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Research Report – Update

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

BGSF, Inc.

Rating: Speculative Buy

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BGSF $13.16 — (NYSE MKT)

November 8, 2021

	2018 A	2019 A	2020 A	***2021 E***	***2022 E***
Revenues (in millions)	$286.9	$294.3	$277.9	***$308.5***	***$329.9***
Earnings per share	$1.46*	$1.28	$0.66**	***$0.94****	***$1.31***

52-Week range	$16.91 – $9.02	Fiscal year ends:	December
Shares outstanding a/o 11/03/21	10.4 million	Revenue/shares (ttm)	$28.32
Approximate float	9.6 million	Price/Sales (ttm)	0.5X
Market Capitalization	$136.9 million	Price/Sales (2022) E	0.4X
Tangible Book value/shr	$0.18	Price/Earnings (ttm)***	15.6X
Price/Book	73.1X	Price/Earnings (2022) E	10.0X
Annual dividend per share	$0.48	Dividend Yield	3.6%

** Excludes a $0.32 contingent consideration gain ** Excludes approximately $0.52 per share impairment charge *** Excludes approximately $0.23 per share contingent consideration gain*

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

Key Investment Considerations:

Maintaining Speculative Buy rating and increasing our 12-month price target to $21.50 per share from $20.50 due primarily to increases in sector valuation and our 2022 EPS forecast.

BGSF has positioned its light industrial, professional, and real estate segments to grow operations through 2022. The US staffing industry market is projected to reach $163.7 billion in 2022, up from an estimated $157.4 billion in 2021.

The company integrated its multifamily and talent leadership teams, which in 2021 has provided the real estate segment with new business opportunities by equipping the segments' professionals with better processes, training, tracking, and improved audit policies, which should drive year-over-year sales growth of 33.2% and 20.4%, respectively in 2021 and 2022 compared to a 29% decline in 2020.

BGSF reported 3Q21 EPS (on 11-3-21) of $0.33 (excludes a contingent consideration gain of $0.12 per share) on a 15.1% increase in sales to $82.4 million. In 3Q20, EPS was $0.25 on sales of $71.5 million. We projected EPS of $0.29 on sales of $79.5 million.

We project 2021 EPS of $0.94 (prior was $0.90) on an 11% increase in sales to $308.5 million (prior was $305.6). Our revised forecast reflects 3Q21 results and excludes contingent consideration gain of $0.23 per share that occurred in 2Q/3Q 2021.

In 2022, we are increasing our EPS projection by $0.01 to $1.31 on sales growth of 6.9% to $329.9 million (prior was $328.5 million). Our EPS forecast reflects gross margin improvement to 29.8% from an estimated 29.1% in 2021 and operating margin expense of 23.9% compared to 24.6% in 2021 (excludes items).

Please view our Disclosures on pages 13 – 15.

Appreciation Potential

Maintaining Speculative Buy rating and increasing our 12-month price target to $21.50 per share from $20.50 due primarily to increases in sector valuation and our 2022 EPS forecast. Our rating should be supported by a resumption of gross profit growth in 2021 and 2022 stemming from a return to more normal operations and US staffing industry growth that should reach $163.7 billion in 2022, up from an estimated $157.4 billion in 2021 according to a September 2021 report from consulting firm Staffing Industry Analysts.

We forecast gross profit growth of 9.3% in 2022 compared to 17.8% in 2021. In 2020, gross profit decreased 5.5%. The resumption of gross profit growth should be driven by revenue gains in the real estate segment (BGSF's highest margin segment) reflecting an estimated 48 locations in operation during 2H21 with at least 54 locations in operation at the start of 2022.

The comparative peers in the Staffing & Employment Services industry (source: finviz – on 11/5/21) have a forward P/E multiple of 18.3X (prior was 17.6X) with a 15.6% EPS growth rate. Based on our 2022 forecast, BGSF's P/E multiple is 10X (prior was 10.3X) with EPS growth of 39.4% to $1.31 per share from an estimated $0.94 per share in 2021 (excludes a contingent consideration gain in 2Q21/3Q21 of $0.23 per share).

We anticipate investors are likely to accord BGSF the peer group multiple as its EPS growth of 39.4% is higher than the peer groups' EPS growth of 15.6%. We applied an 18.3X multiple (prior was 17.6X) to our 2022 EPS forecast of $1.31, discounted for execution risk, to obtain a year ahead price target of $21.50 per share, implying a total (including a 3.6% dividend yield) year-ahead return in excess of 65%.

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

Overview

BGSF, Inc., headquartered in Plano, Texas, is a national provider of temporary staffing services across a diverse set of industries, which operates through the following brands – American Partners, BG Multifamily, Donovan & Watkins, Extrinsic, Instaff, Vision Technology Services, Zycron, L.J. Kushner & Associates, EdgeRock, and Momentum Solutionz. BGSF, Inc. operates within three industry segments: Light Industrial, Professional, and Real Estate (a specialty segment). The company's real estate segment operates in 41 states and the District of Columbia and its light industrial segment operates in seven US states. The professional segment operates 10 BG brands in the US that generates revenue within information technology, infrastructure and development, and financing and accounting verticals.

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

Growth Strategy

<u>*Technology Roadmap*</u>

The primary goal of the company is to develop technology that will reduce cycle time to fill client orders and onboard applicants, improved internal operations through automation and scalability, and implement secure cloud solutions.

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

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

In April 2020, the company began training its team members on holding virtual sales meetings and interviews. In May 2020, BGSF began conducting Webinars in its professional brands with record attendance and its social media education and outreach programs have expanded.

In 2021, the company's technology platforms should be able accommodate a new environment where companies allow their employees to work from a remote location or a combination of working in person and remotely (the new hybrid work model). To that end, a majority of BGSF's teams have returned to the office on a hybrid basis while the company continues to monitor the ongoing COVID-19 pandemic conditions. Starting in 2Q21, the company began to see a return to a more traditional way of doing business. However, it anticipates virtual connections will be heavily used going forward with the digital transformation becoming an important factor in finding and engaging with clients.

Cross selling
The company aims to increase cross selling opportunities within and between its three operating segments. The company anticipates it can generate 8% of total revenues from cross selling, which should comprise 10% of gross profit in 2021. Helping to drive these initial cross selling results was the 1Q21 acquisition of Momentum Solutionz. Momentum's expertise fits into its professional segment IT solutions segment and should be able to support broad opportunities to cross sell that segments' capabilities within BGSF's current client partner base.

Projections

Basis of Forecast
Our forecast reflects the company's streamlining and cross selling initiatives developed and implemented during the worst of the COVID-19 pandemic environment that should provide sustained growth opportunities through our forecast period. We also anticipate that a significant portion of record high open orders should be filled as the company works to educate its customers on how to attract workers in order to fill those job openings that are within the company's light industrial and real estate segments.

Economy
In October 2021, the International Monetary Fund (IMF) revised its economic growth estimate for the US to an increase of 6% for 2021 and 5.2% for 2022. In July 2021, the IMF projected US economic growth of 7% for 2021 and 4.9% for 2022. The IMF adjusted their 2021 forecast due primarily to supply chain issues. A risk to the IMF 2022 forecast would be if pending legislation on infrastructure does not get passed by the US Congress.

The advance estimate of US GDP growth (released on October 28, 2021) showed the US economy increased at annual rate of 2% in 3Q21, down from the 6.7% increase reported in 2Q21. The 3Q21 US GDP estimate primarily reflects increases in inventory investment, consumer spending, state and local government spending, and business investment, partially offset by decreases in housing investment, federal government spending, and exports.

The unemployment rate for October 2021 (reported on November 5, 2021) was 4.6% compared to the peak unemployment rate of 14.7% in April 2020. In October 2021, unemployed people in the US were approximately 7.4 million (compared to 8.7 million in July 2021), while the number of employed were 153.6 million (compared to 133.2 million in April 2020). In October 2021, the labor force participation rate was 61.6% (the participation rate has remained within a narrow range of 61.4% to 61.7% since June 2020). In February 2020, the labor force participation rate was 63.3%.

In September 2021, the Federal Reserve Board issued a forecast that calls for a US unemployment rate of 4.5% and 3.8%, respectively in 2021 and 2022, compared to its June 2021 forecast of 4.5% and 3.8%, respectively in 2021 and 2022.

Operations

In 2021, we project revenue growth of 11% to $308.5 million (prior was $305.6 million). We anticipate the company's three segments (real estate, professional services, and light industrial) should experience growth as pent up customer demand is fulfilled.

We project a 17.8% increase in gross profit to $89.8 million driven by sales growth and gross margin expanding to 29.1% from 27.4% due primarily to a shift in the sales mix to the company's two higher margin real estate and professional services segments. We anticipate operating income increasing to $13.9 million (excluding a $2.4 million contingent consideration gain) from $10.7 million (excluding $7.2 million impairment charge and $76,000 contingent consideration gain) due primarily to revenue growth and gross margin expansion, partly offset by operating margin expense increasing to 24.6% from 23.6% in 2020.

We forecast operating expense to increase 15.8% to $75.9 million (excluding contingent consideration gain) compared to $65.5 million (excluding impairment charge and contingent consideration gain) in 2020. We project an 18.6% increase in SG&A to $71.8 million to support sales growth. D&A expense should decrease to $4 million from $5 million. We project operating margin of 5.3% vs. 1.3% due primarily to revenue growth and gross margin expansion.

We project a decrease of $113,000 in interest expense to nearly $1.5 million due primarily to higher annual interest received from the company's workers compensation loss retention program in 2Q21. Our net income forecast (excluding a contingent consideration gain of $0.23 per share) is $9.7 million or $0.94 per share, after income tax expense of $2.7 million for an income tax rate of 18.3%. We previously forecasted net income of $9.4 million or $0.90 per share, after income tax expense of $2.5 million for an income tax rate of 19.2%.

In 2022, we project revenue growth of 6.9% to $329.9 million (prior was $328.5 million). Our forecast does not include potential acquisitions in the company's professional staffing segment. We anticipate the company's three segments (real estate, professional services, and light industrial) should experience growth as pent up customer demand is fulfilled and the company executes on customer cross selling opportunities which should exceed 20% of professional service segment sales.

We project a 9.3% increase in gross profit to $98.2 million driven by gross margin improvement to 29.8% from an estimated 29.1% in 2021. The 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 an estimated 29.7% of total sales in 2021. We anticipate operating income increasing 47% to $19.2 million from an estimated $13.9 million (excludes a contingent consideration gain of $2.4 million) due to revenue growth, gross margin expansion, and operating margin expense improving to 23.9% from an estimated 24.6% in 2021 (excluding the contingent consideration gain).

We forecast operating expense to increase 4.1% to nearly $79 million compared to an estimated $75.9 million (excluding contingent consideration gain) in 2021. We project a 4.7% increase in SG&A to $75.2 million to support sales growth. D&A expense should decrease $316,000 to $3.7 million. We project operating margin of 5.8% vs. 5.3% due to higher revenue, increased gross margin, and improvement in operating margin expense.

We project interest expense of $1.7 million compared to $1.5 million reflecting a higher average interest rate, partly offset by a lower average debt balance. We project net income of $13.7 million or $1.31 per share, after income tax expense of $3.9 million for an income tax rate of 22%. We previously projected net income of $13.6 million or $1.30 per share, after income tax expense of $4.3 million for an income tax rate of 24%.

Finances
For 2021, we project cash earnings of nearly $16.7 million and an increase in working capital of $6.1 million due primarily to an increase in receivables, partly offset by an increase in other (current) liabilities. Cash from operations of $10.6 million and borrowings should cover capital expenditures, an acquisition in 1Q21, repayment of principal on debt, and payment of common stock dividends. At the end of 2021, the company's cash balance should remain at zero.

For 2022, we project cash earnings of $18.6 million and an increase in working capital of $7.1 million due primarily to increases in receivables and prepaid expenses. Cash from operations of $11.5 million should cover capital expenditures, repayment of debt, and payment of common stock dividends. At the end of 2022, the company's cash balance should remain at zero.

3Q21 and 9Mos21 Results

31Q21 Results
Revenues increased 15.1% to $82.4 million from $71.5 million in the year-ago period due to a 29.4% increase in real estate segment sales to $24.8 million and a 15.7% increase in the professional staffing revenue to $39.4 million. Light industrial segment sales were essentially flat at $18.2 million.

The 29.4% or $5.6 million increase in real estate segment sales was due primarily to a 16% increase in billed hours and 10.7% increase in the average bill rate.

The 15.7% or $5.4 million increase in professional staffing segment sales reflects a 21.2% increase in billed hours, a $500,000 increase in permanent placements, and approximately $1.1 million in new revenue from the 2021 Momentum acquisition. The increase in this segment was partially offset by a 6.3% decrease in average bill rate and a decline in the IT Infrastructure & Development division.

Light industrial segment sales reflects an 11.1% decrease in billed hours essentially offset by an 11.5% increase in the average bill rate.

Gross profit increased 25.1% to nearly $24.7 million reflecting gross margin expansion to 30% from 27.6% in 3Q20. The gross profit improvement for the real estate and professional staffing segments reflect an easing of COVID-19 pandemic conditions, while the improvement in the professional staffing segment reflects contribution of $500,000 in permanent placements and $500,000 from the 2021 Momentum Solutionz acquisition.

Gross Profit per segment in Millions	3Q21	3Q20	% D
Light Industrial	2.6	2.6	**1.2%**
Real Estate	9.5	7.1	**33.2%**
Professional Staffing	12.5	10.0	**25.6%**
Gross Profit	**$ 24.7**	**$ 19.7**	

Operating expenses (excluding a $1.2 million gain on contingent consideration in the current period) increased 21.9% to nearly $19.7 million from $16.1 million due to a nearly $3.6 million increase in SG&A to $18.5 million. The increase in SG&A expense reflects higher compensation costs and the inclusion of Momentum Solutionz operations. Partly offsetting the increase was an $80,000 decrease in D&A expense to nearly $1.2 million.

In the current period, due to certain business developments, the company recognized a $1.2 million gain on contingent consideration related to the 2019 LJK acquisition.

Operating income (excluding the contingent consideration gain) increased to nearly $5 million compared to $3.6 million in the year-ago period. The increase in operating income was due primarily to sales growth and gross margin expansion. Operating expense margin (excluding items) was 23.9%, up from 22.5% in 3Q20.

Interest expense was $431,000, up from $360,000 due primarily to an increase in the average balance on the company's revolving credit facility.

Net income was $4.6 million or $0.45 per share compared to income of $2.6 million or $0.25 per share. Excluding the contingent consideration gain of $0.12 per share, EPS would approximate $0.33. We estimated EPS of $0.29 per share on revenue of $79.5 million.

9Mos21 Results

Revenues increased 7.8% to $224.5 million due to a 26.8% increase in real estate segment sales to $64.6 million and a 5.8% increase in 1ight industrial segment sales to $53.1 million, offset in part by a 0.3% decrease in professional staffing sales to $106.7 million.

Gross profit increased 14.7% to $65.3 million reflecting higher sales and gross margin expansion to 29.1% from 27.3% in the year-ago period.

Operating expenses (excluding $2.4 million contingent consideration gain in 2021 and an impairment charge of $7.2 million in 2020) increased 13% to $55.9 million from $49.5 million due to a 16.8% increase in SG&A expenses to $53 million, partly offset by a $1.2 million decrease in D&A expense to $2.9 million.

In the current period, due to certain business developments, the company recognized a $2.4 million gain on contingent consideration related to the 2019 LJK acquisition.

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

Operating income (excluding items) increased to $9.3 million compared to $7.5 million in the year-ago period. The increase in operating income was due primarily to sales growth and gross margin expansion.

Interest expense decreased to $1 million from $1.2 million in the year-ago period. Net income was $8.8 million or $0.85 per share compared to a loss of $765,000 or ($0.07) per share.

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Revenues per segment in Millions			
Light Industrial	$ 53.1	$ 50.2	**5.8%**
Real Estate	64.6	51.0	**26.8%**
Professional Staffing	106.7	107.0	**(0.3%)**
Total Revenue	**$ 224.5**	**$ 208.2**	**7.8%**
Cost of Sales per segment			
Light Industrial	45.4	43.0	**5.4%**
Real Estate	40.4	31.7	**27.2%**
Professional Staffing	73.4	76.5	**(4.0%)**
Total Cost of Sales	**$ 159.2**	**$ 151.3**	**5.2%**
Gross Profit per segment			
Light Industrial	7.8	7.2	**8.2%**
Real Estate	24.2	19.2	**26.1%**
Professional Staffing	33.3	30.5	**9.1%**
Gross Profit	**$ 65.3**	**$ 56.9**	**14.7%**
Total Operating Expenses	53.5	56.7	**(5.6%)**
Operating Income	11.7	0.2	**NMF**
Total Other Income (Expense)	(1.0)	(1.2)	**NMF**
Pre-Tax Income	10.7	(1.0)	**NMF**
Income Tax Expense (Benefit)	1.9	(0.3)	
Net Income (loss)	8.8	(0.8)	
Earnings (loss) per share	$ 0.85	$ (0.07)	
Dividend per share	$ 0.32	$ 0.40	
Avg Shares Outstanding	10.4	10.3	
Margins			
Gross margin - combinded	29.1%	27.3%	
Operating Margin	5.2%	0.1%	
Pre-Tax Margins	4.8%	(0.5%)	
Tax Rate	17.9%	25.4%	

Source: company reports

Finances

In 9Mos21, the company had cash earnings of $11.8 million and a $9.4 million increase in working capital. The increase in working capital reflects an increase in receivables, partly offset by an increase in payables and accruals. Cash from operations of $2.4 million and borrowings covered capital investments including acquisitions, repayment of debt, and common stock dividends. Cash at the end of the period was zero.

Capital Structure

At the end of 9Mos21, the company had total outstanding debt of $40.9 million. The company's outstanding long-term line of credit was $13.4 million (net of $212,000 of deferred finance fees) and term debt was $24.1 million (all but $3.4 million was long-term). The blended interest rate on the credit line and term debt was 2.6% compared to 2.3% 3Q20. The company's debt to equity ratio is 0.6 versus 1 for the industry, indicating that BGSF's leverage is less than other staffing and outsourcing service companies. In 3Q21, the company was in compliance with all of its financial covenants, including a minimum debt service ratio and a senior funded indebtedness-to-EBITDA ratio.

On July 16, 2019, BGSF entered into a credit agreement with BMO Harris Bank, N.A. that matures on July 16, 2024. The credit agreement provides for a revolving credit facility permitting borrowings of up to $35 million. The credit agreement also provides for a term loan commitment allowing for borrowings not to exceed $30 million. The term loan can be increased to $40 million under certain conditions. The credit agreement is secured by a first priority security interest in substantially all tangible and intangible property of BGSF and its subsidiaries. The credit agreement bears interest either at the base rate plus the applicable margin or LIBOR plus the applicable margin. The company will also pay an unused commitment fee on the daily average unused amount on its revolving facility and term loan. The credit agreement contains customary affirmative covenants as well as negative covenants.

In February 2020, BGSF borrowed $18.5 million from its term loan in conjunction with the closing of the EdgeRock acquisition. In March 2020, in conjunction with the EdgeRock acquisition, the company entered into a standby letter of credit that expires December 31, 2024 for purposes of protecting a lessor against default on lease payments. In 2Q21, the maximum financial exposure from this standby letter of credit is approximately $100,000, all of which is considered usage against the revolving facility.

In April 2020, the company entered into an interest rate swap agreement with BMO in order to reduce the floating interest rate component on the term loan obligation. The $25 million amount was effective on June 3, 2020 and designed as a cash flow hedge on the underlying variable rate interest payments against a fixed interest rate that terminates on June 1, 2023. In 2Q21, the interest rate swap instrument was effective.

On February 8, 2021, the company borrowed $3.8 million on its revolving credit facility in conjunction with the closing of the Momentum Solutionz acquisition.

US Staffing Industry

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

In September 2021, Staffing Industry Analysts (SIA) issued a revised growth forecast for the US staffing industry indicating that industry revenue could approximate $157.4 billion in 2021 for a 16% increase from $135.7 billion in 2020. In 2022, SIA projects staffing industry revenue growth of 4% to approximately $163.7 billion.

Competition

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

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

Risks

COVID-19 Pandemic

The COVID-19 global pandemic presents concerns that could dramatically affect the company’s ability to conduct normal business operations effectively.

Economy
Slowing US economic growth or an unprecedented halt to economic actively would likely reduce customer demand for workforce solutions. Revenue growth for BGSF, Inc. is most vulnerable when US employment is at an inflection point (a reversal from peak employment and a low unemployment rate, or a reversal from a high unemployment rate).

Revenue concentration
In 3Q21, two states (Texas – 28% and Tennessee – 11%) accounted for 39% of the company's revenues compared to 37% (Texas – 23% and Tennessee – 14%) 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 is maintaining interest rates at virtually zero since 2Q20. However, further changes to interest rates are likely to depend on economic conditions stemming from the COVID-19 pandemic. If economic growth and inflation were to accelerate, it is likely interest rates could increase, which would further increase the company's variable rate term loan and revolving credit facility.

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

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

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

Shareholder Control
Officers and directors and one large shareholders collectively own 11.5% of the outstanding voting stock (as of the SEC filing in September 2021). 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 5, 2021, average daily volume was 27,600 compared to average daily volume of 82,800 in 2020. The company has a float of 9.6 million shares and shares outstanding of approximately 10.4 million.

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

	2018 A	2019 A	2020 A	3Q21A	**2021 E**	**2022 E**
ASSETS						
Current assets:						
Cash and cash equivalents	$ -	$ -	$ -	$ -	**$ -**	**$ -**
Accounts receivable, net	37,607	39,424	41,494	54,051	**51,200**	**54,131**
Prepaid expense and other current assets	1,007	1,244	2,155	1,843	**2,468**	**3,958**
Income taxes receivable	-	70	-	-	**5**	**5**
Other current assets	-	-	-	20	**31**	**31**
Total current assets	38,614	40,737	43,649	55,914	**53,704**	**58,125**
Property and equipment, net	2,557	3,545	3,724	3,046	**2,800**	**3,000**
Deposits an other assets	3,209	3,843	5,211	5,464	**5,500**	**6,500**
Right-of-use asset - operating lease, net	-	4,386	6,009	4,674	**5,124**	**5,128**
Deferred income taxes	4,871	4,072	5,828	4,888	**4,850**	**3,850**
Intangible assets, net	33,034	33,808	33,781	35,960	**36,077**	**35,000**
Goodwill	17,984	25,195	32,077	34,155	**34,155**	**34,155**
Total assets	$ 100,269	$ 115,586	$ 130,278	$ 144,101	**$ 142,210**	**$ 145,758**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Debt	4,243	375	2,625	3,375	**3,000**	**3,000**
Accrued interest	309	73	78	125	**106**	**106**
Accounts payable	146	479	220	363	**315**	**117**
Accrued payroll and expenses	10,411	10,485	11,448	15,516	**12,400**	**11,500**
Accrued workers' compensation	531	-	-	-	**-**	**-**
Contingent consideration	2,364	-	-	1,053	**1,000**	**1,000**
Lease liability	-	1,278	2,032	2,061	**2,060**	**1,894**
Other current liabilities	-	1,017	-	3,550	**3,550**	**3,550**
Taxes payable	56	-	1,861	592	**592**	**-**
Total current liabilities	18,059	13,707	18,264	26,634	**23,023**	**21,167**
Line of credit	10,079	19,994	5,709	13,431	**7,332**	**6,332**
Long-term debt	5,768	7,125	26,300	24,050	**24,800**	**21,800**
Lease liability	-	4,129	4,904	3,366	**3,366**	**4,361**
Other long-term liabilities and contingent consideration	662	2,174	9,643	4,589	**9,408**	**7,931**
Stockholders' equity:						
Common stock, $0.01 par value; authorized 19,500,000 shares;	78	76	74	66	**74**	**74**
Additional paid-in capital	57,624	59,618	60,457	61,487	**61,620**	**62,820**
Retained earnings (Deficit)	7,999	8,763	5,050	10,532	**12,643**	**21,328**
Accumulated other comprehensive loss	-	-	(123)	(55)	**(55)**	**(55)**
Total stockholders' equity	65,702	68,457	65,458	72,031	**74,281**	**84,167**
Total liabilities and stockholders' equity	$ 100,269	$ 115,586	$ 130,278	$ 144,101	**$ 142,210**	**$ 145,758**
SHARES OUT	10,160	10,245	10,328	10,401	**10,350**	**10,360**

Source: Company reports and Taglich Brothers estimates

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

	2018 A	2019 A	2020 A	**2021 E**	**2022 E**
Revenues	$ 286,863	$ 294,314	$ 277,891	**$ 308,455**	**$ 329,850**
Cost of services	210,268	213,632	201,671	**218,646**	**231,665**
Gross Profit	76,595	80,681	76,220	**89,809**	**98,185**
Operating Expenses:					
SG&A	47,291	56,200	60,559	**71,831**	**75,225**
Gain on contingent consideration	-	-	(76)	**(2,403)**	-
Impairment losses	-	-	7,240	-	-
Depreciation and amortization	5,044	4,820	4,960	**4,041**	**3,725**
Total Operating Expenses	52,336	61,020	72,682	**73,469**	**78,950**
Operating Income (loss)	24,260	19,661	3,538	**16,340**	**19,235**
Other income (expense)					
Extinguishment of debt	-	(541)	-	-	-
Interest expense	(2,850)	(1,569)	(1,584)	**(1,471)**	**(1,730)**
Total Other Income (expense)	(2,850)	(2,110)	(1,584)	**(1,471)**	**(1,730)**
Income (loss) before taxes	21,409	17,552	1,955	**14,869**	**17,505**
Income Tax Expense (Benefit)	3,860	4,305	513	**2,726**	**3,855**
Net Income (loss)	17,550	13,247	1,441	**12,143**	**13,650**
Earnings (loss) per share	$ 1.78	$ 1.28	$ 0.14	**$ 1.17**	**$ 1.31**
Dividend per share	$ 1.15	$ 1.20	$ 0.50	**$ 0.44**	**$ 0.48**
Avg Shares Outstanding	9,833	10,351	10,338	**10,411**	**10,443**
EBITDA - Adjusted	$ 27,891	$ 26,210	$ 18,229	**$ 21,096**	**$ 24,560**
Margin Analysis					
Gross margin	26.7%	27.4%	27.4%	**29.1%**	**29.8%**
SG&A	16.5%	19.1%	21.8%	**23.3%**	**22.8%**
Depreciation and amortization	1.8%	1.6%	1.8%	**1.3%**	**1.1%**
Operating margin	8.5%	6.7%	1.3%	**5.3%**	**5.8%**
Pre-tax margin	7.5%	6.0%	0.7%	**4.8%**	**5.3%**
Tax rate	18.0%	24.5%	26.3%	**18.3%**	**22.0%**
YEAR / YEAR GROWTH					
Total Revenues	5.2%	2.6%	(5.6%)	**11.0%**	**6.9%**

2018 includes a $0.32 contingent consideration gain
2020 includes approximately $0.52 per share impairment charge
2021 includes approximately $0.23 per share contingent consideration gain

Source: Company reports and Taglich Brothers estimates

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

	Q1 20A	Q2 20 A	Q3 20 A	Q4 20 A	2020 A	Q1 21A	Q2 21 A	Q3 21 A	Q4 21 E	**2021 E**	Q1 22 E	Q2 22 E	Q3 22 E	Q4 22 E	**2022 E**
Revenues	$ 74,067	$ 62,606	$ 71,519	$ 69,698	$ 277,891	$ 67,712	$ 74,392	$ 82,352	$ 84,000	**$ 308,455**	$ 75,500	$ 81,750	$ 85,100	$ 87,500	**$ 329,850**
Cost of services	53,792	45,701	51,807	50,371	201,671	48,897	52,609	57,685	59,455	**218,646**	53,570	57,035	59,435	61,625	**231,665**
Gross Profit	20,276	16,905	19,712	19,327	76,220	18,815	21,783	24,667	24,545	**89,809**	21,930	24,715	25,665	25,875	**98,185**
Operating Expenses:															
SG&A	16,204	14,306	14,869	15,180	60,559	16,723	17,769	18,489	18,850	**71,831**	18,500	18,750	18,975	19,000	**75,225**
Gain on contingent consideration	-	-	(76)	-	(76)	-	(1,195)	(1,208)	-	**(2,403)**	-	-	-	-	-
Impairment losses	-	7,240	-	-	7,240	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	1,415	1,444	1,271	830	4,960	860	891	1,191	1,100	**4,041**	1,000	950	900	875	**3,725**
Total Operating Expenses	17,618	22,990	16,064	16,010	72,682	17,583	17,465	18,471	19,950	**73,469**	19,500	19,700	19,875	19,875	**78,950**
Operating Income (loss)	2,657	(6,085)	3,648	3,317	3,538	1,232	4,318	6,196	4,595	**16,340**	2,430	5,015	5,790	6,000	**19,235**
Other income (expense)															
Extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	(456)	(430)	(360)	(338)	(1,584)	(377)	(219)	(431)	(445)	**(1,471)**	(440)	(435)	(430)	(425)	**(1,730)**
Total Other Income (expense)	(456)	(430)	(360)	(338)	(1,584)	(377)	(219)	(431)	(445)	**(1,471)**	(440)	(435)	(430)	(425)	**(1,730)**
Income (loss) before taxes	2,201	(6,514)	3,288	2,979	1,955	855	4,099	5,764	4,150	**14,869**	1,990	4,580	5,360	5,575	**17,505**
Income Tax Expense (Benefit)	703	(1,685)	723	773	513	143	657	1,121	805	**2,726**	440	1,010	1,180	1,225	**3,855**
Net Income (loss)	1,499	(4,829)	2,566	2,206	1,441	712	3,443	4,644	3,345	**12,143**	1,550	3,570	4,180	4,350	**13,650**
Earnings (loss) per share	$ 0.14	$ (0.47)	$ 0.25	$ 0.21	$ 0.14	$ 0.07	$ 0.33	$ 0.45	$ 0.32	**$ 1.17**	$ 0.15	$ 0.34	$ 0.40	$ 0.42	**$ 1.31**
Dividend per share	$ 0.30	$ 0.05	$ 0.05	$ 0.10	$ 0.50	$ 0.10	$ 0.10	$ 0.12	$ 0.12	**$ 0.44**	$ 0.12	$ 0.12	$ 0.12	$ 0.12	**$ 0.48**
Avg Shares Outstanding	10,383	10,307	10,326	10,336	10,338	10,395	10,392	10,427	10,430	**10,411**	10,435	10,440	10,445	10,450	**10,443**
EBITDA - Adjusted	$ 4,806	$ 3,272	$ 5,504	$ 4,648	$ 18,229	$ 2,463	$ 5,509	$ 6,979	$ 6,145	**$ 21,096**	$ 3,830	$ 6,365	$ 7,090	$ 7,275	**$ 24,560**
Margin Analysis															
Gross margin	27.4%	27.0%	27.6%	27.7%	27.4%	27.8%	29.3%	30.0%	29.2%	**29.1%**	29.0%	30.2%	30.2%	29.6%	**29.8%**
SG&A	21.9%	22.9%	20.8%	21.8%	21.8%	24.7%	23.9%	22.5%	22.4%	**23.3%**	24.5%	22.9%	22.3%	21.7%	**22.8%**
Depreciation and amortization	1.9%	2.3%	1.8%	1.2%	1.8%	1.3%	1.2%	1.4%	1.3%	**1.3%**	1.3%	1.2%	1.1%	1.0%	**1.1%**
Operating margin	3.6%	(9.7%)	5.1%	4.8%	1.3%	1.8%	5.8%	7.5%	5.5%	**5.3%**	3.2%	6.1%	6.8%	6.9%	**5.8%**
Pre-tax margin	3.0%	(10.4%)	4.6%	4.3%	0.7%	1.3%	5.5%	7.0%	4.9%	**4.8%**	2.6%	5.6%	6.3%	6.4%	**5.3%**
Tax rate	31.9%	25.9%	22.0%	25.9%	26.3%	16.8%	16.0%	19.4%	19.4%	**18.3%**	22.1%	22.1%	22.0%	22.0%	**22.0%**
YEAR / YEAR GROWTH															
Total Revenues	7.7%	(15.2%)	(9.9%)	(3.6%)	(5.6%)	(8.6%)	18.8%	15.1%	20.5%	**11.0%**	11.5%	9.9%	3.3%	4.2%	**6.9%**

2020 includes approximately $0.52 per share impairment charge that occurred in 2Q20
2021 includes approximately $0.13 per share contingent consideration gain that occurred in 2Q21/3Q21 (combined)

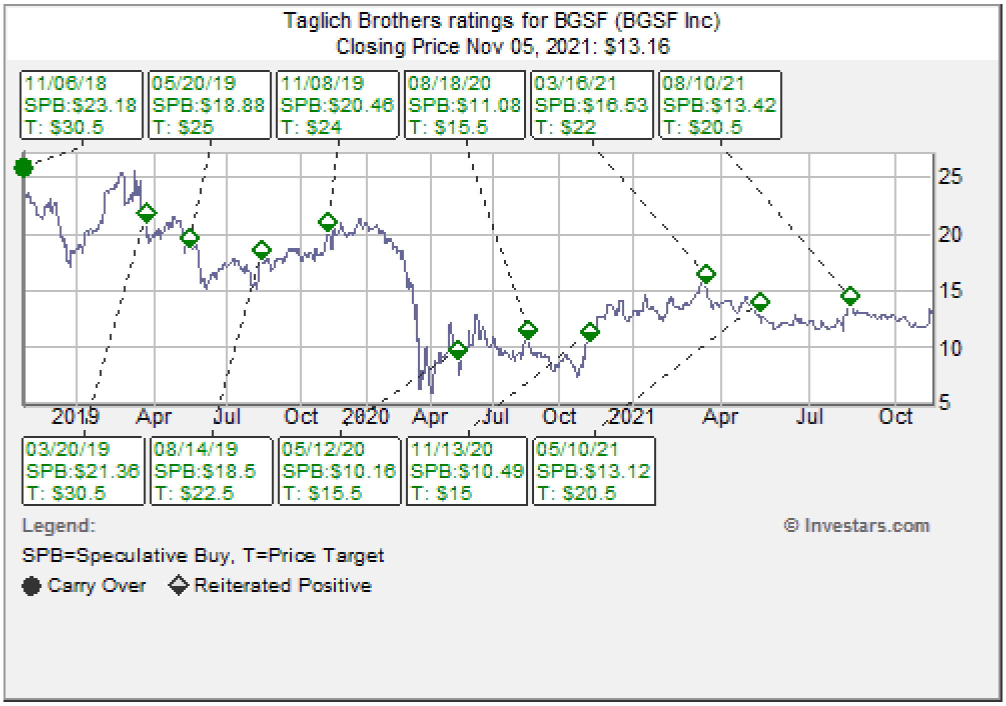
Source: Company reports and Taglich Brothers estimates

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

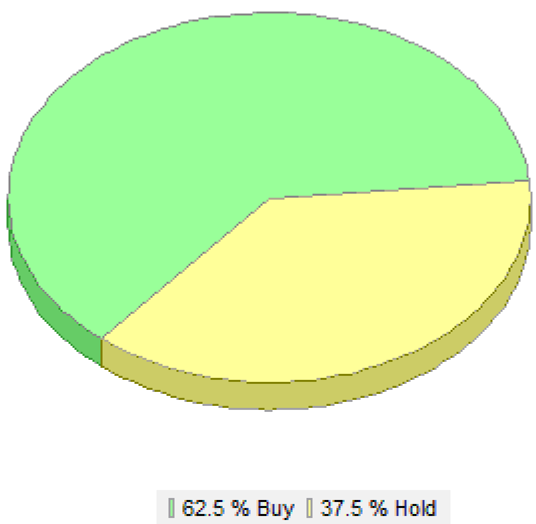
	FY2018A	FY2019A	FY2020A	9 Mos.21A	**FY2021E**	**FY2022E**
Cash Flows from Operating Activities						
Net Income (loss)	$ 17,550	$ 13,247	$ 1,441	$ 8,798	**$ 12,143**	**$ 13,650**
Depreciation and amortization	5,044	4,820	4,960	2,941	**4,041**	**3,725**
Impairment losses	-	-	7,240	-	-	-
Disposal of property and equipment	18	31	-	8	8	-
Extinguishment of related party debt and debt	-	541	-	-	-	-
Contingent considerationt adjustment	(3,775)	-	(76)	(2,403)	**(2,403)**	-
Amortization of defered financing costs	454	173	83	56	**75**	-
Interest expense on earnout payable	624	124	190	210	**280**	-
Provision for doubtful accounts	41	128	349	322	**430**	-
Stock based compensation	1,069	953	849	886	**1,181**	**1,200**
Deferred income taxes	1,532	799	(2,413)	940	**940**	-
Cash earnings (burn)	22,556	20,816	12,623	11,759	**16,695**	**18,575**
Changes In:						
Accounts receivable	(939)	(1,758)	4,309	(12,534)	**(9,706)**	**(2,931)**
Prepaid expenses and other	(36)	(223)	(855)	316	**(313)**	**(1,491)**
Other current assets	121	-	-	(20)	**(31)**	**0**
Deposits and other	(302)	(634)	(1,089)	155	**(289)**	**(1,000)**
Accrued interest	(22)	(236)	5	47	**(28)**	-
Accrued interest-related party	-	-	-	-	-	-
Accounts payable	(1,763)	333	(279)	118	**95**	**(197)**
Accrued payroll and expenses	(1,129)	(208)	(1,529)	4,019	**952**	**(900)**
Accrued workers' compensation	(61)	-	-	-	-	-
Other current and long-term liabilities - includes Contingent Consideration	(243)	17	7,216	(118)	**4,550**	-
Operating leases	-	(28)	(19)	(117)	**(76)**	-
Accrued taxes	247	(125)	1,875	(1,269)	**(1,269)**	**(592)**
Net (increase)/decrease in Working Capital	(4,129)	(2,862)	9,634	(9,404)	**(6,116)**	**(7,110)**
Net cash Provided (used) by Operations	18,426	17,954	22,257	2,355	**10,579**	**11,465**
Cash Flows from Investing Activities						
Business acquired, net of cash received	-	(7,500)	(22,002)	(3,780)	**(3,780)**	-
Captial expenditures	(924)	(2,230)	(2,145)	(1,566)	**(2,100)**	**(2,500)**
Proceeds from sale of property and equipment	-	0	-	5	**5**	-
Cash flow provided (used in) Investing Activities	(924)	(9,729)	(24,147)	(5,341)	**(5,875)**	**(2,500)**
Cash Flows from Financing Activities						
Borrowings (net) under line of credit	(10,718)	9,695	(14,368)	7,666	**1,585**	**(1,000)**
Proceeds from issuance of long-term debt	-	7,500	22,500	-	-	-
Principal payments on long-term debt	(13,767)	(10,121)	(1,075)	(1,500)	**(1,876)**	**(3,000)**
Issuance of common stock	22,205	38	(12)	(18)	**(18)**	-
Issuance of ESSP shares	-	-	-	155	**155**	
Contingent consideration paid	(963)	(2,672)	-	-	-	-
Dividends	(10,922)	(12,282)	(5,155)	(3,316)	**(4,550)**	**(4,965)**
Retirement of vested stock options	(3,335)	-	-	-	-	-
Deferred financing and share issuance costs	(4)	(382)	-	-	-	-
Net cash provided (used) by Financing	(17,502)	(8,225)	1,890	2,986.361	**(4,704)**	**(8,965)**
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	4	19
Hold		
Sell		
Not Rated		

Important Disclosures

As of November 5, 2021, Taglich Brothers, Inc. and/or its affiliates, own more than 1% of BGSF common stock. Michael Taglich, President of Taglich Brothers, Inc. owns or has a controlling interest in 417,191 shares of BGSF common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 428,815 shares of BGSF common stock. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 21,200 shares of common stock, as well as 41,771 restricted common stock. 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 10,914 shares of common stock. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In 2010, 2011, and 2012, Taglich Brothers Inc. served as the placement agent for $2.3 million in notes, 8.5 million class A units, and 6 million class A units, respectively. In December 2014, Taglich Brothers Inc. was the sole placement agent for 956,050 shares of BGSF common stock. In October 2015, Taglich Brothers Inc. participated as a co-placement agent for a 584,579 common stock block trade by two selling shareholders. In June 2016, Taglich Brothers acted as a co-book-running manager 1.1 million common stock offering. In May 2018, Taglich Brothers, Inc. acted as joint book-running managers for a 1.3 million common stock offering. In May 2018, affiliates of Taglich Brothers, Inc. beneficially own more than 10% of BGSF's outstanding common shares and certain associates of Taglich Brothers, Inc. and its affiliates are members of BGSF's board of Directors. Taglich Private Equity, LLC had an advisory agreement with the predecessor company to BGSF, Inc. In 2007 to 2013, Taglich Private Equity received an annual advisory fee of $175,000.

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

General Disclosures

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

Analyst Certification

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

Public Companies mentioned in this report:

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

Meaning of Ratings

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

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

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

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

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

Some notable Risks within the Microcap Market

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

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