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Research Report – Update

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

BG Staffing, Inc.

Rating: Speculative Buy

Howard Halpern

BGSF $10.35 — (NYSE MKT)

May 12, 2020

	2017 A	2018 A	2019 A	***2020 E***	***2021 E***
Revenues (in millions)	$272.6	$286.9	$294.3	***$273.8***	***$302.1***
Earnings per share	$1.01*	$1.46**	$1.28	***$0.29***	***$1.00***

52-Week range	$22.50 – $5.69	Fiscal year ends:	December
Shares outstanding a/o 05/06/20	10.3 million	Revenue/shares (ttm)	$28.92
Approximate float	9.4 million	Price/Sales (ttm)	0.4X
Market Capitalization	$106.6 million	Price/Sales (2021) E	0.4X
Tangible Book value/shr	($0.79)	Price/Earnings (ttm)	8.8X
Price/Book	NMF	Price/Earnings (2021) E	10.4X
Annual dividend per share	$0.20	Dividend Yield	1.9%

** Excludes a $0.36 charge related to the re-measurement of BGSF's deferred tax asset* *** Excludes an after-tax gain of $0.32 related to revaluation of contingent consideration*

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 but reducing our 12-month price target to $15.50 from $24.00 per share due to our 2021 EPS forecast stemming from the COVID-19 pandemic.

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.

In April 2020, overall revenues declined 26% from pre COVID-19 pandemic levels. Severe declines occurred in the real estate and light industrial segments with declines of 54% and 26%, respectively, while the professional segment had a revenue decrease of 11%. The decline in revenue was due to workforce trends and the continuing social distancing and shelter in place orders in most US states.

In order to combat the impact of the COVID-19 pandemic conditions the company acted in March 2020 to reduce operating costs by approximately 10% compared to pre COVID-19 levels, as well as manage liquidity. BGSF borrowed $4 million on its term loan and reduced its revolving facility balance that should provide more short-term liquidity. The company also elected to delay the payment of the employer's share of Social Security under the CARES Act, and reduce the quarterly dividend to $0.05 per share from $0.30 per share.

BGSF reported 1Q20 EPS (on 5-7-20) of $0.14 on a 7.7% increase in sales to $74.1 million. In 1Q19, EPS was $0.24 on sales of $68.8 million. The current period included acquisition transaction costs of $0.05 per share.

We project 2020 EPS of $0.29 on 7% decrease in sales to $273.8 million. Our forecast reflects significant reductions in 2Q/3Q 2020 results due to the impact of the COVID-19 pandemic on US economic conditions.

We anticipate a significant rebound in 2021 as COVID-19 pandemic conditions ease. We project 2021 EPS of $1.00 on 10.4% sales growth to $302.1 million.

Please view our Disclosures on pages 13 – 15.

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Appreciation Potential

We are maintaining our Speculative Buy rating but reducing our 12-month price target to $15.50 from $24.00 per share due to our 2021 EPS forecast stemming from the COVID-19 pandemic. 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 7.8% in 2020. The resumption of gross profit growth should be driven by revenue gains in the real estate segment reflecting 56 locations in operation at the end of 1Q20 (including six from the company's commercial building segment - Talent) and an estimated 64 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 5/11/20) forward 2021 P/E multiple is 15.6X with a 24% EPS growth rate. Based on our 2021 forecasts, BGSF's 2021 P/E multiple is 10.4X with an EPS more than tripling to $1.00 per share from an estimated $0.29 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 (prior was 15.5X) 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 1.9% dividend yield) year-ahead return of approximately 50%.

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 throughout 2Q/3Q 2020) 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 83 locations providing services in 43 states and the District of Columbia at March 31, 2020.

The real estate segment provide 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. Severe declines occurred in the real estate and light industrial segments with decreases of 54% and 26%, respectively, while the professional segment had a revenue decrease of 11%. The reduction in revenue was due primarily to workforce trends and the continuing social distancing and shelter in place orders in most US states.

In order to mitigate COVID-19 pandemic conditions, BGSF began in March 2020 to reduce operating costs by approximately 10% compared to the pre COVID-19 levels, as well as manage liquidity. 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 implemented 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.

In May 2020, the company still plans to spend on projects that were active prior to the COVID-19 pandemic and are critical to BGSF's future growth prospects. The two most recent technology roadmap accomplishments include the launch in March 2020 of the company's new Website that included applying and onboarding capabilities that will facilitate remote interviewing. In May 2020, the company's real estate division launched its internally developed time keeping automation technology that is replacing paper time cards.

The company expects that before any operational efficiency, this program could adversely impact EPS by approximately $0.03/$0.04 per share per quarter in the final three quarters of 2020.

Going Virtual

The stay at home orders stemming from the COID-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.

The company's information technology projects that were launched in April/May 2020 include the complete rollout of the Microsoft Teams and Cloud Voice, which allowed the company and its team member to work from remote locations.

Projections

Basis of Forecast

Our forecast reflects the COVID-19 pandemic environment that should result in sales decreasing in 2Q/3Q 2020 with a slight rebound in 4Q20 and approximately 10.4% growth in 2021 due primarily to a normalization of economic conditions and pent up customer demand.

Economy

In April 2020, the International Monetary Fund (IMF) reduced its global economic outlook to a contraction of 3% for 2020 but a rebound to growth of 5.8% for 2021. In January 2020, the IMF forecasted GDP growth of 3.3% for 2020 and 3.4% for 2020. The revisions reflect the severe impact of the COVID-19 pandemic and the assumption that the pandemic conditions will ease and containment efforts should be unwound in order to normalize economic activity. The IMF is forecasting US GPD to decrease 5.9% in 2020 with growth rebounding to 4.7% for 2021.

The advance estimate of US GDP growth (released on April 29, 2020) showed the US economy decreased at an annual rate of 4.8% in 1Q20, down from 2.1% growth in 4Q20. The 1Q20 US GDP estimate reflects decreases in consumer spending, business investment, exports, and inventory investment, offset in part by increases in housing investment and government spending.

The unemployment rate for April 2020 (reported on May 8, 2020) was a record 14.7%. The prior record was 10.8% in November 1982. Unemployed people in the US increased 15.9 million to 23.1 million, while the number of employed declined by 22.4 million to 133.4 million. In April 2020, the labor force participation rate fell to 60.2% from 62.7% in March 2020, the lowest rate since January 1973.

The US Treasury Secretary anticipated the US unemployment rate is likely to get even worse due to COVID-19 lockdowns.

Operations
In 2020, we project a revenue decline of 7% to $273.8 million (previously $309.7 million). The 7% revenue decrease compared to 2019 reflects a 30% decline in real estate segment sales to $67.6 million. We forecast light industrial segment sales to decrease 15.2% to $63.2 million. Revenue from the professional staffing segment should grow 15.9% to nearly $142.4 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 7.8% decrease in gross profit to $74.4 million driven by lower sales and gross margin contraction to 27.2% from 27.4% in 2019. We anticipate operating income of $6.3 million compared to $19.7 million in 2019 due to a decrease in revenue, gross margin contraction, and operating margin expense increasing to 24.9% from 20.7% in 2019.

We forecast operating expense to increase 11.6% to $68.1 million. We project an 11.1% increase in SG&A to $62.5 million due primarily to technology spending in 1H20 and inclusion of expenses to operate the LKJ and EdgeRock acquisitions. D&A expense should increase 16.5% to $5.6 million due to amortization expense from the two acquisitions in December 2019 and February 2020. We project operating margin of 2.3% vs. 6.7%.

We project a $487,000 increase in interest expense to $2.1 million due to higher debt balances. Our 2020 net income forecast is $3 million or $0.29 per share, after income tax expense of $1.3 million for an income tax rate of 29.4%. We previously forecasted net income of $16 million or $1.55 per share, after income tax expense of $4.9 million for an income tax rate of 23.5%.

In 2021, we project revenue growth of 10.4% to $302.1 million. Our forecast does not include potential acquisitions in the company's professional staffing segment. Revenue growth should be driven primarily by a 35.4% increase in real estate segment sales to $91.5 million due primarily to a normalization of economic activity in the states BGSF has branch office locations and pent up demand from existing customers. Revenue from the professional staffing segment should grow 2.7% to nearly $146.8 million due primarily to organic growth from the expansion to California and LKJ and EdgeRock acquisitions. We forecast light industrial segment sales to increase 1% to $63.8 million due primary to growth from existing customers.

We project 14% increase in gross profit to $84.8 million driven by gross margin improvement to 28.1% from our 2020 forecast of 27.2%. Gross margin improvement reflects revenue growth from the real estate segment, which should deliver a gross margin of 38.9% and comprise 30.3% of total sales, up from an estimated 24.7% of total sales in 2020. We anticipate operating income growth more than doubling to $16 million from $6.3 million due primarily to revenue growth and gross margin expansion. We anticipate operating margin expense improving to 22.8% from an estimated 24.9% in 2019.

We forecast operating expense to increase 1% to $68.8 million. We project a 1.4% increase in SG&A to $63.3 million as cost reduction measures taken in 2020 should continue throughout 2021. D&A expense should decrease

$155,000 to $5.5 million. We project operating margin of 5.3% vs. 2.3% due to higher revenue and increased gross margin.

We project a $79,000 increase in interest expense to $2.1 million due to higher interest rates, offset in part by lower debt balances. Our 2021 net income forecast is $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 $10.1 million and a decrease in working capital of $3.4 million. The decrease in working capital is due primarily to an increase in accruals and contingent consideration, offset in party by increases in prepaid expenses and receivables. Borrowings and cash from operations of $13.5 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 $17.1 million and an increase in working capital of $8.6 million due primarily to an increase in receivables and decrease in accruals. Cash from operations of $8.5 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.

1Q20 Results

Revenues increased 7.7% to $74.1 million due to an 18.8% increase in the professional staffing revenue to $36.3 million, 5.4% increase in real estate segment sales to $20 million, partly offset by a 6.9% decrease in light industrial segment sales to $17.7 million.

The 18.8% or nearly $5.8 million increase in professional staffing segment sales was due to primarily to $6.9 million in sales from the acquisitions of LKJ (December 2019) and EdgeRock (February 2020), partly offset by a $1.1 million decrease existing customer revenue. The professional segment had a 23.4% increase in average bill rates and a $600,000 increase in permanent placements, partly offset by an 8.9% decrease in billed hours.

The 5.4% or $852,000 increase in real estate segment sales was due primarily to the opening of new offices, which contributed approximately $1.2 million of the increase. The overall increase in revenue from the real estate segment reflects a 4.1% increase in the average bill rate, partly offset by a 0.1% decrease in billed hours.

The 6.9% or $1.3 million decrease in light industrial revenue reflects an 11.3% decrease in billed hours, partly offset by a 4.7% increase in the average bill rate.

Gross profit increased nearly 10% to $20.3 million reflecting gross margin expansion to 27.4% from 26.8% in 1Q19. Gross profit growth was due to two out of the three company's segments (see table on the right). Gross margin expansion reflects the company's improved margins in its professional segment with sales reaching 49.1% of total sales, up from 44.5% in the year-ago period.

Gross Profit per segment in Millions	1Q20	1Q19	% D
Light Industrial	2.5	2.8	**(8.3%)**
Real Estate	7.6	7.4	**3.3%**
Professional Staffing	10.1	8.3	**22.0%**
Gross Profit	**$ 20.3**	**$ 18.4**	

Operating expenses increased 18.6% to $17.6 million due primarily to a 19% increase in SG&A. The increase in SG&A reflects approximately $1.9 million in new expenses from two acquisitions, LJK and EdgeRock, and increased headcount, new office expansion, commissions and bonuses, as well as higher information technology costs. The current period included $541,000 in transaction fees related to the LJK and EdgeRock acquisitions. D&A expense increased $183,000 to $1.4 million reflecting inclusion of amortized intangible assets related to the 2019 LJK and 2020 EdgeRock acquisitions.

Operating income decreased 25.9% to nearly $2.7 million due to operating expenses increasing faster than revenue growth. Operating expense margin was 23.8%, up from 21.6% in 1Q19.

Interest expense was $456,000 million, up from $353,000 due to higher debt balances, partly offset by lower interest rates. Net income was $1.5 million or $0.14 per share compared to net income of $2.5 million or $0.24 per share.

Finances
In 2Q19, the company had cash earnings of $3.5 million and a $3.1 million decrease in working capital. Cash from operations of $6.6 million and new borrowings covered capital investments including acquisitions, repayment of debt, and common stock dividends. Cash at March 29, 2020 was zero.

Capital Structure
At March 29, 2020, the company had total outstanding debt of nearly $46.7 million. The company's outstanding long-term line of credit was nearly $20.7 million (net of $324,185 of deferred finance fees) and term debt was $26 million (all but $1.3 million was long-term). The blended interest rate on the credit line and term debt was approximately 3.4%. At March 29, 2020, the company's debt to equity ratio is 0.7 versus 1 for the industry, indicating that BGSF's leverage is less then other staffing and outsourcing service companies.

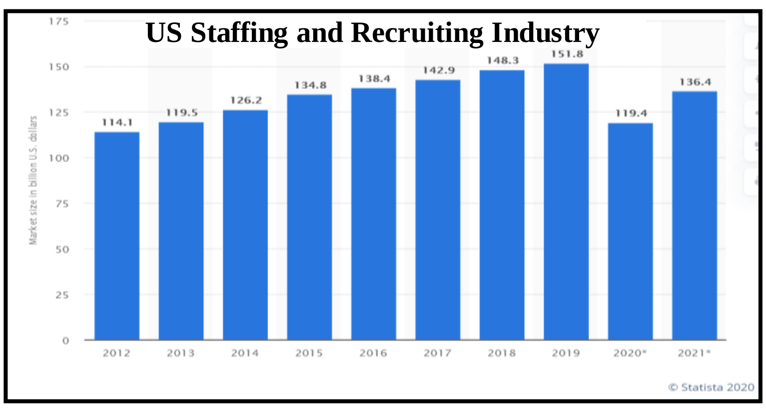
As of March 29, 2020, the company was in compliance with all of its financial covenants, including a minimum debt service ratio and a senior funded indebtedness-to-EBITDA ratio.

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 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 March 29, 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.

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 2020, data provided by Statista projected the US staffing industry to grow 14.2% to $136.4 billion in 2020 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 2Q/3Q 2020. 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

<u>COVID-19 Pandemic</u>
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 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 three quarters of 2020.

<u>Economy</u>
Slowing US economic growth or an unprecedented halt to economic actively 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).

<u>Revenue concentration</u>
In 1Q20, four states (Texas – 24%, Tennessee – 16%, Massachusetts – 10% and Maryland – 11%) accounted for 61% of the company's revenues, up from 57% in the year-ago period. 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.

<u>Interest rates</u>
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.

<u>Regulation</u>
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.

<u>Workers compensation</u>
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.

<u>Seasonality</u>
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 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 May 11, 2020, average daily volume was 98,800 compared to average daily volume of 61,400 in 2019. The company has a float of 9.4 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	1Q20A	**2020 E**	**2021 E**
ASSETS						
Current assets:						
Cash and cash equivalents	$ -	$ -	$ -	$ -	**$ -**	**$ -**
Accounts receivable, net	36,708	37,607	39,424	42,635	**42,846**	**44,480**
Prepaid expense and other current assets	948	984	1,224	2,452	**2,464**	**2,568**
Income taxes receivable	191	-	70	-	**-**	**-**
Other current assets	143	23	20	516	**516**	**516**
Total current assets	**37,990**	**38,614**	**40,737**	**45,603**	**45,826**	**47,564**
Property and equipment, net	2,040	2,557	3,545	4,822	**4,825**	**4,830**
Security deposits	2,907	3,209	3,843	3,915	**3,915**	**4,100**
Right-of-use asset - operating lease, net	-	-	4,386	5,696	**5,696**	**4,000**
Deferred income taxes	6,403	4,871	4,072	2,850	**3,250**	**4,400**
Intangible assets, net	37,323	33,034	33,808	43,876	**40,376**	**35,666**
Goodwill	17,970	17,984	25,195	31,373	**31,373**	**31,373**
Total assets	**$ 104,633**	**$ 100,269**	**$ 115,586**	**$ 138,135**	**$ 135,261**	**$ 131,933**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Debt	2,924	4,243	375	1,300	**1,300**	**1,300**
Accrued interest	331	309	73	181	**200**	**275**
Accounts payable	1,910	146	479	227	**300**	**350**
Accrued payroll and expenses	11,541	10,411	10,080	13,673	**17,990**	**11,000**
Accrued workers' compensation	592	531	405	54	**100**	**448**
Contingent consideration	4,299	2,364	-	1,160	**1,000**	**1,000**
Lease liability	-	-	1,278	1,612	**800**	**2,500**
Other current liabilities	74	-	1,017	1,000	**1,000**	**1,000**
Taxes payable	-	56	-	331	**331**	**331**
Total current liabilities	**21,670**	**18,059**	**13,707**	**19,537**	**23,021**	**18,204**
Line of credit	20,620	10,079	19,994	20,687	**21,000**	**20,200**
Long-term debt	20,579	5,768	7,125	24,700	**19,300**	**16,500**
Lease liability	-	-	4,129	5,091	**2,640**	**6,529**
Other long-term liabilities and contigent consideration	2,629	662	2,174	1,064	**2,174**	**2,174**
Stockholders' equity:						
Common stock, $0.01 par value; authorized 19,500,000 shares;	88	78	76	76	**76**	**76**
Additional paid-in capital	37,675	57,624	58,615	59,811	**59,715**	**60,915**
Retained earnings (Deficit)	1,372	7,999	8,964	7,170	**7,335**	**7,335**
Total stockholders' equity	**39,135**	**65,702**	**67,655**	**67,056**	**67,126**	**68,326**
Total liabilities and stockholders' equity	**$ 104,633**	**$ 100,269**	**$ 114,784**	**$ 138,135**	**$ 135,261**	**$ 131,933**
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	**$ 273,767**	**$ 302,125**
Cost of services	204,198	210,268	213,632	**199,377**	**217,325**
Gross Profit	68,402	76,595	80,681	**74,391**	**84,800**
Operating Expenses:					
SG&A	44,349	47,291	56,200	**62,454**	**63,300**
Depreciation and amortization	6,292	5,044	4,820	**5,615**	**5,460**
Total Operating Expenses	50,641	52,336	61,020	**68,068**	**68,760**
Operating Income (loss)	17,761	24,260	19,661	**6,322**	**16,040**
Other income (expense)					
Extinguishment of debt	-	-	(541)	**-**	**-**
Interest expense	(3,253)	(2,850)	(1,569)	**(2,056)**	**(2,135)**
Total Other Income (expense)	(3,253)	(2,850)	(2,110)	**(2,056)**	**(2,135)**
Income (loss) before taxes	14,508	21,409	17,552	**4,266**	**13,905**
Income Tax Expense (Benefit)	8,659	3,860	4,305	**1,253**	**3,475**
Net Income (loss)	5,848	17,550	13,247	**3,014**	**10,430**
Earnings (loss) per share	$ 0.65	$ 1.78	$ 1.28	**$ 0.29**	**$ 1.00**
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	**$ 13,271**	**$ 22,500**
Margin Analysis					
Gross margin	25.1%	26.7%	27.4%	**27.2%**	**28.1%**
SG&A	16.3%	16.5%	19.1%	**22.8%**	**21.0%**
Depreciation and amortization	2.3%	1.8%	1.6%	**2.1%**	**1.8%**
Operating margin	6.5%	8.5%	6.7%	**2.3%**	**5.3%**
Pre-tax margin	5.3%	7.5%	6.0%	**1.6%**	**4.6%**
Tax rate	59.7%	18.0%	24.5%	**29.4%**	**25.0%**
YEAR / YEAR GROWTH					
Total Revenues	7.4%	5.2%	2.6%	**(7.0%)**	**10.4%**

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 E	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	$ 59,000	$ 66,300	$ 74,400	**$ 273,767**	$ 74,575	$ 73,000	$ 76,500	$ 78,050	**$ 302,125**
Cost of services	50,337	52,995	57,188	53,112	213,632	53,792	43,155	48,185	54,245	**199,377**	53,815	52,280	54,605	56,625	**217,325**
Gross Profit	18,439	20,863	22,177	19,203	80,681	20,276	15,845	18,115	20,155	**74,391**	20,760	20,720	21,895	21,425	**84,800**
Operating Expenses:															
SG&A	13,620	14,238	14,503	13,839	56,200	16,204	15,000	15,500	15,750	**62,454**	15,800	15,250	16,000	16,250	**63,300**
Depreciation and amortization	1,232	1,204	1,197	1,188	4,820	1,415	1,410	1,400	1,390	**5,615**	1,380	1,370	1,360	1,350	**5,460**
Total Operating Expenses	14,852	15,442	15,700	15,026	61,020	17,618	16,410	16,900	17,140	**68,068**	17,180	16,620	17,360	17,600	**68,760**
Operating Income (loss)	3,587	5,421	6,477	4,177	19,661	2,657	(565)	1,215	3,015	**6,322**	3,580	4,100	4,535	3,825	**16,040**
Other income (expense)															
Extinguishment of debt	-	-	(541)	-	(541)	-	-	-	-	-	-	-	-	-	-
Interest expense	(353)	(496)	(395)	(324)	(1,569)	(456)	(500)	(535)	(565)	**(2,056)**	(560)	(550)	(525)	(500)	**(2,135)**
Total Other Income (expense)	(353)	(496)	(936)	(324)	(2,110)	(456)	(500)	(535)	(565)	**(2,056)**	(560)	(550)	(525)	(500)	**(2,135)**
Income (loss) before taxes	3,233	4,925	5,541	3,853	17,552	2,201	(1,065)	680	2,450	**4,266**	3,020	3,550	4,010	3,325	**13,905**
Income Tax Expense (Benefit)	737	1,123	1,334	1,111	4,305	703	(280)	180	650	**1,253**	755	890	1,000	830	**3,475**
Net Income (loss)	2,496	3,802	4,207	2,742	13,247	1,499	(785)	500	1,800	**3,014**	2,265	2,660	3,010	2,495	**10,430**
Earnings (loss) per share	$ 0.24	$ 0.37	$ 0.41	$ 0.26	$ 1.28	$ 0.14	$ (0.08)	$ 0.05	$ 0.17	**$ 0.29**	$ 0.22	$ 0.26	$ 0.29	$ 0.24	**$ 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	10,310	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	$ 1,045	$ 2,815	$ 4,605	**$ 13,271**	$ 5,210	$ 5,720	$ 6,145	$ 5,425	**$ 22,500**
Margin Analysis															
Gross margin	26.8%	28.2%	27.9%	26.6%	27.4%	27.4%	26.9%	27.3%	27.1%	**27.2%**	27.8%	28.4%	28.6%	27.5%	**28.1%**
SG&A	19.8%	19.3%	18.3%	19.1%	19.1%	21.9%	25.4%	23.4%	21.2%	**22.8%**	21.2%	20.9%	20.9%	20.8%	**21.0%**
Depreciation and amortization	1.8%	1.6%	1.5%	1.6%	1.6%	1.9%	2.4%	2.1%	1.9%	**2.1%**	1.9%	1.9%	1.8%	1.7%	**1.8%**
Operating margin	5.2%	7.3%	8.2%	5.8%	6.7%	3.6%	(1.0%)	1.8%	4.1%	**2.3%**	4.8%	5.6%	5.9%	4.9%	**5.3%**
Pre-tax margin	4.7%	6.7%	7.0%	5.3%	6.0%	3.0%	(1.8%)	1.0%	3.3%	**1.6%**	4.0%	4.9%	5.2%	4.3%	**4.6%**
Tax rate	22.8%	22.8%	24.1%	28.8%	24.5%	31.9%	26.3%	26.5%	26.5%	**29.4%**	25.0%	25.1%	24.9%	25.0%	**25.0%**
YEAR / YEAR GROWTH															
Total Revenues	2.9%	4.1%	3.0%	0.4%	2.6%	7.7%	(20.1%)	(16.5%)	2.9%	**(7.0%)**	0.7%	23.7%	15.4%	4.9%	**10.4%**

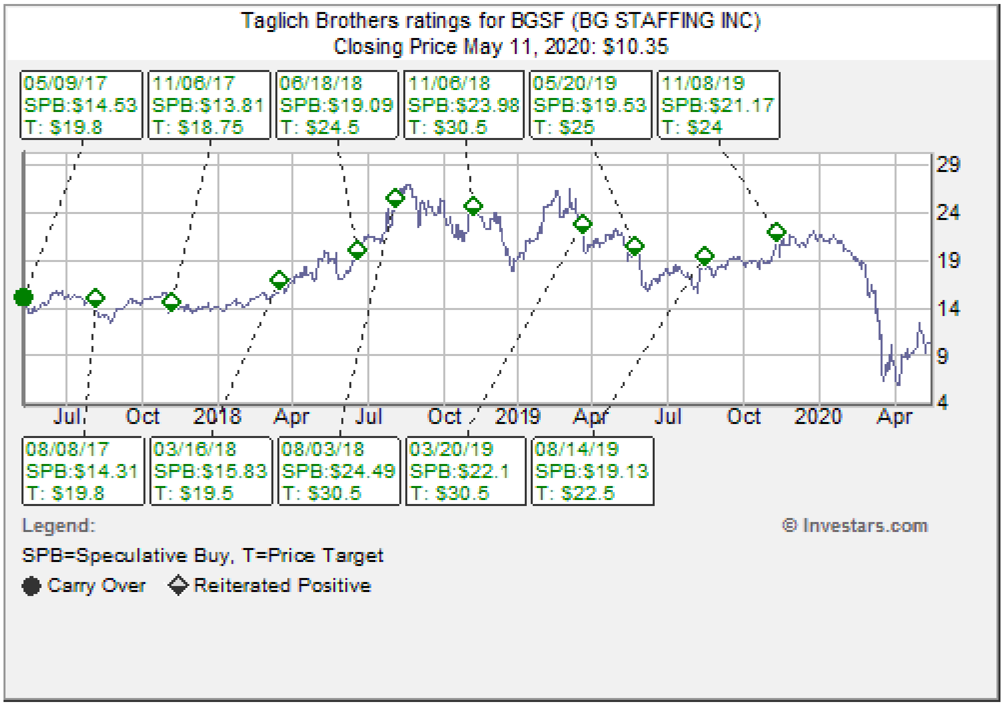
Source: Company reports and Taglich Brothers estimates

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

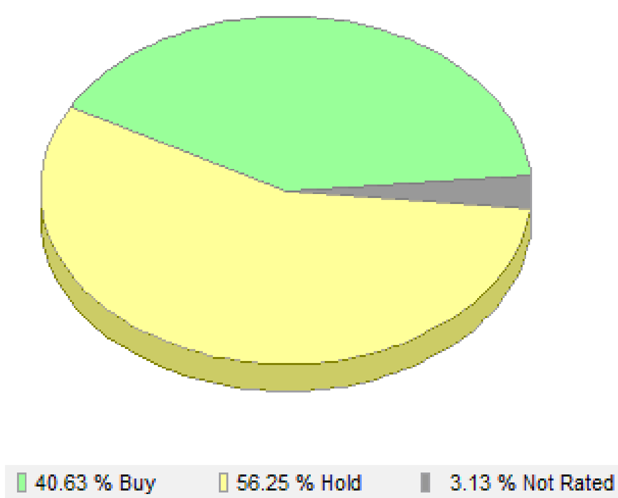
	FY2017A	FY2018A	FY2019A	1Q20A	**FY2020E**	**FY2021E**
Cash Flows from Operating Activities						
Net Income (loss)	$ 5,848	$ 17,550	$ 13,247	$ 1,499	**$ 3,014**	**$ 10,430**
Depreciation and amortization	6,292	5,044	4,820	1,415	**5,615**	**5,460**
Disposal of property and equipment	17	18	31	-	-	-
Extinguishment of related party debt and debt	-	-	541	-	-	-
Contingent considerationt adjustment	(226)	(3,775)	-	-	-	-
Amortization of defered financing costs	251	454	173	19	**19**	-
Amortization of debt discounts	-	-	-	-	-	-
Interest expense on earnout payable	1,208	624	124	49	**49**	-
Provision for doubtful accounts	761	41	128	32	**32**	-
Stock based compensation	447	1,069	953	193	**1,100**	**1,200**
Deferred income taxes	3,110	1,532	799	312	**312**	-
Cash earnings (burn)	17,709	22,556	20,816	3,518	**10,141**	**17,090**
Changes In:						
Accounts receivable	1,434	(939)	(1,758)	3,489	**(3,422)**	**(1,634)**
Prepaid expenses	102	(36)	(727)	(1,198)	**(1,240)**	**(104)**
Other current assets	27	121	3	(6)	**(496)**	-
Security deposits	(245)	(302)	(475)	(72)	**(72)**	**(185)**
Accrued interest	230	(22)	(236)	108	**(127)**	**(75)**
Accounts payable	(556)	(1,763)	676	(272)	**(179)**	**50**
Accrued payroll and expenses	285	(1,129)	(82)	1,100	**7,910**	**(6,990)**
Accrued workers' compensation	(162)	(61)	(126)	(352)	**(305)**	**348**
Other current and long-term liabilities - includes Contingent Consideration	(377)	(243)	17	(17)	**983**	-
Operating leases	-	-	(28)	5	-	-
Accrued taxes	(384)	247	(125)	344	**331**	-
Net (increase)/decrease in Working Capital	354	(4,129)	(2,862)	3,130	**3,382**	**(8,590)**
Net cash Provided (used) by Operations	18,064	18,426	17,954	6,648	**13,523**	**8,500**
Cash Flows from Investing Activities						
Business acquired, net of cash received	(24,500)	-	(7,500)	(21,680)	**(21,680)**	-
Captial expenditures	(1,146)	(924)	(2,230)	(1,050)	**(2,300)**	**(2,400)**
Proceeds from sale of property and equipment	2	-	0	-	-	-
Cash Flows from Investing Activities	(25,643)	(924)	(9,729)	(22,730)	**(23,980)**	**(2,400)**
Cash Flows from Financing Activities						
Borrowings (net) under line of credit	(2,515)	(10,718)	9,695	675	**3,000**	**(1,000)**
Proceeds from issuance of long-term debt	25,000	-	7,500	18,500	**18,500**	-
Principal payments on long-term debt	(1,113)	(13,767)	(10,121)	-	**(5,400)**	**(3,000)**
Payments on other long-term liabilities	-	-	-	-	-	-
Issuance of common stock	86	22,205	38	-	-	-
Contingent consideration paid	(4,024)	(963)	(2,672)	-	**(1,000)**	-
Dividends	(8,736)	(10,922)	(12,282)	(3,093)	**(4,643)**	**(2,100)**
Retirement of vested stock options	-	(3,335)	-	-	-	-
Deferred financing costs	(1,119)	(4)	(382)	-	-	-
Net cash provided by Financing	7,580	(17,502)	(8,225)	16,082	**10,457**	**(6,100)**
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	1	5
Hold		
Sell		
Not Rated	1	50

Important Disclosures

As of May 11, 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 351,890 shares of BGSF common stock and 620 restricted warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 345,943 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 41,771 shares of restricted common stock, as well as 1,613 restricted warrants and 86,582 derivative securities. Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. owns or has a controlling interest 2,822 restricted warrants. 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

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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.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, 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.