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Research Report – Update

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

BGSF, Inc.

Rating: Speculative Buy

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BGSF $10.55 — (NYSE MKT)

March 20, 2023

	2020 A	2021 A	2022 A	***2023 E***	***2024 E***
Revenues (in millions)*	$207.1	$239.0	$298.4	***$346.3***	***$370.3***
Earnings per share*	$0.32**	$0.80***	$1.07	***$1.16***	***$1.46***

52-Week range	$16.02 – $10.30	Fiscal year ends:	December
Shares outstanding a/o 03/15/23	10.8 million	Revenue/shares (ttm)	$28.50
Approximate float	10.0 million	Price/Sales (ttm)	0.4X
Market Capitalization	$113.9 million	Price/Sales (2024) E	0.3X
Tangible Book value/shr	($0.19)	Price/Earnings (ttm)	9.9X
Price/Book	NMF	Price/Earnings (2024) E	7.2X
Annual dividend per share	$0.60	Dividend Yield	5.7%

** 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 but reducing our 12-month price target to $18.25 per share from $21.50 per share due primarily to a reduction in sector valuations.

BGSF has positioned its professional and real estate segments to grow operations through 2024. The US staffing industry market is projected to reach $216.8 billion in 2023, up from an estimated $212.8 billion in 2022, and an increase from $177.1 billion in 2021 according to a September 2022 report from consulting firm Staffing Industry Analysts.

In 4Q22, the company acquired Horn Solutions, Inc. a Texas-based workforce solutions firm specializing in business consulting, managed services, and executive search. In 2022, Horn Solutions, Inc. generated approximately $30 million in revenue with a gross margin exceeding 40%.

BGSF reported 2022 EPS from continuing operations (on 03-08-23) of $1.07 on a 24.8% increase in revenues to $298.4 million. In 2021, EPS from continuing operations excluding items was $0.80 on revenue of $239 million. We projected EPS of $1.22 on revenue of $289.1 million.

In 2023, we forecast EPS of $1.16 (prior was $1.42) on revenue growth of 16% to $346.3 million (prior was $304.3 million). Our forecasts reflect a full year contribution from Horn Solutions and gross margin improving to 36.1% from 34.7% in 2022. However, our reduced EPS forecast stems from an increase in operating margin expense to 29.9% from our prior forecast of 27.9% and higher than anticipated interest expense related to the Horn acquisition.

In 2024, we forecast EPS of $1.46 on revenue growth of 7% to $370.3 million. Our EPS forecast reflects operating margin expense improving to an estimated 29.4% from an estimated 29.9% in 2023.

Please view our Disclosures on pages 13 – 15.

Appreciation Potential

Maintaining Speculative Buy but reducing our 12-month price target to $18.25 per share from $21.50 per share due primarily to a reduction in sector valuations. Our rating should be supported by gross profit growth in 2023 and 2024 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 $216.8 billion in 2023, up from an estimated $212.8 billion in 2022, and an increase from $177.1 billion in 2021 according to a September 2022 report from consulting firm Staffing Industry Analysts.

We forecast gross profit growth of 7.6% in 2024 compared to 20.8% in 2023. Gross profit growth over the next two years should be driven by revenue gains in the real estate segment (BGSF's highest margin segment) reflecting 64 locations entering 2023 with at least 70 locations entering 2024.

The comparative peers in the Staffing & Employment Services industry (source: finviz – on 03/20/23) have a forward P/E multiple of 13.8X (prior was 15.3X) with a 21.6% EPS growth rate. Based on our 2024 forecast, BGSF's P/E multiple is 7.2X with EPS growth of 25.9% to $1.46 per share from an estimated $1.16 per share in 2023.

We anticipate investors are likely to accord BGSF the peer group multiple as its EPS growth of 25.9% is higher than the peer groups' EPS growth of 21.6%. We applied a 13.8X multiple (prior was 15.3X) to our 2024 EPS forecast of $1.46, discounted for execution risk, to obtain a year ahead price target of approximately $18.25 per share, implying a total (including a 5.7% dividend yield) year-ahead return in excess of 75%.

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.

In December 2022, the company acquired Horn Solutions, Inc. a Texas-based workforce solutions firm for $42.7 million. At closing $33.9 million was paid in cash and $3.4 million of BGSF's common stock (254,455 shares) was issued, as well as a two-year 6% convertible promissory note (convertible at $17.12 per share. To finance the acquisition the company borrowed $40 million from its term debt facility. Horn Solutions generated approximately $30 million in revenue with a gross margin exceeding 40%.

Recent Developments

On March 6, 2023, BGSF, Inc. announced it appointed John Barnett as the CFO, effective March 20, 2023. Mr. Barnett succeeds Dan Hollenbach, who served as BGSF's CFO since August 2015. He previously served as CFO of publicly traded Protective Insurance and First Acceptance. He also served in senior leadership roles for Broadcast Music, Inc. and Anheuser-Busch. Mr. Barnett served in the U.S. Army advancing to the rank of captain. Earned BS degree from the U.S. Military Academy at West Point, a Master of Science in Engineering Management from Missouri University of Science and Technology, and an MBA from the University of Illinois Urbana-Champaign.

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.

The company launched its remaining seven projects (out of 21) 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 margins through our forecast period and reduce operating margin expense in 2024.

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. In order to accelerate cross selling efforts to its customers, the company intends to (by the end of 2Q23) rebrand all of its businesses to BGSF. This will eliminate the various trade names currently in use. Helping to drive cross selling results was the 1Q21 acquisition of Momentum Solutionz and 4Q22 acquisition of Horn Solutions, Inc.

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

Entering 2023, the company had 64 locations (including one in Toronto, Canada) and should have least 70 locations entering 2024 (with two or three in Canada). We anticpatOnce 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.

Acquisitions

In 4Q22, the company acquired Horn Solutions, Inc. a Texas-based workforce solutions firm specializing in business consulting, managed services, and executive search. In 2022, Horn Solutions generated approximately $30 million in revenue with a gross margin exceeding 40%. The successful integration of this acquisition should drive revenue and EPS growth during our forecast period.

Projections

Basis of Forecast

Our forecast reflects the company's development over the last two years of increasing cross selling and digital transformation technology initiatives should drive organic revenue growth along with the 4Q22 acquisition of Horn Solutions, Inc., that should contribute more than $30 million to top line results. The digital technology roadmap initiatives, which went live at the start of 3Q22, should begin improving by 2H23, 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 by the 2H23 improved operating leverage.

Our 2023 forecast, does not include the potential impact of company's rebrand efforts. The initial indication is that this effort is likely to create an indication of impairment of the trade name and assets. Therefore, an impairment charge of approximately $22.5 million is likely to occur in 1H22. Once the charge is report, we will include it in our financial results.

Our 2024 forecast assumes that the company will extend the maturity date of its outstanding borrowing, which matures on July 16, 2024.

Economy
In January 2023, the International Monetary Fund (IMF) revised its economic growth estimate for the US to an increase of 1.2% for 2023 and 1.4% for 2024. In October 2022, the IMF projected US economic growth of 1.1% and 1.6% for 2023 and 2024, respectively. The forecast reflects a rise global interest rates to fight inflation, particularly in in advanced economies, as well as negative effects from the war in Ukraine. The IMF forecast does not yet include any adjustment for the stress within the US banking system that occurred in March 2023/

The second estimate of US GDP growth (released on February 23, 2023) showed the US economy increased at an annual rate of 2.7% in 4Q22, down from growth of 3.2% reported for 3Q22. The 4Q22 US GDP estimate reflects a downward revision to consumer spending that was partly offset by an upward revision to nonresidential fixed investment.

The unemployment rate for February 2023 (reported on March 10, 2023) was 3.6% compared to the peak unemployment rate of 14.7% in April 2020. In February 2023, unemployed people in the US were approximately 5.9 million, which up from 5.7 million in January 2023, but down from 6.3 million last year. In February 2023, the number of employed totaled 160.3 million and the labor force participation rate was 62.5%. Prior to COVID-19, the February 2020 labor force participation rate was 63.3%.

In December 2022, the Federal Reserve Board issued a forecast that calls for a US unemployment rate in 2023 and 2024 of 4.6% in each period, up from 4.4% in each period from its September 2022 forecast.

Operations
In 2023, we project revenue growth of 16% to $346.3 million (prior was $304.3 million). Our forecast includes the 4Q22 acquisition of Horn Solutions, Inc., but does not include potential acquisitions that could occur in 2023. 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 12.5% to $136.3 million (prior was $128.5 million) and professional services growth of 18.4% to $210 million (prior was $175.8 million).

We project a 20.8% increase in gross profit to $125.1 million driven by gross margin improvement to 36.1% from 34.7% in 2022. The gross margin improvement reflects revenue growth from the real estate segment and inclusion of higher margin Horn Solutions operations in the professional services segment. We anticipate the real estate segment should deliver gross margin of 40% compared to 39.4% in 2022. The professional services segment should deliver gross margin of 33.6% compared to 31.5% in 2022. We anticipate operating income increasing 31.7% to $21.4 million from $16.3 million due to revenue growth and gross margin expansion, partly offset by operating margin expense increasing to 29.9% from 29.2% in 2022.

We forecast operating expense increasing 18.8% to $103.7 million compared to $87.3 million in 2022. We project a 15.3% increase in SG&A to $96 million to support sales growth and higher compensation costs related to promotions made during 4Q22. D&A expense should increase to $7.7 million from $4.1 million in 2022 due to the Horn

Solutions acquisition. We project operating margin of 6.2% vs. 5.5% due primarily to revenue growth and gross margin expansion.

We project interest expense of $4.7 million compared to $1.4 million reflecting borrowings of $40 million and issuance of a $4.4 million promissory note to acquire Horn Solutions, as well as higher average interest rates.

We forecast net income of $12.8 million or $1.16 per share, after income tax expense of $3.9 million for an income tax rate of 23.5%. We previously projected net income of $14 million or $1.42 per share, after income tax expense of $4.6 million for an income tax rate of 23.6%.

In 2024, we project revenue growth of 7% to $370.3 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 its growth plan. We anticipate real estate segment growth of 12.5% to $153.3 million and professional services growth of 3.4% to $217.1 million.

We project a 7.6% increase in gross profit to $134.7 million driven by gross margin improvement to 36.4% from an estimated 36.1% in 2023. We anticipate operating income increasing 19.6% to $25.7 million from an estimated $21.4 million due to revenue growth, gross margin expansion, and operating margin expense improving to 29.4% from an estimated 29.9% in 2023.

We forecast operating expense increasing 5.2% to $109.1 million compared to an estimated $103.7 million in 2023. We project a 5.9% increase in SG&A to $101.6 million to support sales growth. D&A expense should decrease to $7.5 million from an estimated $7.7 million in 2023. We project operating margin of 6.9% vs. 6.2% due to revenue growth, gross margin expansion, and improvement in operating margin expense.

We project interest expense of $4.4 million compared to $7.7 million reflecting higher average interest rates, partly offset by a lower average debt balance.

We forecast net income of $16.2 million or $1.46 per share, after income tax expense of $5.1 million for an income tax rate of 24%.

Finances

For 2023, we project cash earnings of nearly $24 million and an increase in working capital of $10.6 million. Cash from operations of $13.4 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.

For 2024, we project cash earnings of $26.8 million and an increase in working capital of $8.2 million. Cash from operations of $18.6 million should cover capital expenditures, repayment of debt, and payment of common stock dividends. At the end of 2024, the company’s cash balance should remain at zero.

2022 and 4Q22 Results

2022 Results

Revenues increased 24.8% to $298.4 million from $239 million in 2021 due to a 31.6% increase in real estate segment sales to $121.1 million and a 20.6% increase in the professional staffing revenue to $177.3 million. The year-ago period reflects the company recording its light industrial segment as discontinued.

The 31.6% or $29.1 million increase in real estate segment sales was due primarily to an 18.8% increase in billed hours and an 11% increase in the average bill rate.

The 20.6% or $30.3 million increase in professional staffing segment sales reflects a $27.6 million increase in information technology division revenues, a $1.4 million three week contribution from the Horn Solutions acquisition, and a $3.9 million increased in managed services. The professional segment also reflects a 7.9% increase in average bill rate and an 11.8% increase in billed hours.

Gross profit increased 27.9% to $103.5 million from $80.9 million last year reflecting gross margin expansion to 35% from 33.9% in 2021. The gross profit improvement reflects real estate segment gross margin of 39.4%, up from 38% in 2021. Professional staffing's gross margin was to 31.5% versus 31.3% last year.

Operating expenses increased 26.8% to $87.3 million from $68.8 million (excluding $2.4 million contingent consideration gain) due to an $18.1 million or 27.8% increase in SG&A to $83.22 million. Approximately 85% of the increase in SG&A expense reflects higher compensation costs, information technology and software costs, as well as travel and entertainment costs. D&A expense increased to nearly $4.1 million from $3.7 million due primarily due to increases from the company's information technology improvement project and the Horn Solutions acquisition, partly offset by lower amortization related to the 2020 Edgerock and the 2019 LJK acquisitions.

In 2021, the company recorded $2.4 million gain on contingent consideration, which did not reoccur in 2022.

Operating income increased 34.3% to nearly $16.3 million from $12.1 million (excluding $2.4 million contingent consideration gain) in 2021. The decrease in operating income was due primarily to revenue growth and gross margin expansion, partially offset by operating expense margin increasing to 29.2%, from 28.8% (excluding $2.4 million contingent consideration gain) in the year-ago period.

Interest expense was essentially flat at approximately $1.4 million in each period as lower average debt balance for most of the year was offset by higher interest rates and borrowings that occurred during the final three weeks of 2022 due to the acquisition of Horn Solutions.

Income from continuing operations was nearly $11.3 million or $1.07 per share compared to $10.5 million or $1.00 per share (excluding items, EPS would have approximately $0.80 in 2021). Continuing operations in 2022 and 2021 excludes income and/or gain on sale of discontinued operations of $1.35 and $0.35, respectively, per share. We projected income from continuing operations $12.8 million or $1.22 per share, on revenue of $298.1 million.

<u>4Q22 Results</u>
Revenues increased 14.2% to $77.3 million due to a 16.6% increase in real estate segment sales to nearly $32 million and a 12.5% increase in professional staffing sales to $45.3 million and included a $1.4 million three week contribution from the Horn Solutions acquisition.

Gross profit increased 20.5% to $28.24 million reflecting higher revenue and gross margin expansion to 36% from 34.6% in the year-ago period.

Operating income decreased to nearly $3.6 million from $6.1 million in the year-ago period due primarily to SG&A expenses increasing to nearly $23.6 million compared to $16.5 million in 4Q21. The increase stems $4 million in annualized headcount costs for new roles, $500,000 in bonus accruals, and $265,000 in merger and acquisition costs related to the Horn Solutions acquisition.

Interest expense was $644,000 up from $406,000 stemming borrowings in 4Q22 to complete the acquisition of Horn Solutions, as well as higher interest rates compared to last year.

Income from continuing operations was $2.2 million or $0.21 per share compared to $4.3 million or $0.41 per share in 4Q21 (includes approximately $0.20 per share gain from a CARES Act credit).

<u>*Finances*</u>
In 2022, the company generated cash earnings of $14.6 million and had a $17.9 million increase in working capital and $3.8 million of cash used by discontinued operations. Cash from the sale of discontinued operations and borrowings did not cover cash used in operations of $7.1 million, capital investments, acquisition of Horn Solutions, and common stock dividends. Cash decreased by $112,104 to zero at the end of 2022.

Capital Structure

At the end of 2022, the company had total outstanding debt of $62.3 million, all of which is long-term except $4 million is short-term debt. The interest rate on the credit line was 6.7% compared to 2.8% last year. The company's $40 million of term debt had an interest rate of 6.7% compared term debt of 26.9% with an interest rate of 2.4%. The company's debt to equity ratio is 0.9 versus 1 for the industry, indicating that BGSF's leverage is in line with other staffing and outsourcing service companies. In 4Q22, 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.

We anticipate the company is likely to extend the maturity date of its credit agreement with it lender, therefore our balance sheet forecast anticipates an extension will likely occur.

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 should reach $216.8 billion in 2023, up from $212.8 billion in 2022. 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.

In January 2023, SIA issued an 8% growth forecast for the information technology segment of the US staffing industry.

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 has raised interest rates over the last year to cool employment growth and inflation. The Federal Reserve increase increased the Federal Funds interest rate to at least 4.50% to 4.75% after the most recent rate increase in February 2023. The Federal Reserve is expected to increase rates again at it March 2023 meeting. 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. However, if a banking crisis were to occur interest rate increases might turn into cuts or at the very least increased infusions of cash into the banking system.

Revenue concentration

In 2022, two states (Texas – 23% and Tennessee – 10%) accounted for 33% of the company's revenues compared to 35% (Texas – 23% and Tennessee – 12%) in 2021. 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 or declining US economic growth or an unprecedented halt to economic actively would likely reduce customer demand for workforce solutions. If demand for BGSF's services drops, operating profit will be negatively impacted.

Rebranding

In 1H23, management will implement a plan to rebrand itself as BGSF, eliminating various current trade names. The company could incur unanticipated costs as a result of the rebranding and may not be able to achieve or maintain brand name recognition. The failure of this initiative could adversely affect its ability to attract and retain client partners, which could cause a shortfall in the anticipated benefits contemplated by the rebranding. Also, the company is likely to record an impairment charge related to this rebranding of approximately $22.5 million.

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 12.9% of the outstanding voting stock (as of the SEC filing in March 2023). This group could potentially influence the outcome of matters requiring stockholder approval, which may or may not be in the best interests of the other shareholders.

Miscellaneous Risk

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

Trading Volume

During the last three months to March 17, 2023, average daily volume was 18,400 compared to average daily volume of 17,400 in 2022. The company has a float of 10 million shares and shares outstanding of approximately 10.8 million.

BGSF, Inc.
Consolidated Balance Sheets
FY2020 – FY2024E
(in thousands)

	2020 A	2021 A	2022 A	**2023 E**	**2024 E**
ASSETS					
Current assets:					
Cash and cash equivalents	$ -	$ 112	$ -	**$ -**	**$ -**
Accounts receivable, net	32,831	48,133	66,285	**75,021**	**79,211**
Prepaid expense and other current assets	2,155	2,346	2,418	**3,000**	**4,002**
Other current assets	-	2,381	7,459	**6,000**	**7,000**
Assets of discontinued operations	8,663	7,198	-	**-**	**-**
Total current assets	43,649	60,170	76,162	**84,021**	**90,213**
Property and equipment, net	3,464	4,331	2,081	**2,085**	**2,100**
Deposits an other assets	5,175	5,390	7,028	**8,000**	**9,000**
Right-of-use asset - operating lease, net	5,550	3,914	4,462	**4,500**	**3,500**
Deferred income taxes	5,828	4,548	2,196	**2,200**	**2,200**
Intangible assets, net	32,133	33,585	47,552	**41,923**	**28,611**
Goodwill	27,052	29,142	55,193	**55,193**	**55,193**
Noncurrent assets of discontinued operations	7,427	7,213	-	**-**	**-**
Total assets	$ 130,278	$ 148,294	$ 194,673	**$ 197,922**	**$ 190,817**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Debt	2,625	3,563	4,000	**4,000**	**4,000**
Accrued interest	78	102	273	**300**	**350**
Accounts payable	220	401	587	**550**	**525**
Accrued payroll and expenses	10,376	16,154	19,171	**18,500**	**17,500**
Current liabilities of discontinued operations	1,239	1,262	-	**-**	**-**
Contingent consideration	-	1,074	1,081	**-**	**-**
Lease liability	1,866	1,896	1,842	**2,000**	**2,500**
Other current liabilities	-	3,550	1,000	**1,000**	**1,000**
Taxes payable	1,861	382	253	**250**	**250**
Total current liabilities	18,264	28,384	28,207	**26,600**	**26,125**
Line of credit	5,709	12,588	22,302	**22,000**	**17,900**
Long-term debt	26,300	23,300	36,000	**32,000**	**28,000**
Convertible note	-	-	4,368	**4,368**	**4,368**
Lease liability	4,581	2,685	3,049	**4,030**	**5,500**
Other long-term liabilities and contingent consideration	9,643	4,555	10	**10**	**10**
Noncurrent liabilities of discontinued operations	323	190	-	**-**	**-**
Stockholders' equity:					
Common stock, $0.01 par value; authorized 19,500,000 shares;	74	66	70	**70**	**70**
Additional paid-in capital	60,457	61,875	67,003	**68,840**	**68,840**
Retained earnings (Deficit)	5,050	14,592	33,663	**40,003**	**40,003**
Accumulated other comprehensive loss	(123)	58	-	**-**	**-**
Total stockholders' equity	65,458	76,592	100,737	**108,914**	**108,914**
Total liabilities and stockholders' equity	$ 130,278	$ 148,294	$ 194,673	**$ 197,922**	**$ 190,817**
SHARES OUT	10,328	10,425	10,773	**10,800**	**10,900**

Note: Our 2023 forecast does not include the likelihood of a $22.5 million impairment charge related to the company's rebranding initiative.

Source: Company reports and Taglich Brothers estimates

BGSF, Inc.
Annual Income Statement
FY2020 – FY2024E
(in thousands)

	2020 A	2021 A	2022 A	**2023 E**	**2024 E**
Revenues	$ 207,125	$ 239,028	$ 298,422	**$ 346,250**	**$ 370,335**
Cost of services	141,086	158,087	194,874	**221,115**	**235,630**
Gross Profit	66,039	80,940	103,547	**125,135**	**134,705**
Operating Expenses:					
SG&A	55,244	65,115	83,211	**95,950**	**101,600**
Gain on contingent consideration	(76)	(2,403)	-	-	-
Impairment losses	7,240	-	-	-	-
Depreciation and amortization	4,861	3,698	4,053	**7,740**	**7,450**
Total Operating Expenses	67,268	66,411	87,265	**103,690**	**109,050**
Operating Income (loss)	(1,229)	14,530	16,283	**21,445**	**25,655**
Other income (expense)					
Extinguishment of debt	-	-	-	-	-
Interest expense	(1,584)	(1,433)	(1,363)	**(4,700)**	**(4,385)**
Total Other Income (expense)	(1,584)	(1,433)	(1,363)	**(4,700)**	**(4,385)**
Income (loss) before taxes	(2,813)	13,097	14,920	**16,745**	**21,270**
Income Tax Expense (Benefit)	(741)	2,640	3,659	**3,930**	**5,105**
Net Income (loss) - from continuing operations	(2,072)	10,457	11,261	**12,815**	**16,165**
Income (loss) from discontinued operations, net	3,513	3,652	1,235	-	-
Gain on sale of discontinued operations, net	-	-	12,865	-	-
Net Income (loss) includes discontinued operations	$ 1,441	$ 14,109	$ 25,361	**$ 12,815**	**$ 16,165**
Earnings (loss) per share - Continuing operations	$ (0.20)	$ 1.00	$ 1.07	**$ 1.16**	**$ 1.46**
Discontinued operations per share including sale	0.34	0.35	1.35	-	-
Net Income (loss) per share	$ 0.14	$ 1.35	$ 2.42	**$ 1.16**	**$ 1.46**
Dividend per share	$ 0.50	$ 0.44	$ 0.60	**$ 0.60**	**$ 0.60**
Avg Shares Outstanding	10,338	10,417	10,473	**11,053**	**11,073**
EBITDA - Adjusted from continuing operations	$ 13,760	$ 16,658	$ 21,693	**$ 30,385**	**$ 34,905**
Margin Analysis					
Gross margin	31.9%	33.9%	34.7%	**36.1%**	**36.4%**
SG&A	26.7%	27.2%	27.9%	**27.7%**	**27.4%**
Depreciation and amortization	2.3%	1.5%	1.4%	**2.2%**	**2.0%**
Operating margin	(0.6%)	6.1%	5.5%	**6.2%**	**6.9%**
Pre-tax margin	(1.4%)	5.5%	5.0%	**4.8%**	**5.7%**
Tax rate	26.3%	20.2%	24.5%	**23.5%**	**24.0%**
YEAR / YEAR GROWTH					
Total Revenues	(5.8%)	15.4%	24.8%	**16.0%**	**7.0%**

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

Note: Our 2023 forecast does not include the likelihood of a $22.5 million impairment charge related to the company's rebranding initiative.

Source: Company reports and Taglich Brothers estimates

BGSF, Inc.
Income Statement Model
Quarters FY2022A – 2024E
(in thousands)

	Q1 22 A	Q2 22 A	Q3 22 A	Q4 22 A	2022 A	Q1 23 E	Q2 23 E	Q3 23 E	Q4 23 E	**2023 E**	Q1 24 E	Q2 24 E	Q3 24 E	Q4 24 E	**2024 E**
Revenues	$ 68,542	$ 74,089	$ 78,508	$ 77,283	$ 298,422	$ 73,000	$ 86,000	$ 95,000	$ 92,250	**$ 346,250**	$ 79,000	$ 91,060	$ 102,500	$ 97,775	**$ 370,335**
Cost of services	45,111	49,030	50,508	50,225	194,874	46,680	54,940	60,600	58,895	**221,115**	50,635	57,975	64,895	62,125	**235,630**
Gross Profit	23,431	25,059	28,000	27,057	103,547	26,320	31,060	34,400	33,355	**125,135**	28,365	33,085	37,605	35,650	**134,705**
Operating Expenses:															
SG&A	19,716	19,898	20,386	23,211	83,211	23,250	23,500	24,200	25,000	**95,950**	24,500	25,100	25,500	26,500	**101,600**
Gain on contingent consideration	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	899	922	1,145	1,087	4,053	1,900	1,885	1,980	1,975	**7,740**	1,900	1,875	1,850	1,825	**7,450**
Total Operating Expenses	20,615	20,820	21,531	24,298	87,265	25,150	25,385	26,180	26,975	**103,690**	26,400	26,975	27,350	28,325	**109,050**
Operating Income (loss)	2,816	4,239	6,469	2,760	16,283	1,170	5,675	8,220	6,380	**21,445**	1,965	6,110	10,255	7,325	**25,655**
Other income (expense)															
Extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	(273)	(70)	(376)	(644)	(1,363)	(1,215)	(1,200)	(1,150)	(1,135)	**(4,700)**	(1,125)	(1,100)	(1,085)	(1,075)	**(4,385)**
Total Other Income (expense)	(273)	(70)	(376)	(644)	(1,363)	(1,215)	(1,200)	(1,150)	(1,135)	**(4,700)**	(1,125)	(1,100)	(1,085)	(1,075)	**(4,385)**
Income (loss) before taxes	2,542	4,170	6,093	2,116	14,920	(45)	4,475	7,070	5,245	**16,745**	840	5,010	9,170	6,250	**21,270**
Income Tax Expense (Benefit)	534	986	1,440	699	3,659	-	1,030	1,670	1,230	**3,930**	200	1,205	2,200	1,500	**5,105**
Net Income (loss) - from continuing operations	2,008	3,184	4,653	1,417	11,261	(45)	3,445	5,400	4,015	**12,815**	640	3,805	6,970	4,750	**16,165**
Income (loss) from discontinued operations, net	1,235	-	-	-	1,235	-	-	-	-	-	-	-	-	-	-
Gain on sale of discontinued operations, net	12,557	(7)	-	315	12,865	-	-	-	-	-	-	-	-	-	-
Net Income (loss) includes discontinued operations	$ 15,800	$ 3,176	$ 4,653	$ 1,732	$ 25,361	$ (45)	$ 3,445	$ 5,400	$ 4,015	**$ 12,815**	$ 640	$ 3,805	$ 6,970	$ 4,750	**$ 16,165**
Earnings (loss) per share - Continuing operations	$ 0.19	$ 0.30	$ 0.44	$ 0.13	$ 1.07	$ (0.00)	$ 0.31	$ 0.49	$ 0.36	**$ 1.16**	$ 0.06	$ 0.34	$ 0.63	$ 0.43	**$ 1.46**
Discontinued operations per share including sale	1.32	-	-	0.03	1.35	-	-	-	-	-	-	-	-	-	-
Net Income (loss) per share	$ 1.51	$ 0.30	$ 0.44	$ 0.16	$ 2.42	$ (0.00)	$ 0.31	$ 0.49	$ 0.36	**$ 1.16**	$ 0.06	$ 0.34	$ 0.63	$ 0.43	**$ 1.46**
Dividend per share	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.60	$ 0.15	$ 0.15	$ 0.15	$ 0.15	**$ 0.60**	$ 0.15	$ 0.15	$ 0.15	$ 0.15	**$ 0.60**
Avg Shares Outstanding	10,485	10,514	10,533	10,825	10,473	11,045	11,050	11,055	11,060	**11,053**	11,065	11,070	11,075	11,080	**11,073**
EBITDA - Adjusted from continuing operations	$ 3,926	$ 5,403	$ 8,031	$ 4,332	$ 21,693	$ 3,370	$ 7,860	$ 10,500	$ 8,655	**$ 30,385**	$ 4,315	$ 8,435	$ 12,555	$ 9,600	**$ 34,905**
Margin Analysis															
Gross margin	34.2%	33.8%	35.7%	35.0%	34.7%	36.1%	36.1%	36.2%	36.2%	**36.1%**	35.9%	36.3%	36.7%	36.5%	**36.4%**
SG&A	28.8%	26.9%	26.0%	30.0%	27.9%	31.8%	27.3%	25.5%	27.1%	**27.7%**	31.0%	27.6%	24.9%	27.1%	**27.4%**
Depreciation and amortization	1.3%	1.2%	1.5%	1.4%	1.4%	2.6%	2.2%	2.1%	2.1%	**2.2%**	2.4%	2.1%	1.8%	1.9%	**2.0%**
Operating margin	4.1%	5.7%	8.2%	3.6%	5.5%	1.6%	6.6%	8.7%	6.9%	**6.2%**	2.5%	6.7%	10.0%	7.5%	**6.9%**
Pre-tax margin	3.7%	5.6%	7.8%	2.7%	5.0%	(0.1%)	5.2%	7.4%	5.7%	**4.8%**	1.1%	5.5%	8.9%	6.4%	**5.7%**
Tax rate	21.0%	23.6%	23.6%	33.0%	24.5%	0.0%	23.0%	23.6%	23.5%	**23.5%**	23.8%	24.1%	24.0%	24.0%	**24.0%**
YEAR / YEAR GROWTH															
Total Revenues	37.8%	29.1%	22.3%	14.2%	24.8%	6.5%	16.1%	21.0%	19.4%	**16.0%**	8.2%	5.9%	7.9%	6.0%	**7.0%**

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

Note: Our 2023 forecast does not include the likelihood of a $22.5 million impairment charge related to the company’s rebranding initiative.

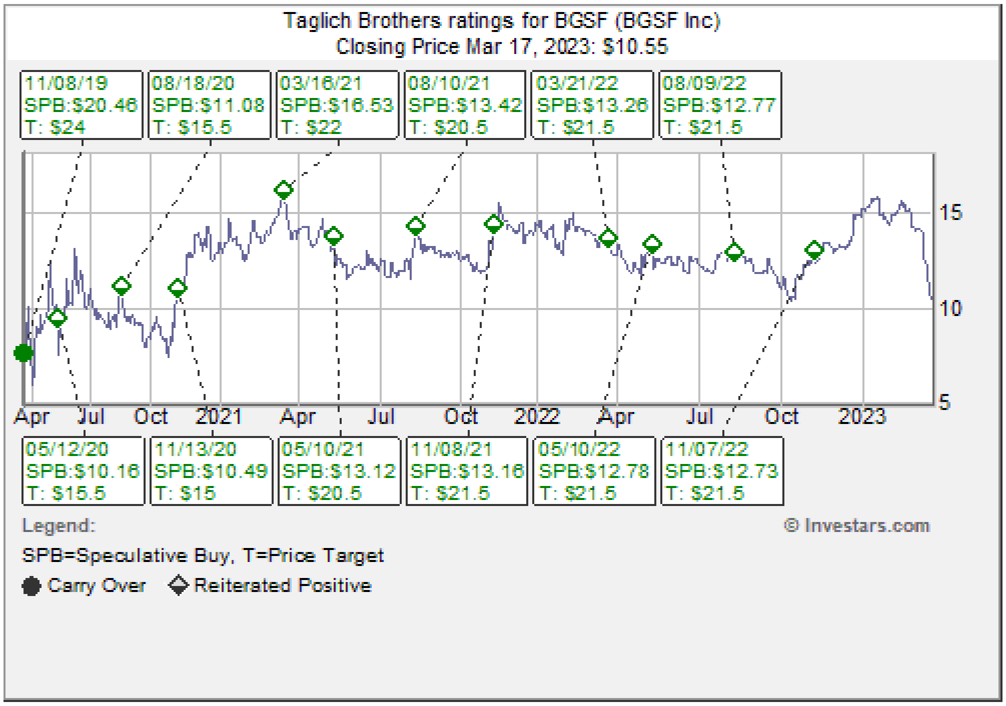
Source: Company reports and Taglich Brothers estimates

BGSF, Inc.
Cash Flow Statement
FY2020 – FY2024E
(in thousands)

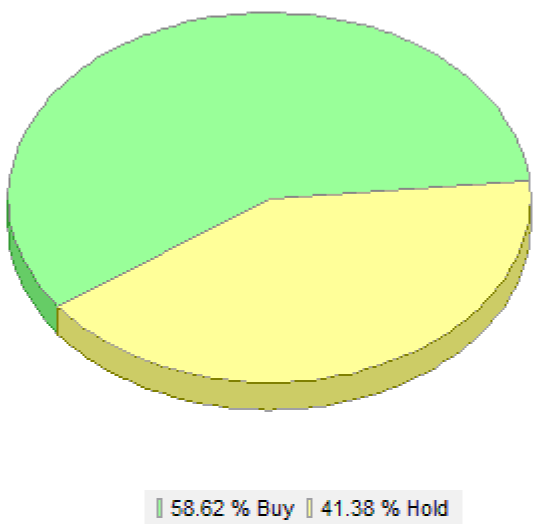
	FY2020A	FY2021A	FY2022A	**FY2023E**	**FY2023E**
Cash Flows from Operating Activities					
Net Income (loss)	$ 1,441	$ 14,109	$ 25,361	**$ 12,815**	**$ 16,165**
(Income) from discontinued operations, net of tax	(3,513)	(3,652)	(1,235)	-	-
Depreciation and amortization	4,861	3,698	4,053	**7,740**	**7,450**
Gain on sale of discontinued operations	-	-	(17,675)	-	-
Impairment losses	7,240	-	-	-	-
CARES Act credit	-	(2,368)	-	-	-
Disposal of property and equipment	-	8	6	-	-
Extinguishment of related party debt and debt	-	-	-	-	-
Contingent considerationt adjustment	(76)	(2,403)	-	-	-
Amortization of defered financing costs	83	75	172	**200**	**200**
Interest expense on earnout payable	190	252	128	**75**	**75**
Provision for doubtful accounts	349	221	315	**350**	**350**
Stock based compensation	786	1,058	1,085	**1,300**	**1,350**
Deferred income taxes	(2,413)	1,279	2,353	**1,500**	**1,250**
Cash earnings (burn)	8,947	12,279	14,562	**23,980**	**26,840**
Changes In:					
Accounts receivable	5,026	(15,178)	(14,793)	**(8,736)**	**(4,190)**
Prepaid expenses and other	(855)	(201)	(866)	**(582)**	**(1,002)**
Other current assets	(916)	319	661	**1,459**	**(1,000)**
Deposits and other	(209)	(126)	1,503	**(972)**	**(1,000)**
Accrued interest	5	24	171	**(27)**	**(50)**
Accounts payable	(279)	156	(228)	**37**	**25**
Accrued payroll and expenses	(1,342)	5,730	1,633	**(671)**	**(1,000)**
Other current and long-term liabilities - includes Contingent Consideration	7,216	(59)	(4,613)	**(1,081)**	-
Operating leases	213	(107)	(127)	-	-
Accrued taxes	1,875	(1,479)	60	**(3)**	-
Net (increase)/decrease in Working Capital	10,733	(10,921)	(17,862)	**(10,577)**	**(8,217)**
Net cash provided (used) by continuing operating activities	19,680	1,358	(3,300)	**13,403**	**18,623**
Net cash provided (used) by discontinued operating activities	2,577	5,306	(3,822)	-	-
Net cash provided (used) by operating activities	22,257	6,663	(7,122)	**13,403**	**18,623**
Cash Flows from Investing Activities					
Business acquired, net of cash received	(22,002)	(3,791)	(33,940)	-	-
Captial expenditures	(2,076)	(3,204)	(5,680)	**(4,000)**	**(3,500)**
Business sold	-	-	30,722	**2,000**	-
Proceeds from sale of property and equipment	-	5	-	-	-
Net cash used in continuing investing activities	(24,078)	(6,990)	(8,898)	**(2,000)**	**(3,500)**
Net cash used in discontinued investing activities	(69)	(35)	(26)	-	-
Net cash used in investing activities	(24,147)	(7,024)	(8,924)	**(2,000)**	**(3,500)**
Cash Flows from Financing Activities					
Borrowings (net) under line of credit	(14,368)	6,804	9,781	**(405)**	**(4,100)**
Proceeds from issuance of long-term debt	22,500	-	40,000	**(4,000)**	**(4,000)**
Principal payments on long-term debt	(1,075)	(2,063)	(26,863)	-	-
Issuance of common stock	(12)	(41)	(1)	-	-
Issuance of ESSP shares	-	340	654	**537**	**537**
Contingent consideration paid	-	-	(1,110)	**(1,060)**	**(1,060)**
Dividends	(5,155)	(4,567)	(6,290)	**(6,475)**	**(6,500)**
Deferred financing and share issuance costs	-	-	(238)	-	-
Net cash provided (used) by Financing	1,890	473	15,934	**(11,403)**	**(15,123.3)**
Net change in Cash	-	112	(112)	-	-
Cash Beginning of Period	-	-	112	-	-
Cash End of Period	-	$ 112	-	**$ -**	**$ -**

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	4	20
Hold		
Sell		
Not Rated		

Important Disclosures

As of March 17, 2023, 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 463,171 shares of BGSF common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 520,435 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.