TAGLICH BROTHERS

MEMBER: FINRA, SIPC | WWW.TAGLICHBROTHERS.COM

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 $21.17 — (NYSE MKT)

November 8, 2019

	2016 A	2017 A	2018 A	*2019 E*	*2020 E*
Revenues (in millions)	$253.9	$272.6	$286.9	***$292.7***	***$309.7***
Earnings per share	$0.82	$1.01*	$1.46**	***$1.32***	***$1.55***

52-Week range	$28.01 – $15.91	Fiscal year ends:	December
Shares outstanding a/o 11/05/19	10.2 million	Revenue/shares (ttm)	$28.35
Approximate float	9.2 million	Price/Sales (ttm)	0.7X
Market Capitalization	$217 million	Price/Sales (2020) E	0.7X
Tangible Book value/shr	$1.86	Price/Earnings (ttm)	14.2X
Price/Book	11.4X	Price/Earnings (2020) E	13.7X
Annual dividend per share	$1.20	Dividend Yield	5.7%

** 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 and increasing our 12-month price target to $24.00 from $22.50 per share due primarily to an increase in our 2020 EPS forecast and increased sector valuation.

The projected $156.2 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 2019, 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 the 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 3Q19 EPS (on 11-6-19) of $0.41 on a 3% increase in sales to $79.4 million. We projected EPS of $0.40 on sales of $77 million. In 3Q18, EPS was $0.49 on sales of $77.1 million. The year-ago period included a $0.16 per share gain related to a contingent consideration and option cancellation agreement.

Increasing our 2019 EPS forecast to $1.32 (prior was $1.30) on 2% revenue growth to $292.7 million (prior was $289.9 million). The increase in our sales and EPS forecasts reflect 3Q19 results.

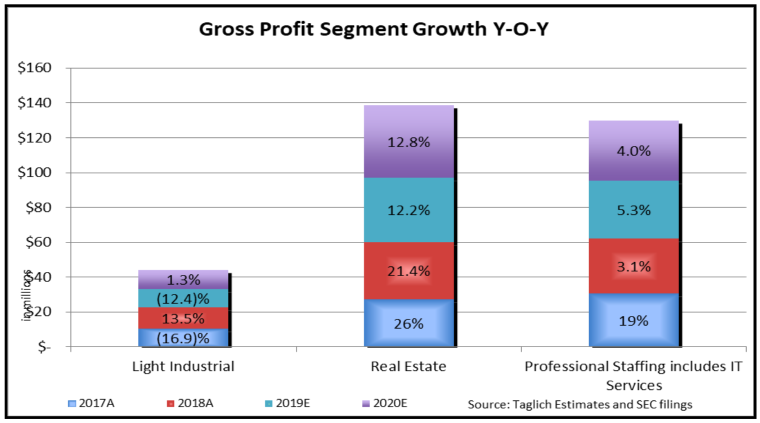
We project 2020 EPS of $1.55 on 5.8% sales growth to $309.7 million. We previously projected EPS of $1.50 on sales of $306.7 million. The increase in our forecasts reflects higher than anticipated Professional Service segment sales and lower than anticipated operating expenses.

Please view our Disclosures on pages 14 – 16.

790 New York Ave, Huntington, New York, N.Y. 11743
(800) 383-8464 • Fax (631) 757-1333

Appreciation Potential

We are maintaining our Speculative Buy rating and increasing our 12-month price target to $24.00 from $22.50 per share due primarily to an increase in our 2020 EPS forecast and increased sector valuation. Our rating should be supported by gross profit growth stemming from increased penetration in the $156.2 billion US staffing industry in 2020.



We forecast gross profit growth of 5.4% and 7.7% 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 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 8.2X and a 2020 P/E multiple of 15.3X (prior was 7.7X and 13.6X, respectively) with a 10.6% EPS growth rate. Based on our 2020 forecasts, BGSF's 2020 price-to-EBITDA and P/E multiples are 7.9X and 13.7X (prior was 7.5X and 12.9X) respectively, with an EPS growth rate of 17.4% (see chart on the right).

Name	Symbol	Price 11-07-19	Market Cap in $Mil	Price to EBITDA 2020 E	P/E 2019 E	EPS Growth Rate	P/E 2020 E
ASGN Inc.	ASGN	67.22	3556	7.5	14.5	8.0%	13.4
Computer Task Group Inc.	CTG	5.48	81	6.0	15.2	11.1%	13.7
Kforce Inc.	KFRC	41.42	942	10.2	17.5	15.8%	15.1
Resources Connection Inc.	RECN	14.89	477	7.6	14.5	4.9%	13.8
Robert Half International	RHI	58.10	6830	9.6	14.9	5.2%	14.1
51job Inc.	JOBS	80.14	10637	NA	25.9	18.3%	21.8
Average				**8.2**	**17.1**	**10.6%**	**15.3**
Company							
BG Staffing, Inc.	BGSF	21.17	217	7.9	16.0	17.4%	13.7

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

We anticipate investors should accord a multiple above the peer group due to BGSF's higher 2020 EPS growth. We applied a 15.5X multiple (prior was 15X) to our 2020 EPS forecast of $1.55 to obtain a year ahead price target of $24.00 per share, implying a total (including a 5.7% dividend yield) year-ahead return approaching 20%.

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 78 branch offices and 14 on-site locations providing services in 42 states and the District of Columbia.

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.

Growth Strategy

<u>*Technology Roadmap*</u>

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.

<u>*Geographic Dispersion*</u>

The light industrial segment operates in six states (Illinois, Wisconsin, Texas, Tennessee, Mississippi, and New Mexico) 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 as of August 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 30 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 3Q19, which should increase by at least two in 2020.

<u>*California Expansion*</u>

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

<u>*Basis of Forecast*</u>

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% of total revenue in 2020, up from 32.9% in 2019 and 30.3% in 2018 due primarily to the opening of new branch offices in 2019 and 2020, bringing the total number of offices to approximately 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 18.3% to $56 million with 2020 expense growth moderating to 7.4% reaching $60.1 million.

Economy

In October 2019, the IMF reduced its global economic growth estimate by 0.2% and 0.1%, respectively, for 2019 and 2020, to 3% and 3.4%. The downward revisions reflect slowing economic activity and a weakening in the global manufacturing sector. The IMF lowered its US economic growth forecast by 0.2% for 2019 to 2.4% but increased its 2020 forecast by 0.2% to 2.1%. The slowing economic growth forecast for 2020 compared to 2019 reflects an anticipated shift in the fiscal outlook from expansionary to neutral in 2020.

The advance estimate of US GDP growth (released on October 30, 2019) showed the US economy grew at an annual rate of 1.9% in 3Q19, down from 2% in 2Q19. The 3Q19 US GDP growth estimate reflects increases in consumer and government spending, and housing investments and exports, offset in part by decreases in business and inventory investments.

In September 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 3.7%, respectively, for each year compared to its June 2019 forecast of 3.6% and 3.7%, respectively.

In October 2019, the Bureau of Labor Statistics released its US temporary labor market penetration rate, which has remained at approximately 2% from January 2019 to October 2019.

Operations

In 2019, we project revenue growth of 2% to $292.7 million (prior was $289.9 million). Our forecast does not include potential acquisitions in the company’s professional staffing segment. Revenue growth should be driven primarily by an 10.9% increase in real estate segment sales to $96.4 million (prior was $96.7 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 BG Talent within its multi-family subsidiary should exceed $4.5 million. Revenue from the professional staffing segment should increase 3.5% to $123.5 million (prior was $120.8 million) due primarily to organic growth. Overall revenue growth will be restrained by a 9.8% decrease in the company’s Light Industrial segment to $72.8 million (prior was $72.4 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 2H19.

We project a 5.4% increase in gross profit to $80.8 million, driven by gross margin improvement to 27.6% from 26.7% in 2018. Gross margin improvement reflects revenue growth from the real estate segment, which should deliver a gross margin of 38.4% and comprise 32.9% of total sales, up from 30.3% of total sales in 2018.

We anticipate operating income decreasing 2.3% to $20 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 20.8% from 19.6% in 2018 (excluding the contingent consideration gain), partly offset by revenue growth and gross margin expansion.

We forecast operating expenses of $60.8 million, up from $52.3 million (or $56.1 million excluding the revaluation gain from contingent consideration). We project SG&A of $56 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. D&A expense should decrease $283,000 to $4.8 million. We project operating margin of 6.8% vs. 8.5%.

We project a $1.2 million decrease in interest expense to $1.6 million due to lower debt balances and a lower interest rate as the company refinanced its debt in July 2019. The company had a one-time expense of $541,000 related to the extinguishment of debt. No such expense occurred in 2018.

Our 2019 net income forecast is $13.6 million or $1.32 per share, after income tax expense of nearly $4.2 million for an income tax rate of 23.5%, and 10.4 million average shares outstanding. We previously forecasted net income of $13.5 million or $1.30 per share. The increase in our forecast reflect stronger than anticipated 3Q19 results.

In 2020, we project revenue growth of 5.8% to $309.7 million (prior was $306.7 million). Our forecast does not include potential acquisitions in the company's professional staffing segment. Revenue growth should be driven primarily by a 12.4% increase in real estate segment sales to $108.3 million due to the opening of new branch offices bringing the total offices to approximately 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 3.4% to nearly $127.7 million due primarily to organic growth from the expansion to California. We forecast light industrial segment sales to increase 1.3% to $73.7 million due primary to growth from existing customers.

We project a 7.7% increase in gross profit to $87 million, driven by gross margin improvement to 28.1% from our 2019 forecast of 27.6%. Gross margin improvement reflects revenue growth from the real estate segment, which should deliver a gross margin of 38.5% and comprise 35% of total sales, up from an estimated 32.9% of total sales in 2019. We anticipate operating income growth of 11.6% to $22.3 million due primarily to revenue growth and gross margin expansion. We anticipate operating margin expense increasing to 20.9% from an estimated 20.8% in 2019.

We forecast operating expense to increase 6.4% to $64.7 million (prior was $65.6 million). We project a 7.4% increase in SG&A to $60.1 million (prior was $61.2 million) due primarily to technology spending and to support geographic growth in the company's real estate and professional staffing segments. D&A expense should decrease $242,000 at $4.6 million. We project operating margin of 7.2% vs. 6.8% due to higher revenue and increased gross margin, offset in part by higher operating expenses.

We project a $290,000 decrease in interest expense to $1.3 million due to lower debt balances. Our 2020 net income forecast is $16 million or $1.55 per share, after income tax expense of $4.9 million for an income tax rate of 23.5%. We previously projected net income of $15.6 million or $1.50 per share, after income tax expense of $4.6 million for an income tax rate of 22.8%. The increase in our forecast reflects higher than anticipated sales in the company's professional service segment and lower than anticipated SG&A spending as the actual spending to fund the company's technology roadmap is likely to be less than we previously forecasted.

Finances

For 2019, we project cash earnings of $20.7 million and an increase in working capital of $2.5 million. The increase in working capital is due primarily to increases in prepaid expenses and receivables, as well as a reduction in contingent consideration, offset in party by an increase in accruals. Cash from operations of $18.2 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 $21.7 million and an increase in working capital of $715,000 due primarily to an increase in receivables, offset in part by an increase in accruals. 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.

3Q19 and 9M19 Results

3Q19 Results

Revenues increased 3% to $79.4 million due to an 11% increase in the Real Estate segment to $29.5 million, an 8% increase in the Professional Staffing segment to $31.5 million, partly offset by a 13.9% decrease in the Light Industrial segment to $18.1 million.

The 11% increase in Real Estate segment sales was due to the company's execution of its geographic expansion plan and growth of existing offices. The opening of new offices contributed approximately $700,000 to the sales increase. The overall increase in revenue from the Real Estate segment reflects a 5.9% increase in billed hours and a 4.6% increase in the average bill rate.

The 8% increase in Professional staffing segment sales was due to a $4 million increase in information technology group sales, partly offset by a $1.7 million decrease in finance and accounting group sales. The Professional segment had an 11.2% increase in average bill rates, offset in part by decreases of approximately $400,000 from permanent placements and a 5.3% decline in billed hours.

The 13.9% decrease in Light Industrial revenue was due primarily to a 17.6% decrease in billed hours as three of its largest client partners reduced the use of BGSF's services, partly offset by a 4.4% increase in the average bill rate.

Gross profit increased 3.8% to $22.2 million reflecting gross margin expansion to 27.9% from 27.7% in 3Q18 due primarily to the Real Estate segment's gross margin expanding to 38.2% from 37.9% in the year-ago period. Gross profits increased 12.1% in the Real Estate segment to $11.3 million, followed by a 1.9% increase in the Professional segment to $8.3 million. The company's Light Industrial segment's gross profit decreased 17.7% to $2.6 million.

Operating expenses increased 9.9% to $15.7 million from $14.3 million in the year-ago period due primarily to a 3.4% increase in SG&A expenses to $14.5 million, offset in part by a $51,000 reduction in D&A expenses to $1.2 million reflecting Professional and Light Industrial segment's fully amortizing intangible assets related to a prior acquisition. Excluding (in the year-ago period) a $988,000 decrease (a net gain) in contingent consideration adjustments related the Zycron acquisition, operating expenses increased 2.8% to $15.7 million from $15.3 million in 3Q18. Overall SG&A expense reflects increased costs associated with new office expansion, increased headcount, commissions and bonuses, as well as approximately $341,000 in information technology expenditures to improve the company's technology infrastructure.

Operating income decreased 8.7% to $6.5 million due primarily to a 9.9% increase in operating expenses, partly offset by revenue growth and gross margin expanding to 27.9% from 27.7% in 3Q18. Operating expense margin increased to 19.8% from 18.5%. Excluding contingent consideration adjustments, operating income would have increased 6.1% to $6.5 million from an adjusted $6.1 million. Operating margin was 8.2%, down from 9.2% in the year-ago period.

Interest expense was $395,000 compared to $662,000. The decrease reflects lower debt balances stemming from a May 2018 common stock offering that was used to pay down debt, as well as reductions in amortization of contingent consideration discounts related to the 2017 Zycron and Smart acquisitions.

Net income was $4.2 million or $0.41 per share, compared to net income of $5.1 million or $0.49 per share, on income tax expense of $1.3 million or a rate of 24.1% compared to $1.4 million or a rate of 21.3% in 3Q18. We estimate, excluding contingent consideration adjustments and a one-time deduction related to the cancellation of outstanding stock options, EPS would have been $0.39 in 3Q18. We projected net income of $4.1 million or $0.37 per share, on sales of $77 million.

9M19 Results

Revenues increased 3.3% to $222 million due to a 10.9% increase in Real Estate segment sales to $73 million, and a 3.3% increase in Professional Staffing sales to $93.4 million, offset in part by a $5.2% decrease in Light Industrial segment sales to $55.5 million.

Gross profit increased 6.2% to $61.5 million reflecting gross margin expansion to 27.7% from 26.9% in the year-ago period. Gross profit growth was primarily due to the company's Real Estate segment (see table below).

Operating expenses increased 14.5% to $46 million due primarily to a 9.9% increase in SG&A expenses to $42.4 million and no contingent consideration gain in the current period. In the year-ago period the contingent consideration gain reduced operating expenses by nearly $2.2 million. Operating income decreased 12.5% to $15.5 million from $17.7 million. However, excluding the contingent consideration gain in the year-ago period, operating income in 9M19 would have been flat at $15.5 million.

	9 Mos. 19	9 Mos. 18	% D
Revenues per segment in Millions			
Light Industrial	$ 55.5	$ 58.6	**(5.2%)**
Real Estate	73.0	65.9	**10.9%**
Professional Staffing	93.4	90.4	**3.3%**
Total Revenue	**$ 222.0**	**$ 214.9**	**3.3%**
Cost of Sales per segment			
Light Industrial	47.4	49.8	**(4.8%)**
Real Estate	45.0	40.8	**10.3%**
Professional Staffing	68.1	66.3	**2.6%**
Total Cost of Sales	**$ 160.5**	**$ 157.0**	**2.3%**
Gross Profit per segment			
Light Industrial	8.1	8.8	**(7.6%)**
Real Estate	28.0	25.0	**11.9%**
Professional Staffing	25.3	24.1	**5.3%**
Gross Profit	**$ 61.5**	**$ 57.9**	**6.2%**
Total Operating Expenses	46.0	40.2	**14.5%**
Operating Income	15.5	17.7	**(12.5%)**
Total Other Income (Expense)	(1.8)	(2.3)	**NMF**
Pre-Tax Income	13.7	15.4	**NMF**
Income Tax Expense (Benefit)	3.2	2.7	
Net Income (loss)	10.5	12.7	
Earnings (loss) per share	$ 1.01	$ 1.32	
Dividend per share	$ 0.90	$ 0.85	
Avg Shares Outstanding	10.4	9.6	
Margins			
Gross margin - combinded	27.7%	26.9%	
Operating Margin	7.0%	8.2%	
Pre-Tax Margins	6.2%	7.2%	
Tax Rate	23.3%	17.7%	

Source: company reports

Interest expense decreased to $1.2 million from $2.3 million. In the current period, the company had a $541,000 loss on the extinguishment of debt compared to none in the year-ago period. Net income was to $10.5 million or $1.01 per share, compared to net income of $12.7 million or $1.32 per share. The effective income tax rate was 23.3% compared to 17.7% in the year-ago period. Excluding one-time gains in 2018, EPS was an estimated $1.04.

Finances

In 9M19, cash earnings of $16.2 million was reduced by a $2.2 million increase in working capital due primarily to an increase in prepaid expenses and receivables, offset in part by an increase in accruals. Cash from operations of $14 million was completely offset by capital investments, repayment of debt, and common stock dividends. Cash at September 30, 2019 was zero.

Capital Structure

At September 30, 2019, the company had total outstanding debt (net of deferred finance fees - $358,000) of nearly $20.2 million, all of which is a long-term line of credit. The interest rate was 3.8%. The company's debt to equity ratio is 0.6 versus 1 for the industry, indicating that BGSF's leverage is less then other staffing and outsourcing service companies.

As of September 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 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.

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.

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.

The September 2019 update report by the advisory firm Staffing Industry Analysts projected the US staffing industry to grow 3% (down from 4% in April 2019) in 2019 and 3% in 2020 reaching $156.2 billion from an estimated $152.5 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 33.3% of total industry revenue or $62.6 billion in 2019. Revenue for professional staffing should increase to $65.5 billion by 2025.

Light Industrial Segment
IBISWorld estimates industrial and factory staffing should account for 23.6% of total industry revenue or $44.3 billion in 2019. Revenue for industrial and factory staffing should increase to $46.4 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 3Q19, three states (Texas – 29%, Tennessee – 16%, and Maryland – 10%) accounted for 55% 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
The Federal Reserve has cut interest rates three times in 2019 (thru October 2019). However, further changes to interest rates are likely to depend on economic and trade data. If economic growth and inflation were to accelerate, it is likely interest rates could increase, which would further increase the company's variable rate term loan and revolving credit facility.

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

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

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

Shareholder Control
Officers and directors and 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 November 7, 2019, average daily volume was 51,200 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	3Q19A	**2019 E**	**2020 E**
ASSETS						
Current assets:						
Cash and cash equivalents	$ -	$ -	$ -	$ -	**$ -**	**$ -**
Accounts receivable, net	33,329	36,708	37,607	40,399	**37,648**	**39,098**
Prepaid expense and other current assets	951	948	984	1,710	**1,668**	**1,548**
Income taxes receivable	-	191	-	-	**-**	**-**
Other current assets	155	143	23	39	**39**	**39**
Total current assets	**34,434**	**37,990**	**38,614**	**42,148**	**39,355**	**40,685**
Property and equipment, net	1,911	2,040	2,557	3,099	**3,100**	**3,125**
Security deposits	2,658	2,907	3,209	3,701	**3,700**	**3,700**
Right-of-use asset - operating lease, net	-	-	-	4,114	**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	30,539	**29,910**	**26,976**
Goodwill	9,185	17,970	17,984	17,984	**17,984**	**17,984**
Total assets	**$ 81,214**	**$ 104,633**	**$ 100,269**	**$ 105,993**	**$ 102,576**	**$ 101,032**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Debt	-	2,924	4,243	-	**-**	**-**
Accrued interest	101	331	309	204	**210**	**225**
Accounts payable	952	1,910	146	141	**215**	**250**
Accrued payroll and expenses	9,668	11,541	10,411	11,993	**12,430**	**13,000**
Accrued workers' compensation	755	592	531	448	**450**	**475**
Contingent consideration	3,581	4,299	2,364	-	**-**	**-**
Lease liability	-	-	-	1,272	**672**	**672**
Other current liabilities	-	74	-	-	**-**	**-**
Taxes payable	193	-	56	280	**280**	**280**
Total current liabilities	**15,249**	**21,670**	**18,059**	**14,336**	**14,257**	**14,902**
Line of credit	23,618	20,620	10,079	20,196	**16,863**	**10,400**
Long-term debt	-	20,579	5,768	-	**-**	**-**
Lease liability	-	-	-	3,875	**3,371**	**3,000**
Other long-term liabilities and contigent consideration	1,858	2,629	662	-	**-**	**-**
Stockholders' equity:						
Common stock, $0.01 par value; authorized 19,500,000 shares;	87	88	78	75	**78**	**78**
Additional paid-in capital	36,143	37,675	57,624	58,417	**58,662**	**59,762**
Retained earnings (Deficit)	4,259	1,372	7,999	9,094	**9,344**	**12,889**
Total stockholders' equity	**40,488**	**39,135**	65,702	**67,586**	**68,085**	**72,730**
Total liabilities and stockholders' equity	**$ 81,214**	**$ 104,633**	**$ 100,269**	**$ 105,993**	**$ 102,576**	**$ 101,032**
SHARES OUT	**8,668**	**8,760**	**10,160**	**10,242**	**10,245**	**10,250**

Source: Company reports and Taglich Brothers estimates

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

	2016 A	2017 A	2018 A	**2019 E**	**2020 E**
Revenues	$ 253,852	$ 272,600	$ 286,863	**$ 292,673**	**$ 309,685**
Cost of services	193,779	204,198	210,268	**211,905**	**222,690**
Gross Profit	60,073	68,402	76,595	**80,768**	**86,995**
Operating Expenses:					
SG&A	37,804	44,349	47,291	**55,966**	**60,125**
Depreciation and amortization	6,733	6,292	5,044	**4,812**	**4,570**
Total Operating Expenses	44,538	50,641	52,336	**60,779**	**64,695**
Operating Income (loss)	15,536	17,761	24,260	**19,990**	**22,300**
Other income (expense)					
Extinguishment of debt	(404)	-	-	**(541)**	**-**
Interest expense	(3,962)	(3,253)	(2,850)	**(1,620)**	**(1,330)**
Total Other Income (expense)	(4,366)	(3,253)	(2,850)	**(2,160)**	**(1,330)**
Income (loss) before taxes	11,170	14,508	21,409	**17,829**	**20,970**
Income Tax Expense (Benefit)	4,288	8,659	3,860	**4,184**	**4,925**
Net Income (loss)	6,882	5,848	17,550	**13,645**	**16,045**
Earnings (loss) per share	$ 0.82	$ 0.65	$ 1.78	**$ 1.32**	**$ 1.55**
Dividend per share	$ 1.00	$ 1.00	$ 1.15	**$ 1.20**	**$ 1.20**
Avg Shares Outstanding	8,400	9,038	9,833	**10,365**	**10,375**
EBITDA - Adjusted	$ 22,583	$ 24,500	$ 27,891	**$ 26,238**	**$ 27,970**
Margin Analysis					
Gross margin	23.7%	25.1%	26.7%	**27.6%**	**28.1%**
SG&A	14.9%	16.3%	16.5%	**19.1%**	**19.4%**
Depreciation and amortization	2.7%	2.3%	1.8%	**1.6%**	**1.5%**
Operating margin	6.1%	6.5%	8.5%	**6.8%**	**7.2%**
Pre-tax margin	4.4%	5.3%	7.5%	**6.1%**	**6.8%**
Tax rate	38.4%	59.7%	18.0%	**23.5%**	**23.5%**
YEAR / YEAR GROWTH					
Total Revenues	16.7%	7.4%	5.2%	**2.0%**	**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 A	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	$ 79,364	$ 70,675	**$ 292,673**	$ 71,050	$ 78,180	$ 85,055	$ 75,400	**$ 309,685**
Cost of services	49,546	51,753	55,689	53,280	210,268	50,337	52,995	57,188	51,385	**211,905**	51,585	55,870	60,790	54,445	**222,690**
Gross Profit	17,310	19,192	21,373	18,720	76,595	18,439	20,863	22,177	19,290	**80,768**	19,465	22,310	24,265	20,955	**86,995**
Operating Expenses:															
SG&A	11,979	11,357	13,034	10,921	47,291	13,620	14,238	14,503	13,605	**55,966**	14,140	15,170	16,335	14,480	**60,125**
Depreciation and amortization	1,296	1,258	1,248	1,243	5,044	1,232	1,204	1,197	1,180	**4,812**	1,165	1,150	1,135	1,120	**4,570**
Total Operating Expenses	13,275	12,615	14,282	12,164	52,336	14,852	15,442	15,700	14,785	**60,779**	15,305	16,320	17,470	15,600	**64,695**
Operating Income (loss)	4,035	6,577	7,091	6,556	24,260	3,587	5,421	6,477	4,505	**19,990**	4,160	5,990	6,795	5,355	**22,300**
Other income (expense)															
Extinguishment of debt	-	-	-	-	-	-	-	(541)	-	**(541)**	-	-	-	-	-
Interest expense	(871)	(742)	(662)	(576)	(2,850)	(353)	(496)	(395)	(375)	**(1,620)**	(365)	(340)	(325)	(300)	**(1,330)**
Total Other Income (expense)	(871)	(742)	(662)	(576)	(2,850)	(353)	(496)	(936)	(375)	**(2,160)**	(365)	(340)	(325)	(300)	**(1,330)**
Income (loss) before taxes	3,164	5,835	6,430	5,980	21,409	3,233	4,925	5,541	4,130	**17,829**	3,795	5,650	6,470	5,055	**20,970**
Income Tax Expense (Benefit)	699	665	1,368	1,127	3,860	737	1,123	1,334	990	**4,184**	890	1,325	1,520	1,190	**4,925**
Net Income (loss)	2,466	5,170	5,061	4,853	17,550	2,496	3,802	4,207	3,140	**13,645**	2,905	4,325	4,950	3,865	**16,045**
Earnings (loss) per share	$ 0.27	$ 0.54	$ 0.49	$ 0.47	$ 1.78	$ 0.24	$ 0.37	$ 0.41	$ 0.30	**$ 1.32**	$ 0.28	$ 0.42	$ 0.48	$ 0.37	**$ 1.55**
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	10,344	10,350	**10,365**	10,360	10,370	10,380	10,390	**10,375**
EBITDA - Adjusted	$ 5,483	$ 7,884	$ 8,109	$ 6,416	$ 27,891	$ 5,159	$ 6,848	$ 8,296	$ 5,935	**$ 26,238**	$ 5,600	$ 7,415	$ 8,205	$ 6,750	**$ 27,970**
Margin Analysis															
Gross margin	25.9%	27.1%	27.7%	26.0%	26.7%	26.8%	28.2%	27.9%	27.3%	**27.6%**	27.4%	28.5%	28.5%	27.8%	**28.1%**
SG&A	17.9%	16.0%	16.9%	15.2%	16.5%	19.8%	19.3%	18.3%	19.3%	**19.1%**	19.9%	19.4%	19.2%	19.2%	**19.4%**
Depreciation and amortization	1.9%	1.8%	1.6%	1.7%	1.8%	1.8%	1.6%	1.5%	1.7%	**1.6%**	1.6%	1.5%	1.3%	1.5%	**1.5%**
Operating margin	6.0%	9.3%	9.2%	9.1%	8.5%	5.2%	7.3%	8.2%	6.4%	**6.8%**	5.9%	7.7%	8.0%	7.1%	**7.2%**
Pre-tax margin	4.7%	8.2%	8.3%	8.3%	7.5%	4.7%	6.7%	7.0%	5.8%	**6.1%**	5.3%	7.2%	7.6%	6.7%	**6.8%**
Tax rate	22.1%	11.4%	21.3%	18.9%	18.0%	22.8%	22.8%	24.1%	24.0%	**23.5%**	23.5%	23.5%	23.5%	23.5%	**23.5%**
YEAR / YEAR GROWTH															
Total Revenues	17.6%	3.2%	8.1%	(4.9%)	5.2%	2.9%	4.1%	3.0%	(1.8%)	**2.0%**	3.3%	5.9%	7.2%	6.7%	**5.8%**

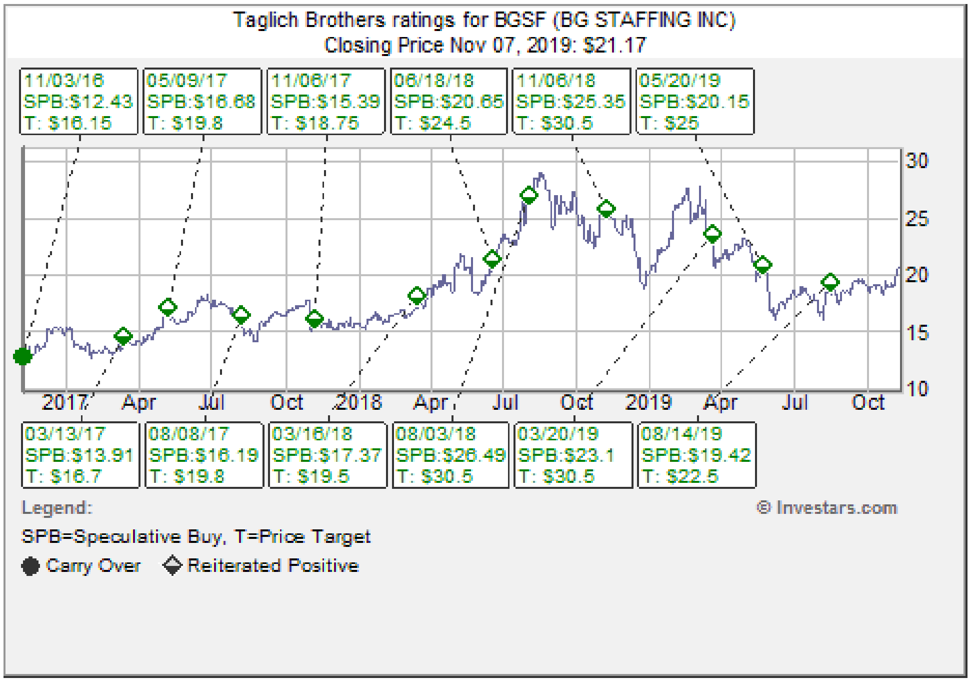
Source: Company reports and Taglich Brothers estimates

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

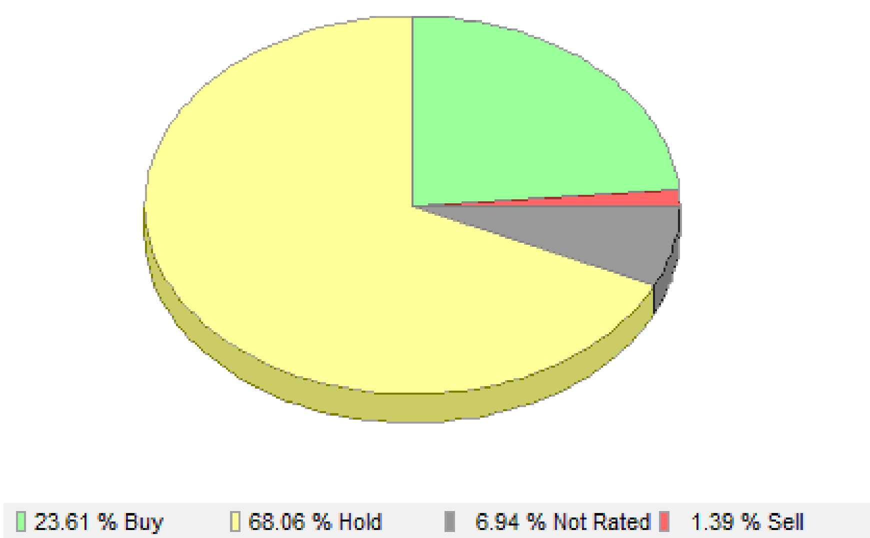
	FY2016A	FY2017A	FY2018A	9 Mos.19A	**FY2019E**	**FY2020E**
Cash Flows from Operating Activities						
Net Income (loss)	$ 6,882	$ 5,848	$ 17,550	$ 10,505	**$ 13,645**	**$ 16,045**
Depreciation and amortization	6,733	6,292	5,044	3,633	**4,812**	**4,570**
Disposal of property and equipment	10	17	18	7	**7**	-
Extinguishment of related party debt and debt	404	-	-	541	**541**	-
Contingent considerationt adjustment	(167)	(226)	(3,775)	-	-	-
Amortization of defered financing costs	105	251	454	154	**154**	-
Amortization of debt discounts	43	-	-	-	-	-
Interest expense on earnout payable	1,839	1,208	624	111	**111**	-
Provision for doubtful accounts	389	761	41	6	**6**	-
Stock based compensation	314	447	1,069	751	**1,000**	**1,100**
Deferred income taxes	(1,101)	3,110	1,532	463	**463**	-
Cash earnings (burn)	15,453	17,709	22,556	16,170	**20,740**	**21,715**
Changes In:						
Accounts receivable	(1,394)	1,434	(939)	(2,799)	**(41)**	**(1,450)**
Prepaid expenses	(90)	102	(36)	(726)	**(684)**	**120**
Other current assets	(21)	27	121	(16)	**(16)**	-
Security deposits	(424)	(245)	(302)	(491)	**(491)**	-
Accrued interest	(296)	230	(22)	(105)	**99**	**(15)**
Accounts payable	(621)	(556)	(1,763)	(6)	**69**	**35**
Accrued payroll and expenses	(1,928)	285	(1,129)	1,830	**2,019**	**570**
Accrued workers' compensation	(34)	(162)	(61)	(83)	**(81)**	**25**
Other current and long-term liabilities - includes Contingent Considera	(1,001)	(377)	(243)	-	**(2,364)**	-
Operating leases	-	-	-	(34)	**(1,272)**	-
Accrued taxes	(111)	(384)	247	224	**224**	-
Net (increase)/decrease in Working Capital	(5,919)	354	(4,129)	(2,205)	**(2,539)**	**(715)**
Net cash Provided (used) by Operations	9,534	18,064	18,426	13,965	**18,201**	**21,000**
Cash Flows from Investing Activities						
Business acquired, net of cash received	-	(24,500)	-	-	-	-
Captial expenditures	(939)	(1,146)	(924)	(1,534)	**(1,800)**	**(2,000)**
Proceeds from sale of property and equipment	8	2	-	-	-	-
Cash Flows from Investing Activities	(931)	(25,643)	(924)	(1,534)	**(1,800)**	**(2,000)**
Cash Flows from Financing Activities						
Borrowings (net) under line of credit	7,666	(2,515)	(10,718)	9,891	**9,891**	-
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)	-	-	-	-	-
Issuance of common stock	15,254	86	22,205	38	**38**	-
Contingent consideration paid	(7,556)	(4,024)	(963)	(2,672)	**(2,672)**	-
Dividends	(8,031)	(8,736)	(10,922)	(9,210)	**(12,300)**	**(12,500)**
Retirement of vested stock options	-	-	(3,335)	-	-	-
Deferred financing costs	(154)	(1,119)	(4)	(358)	**(358)**	-
Net cash provided by Financing	(8,602)	7,580	(17,502)	(12,431)	**(16,401)**	**(19,000)**
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	2	10
Hold		
Sell		
Not Rated	1	25

Important Disclosures

As of November 7, 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 387,387 shares of BGSF common stock and 35,397 restricted warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 388,887 shares of BGSF common stock and 31,877 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, 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 in 4,100 shares of BGSF common stock and 2,822 restricted warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 5,727 shares of BGSF common stock. Other employees at Taglich Brothers, Inc. own or have a controlling interest in 920 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.