

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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August 14, 2019

BGSF \$19.42 — (NYSE MKT)

	2016 A	2017 A	2018 A	2019 E	2020 E
Revenues (in millions)	\$253.9	\$272.6	\$286.9	\$289.9	\$306.7
Earnings per share	\$0.82	\$1.01*	\$1.46**	\$1.30	\$1.50

52-Week range	\$29.59 – \$15.91	Fiscal year ends:	December
Shares outstanding <small>a/o 08/06/19</small>	10.2 million	Revenue/shares (ttm)	\$28.12
Approximate float	9.2 million	Price/Sales (ttm)	0.7X
Market Capitalization	\$195 million	Price/Sales (2020) E	0.6X
Tangible Book value/shr	\$1.64	Price/Earnings (ttm)	12.3X
Price/Book	11.8X	Price/Earnings (2020) E	12.9X
Annual dividend per share	\$1.20	Dividend Yield	6.2%

* 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 12-month price target to \$22.50 from \$25.00 per share due primarily to a reduction in our 2020 EPS forecast.

The projected \$158.1 billion market for the US staffing industry offers substantial growth potential for BGSF's light industrial, professional, and real estate (including commercial buildings) staffing operations to 2020.

In 2Q19, BGSF began spending on a three-year technology improvement program. The implementation of an internally developed technology road map will be focused on reducing cycle time to fill client orders and onboard applicants, improving operational efficiencies through automation and scalability, and utilization of secure cloud solutions. The initial three-year cost is expected to total \$9 million with half to be capitalized.

We project 2019 operating income and EPS to be lower than 2018 due to initial costs of the company's technology improvement program. For 2020, we anticipate growth in operating income and EPS due to improved leverage and efficiencies associated with implementation of the technology improvement program.

BGSF reported 2Q19 EPS (on 08-7-19) of \$0.37 on a 4.1% increase in sales to \$73.9 million. We projected EPS of \$0.31 on sales of \$73.2 million. In 2Q18, EPS was \$0.54 on sales of \$70.9 million. The year-ago period included a \$0.19 per share gain related to a contingent consideration and option cancellation agreement.

Maintaining our 2019 EPS forecast of \$1.30 on 1.1% revenue growth to \$289.9 million (prior was \$298.4 million). Our reduced sales forecast reflects a decrease in the Light Industrial segment due to a decline in use from three of its largest client partners. Our EPS forecast reflects higher than anticipated gross margin.

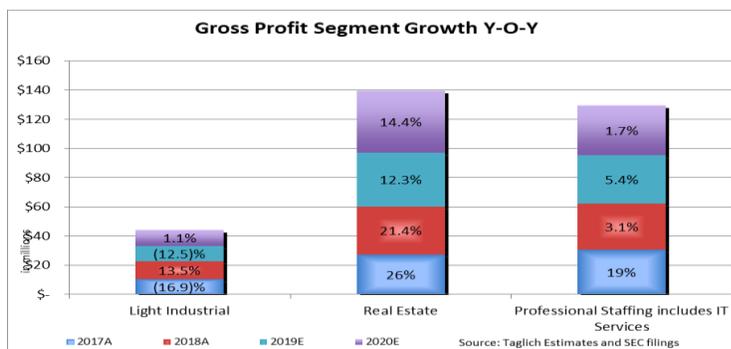
We project 2020 EPS of \$1.50 on 5.8% sales growth to \$306.7 million. We previously projected EPS of \$1.68 on sales of \$315.2 million. The decrease in our forecasts reflects lower than anticipated Light Industrial sales and higher than anticipated operating expense.

Please view our Disclosures on pages 14 – 16.

Appreciation Potential

We are maintaining our Speculative Buy rating but reducing our 12-month price target to \$22.50 from \$25.00 per share due primarily to a reduction in our 2020 EPS forecast. Our rating should be supported by gross profit growth stemming from increased penetration in the \$158.1 billion US staffing industry in 2020.

We forecast gross profit growth of 5.6% and 7.5% in 2019 and 2020, respectively. Gross profit growth will be driven by revenue gains in the real estate segment reflecting 59 locations in operation by the end of 2019 (including six from the company’s new commercial building segment) and over 64 locations in 2020, up from 51 in 2018, 43 in 2017, and 32 in 2016.



The six comparative staffing companies profiled in the chart below have a 2020 price-to-EBITDA multiple of 7.7X and a 2020 P/E multiple of 13.6X (unchanged) with a 12% EPS growth rate. Based on our 2020 forecasts, BGSF’s 2020 price-to-EBITDA and P/E multiples are 7.5X and 12.9X (prior was 12X) respectively, with an EPS growth rate of 15.4% (see chart on the right).

We anticipate investors should accord a multiple above the peer group due to BGSF’s higher 2020 EPS growth. We applied a 15X multiple (unchanged) to our 2020 EPS forecast of \$1.50 to obtain a year ahead price target of approximately \$22.50 per share, implying a total (including a 6.2% dividend yield) year-ahead return in excess of 20%.

Name	Symbol	Price 08-13-19	Market Cap in \$mil	Price to EBITDA 2020 E	P/E 2019 E	EPS Growth Rate	P/E 2020 E
ASGN Inc.	ASGN	61.74	3260	6.8	13.5	9.2%	12.4
Computer Task Group Inc.	CTG	4.14	57	5.0	12.2	17.6%	10.4
Kforce Inc.	KFRC	33.61	815	8.8	14.2	14.1%	12.5
Resources Connection Inc.	RECN	16.92	539	8.4	16.1	6.2%	15.2
Robert Half International	RHI	56.60	6654	9.3	14.4	6.3%	13.6
51job Inc.	JOBS	64.36	8542	NA	20.8	18.3%	17.5
Average				7.7	15.2	12.0%	13.6
Company							
BG Staffing, Inc.	BGSF	19.42	199	7.5	14.9	15.4%	12.9

Source: Taglich Brothers estimates, Yahoo Finance, and Thompson Reuters - Eikon

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 managing debt levels and maintaining its annual dividend.

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, and Zycron. BG Staffing, Inc. operates within three industry segments: Light Industrial, Professional, and Real Estate (a specialty segment) that operate in 79 branch offices and 17 on-site locations providing services in 42 states.

The professional segment includes information technology (IT) skilled temporary labor on a nationwide basis for IT implementation and maintenance projects, as well as temporary accounting & finance personnel for key accounting, finance, clerical and administrative resources. The real estate segment provides 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.

History

BG Staffing, Inc. is the successor company to LTN Staffing, LLC, which was formed in August 2007. LTN Staffing was created after the merger of LTN Acquisition, LLC into LTN Staffing, LLC. The conversion was completed on November 3, 2013. The company’s shares were approved for listing on the NYSE MKT on October 27, 2014.

In March 2015, the company acquired the assets of D&W Talent, LLC. In October 2015, BGSF acquired Vision Technology Services, Inc. In April 2017 and September 2017, the company acquired Zycron, Inc. and Smart Resources, Inc., respectively.

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 2Q19, the company began spending (approximately \$9 million – combined) on a three-year plan that should leverage new technologies creating gross and operating margin efficiencies, help to drive incremental revenue, as well as increase applicant talent and client loyalty starting in 2020.

The company expects that before any operational efficiency, this program could adversely impact EPS by approximately \$0.06 per quarter in year one and \$0.04 per quarter in year two of the implementation process.

Geographic Dispersion

The light industrial segment operates 12 branch offices and 15 on-site locations in seven states (Illinois, Wisconsin, Texas, Tennessee, Mississippi, New Mexico, Arkansas) providing temporary workers to distribution and logistics customers needing a flexible workforce. The company has the opportunity to grow organically within existing and adjacent states.

The professional staffing segment provides temporary workers on a nationwide basis for information technology (IT) customer projects, and finance, accounting, legal and related support personnel primarily in Texas and Louisiana, as well as in Illinois through its Smart group. BGSF's IT operations are provided to customers across the US from offices in North Carolina, Rhode Island, Maryland, and Tennessee. This segment has 11 branch offices in six states but provides services in 37 states to 395 clients at June 30, 2019.

The real estate operations provide front office and maintenance personnel to homeowners' associations and apartment complexes via property management companies responsible for the communities' day-to-day operations in 29 US states (50 multi-family and six BG Talent branch locations in August 2019), up from 24 states (51 locations) in 2018. The temporary workers assigned by this segment are provided on-the-job direction, control, and supervision.

The company aims to grow this segment by engaging new property management companies and providing services to new properties acquired by their property management customers. This segment is making progress on its planned expansion of its offerings to the commercial buildings market. In 2018, the company's BG Talent sales were \$2.7 million. While the selling process is slower than for apartment complexes, gross margin can reach at least 40% compared to the mid-to-upper 30% area for apartment complexes. BG Talent had six offices in 2Q19, which should increase by at least two in each of the next two years.

California Expansion

In 1Q19, the company's multifamily segment of the real estate division entered the California market, which has the largest US apartment market with approximately 2.8 million units. In May 2019, the company's information technology segment began providing consultants in California.

Projections

Basis of Forecast

In May 2018, BGSF announced it closed on a public share offering of nearly 1.3 million newly issued common stock for estimated net proceeds of \$23.3 million. A majority of the proceeds were used to reduce debt, which reduced

interest expense by nearly \$400,000 in 2H18. We estimate 2019 and 2020 interest expense of \$1.6 million and 1.1 million, respectively from \$2.9 million in 2018. In 2019, we estimate average shares outstanding increasing to 10.4 million compared to 9.8 million in 2018 and 9 million in 2017.

Our forecast reflects the seasonality of the company's light industrial, real estate, and professional staffing operating segments. The light industrial segment experiences peak activity early in 4Q. Real estate staffing service volumes rise in 2Q/3Q due to the increased turns in multifamily units during the summer months when schools are not in session. Our forecast includes higher cost of services in the 1st quarters due to the annual reset of payroll taxes.

We project the high margin real estate segment will account for 35.9% of total revenue in 2020, up from 33.4% in 2019 and 30.3% in 2018 due primarily to the opening of at least 10 new branch offices in 2019 and 2020 combined, bringing the total number of offices to at least 65 in 2020, up from 51 in 2018. Our 2020 forecast includes six commercial branch offices (BG Talent).

In 2Q19, BGSF began spending on a three-year technology improvement program. The initial three-year cost is expected to total \$9 million with half to be capitalized. We anticipate 2019 SG&A expenses increasing 20.5% to \$57 million with 2020 expense growth moderating to 7.4% reaching \$61.2 million.

Economy

In July 2019, the IMF reduced its global economic growth estimate by 0.1% for 2019 and 2020, respectively, to 3.2% and 3.5%. The downward revisions reflect further tariffs on certain Chinese imports by the US and China retaliating by raising tariffs on certain US imports. The IMF raised its US economic growth forecast for 2019 by 0.3% to 2.6% but left 2020 unchanged at 1.9%. The upward revision for 2019 reflects stronger-than-anticipated first half performance.

The advance estimate of US GDP growth (released on July 26, 2019) showed the US economy grew at an annual rate of 2.1% in 2Q19, down from 3.1% in 1Q19. The 2Q19 US GDP growth estimate reflects increases in consumer and government spending while inventory investment, exports, and business and housing investments decreased.

In June 2019, Federal Reserve Board members and Federal Reserve Bank presidents issued economic projections that included its unemployment forecast through 2021. Its unemployment forecast for 2019 and 2020 is 3.6% and 3.7%, respectively, down from its March 2019 forecast of 3.7% and 3.8%, respectively.

In July 2019, the Bureau of Labor Statistics released its US temporary labor market penetration rate, which has remained at approximately 2% for most of the first seven months of 2019.

Operations

In 2019, we project revenue growth of 1.1% to \$289.9 million (prior was \$298.4 million). Our forecast does not include potential acquisitions in the company's professional staffing segment. Revenue growth should be driven primarily by an 11.3% increase in real estate segment sales to \$96.7 million (prior was \$95.8 million) due to the opening of at least five new branch offices bringing the total offices to 56, which includes offices dedicated to driving sales for its BG Talent segment. Sales from the BG Talent within its multi-family subsidiary should exceed \$4 million. Revenue from the professional staffing segment should increase 1.2% to \$120.8 million due primarily to organic growth. Overall revenue growth will be restrained by a 10.3% decrease in the company's Light Industrial segment to \$72.4 million (prior was \$82.5 million). In 2Q19, the company announced that it was experiencing a decline in use from three of its largest client partners that is likely to continue through the 2H19.

We project a 5.6% increase in gross profit to \$80.9 million, driven by gross margin improvement to 27.9% from 26.7% in 2018. Gross margin improvement reflects revenue growth from the real estate segment, which should deliver a gross margin of 38.3% and comprise 33.4% of total sales, up from 30.3% of total sales in 2018.

We anticipate operating income decreasing 7.8% to \$19.1 million from \$20.5 million in 2018. The year-ago period excludes a gain of \$3.8 million due to the revaluation of contingent consideration. The decrease in operating income reflects operating expense margin increasing to 21.3% from 19.6% in 2018 (excluding the contingent consideration

gain), partly offset by revenue growth and gross margin expansion. The current period includes approximately \$500,000 in expenses related to the extinguishment of debt.

We forecast operating expenses of \$61.8 million, up from \$52.3 million (or \$56.1 million excluding the revaluation gain from contingent consideration). We project SG&A of \$57 million (compared to \$51.1 million in 2018 excluding gains) to support the spending to commence implementation of the company's technology roadmap program, geographic growth in the company's real estate and professional staffing segments, as well as customer growth in its light industrial segment. D&A expense should decrease \$283,000 to \$4.8 million. We project operating margin of 6.6% vs. 8.5%.

We project a \$1.3 million decrease in interest expense to \$1.6 million due to lower debt balances, offset in part by higher interest rates in 1H19.

Our 2019 net income forecast is unchanged at \$13.5 million or \$1.30 per share, after income tax expense of \$4 million for an income tax rate of 22.8%, and 10.4 million average shares outstanding. Our unchanged net income forecast reflects higher than anticipated gross margin offset by lower revenue for the company's lower margin Light Industrial segment.

In 2020, we project revenue growth of 5.8% to \$306.7 million (prior was \$315.2 million). Our forecast does not include potential acquisitions in the company's professional staffing segment. Revenue growth should be driven primarily by a 13.7% increase in real estate segment sales to \$110 million due to the opening of new branch offices bringing the total offices to at least 64, which includes offices dedicated to driving sales for its BG Talent segment, which should generate sales of at least \$7 million. Revenue from the professional staffing segment should grow 2% to nearly \$123.2 million due primarily to organic growth from the expansion to California. We forecast light industrial segment sales to increase 1.5% to \$73.5 million due primary to growth from existing customers.

We project a 7.5% increase in gross profit to \$86.9 million, driven by gross margin improvement to 28.3% from our 2019 forecast of 27.9%. Gross margin improvement reflects revenue growth from the real estate segment, which should deliver a gross margin of 38.5% and comprise 35.9% of total sales, up from 33.4% of total sales in 2019. We anticipate operating income growth of 11.8% to \$21.3 million due primarily to revenue growth and gross margin expansion. We anticipate operating margin expense increasing to 21.4% from an estimated 21.3% in 2019.

We forecast operating expense to increase 6.1% to \$65.6 million (prior was \$63 million). We project a 7.4% increase in SG&A to \$61.2 million (prior was \$58.1 million) due to higher than anticipated technology spending and to support geographic growth in the company's real estate and professional staffing segments. D&A expense should decrease \$411,000 at \$4.4 million. We project operating margin of 7% vs. 6.6% due to higher revenue and increased gross margin, offset in part by higher operating expenses.

We project a \$514,000 decrease in interest expense to \$1.1 million due to lower debt balances. Our 2020 net income forecast is \$15.6 million or \$1.50 per share, after income tax expense of \$4.6 million for an income tax rate of 22.8%. We previously projected net income of \$17.4 million or \$1.68 per share, after income tax expense of \$5.1 million for an income tax rate of 22.8%. The decrease in our forecast reflects lower than anticipated sales in the company's Light Industrial segment and higher than anticipated SG&A in order to fund its technology roadmap spending.

Finances

For 2019, we project cash earnings of \$20.4 million and an increase in working capital of \$3.1 million. The increase in working capital is due primarily to an increase in prepaid expenses and reduction in contingent consideration. Cash from operations of \$17.3 million should cover capital expenditures, repayment of debt, and payment of common stock dividends. At the end of 2019, the company's cash balance should remain at zero.

For 2020, we project cash earnings of \$21 million and an increase in working capital of \$570,000 due primarily to an increase in receivables. Cash from operations of \$21 million should cover capital expenditures, repayment of debt, and payment of common stock dividends. At the end of 2020, the company's cash balance should remain at zero.

2Q19 and 1H19 Results

2Q19 Results

Revenues increased 4.1% to \$73.9 million due to a 14.6% increase in the Real Estate segment to \$24.4 million, a 3.9% increase in the Professional Staffing segment to \$31.3 million, partly offset by a 7% decrease in the Light Industrial segment to \$18.1 million.

The 14.6% increase in Real Estate segment sales was due to the company's execution of its geographic expansion plan outside its core market of the state of Texas, as well as growth of existing offices. The opening of new offices in the 2H18 and 1H19 contributed \$1 million to the sales increase, as well as a \$400,000 contribution of the company's Commercial Building segment. The overall increase in revenue from the Real Estate segment reflects a 7.2% increase in billed hours and a 6.4% increase in the average bill rate.

The 3.9% increase in professional staffing segment sales was due to a \$1.3 million increase in information technology group sales, partly offset by a \$100,000 decrease in finance and accounting group sales. The decrease in sales from the finance and accounting group was due to the loss of a single client partner that accounted for \$300,000. The Professional segment had a 5.8% increase in average bill rates and a \$500,000 increase from permanent placements, partly offset by a 3.6% decrease in billed hours.

The decrease in Light Industrial revenue was due primarily to a 9.1% decrease in billed hours as three of its largest client partners reduced the use of BGSF's services, partly offset by a 2.2% increase in the average bill rate.

Gross profit increased 8.7% to \$20.9 million reflecting gross margin expansion to 28.2% from 27.1% in 2Q18 due primarily to the professional segment's gross margin expanding to 28.1% from 26.8% in the year-ago period. Gross profits increased 15.6% in the Real Estate segment to \$9.4 million, followed by an 8.8% increase in the Professional segment to \$8.8 million. The company's Light Industrial segment's gross profit decreased 10.3% to \$2.7 million.

Operating expenses increased 22.4% to \$15.4 million from \$12.6 million in the year-ago period due primarily to a 25.4% increase in SG&A expenses to \$14.2 million, offset in part by a \$54,000 reduction in D&A expenses to \$1.2 million reflecting Professional and Light Industrial segment's fully amortizing intangible assets related to prior acquisition. Excluding (in the year-ago period) a \$1.2 million decrease (a net gain) in contingent consideration adjustments related the Zycron acquisition, operating expenses increased 11.6% to \$15.4 million from \$13.8 million in 2Q18. Overall SG&A expense reflects increased costs associated with new office expansion, increased headcount, commissions and bonuses.

Operating income decreased 17.6% to \$5.4 million due primarily to 22.4% increase in operating expenses, partly offset by revenue growth and gross margin expanding to 28.2% from 27.1% in 2Q18. Operating expense margin increased to 20.9% from 17.8%. Excluding contingent consideration adjustments, operating income would have been flat at \$5.4 million. Operating margin was 7.3%, down from 9.3% in the year-ago period.

Interest expense was \$496,000 compared to \$742,000. The decrease reflects lower debt balances stemming from a May 2018 common stock offering that was used to pay down debt.

Net income was \$3.8 million or \$0.37 per share, compared to net income of \$5.2 million or \$0.54 per share, on income tax expense of \$1.1 million or a rate of 22.8% compared to \$665,000 or a rate of 11.4% in 2Q18. The increase in the tax rate was due primarily to a deduction related to the cancellation of outstanding stock options in 2Q18. We estimate, excluding contingent consideration adjustments and a one-time deduction related to the cancellation of outstanding stock options, EPS would have been \$0.34 in 2Q18. We projected net income of \$3.3 million or \$0.31 per share, on sales of \$73.2 million.

1H19 Results

Revenues increased 3.5% to \$142.6 million due to a 1.1% increase in professional staffing sales to \$61.9 million, a 10.8% increase in Real Estate segment sales to \$43.6 million, offset in part by a \$100,000 decrease in Light Industrial segment sales to \$37.1 million.

BG Staffing, Inc.

Gross profit increased 7.7% to \$39.3 million reflecting gross margin expansion to 27.6% from 26.5% in the year-ago period. Gross profit growth was primarily due to the company's Real Estate segment (see table below).

Operating expenses increased 17% to \$30.3 million due primarily to a 13.7% increase in SG&A expenses to \$27.9 million and no contingent consideration gain in the current period. In the year-ago period the contingent consideration gain reduced operating expenses by nearly \$1.2 million. Operating income decreased 15.1% to \$9 million from \$10.6 million. However, excluding the contingent consideration gain in the year-ago period operating income in 1H19 would have decreased by \$433,000 due primarily to the increase in SG&A expenses reflecting the initial stages of the company's technology enhancement program. Operating margin was 6.3% compared to 7.7% in 1H18.

Interest expense decreased to \$849,000 from \$1.6 million. Net income was to \$6.3 million or \$0.61 per share, compared to net income of \$7.6 million or \$0.82 per share. The effective income tax rate was 22.8% compared to 15.2% in the year-ago period. Excluding one-time gains in 1H18, EPS was an estimated \$0.62.

Finances

In 1H19, cash earnings of \$9.9 million was reduced by a \$740,000 increase in working capital due primarily to increase in prepaid expenses and receivables, offset in part by an increase in accruals. Cash from operations of \$9.2 million was completely offset by capital investments, repayment of debt, and common stock dividends. Cash at June 30, 2019 was zero.

Capital Structure

At June 30, 2019, the company had total outstanding debt (net of deferred finance fees - \$557,600) of nearly \$17.9 million, all of which is a long-term line of credit. The interest rate was 6.5%. The company's debt to equity ratio is 0.3 versus 0.4 for the industry, indicating that BGSF's leverage is less than other staffing and outsourcing service companies.

As of June 30, 2019, 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 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

The company borrowed \$20 million under the revolving facility to pay off its existing indebtedness under the amended credit agreement and such agreement was terminated on July 16, 2019. BGSF will recognize a loss on extinguishment of debt of approximately \$500,000 in 3Q19 related to the unamortized deferred finance fees on its prior loan obligation.

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

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Revenues per segment in Millions			
Light Industrial	\$ 37.1	\$ 37.2	(0.3%)
Real Estate	43.6	39.3	10.8%
Professional Staffing	61.9	61.2	1.1%
Total Revenue	\$ 142.6	\$ 137.8	3.5%
Cost of Sales per segment			
Light Industrial	31.7	31.7	(0.0%)
Real Estate	26.8	24.3	10.1%
Professional Staffing	44.8	45.3	(1.0%)
Total Cost of Sales	\$ 103.3	\$ 101.3	2.0%
Gross Profit per segment			
Light Industrial	5.5	5.6	(1.7%)
Real Estate	16.8	15.0	11.8%
Professional Staffing	17.1	15.9	7.0%
Gross Profit	\$ 39.3	\$ 36.5	7.7%
Total Operating Expenses	30.3	25.9	17.0%
Operating Income	9.0	10.6	(15.1%)
Total Other Income (Expense)	(0.8)	(1.6)	NMF
Pre-Tax Income	8.2	9.0	NMF
Income Tax Expense (Benefit)	1.9	1.4	
Net Income (loss)	6.3	7.6	
Earnings (loss) per share	\$ 0.61	\$ 0.82	
Dividend per share	\$ 0.60	\$ 0.55	
Avg Shares Outstanding	10.4	9.3	
Margins			
Gross margin - combined	27.6%	26.5%	
Operating Margin	6.3%	7.7%	
Pre-Tax Margins	5.7%	6.5%	
Tax Rate	22.8%	15.2%	

Source: company reports

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.

The April 2019 update report by the advisory firm Staffing Industry Analysts projected the US staffing industry to grow 4% (up from 3% in September 2018) in 2019 and 3% in 2020 reaching \$158.1 billion from an estimated \$153.5 billion in 2019.

Professional Staffing Segment

Information technology (IT) staffing represents computer programmers, computer systems analysts, database developers, network administrators, operating system specialists, software designers and developers, software engineers, web site developers and other IT professionals.

Professional service staffing includes the supply of accountants, actuaries, architects, auditors, financial analysts, interpreters, journalists, lawyers and other professional service personnel. Office, clerical and administrative staffing is the second largest segment in this industry and includes administrative officers, bill collectors, bookkeepers, clerks, customer service representatives, loan officers, receptionists, secretaries, tellers and other clerical staff. Although general office staff is expected to continue to be a major source of industry revenue, price competition within the segment is high.

IBISWorld estimates professional staffing (including information technology and managerial staffing) should account for 33.7% of total industry revenue or \$62.6 billion in 2019. Revenue for professional staffing should increase to \$65.2 billion by 2025.

Light Industrial Segment

IBISWorld estimates industrial and factory staffing should account for 22.6% of total industry revenue or \$42 billion in 2019. Revenue for industrial and factory staffing should increase to \$43.7 billion by 2025. For this segment, temporary workers are required for roles to meet changes in seasonal demand. Advancements in just-in-time manufacturing processes can also lead to short-term increases in demand for labor.

Real Estate Segment

The property management industry should be closely aligned with the company's multifamily segment. Demand for multifamily staffing services is higher in the second and third quarters due to the increased turns in multifamily units during the summer months when schools are not in session. IBISWorld estimates 312,000 establishment units in the US by 2024, up from 273,300 in 2018. Employment growth in the industry is forecast to grow 1.2% annually to reach 889,500 in 2024 from an estimated 827,300 in 2018. Industry revenue is projected to reach \$76.9 billion in 2024 from \$74.7 billion in 2018.

According to data from the National Multifamily Housing Council, in the 28 states BG Staffing has operations, there are 35,519 residential property manager establishments that employ 340,050 people. The three largest are California (7,258 establishments and 62,084 employees), followed by Florida (3,958 establishments and 37,179 employees), and Texas (3,195 establishments and 34,959 employees).

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

Economy

Slowing US economic growth could 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 2Q19, three states (Texas – 30%, Tennessee – 16%, and Maryland – 11%) accounted for 57% of the company's revenues, up from 54% 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

US interest rates have increased since 2015 with the prime rate at 5.25% and federal funds rate at 2.25% (approximately 0.25% below the high end of the range) at August 13, 2019. The Federal Reserve reduced the federal funds rate in July 2019 and might lower interest rates again based on economic and trade data. However, if economic growth and inflation were to accelerate, it is likely interest rates could increase before the end of 2019, 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 two large shareholders collectively own 12.1% of the outstanding voting stock (as of the SEC filing in June 2019). 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 13, 2019, average daily volume was 75,700 compared to average daily volume of 68,100 in 2018. The company has a float of 9.2 million shares and shares outstanding of approximately 10.2 million.

BG Staffing, Inc.
Consolidated Balance Sheets
FY2016 – FY2020E
(in thousands)

	2016 A	2017 A	2018 A	2Q19A	2019 E	2020 E
ASSETS						
Current assets:						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts receivable, net	33,329	36,708	37,607	38,412	37,635	38,879
Prepaid expense and other current assets	951	948	984	1,714	1,450	1,534
Income taxes receivable	-	191	-	-	-	-
Other current assets	155	143	23	21	21	21
Total current assets	34,434	37,990	38,614	40,147	39,105	40,433
Property and equipment, net	1,911	2,040	2,557	2,449	2,475	2,525
Security deposits	2,658	2,907	3,209	3,702	3,700	3,700
Right-of-use asset - operating lease, net	-	-	-	4,000	4,227	4,227
Deferred income taxes	9,512	6,403	4,871	4,408	4,300	4,335
Intangible assets, net	23,514	37,323	33,034	31,351	30,000	26,965
Goodwill	9,185	17,970	17,984	17,984	17,984	17,984
Total assets	\$ 81,214	\$ 104,633	\$ 100,269	\$ 104,039	\$ 101,791	\$ 100,169
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Debt	-	2,924	4,243	-	-	-
Accrued interest	101	331	309	165	150	100
Accounts payable	952	1,910	146	213	215	298
Accrued pay roll and expenses	9,668	11,541	10,411	11,556	11,750	12,225
Accrued workers' compensation	755	592	531	464	450	600
Contingent consideration	3,581	4,299	2,364	2,462	-	-
Lease liability	-	-	-	1,340	1,340	1,340
Other current liabilities	-	74	-	-	-	-
Taxes payable	193	-	56	108	108	108
Total current liabilities	15,249	21,670	18,059	16,308	14,013	14,671
Line of credit	23,618	20,620	10,079	17,863	16,863	10,363
Long-term debt	-	20,579	5,768	-	-	-
Lease liability	-	-	-	3,700	3,000	3,000
Other long-term liabilities and contingent consideration	1,858	2,629	662	-	-	-
Stockholders' equity:						
Common stock, \$0.01 par value; authorized 19,500,000 shares;	87	88	78	78	78	78
Additional paid-in capital	36,143	37,675	57,624	58,131	58,639	59,739
Retained earnings (Deficit)	4,259	1,372	7,999	7,959	9,197	12,317
Total stockholders' equity	40,488	39,135	65,702	66,168	67,915	72,135
Total liabilities and stockholders' equity	\$ 81,214	\$ 104,633	\$ 100,269	\$ 104,039	\$ 101,791	\$ 100,169
SHARES OUT	8,668	8,760	10,160	10,235	10,245	10,250

Source: Company reports and Taglich Brothers estimates

BG Staffing, Inc.
Annual Income Statement
FY2016 – FY2020E
(in thousands)

	<u>2016 A</u>	<u>2017 A</u>	<u>2018 A</u>	<u>2019 E</u>	<u>2020 E</u>
Revenues	\$ 253,852	\$ 272,600	\$ 286,863	\$ 289,909	\$ 306,710
Cost of services	<u>193,779</u>	<u>204,198</u>	<u>210,268</u>	<u>209,057</u>	<u>219,835</u>
Gross Profit	<u>60,073</u>	<u>68,402</u>	<u>76,595</u>	<u>80,851</u>	<u>86,875</u>
Operating Expenses:					
SG&A	37,804	44,349	47,291	57,008	61,200
Depreciation and amortization	6,733	6,292	5,044	4,761	4,350
Total Operating Expenses	<u>44,538</u>	<u>50,641</u>	<u>52,336</u>	<u>61,769</u>	<u>65,550</u>
Operating Income (loss)	15,536	17,761	24,260	19,082	21,325
Other income (expense)					
Interest expense	<u>(3,962)</u>	<u>(3,253)</u>	<u>(2,850)</u>	<u>(1,599)</u>	<u>(1,085)</u>
Total Other Income (expense)	<u>(4,366)</u>	<u>(3,253)</u>	<u>(2,850)</u>	<u>(1,599)</u>	<u>(1,085)</u>
Income (loss) before taxes	11,170	14,508	21,409	17,483	20,240
Income Tax Expense (Benefit)	<u>4,288</u>	<u>8,659</u>	<u>3,860</u>	<u>3,985</u>	<u>4,620</u>
Net Income (loss)	<u>6,882</u>	<u>5,848</u>	<u>17,550</u>	<u>13,498</u>	<u>15,620</u>
Earnings (loss) per share	<u>\$ 0.82</u>	<u>\$ 0.65</u>	<u>\$ 1.78</u>	<u>\$ 1.30</u>	<u>\$ 1.50</u>
Dividend per share	\$ 1.00	\$ 1.00	\$ 1.15	\$ 1.20	\$ 1.20
Avg Shares Outstanding	8,400	9,038	9,833	10,375	10,386
EBITDA - Adjusted	\$ 22,583	\$ 24,500	\$ 27,891	\$ 24,907	\$ 26,775
Margin Analysis					
Gross margin	23.7%	25.1%	26.7%	27.9%	28.3%
SG&A	14.9%	16.3%	16.5%	19.7%	20.0%
Depreciation and amortization	2.7%	2.3%	1.8%	1.6%	1.4%
Operating margin	6.1%	6.5%	8.5%	6.6%	7.0%
Pre-tax margin	4.4%	5.3%	7.5%	6.0%	6.6%
Tax rate	38.4%	59.7%	18.0%	22.8%	22.8%
YEAR / YEAR GROWTH					
Total Revenues	16.7%	7.4%	5.2%	1.1%	5.8%

Source: Company reports and Taglich Brothers estimates

BG Staffing, Inc.
Income Statement Model
Quarters FY2018A – 2020E
(in thousands)

	Q1 18 A	Q2 18 A	Q3 18 A	Q4 18 A	2018 A	Q1 19 A	Q2 19 A	Q3 19 E	Q4 19 E	2019 E	Q1 20E	Q2 20 E	Q3 20 E	Q4 20 E	2020 E
Revenues	\$ 66,855	\$ 70,945	\$ 77,062	\$ 72,000	\$ 286,863	\$ 68,776	\$ 73,858	\$ 77,030	\$ 70,245	\$ 289,909	\$ 70,400	\$ 78,030	\$ 82,965	\$ 75,315	\$ 306,710
Cost of services	49,546	51,753	55,689	53,280	210,268	50,337	52,995	54,955	50,770	209,057	51,105	55,740	58,960	54,030	219,835
Gross Profit	<u>17,310</u>	<u>19,192</u>	<u>21,373</u>	<u>18,720</u>	<u>76,595</u>	<u>18,439</u>	<u>20,863</u>	<u>22,075</u>	<u>19,475</u>	<u>80,851</u>	<u>19,295</u>	<u>22,290</u>	<u>24,005</u>	<u>21,285</u>	<u>86,875</u>
Operating Expenses:															
SG&A	11,979	11,357	13,034	10,921	47,291	13,620	14,238	15,150	14,000	57,008	14,500	15,000	16,075	15,625	61,200
Depreciation and amortization	1,296	1,258	1,248	1,243	5,044	1,232	1,204	1,175	1,150	4,761	1,125	1,100	1,075	1,050	4,350
Total Operating Expenses	<u>13,275</u>	<u>12,615</u>	<u>14,282</u>	<u>12,164</u>	<u>52,336</u>	<u>14,852</u>	<u>15,442</u>	<u>16,325</u>	<u>15,150</u>	<u>61,769</u>	<u>15,625</u>	<u>16,100</u>	<u>17,150</u>	<u>16,675</u>	<u>65,550</u>
Operating Income (loss)	4,035	6,577	7,091	6,556	24,260	3,587	5,421	5,750	4,325	19,082	3,670	6,190	6,855	4,610	21,325
Other income (expense)															
Interest expense	(871)	(742)	(662)	(576)	(2,850)	(353)	(496)	(400)	(350)	(1,599)	(300)	(275)	(260)	(250)	(1,085)
Total Other Income (expense)	<u>(871)</u>	<u>(742)</u>	<u>(662)</u>	<u>(576)</u>	<u>(2,850)</u>	<u>(353)</u>	<u>(496)</u>	<u>(400)</u>	<u>(350)</u>	<u>(1,599)</u>	<u>(300)</u>	<u>(275)</u>	<u>(260)</u>	<u>(250)</u>	<u>(1,085)</u>
Income (loss) before taxes	3,164	5,835	6,430	5,980	21,409	3,233	4,925	5,350	3,975	17,483	3,370	5,915	6,595	4,360	20,240
Income Tax Expense (Benefit)	<u>699</u>	<u>665</u>	<u>1,368</u>	<u>1,127</u>	<u>3,860</u>	<u>737</u>	<u>1,123</u>	<u>1,220</u>	<u>905</u>	<u>3,985</u>	<u>770</u>	<u>1,350</u>	<u>1,505</u>	<u>995</u>	<u>4,620</u>
Net Income (loss)	<u>2,466</u>	<u>5,170</u>	<u>5,061</u>	<u>4,853</u>	<u>17,550</u>	<u>2,496</u>	<u>3,802</u>	<u>4,130</u>	<u>3,070</u>	<u>13,498</u>	<u>2,600</u>	<u>4,565</u>	<u>5,090</u>	<u>3,365</u>	<u>15,620</u>
Earnings (loss) per share	<u>\$ 0.27</u>	<u>\$ 0.54</u>	<u>\$ 0.49</u>	<u>\$ 0.47</u>	<u>\$ 1.78</u>	<u>\$ 0.24</u>	<u>\$ 0.37</u>	<u>\$ 0.40</u>	<u>\$ 0.30</u>	<u>\$ 1.30</u>	<u>\$ 0.25</u>	<u>\$ 0.44</u>	<u>\$ 0.49</u>	<u>\$ 0.32</u>	<u>\$ 1.50</u>
Dividend per share	\$ 0.25	\$ 0.30	\$ 0.30	\$ 0.30	\$ 1.15	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.30	\$ 1.20	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.30	\$ 1.20
Avg Shares Outstanding	9,087	9,539	10,343	10,365	9,833	10,404	10,362	10,365	10,370	10,375	10,375	10,385	10,390	10,395	10,386
EBITDA - Adjusted	\$ 5,483	\$ 7,884	\$ 8,109	\$ 6,416	\$ 27,891	\$ 5,159	\$ 6,848	\$ 7,175	\$ 5,725	\$ 24,907	\$ 5,070	\$ 7,565	\$ 8,205	\$ 5,935	\$ 26,775
Margin Analysis															
Gross margin	25.9%	27.1%	27.7%	26.0%	26.7%	26.8%	28.2%	28.7%	27.7%	27.9%	27.4%	28.6%	28.9%	28.3%	28.3%
SG&A	17.9%	16.0%	16.9%	15.2%	16.5%	19.8%	19.3%	19.0%	19.9%	19.7%	20.6%	19.2%	19.4%	20.7%	20.0%
Depreciation and amortization	1.9%	1.8%	1.6%	1.7%	1.8%	1.8%	1.6%	1.5%	1.6%	1.6%	1.6%	1.4%	1.3%	1.4%	1.4%
Operating margin	6.0%	9.3%	9.2%	9.1%	8.5%	5.2%	7.3%	7.5%	6.2%	6.6%	5.2%	7.9%	8.3%	6.1%	7.0%
Pre-tax margin	4.7%	8.2%	8.3%	8.3%	7.5%	4.7%	6.7%	6.9%	5.7%	6.0%	4.8%	7.6%	7.9%	5.8%	6.6%
Tax rate	22.1%	11.4%	21.3%	18.9%	18.0%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%
YEAR / YEAR GROWTH															
Total Revenues	17.6%	3.2%	8.1%	(4.9%)	5.2%	2.9%	4.1%	(0.0%)	(2.4%)	1.1%	2.4%	5.6%	7.7%	7.2%	5.8%

Source: Company reports and Taglich Brothers estimates

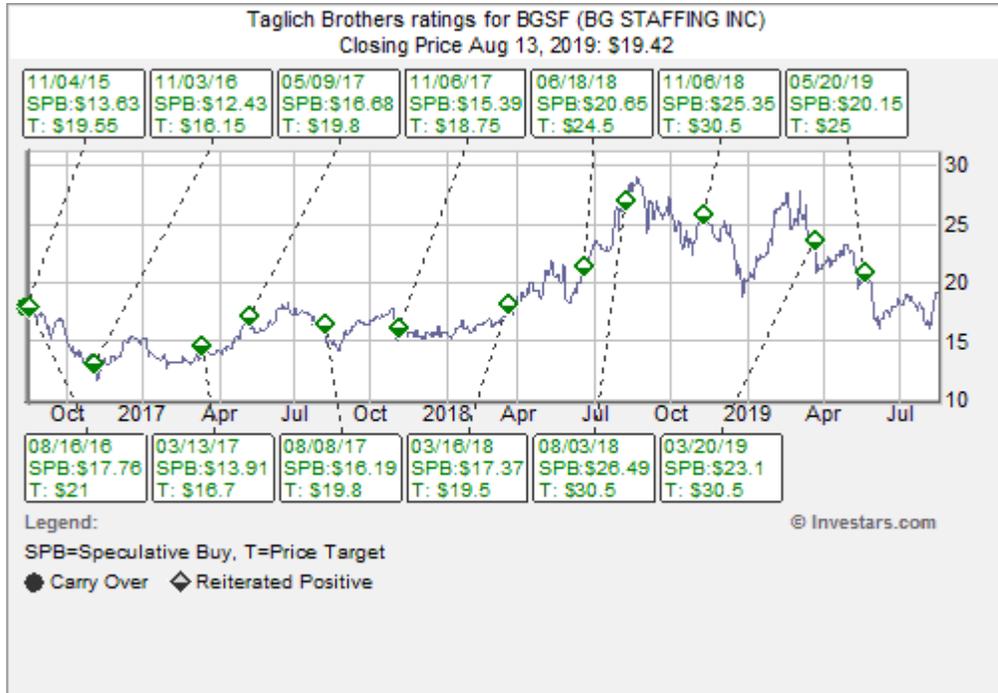
BG Staffing, Inc.
Cash Flow Statement
FY2016 – FY2020E
(in thousands)

	<u>FY2016A</u>	<u>FY2017A</u>	<u>FY2018A</u>	<u>6 Mos.19A</u>	<u>FY2019E</u>	<u>FY2020E</u>
<i>Cash Flows from Operating Activities</i>						
Net Income (loss)	\$ 6,882	\$ 5,848	\$ 17,550	\$ 6,298	\$ 13,498	\$ 15,620
Depreciation and amortization	6,733	6,292	5,044	2,436	4,761	4,350
Disposal of property and equipment	10	17	18	5	5	-
Extinguishment of related party debt and debt	404	-	-	-	-	-
Contingent consideration adjustment	(167)	(226)	(3,775)	-	-	-
Amortization of deferred financing costs	105	251	454	125	125	500
Amortization of debt discounts	43	-	-	-	500	-
Interest expense on earnout payable	1,839	1,208	624	98	98	-
Provision for doubtful accounts	389	761	41	(29)	(60)	-
Stock based compensation	314	447	1,069	507	1,015	1,100
Deferred income taxes	(1,101)	3,110	1,532	463	463	-
Cash earnings (burn)	15,453	17,709	22,556	9,903	20,405	21,570
<i>Changes In:</i>						
Accounts receivable	(1,394)	1,434	(939)	(776)	(28)	(1,244)
Prepaid expenses	(90)	102	(36)	(730)	(465)	(84)
Other current assets	(21)	27	121	2	2	-
Security deposits	(424)	(245)	(302)	(492)	(491)	-
Accrued interest	(296)	230	(22)	(144)	159	50
Accounts payable	(621)	(556)	(1,763)	67	69	83
Accrued payroll and expenses	(1,928)	285	(1,129)	1,394	1,339	475
Accrued workers' compensation	(34)	(162)	(61)	(67)	(81)	150
Other current and long-term liabilities - includes Contingent Considera	(1,001)	(377)	(243)	(47)	(2,364)	-
Operating leases	-	-	-	-	(1,266)	-
Accrued taxes	(111)	(384)	247	53	52	-
Net (increase)/decrease in Working Capital	(5,919)	354	(4,129)	(740)	(3,075)	(570)
Net cash Provided (used) by Operations	<u>9,534</u>	<u>18,064</u>	<u>18,426</u>	<u>9,162</u>	<u>17,330</u>	<u>21,000</u>
<i>Cash Flows from Investing Activities</i>						
Business acquired, net of cash received	-	(24,500)	-	-	-	-
Capital expenditures	(939)	(1,146)	(924)	(674)	(1,800)	(2,000)
Proceeds from sale of property and equipment	8	2	-	-	-	-
Cash Flows from Investing Activities	<u>(931)</u>	<u>(25,643)</u>	<u>(924)</u>	<u>(674)</u>	<u>(1,800)</u>	<u>(2,000)</u>
<i>Cash Flows from Financing Activities</i>						
Borrowings (net) under line of credit	7,666	(2,515)	(10,718)	7,770	7,770	-
Proceeds from issuance of long-term debt	-	25,000	-	-	-	-
Principal payments on long-term debt	(15,282)	(1,113)	(13,767)	(10,121)	(11,000)	(6,500)
Payments on other long-term liabilities	(500)	-	-	-	-	-
Net proceeds from issuance of common stock	15,254	86	22,205	-	-	-
Contingent consideration paid	(7,556)	(4,024)	(963)	-	-	-
Dividends	(8,031)	(8,736)	(10,922)	(6,138)	(12,300)	(12,500)
Retirement of vested stock options	-	-	(3,335)	-	-	-
Deferred financing costs	(154)	(1,119)	(4)	-	-	-
Net cash provided by Financing	<u>(8,602)</u>	<u>7,580</u>	<u>(17,502)</u>	<u>(8,489)</u>	<u>(15,530)</u>	<u>(19,000)</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>

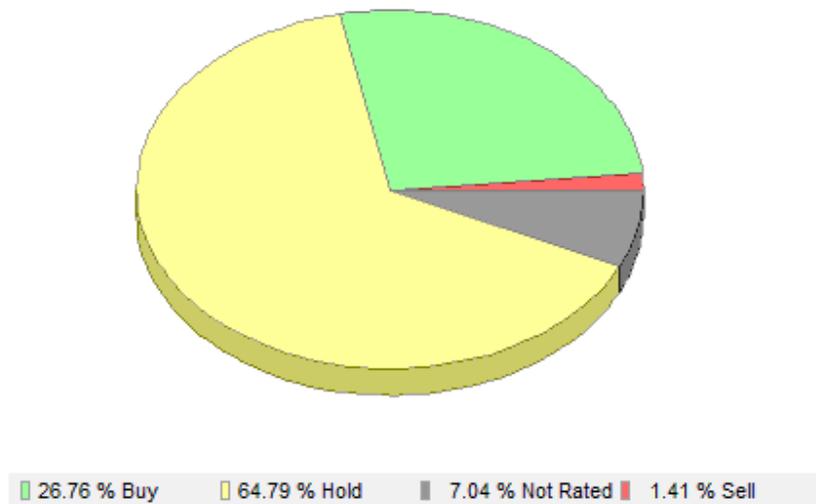
Source: Company reports and Taglich Brothers estimates

Taglich Brothers, Inc.

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	9
Hold		
Sell		
Not Rated	1	25

Important Disclosures

As of August 13, 2019, 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 392,119 shares of BGSF common stock and 20,920 restricted warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 409,966 shares of BGSF common stock and 17,400 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 and 11,200 shares of common stock. Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. owns or has a controlling interest in 4,100 shares of BGSF common stock. Other employees at Taglich Brothers, Inc. own or have a controlling interest in 300 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.

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.