$ 26,210	$ 18,229	**$ 18,688**	**$ 24,330**
Margin Analysis					
Gross margin	26.7%	27.4%	27.4%	**28.0%**	**28.3%**
SG&A	16.5%	19.1%	21.8%	**22.3%**	**21.3%**
Depreciation and amortization	1.8%	1.6%	1.8%	**1.1%**	**1.0%**
Operating margin	8.5%	6.7%	1.3%	**4.6%**	**6.0%**
Pre-tax margin	7.5%	6.0%	0.7%	**4.1%**	**5.5%**
Tax rate	18.0%	24.5%	26.3%	**24.9%**	**25.6%**
YEAR / YEAR GROWTH					
Total Revenues	5.2%	2.6%	(5.6%)	**10.0%**	**7.5%**

Source: Company reports and Taglich Brothers estimates

BGSF, Inc.
Income Statement Model
Quarters FY2020A – 2022E
(in thousands)

	Q1 20A	Q2 20 A	Q3 20 A	Q4 20 A	2020 A	Q1 21A	Q2 21 E	Q3 21 E	Q4 21 E	**2021 E**	Q1 22 E	Q2 22 E	Q3 22 E	Q4 22 E	**2022 E**
Revenues	$ 74,067	$ 62,606	$ 71,519	$ 69,698	$ 277,891	$ 67,712	$ 73,400	$ 81,500	$ 83,000	**$ 305,612**	$ 75,500	$ 82,000	$ 86,750	$ 84,250	**$ 328,500**
Cost of services	53,792	45,701	51,807	50,371	201,671	48,897	53,015	58,380	59,765	**220,057**	54,355	58,615	61,800	60,900	**235,670**
Gross Profit	20,276	16,905	19,712	19,327	76,220	18,815	20,385	23,120	23,235	**85,555**	21,145	23,385	24,950	23,350	**92,830**
Operating Expenses:															
SG&A	16,204	14,306	14,869	15,180	60,559	16,723	16,900	17,115	17,400	**68,138**	17,450	17,500	17,550	17,400	**69,900**
Gain on contingent consideration	-	-	(76)	-	(76)	-	-	-	-	**-**	-	-	-	-	**-**
Impairment losses	-	7,240	-	-	7,240	-	-	-	-	**-**	-	-	-	-	**-**
Depreciation and amortization	1,415	1,444	1,271	830	4,960	860	855	850	845	**3,410**	840	835	800	775	**3,250**
Total Operating Expenses	17,618	22,990	16,064	16,010	72,682	17,583	17,755	17,965	18,245	**71,548**	18,290	18,335	18,350	18,175	**73,150**
Operating Income (loss)	2,657	(6,085)	3,648	3,317	3,538	1,232	2,630	5,155	4,990	**14,007**	2,855	5,050	6,600	5,175	**19,680**
Other income (expense)															
Interest expense	(456)	(430)	(360)	(338)	(1,584)	(377)	(385)	(380)	(375)	**(1,517)**	(385)	(375)	(370)	(365)	**(1,495)**
Total Other Income (expense)	(456)	(430)	(360)	(338)	(1,584)	(377)	(385)	(380)	(375)	**(1,517)**	(385)	(375)	(370)	(365)	**(1,495)**
Income (loss) before taxes	2,201	(6,514)	3,288	2,979	1,955	855	2,245	4,775	4,615	**12,490**	2,470	4,675	6,230	4,810	**18,185**
Income Tax Expense (Benefit)	703	(1,685)	723	773	513	143	575	1,215	1,180	**3,113**	650	1,215	1,575	1,210	**4,650**
Net Income (loss)	1,499	(4,829)	2,566	2,206	1,441	712	1,670	3,560	3,435	**9,377**	1,820	3,460	4,655	3,600	**13,535**
Earnings (loss) per share	$ 0.14	$ (0.47)	$ 0.25	$ 0.21	$ 0.14	$ 0.07	$ 0.16	$ 0.34	$ 0.33	**$ 0.90**	$ 0.17	$ 0.33	$ 0.45	$ 0.35	**$ 1.30**
Dividend per share	$ 0.30	$ 0.05	$ 0.05	$ 0.10	$ 0.50	$ 0.10	$ 0.10	$ 0.10	$ 0.10	**$ 0.40**	$ 0.10	$ 0.10	$ 0.10	$ 0.10	**$ 0.40**
Avg Shares Outstanding	10,383	10,307	10,326	10,336	10,338	10,395	10,400	10,405	10,410	**10,402**	10,415	10,420	10,425	10,430	**10,423**
EBITDA - Adjusted	$ 4,806	$ 3,272	$ 5,504	$ 4,648	$ 18,229	$ 2,463	$ 3,785	$ 6,305	$ 6,135	**$ 18,688**	$ 4,045	$ 6,235	$ 7,750	$ 6,300	**$ 24,330**
Margin Analysis															
Gross margin	27.4%	27.0%	27.6%	27.7%	27.4%	27.8%	27.8%	28.4%	28.0%	**28.0%**	28.0%	28.5%	28.8%	27.7%	**28.3%**
SG&A	21.9%	22.9%	20.8%	21.8%	21.8%	24.7%	23.0%	21.0%	21.0%	**22.3%**	23.1%	21.3%	20.2%	20.7%	**21.3%**
Depreciation and amortization	1.9%	2.3%	1.8%	1.2%	1.8%	1.3%	1.2%	1.0%	1.0%	**1.1%**	1.1%	1.0%	0.9%	0.9%	**1.0%**
Operating margin	3.6%	(9.7%)	5.1%	4.8%	1.3%	1.8%	3.6%	6.3%	6.0%	**4.6%**	3.8%	6.2%	7.6%	6.1%	**6.0%**
Pre-tax margin	3.0%	(10.4%)	4.6%	4.3%	0.7%	1.3%	3.1%	5.9%	5.6%	**4.1%**	3.3%	5.7%	7.2%	5.7%	**5.5%**
Tax rate	31.9%	25.9%	22.0%	25.9%	26.3%	16.8%	25.6%	25.4%	25.6%	**24.9%**	26.3%	26.0%	25.3%	25.2%	**25.6%**
YEAR / YEAR GROWTH															
Total Revenues	7.7%	(15.2%)	(9.9%)	(3.6%)	(5.6%)	(8.6%)	17.2%	14.0%	19.1%	**10.0%**	11.5%	11.7%	6.4%	1.5%	**7.5%**

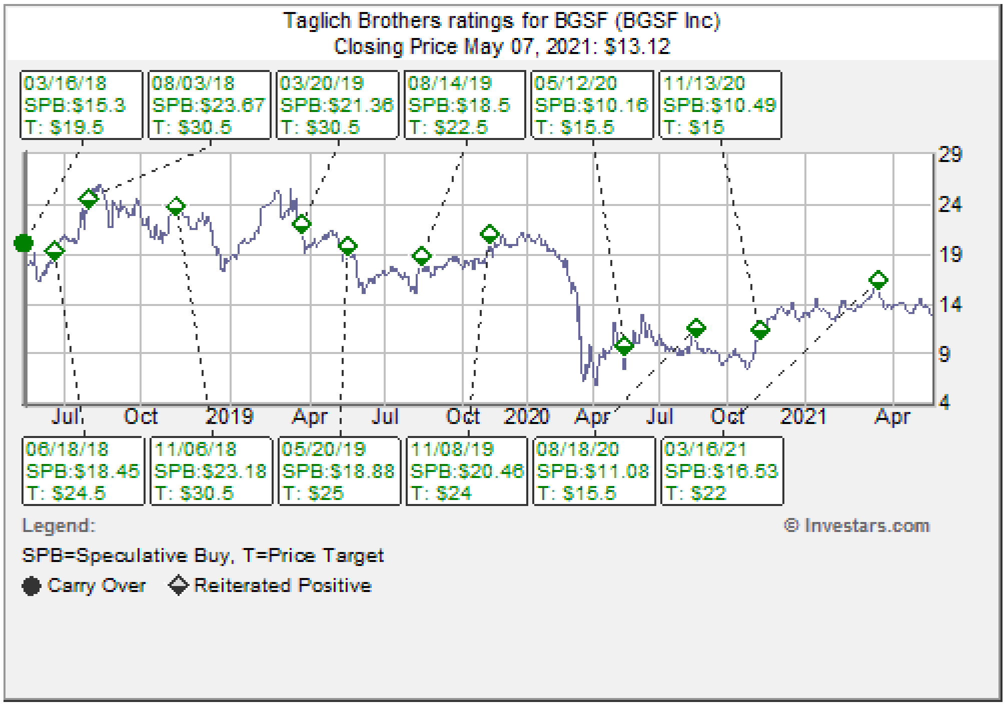
Source: Company reports and Taglich Brothers estimates

BGSF, Inc.
Cash Flow Statement
FY2018 – FY2022E
(in thousands)

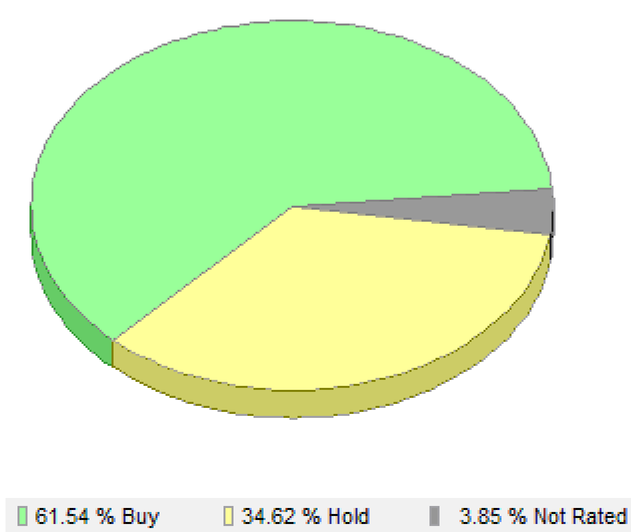
	FY2018A	FY2019A	FY2020A	1Q21A	**FY2021E**	**FY2022E**
Cash Flows from Operating Activities						
Net Income (loss)	$ 17,550	$ 13,247	$ 1,441	$ 712	**$ 9,377**	**$ 13,535**
Depreciation and amortization	5,044	4,820	4,960	860	**3,410**	**3,250**
Impairment losses	-	-	7,240	-	-	-
Disposal of property and equipment	18	31	-	-	-	-
Extinguishment of related party debt and debt	-	541	-	-	-	-
Contingent considerationt adjustment	(3,775)	-	(76)	-	-	-
Amortization of defered financing costs	454	173	83	19	**75**	-
Interest expense on earnout payable	624	124	190	58	**234**	-
Provision for doubtful accounts	41	128	349	35	**139**	-
Stock based compensation	1,069	953	849	236	**950**	**1,100**
Deferred income taxes	1,532	799	(2,413)	(47)	**(187)**	-
Cash earnings (burn)	22,556	20,816	12,623	1,873	**13,997**	**17,885**
Changes In:						
Accounts receivable	(939)	(1,758)	4,309	(1,084)	**(4,348)**	**(1,985)**
Prepaid expenses and other	(36)	(223)	(855)	(522)	**(2,429)**	**(672)**
Other current assets	121	-	-	-	-	-
Deposits and other	(302)	(634)	(1,089)	45	**(289)**	**(1,000)**
Accrued interest	(22)	(236)	5	28	**(28)**	-
Accounts payable	(1,763)	333	(279)	16	**(20)**	**(100)**
Accrued payroll and expenses	(1,129)	(208)	(1,529)	1,696	**172**	**379**
Other current and long-term liabilities - includes Contingent Consideration	(243)	17	7,216	(128)	**2,500**	**(1,500)**
Operating leases	-	(28)	(19)	(37)	-	-
Accrued taxes	247	(125)	1,875	24	**446**	**(2,307)**
Net (increase)/decrease in Working Capital	(4,129)	(2,862)	9,634	38	**(3,995)**	**(7,185)**
Net cash Provided (used) by Operations	18,426	17,954	22,257	1,911	**10,002**	**10,700**
Cash Flows from Investing Activities						
Business acquired, net of cash received	-	(7,500)	(22,002)	(3,780)	**(3,780)**	-
Captial expenditures	(924)	(2,230)	(2,145)	(548)	**(2,200)**	**(2,500)**
Proceeds from sale of property and equipment	-	0	-	-	-	-
Cash flow provided (used in) Investing Activities	(924)	(9,729)	(24,147)	(4,328)	**(5,980)**	**(2,500)**
Cash Flows from Financing Activities						
Borrowings (net) under line of credit	(10,718)	9,695	(14,368)	3,835	**1,623**	**(1,000)**
Proceeds from issuance of long-term debt	-	7,500	22,500	-	-	-
Principal payments on long-term debt	(13,767)	(10,121)	(1,075)	(375)	**(1,500)**	**(3,000)**
Issuance of common stock	22,205	38	(12)	(10)	**(10)**	-
Contingent consideration paid	(963)	(2,672)	-	-	-	-
Dividends	(10,922)	(12,282)	(5,155)	(1,034)	**(4,135)**	**(4,200)**
Retirement of vested stock options	(3,335)	-	-	-	-	-
Deferred financing and share issuance costs	(4)	(382)	-	-	-	-
Net cash provided (used) by Financing	(17,502)	(8,225)	1,890	2,417	**(4,022)**	**(8,200)**
Net change in Cash	-	-	-	-	-	-
Cash Beginning of Period	-	-	-	-	-	-
Cash End of Period	$ -	$ -	-	$ -	**$ -**	**$ -**

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	3	16
Hold		
Sell		
Not Rated		

Important Disclosures

As of May 7, 2021, 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 394,941 shares of BGSF common stock and 620 restricted warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 406,373 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 25,160 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 500 shares of common stock and 3,442 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 BGSF, 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. BGSF, Inc. does not pay Taglich Brothers, Inc. for the creation and dissemination of research reports.

General Disclosures

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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.