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 $12.78 — (NYSE MKT)

May 10, 2022

	2019 A	2020 A	2021 A	*2022 E*	*2023 E*
Revenues (in millions)*	$219.8	$207.1	$239.0	***$273.8***	***$295.0***
Earnings per share*	$0.93	$0.32**	$0.80***	***$1.01***	***$1.39***

52-Week range	$15.65 – $11.45	Fiscal year ends:	December
Shares outstanding a/o 03/09/22	10.5 million	Revenue/shares (ttm)*	$24.69
Approximate float	9.6 million	Price/Sales (ttm)	0.5X
Market Capitalization	$134.2 million	Price/Sales (2023) E	0.5X
Tangible Book value/shr	$2.81	Price/Earnings (ttm)***	12.7X
Price/Book	4.5X	Price/Earnings (2023) E	9.2X
Annual dividend per share	$0.60	Dividend Yield	4.7%

** 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 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 17.3% and 13.5%, respectively in 2022 and 2023.

In 1Q22, BGSF sold its light industrial operations for $32.3 million in cash. The company paid off its $26.9 million in term debt, leaving $14.1 million outstanding in its revolving credit facility at March 31, 2022. All historic financials reflect the light industrial operations as a discontinued operation.

BGSF reported 1Q22 EPS from continuing operations (on 4-27-22) of $0.19 on a 37.8% increase in revenues to $68.5 million. In 1Q21, the loss per share was ($0.02) on revenue of $49.8 million. We projected EPS of $0.08 on revenue of $55.8 million.

In 2022, we forecast EPS from continuing operations of $1.01 (prior was $1.02) on revenue growth of 14.5% to $273.8 million (prior was $256.5 million). Our revised forecasts reflects 1Q22 results and higher than anticipated SG&A expense than previously forecast.

In 2023, we forecast EPS of $1.39 (prior was $1.31) on revenue growth of 7.7% to $295 million (prior was $276.1 million). Our EPS forecast reflects gross margin improvement to 34.7% from an estimated 34.3% in 2022 and operating margin expense of 28% compared to 29.1% 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 report from consulting firm Staffing Industry Analysts.

We forecast gross profit growth of 8.9% in 2023 compared to 16.1% 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 05/6/22) have a forward P/E multiple of 15.9X (prior was 18.3X) with a 15.9% EPS growth rate. Based on our 2023 forecast, BGSF's P/E multiple is 9.4X with EPS growth of 37.6% to $1.39 (prior was $1.31 per share) from an estimated $1.01 per share in 2022.

We anticipate investors are likely to accord BGSF the peer group multiple as its EPS growth of 37.6% is higher than the peer groups' EPS growth of 15.9%. We applied a 15.9X multiple (prior was 18.3X) to our 2023 EPS forecast of $1.39 (prior was $1.31), to obtain a year ahead price target of approximately $21.50 per share, implying a total (including a 4.7% dividend yield) year-ahead return of approximately 70%.

In our view this stock is suitable for risk-tolerant investors as revenue and earning gains are most vulnerable when the job market is shrinking. Investors should also be aware of how the company manages its liquidity, primarily debt levels and common stock 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. The sale closed on March 21, 2022.

This divestiture enable the company repay all of its outstanding term debt of $26.9 million, leaving $14.1 million outstanding in its revolving credit facility at March 31, 2022.

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

<u>*Technology Roadmap*</u>
The primary goal of the company is to develop technology that will reduce cycle time to fill client orders and onboard applicants, improve 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 in 3Q22, 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 4Q22 that is likely to improve gross and operating margins through our forecast period.

<u>*Going Virtual*</u>
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.

<u>*Cross selling*</u>
The company aims to increase cross selling opportunities within and between its 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.

<u>*Sale of light industrial segment*</u>
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 is likely to 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

<u>*Basis of Forecast*</u>
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 at the start of 3Q22, 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 sale of those operations on March 21, 2022.

Economy
In April 2022, the International Monetary Fund (IMF) revised its economic growth estimate for the US to an increase of 3.7% for 2022 and 2.3% for 2023. In January 2022, the IMF projected US economic growth of 4% for 2022 and 2.6% for 2023. The IMF adjusted their 2022 forecast due primarily to supply chain issues, rising energy prices due to the war in Ukraine, as well as higher and more broad-based inflation that is resulting in higher interest rates.

The advance estimate of US GDP growth (released on April 28, 2022) showed the US economy decreased at an annual rate of 1.4% in 1Q22, down from the 6.9% increase reported in 4Q21. The 1Q22 US GDP estimate primarily reflects decreases in inventory investment, exports, federal government spending, and state and local government spending.

The unemployment rate for April 2022 (reported on May 6, 2022) was 3.6% compared to the peak unemployment rate of 14.7% in April 2020. In April 2021, unemployed people in the US were approximately 5.9 million (compared to 5.7 million in February 2020 – prior to the COVID-19 pandemic), while the number of employed were 158.1 million. In April 2022, the labor force participation rate was 62.2%. In February 2020, the labor force participation rate was 63.3%.

In March 2022, the Federal Reserve Board issued a forecast that calls for a US unemployment rate of 3.5% in both 2022 and 2023, unchanged from its forecast in December 2021.

Operations
In 2022, we project revenue growth of 14.5% to $273.8 million (prior was $256.5 million – excludes discontinued light industrial segment in 1Q22). We anticipate the company's two segments (real estate and professional services) should experience revenue growth of 17.3% and 12.8%, respectively. The increase in our forecast reflects 1Q22 results.

We project a 16.1% increase in gross profit to $93.9 million driven by revenue growth and gross margin expanding to 34.3% 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 $14.3 million from $12.3 million in 2021 (excluding $2.4 million contingent consideration gain) due primarily to revenue growth and gross margin expansion, partly restrained by operating margin expense increasing to 29.1% from 28.8% in 2020 (excludes contingent consideration gain).

We forecast operating expense to increase 15.7% to nearly $79.7 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 16.7% increase in SG&A to nearly $76 million to support revenue growth. D&A expense should be flat at $3.7 million. We project operating margin of 5.2% vs. 5.1% (excludes contingent consideration gain) due primarily to revenue growth and gross margin expansion.

We project a decrease of $935,000 in interest expense to $498,000 due primarily to lower average debt balances stemming from the repayment of its outstanding term debt in 1Q22.

Our net income forecast from continuing operations is $10.6 million or $1.01 per share (prior was $10.7 million or $1.02 per share), after income tax expense of nearly $3.2 million for an income tax rate of 22.9%.

In 2023, we project revenue growth of 7.7% to $295 million (prior was $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 13.5% to $122.5 million and professional services growth of 4% to $172.5 million.

We project an 8.9% increase in gross profit to $102.3 million driven by gross margin improvement to 34.7% from an estimated 34.3% in 2022. The gross margin improvement reflects revenue growth from the real estate segment, which should deliver a gross margin of 38.6% and comprise 41.5% of total revenue, up from an estimated 39.4% of total revenue in 2022. We anticipate operating income increasing 38.7% to $19.8 million from an estimated $14.3 million due to revenue growth, gross margin expansion, and operating margin expense improving to 28% from an estimated 29.1% in 2022.

We forecast operating expense increasing 3.6% to nearly $82.5 million compared to an estimated $79.7 million in 2022. We project a 3.7% increase in SG&A to $78.8 million to support sales growth. D&A expense should remain flat at $3.7 million. We project operating margin of 6.7% vs. 5.2% due to revenue growth, gross margin expansion, and improvement in operating margin expense.

We project interest expense of $600,000 compared to $498,000 reflecting higher average interest rates, partly offset by a lower average debt balance. We project net income from continuing operations of $14.6 million or $1.39 per share, after income tax expense of $4.6 million for an income tax rate of 24%. We previously forecast 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 $11.9 million and an increase in working capital of $5.4 million. Cash from operations of $7.2 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 $20.6 million and an increase in working capital of $10.8 million. Cash from operations of $9.8 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.

1Q22 Results – Reflects Light Industrial segment as discontinued operations

1Q22 Results

Revenues increased 37.8% to $68.5 million from $49.8 million in the year-ago period due to a 39.2% increase in real estate segment sales to $25.9 million and a 36.9% increase in the professional staffing revenue to $42.6 million. As previously noted, the company is recording its light industrial segment as a discontinued operation as an agreement was signed and the sale was completed in 1Q22.

The 39.2% or $7.3 million increase in real estate segment sales was due primarily to a 25.6% increase in billed hours and a 9.6% increase in the average bill rate.

The 36.9% or $11.5 million increase in professional staffing segment sales reflects a 37% increase in billed hours, the IT consulting division adding $8.9 million, and the 2021 Momentum acquisition incrementally adding $1.2 million from a full quarter compared to only two months in the year-ago period. The company also had a slight increase in the average bill rate.

Gross profit increased 44.5% to $23.4 million reflecting gross margin expansion to 34.2% from 32.6% the year-ago period. The gross profit improvement reflects real estate segment gross margin of 38.5%, up from 36.9% in 1Q21 with professional staffing's gross margin improving to 33.9%, up from 31.6% last year.

Operating expenses increased 27.7% to $20.6 million from $16.1 million due to a $4.4 million increase in SG&A to $19.7 million. The increase in SG&A expense reflects higher compensation costs and the inclusion of Momentum Solutionz operations for a full quarter compared to two months in the year-ago period. D&A expense increased to $899,000 from $836,000 in 1Q21. The increase in D&A expense stems from the company's information technology improvement project, parts of which went live late in 2021.

Operating income increased to $2.8 million compared to $76,000 in 1Q21. The increase in operating income was due primarily to revenue growth and gross margin expansion. Operating expense margin was 30.1%, down from 32.4% in the year-ago period.

Interest expense was $273,000, down from $377,000 stemming from a gain due to the cancellation of the company's interest rate swap arrangement, partly offset by increases to amortization on the deferred finance costs from the pay down of the balance on the exiting term loan and a portion of the revolving credit facility, and a higher average balance on the revolving credit facility.

Income from continuing operations was $2 million or $0.19 per share compared to a loss from continuing operations of $212,000 or ($0.02) per share. Net income including discontinued operations (of $1.2 million) and sale of those operations (of $12.6 million) was $15.8 million or $1.51 per share compared to $712,000 or $0.07 per share in the year-ago period. We projected income from continuing operations $925,000 or $0.09 per share.

Finances
In 1Q22, the company had cash burn of $338,000 and a $722,000 increase in working capital, partly offset by $675,000 of cash provided by discontinued operation activity. Cash from the sale of discontinued operations nearly covered cash used in operations of $386,000, capital investments, repayment of the company's term debt, and common stock dividends. Cash decreased by $112,000 to zero at the end of 1Q22.

Capital Structure
In 1Q22, the company had total outstanding debt of $14.1 million, all of which is long-term. The interest rate on the credit line was 4.25% compared to 3.1% in 1Q21. The company's debt to equity ratio is 0.2 versus 1 for the industry, indicating that BGSF's leverage is less than other staffing and outsourcing service companies. In 1Q22, 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 1Q22, the company sold its light industrial segment. On March 21, 2022, the company 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. The company repaid it outstanding balance on its term debt in 1Q22.

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).

Interest rates
The Federal Reserve had maintained interest rates at virtually zero since 2Q20 through most of 2021. However, the Federal Reserve has increased the Federal Funds interest rate to approximately 1% after the most recent rate increase in May 2022. If economic growth and inflation continue to accelerate, interest rates are likely to continue to increase, which would increase the company's variable rate revolving credit facility.

Revenue concentration
In 1Q22, two states (Texas – 23% and Tennessee – 12%) accounted for 35% of the company's revenues compared to 36% (Texas – 22% and Tennessee – 14%) in 1Q21. 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.

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 12.2% of the outstanding voting stock (as of the SEC filing in April 2022). 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 May 10, 2022, average daily volume was 16,400 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 10.5 million.

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

	2019 A*	2020 A	2021 A	1Q22A	**2022 E**	**2023 E**
ASSETS						
Current assets:						
Cash and cash equivalents	$ -	$ -	$ 112	$ -	**$ -**	**$ -**
Accounts receivable, net	29,438	32,831	48,133	47,677	**45,632**	**49,535**
Prepaid expense and other current assets	934	2,155	2,346	2,673	**2,738**	**3,540**
Other current assets	70	-	2,381	4,847	**4,570**	**4,500**
Assets of discontinued operations	-	8,663	7,198	-	**-**	**-**
Total current assets	30,441	43,649	60,170	55,198	**52,940**	**57,575**
Property and equipment, net	3,545	3,464	4,331	6,223	**6,300**	**6,350**
Deposits an other assets	3,843	5,175	5,390	5,108	**5,500**	**6,000**
Right-of-use asset - operating lease, net	4,386	5,550	3,914	3,502	**4,502**	**5,302**
Deferred income taxes	4,072	5,828	4,548	3,536	**3,536**	**4,336**
Intangible assets, net	33,808	32,133	33,585	32,807	**31,475**	**28,303**
Goodwill	25,195	27,052	29,142	29,142	**29,555**	**29,555**
Noncurrent assets of discontinued operations	-	7,427	7,213	-	**-**	**-**
Total assets	$ 105,290	$ 130,278	$ 148,294	$ 135,516	**$ 133,808**	**$ 137,421**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Debt	375	2,625	3,563	-	**-**	**-**
Accrued interest	73	78	102	119	**119**	**100**
Accounts payable	479	220	401	1,139	**750**	**900**
Accrued payroll and expenses	10,485	10,376	16,154	15,492	**14,000**	**11,904**
Current liabilities of discontinued operations	-	1,239	1,262	-	**-**	**-**
Contingent consideration	-	-	1,074	-	**1,110**	**-**
Lease liability	1,278	1,866	1,896	1,860	**1,860**	**2,000**
Other current liabilities	1,017	-	3,550	3,764	**3,764**	**2,500**
Taxes payable	-	1,861	382	4,549	**2,000**	**1,000**
Total current liabilities	13,707	18,264	28,384	26,922	**23,603**	**18,404**
Line of credit	19,994	5,709	12,588	14,124	**12,588**	**12,000**
Long-term debt	7,125	26,300	23,300	-	**-**	**-**
Lease liability	4,129	4,581	990	1,017	**1,017**	**1,017**
Other long-term liabilities and contingent consideration	2,174	9,643	6,250	2,261	**2,261**	**2,261**
Noncurrent liabilities of discontinued operations	-	323	190	-	**-**	**-**
Stockholders' equity:						
Common stock, $0.01 par value; authorized 19,500,000 shares;	76	74	66	67	**66**	**66**
Additional paid-in capital	59,618	60,457	61,875	62,299	**62,775**	**63,875**
Retained earnings (Deficit)	8,763	5,050	14,592	28,827	**31,497**	**39,797**
Accumulated other comprehensive loss	-	(123)	58	-	**-**	**-**
Total stockholders' equity	68,457	65,458	76,592	91,192	**94,339**	**103,739**
Total liabilities and stockholders' equity	$ 115,586	$ 130,278	$ 148,294	$ 135,516	**$ 133,808**	**$ 137,421**
SHARES OUT	10,245	10,328	10,425	10,425	**10,475**	**10,525**

* 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	$ 239,028	**$ 273,792**	**$ 295,000**
Cost of services	149,938	141,086	158,087	**179,856**	**192,675**
Gross Profit	69,826	66,039	80,941	**93,936**	**102,325**
Operating Expenses:					
SG&A	50,222	55,244	65,115	**75,966**	**78,800**
Gain on contingent consideration	-	(76)	(2,403)	-	-
Impairment losses	-	7,240	-	-	-
Depreciation and amortization	4,718	4,861	3,698	**3,684**	**3,710**
Total Operating Expenses	54,941	67,268	66,411	**79,650**	**82,510**
Operating Income (loss)	14,885	(1,229)	14,530	**14,286**	**19,815**
Other income (expense)					
Extinguishment of debt	(541)	-	-	-	-
Interest expense	(1,569)	(1,584)	(1,433)	**(498)**	**(600)**
Total Other Income (expense)	(2,110)	(1,584)	(1,433)	**(498)**	**(600)**
Income (loss) before taxes	12,776	(2,813)	13,097	**13,787**	**19,215**
Income Tax Expense (Benefit)	3,135	(741)	2,640	**3,159**	**4,615**
Net Income (loss) - from continuing operations	9,641	(2,072)	10,458	**10,628**	**14,600**
Income (loss) from discontinued operations, net	3,606	3,513	3,652	**1,235**	-
Gain on sale of discontinued operations, net	-	-	-	**12,557**	-
Net Income (loss) includes discontinued operations	$ 13,247	$ 1,441	$ 14,109	**$ 24,420**	**$ 14,600**
Earnings (loss) per share - Continuing operations	$ 0.93	$ (0.20)	$ 1.00	**$ 1.01**	**$ 1.39**
Discontinued operations per share including sale	0.35	0.34	0.35	**1.32**	-
Net Income (loss) per share	$ 1.28	$ 0.14	$ 1.35	**$ 2.33**	**$ 1.39**
Dividend per share	$ 1.20	$ 0.50	$ 0.44	**$ 0.60**	**$ 0.60**
Avg Shares Outstanding	10,351	10,338	10,417	**10,485**	**10,511**
EBITDA - Adjusted from continuing operations	$ 20,452	$ 13,760	$ 16,659	**$ 18,826**	**$ 24,425**
Margin Analysis					
Gross margin	31.8%	31.9%	33.9%	**34.3%**	**34.7%**
SG&A	22.9%	26.7%	27.2%	**27.7%**	**26.7%**
Depreciation and amortization	2.1%	2.3%	1.5%	**1.3%**	**1.3%**
Operating margin	6.8%	(0.6%)	6.1%	**5.2%**	**6.7%**
Pre-tax margin	5.8%	(1.4%)	5.5%	**5.0%**	**6.5%**
Tax rate	24.5%	26.3%	20.2%	**22.9%**	**24.0%**
YEAR / YEAR GROWTH					
Total Revenues	6.6%	(5.8%)	15.4%	**14.5%**	**7.7%**

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 A	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	$ 239,028	$ 68,542	$ 67,250	$ 70,000	$ 68,000	**$ 273,792**	$ 69,500	$ 76,500	$ 78,500	$ 70,500	**$ 295,000**
Cost of services	33,535	38,150	42,138	44,264	158,087	45,111	44,195	45,800	44,750	**179,856**	45,700	49,950	51,125	45,900	**192,675**
Gross Profit	16,215	19,248	22,047	23,431	80,941	23,431	23,055	24,200	23,250	**93,936**	23,800	26,550	27,375	24,600	**102,325**
Operating Expenses:															
SG&A	15,302	13,710	14,410	18,203	65,115	19,716	18,500	19,000	18,750	**75,966**	19,900	19,750	20,250	18,900	**78,800**
Gain on contingent consideration	-	(1,195)	(1,208)	-	(2,403)	-	-	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	836	868	1,168	827	3,698	899	900	945	940	**3,684**	935	930	925	920	**3,710**
Total Operating Expenses	16,139	13,383	14,369	19,030	66,411	20,615	19,400	19,945	19,690	**79,650**	20,835	20,680	21,175	19,820	**82,510**
Operating Income (loss)	76	5,865	7,678	4,401	14,530	2,816	3,655	4,255	3,560	**14,286**	2,965	5,870	6,200	4,780	**19,815**
Other income (expense)															
Extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	(377)	(219)	(431)	(406)	(1,433)	(273)	(75)	(75)	(75)	**(498)**	(125)	(150)	(150)	(175)	**(600)**
Total Other Income (expense)	(377)	(219)	(431)	(406)	(1,433)	(273)	(75)	(75)	(75)	**(498)**	(125)	(150)	(150)	(175)	**(600)**
Income (loss) before taxes	(300)	5,647	7,246	3,995	13,097	2,542	3,580	4,180	3,485	**13,787**	2,840	5,720	6,050	4,605	**19,215**
Income Tax Expense (Benefit)	(89)	657	1,121	(696)	2,640	534	835	975	815	**3,159**	685	1,370	1,450	1,110	**4,615**
Net Income (loss) - from continuing operations	(212)	2,635	3,713	4,321	10,458	2,008	2,745	3,205	2,670	**10,628**	2,155	4,350	4,600	3,495	**14,600**
Income (loss) from discontinued operations, net	923	808	930	990	3,652	1,235	-	-	-	**1,235**	-	-	-	-	-
Gain on sale of discontinued operations, net	-	-	-	-	-	12,557	-	-	-	**12,557**	-	-	-	-	-
Net Income (loss) includes discontinued operations	$ 712	$ 3,443	$ 4,644	$ 5,311	$ 14,109	$ 15,800	$ 2,745	$ 3,205	$ 2,670	**$ 24,420**	$ 2,155	$ 4,350	$ 4,600	$ 3,495	**$ 14,600**
Earnings (loss) per share - Continuing operations	$ (0.02)	$ 0.25	$ 0.36	$ 0.41	$ 1.00	$ 0.19	$ 0.26	$ 0.31	$ 0.25	**$ 1.01**	$ 0.21	$ 0.41	$ 0.44	$ 0.33	**$ 1.39**
Discontinued operations per share including sale	0.09	0.08	0.09	0.09	0.35	1.32	-	-	-	**1.32**	-	-	-	-	-
Net Income (loss) per share	$ 0.07	$ 0.33	$ 0.45	$ 0.50	$ 1.35	$ 1.51	$ 0.26	$ 0.31	$ 0.25	**$ 2.33**	$ 0.21	$ 0.41	$ 0.44	$ 0.33	**$ 1.39**
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	10,485	10,480	10,485	10,490	**10,485**	10,500	10,510	10,515	10,520	**10,511**
EBITDA - Adjusted from continuing operations	$ 1,269				$ 16,659	$ 3,926	$ 4,770	$ 5,415	$ 4,715	**$ 18,826**	$ 4,125	$ 7,025	$ 7,350	$ 5,925	**$ 24,425**
Margin Analysis															
Gross margin	32.6%	33.5%	34.3%	34.6%	33.9%	34.2%	34.3%	34.6%	34.2%	**34.3%**	34.2%	34.7%	34.9%	34.9%	**34.7%**
SG&A	30.8%	23.9%	22.5%	26.9%	27.2%	28.8%	27.5%	27.1%	27.6%	**27.7%**	28.6%	25.8%	25.8%	26.8%	**26.7%**
Depreciation and amortization	1.7%	1.5%	1.8%	1.2%	1.5%	1.3%	1.3%	1.4%	1.4%	**1.3%**	1.3%	1.2%	1.2%	1.3%	**1.3%**
Operating margin	0.2%	10.2%	12.0%	6.5%	6.1%	4.1%	5.4%	6.1%	5.2%	**5.2%**	4.3%	7.7%	7.9%	6.8%	**6.7%**
Pre-tax margin	(0.6%)	9.8%	11.3%	5.9%	5.5%	3.7%	5.3%	6.0%	5.1%	**5.0%**	4.1%	7.5%	7.7%	6.5%	**6.5%**
Tax rate	29.6%	11.6%	15.5%	(17.4%)	20.2%	21.0%	23.3%	23.3%	23.4%	**22.9%**	24.1%	24.0%	24.0%	24.1%	**24.0%**
YEAR / YEAR GROWTH															
Total Revenues	(11.7%)	18.5%	20.7%	37.8%	15.4%	37.8%	17.2%	9.1%	0.5%	**14.5%**	1.4%	13.8%	12.1%	3.7%	**7.7%**

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

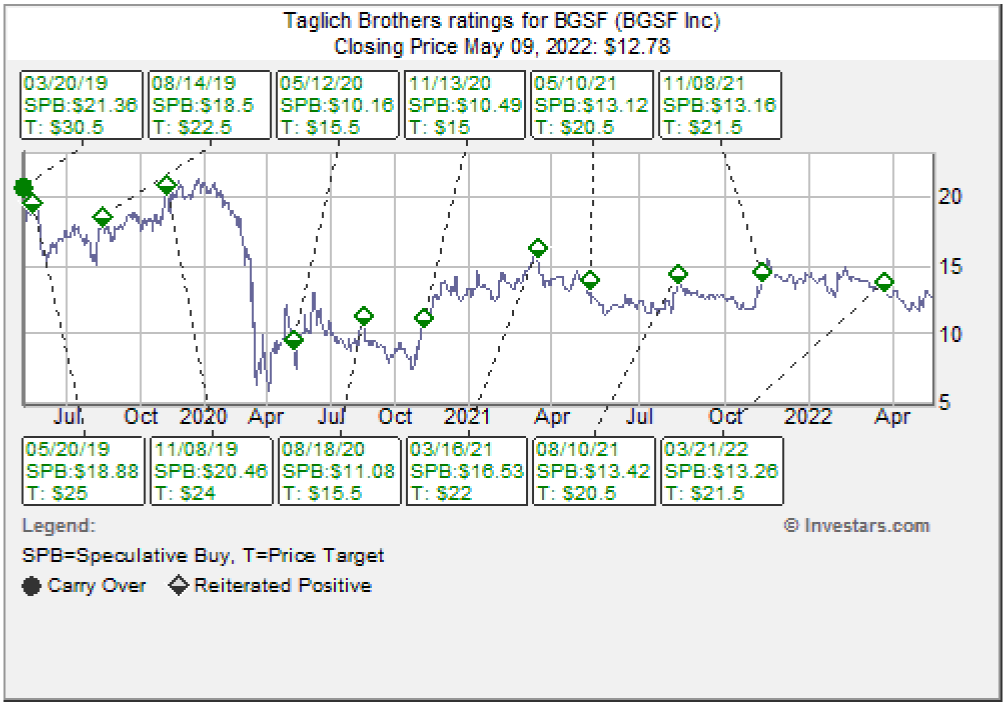
Source: Company reports and Taglich Brothers estimates

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

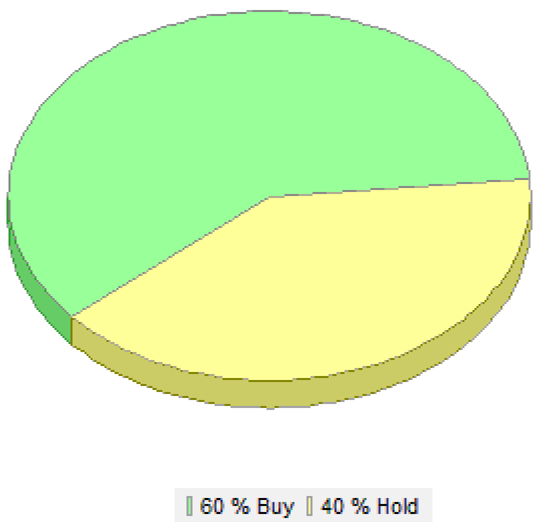
	FY2019A	FY2020A	FY2021A	1Q22A	**FY2022E**	**FY2023E**
Cash Flows from Operating Activities						
Net Income (loss)	$ 13,247	$ 1,441	$ 14,109	$ 15,800	**$ 24,420**	**$ 14,600**
(Income) from discontinued operations, net of tax	(3,606)	(3,513)	(3,652)	(1,235)	**(1,235)**	-
Depreciation and amortization	4,718	4,861	3,698	899	**3,684**	**3,710**
Gain on sale of discontinued operations	-	-	-	(17,273)	**(17,273)**	-
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	132	**132**	-
Interest expense on earnout payable	124	190	252	64	**75**	-
Provision for doubtful accounts	115	349	221	51	**225**	**225**
Stock based compensation	850	786	1,058	211	**900**	**1,100**
Deferred income taxes	799	(2,413)	1,279	1,012	**1,012**	**1,012**
Cash earnings (burn)	16,991	8,947	12,279	(338)	**11,940**	**20,647**
Changes In:						
Accounts receivable	(2,765)	5,026	(15,178)	(1,432)	**2,501**	**(3,903)**
Prepaid expenses and other	(223)	(855)	(201)	(327)	**(392)**	**(802)**
Other current assets	-	-	-	(203)	**(2,189)**	-
Deposits and other	(634)	(209)	(126)	279	**(110)**	**(500)**
Accrued interest	(236)	5	24	17	**(17)**	**19**
Accounts payable	333	(279)	156	737	**349**	**(150)**
Accrued payroll and expenses	140	(1,342)	5,730	(851)	**(2,154)**	**(2,096)**
Other current and long-term liabilities - includes Contingent Consideration	17	6,300	260	(3,394)	**(3,739)**	**(2,374)**
Operating leases	(255)	213	(107)	(28)	**(36)**	-
Accrued taxes	(125)	1,875	(1,479)	4,479	**1,618**	**(1,000)**
Net (increase)/decrease in Working Capital	(3,748)	10,733	(10,921)	(722)	**(5,430)**	**(10,806)**
Net cash provided (used) by continuing operating activities	13,244	19,680	1,358	(1,060)	**6,510**	**9,841**
Net cash provided by discontinued operating activities	4,710	2,577	5,306	675	675	-
Net cash provided (used) by operating activities	17,954	22,257	6,663	(386)	**7,185**	**9,841**
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)	(2,050)	**(3,500)**	**(4,600)**
Business sold	-	-	-	30,313	**30,313**	**2,000**
Proceeds from sale of property and equipment	0	-	5	-	-	-
Net cash used in continuing investing activities	(9,576)	(24,078)	(6,990)	28,263	**26,813**	**(2,600)**
Net cash used in discontinued investing activities	(153)	(69)	(35)	(26)	**(26)**	-
Net cash used in investing activities	(9,729)	(24,147)	(7,024)	28,237	**26,787**	**(2,600)**
Cash Flows from Financing Activities						
Borrowings (net) under line of credit	9,695	(14,368)	6,804	1,405	-	-
Proceeds from issuance of long-term debt	7,500	22,500	-	-	-	-
Principal payments on long-term debt	(10,121)	(1,075)	(2,063)	(26,863)	**(26,863)**	-
Issuance of common stock	38	(12)	(41)	-	-	-
Issuance of ESSP shares	-	-	340	169	**169**	**169**
Contingent consideration paid	(2,672)	-	-	(1,110)	**(1,110)**	**(1,110)**
Dividends	(12,282)	(5,155)	(4,567)	(1,565)	**(6,280)**	**(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	(27,963)	**(34,084)**	**(7,241)**
Net change in Cash	-	-	112	(112)	**(112)**	-
Cash Beginning of Period	-	-	-	112	**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	25
Hold		
Sell		
Not Rated		

Important Disclosures

As of May 9, 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 443,440 shares of BGSF common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 463,985 shares of BGSF common stock. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 71,200 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, Axos Clearing, 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.