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 $12.73 — (NYSE MKT)

November 7, 2022

	2019 A	2020 A	2021 A	*2022 E*	*2023 E*
Revenues (in millions)*	$219.8	$207.1	$239.0	***$289.1***	***$304.3***
Earnings per share*	$0.93	$0.32**	$0.80***	***$1.22***	***$1.42***

52-Week range	$15.65 – $10.30	Fiscal year ends:	December
Shares outstanding a/o 11/02/22	10.5 million	Revenue/shares (ttm)*	$27.51
Approximate float	9.7 million	Price/Sales (ttm)	0.5X
Market Capitalization	$133.7 million	Price/Sales (2023) E	0.4X
Tangible Book value/shr	$3.20	Price/Earnings (ttm)	11.2X
Price/Book	4.0X	Price/Earnings (2023) E	9.9X
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 $212.8 billion in 2022, up from $177.1 billion in 2021 according to a September 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 25.1% and 11.6%, 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.

BGSF reported 3Q22 EPS from continuing operations (on 11-03-22) of $0.44 on a 22.3% increase in revenues to $78.5 million. In 3Q21, EPS from continuing operations was $0.36 on revenue of $64.2 million. We projected EPS of $0.34 on revenue of $75 million.

In 2022, we forecast EPS from continuing operations of $1.22 (prior was $1.08) on revenue growth of 21% to $289.1 million (prior was $285.6 million). Our revised forecasts reflects 3Q22 results and higher than anticipated growth in the company's higher margin real estate segment.

In 2023, we forecast EPS of $1.42 (prior was $1.39) on revenue growth of 5.2% to $304.3 million (prior was $303.5 million). Our EPS forecast reflects gross margin improvement to 34.8% from an estimated 34.5% in 2022 and operating margin expense of 27.9% compared to 28.4% 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 and likely recession resistant operating segments after the 1Q22 sale of the light industrial segment. Also supporting our forecast should be US staffing industry growth that is forecast to reach $212.8 billion in 2022, up from $177.1 billion in 2021 according to the September 2022 report from consulting firm Staffing Industry Analysts.

We forecast gross profit growth of 6.1% in 2023 compared to 23.4% in 2022. Gross profit growth should be driven by revenue gains in the real estate segment (BGSF's highest margin segment) reflecting 58 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 11/4/22) have a forward P/E multiple of 15.3X (prior was 15.7X) with a 9.2% EPS growth rate. Based on our 2023 forecast, BGSF's P/E multiple is 9.9X with EPS growth of 16.4% to $1.42 per share (prior was $1.39) from an estimated $1.22 per share in 2022.

We anticipate investors are likely to accord BGSF the peer group multiple as its EPS growth of 16.4% is higher than the peer groups' EPS growth of 9.2%. We applied a 15.3X multiple (prior was 15.7X) to our 2023 EPS forecast of $1.42, 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%.

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 launched its 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 operating efficiencies that should drive 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. On October 19, 2021, BGSF and Interplay Learning announced a partnership to build out a 320-hour fast-track learning experience that immerses candidates into the day-to-day working environment within the multifamily property management space enabling a candidate to put into practice immediately skills learned as they complete each program module. This should increase the talent pool BGSF can deploy to its growth customer base with its real estate segment.

Real Estate

In 3Q22, the company's real estate segment sales of more than $32.2 million surpassed any quarter prior to the COVID-19 pandemic. In 9M22, the company opened all six markets targeted at the start of 2022. 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 without adding additional staff.

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 October 2022, the International Monetary Fund (IMF) revised its economic growth estimate for the US to an increase of 2.4% for 2022 and 1.1% for 2023. In July 2022, the IMF projected US economic growth of 2.5% for 2022 and 1.4% for 2023. The reductions reflect sustained inflation and tighter financial conditions (i.e. higher interest rates).

The advanced estimate of US GDP growth (released on October 27, 2022) showed the US economy increased at an annual rate of 2.6% in 3Q22, up from the 0.6% decrease reported in 2Q22. The 3Q22 US GDP estimate reflects increases in exports, consumer spending, nonresidential fixed investment, federal government spending, and state and local government spending, partly offset by decreases in residential fixed investment and private inventory investment.

The unemployment rate for October 2022 (reported on November 4, 2022) was 3.7% compared to the peak unemployment rate of 14.7% in April 2020. In October 2021, unemployed people in the US were approximately 6.1 million, which equaled February 2020 (prior to the COVID-19 pandemic), while the number of employed were 158.6 million. In October 2022, the labor force participation rate was 62.2%. In February 2020, the labor force participation rate was 63.3%.

In September 2022, the Federal Reserve Board issued a forecast that calls for a US unemployment rate in 2022 and 2023 of 3.8% and 4.4%, respectively, up from 3.7% and 3.9% in each period from its June 2022 forecast.

Operations

In 2022, we project revenue growth of 21% to $289.1 million (prior was $285.6 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 25.1% and 18.4%, respectively. The increase in our forecast reflects 9M22 results.

We project a 23.4% increase in gross profit to $99.9 million driven by revenue growth and gross margin improving to 34.5% 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 $17.8 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 28.4% from 28.8% in 2021 (excludes contingent consideration gain).

We forecast operating expense to increase 19.3% to $82.1 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 19.8% increase in SG&A to $78 million to support revenue growth. D&A expense should increase to $4.1 million from $3.7 million last year. We project operating margin of 6.1% vs. 5.1% (excludes contingent consideration gain) due primarily to revenue growth and gross margin expansion.

We project a decrease of $339,000 in interest expense to $1.1 million due primarily to lower average debt balances stemming from the repayment of its outstanding term debt in 1Q22, partly offset by higher interest rates and average balances on it line of credit.

Our net income forecast from continuing operations is $12.8 million or $1.22 per share (prior was $11.3 million or $1.08 per share), after income tax expense of nearly $3.9 million for an income tax rate of 23.2%.

In 2023, we project revenue growth of 5.2% to $304.3 million (prior was $303.5 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 11.6% to $128.5 (unchanged) and professional services growth of 1% to $175.8 million (prior was $175 million).

We project a 6.1% increase in gross profit to $106 million driven by gross margin improvement to 34.8% from an estimated 34.5% in 2022. The gross margin improvement reflects revenue growth from the real estate segment, which should deliver a gross margin of 39.3% and comprise 42.2% of total revenue, up from an estimated 39.8% of total revenue in 2022. We anticipate operating income increasing 17.8% to $20.9 million from an estimated $17.8

million due to revenue growth, gross margin expansion, and operating margin expense improving to 27.9% from an estimated 28.4% in 2022.

We forecast operating expense increasing 3.6% to nearly $85 million compared to an estimated $82.1 million in 2022. We project a 3.2% increase in SG&A to $80.5 million to support sales growth. D&A expense should remain increase to $4.5 million from an estimated $4.1 million in 2022. We project operating margin of 6.9% vs. 6.1% due to revenue growth, gross margin expansion, and improvement in operating margin expense.

We project interest expense of $1.4 million compared to $1.1 million reflecting higher average interest rates, partly offset by a lower average debt balance. We forecast net income from continuing operations of nearly $14 million or $1.42 per share, after income tax expense of $4.6 million for an income tax rate of 23.6%. We previously projected net income from continuing operations 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 $15.1 million and an increase in working capital of $13.4 million. Cash used in operations of $622,000 (includes $2.2 million of cash used by discontinued light industrial operations), capital expenditures, and payment of common stock dividends is unlikely to be covered by proceeds from the sale of discontinued operations and borrowings. At the end of 2022, the company's cash balance should decline from $112,000 to zero.

For 2023, we project cash earnings of $22.3 million and an increase in working capital of $12.5 million. Cash from operations of $9.8 million should cover capital expenditures, repayment of debt and contingent consideration, and payment of common stock dividends. At the end of 2023, the company's cash balance should remain at zero.

3Q22 and 9M22 Results

3Q22 Results

Revenues increased 22.3% to $78.5 million from $64.2 million in the year-ago period due to a 34.1% increase in real estate segment sales to $33.3 million and a 14.9% increase in the professional staffing revenue to $45.3 million. The year-ago period reflects the company recording its light industrial segment as discontinued.

The 34.1% or nearly $8.5 million increase in real estate segment sales was due primarily to a 19.2% increase in billed hours and a 12.5% increase in the average bill rate.

The 14.9% or $5.9 million increase in professional staffing segment sales reflects $5.1 million increase in information technology division revenues and a 22.8% increase in average bill rate, partly offset by a 6.4% decrease in billed hours.

Gross profit increased 27% to $28 million reflecting gross margin expansion to 35.7% from 34.3% in the year-ago period. The gross profit improvement reflects real estate segment gross margin of 40.8%, up from 38.4% in 3Q21. Professional staffing's gross margin was to 31.9 versus 31.8% last year.

Operating expenses increased 18.2% to $21.5 million from $18.2 million (excluding $1.2 million contingent consideration gain) due to a $3.3 million or 19.5% increase in SG&A to $20.4 million. The increase in SG&A expense reflects higher compensation costs and information technology and software costs. D&A expense was essentially flat at $1.1 million due primarily due to increases from the company's information technology improvement project, offset by lower amortization related to the 2020 Edgerock and the 2019 LJK acquisitions.

Operating income increased 28.6% to nearly $6.5 million from $5 million in 3Q21. The increase in operating income was due primarily to revenue growth and gross margin expansion. Operating expense margin was 27.4%, down from 28.4% (excluding $1.2 million contingent consideration gain) in the year-ago period.

Interest expense was $376,000, down from $432,000 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 nearly $4.7 million or $0.44 per share compared to $4.6 million or $0.36 per share. The current period excluded had no gain or loss from the discontinued light industrial operations compared to income of $936,000 or $0.09 per share in 3Q21. We projected income from continuing operations $3.6 million or $0.34per share, on revenue of $75 million.

9M22 Results

Revenues increased 29.1% to $221.1 million from $171.3 million in the year-ago period due to a 38% increase in real estate segment sales to $89.1 million and a 23.7% increase in the professional staffing revenue to $132 million. The company's prior periods have been restated to classify its light industrial segment as a discontinued operation.

Gross profit increased 33% to $76.5 million reflecting gross margin expansion to 34.6% from 33.9% in the same period last year. The gross profit improvement reflects real estate segment gross margin of 39.4%, up from 37.5% in 9M21 with professional staffing's gross margin improving to 31.4%, up from 31.2% in the year ago period.

Operating expenses increased 28.3% to $63 million from $49.1 million (includes $2.4 million contingent consideration gain in the year-ago period) due to an $11.4 million increase in SG&A to $60 million. D&A expense increased to $3 million from $2.9 million in 9M21.

Operating income increased to $13.5 million compared to $8.4 million in 9M21. The increase in operating income was due primarily to revenue growth and gross margin expansion.

Interest expense was $719,000 down from $1 million stemming from the company paying off its term loan, partly offset by higher average balance and interest rate on its revolving credit facility.

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Revenues per segment in Millions			
Real Estate	89.1	64.6	**38.0%**
Professional Staffing	132.0	106.7	**23.7%**
Total Revenue	**$ 221.1**	**$ 171.3**	**29.1%**
Cost of Sales per segment			
Real Estate	54.0	40.4	**33.8%**
Professional Staffing	90.6	73.4	**23.4%**
Total Cost of Sales	**$ 144.6**	**$ 113.8**	**27.1%**
Gross Profit per segment			
Real Estate	35.1	24.2	**44.8%**
Professional Staffing	41.4	33.3	**24.4%**
Gross Profit	**$ 76.5**	**$ 57.5**	**33.0%**
Total Operating Expenses	$63.0	$49.1	**28.3%**
Operating Income	$13.5	$8.4	**60.7%**
Total Other Income (Expense)	($0.7)	($1.0)	**NMF**
Pre-Tax Income	$12.8	$7.4	**73.3%**
Income Tax Expense (Benefit)	$3.0	$1.3	
Net Income (loss) - from continuing operations	$9.8	$6.0	
Discontinued operations includes gain on sale	$13.8	$2.8	
Net Income (loss) includes discontinued operations	$23.6	$8.8	
Earnings (loss) per share - Continuing operations	$0.93	$0.59	
Discontinued operations per share including sale	$1.32	$0.26	
Net Income (loss) per share	$2.25	$0.85	
Dividend per share	$ 0.45	$ 0.32	
Avg Shares Outstanding	10.5	10.4	
Margins			
Gross margin - combinded	34.6%	33.6%	
Operating Margin	6.1%	4.9%	
Pre-Tax Margins	5.8%	4.3%	
Tax Rate	23.1%	18.2%	

Source: company reports

Income from continuing operations was $9.8 million or $0.93 per share compared to $6 million or $0.59 per share. Net income including discontinued operations and sale of those operations, net of tax (of $13.8 million) was $23.6 million or $2.25 per share compared to $8.8 million or $0.85 per share in the year-ago period, which included $2.8 million of income from discontinued operations.

Finances

In 9M22, the company had cash earnings of $10.7 million and a $16.2 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 $7.8 million, capital investments, repayment of the company's term debt, and common stock dividends. Cash decreased by $112,000 to zero at the end of 3Q22.

Capital Structure
In 3Q22, the company had total outstanding debt of $27million, all of which is long-term. The interest rate on the credit line was 5.5% compared to 2.8% in 3Q21. The company's debt to equity ratio is 0.3 versus 1 for the industry, indicating that BGSF's leverage is less than other staffing and outsourcing service companies. In 3Q22, 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/SOFR 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 September 2022, Staffing Industry Analysts (SIA) issued its growth forecast for the US staffing industry indicating that industry revenue this year should grow 14% to nearly $212.8 billion. 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. The initial industry growth forecast for 2023 is an estimated 2%.

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

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 at least 3.7% to 4%% after the most recent rate increase in November 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 9M22, two states (Texas – 23% and Tennessee – 11%) accounted for 34% of the company's revenues compared to 35% (Texas – 23% and Tennessee – 12%) in 9M21. 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.

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 or a reversal from a high unemployment rate).

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 November 4, 2022, average daily volume was 13,400 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	3Q22A	**2022 E**	**2023 E**
ASSETS						
Current assets:						
Cash and cash equivalents	$ -	$ -	$ 112	$ -	**$ -**	**$ -**
Accounts receivable, net	29,438	32,831	48,133	64,350	**58,631**	**63,385**
Prepaid expense and other current assets	934	2,155	2,346	1,561	**1,400**	**2,030**
Other current assets	70	-	2,381	4,902	**2,500**	**3,034**
Assets of discontinued operations	-	8,663	7,198	-	**-**	**-**
Total current assets	30,441	43,649	60,170	70,813	**62,531**	**68,449**
Property and equipment, net	3,545	3,464	4,331	1,599	**1,620**	**1,620**
Deposits an other assets	3,843	5,175	5,390	7,535	**7,535**	**7,535**
Right-of-use asset - operating lease, net	4,386	5,550	3,914	2,700	**4,500**	**4,500**
Deferred income taxes	4,072	5,828	4,548	3,333	**5,000**	**5,500**
Intangible assets, net	33,808	32,133	33,585	34,142	**37,350**	**33,400**
Goodwill	25,195	27,052	29,142	29,142	**29,142**	**29,142**
Noncurrent assets of discontinued operations	-	7,427	7,213	-	**-**	**-**
Total assets	$ 105,290	$ 130,278	$ 148,294	$ 149,264	**$ 147,678**	**$ 150,146**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Debt	375	2,625	3,563	-	**-**	**-**
Accrued interest	73	78	102	261	**261**	**250**
Accounts payable	479	220	401	588	**1,000**	**650**
Accrued payroll and expenses	10,485	10,376	16,154	16,558	**19,682**	**15,332**
Current liabilities of discontinued operations	-	1,239	1,262	-	**-**	**-**
Contingent consideration	-	-	1,074	1,060	**1,060**	**-**
Lease liability	1,278	1,866	1,896	1,609	**1,350**	**1,400**
Other current liabilities	1,017	-	3,550	3,495	**4,000**	**2,500**
Taxes payable	-	1,861	382	217	**250**	**250**
Total current liabilities	13,707	18,264	28,384	23,786	**27,603**	**20,382**
Line of credit	19,994	5,709	12,588	27,004	**21,788**	**20,788**
Long-term debt	7,125	26,300	23,300	-	**-**	**-**
Lease liability	4,129	4,581	2,685	1,565	**950**	**1,247**
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	63,318	**63,611**	**65,348**
Retained earnings (Deficit)	8,763	5,050	14,592	33,509	**33,644**	**42,299**
Accumulated other comprehensive loss	-	(123)	58	-	**-**	**-**
Total stockholders' equity	68,457	65,458	76,592	96,894	**97,322**	**107,714**
Total liabilities and stockholders' equity	$ 115,586	$ 130,278	$ 148,294	$ 149,264	**$ 147,678**	**$ 150,146**
SHARES OUT	10,245	10,328	10,425	10,500	**10,510**	**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	**$ 289,139**	**$ 304,250**
Cost of services	149,938	141,086	158,087	**189,279**	**198,295**
Gross Profit	69,826	66,039	80,940	**99,860**	**105,955**
Operating Expenses:					
SG&A	50,222	55,244	65,115	**78,000**	**80,500**
Gain on contingent consideration	-	(76)	(2,403)	-	-
Impairment losses	-	7,240	-	-	-
Depreciation and amortization	4,718	4,861	3,698	**4,106**	**4,530**
Total Operating Expenses	54,941	67,268	66,411	**82,106**	**85,030**
Operating Income (loss)	14,885	(1,229)	14,530	**17,754**	**20,925**
Other income (expense)					
Extinguishment of debt	(541)	-	-	-	-
Interest expense	(1,569)	(1,584)	(1,433)	**(1,094)**	**(1,350)**
Total Other Income (expense)	(2,110)	(1,584)	(1,433)	**(1,094)**	**(1,350)**
Income (loss) before taxes	12,776	(2,813)	13,097	**16,660**	**19,575**
Income Tax Expense (Benefit)	3,135	(741)	2,640	**3,870**	**4,620**
Net Income (loss) - from continuing operations	9,641	(2,072)	10,457	**12,789**	**14,955**
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	$ 13,247	$ 1,441	$ 14,109	**$ 26,574**	**$ 14,955**
Earnings (loss) per share - Continuing operations	$ 0.93	$ (0.20)	$ 1.00	**$ 1.22**	**$ 1.42**
Discontinued operations per share including sale	0.35	0.34	0.35	**1.31**	-
Net Income (loss) per share	$ 1.28	$ 0.14	$ 1.35	**$ 2.53**	**$ 1.42**
Dividend per share	$ 1.20	$ 0.50	$ 0.44	**$ 0.60**	**$ 0.60**
Avg Shares Outstanding	10,351	10,338	10,417	**10,517**	**10,548**
EBITDA - Adjusted from continuing operations	$ 20,452	$ 13,760	$ 16,658	**$ 23,130**	**$ 26,655**
Margin Analysis					
Gross margin	31.8%	31.9%	33.9%	**34.5%**	**34.8%**
SG&A	22.9%	26.7%	27.2%	**27.0%**	**26.5%**
Depreciation and amortization	2.1%	2.3%	1.5%	**1.4%**	**1.5%**
Operating margin	6.8%	(0.6%)	6.1%	**6.1%**	**6.9%**
Pre-tax margin	5.8%	(1.4%)	5.5%	**5.8%**	**6.4%**
Tax rate	24.5%	26.3%	20.2%	**23.2%**	**23.6%**
YEAR / YEAR GROWTH					
Total Revenues	6.6%	(5.8%)	15.4%	**21.0%**	**5.2%**

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 A	Q3 22 A	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	$ 78,508	$ 68,000	**$ 289,139**	$ 71,000	$ 79,000	$ 82,500	$ 71,750	**$ 304,250**
Cost of services	33,535	38,150	42,138	44,264	158,087	45,111	49,030	50,508	44,630	**189,279**	46,815	51,675	52,770	47,035	**198,295**
Gross Profit	16,215	19,247	22,047	23,431	80,940	23,431	25,059	28,000	23,370	**99,860**	24,185	27,325	29,730	24,715	**105,955**
Operating Expenses:															
SG&A	15,302	16,269	17,054	16,490	65,115	19,716	19,898	20,386	18,000	**78,000**	19,750	20,750	21,000	19,000	**80,500**
Gain on contingent consideration	-	(1,195)	(1,208)	-	(2,403)	-	-	-	-	**-**	-	-	-	-	**-**
Impairment losses	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Depreciation and amortization	836	866	1,169	827	3,698	899	922	1,145	1,140	**4,106**	1,140	1,135	1,130	1,125	**4,530**
Total Operating Expenses	16,139	15,940	17,015	17,316	66,411	20,615	20,820	21,531	19,139	**82,106**	20,890	21,885	22,130	20,125	**85,030**
Operating Income (loss)	76	3,307	5,032	6,115	14,530	2,816	4,239	6,469	4,231	**17,754**	3,295	5,440	7,600	4,590	**20,925**
Other income (expense)															
Extinguishment of debt	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Interest expense	(377)	(219)	(431)	(406)	(1,433)	(273)	(70)	(376)	(375)	**(1,094)**	(350)	(300)	(375)	(325)	**(1,350)**
Total Other Income (expense)	(377)	(219)	(431)	(406)	(1,433)	(273)	(70)	(376)	(375)	**(1,094)**	(350)	(300)	(375)	(325)	**(1,350)**
Income (loss) before taxes	(300)	3,089	4,600	5,709	13,097	2,542	4,170	6,093	3,856	**16,660**	2,945	5,140	7,225	4,265	**19,575**
Income Tax Expense (Benefit)	(89)	493	893	1,343	2,640	534	986	1,440	910	**3,870**	695	1,215	1,705	1,005	**4,620**
Net Income (loss) - from continuing operations	(212)	2,596	3,707	4,321	10,457	2,008	3,184	4,653	2,946	**12,789**	2,250	3,925	5,520	3,260	**14,955**
Income (loss) from discontinued operations, net	923	847	936	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	$ 4,653	$ 2,946	**$ 26,574**	$ 2,250	$ 3,925	$ 5,520	$ 3,260	**$ 14,955**
Earnings (loss) per share - Continuing operations	$ (0.02)	$ 0.25	$ 0.36	$ 0.41	$ 1.00	$ 0.19	$ 0.30	$ 0.44	$ 0.28	**$ 1.22**	$ 0.21	$ 0.37	$ 0.52	$ 0.31	**$ 1.42**
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	$ 0.44	$ 0.28	**$ 2.53**	$ 0.21	$ 0.37	$ 0.52	$ 0.31	**$ 1.42**
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	10,533	10,535	**10,517**	10,540	10,545	10,550	10,555	**10,548**
EBITDA - Adjusted from continuing operations	$ 1,269	$ 4,258	$ 6,603	$ 4,528	$ 16,658	$ 3,926	$ 5,403	$ 8,031	$ 5,770	**$ 23,130**	$ 4,735	$ 6,875	$ 9,030	$ 6,015	**$ 26,655**
Margin Analysis															
Gross margin	32.6%	33.5%	34.3%	34.6%	33.9%	34.2%	33.8%	35.7%	34.4%	**34.5%**	34.1%	34.6%	36.0%	34.4%	**34.8%**
SG&A	30.8%	28.3%	26.6%	24.4%	27.2%	28.8%	26.9%	26.0%	26.5%	**27.0%**	27.8%	26.3%	25.5%	26.5%	**26.5%**
Depreciation and amortization	1.7%	1.5%	1.8%	1.2%	1.5%	1.3%	1.2%	1.5%	1.7%	**1.4%**	1.6%	1.4%	1.4%	1.6%	**1.5%**
Operating margin	0.2%	5.8%	7.8%	9.0%	6.1%	4.1%	5.7%	8.2%	6.2%	**6.1%**	4.6%	6.9%	9.2%	6.4%	**6.9%**
Pre-tax margin	(0.6%)	5.4%	7.2%	8.4%	5.5%	3.7%	5.6%	7.8%	5.7%	**5.8%**	4.1%	6.5%	8.8%	5.9%	**6.4%**
Tax rate	29.6%	16.0%	19.4%	23.5%	20.2%	21.0%	23.6%	23.6%	23.6%	**23.2%**	23.6%	23.6%	23.6%	23.6%	**23.6%**
YEAR / YEAR GROWTH															
Total Revenues	(11.7%)	18.5%	20.7%	37.8%	15.4%	37.8%	29.1%	22.3%	0.5%	**21.0%**	3.6%	6.6%	5.1%	5.5%	**5.2%**

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

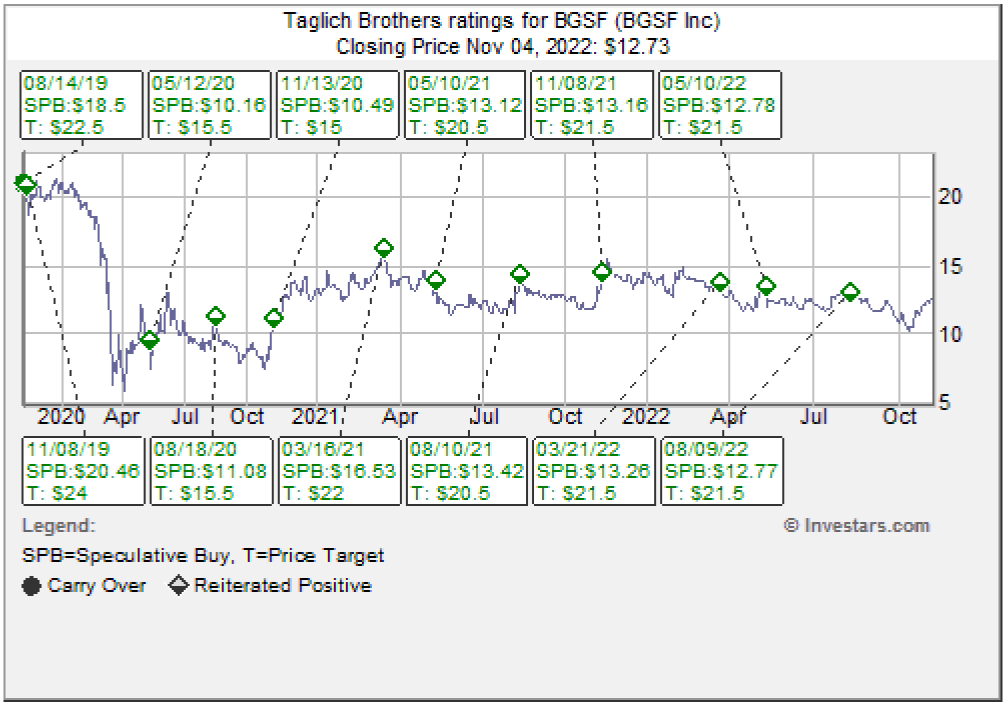
Source: Company reports and Taglich Brothers estimates

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

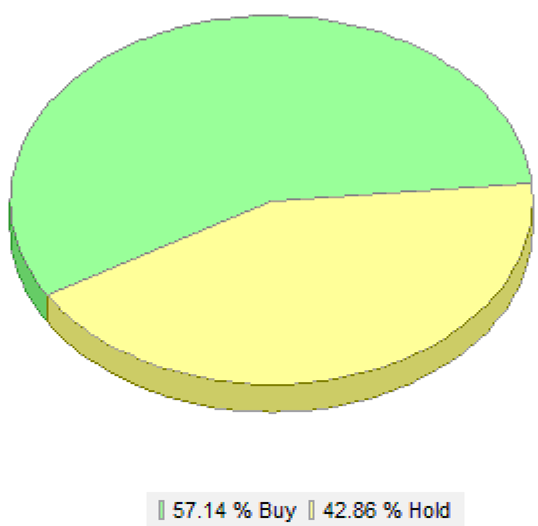
	FY2019A	FY2020A	FY2021A	9 Mos.22A	**FY2022E**	**FY2023E**
Cash Flows from Operating Activities						
Net Income (loss)	$ 13,247	$ 1,441	$ 14,109	$ 23,629	**$ 26,574**	**$ 14,955**
(Income) from discontinued operations, net of tax	(3,606)	(3,513)	(3,652)	(1,235)	**(1,235)**	-
Depreciation and amortization	4,718	4,861	3,698	2,966	**4,106**	**4,530**
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 considerationt adjustment	-	(76)	(2,403)	-	-	-
Amortization of defered financing costs	173	83	75	156	**156**	**125**
Interest expense on earnout payable	124	190	252	106	**106**	**50**
Provision for doubtful accounts	115	349	221	216	**216**	**215**
Stock based compensation	850	786	1,058	865	**1,200**	**1,200**
Deferred income taxes	799	(2,413)	1,279	1,215	**1,215**	**1,215**
Cash earnings (burn)	16,991	8,947	12,278	10,654	**15,074**	**22,290**
Changes In:						
Accounts receivable	(2,765)	5,026	(15,178)	(16,447)	**(10,498)**	**(4,754)**
Prepaid expenses and other	(223)	(855)	(201)	768	**946**	**(630)**
Other current assets	-	-	-	(257)	**(119)**	**(534)**
Deposits and other	(634)	(209)	(126)	1,630	**(2,145)**	-
Accrued interest	(236)	5	24	158	**(159)**	**11**
Accounts payable	333	(279)	156	187	**599**	**350**
Accrued payroll and expenses	140	(1,342)	5,730	404	**3,528**	**(4,350)**
Other current and long-term liabilities - includes Contingent Consideration	17	6,300	260	(2,410)	**(4,104)**	**(2,560)**
Operating leases	(255)	213	(107)	(78)	**(78)**	-
Accrued taxes	(125)	1,875	(1,479)	(165)	**(132)**	-
Net (increase)/decrease in Working Capital	(3,748)	10,733	(10,921)	(16,211)	**(13,423)**	**(12,467)**
Net cash provided (used) by continuing operating activities	13,244	19,680	1,357	(5,557)	**1,652**	**9,823**
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	17,954	22,257	6,663	(7,831)	**(622)**	**9,823**
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)	(4,680)	**(6,000)**	**(4,000)**
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)	25,633	**24,313**	**(2,000)**
Net cash used in discontinued investing activities	(153)	(69)	(35)	(26)	**(26)**	-
Net cash used in investing activities	(9,729)	(24,147)	(7,024)	25,607	**24,287**	**(2,000)**
Cash Flows from Financing Activities						
Borrowings (net) under line of credit	9,695	(14,368)	6,804	14,314	**10,000**	**(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)	(1)	**(1)**	-
Issuance of ESSP shares	-	-	340	537	**537**	**537**
Contingent consideration paid	(2,672)	-	-	(1,110)	**(1,110)**	**(1,060)**
Dividends	(12,282)	(5,155)	(4,567)	(4,712)	**(6,287)**	**(6,300)**
Retirement of vested stock options	-	-	-	-	-	-
Deferred financing and share issuance costs	(382)	-	-	(53)	**(53)**	-
Net cash provided (used) by Financing	(8,225)	1,890	473	(17,888)	**(23,777)**	**(7,823)**
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	26
Hold		
Sell		
Not Rated		

Important Disclosures

As of November 4, 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 469,487 shares of BGSF common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 479,615 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

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Analyst Certification

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

Public Companies mentioned in this report:

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

Meaning of Ratings

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

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

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

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

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

Some notable Risks within the Microcap Market

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

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