Research Report – Update

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

BG Staffing, Inc.

Rating: Speculative Buy

Howard Halpern

BGSF $10.59 — (NYSE MKT)

November 13, 2020

	2017 A	2018 A	2019 A	*2020 E*	*2021 E*
Revenues (in millions)	$272.6	$286.9	$294.3	***$277.2***	***$300.3***
Earnings per share	$1.01*	$1.46**	$1.28	***$0.60****	***$1.00***

52-Week range	$22.38 – $5.69	Fiscal year ends:	December
Shares outstanding a/o 11/04/20	10.3 million	Revenue/shares (ttm)	$27.13
Approximate float	9.3 million	Price/Sales (ttm)	0.4X
Market Capitalization	$109.1 million	Price/Sales (2021) E	0.4X
Tangible Book value/shr	($0.27)	Price/Earnings (ttm)***	15.1X
Price/Book	NMF	Price/Earnings (2021) E	10.6X
Annual dividend per share	$0.40	Dividend Yield	3.8%

** Excludes a $0.36 charge - deferred tax asset ** Excludes a $0.32 gain - revaluation of contingent consideration *** Excludes approximately $0.52 per share impairment charge*

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

Key Investment Considerations:

Maintaining Speculative Buy rating but reducing our 12-month price target to $15.00 per share from $15.50 per share due primarily to a reduced sector valuation.

The 2020 COVID-19 pandemic environment resulted in a revenue low in 2Q20 of $62.6 million. Revenue in 3Q20 rebounded to $71.5 million for a 14.2% increase compared to 2Q20. The 3Q20 increase reflects increased sales activity with many of its client partners especially in the company's light industrial and professional services segments having returned to pre-COVID-19 pandemic levels.

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

In 2Q20, the company took action to reduce operating costs compared to pre-COVID-19 levels. In 3Q20, operating expenses increased 2% compared to 2Q20 (excluding an impairment charge) on sales increasing $8.9 million to $71.5 million.

BGSF reported 3Q20 EPS (on 11-5-20) of $0.25 per share on a 9.9% decrease in sales to $71.5 million. In 3Q19, EPS was $0.41 on sales of $79.4 million. We projected EPS of $0.12 per share on sales of $65.5 million.

We project 2020 EPS of $0.60 (prior was $0.49) on a 5.8% decrease in sales to $277.2 million (prior was $274.2 million). Our forecast reflects 3Q20 results and stabilization of the company's operations in 4Q20.***

We anticipate a profit and sales rebound in 2021 as COVID-19 pandemic conditions ease. We project 2021 EPS of $1.00 (unchanged) on 8.3% sales growth to $300.3 million (prior was $302.1 million).

Please view our Disclosures on pages 14 – 16.

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Appreciation Potential

Maintaining Speculative Buy rating but reducing our 12-month price target to $15.00 per share from $15.50 per share due primarily to a reduced sector valuation. Our rating should be supported by a resumption of gross profit growth in 2021 stemming from a return to more normal operations as COVID-19 pandemic conditions ease, as well as the growth forecast for the US staffing industry that should approach $140 billion in 2021, up from an estimated $126.1 billion in 2020. The industry had revenue of $152.3 billion in 2019.

We forecast gross profit growth of nearly 12.3% in 2021 after a decrease of 6.3% in 2020. The resumption of gross profit growth should be driven by revenue gains in the real estate segment (BGSF's highest margin segment) reflecting 57 locations in operation at the end of 3Q20 (includes the company's commercial building segment - Talent) and revenue growth in the company's professional services segment that should see gross margin improvement to 29.6% from an estimated 28.8% in 2020.

The comparative peers in the Staffing & Employment Services industry (source: finviz – on 11/10/20) forward 2021 P/E multiple is 15.8X (prior was 17.2X) with a 41.2% EPS growth rate. Based on our 2021 forecasts, BGSF's 2021 P/E multiple is 10.6X with EPS growth of 66.7% to $1.00 per share from an estimated $0.60 per share in 2020 (excluding a $0.52 per share impairment charge).

We anticipate investors should accord a multiple above the peer group due to BGSF's higher 2021 EPS growth. We applied a 16.5X multiple (prior was 18X) to our 2021 EPS forecast of $1.00, discounted for execution risk to obtain a year ahead price target of $15.00 per share, implying a total (including a 3.8% dividend yield) year-ahead return of approximately 44%.

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

BG Staffing, Inc., headquartered in Plano, Texas, is a national provider of temporary staffing services across a diverse set of industries, which operates through the following brands – American Partners, BG Multifamily, Donovan & Watkins, Extrinsic, Instaff, Vision Technology Services, Zycron, L.J. Kushner & Associates, and EdgeRock. BG Staffing, Inc. operates within three industry segments: Light Industrial, Professional, and Real Estate (a specialty segment) that operate in 89 branches, brand offices, and 12 on-site locations that provide services in 44 states and the District of Columbia at August 5, 2020.

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.

COVID-19 Pandemic Developments

The 2020 COVID-19 pandemic environment resulted in a revenue low in 2Q20 of $62.6 million. Revenue in 3Q20 rebounded to $71.5 million for a 14.2% increase compared to 2Q20. The 3Q20 increase reflects increased sales activity with many of its client partners. Entering 4Q20, customer activity in company's light industrial and professional services segments are close to achieving pre-COVID-19 pandemic levels.

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

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

In 2Q20, the company took action to reduce operating costs compared to pre-COVID-19 levels. In 3Q20, operating expenses increased 2% compared to 2Q20 (excluding an impairment charge) on sales increasing $8.9 million to $71.5 million.

On November 5, 2020, BGSF announced that its board of directors declared a quarterly cash dividend of $0.10 per share. This increase comes after reducing the prior quarterly dividend of $0.05 per share from $0.30 per share. The relatively quick increase in the quarterly dividend indicates the company cost structure and revenue prospects have improved since 2Q20.

Growth Strategy

Technology Roadmap

At the start of 2019, a new CIO was hired and was part of the process in developing a technology road map to internally develop a modern technology infrastructure. The primary goal of the road map is to develop technology that will reduce cycle time to fill client orders and onboard applicants, improved internal operations through automation and scalability, and implement secure cloud solutions.

The company completed spending on projects that were active prior to the COVID-19 pandemic and are critical to BGSF's future growth prospects. The company's new technology deployments include the facilitation of remote interviewing for staffing candidates across all segments and automation of time cards (that replaced paper time cards) within the real estate segment. In July 2020, BGSF launched a new enterprise resource planning system along with implementing a power business intelligence tool for better reporting and development metrics, and a new client contract management system that should increase speed and compliance.

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 sales virtual meeting. In 3Q20, the cross-selling contribution represented 8% of revenue and 10% of gross profit, up from 7% of revenue and 8.5% of gross profit in 2Q20.

In April 2020, the company began training its team members on holding virtual sales meetings and interviews. In May 2020, BGSF began conducting Webinars in its professional brands with record attendance and its social media education and outreach programs have expanded (increasing 21.6% in social media followers with a 145% increase to 1.6 million impressions or clicks across branded sites).

In 2Q/3Q 2020, BFSF's information technology projects included the rollout of the Microsoft Teams and Cloud Voice which allowed the company and its team members to work from remote locations.

Projections

Basis of Forecast

Our forecast reflects the COVID-19 pandemic environment that should result in sales decreasing in 2H20 compared to the year-ago period. We anticipate 8.3% growth in 2021 due primarily to a normalization of economic conditions and pent up customer demand.

Economy

In October 2020, the International Monetary Fund (IMF) revised its economic growth estimate for the US to a decline of 4.3% for 2020 and growth of 3.1% for 2021. In June 2020, the IMF projected a decline in US growth of 8% for 2020 and growth of 4.5% for 2021.

The advance estimate of US GDP growth (released on October 29, 2020) showed the US economy increased at an annual rate of 33.1% in 3Q20, up from the 31.4% decline reported in 2Q20. The 3Q20 US GDP estimate primarily reflects increases in consumer spending, inventory investment, exports, business investment, and housing investment, partially offset by a decrease in government spending.

The unemployment rate for October 2020 (reported on November 6, 2020) was 6.9% compared to the peak unemployment rate of 14.7% in April 2020. In October 2020, unemployed people in the US decreased 1.2 million to 3.6 million, while the number of employed was 149.8 million (compared to 133.4 million in April 2020). In October 2020, the labor force participation rate improved to 61.7% from 61.4% in September 2020.

In September 2020, the Federal Reserve Board issued a forecast that calls for a US unemployment rate of 7.6% and 5.5%, respectively in 2020 and 2021, which is an improvement from their June 2020 forecast of 9.3% and 6.5%, respectively in 2020 and 2021.

Operations

In 2020, we project a revenue decline of 5.8% to $277.2 million (previously $274.2 million) which reflects a 31.6% decline in real estate segment sales to nearly $66 million. We forecast light industrial segment sales to decrease 8.5% to $68.2 million. Revenue from the professional staffing segment should grow 16% to nearly $143 million due primarily to the acquisitions of LKJ (December 2019) and EdgeRock (February 2020), partly offset by declines in the company's existing professional staffing segment customer base due to the COVID-19 pandemic.

We project a 6.3% decrease in gross profit to $75.6 million driven by lower sales and gross margin contraction to 27.3% from 27.4% in 2019. We anticipate operating income (excluding a $7.2 million impairment charge) of $9.9 million compared to $19.7 million in 2019 due to a decrease in revenue, gross margin contraction, and operating margin expense increasing to 23.7% from 20.7% in 2019.

We forecast operating expenses (excluding the impairment charge) to increase 7.7% to $65.7 million. We project a 7.4% increase in SG&A to $60.4 million due primarily to technology spending in 1H20 and the inclusion of expenses to operate the LKJ and EdgeRock acquisitions. D&A expense should increase 12% to $5.4 million due to amortization expense from the two acquisitions in December 2019 and February 2020.

We project a $61,000 increase in interest expense to $1.6 million due to higher debt balances nearly offset by a lower average interest rate. We project net income of $830,000 or $0.08 per share (prior was a net loss of $350,000 or ($0.03) per share). However, excluding the impairment charge of approximately $0.52 per share, we estimate EPS of $0.60 for 2020.

In 2021, we project revenue growth of 8.3% to $300.3 million (prior was $302.1 million). Our forecast does not include potential acquisitions in the company's professional staffing segment. We anticipate the company's three segments (real estate, professional services, and light industrial) should experience growth as COVID-19 pandemic conditions ease and pent up customer demand is fulfilled.

We project a 12.3% increase in gross profit to $84.9 million driven by gross margin improvement to 28.3% from an estimated 27.3% in 2020. The gross margin improvement reflects revenue growth from the real estate segment, which should deliver a gross margin of 37.6% and comprise 27.1% of total sales, up from an estimated 23.8% of total sales in 2020. We anticipate operating income increasing to $15.1 million from an estimated $9.9 million (excluding $7.2 million impairment charge) due primarily to revenue growth and gross margin expansion. We anticipate operating margin expense improving to 23.3% from an estimated 23.7% in 2020.

We forecast operating expense to increase 6.3% to $69.8 million compared to an estimated $65.7 million (excluding impairment charge). We project a 7.3% increase in SG&A to $64.8 million to support sales growth. D&A expense should decrease $370,000 to $5 million. We project operating margin of 5% vs. 1% due to higher revenue, increased gross margin, and improvement in operating margin expense.

We project a $220,000 decrease in interest expense to $1.4 million due to lower average debt balances. Our net income forecast is unchanged at $10.3 million or $1.00 per share, after income tax expense of $3.4 million for an income tax rate of 24.5%.

Finances
For 2020, we project cash earnings of $13.2 million and a decrease in working capital of $4 million. The decrease in working capital is due primarily to an increase in accruals. Borrowings and cash from operations of $17.3 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.

For 2021, we project cash earnings of $16.5 million and an increase in working capital of $6.3 million due primarily to an increase in receivables and decrease in accruals. Cash from operations of $10.1 million should cover capital expenditures, repayment of debt, and payment of common stock dividends. At the end of 2021, the company's cash balance should remain at zero.

3Q20 and 9M20 Results

Revenues decreased 9.9% to $71.5 million from $79.4 million in the year-ago period due to a 35% decrease in real estate segment sales to $19.2 million, partly offset by an 8% increase in professional staffing revenue to $34 million. Light industrial segment sales was flat at $18.3 million.

The 35% or $10.3 million decrease in real estate segment sales was due primarily to the COVID-19 pandemic environment. New real estate offices contributed approximately $400,000 to segment sales. The overall decrease in revenue from the real estate segment reflects a 37.7% decrease in billed hours, partly offset by a 4.2% increase in the average bill rate.

The 8% or $2.5 million increase in professional staffing segment sales was due to primarily to $9.5 million in sales from the acquisitions of LKJ (December 2019) and EdgeRock (February 2020), partly offset by a $7 million decrease in existing customer revenue stemming from the COVID-19 pandemic environment. The professional segment had a 12.6% increase in average bill rates and approximately $300,000 increase in permanent placements, partly offset by a 1.6% decrease in billed hours.

The flat light industrial revenue reflects a 7.3% decrease in billed hours offset by a 7.5% increase in the average bill rate.

Gross Profit per segment in Millions	2Q20	2Q19	**% D**
Light Industrial	2.6	2.6	**(2.2%)**
Real Estate	7.1	11.3	**(36.6%)**
Professional Staffing	10.0	8.3	**20.7%**
Gross Profit	$ 19.7	$ 22.2	

Gross profit decreased 11.1% to $19.7 million reflecting gross margin compression to 27.6% from 27.9% in 3Q19. The reduction in gross profit was due primarily to the light industrial and real estate segments (see table on the right), partly offset by gross profit improvement in the professional staffing segment reflecting sales growth and gross margin improving to 29.3% from 26.2% in the year-ago period.

Operating expenses increased 2.3% to nearly $16.1 million due primarily to a $366,000 increase in SG&A to $14.9 million and a $74,000 increase in D&A expense to $1.3 million. The 2.5% increase in SG&A expense reflects two acquisitions that contributed $2.4 million of new expense that was nearly offset by reduced compensation costs and cost reduction initiatives that began in March 2020 stemming from the COVID-19 pandemic. The 6.2% increase in D&A expense reflects the acquisitions completed in December 2019 and February 2020.

Operating income decreased to $3.6 million compared to $6.5 million in the year-ago period. The decrease in operating income was due primarily to lower sales and gross margin compression. Operating expense margin was 22.5%, up from 19.8% in 3Q19.

Interest expense was $360,000, down from $395,000 due primarily to an unused bank fee and lower interest rates, partly offset by an increase in amortization of contingent consideration discounts related to the 2019 LJK acquisition. The year-ago period includes $541,000 loss on extinguishment of debt compared to none in 3Q20.

Net income was $2.6 million or $0.25 per share compared to net income of $4.2 million or $0.41 per share. We estimated net income of $1.2 million or $0.12 per share on revenue of $65.5 million.

9M20 Results

Revenues decreased 6.2% to $208.2 million due to a 30.2% decline in real estate segment sales to $51 million and a 9.6% decrease in 1ight industrial segment sales to $50.2 million, offset in part by a 14.6% increase in professional staffing sales to $107 million.

Gross profit decreased 7.5% to $56.9 million reflecting lower sales and gross margin compression to 27.3% from 27.7% in the year-ago period. The reduction in gross profit was due primarily to COVID-19 pandemic conditions in 2Q/3Q 2020.

Operating expenses (excluding an impairment charge of $7.2 million) increased 7.5% to $49.4 million due to a 7.1% increase in SG&A expenses to $45.4 million and a $497,000 increase in D&A expense to $4.1 million. The increases in SG&A and D&A expense were due primarily to the acquisitions of LJK and EdgeRock.

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 the impairment charge) decreased to $7.5 million compared to $15.5 million in the year-ago period. The decrease in operating income was due primarily to lower sales and gross margin compression.

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Revenues per segment in Millions			
Light Industrial	$ 50.2	$ 55.5	**(9.6%)**
Real Estate	51.0	73.0	**(30.2%)**
Professional Staffing	107.0	93.4	**14.6%**
Total Revenue	**$ 208.2**	**$ 222.0**	**(6.2%)**
Cost of Sales per segment			
Light Industrial	43.0	47.4	**(9.3%)**
Real Estate	31.7	45.0	**(29.5%)**
Professional Staffing	76.5	68.1	**12.4%**
Total Cost of Sales	**$ 151.3**	**$ 160.5**	**(5.7%)**
Gross Profit per segment			
Light Industrial	7.2	8.1	**(11.6%)**
Real Estate	19.2	28.0	**(31.5%)**
Professional Staffing	30.5	25.3	**20.4%**
Gross Profit	**$ 56.9**	**$ 61.5**	**(7.5%)**
Total Operating Expenses	56.7	46.0	**23.2%**
Operating Income	0.2	15.5	**NMF**
Total Other Income (Expense)	(1.2)	(1.8)	**NMF**
Pre-Tax Income	(1.0)	13.7	**NMF**
Income Tax Expense (Benefit)	(0.3)	3.2	
Net Income (loss)	(0.8)	10.5	
Earnings (loss) per share	$ (0.07)	$ 1.01	
Dividend per share	$ 0.40	$ 0.90	
Avg Shares Outstanding	10.3	10.4	
Margins			
Gross margin - combinded	27.3%	27.7%	
Operating Margin	0.1%	7.0%	
Pre-Tax Margins	(0.5%)	6.2%	
Tax Rate	25.4%	23.3%	

Source: company reports

Interest expense was flat at $1.2 million and the current period includes a $541,000 loss on extinguishment of debt compared to none. Net loss was to $765,000 or ($0.07) per share, compared to net income of $10.5 million or $1.01 per share. We estimate in 9M20, excluding the impairment charge, EPS of approximately $0.45.

Finances

In 9M20, the company had cash earnings of $10.2 million and an $8.1 million decrease in working capital. The decrease in working capital was due primarily to a decrease in receivables and increase in other liabilities. Cash from operations of $18.3 million and borrowings covered capital investments including acquisitions, repayment of debt, and common stock dividends. Cash at September 27, 2020 was zero.

Capital Structure

At September 27, 2020, the company had total outstanding debt of $37 million. The company's outstanding long-term line of credit was nearly $7.7 million (net of $287,000 of deferred finance fees) and term debt was $29.3 million (all but $2.4 million was long-term). The blended interest rate on the credit line and term debt was approximately 2.3% compared to 3.8% in 3Q20. At September 27, 2020, the company's debt to equity ratio is 0.6 versus 1.1 for the industry, indicating that BGSF's leverage is less than other staffing and outsourcing service companies. As of September 27, 2020, the company was in compliance with all of its financial covenants, including a minimum debt service ratio and a senior funded indebtedness-to-EBITDA ratio.

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

In February 2020, BGSF borrowed $18.5 million from its term loan in conjunction with the closing of the EdgeRock acquisition. In March 2020, in conjunction with the EdgeRock acquisition, the company entered into a standby letter of credit that expires December 31, 2024 for purposes of protecting a lessor against default on lease payments. At September 27, 2020, the maximum financial exposure from this standby letter of credit is approximately $100,000, all of which is considered usage against the revolving facility.

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. As of September 27, 2020, the interest rate swap instrument was effective.

US Staffing Industry

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

In July 2020, Staffing Industry Analysts (SIA) issued a revised growth forecast for the US staffing industry indicating that industry revenue should approximate $126.1 billion in 2020, up from its April 2020 forecast of $119.4 billion. The SIA estimates industry revenue approaching $140 billion in 2021. The industry had revenue of $152.3 billion in 2019.

The 2020 decrease is due to the COVID-19 pandemic that should significantly diminish the industry in 2020 compared to 2019 with the potential for an 11% rebound in 2021 as COVID-19 pandemic conditions are likely to ease.

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

COVID-19 Pandemic
The COVID-19 global pandemic presents concerns that may dramatically affect the company's ability to conduct normal business operations (such as acquiring new customers or receiving orders from existing customers) effectively. While the trajectory of the COVID-19 pandemic remains uncertain, it is likely that BGSF's operations including sales to new and existing customers may be directly affected for the remaining 2H20.

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

Revenue concentration
In 3Q20, four states (Texas – 23%, Tennessee – 14%, Massachusetts – 13% and Maryland – 11%) accounted for 61% of the company's revenues, up from 57% in the year-ago period. If economic conditions deteriorate in any of these regions, the company's operations could be restrained.

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 virtually to zero in 2Q20. However, further changes to interest rates are likely to depend on economic conditions stemming from the COVID-19 pandemic. If economic growth and inflation were to accelerate, it is likely interest rates could increase, which would further increase the company's variable rate term loan and revolving credit facility.

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 2020). This group could potentially influence the outcome of matters requiring stockholder approval, which may or may not be in the best interests of the other shareholders.

Miscellaneous Risk

The company's financial results and equity values are subject to other risks and uncertainties, including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume

During the last three months to November 13, 2020, average daily volume was 70,700 compared to average daily volume of 61,400 in 2019. The company has a float of 9.3 million shares and shares outstanding of approximately 10.3 million.

BG Staffing, Inc.
Consolidated Balance Sheets
FY2017 – FY2021E
(in thousands)

	2017 A	2018 A	2019 A	3Q20A	**2020 E**	**2021 E**
ASSETS						
Current assets:						
Cash and cash equivalents	$ -	$ -	$ -	$ -	**$ -**	**$ -**
Accounts receivable, net	36,708	37,607	39,424	41,770	**38,576**	**42,122**
Prepaid expense and other current assets	948	984	1,224	1,011	**1,039**	**1,171**
Income taxes receivable	191	-	70	-	-	-
Other current assets	143	23	20	-	-	-
Total current assets	**37,990**	**38,614**	**40,737**	**42,780**	**39,615**	**43,293**
Property and equipment, net	2,040	2,557	3,545	3,742	**3,750**	**3,800**
Security deposits	2,907	3,209	3,843	5,100	**5,100**	**5,500**
Right-of-use asset - operating lease, net	-	-	4,386	6,178	**6,855**	**6,178**
Deferred income taxes	6,403	4,871	4,072	4,514	**4,514**	**4,414**
Intangible assets, net	37,323	33,034	33,808	35,437	**34,433**	**31,900**
Goodwill	17,970	17,984	25,195	31,350	**31,350**	**31,350**
Total assets	**$ 104,633**	**$ 100,269**	**$ 115,586**	**$ 129,102**	**$ 125,617**	**$ 126,435**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Debt	2,924	4,243	375	2,438	**2,438**	**438**
Accrued interest	331	309	73	94	**94**	**-**
Accounts payable	1,910	146	479	433	**325**	**300**
Accrued payroll and expenses	11,541	10,411	10,485	12,798	**14,733**	**12,419**
Accrued workers' compensation	592	531	-	-	-	-
Contingent consideration	4,299	2,364	-	-	**1,000**	**1,000**
Lease liability	-	-	1,278	1,894	**894**	**1,894**
Other current liabilities	74	-	1,017	-	-	-
Taxes payable	-	56	-	184	**184**	**184**
Total current liabilities	**21,670**	**18,059**	**13,707**	**17,840**	**19,668**	**16,235**
Line of credit	20,620	10,079	19,994	7,713	**9,950**	**9,950**
Long-term debt	20,579	5,768	7,125	26,863	**26,860**	**24,860**
Lease liability	-	-	4,129	2,243	**2,243**	**6,362**
Other long-term liabilities and contigent consideration	2,629	662	2,174	10,408	**2,954**	**3,987**
Stockholders' equity:						
Common stock, $0.01 par value; authorized 19,500,000 shares;	88	78	76	76	**76**	**76**
Additional paid-in capital	37,675	57,624	58,615	60,238	**59,380**	**60,480**
Retained earnings (Deficit)	1,372	7,999	8,964	3,875	**4,639**	**4,639**
Accumulated other comprehensive loss	-	-	-	(154)	**(154)**	**(154)**
Total stockholders' equity	**39,135**	**65,702**	**67,655**	**64,035**	**63,941**	**65,041**
Total liabilities and stockholders' equity	**$ 104,633**	**$ 100,269**	**$ 114,784**	**$ 129,102**	**$ 125,617**	**$ 126,435**
SHARES OUT	**8,760**	**10,160**	**10,245**	**10,317**	**10,325**	**10,330**

Source: Company reports and Taglich Brothers estimates

BG Staffing, Inc.
Annual Income Statement
FY2017 – FY2021E
(in thousands)

	2017 A	2018 A	2019 A	**2020 E**	**2021 E**
Revenues	$ 272,600	$ 286,863	$ 294,314	**$ 277,192**	**$ 300,275**
Cost of services	204,198	210,268	213,632	**201,565**	**215,365**
Gross Profit	68,402	76,595	80,681	**75,628**	**84,910**
Operating Expenses:					
SG&A	44,349	47,291	56,200	**60,379**	**64,800**
Gain on contingent consideration	-	-	-	**(76)**	**-**
Impairment losses	-	-	-	**7,240**	**-**
Depreciation and amortization	6,292	5,044	4,820	**5,400**	**5,030**
Total Operating Expenses	50,641	52,336	61,020	**72,942**	**69,830**
Operating Income (loss)	17,761	24,260	19,661	**2,686**	**15,080**
Other income (expense)					
Extinguishment of debt	-	-	(541)	**-**	**-**
Interest expense	(3,253)	(2,850)	(1,569)	**(1,630)**	**(1,410)**
Total Other Income (expense)	(3,253)	(2,850)	(2,110)	**(1,630)**	**(1,410)**
Income (loss) before taxes	14,508	21,409	17,552	**1,055**	**13,670**
Income Tax Expense (Benefit)	8,659	3,860	4,305	**225**	**3,350**
Net Income (loss)	5,848	17,550	13,247	**830**	**10,320**
Earnings (loss) per share	$ 0.65	$ 1.78	$ 1.28	**$ 0.08**	**$ 1.00**
Dividend per share	$ 1.00	$ 1.15	$ 1.20	**$ 0.50**	**$ 0.40**
Avg Shares Outstanding	9,038	9,833	10,351	**10,337**	**10,343**
EBITDA - Adjusted	$ 24,500	$ 27,891	$ 26,210	**$ 17,717**	**$ 21,510**
Margin Analysis					
Gross margin	25.1%	26.7%	27.4%	**27.3%**	**28.3%**
SG&A	16.3%	16.5%	19.1%	**21.8%**	**21.6%**
Depreciation and amortization	2.3%	1.8%	1.6%	**1.9%**	**1.7%**
Operating margin	6.5%	8.5%	6.7%	**1.0%**	**5.0%**
Pre-tax margin	5.3%	7.5%	6.0%	**0.4%**	**4.6%**
Tax rate	59.7%	18.0%	24.5%	**21.3%**	**24.5%**
YEAR / YEAR GROWTH					
Total Revenues	7.4%	5.2%	2.6%	**(5.8%)**	**8.3%**

Source: Company reports and Taglich Brothers estimates

BG Staffing, Inc.
Income Statement Model
Quarters FY2019A – 2021E
(in thousands)

	Q1 19 A	Q2 19 A	Q3 19 A	Q4 19 A	2019 A	Q1 20A	Q2 20 A	Q3 20 A	Q4 20 E	**2020 E**	Q1 21E	Q2 21 E	Q3 21 E	Q4 21 E	**2021 E**
Revenues	$ 68,776	$ 73,858	$ 79,364	$ 72,315	$ 294,314	$ 74,067	$ 62,606	$ 71,519	$ 69,000	**$ 277,192**	$ 69,825	$ 73,450	$ 80,000	$ 77,000	**$ 300,275**
Cost of services	50,337	52,995	57,188	53,112	213,632	53,792	45,701	51,807	50,265	**201,565**	50,500	52,800	56,955	55,110	**215,365**
Gross Profit	18,439	20,863	22,177	19,203	80,681	20,276	16,905	19,712	18,735	**75,628**	19,325	20,650	23,045	21,890	**84,910**
Operating Expenses:															
SG&A	13,620	14,238	14,503	13,839	56,200	16,204	14,306	14,869	15,000	**60,379**	15,750	16,250	16,500	16,300	**64,800**
Gain on contingent consideration	-	-	-	-	-	-	-	(76)	-	**(76)**	-	-	-	-	**-**
Impairment losses	-	-	-	-	-	-	7,240	-	-	**7,240**	-	-	-	-	**-**
Depreciation and amortization	1,232	1,204	1,197	1,188	4,820	1,415	1,444	1,271	1,270	**5,400**	1,265	1,260	1,255	1,250	**5,030**
Total Operating Expenses	14,852	15,442	15,700	15,026	61,020	17,618	22,990	16,064	16,270	**72,942**	17,015	17,510	17,755	17,550	**69,830**
Operating Income (loss)	3,587	5,421	6,477	4,177	19,661	2,657	(6,085)	3,648	2,465	**2,686**	2,310	3,140	5,290	4,340	**15,080**
Other income (expense)															
Extinguishment of debt	-	-	(541)	-	(541)	-	-	-	-	**-**	-	-	-	-	**-**
Interest expense	(353)	(496)	(395)	(324)	(1,569)	(456)	(430)	(360)	(385)	**(1,630)**	(360)	(355)	(345)	(350)	**(1,410)**
Total Other Income (expense)	(353)	(496)	(936)	(324)	(2,110)	(456)	(430)	(360)	(385)	**(1,630)**	(360)	(355)	(345)	(350)	**(1,410)**
Income (loss) before taxes	3,233	4,925	5,541	3,853	17,552	2,201	(6,514)	3,288	2,080	**1,055**	1,950	2,785	4,945	3,990	**13,670**
Income Tax Expense (Benefit)	737	1,123	1,334	1,111	4,305	703	(1,685)	723	485	**225**	480	680	1,210	980	**3,350**
Net Income (loss)	2,496	3,802	4,207	2,742	13,247	1,499	(4,829)	2,566	1,595	**830**	1,470	2,105	3,735	3,010	**10,320**
Earnings (loss) per share	$ 0.24	$ 0.37	$ 0.41	$ 0.26	$ 1.28	$ 0.14	$ (0.47)	$ 0.25	$ 0.15	**$ 0.08**	$ 0.14	$ 0.20	$ 0.36	$ 0.29	**$ 1.00**
Dividend per share	$ 0.30	$ 0.30	$ 0.30	$ 0.30	$ 1.20	$ 0.30	$ 0.05	$ 0.05	$ 0.10	**$ 0.50**	$ 0.10	$ 0.10	$ 0.10	$ 0.10	**$ 0.40**
Avg Shares Outstanding	10,404	10,362	10,344	10,349	10,351	10,383	10,307	10,326	10,330	**10,337**	10,335	10,340	10,345	10,350	**10,343**
EBITDA - Adjusted	$ 5,159	$ 6,848	$ 8,296	$ 5,907	$ 26,210	$ 4,806	$ 3,272	$ 5,504	$ 4,135	**$ 17,717**	$ 3,925	$ 4,750	$ 6,895	$ 5,940	**$ 21,510**
Margin Analysis															
Gross margin	26.8%	28.2%	27.9%	26.6%	27.4%	27.4%	27.0%	27.6%	27.2%	**27.3%**	27.7%	28.1%	28.8%	28.4%	**28.3%**
SG&A	19.8%	19.3%	18.3%	19.1%	19.1%	21.9%	22.9%	20.8%	21.7%	**21.8%**	22.6%	22.1%	20.6%	21.2%	**21.6%**
Depreciation and amortization	1.8%	1.6%	1.5%	1.6%	1.6%	1.9%	2.3%	1.8%	1.8%	**1.9%**	1.8%	1.7%	1.6%	1.6%	**1.7%**
Operating margin	5.2%	7.3%	8.2%	5.8%	6.7%	3.6%	(9.7%)	5.1%	3.6%	**1.0%**	3.3%	4.3%	6.6%	5.6%	**5.0%**
Pre-tax margin	4.7%	6.7%	7.0%	5.3%	6.0%	3.0%	(10.4%)	4.6%	3.0%	**0.4%**	2.8%	3.8%	6.2%	5.2%	**4.6%**
Tax rate	22.8%	22.8%	24.1%	28.8%	24.5%	31.9%	25.9%	22.0%	23.3%	**21.3%**	24.6%	24.4%	24.5%	24.6%	**24.5%**
YEAR / YEAR GROWTH															
Total Revenues	2.9%	4.1%	3.0%	0.4%	2.6%	7.7%	(15.2%)	(9.9%)	(4.6%)	**(5.8%)**	(5.7%)	17.3%	11.9%	11.6%	**8.3%**

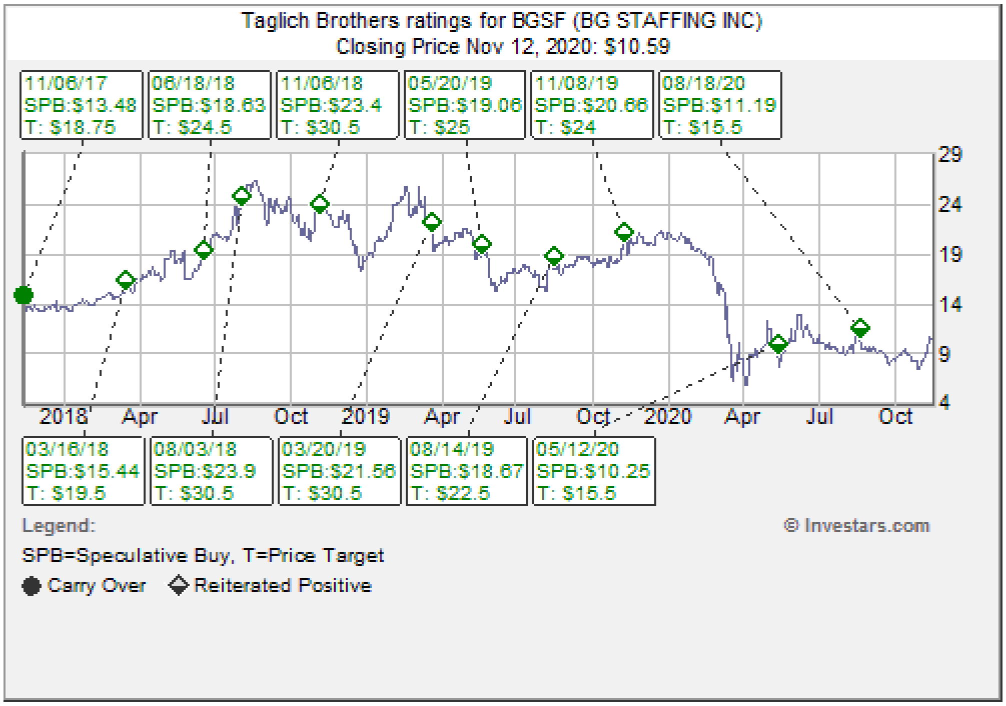
Source: Company reports and Taglich Brothers estimates

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

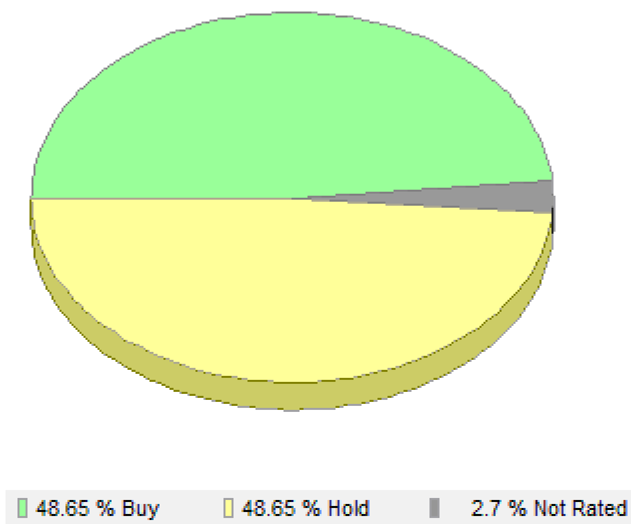
	FY2017A	FY2018A	FY2019A	9 Mos.20A	**FY2020E**	**FY2021E**
Cash Flows from Operating Activities						
Net Income (loss)	$ 5,848	$ 17,550	$ 13,247	$ (765)	**$ 830**	**$ 10,320**
Depreciation and amortization	6,292	5,044	4,820	4,130	**5,400**	**5,030**
Impairment losses	-	-	-	7,240	**7,240**	-
Disposal of property and equipment	17	18	31	-	-	-
Extinguishment of related party debt and debt	-	-	541	-	-	-
Contingent considerationt adjustment	(226)	(3,775)	-	(76)	(76)	-
Amortization of defered financing costs	251	454	173	56	56	-
Interest expense on earnout payable	1,208	624	124	145	**190**	-
Provision for doubtful accounts	761	41	128	154	**154**	-
Stock based compensation	447	1,069	953	631	**775**	**1,100**
Deferred income taxes	3,110	1,532	799	(1,353)	**(1,353)**	-
Cash earnings (burn)	17,709	22,556	20,816	10,161	**13,216**	**16,450**
Changes In:						
Accounts receivable	1,434	(939)	(1,758)	4,231	**848**	**(3,546)**
Prepaid expenses and other	102	(36)	(727)	754	**185**	**(132)**
Other current assets	27	121	3	-	**20**	-
Deposits and other	(245)	(302)	(475)	(978)	**(1,257)**	**(400)**
Accrued interest	230	(22)	(236)	21	**(21)**	**94**
Accounts payable	(556)	(1,763)	676	(66)	**(154)**	**(25)**
Accrued payroll and expenses	285	(1,129)	(82)	(21)	**4,248**	**(2,315)**
Accrued workers' compensation	(162)	(61)	(126)	-	-	-
Other current and long-term liabilities - includes Contingent Consideration	(377)	(243)	17	4,006	**(17)**	-
Operating leases	-	-	(28)	(17)	-	-
Accrued taxes	(384)	247	(125)	197	**184**	-
Net (increase)/decrease in Working Capital	354	(4,129)	(2,862)	8,127	**4,036**	**(6,323)**
Net cash Provided (used) by Operations	18,064	18,426	17,954	18,288	**17,251**	**10,127**
Cash Flows from Investing Activities						
Business acquired, net of cash received	(24,500)	-	(7,500)	(21,658)	**(21,658)**	-
Captial expenditures	(1,146)	(924)	(2,230)	(1,960)	**(2,000)**	**(2,000)**
Proceeds from sale of property and equipment	2	-	0	-	-	-
Cash flow provided (used in) Investing Activities	(25,643)	(924)	(9,729)	(23,618)	**(23,658)**	**(2,000)**
Cash Flows from Financing Activities						
Borrowings (net) under line of credit	(2,515)	(10,718)	9,695	(12,337)	**(10,044)**	**(1,000)**
Proceeds from issuance of long-term debt	25,000	-	7,500	22,500	**22,500**	-
Principal payments on long-term debt	(1,113)	(13,767)	(10,121)	(700)	**(700)**	**(3,000)**
Issuance of common stock	86	22,205	38	(10)	**(10)**	-
Contingent consideration paid	(4,024)	(963)	(2,672)	-	**(184)**	-
Dividends	(8,736)	(10,922)	(12,282)	(4,123)	**(5,155)**	**(4,127)**
Retirement of vested stock options	-	(3,335)	-	-	-	-
Deferred financing and share issuance costs	(1,119)	(4)	(382)	-	-	-
Net cash provided (used) by Financing	7,580	(17,502)	(8,225)	5,330	**6,407**	**(8,127)**
Net change in Cash	-	-	-	-	-	-
Cash Beginning of Period	-	-	-	-	-	-
Cash End of Period	$ -	$ -	$ -	$ -	-	**$ -**

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	3	15
Hold		
Sell		
Not Rated		

Important Disclosures

As of November 12, 2020, Taglich Brothers, Inc. and/or its affiliates, own more than 1% of BGSF common stock. Michael Taglich, President of Taglich Brothers, Inc. owns or has a controlling interest in 294,941 shares of BGSF common stock and 620 restricted warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 404,373 shares of BGSF common stock and 620 restricted warrants. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 21,200 shares of common stock, as well as 41,771 restricted common stock, 1,613 restricted warrants, and 25,160 derivative securities. Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. owns or has a controlling interest in 3,000 shares of common stock, as well as 2,822 restricted warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 5,727 shares of BGSF common stock. Other employees at Taglich Brothers, Inc. own or have a controlling interest in 620 restricted warrants. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In 2010, 2011, and 2012, Taglich Brothers Inc. served as the placement agent for $2.3 million in notes, 8.5 million class A units, and 6 million class A units, respectively. In December 2014, Taglich Brothers Inc. was the sole placement agent for 956,050 shares of BGSF common stock. In October 2015, Taglich Brothers Inc. participated as a co-placement agent for a 584,579 common stock block trade by two selling shareholders. In June 2016, Taglich Brothers acted as a co-book-running manager 1.1 million common stock offering. In May 2018, Taglich Brothers, Inc. acted as joint book-running managers for a 1.3 million common stock offering. In May 2018, affiliates of Taglich Brothers, Inc. beneficially own more than 10% of BGSF's outstanding common shares and certain associates of Taglich Brothers, Inc. and its affiliates are members of BGSF's board of Directors. Taglich Private Equity, LLC had an advisory agreement with the predecessor company to BG Staffing, Inc. In 2007 to 2013, Taglich Private Equity received an annual advisory fee of $175,000.

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

General Disclosures

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Analyst Certification

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

Public Companies mentioned in this report:

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

Meaning of Ratings

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

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

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

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

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.