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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 $13.23 — (NYSE MKT)

March 21, 2022

	2019 A	2020 A	2021 A	*2022 E*	*2023 E*
Revenues (in millions)*	$219.8	$207.1	$239.0	***$256.5***	***$276.1***
Earnings per share*	$0.93	$0.32**	$0.80***	***$1.02***	***$1.31***

52-Week range	$15.65 – $11.45	Fiscal year ends:	December
Shares outstanding a/o 03/09/22	10.4 million	Revenue/shares (ttm)*	$22.95
Approximate float	9.6 million	Price/Sales (ttm)	0.6X
Market Capitalization	$137.6 million	Price/Sales (2023) E	0.5X
Tangible Book value/shr	$1.33	Price/Earnings (ttm)***	16.5X
Price/Book	9.9X	Price/Earnings (2023) E	10.1X
Annual dividend per share	$0.60	Dividend Yield	4.5%

** Restated for discontinued light industrial operations (sold in 1Q22) ** Excludes $0.52 per share impairment charge *** Excludes $0.20 per share in net gains from a contingent consideration gain, CARES Act credit, partly offset by acquisition amortization charge.*

BGSF, Inc., headquartered in Plano, Texas, provides staffing services to a variety of industries through its multifamily, and professional staffing operating segments.

Key Investment Considerations:

Maintaining Speculative Buy rating and 12-month price target of $21.50 per share.

BGSF has positioned its professional and real estate segments to grow operations through 2023. The US staffing industry market is projected to 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.

In 2021, multifamily and talent leadership teams were integrated in an effort to provide new business opportunities by equipping the team with better processes, training, tracking, and improved audit policies. Those efforts should drive real estate segment growth of 11% and 13%, respectively in 2022 and 2023.

In 1Q22, BGSF signed an agreement to sell its light industrial operations to Jobandtalent for $30.3 million in cash at closing with an additional $2 million payment in 1Q23. Closing should occur before the end of 1Q22. All historic financial results and forecasts reflect the company's light industrial operations as discontinued.

BGSF reported 2021 EPS from continuing operations (on 03-9-22) of $0.80 (excludes a contingent consideration gain, CARE Act credit, and acquisition amortization charge) on a 15.4% increase in revenue to $239 million. In 2020, EPS from continuing operations was $0.32 on revenue of $207.1 million.

In 2022, we are establishing an EPS forecast from continuing operations of $1.02 on revenue growth of 7.3% to $256.5 million. Our revenue and EPS forecasts reflect the 1Q22 sale of the company's light industrial segment that is classified as a discontinued operation.

In 2023, we forecast EPS of $1.31 on revenue growth of 7.6% to $276.1 million. Our EPS forecast reflects gross margin improvement to 34.8% from an estimated 34.2% in 2022 and operating margin expense of 28% compared to 28.5% in 2022.

Please view our Disclosures on pages 13 – 15.

Appreciation Potential

Maintaining Speculative Buy rating and 12-month price target of $21.50 per share. Our rating should be supported by a resumption of gross profit growth in 2022 and 2023 as the company is focused on its two higher margin operating segments after the 1Q22 sale of the light industrial segment (detailed below). Also, supporting our forecast should be US staffing industry growth that is forecast to 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 9.5% in 2023 compared to 8.5% in 2022. Gross profit growth should be driven by revenue gains in the real estate segment (BGSF's highest margin segment) reflecting an estimated 56 locations in operation entering 2022 with at least 62 locations entering 2023.

The comparative peers in the Staffing & Employment Services industry (source: finviz – on 03/18/22) have a forward P/E multiple of 18.3X (unchanged) with an 18.3% EPS growth rate. Based on our 2023 forecast, BGSF's P/E multiple is 10.4X with EPS growth of 28.4% to $1.31 per share from an estimated $1.02 per share in 2022.

We anticipate investors are likely to accord BGSF the peer group multiple as its EPS growth of 28.4% is higher than the peer groups' EPS growth of 16.7%. We applied an 18.3X multiple (unchanged) to our 2023 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 4.5% 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).

Recent Developments

On March 1, 2022, BGSF, Inc. announced it signed an agreement to sell its light industrial operations to Jobandtalent through their wholly-owned subsidiary, Sentech Engineering Services, Inc., for $30.3 million in cash at closing and $2 million at the one-year anniversary of the closing, which is expected to occur before the end of 1Q22.

This divestiture should enable the company to deploy additional capital into its managed services and high-end consulting solutions, as well as drive geographic expansion in its real estate operations. Additionally, net proceeds from the sale will enable the company's continued pursuit of high margin acquisitions and debt reduction.

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, Vision Technology Services, Zycron, L.J. Kushner & Associates, EdgeRock, and Momentum Solutionz. BGSF, Inc. operates within two industry segments: professional services, and real estate (a specialty staffing segment). The company's real estate and professional segments operates in 46 states and the District of Columbia. 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.

Growth Strategy

Technology Roadmap
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 launch the remaining seven projects before the end of 2Q22, 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.

The implementation of the technology roadmap should enhance revenue growth by improving the company's operating environment, as well as produce efficiencies starting in 2H22 that is likely to improve gross and operating margins through our forecast period.

Going Virtual
In 2021, the company's technology platforms were 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 economic conditions. In 2H21, 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 at least 10% of total revenues from cross selling. Helping to drive 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.

Sale of light industrial segment
The 1Q22, sale of the company's light industrial segment will enable management to focus on growing its higher margin segments. The company's real estate and professional services generate gross margin above 30% compared to the light industrial segment that generated gross margin below 14% on an annual basis. The sale could reduce operating costs as insurance needs are likely to decrease since that segment was worker intensive compared to project intensive for the company's two remain segments.

Projections

Basis of Forecast
Our forecast reflects the company's development over the last two years of streamlining, cross selling, and digital transformation technology initiatives. The digital technology roadmap initiatives, which are expected to go live in 2Q22, should improve the company's overall operations by generating process efficiencies in onboarding professional talent that will be deployed to customers. All of the initiatives developed and implemented over the last two years should provide a foundation for sustained revenue growth and improved operating leverage.

Our forecast covers the company's two operating segments of real estate and professional services. In 1Q22, the company began recording the light industrial segment as a discontinued operation stemming from the definitive agreement to sell those operation before the end of the quarter.

Economy
In January 2022, the International Monetary Fund (IMF) revised its economic growth estimate for the US to an increase of 3.9% for 2022 and 2.6% for 2023. In October 2021, the IMF projected US economic growth of 4.5% for 2022 and 2.2% for 2021. The IMF adjusted their 2022 forecast due primarily to supply chain issues and rising energy prices that is causing higher and more broad-based inflation than anticipated.

The second estimate of US GDP growth (released on February 24, 2022) showed the US economy increased at annual rate of 7% in 4Q21, up from the 2.3% increase reported in 3Q21. The increase in 4Q21 US GDP estimated growth compared to 3Q21 primarily reflects increases in exports, residential and inventory investment, consumer spending, and business investment, partly offset by decreases in state and local government spending.

The unemployment rate for February 2022 (reported on March 4, 2022) was 3.8% compared to the peak unemployment rate of 14.7% in April 2020. In February 2021, unemployed people in the US were approximately 6.3 million (compared to 5.7 million in February 2020 – prior to the COVID-19 pandemic), while the number of employed were 157.7 million. In February 2022, the labor force participation rate was 62.2%. In February 2020, the labor force participation rate was 63.3%.

In December 2021, the Federal Reserve Board issued a forecast that calls for a US unemployment rate of 3.5% and 3.5%, respectively in 2022 and 2023, compared to its September 2021 forecast of 3.8% and 3.5%, respectively in 2022 and 2023.

Operations
In 2022, we project revenue growth of 7.3% to $256.5 million (prior was $256.4 million – excludes discontinued light industrial segment). We anticipate the company's two segments (real estate and professional services) should experience revenue growth of 11% and 5%, respectively.

We project an 8.5% increase in gross profit to $87.8 million driven by sales growth and gross margin expanding to 34.2% from 33.9% in 2021 due primarily to the sales mix of projects within the company's real estate and professional services segments. We anticipate operating income increasing to $14.6 million from $12.3 million in 2021 (excluding $2.4 million contingent consideration gain) due primarily to revenue growth and gross margin expansion, and the operating margin expense improving to 28.5% from 28.8% in 2020 (excludes contingent consideration gain).

We forecast operating expense to increase 6.3% to nearly $73.2 million compared to $68.8 million (excludes contingent consideration gain of $2.4 million, as well as being restated for discontinued light industrial operations) in 2021. We project a 7.4% increase in SG&A to $69.9 million to support revenue growth. D&A expense should decrease to $3.3 million from $3.7 million. We project operating margin of 5.7% vs. 5.1% (excludes contingent consideration gain) due primarily to revenue growth and gross margin expansion.

We project a decrease of $808,000 in interest expense to $625,000 due primarily to lower average debt balances stemming from the anticipated repayment of a majority of outstanding debt in 2Q22 after the company receives cash (net of taxes) from the closing on the sale of its light industrial segment.

Our net income forecast from continuing operations forecast is $10.7 million or $1.02 per share, after income tax expense of nearly $3.3 million for an income tax rate of 23.5%. Our prior forecast included the discontinued light industrial segment, so it is not comparable to our current net income forecast from continuing operations.

In 2023, we project revenue growth of 7.6% to $276.1 million. Our forecast does not include potential acquisitions in the company's professional staffing segment. We anticipate the company's real estate and professional services segment's should experience growth as the company executes on customer cross selling opportunities, expansion into Canada, and the ability to fulfill a greater number of client requests due to the implementation and expansion of BGSF's own internal information technology deployments. We anticipate real estate segment growth of 13.1% to $115.5 million and professional services growth of 4% to $160.5 million.

We project a 9.5% increase in gross profit to $96.2 million driven by gross margin improvement to 34.8% from an estimated 34.2% in 2022. The gross margin improvement reflects revenue growth from the real estate segment, which should deliver a gross margin of 38.8% and comprise 41.8% of total revenue, up from an estimated 39.8% of total revenue in 2022. We anticipate operating income increasing 29.2% to $18.9 million from an estimated $14.6 million due to revenue growth, gross margin expansion, and operating margin expense improving to 28% from an estimated 28.5% in 2022.

We forecast operating expense increasing 5.6% to nearly $77.3 million compared to an estimated $73.2 million in 2022. We project a 6% increase in SG&A to $74.1 million to support sales growth. D&A expense should decrease $140,000 to $3.1 million. We project operating margin of 6.8% vs. 5.7% due to revenue growth, increased gross margin, and improvement in operating margin expense.

We project interest expense of $600,000 compared to $625,000 reflecting lower average debt balances, partly offset by higher average interest rates. We project net income from continuing operations of $13.8 million or $1.31 per share, after income tax expense of $4.5 million for an income tax rate of 24.5%.

Finances
For 2022, we project cash earnings of $15 million and an increase in working capital of $4.7 million. Cash from operations of $10.3 million and net cash received from the sales of the company's light industrial segment is unlikely to cover capital expenditures, repayment of debt, and payment of common stock dividends. At the end of 2022, the company's cash balance should decline from $112,000 to zero.

For 2023, we project cash earnings of $18 million and an increase in working capital of $6.6 million. Cash from operations of $11.5 million should cover capital expenditures, repayment of debt, and payment of common stock dividends. At the end of 2023, the company's cash balance should remain at zero.

2021 and 4Q21 Results – Reflects Light Industrial segment as discontinued operations

2021 Results
Revenues increased 15.4% to $239 million from $207.1 million in the year-ago period due to a 33.8% increase in real estate segment sales to $92 million and a 6.2% increase in the professional staffing revenue to $147 million. As previously noted, the company began recording its light industrial segment as a discontinued operation as it signed a definitive agreement to sell that segment in 1Q22.

The 33.8% or $23.3 million increase in real estate segment sales was due primarily to a 20.1% increase in billed hours and 11% increase in the average bill rate.

The 6.2% or $8.6 million increase in professional staffing segment sales reflects a 5.5% increase in billed hours, a $1.2 million increase in permanent placements, and approximately $3.5 million in new revenue from the 2021 Momentum acquisition. The increase in this segment was partially offset by a 0.2% decrease in average bill rate and an $11.6 million decline in the IT Infrastructure & Development division.

Gross profit increased 22.6% to $80.9 million reflecting gross margin expansion to 33.9% from 31.9% in 2020. The gross profit improvement for the real estate segment reflects an easing of COVID-19 pandemic conditions, while the improvement in the professional staffing segment reflects contribution of $1.2 million in permanent placements and $3.5 million from the 2021 Momentum Solutionz acquisition. The real estate segment recorded gross margin of 38%, up from 37.5% in 2020 with professional staffing's gross margin improving to 33.9%, up from 31.9% last year.

Operating expenses (excluding a $2.4 million gain on contingent consideration in the current period) increased 14.5% to $68.8 million from $60.1 million (excluding an impairment loss of $7.2 million) due to a nearly $9.9 million increase in SG&A to $65.1 million. The increase in SG&A expense reflects higher compensation costs and the inclusion of Momentum Solutionz operations. Partly offsetting the increase was a nearly $1.2 million decrease in D&A expense to $3.7 million. The decrease in D&A expense stems from the 2015 Vision Technology Services acquisition, which was partially offset by an increase related to the information technology improvement project.

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.

Operating income (excluding the contingent consideration gain) increased to $12.1 million compared to $6.2 million (excluding an impairment loss) in 2020. The increase in operating income was due primarily to revenue growth and gross margin expansion. Operating expense margin (excluding items) was 28.8%, down from 29% in 2020.

Interest expense was $1.4 million, down from $1.6 million due primarily to a lower average balance on the company's revolving credit facility, partly offset by an increase in interest income from the company's workers compensation loss retention program.

Income from continuing operations was $10.5 million or $1.00 per share, which includes gains of contingent consideration and CARES Act credit, and a charge related to acquisition amortization. Excluding those items, EPS from continuing operations was $0.80. Net income including discontinued operations was $14.1 million or $1.35 per share, which excluding items would be $1.15 per share. We estimated EPS of $1.17 per share (includes the light industrial segment) on revenue of $233.8 million (excludes an estimated $74.6 million in light industrial segment revenue).

4Q21 Results

Revenues increased 37.8% to $67.7 million due to a 54% increase in real estate segment sales to $27.4 million and a 28.6% increase in professional staffing sales to $40.3 million.

Gross profit increased 43.6% to $23.4 million reflecting higher sales and gross margin expansion to 34.6% from 33.2% in the year-ago period.

Income from continuing operations was $4.3 million or $0.41 per share (includes approximately $0.20 per share gain from a CARES Act credit) compared to $1.1 million or $0.10 per share in 4Q20.

Finances

In 2021, the company had cash earnings of $12.3 million and a $10.9 million increase in working capital. Income from discontinued operations of nearly $3.7 million (a subtraction) was more than offset by $5.3 million of cash provided by discontinued operation activity. Cash from operations of $6.7 million and borrowings more than covered capital investments including acquisitions, repayment of debt, and common stock dividends. Cash at the end of the period was $112,000 compared to zero in 2020.

Capital Structure

In 2021, the company had total outstanding debt of $39.5 million. The company's outstanding long-term line of credit was $12.6 million (net of $193,000 of deferred finance fees) and term debt was $26.9 million (all but $3.6 million was long-term). The blended interest rate on the credit line and term debt was 2.5% compared to 2.4% in 2020. The company's debt to equity ratio is 0.5 versus 0.8 for the industry, indicating that BGSF's leverage is less than other staffing and outsourcing service companies. At the end of 2021, 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.

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.

In 1Q22, the company announced it signed a definitive agreement for the sale of its light industrial segment. Upon closing (before the end of 1Q22) the company is expected to receive gross proceeds of $30.2 million in cash. An additional $2 million is expected to be received on the one-year anniversary of the closing date on the sale of the light industrial segment. We anticipate the company is likely to pay down a significant portion of their outstanding debt, which should provide flexibility to utilize its debt facilities for future acquisition of higher margin professional services operations.

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 2021, two states (Texas – 23% and Tennessee – 12%) accounted for 39% of the company's revenues compared to 37% (Texas – 15% and Tennessee – 16%) in 2020. 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 maintained interest rates at virtually zero since 2Q20. However, indications are interest rates could increase in 2022. If economic growth and inflation continue to accelerate, interest rates are likely to increase, which would 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. Of note, the sale of the company's light industrial segment could reduce reserves needed for workers compensation.

Seasonality
Operations are affected by billing days in a quarter and the seasonality of a customers' business. 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 shareholder 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 March 18, 2022, average daily volume was 19,800 compared to average daily volume of 49,900 in 2021. The company has a float of 9.6 million shares and shares outstanding of approximately 10.4 million.

BGSF, Inc.
Consolidated Balance Sheets
FY2019 – FY2023E
(in thousands)

	2019 A*	2020 A	2021 A	**2022 E**	**2023 E**
ASSETS					
Current assets:					
Cash and cash equivalents	$ -	$ -	$ 112	**$ -**	**$ -**
Accounts receivable, net	29,438	32,831	48,133	**50,893**	**52,746**
Prepaid expense and other current assets	934	2,155	2,346	**5,131**	**5,632**
Other current assets	70	-	2,381	**100**	**100**
Assets of discontinued operations	-	8,663	7,198	**-**	**-**
Total current assets	30,441	43,649	60,170	**56,124**	**58,478**
Property and equipment, net	3,545	3,464	4,331	**4,000**	**4,000**
Deposits an other assets	3,843	5,175	5,390	**5,500**	**6,000**
Right-of-use asset - operating lease, net	4,386	5,550	3,914	**2,000**	**2,000**
Deferred income taxes	4,072	5,828	4,548	**3,850**	**3,850**
Intangible assets, net	33,808	32,133	33,585	**30,600**	**28,000**
Goodwill	25,195	27,052	29,142	**27,000**	**27,000**
Noncurrent assets of discontinued operations	-	7,427	7,213	**-**	**-**
Total assets	$ 105,290	$ 130,278	$ 148,294	**$ 129,074**	**$ 129,328**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Debt	375	2,625	3,563	**1,863**	**-**
Accrued interest	73	78	102	**100**	**100**
Accounts payable	479	220	401	**500**	**600**
Accrued payroll and expenses	10,485	10,376	16,154	**11,000**	**8,500**
Current liabilities of discontinued operations	-	1,239	1,262	**-**	**-**
Contingent consideration	-	-	1,074	**1,110**	**-**
Lease liability	1,278	1,866	1,896	**2,000**	**2,000**
Other current liabilities	1,017	-	3,550	**3,550**	**3,550**
Taxes payable	-	1,861	382	**400**	**400**
Total current liabilities	13,707	18,264	28,384	**20,523**	**15,150**
Line of credit	19,994	5,709	12,588	**12,588**	**12,000**
Long-term debt	7,125	26,300	23,300	**-**	
Lease liability	4,129	4,581	990	**5,876**	**4,000**
Other long-term liabilities and contingent consideration	2,174	9,643	6,250	**7,150**	**6,631**
Noncurrent liabilities of discontinued operations	-	323	190	**-**	**-**
Stockholders' equity:					
Common stock, $0.01 par value; authorized 19,500,000 shares;	76	74	66	**66**	**66**
Additional paid-in capital	59,618	60,457	61,875	**62,875**	**63,975**
Retained earnings (Deficit)	8,763	5,050	14,592	**19,937**	**27,447**
Accumulated other comprehensive loss	-	(123)	58	**58**	**58**
Total stockholders' equity	68,457	65,458	76,592	**82,937**	**91,547**
Total liabilities and stockholders' equity	$ 115,586	$ 130,278	$ 148,294	**$ 129,074**	**$ 129,328**
SHARES OUT	10,245	10,328	10,425	**10,450**	**10,465**

* 2019 is not restated for discontinued light industrial operations – all other period are restated

Source: Company reports and Taglich Brothers estimates

BGSF, Inc.
Annual Income Statement
FY2019 – FY2023E
(in thousands)

	2019 A	2020 A	2021 A	**2022 E**	**2023 E**
Revenues	$ 219,764	$ 207,125	$ 239,027	**$ 256,525**	**$ 276,065**
Cost of services	149,938	141,086	158,086	**168,720**	**179,910**
Gross Profit	69,826	66,039	80,941	**87,805**	**96,155**
Operating Expenses:					
SG&A	50,222	55,244	65,115	**69,925**	**74,140**
Gain on contingent consideration	-	(76)	(2,403)	-	-
Impairment losses	-	7,240	-	-	-
Depreciation and amortization	4,718	4,861	3,698	**3,255**	**3,115**
Total Operating Expenses	54,941	67,268	66,411	**73,180**	**77,255**
Operating Income (loss)	14,885	(1,229)	14,530	**14,625**	**18,900**
Other income (expense)					
Extinguishment of debt	(541)	-	-	-	-
Interest expense	(1,569)	(1,584)	(1,433)	**(625)**	**(600)**
Total Other Income (expense)	(2,110)	(1,584)	(1,433)	**(625)**	**(600)**
Income (loss) before taxes	12,776	(2,813)	13,097	**14,000**	**18,300**
Income Tax Expense (Benefit)	3,135	(741)	2,640	**3,285**	**4,490**
Net Income (loss) - from continuing operations	9,641	(2,072)	10,458	**10,715**	**13,810**
Income (loss) from discontinued operations	3,606	3,513	3,652	**885**	-
Net Income (loss) includes discontinued operations	$ 13,247	$ 1,441	$ 14,109	**$ 11,600**	**$ 13,810**
Earnings (loss) per share - Continuing operations	$ 0.93	$ (0.20)	$ 1.00	**$ 1.02**	**$ 1.31**
Discontinued operations per share	0.35	0.34	0.35	**0.09**	-
Net Income (loss) per share	$ 1.28	$ 0.14	$ 1.35	**$ 1.11**	**$ 1.31**
Dividend per share	$ 1.20	$ 0.50	$ 0.44	**$ 0.60**	**$ 0.60**
Avg Shares Outstanding	10,351	10,338	10,417	**10,478**	**10,511**
EBITDA - Adjusted from continuing operations	$ 20,452	$ 13,760	$ 16,659	**$ 18,880**	**$ 23,115**
Margin Analysis					
Gross margin	31.8%	31.9%	33.9%	**34.2%**	**34.8%**
SG&A	22.9%	26.7%	27.2%	**27.3%**	**26.9%**
Depreciation and amortization	2.1%	2.3%	1.5%	**1.3%**	**1.1%**
Operating margin	6.8%	(0.6%)	6.1%	**5.7%**	**6.8%**
Pre-tax margin	5.8%	(1.4%)	5.5%	**5.5%**	**6.6%**
Tax rate	24.5%	26.3%	20.2%	**23.5%**	**24.5%**
YEAR / YEAR GROWTH					
Total Revenues	6.6%	(5.8%)	15.4%	**7.3%**	**7.6%**

2020 includes approximately $0.52 per share impairment charge – continuing operations
2021 includes approximately $0.20 per share gain related to contingent consideration, CARES Act credit, and acquisition amortization charge – continuing operations

Source: Company reports and Taglich Brothers estimates

BGSF, Inc.
Income Statement Model
Quarters FY2021A – 2023E
(in thousands)

	Q1 21A	Q2 21 A	Q3 21 A	Q4 21 A	2021 A	Q1 22 E	Q2 22 E	Q3 22 E	Q4 22 E	**2022 E**	Q1 23 E	Q2 23 E	Q3 23 E	Q4 23 E	**2023 E**
Revenues	$ 49,750	$ 57,398	$ 64,185	$ 67,695	$ 239,027	$ 55,820	$ 60,580	$ 67,820	$ 72,305	**$ 256,525**	$ 60,845	$ 66,070	$ 73,150	$ 76,000	**$ 276,065**
Cost of services	33,535	38,150	42,138	44,264	158,086	36,870	39,830	44,440	47,580	**168,720**	39,795	43,100	47,760	49,255	**179,910**
Gross Profit	16,215	19,248	22,047	23,431	80,941	18,950	20,750	23,380	24,725	**87,805**	21,050	22,970	25,390	26,745	**96,155**
Operating Expenses:															
SG&A	15,617	13,710	14,410	18,203	65,115	16,500	16,250	18,500	18,675	**69,925**	17,500	18,000	19,315	19,325	**74,140**
Gain on contingent consideration	-	(1,195)	(1,208)	-	(2,403)	-	-	-	-	**-**	-	-	-	-	**-**
Impairment losses	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Depreciation and amortization	836	867	1,168	827	3,698	825	820	810	800	**3,255**	790	780	775	770	**3,115**
Total Operating Expenses	16,453	13,383	14,369	19,030	66,411	17,325	17,070	19,310	19,475	**73,180**	18,290	18,780	20,090	20,095	**77,255**
Operating Income (loss)	(238)	5,865	7,678	4,401	14,530	1,625	3,680	4,070	5,250	**14,625**	2,760	4,190	5,300	6,650	**18,900**
Other income (expense)															
Extinguishment of debt	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Interest expense	(377)	(219)	(431)	(406)	(1,433)	(400)	(75)	(75)	(75)	**(625)**	(125)	(150)	(150)	(175)	**(600)**
Total Other Income (expense)	(377)	(219)	(431)	(406)	(1,433)	(400)	(75)	(75)	(75)	**(625)**	(125)	(150)	(150)	(175)	**(600)**
Income (loss) before taxes	(615)	5,647	7,246	3,995	13,097	1,225	3,605	3,995	5,175	**14,000**	2,635	4,040	5,150	6,475	**18,300**
Income Tax Expense (Benefit)	143	657	1,121	(696)	2,640	300	835	935	1,215	**3,285**	645	990	1,265	1,590	**4,490**
Net Income (loss) - from continuing operations	(212)	2,635	3,713	4,321	10,458	925	2,770	3,060	3,960	**10,715**	1,990	3,050	3,885	4,885	**13,810**
Income (loss) from discontinued operations	923	808	930	990	3,652	885	-	-	-	**885**	-	-	-	-	-
Net Income (loss) includes discontinued operations	$ 712	$ 3,443	$ 4,644	$ 5,311	$ 14,109	$ 1,810	$ 2,770	$ 3,060	$ 3,960	**$ 11,600**	$ 1,990	$ 3,050	$ 3,885	$ 4,885	**$ 13,810**
Earnings (loss) per share - Continuing operations	$ (0.02)	$ 0.25	$ 0.36	$ 0.41	$ 1.00	$ 0.09	$ 0.26	$ 0.29	$ 0.38	**$ 1.02**	$ 0.19	$ 0.29	$ 0.37	$ 0.46	**$ 1.31**
Discontinued operations per share	0.09	0.08	0.09	0.09	0.35	0.08	-	-	-	**0.09**	-	-	-	-	-
Net Income (loss) per share	$ 0.07	$ 0.33	$ 0.45	$ 0.50	$ 1.35	$ 0.17	$ 0.26	$ 0.29	$ 0.38	**$ 1.11**	$ 0.19	$ 0.29	$ 0.37	$ 0.46	**$ 1.31**
Dividend per share	$ 0.10	$ 0.10	$ 0.12	$ 0.12	$ 0.44	$ 0.15	$ 0.15	$ 0.15	$ 0.15	**$ 0.60**	$ 0.15	$ 0.15	$ 0.15	$ 0.15	**$ 0.60**
Avg Shares Outstanding	10,395	10,392	10,427	10,465	10,417	10,470	10,475	10,480	10,485	**10,478**	10,500	10,510	10,515	10,520	**10,511**
EBITDA - Adjusted from continuing operations					$ 16,659	$ 2,700	$ 4,750	$ 5,130	$ 6,300	**$ 18,880**	$ 3,825	$ 5,245	$ 6,350	$ 7,695	**$ 23,115**
Margin Analysis															
Gross margin	32.6%	33.5%	34.3%	34.6%	33.9%	33.9%	34.3%	34.5%	34.2%	**34.2%**	34.6%	34.8%	34.7%	35.2%	**34.8%**
SG&A	31.4%	23.9%	22.5%	26.9%	27.2%	29.6%	26.8%	27.3%	25.8%	**27.3%**	28.8%	27.2%	26.4%	25.4%	**26.9%**
Depreciation and amortization	1.7%	1.5%	1.8%	1.2%	1.5%	1.5%	1.4%	1.2%	1.1%	**1.3%**	1.3%	1.2%	1.1%	1.0%	**1.1%**
Operating margin	(0.5%)	10.2%	12.0%	6.5%	6.1%	2.9%	6.1%	6.0%	7.3%	**5.7%**	4.5%	6.3%	7.2%	8.8%	**6.8%**
Pre-tax margin	(1.2%)	9.8%	11.3%	5.9%	5.5%	2.2%	6.0%	5.9%	7.2%	**5.5%**	4.3%	6.1%	7.0%	8.5%	**6.6%**
Tax rate	(23.3%)	11.6%	15.5%	(17.4%)	20.2%	24.5%	23.2%	23.4%	23.5%	**23.5%**	24.5%	24.5%	24.6%	24.6%	**24.5%**
YEAR / YEAR GROWTH															
Total Revenues	(11.7%)	18.5%	20.7%	37.8%	15.4%	12.2%	5.5%	5.7%	6.8%	**7.3%**	9.0%	9.1%	7.9%	5.1%	**7.6%**

Full Year 2021 includes $0.20 per share net gain related to contingent consideration, CARES Act credit, and acquisition amortization charge – continuing operations

Highlights in 2021 quarters will be restated as 2022 quarters are reported

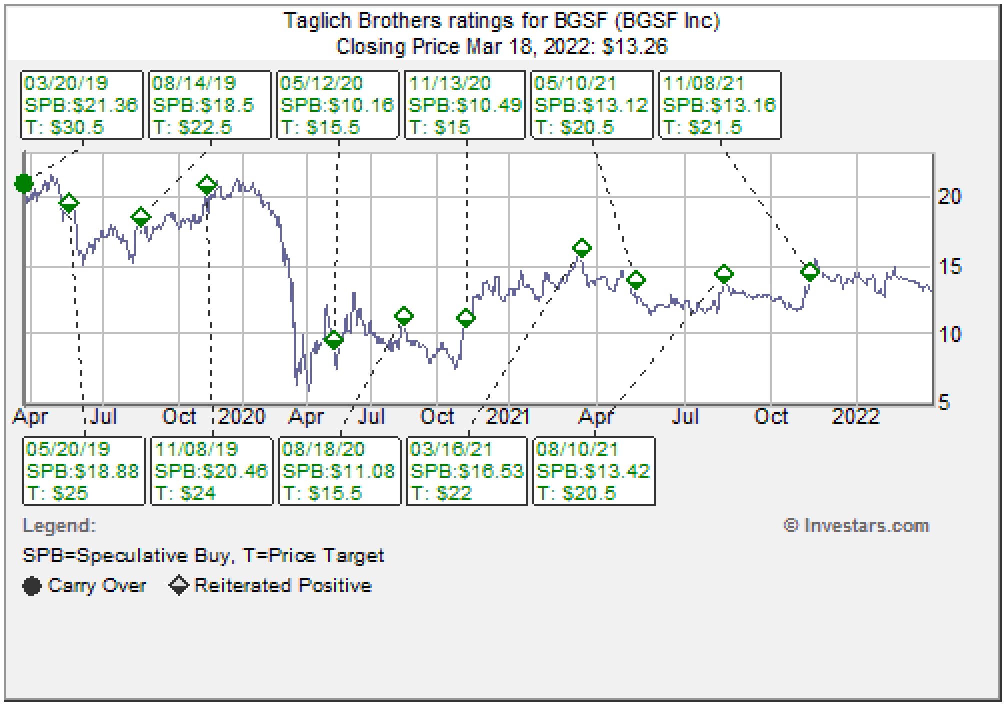
Source: Company reports and Taglich Brothers estimates

BGSF, Inc.
Cash Flow Statement
FY2019 – FY2023E
(in thousands)

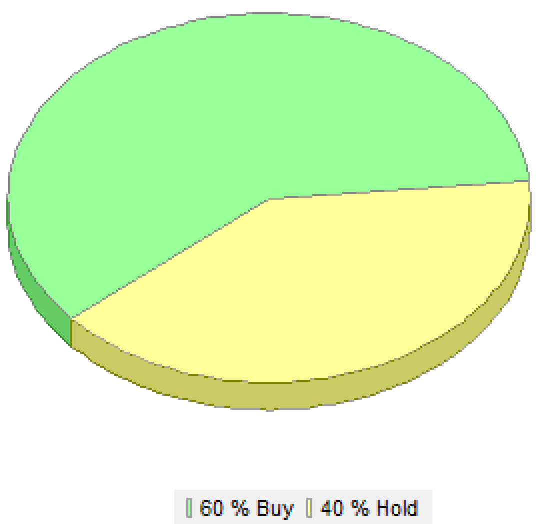
	FY2019A	FY2020A	FY2021A	**FY2022E**	**FY2023E**
Cash Flows from Operating Activities					
Net Income (loss)	$ 13,247	$ 1,441	$ 14,109	**$ 11,600**	**$ 13,810**
(Income) from discontinued operations, net of tax	(3,606)	(3,513)	(3,652)	**(885)**	-
Depreciation and amortization	4,718	4,861	3,698	**3,255**	**3,115**
Impairment losses	-	7,240	-	-	-
CARES Act credit	-	-	(2,368)	-	-
Disposal of property and equipment	31	-	8	-	-
Extinguishment of related party debt and debt	541	-	-	-	-
Contingent considerationt adjustment	-	(76)	(2,403)	-	-
Amortization of defered financing costs	173	83	75	-	-
Interest expense on earnout payable	124	190	252	-	-
Provision for doubtful accounts	115	349	221	-	-
Stock based compensation	850	786	1,058	**1,000**	**1,100**
Deferred income taxes	799	(2,413)	1,279	-	-
Cash earnings (burn)	16,991	8,947	12,279	**14,970**	**18,025**
Changes In:					
Accounts receivable	(2,765)	5,026	(15,178)	**(2,761)**	**(1,853)**
Prepaid expenses and other	(223)	(855)	(201)	**(2,785)**	**(501)**
Other current assets	-	-	-	**7,198**	-
Deposits and other	(634)	(209)	(126)	**(110)**	**(500)**
Accrued interest	(236)	5	24	**2**	-
Accounts payable	333	(279)	156	**99**	**(100)**
Accrued payroll and expenses	140	(1,342)	5,730	**(5,154)**	**(2,500)**
Other current and long-term liabilities - includes Contingent Consideration	17	6,300	260	**36**	**(1,110)**
Operating leases	(255)	213	(107)	-	-
Accrued taxes	(125)	1,875	(1,479)	**18**	-
Net (increase)/decrease in Working Capital	(3,748)	10,733	(10,921)	**(4,717)**	**(6,564)**
Net cash provided (used) by continuing operating activities	13,244	19,680	1,358	**10,253**	**11,461**
Net cash provided by discontinued operating activities	4,710	2,577	5,306	-	-
Net cash provided (used) by operating activities	17,954	22,257	6,663	**10,253**	**11,461**
Cash Flows from Investing Activities					
Business acquired, net of cash received	(7,500)	(22,002)	(3,791)	-	-
Captial expenditures	(2,077)	(2,076)	(3,204)	**(3,000)**	**(3,000)**
Proceeds from sale of Light Industrial segment, net of tax	-	-	-	**25,000**	**1,400**
Proceeds from sale of property and equipment	0	-	5	-	-
Net cash used in continuing investing activities	(9,576)	(24,078)	(6,990)	**22,000**	**(1,600)**
Net cash used in discontinued investing activities	(153)	(69)	(35)	-	-
Net cash used in investing activities	(9,729)	(24,147)	(7,024)	**22,000**	**(1,600)**
Cash Flows from Financing Activities					
Borrowings (net) under line of credit	9,695	(14,368)	6,804	-	**(588)**
Proceeds from issuance of long-term debt	7,500	22,500	-	-	-
Principal payments on long-term debt	(10,121)	(1,075)	(2,063)	**(25,000)**	**(1,863)**
Issuance of common stock	38	(12)	(41)	-	-
Issuance of ESSP shares	-	-	340		
Contingent consideration paid	(2,672)	-	-	**(1,110)**	**(1,110)**
Dividends	(12,282)	(5,155)	(4,567)	**(6,255)**	**(6,300)**
Retirement of vested stock options	-	-	-	-	-
Deferred financing and share issuance costs	(382)	-	-	-	-
Net cash provided (used) by Financing	(8,225)	1,890	473	**(32,365)**	**(9,861)**
Net change in Cash	-	-	112	(112)	-
Cash Beginning of Period	-	-	-	**112**	-
Cash End of Period	$ -	-	$ 112	**$ -**	**$ -**

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	5	21
Hold		
Sell		
Not Rated		

Important Disclosures

As of March 18, 2022, 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 415,540 shares of BGSF common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 460,115 shares of BGSF common stock. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 46,200 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 13,064 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.