

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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August 9, 2022

BGSF \$12.77 — (NYSE MKT)

| | 2019 A | 2020 A | 2021 A | 2022 E | 2023 E |
|-------------------------|---------|----------|-----------|---------|---------|
| Revenues (in millions)* | \$219.8 | \$207.1 | \$239.0 | \$285.6 | \$303.5 |
| Earnings per share* | \$0.93 | \$0.32** | \$0.80*** | \$1.08 | \$1.39 |

| | | | |
|--|-------------------|-------------------------|----------|
| 52-Week range | \$15.65 – \$11.61 | Fiscal year ends: | December |
| Shares outstanding ^{a/o 08/03/22} | 10.5 million | Revenue/shares (ttm)* | \$26.21 |
| Approximate float | 9.7 million | Price/Sales (ttm) | 0.5X |
| Market Capitalization | \$134.1 million | Price/Sales (2023) E | 0.4X |
| Tangible Book value/shr | \$3.03 | Price/Earnings (ttm)*** | 10.4X |
| Price/Book | 4.2X | 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 nearly \$186 billion in 2022, up from \$177.1 billion in 2021 according to a May 2022 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 22.2% and 14.3%, 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 \$17.7 million outstanding in its revolving credit facility at the end of 2Q22.

BGSF reported 2Q22 EPS from continuing operations (on 8-04-22) of \$0.30 on a 29.1% increase in revenues to \$74.1 million. In 2Q21, EPS from continuing operations was \$0.25 on revenue of \$57.4 million. We projected EPS of \$0.26 on revenue of \$57.3 million.

In 2022, we forecast EPS from continuing operations of \$1.08 (prior was \$1.01) on revenue growth of 19.5% to \$285.6 million (prior was \$273.8 million). Our revised forecasts reflects 2Q22 results and higher than anticipated growth in the company's higher margin real estate segment.

In 2023, we forecast EPS of \$1.39 (unchanged) on revenue growth of 6.3% to \$303.5 million (prior was \$295 million). Our EPS forecast reflects gross margin improvement to 34.5% from an estimated 34% in 2022 and operating margin expense of 28% compared to 28.7% 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 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 7.7% in 2023 compared to 20.1% in 2022. Gross profit growth should be driven by revenue gains in the real estate segment (BGSF's highest margin segment) reflecting 56 locations in operation for most of 2022 with at least 62 locations entering 2023.

The comparative peers in the Staffing & Employment Services industry (source: finviz – on 08/8/22) have a forward P/E multiple of 15.7X (prior was 15.9X) with a 9.1% EPS growth rate. Based on our 2023 forecast, BGSF's P/E multiple is 9.2X with EPS growth of 28.7% to \$1.39 per share (unchanged) from an estimated \$1.08 per share in 2022.

We anticipate investors are likely to accord BGSF the peer group multiple as its EPS growth of 28.7% is higher than the peer groups' EPS growth of 9.1%. We applied a 15.7X multiple (prior was 15.9X) to our 2023 EPS forecast of \$1.39 (unchanged), 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 in excess of 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.

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.

In March 2022, BGSF, Inc. sold 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 will be March 21, 2023.

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, 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 began launching the remaining seven projects in July 2022, 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 1Q22 that is likely to improve gross and operating margins through our forecast period.

Cross selling

The company aims to increase cross selling opportunities within and between its operating segments as its staff is focused on solving business challenges for clients through its well-aligned professional and real estate operations. 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. The company reported that year-over-year revenue for Momentum Solutionz more than doubled.

Recruitment

Recruitment of talent to meet customer needs will be key to the company's ability to grow through and beyond our forecast period. While recruiting new talent remains a challenge, the company has been able to redeploy its existing talent to make sure that it is fitting client needs. The company is developing programs across multiple channels for referral programs to get talented people in the door, as well as establishing relationships with colleges and high schools for programs to get people train for positions in order to meet future client needs.

Real Estate

In 2Q22, the company's real estate segment sales of nearly \$30 million surpassed any quarter prior to the COVID-19 pandemic. In 1H22, the company opened four of the six markets targeted at the start of 2022 with the last two expected to be added by the end of 3Q22. Once a market office is fully staffed, the expectation is to have that market cash flow positive within five months. Future growth for this segment should be supported by the building of new multifamily communities in the US. According to the National Apartment Association and the National Multifamily Housing Council, in the US there is a deficit of 600,000 apartments due to underbuilding and there will be a need to build approximately 4.3 million new apartments by 2035 to address US demographic shifts.

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 went live at the start of 3Q22, should begin improving 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 July 2022, the International Monetary Fund (IMF) revised its economic growth estimate for the US to an increase of 2.3% for 2022 and 1% for 2023. In April 2022, the IMF projected US economic growth of 3.7% for 2022 and 2.3% for 2023. The downward revisions reflect higher-than-expected inflation that has triggered tighter financial conditions (i.e. higher interest rates) and further negative spillovers effects from the war in Ukraine.

The advance estimate of US GDP growth (released on July 28, 2022) showed the US economy decreased at an annual rate of 0.9% in 2Q22, an improvement from the 1.6% decrease in 1Q22, but still below the 6.9% increase reported in 4Q21. The 2Q22 US GDP estimate primarily reflects decreases in inventory investments, fixed

investments, federal government spending, and state and local government spending, partly offset by increases in exports and personal consumption expenditures.

The unemployment rate for July 2022 (reported on August 5, 2022) was 3.5% compared to the peak unemployment rate of 14.7% in April 2020. In July 2021, unemployed people in the US were approximately 5.7 million, which equaled February 2020 (prior to the COVID-19 pandemic), while the number of employed were 158.3 million. In July 2022, the labor force participation rate was 62.1%. In February 2020, the labor force participation rate was 63.3%.

In June 2022, the Federal Reserve Board issued a forecast that calls for a US unemployment rate in 2023 and 2023 of 3.7% and 3.9%, respectively, up from 3.5% in both periods from its March 2022 forecast.

Operations

In 2022, we project revenue growth of 19.5% to \$285.6 million (prior was \$273.8 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 22.2% and 17.8%, respectively. The increase in our forecast reflects 1H22 results.

We project a 20.1% increase in gross profit to \$97.2 million driven by revenue growth and gross margin improving to 34% 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 \$15.2 million from \$12.3 million in 2021 (excluding \$2.4 million contingent consideration gain) due primarily to revenue growth, gross margin improvement, and operating margin expense decreasing to 28.7% from 28.8% in 2021 (excludes contingent consideration gain).

We forecast operating expense to increase 19.2% to nearly \$82 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 20.3% increase in SG&A to \$78.3 million to support revenue growth. D&A expense should be flat at \$3.7 million. We project operating margin of 5.3% vs. 5.1% (excludes contingent consideration gain) due primarily to revenue growth.

We project a decrease of \$940,000 in interest expense to \$493,000 due primarily to lower average debt balances stemming from the repayment of its outstanding term debt in 1Q22, partly offset by higher interest rates on its line of credit.

Our net income forecast from continuing operations is \$11.3 million or \$1.08 per share (prior was \$10.6 million or \$1.01 per share), after income tax expense of nearly \$3.4 million for an income tax rate of 23%.

In 2023, we project revenue growth of 6.3% to \$303.5 million (prior was \$295 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 14.3% to \$128.5 (prior was \$122.5 million) and professional services growth of 1% to \$175 million (prior was \$172.5 million).

We project a 7.7% increase in gross profit to \$104.7 million driven by gross margin improvement to 34.5% from an estimated 34% 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 42.3% of total revenue, up from an estimated 39.4% of total revenue in 2022. We anticipate operating income increasing 29% to \$19.6 million from an estimated \$15.2 million due to revenue growth, gross margin expansion, and operating margin expense improving to 28% from an estimated 28.7% in 2022.

We forecast operating expense increasing 3.7% to nearly \$85.1 million compared to an estimated \$82 million in 2022. We project a 3.9% increase in SG&A to nearly \$81.4 million to support sales growth. D&A expense should remain flat at \$3.7 million. We project operating margin of 6.5% vs. 5.3% due to revenue growth, gross margin expansion, and improvement in operating margin expense.

We project interest expense of \$600,000 compared to \$493,000 reflecting higher average interest rates, partly offset by a lower average debt balance. We are maintaining our net income from continuing operations projection of \$14.6 million or \$1.39 per share, after income tax expense of \$4.4 million for an income tax rate of 23.1%.

Finances

For 2022, we project cash earnings of \$12.9 million and an increase in working capital of \$7.6 million. Cash from operations of \$3 million (includes \$2.2 million of cash used by discontinued light industrial operations) 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 \$20.8 million and an increase in working capital of \$11.3 million. Cash from operations of \$9.5 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.

2Q22 and 1H22 Results

2Q22 Results

Revenues increased 29.1% to \$74.1 million from \$57.4 million in the year-ago period due to a 41.3% increase in real estate segment sales to nearly \$30 million and a 21.9% increase in the professional staffing revenue to \$44.1 million. The year-ago period reflects the company recording its light industrial segment as discontinued.

The 41.3% or nearly \$8.8 million increase in real estate segment sales was due primarily to a 27.6% increase in billed hours and a 10% increase in the average bill rate.

The 21.9% or \$7.9 million increase in professional staffing segment sales reflects a 13.7% increase in billed hours, the IT consulting division adding approximately \$6.5 million, and a 7.2% increase in the average bill rate.

Gross profit increased 30.2% to \$25.1 million reflecting gross margin expansion to 33.8% from 33.5% in the year-ago period. The gross profit improvement reflects real estate segment gross margin of 38.6%, up from 37% in 2Q21, partly offset by professional staffing's gross margin contracting to 30.6%, up from 31.5% last year.

Operating expenses increased 21.5% to \$20.8 million from \$17.1 million (excluding \$1.2 million contingent consideration gain) due to a \$3.6 million or 22.3% increase in SG&A to \$19.9 million. The increase in SG&A expense reflects higher compensation costs and information technology costs. D&A expense increased to \$922,000 from \$866,000 in 2Q21. The increase in D&A expense stems from the company's information technology improvement project.

Operating income increased to \$4.2 million compared to \$3.3 million in 2Q21. The increase in operating income was due primarily to revenue growth and gross margin expansion. Operating expense margin was 28.1%, down from 29.8% (excluding \$1.2 million contingent consideration gain) in the year-ago period.

Interest expense was \$70,000, down from \$219,000 stemming from the company paying off its term loan, partly offset by a higher average balance and interest rate on its revolving credit facility.

Income from continuing operations was \$3.2 million or \$0.30 per share compared to \$2.6 million or \$0.25 per share. The current period excluded a loss of \$7,000 or breakeven per share from discontinued light industrial operations compared to income of \$847,000 or \$0.08 per share in 2Q21. We projected income from continuing operations \$2.7 million or \$0.26 per share, on revenue of \$67.3 million.

1H22 Results

Revenues increased 33.1% to \$142.6 million from \$107.1 million in the year-ago period due to a 40.4% increase in real estate segment sales to \$55.9 million and a 28.8% increase in the professional staffing revenue to \$86.7 million. The company's prior periods have been restated to classify its light industrial segment as a discontinued operation.

Gross profit increased 36.7% to \$48.5 million reflecting gross margin expansion to 34% from 33.1% in 1H21. The gross profit improvement reflects real estate segment gross margin of 38.5%, up from 37% in 1H21 with professional staffing's gross margin improving to 31.1%, up from 30.8% last year.

Operating expenses increased 29.2% to \$41.4 million from \$32.1 million (includes \$1.2 million contingent consideration gain in the year-ago period) due to an \$8 million increase in SG&A to \$39.6 million. D&A expense increased to \$1.8 million from \$1.7 million in 1H21.

Operating income increased to \$7.1 million compared to \$3.4 million in 1H21. The increase in operating income was due primarily to revenue growth and gross margin expansion.

Interest expense was \$343,000 down from \$596,000 stemming from the company paying off its term loan, partly offset by higher average balance and interest rate on its revolving credit facility.

Income from continuing operations was \$5.2 million or \$0.50 per share compared to \$2.3 million or \$0.23 per share. Net income including discontinued operations (of \$1.2 million) and sale of those operations (of \$12.6 million) was \$19 million or \$1.82 per share compared to \$4.2 million or \$0.40 per share in the year-ago period, which included \$1.8 million of income from discontinued operations.

Finances

In 1H22, the company had cash earnings of \$4.3 million and a \$3.1 million increase in working capital and \$2.3 million of cash used by discontinued operations. Cash from the sale of discontinued operations nearly covered cash used in operations of \$1.1 million, capital investments, repayment of the company's term debt, and common stock dividends. Cash decreased by \$68,000 to \$45,000 at the end of 2Q22.

Capital Structure

In 2Q22, the company had total outstanding debt of \$17.7 million, all of which is long-term. The interest rate on the credit line was 3.6% compared to 2.8% in 2Q21. 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 2Q22, 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.

| | 6 Mos. 22 | 6 Mos. 21 | % D |
|--|-----------------|-----------------|--------------|
| Revenues per segment in Millions | | | |
| Real Estate | 55.9 | 39.8 | 40.4% |
| Professional Staffing | 86.7 | 67.3 | 28.8% |
| Total Revenue | \$ 142.6 | \$ 107.1 | 33.1% |
| Cost of Sales per segment | | | |
| Real Estate | 34.4 | 25.1 | 36.8% |
| Professional Staffing | 59.8 | 46.6 | 28.4% |
| Total Cost of Sales | \$ 94.1 | \$ 71.7 | 31.3% |
| Gross Profit per segment | | | |
| Real Estate | 21.5 | 14.7 | 46.4% |
| Professional Staffing | 26.9 | 20.7 | 29.9% |
| Gross Profit | \$ 48.5 | \$ 35.5 | 36.7% |
| Total Operating Expenses | 41.4 | 32.1 | 29.2% |
| Operating Income | 7.1 | 3.4 | NMF |
| Total Other Income (Expense) | (0.3) | (0.6) | NMF |
| Pre-Tax Income | 6.7 | 2.8 | NMF |
| Income Tax Expense (Benefit) | 1.5 | 0.5 | |
| Net Income (loss) - from continuing operations | 5.2 | 2.3 | |
| Discontinued operations includes gain on sale | 13.8 | 1.8 | |
| Net Income (loss) includes discontinued operations | 19.0 | 4.2 | |
| Earnings (loss) per share - Continuing operations | 0.50 | 0.23 | |
| Discontinued operations per share including sale | 1.32 | 0.17 | |
| Net Income (loss) per share | 1.82 | 0.40 | |
| Dividend per share | \$ 0.30 | \$ 0.20 | |
| Avg Shares Outstanding | 10.5 | 10.4 | |
| Margins | | | |
| Gross margin - combined | 34.0% | 33.1% | |
| Operating Margin | 4.9% | 3.2% | |
| Pre-Tax Margins | 4.7% | 2.6% | |
| Tax Rate | 22.7% | 16.2% | |
| Source: company reports | | | |

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.

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 May 2022, Staffing Industry Analysts (SIA) issued its growth forecast for the US staffing industry indicating that industry revenue should grow 5% to nearly \$186 billion compared to \$177.1 billion in 2021. The industry is being driven by enterprise buyers of contingent labor and a highly competitive labor market where candidates of all skill levels have multiple job opportunities.

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

Economy

Slowing US economic growth or an unprecedented halt to economic activity 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 over 2.25% after the most recent rate increase in July 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 1H22, two states (Texas – 23% and Tennessee – 11%) accounted for 34% of the company's revenues compared to 38% (Texas – 26% and Tennessee – 12%) in 1H21. 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 August 8, 2022, average daily volume was 18,700 compared to average daily volume of 49,900 in 2021. The company has a float of 9.7 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 | 2Q22A | 2022 E | 2023 E |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ 112 | \$ 45 | \$ - | \$ - |
| Accounts receivable, net | 29,438 | 32,831 | 48,133 | 50,117 | 48,399 | 53,956 |
| Prepaid expense and other current assets | 934 | 2,155 | 2,346 | 1,795 | 2,285 | 3,672 |
| Other current assets | 70 | - | 2,381 | 4,761 | 4,570 | 3,000 |
| Assets of discontinued operations | - | 8,663 | 7,198 | - | - | - |
| Total current assets | 30,441 | 43,649 | 60,170 | 56,718 | 55,254 | 60,628 |
| Property and equipment, net | 3,545 | 3,464 | 4,331 | 6,344 | 6,350 | 6,375 |
| Deposits an other assets | 3,843 | 5,175 | 5,390 | 4,928 | 4,928 | 6,000 |
| Right-of-use asset - operating lease, net | 4,386 | 5,550 | 3,914 | 3,333 | 4,333 | 5,302 |
| Deferred income taxes | 4,072 | 5,828 | 4,548 | 3,090 | 4,090 | 4,336 |
| Intangible assets, net | 33,808 | 32,133 | 33,585 | 32,411 | 32,000 | 28,960 |
| Goodwill | 25,195 | 27,052 | 29,142 | 29,142 | 29,142 | 29,555 |
| Noncurrent assets of discontinued operations | - | 7,427 | 7,213 | - | - | - |
| Total assets | \$ 105,290 | \$ 130,278 | \$ 148,294 | \$ 135,966 | \$ 136,097 | \$ 141,156 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Current liabilities: | | | | | | |
| Debt | 375 | 2,625 | 3,563 | - | - | - |
| Accrued interest | 73 | 78 | 102 | 80 | 80 | 79 |
| Accounts payable | 479 | 220 | 401 | 608 | 751 | 790 |
| Accrued payroll and expenses | 10,485 | 10,376 | 16,154 | 15,636 | 15,917 | 15,000 |
| Current liabilities of discontinued operations | - | 1,239 | 1,262 | - | - | - |
| Contingent consideration | - | - | 1,074 | 1,038 | 1,038 | - |
| Lease liability | 1,278 | 1,866 | 1,896 | 1,763 | 924 | 924 |
| Other current liabilities | 1,017 | - | 3,550 | 3,764 | 3,764 | 2,500 |
| Taxes payable | - | 1,861 | 382 | 250 | 250 | 250 |
| Total current liabilities | 13,707 | 18,264 | 28,384 | 23,139 | 22,724 | 19,543 |
| Line of credit | 19,994 | 5,709 | 12,588 | 17,661 | 17,661 | 16,661 |
| Long-term debt | 7,125 | 26,300 | 23,300 | - | - | - |
| Lease liability | 4,129 | 4,581 | 2,685 | 1,867 | 624 | 624 |
| Other long-term liabilities and contingent consideration | 2,174 | 9,643 | 4,555 | 15 | 15 | 15 |
| Noncurrent liabilities of discontinued operations | - | 323 | 190 | - | - | - |
| Stockholders' equity: | | | | | | |
| Common stock, \$0.01 par value; authorized 19,500,000 shares; | 76 | 74 | 66 | 67 | 67 | 67 |
| Additional paid-in capital | 59,618 | 60,457 | 61,875 | 62,786 | 62,820 | 63,740 |
| Retained earnings (Deficit) | 8,763 | 5,050 | 14,592 | 30,431 | 32,186 | 40,506 |
| Accumulated other comprehensive loss | - | (123) | 58 | - | - | - |
| Total stockholders' equity | 68,457 | 65,458 | 76,592 | 93,284 | 95,074 | 104,313 |
| Total liabilities and stockholders' equity | \$ 115,586 | \$ 130,278 | \$ 148,294 | \$ 135,966 | \$ 136,097 | \$ 141,156 |
| SHARES OUT | 10,245 | 10,328 | 10,425 | 10,482 | 10,500 | 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)

| | <u>2019 A</u> | <u>2020 A</u> | <u>2021 A</u> | <u>2022 E</u> | <u>2023 E</u> |
|--|------------------|------------------|------------------|------------------|------------------|
| Revenues | \$ 219,764 | \$ 207,125 | \$ 239,028 | \$ 285,631 | \$ 303,500 |
| Cost of services | 149,938 | 141,086 | 158,087 | 188,416 | 198,835 |
| Gross Profit | <u>69,826</u> | <u>66,039</u> | <u>80,940</u> | <u>97,215</u> | <u>104,665</u> |
| Operating Expenses: | | | | | |
| SG&A | 50,222 | 55,244 | 65,115 | 78,315 | 81,350 |
| Gain on contingent consideration | - | (76) | (2,403) | - | - |
| Impairment losses | - | 7,240 | - | - | - |
| Depreciation and amortization | 4,718 | 4,861 | 3,698 | 3,706 | 3,710 |
| Total Operating Expenses | <u>54,941</u> | <u>67,268</u> | <u>66,411</u> | <u>82,020</u> | <u>85,060</u> |
| Operating Income (loss) | 14,885 | (1,229) | 14,530 | 15,195 | 19,605 |
| Other income (expense) | | | | | |
| Extinguishment of debt | (541) | - | - | - | - |
| Interest expense | (1,569) | (1,584) | (1,433) | (493) | (600) |
| Total Other Income (expense) | <u>(2,110)</u> | <u>(1,584)</u> | <u>(1,433)</u> | <u>(493)</u> | <u>(600)</u> |
| Income (loss) before taxes | 12,776 | (2,813) | 13,097 | 14,702 | 19,005 |
| Income Tax Expense (Benefit) | <u>3,135</u> | <u>(741)</u> | <u>2,640</u> | <u>3,375</u> | <u>4,385</u> |
| Net Income (loss) - from continuing operations | <u>9,641</u> | <u>(2,072)</u> | <u>10,457</u> | <u>11,326</u> | <u>14,620</u> |
| Income (loss) from discontinued operations, net | 3,606 | 3,513 | 3,652 | 1,235 | - |
| Gain on sale of discontinued operations, net | - | - | - | 12,550 | - |
| Net Income (loss) includes discontinued operations | <u>\$ 13,247</u> | <u>\$ 1,441</u> | <u>\$ 14,109</u> | <u>\$ 25,111</u> | <u>\$ 14,620</u> |
| Earnings (loss) per share - Continuing operations | <u>\$ 0.93</u> | <u>\$ (0.20)</u> | <u>\$ 1.00</u> | <u>\$ 1.08</u> | <u>\$ 1.39</u> |
| Discontinued operations per share including sale | 0.35 | 0.34 | 0.35 | 1.31 | - |
| Net Income (loss) per share | <u>\$ 1.28</u> | <u>\$ 0.14</u> | <u>\$ 1.35</u> | <u>\$ 2.39</u> | <u>\$ 1.39</u> |
| Dividend per share | \$ 1.20 | \$ 0.50 | \$ 0.44 | \$ 0.60 | \$ 0.60 |
| Avg Shares Outstanding | 10,351 | 10,338 | 10,417 | 10,511 | 10,538 |
| EBITDA - Adjusted from continuing operations | \$ 20,452 | \$ 13,760 | \$ 16,658 | \$ 19,844 | \$ 24,235 |
| Margin Analysis | | | | | |
| Gross margin | 31.8% | 31.9% | 33.9% | 34.0% | 34.5% |
| SG&A | 22.9% | 26.7% | 27.2% | 27.4% | 26.8% |
| Depreciation and amortization | 2.1% | 2.3% | 1.5% | 1.3% | 1.2% |
| Operating margin | 6.8% | (0.6%) | 6.1% | 5.3% | 6.5% |
| Pre-tax margin | 5.8% | (1.4%) | 5.5% | 5.1% | 6.3% |
| Tax rate | 24.5% | 26.3% | 20.2% | 23.0% | 23.1% |
| YEAR / YEAR GROWTH | | | | | |
| Total Revenues | 6.6% | (5.8%) | 15.4% | 19.5% | 6.3% |

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

Taglich Brothers, Inc.

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 A | 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 | \$ 74,089 | \$ 75,000 | \$ 68,000 | \$ 285,631 | \$ 71,000 | \$ 79,000 | \$ 81,750 | \$ 71,750 | \$ 303,500 |
| Cost of services | 33,535 | 38,150 | 42,138 | 44,264 | 158,087 | 45,111 | 49,030 | 49,325 | 44,950 | 188,416 | 46,815 | 51,675 | 53,310 | 47,035 | 198,835 |
| Gross Profit | 16,215 | 19,247 | 22,047 | 23,431 | 80,940 | 23,431 | 25,059 | 25,675 | 23,050 | 97,215 | 24,185 | 27,325 | 28,440 | 24,715 | 104,665 |
| Operating Expenses: | | | | | | | | | | | | | | | |
| SG&A | 15,302 | 16,269 | 14,410 | 18,203 | 65,115 | 19,716 | 19,898 | 20,000 | 18,700 | 78,315 | 19,750 | 20,750 | 21,000 | 19,850 | 81,350 |
| Gain on contingent consideration | - | (1,195) | (1,208) | - | (2,403) | - | - | - | - | - | - | - | - | - | - |
| Depreciation and amortization | 836 | 866 | 1,168 | 829 | 3,698 | 899 | 922 | 945 | 940 | 3,706 | 935 | 930 | 925 | 920 | 3,710 |
| Total Operating Expenses | 16,139 | 15,940 | 14,369 | 19,032 | 66,411 | 20,615 | 20,820 | 20,945 | 19,640 | 82,020 | 20,685 | 21,680 | 21,925 | 20,770 | 85,060 |
| Operating Income (loss) | 76 | 3,307 | 7,678 | 4,399 | 14,530 | 2,816 | 4,239 | 4,730 | 3,410 | 15,195 | 3,500 | 5,645 | 6,515 | 3,945 | 19,605 |
| Other income (expense) | | | | | | | | | | | | | | | |
| Interest expense | (377) | (219) | (431) | (406) | (1,433) | (273) | (70) | (75) | (75) | (493) | (125) | (150) | (150) | (175) | (600) |
| Total Other Income (expense) | (377) | (219) | (431) | (406) | (1,433) | (273) | (70) | (75) | (75) | (493) | (125) | (150) | (150) | (175) | (600) |
| Income (loss) before taxes | (300) | 3,089 | 7,246 | 3,993 | 13,097 | 2,542 | 4,170 | 4,655 | 3,335 | 14,702 | 3,375 | 5,495 | 6,365 | 3,770 | 19,005 |
| Income Tax Expense (Benefit) | (89) | 493 | 1,121 | (696) | 2,640 | 534 | 986 | 1,105 | 750 | 3,375 | 775 | 1,285 | 1,450 | 875 | 4,385 |
| Net Income (loss) - from continuing operations | (212) | 2,596 | 3,713 | 4,321 | 10,457 | 2,008 | 3,184 | 3,550 | 2,585 | 11,326 | 2,600 | 4,210 | 4,915 | 2,895 | 14,620 |
| Income (loss) from discontinued operations, net | 923 | 847 | 930 | 990 | 3,652 | 1,235 | - | - | - | 1,235 | - | - | - | - | - |
| Gain on sale of discontinued operations, net | - | - | - | - | - | 12,557 | (7) | - | - | 12,550 | - | - | - | - | - |
| Net Income (loss) includes discontinued operations | \$ 712 | \$ 3,443 | \$ 4,644 | \$ 5,311 | \$ 14,109 | \$ 15,800 | \$ 3,176 | \$ 3,550 | \$ 2,585 | \$ 25,111 | \$ 2,600 | \$ 4,210 | \$ 4,915 | \$ 2,895 | \$ 14,620 |
| Earnings (loss) per share - Continuing operations | \$ (0.02) | \$ 0.25 | \$ 0.36 | \$ 0.41 | \$ 1.00 | \$ 0.19 | \$ 0.30 | \$ 0.34 | \$ 0.25 | \$ 1.08 | \$ 0.25 | \$ 0.40 | \$ 0.47 | \$ 0.27 | \$ 1.39 |
| Discontinued operations per share including sale | 0.09 | 0.08 | 0.09 | 0.09 | 0.35 | 1.32 | - | - | - | 1.31 | - | - | - | - | - |
| Net Income (loss) per share | \$ 0.07 | \$ 0.33 | \$ 0.45 | \$ 0.50 | \$ 1.35 | \$ 1.51 | \$ 0.30 | \$ 0.34 | \$ 0.25 | \$ 2.39 | \$ 0.25 | \$ 0.40 | \$ 0.47 | \$ 0.27 | \$ 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 | 10,514 | 10,520 | 10,525 | 10,511 | 10,530 | 10,535 | 10,540 | 10,545 | 10,538 |
| EBITDA - Adjusted from continuing operations | \$ 1,269 | \$ 4,258 | | | \$ 16,658 | \$ 3,926 | \$ 5,403 | \$ 5,920 | \$ 4,595 | \$ 19,844 | \$ 4,665 | \$ 6,805 | \$ 7,670 | \$ 5,095 | \$ 24,235 |
| Margin Analysis | | | | | | | | | | | | | | | |
| Gross margin | 32.6% | 33.5% | 34.3% | 34.6% | 33.9% | 34.2% | 33.8% | 34.2% | 33.9% | 34.0% | 34.1% | 34.6% | 34.8% | 34.4% | 34.5% |
| SG&A | 30.8% | 28.3% | 22.5% | 26.9% | 27.2% | 28.8% | 26.9% | 26.7% | 27.5% | 27.4% | 27.8% | 26.3% | 25.7% | 27.7% | 26.8% |
| Depreciation and amortization | 1.7% | 1.5% | 1.8% | 1.2% | 1.5% | 1.3% | 1.2% | 1.3% | 1.4% | 1.3% | 1.3% | 1.2% | 1.1% | 1.3% | 1.2% |
| Operating margin | 0.2% | 5.8% | 12.0% | 6.5% | 6.1% | 4.1% | 5.7% | 6.3% | 5.0% | 5.3% | 4.9% | 7.1% | 8.0% | 5.5% | 6.5% |
| Pre-tax margin | (0.6%) | 5.4% | 11.3% | 5.9% | 5.5% | 3.7% | 5.6% | 6.2% | 4.9% | 5.1% | 4.8% | 7.0% | 7.8% | 5.3% | 6.3% |
| Tax rate | 29.6% | 16.0% | 15.5% | (17.4%) | 20.2% | 21.0% | 23.6% | 23.7% | 22.5% | 23.0% | 23.4% | 22.8% | 23.2% | | 23.1% |
| YEAR / YEAR GROWTH | | | | | | | | | | | | | | | |
| Total Revenues | (11.7%) | 18.5% | 20.7% | 37.8% | 15.4% | 37.8% | 29.1% | 16.9% | 0.5% | 19.5% | 3.6% | 6.6% | 9.0% | 5.5% | 6.3% |

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

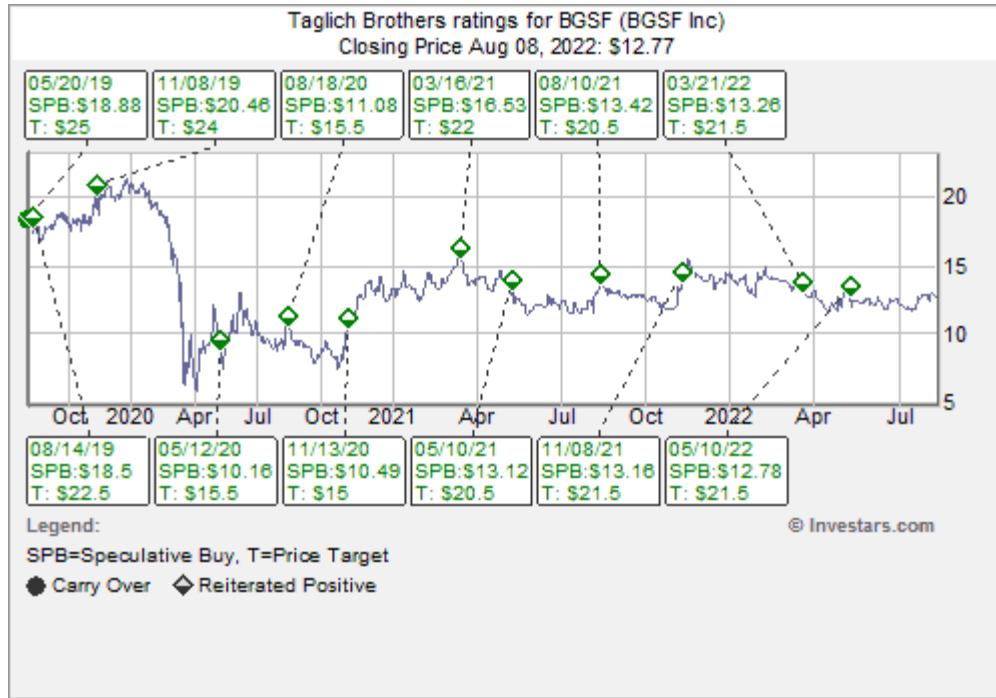
BGSF, Inc.
Cash Flow Statement
FY2019 – FY2023E
(in thousands)

| | <u>FY2019A</u> | <u>FY2020A</u> | <u>FY2021A</u> | <u>6 Mos.22A</u> | <u>FY2022E</u> | <u>FY2023E</u> |
|---|----------------|-----------------|----------------|------------------|-----------------|----------------|
| <i>Cash Flows from Operating Activities</i> | | | | | | |
| Net Income (loss) | \$ 13,247 | \$ 1,441 | \$ 14,109 | \$ 18,976 | \$ 25,111 | \$ 14,620 |
| (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 | 1,821 | 3,706 | 3,710 |
| Gain on sale of discontinued operations | - | - | - | (17,266) | (17,266) | - |
| Impairment losses | - | 7,240 | - | - | - | - |
| CARES Act credit | - | - | (2,368) | - | - | - |
| Disposal of property and equipment | 31 | - | 8 | 2 | 2 | - |
| Extinguishment of related party debt and debt | 541 | - | - | - | - | - |
| Contingent consideration adjustment | - | (76) | (2,403) | - | - | - |
| Amortization of deferred financing costs | 173 | 83 | 75 | 139 | 139 | 100 |
| Interest expense on earnout payable | 124 | 190 | 252 | 85 | 125 | 50 |
| Provision for doubtful accounts | 115 | 349 | 221 | 133 | 133 | 150 |
| Stock based compensation | 850 | 786 | 1,058 | 454 | 945 | 920 |
| Deferred income taxes | 799 | (2,413) | 1,279 | 1,215 | 1,215 | 1,215 |
| Cash earnings (burn) | 16,991 | 8,947 | 12,278 | 4,324 | 12,875 | 20,765 |
| <i>Changes In:</i> | | | | | | |
| Accounts receivable | (2,765) | 5,026 | (15,178) | (2,131) | (266) | (5,557) |
| Prepaid expenses and other | (223) | (855) | (201) | 533 | 61 | (1,387) |
| Other current assets | - | - | - | (116) | (2,189) | - |
| Deposits and other | (634) | (209) | (126) | 1,258 | 462 | (1,072) |
| Accrued interest | (236) | 5 | 24 | (22) | 22 | 1 |
| Accounts payable | 333 | (279) | 156 | 207 | 349 | (39) |
| Accrued payroll and expenses | 140 | (1,342) | 5,730 | (511) | (237) | (917) |
| Other current and long-term liabilities - includes Contingent Consideration | 17 | 6,300 | 260 | (2,142) | (4,362) | (2,302) |
| Operating leases | (255) | 213 | (107) | (51) | (36) | - |
| Accrued taxes | (125) | 1,875 | (1,479) | (132) | (132) | - |
| Net (increase)/decrease in Working Capital | (3,748) | 10,733 | (10,921) | (3,107) | (7,588) | (11,274) |
| Net cash provided (used) by continuing operating activities | <u>13,244</u> | <u>19,680</u> | <u>1,357</u> | <u>1,217</u> | <u>5,287</u> | <u>9,491</u> |
| Net cash provided (used) by discontinued operating activities | 4,710 | 2,577 | 5,306 | (2,274) | (2,274) | - |
| Net cash provided (used) by operating activities | <u>17,954</u> | <u>22,257</u> | <u>6,663</u> | <u>(1,057)</u> | <u>3,014</u> | <u>9,491</u> |
| <i>Cash Flows from Investing Activities</i> | | | | | | |
| Business acquired, net of cash received | (7,500) | (22,002) | (3,791) | - | - | - |
| Capital expenditures | (2,077) | (2,076) | (3,204) | (3,530) | (4,500) | (3,500) |
| Business sold | - | - | - | 30,306 | 30,306 | 2,000 |
| Proceeds from sale of property and equipment | 0 | - | 5 | - | - | - |
| Net cash used in continuing investing activities | <u>(9,576)</u> | <u>(24,078)</u> | <u>(6,990)</u> | <u>26,775</u> | <u>25,806</u> | <u>(1,500)</u> |
| Net cash used in discontinued investing activities | (153) | (69) | (35) | (26) | (26) | - |
| Net cash used in investing activities | <u>(9,729)</u> | <u>(24,147)</u> | <u>(7,024)</u> | <u>26,749</u> | <u>25,780</u> | <u>(1,500)</u> |
| <i>Cash Flows from Financing Activities</i> | | | | | | |
| Borrowings (net) under line of credit | 9,695 | (14,368) | 6,804 | 4,935 | 4,935 | (1,000) |
| 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 | 419 | 419 | 419 |
| Contingent consideration paid | (2,672) | - | - | (1,110) | (1,110) | (1,110) |
| Dividends | (12,282) | (5,155) | (4,567) | (3,137) | (6,282) | (6,300) |
| Retirement of vested stock options | - | - | - | - | - | - |
| Deferred financing and share issuance costs | (382) | - | - | (5) | (5) | - |
| Net cash provided (used) by Financing | <u>(8,225)</u> | <u>1,890</u> | <u>473</u> | <u>(25,760)</u> | <u>(28,905)</u> | <u>(7,991)</u> |
| Net change in Cash | - | - | 112 | (68) | (112) | - |
| Cash Beginning of Period | - | - | - | 112 | 112 | - |
| Cash End of Period | <u>\$ -</u> | <u>-</u> | <u>\$ 112</u> | <u>\$ 45</u> | <u>\$ -</u> | <u>\$ -</u> |

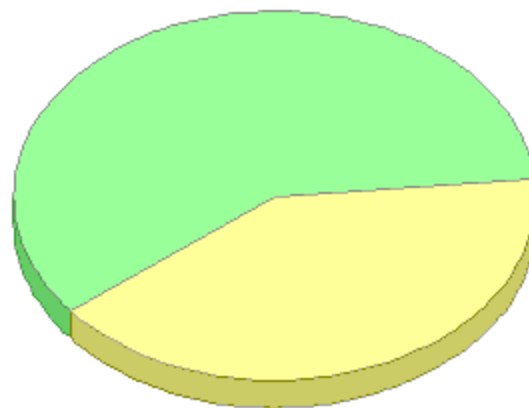
Source: Company reports and Taglich Brothers estimates

Taglich Brothers, Inc.

Price Chart



Taglich Brothers Current Ratings Distribution



59.26 % Buy | 40.74 % Hold

| Investment Banking Services for Companies Covered in the Past 12 Months | | |
|--|---|----|
| Rating | # | % |
| Buy | 5 | 26 |
| Hold | | |
| Sell | | |
| Not Rated | | |

Important Disclosures

As of August 8, 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 459,140 shares of BGSF common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 477,494,985 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 13,164 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.