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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 $9.33 — (NYSE MKT)

May 15, 2023

	2021 A*	2022 A	*2023 E*	*2024 E*
Revenues (in millions)	$239.0	$298.4	***$335.2***	***$358.8***
Earnings per share	$0.80**	$1.07	***$1.19****	***$1.46***

52-Week range	$16.02 – $9.20	Fiscal year ends:	December
Shares outstanding a/o 05/08/23	10.8 million	Revenue/shares (ttm)	$28.67
Approximate float	10.0 million	Price/Sales (ttm)	0.3X
Market Capitalization	$100.8 million	Price/Sales (2024) E	0.3X
Tangible Book value/shr	$0.38	Price/Earnings (ttm)***	9.9X
Price/Book	24.6X	Price/Earnings (2024) E	6.4X
Annual dividend per share	$0.60	Dividend Yield	6.4%

** Restated for discontinued light industrial operations (sold in 1Q22) ** Excludes $0.20 per share in one-time gains net of one-time charges *** Excludes after-tax charges of approximately ($1.66) per share related to impairment of trade names and transaction related fees to acquire Horn Solution and Arroyo Consulting in 1H23 – see page 11 for quarterly breakdown*

BGSF, Inc., headquartered in Plano, Texas, provides consulting, managed services, and professional workforce solutions to a variety of industries through its various divisions in information technology, cyber, finance and accounting, managed services, and real estate (apartment communities and commercial buildings).

Key Investment Considerations:

Maintaining Speculative Buy rating and 12-month price target of $18.25 per share.

BGSF has positioned its professional and real estate segments to grow operations through 2024. For 2023, consulting firm Staffing Industry Analysts (in their April 2023 report) anticipates the US staffing industry is likely to decrease by approximately 3% to $211.8 billion in 2023 with growth of 2% anticipated for 2024. In 2022, the industry grew 16.6% to $218 billion from $186.9 billion in 2021.

In 2Q23, BGSF acquired Arroyo Consulting that specializes in IT and software development with operations in the US, Colombia, and India. In 2022, Arroyo reported unaudited revenues of approximately $16.2 million.

In 1Q23, the operations of Horn Solutions (acquired in 4Q22) contributed $6.8 million to revenue. We project Horn should contribute revenue of at least $26 million to the company's professional staffing segment.

BGSF reported (on 05-11-23) a 1Q23 loss per share of ($1.54) on a 9.9% increase in revenues to $75.3 million. Excluding charges of ($1.61) per share, BGSF would have reported EPS of $0.07. In 1Q22, EPS from continuing operations was $0.19 on revenue of $68.5 million. We projected revenue of $73 million and a breakeven bottom line.

In 2023, we forecast excluding charges EPS of $1.19 (prior was $1.16) on revenue growth of 12.3% to $335.2 million (prior was $346.3 million). Our forecasts reflect 1Q23 results, the acquisitions of Horn and Arroyo, as well as the forecasted decline in industry revenues that should impact BGSF's professional staffing segment.

In 2024, we forecast EPS of $1.46 (unchanged) on revenue growth of 7% (unchanged) to $358.8 million. Our EPS forecast reflects operating expense margin improving to an estimated 29.1% from an estimated 30.1% in 2023, as well as gross margin of 36.4%, up from an estimated 36.1% in 2023.

Please view our Disclosures on pages 13 – 15.

Appreciation Potential

Maintaining Speculative Buy and our 12-month price target of $18.25 per share. 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 the acquisitions of Horn Solutions and Arroyo Consulting, in 4Q22 and 2Q23 respectively, that provide solid gross margin and the ability to cross-sell their offering into BGSF's existing customers.

We forecast gross profit growth of 7.9% in 2024 compared to 16.7% 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) have a forward P/E multiple of 13.8X (unchanged) with a 16% EPS growth rate. Based on our 2024 forecast, BGSF's P/E multiple is 6.4X (prior was 7.2X) with EPS growth of 22.7% to $1.46 per share (unchanged) from an estimated $1.19 per share in 2023.

We anticipate investors are likely to accord BGSF the peer group multiple based on its estimated 2024 EPS growth. We applied a 13.8X multiple (unchanged) 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 6.4% dividend yield) year-ahead return in excess of 100%.

Overview

BGSF, Inc., headquartered in Plano, Texas, is a national provider of consulting, managed services, and professional workforce solutions to a variety of industries through its various divisions in information technology, cyber, finance and accounting, managed services, and real estate (apartment communities and commercial buildings). 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 provides specialized talent and business consultants on a nationwide basis for information technology, finance, accounting, legal, and human resources and operates through three divisions, information technology, managed services, and finance and accounting.

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 was on 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%.

In April 2023, BGSF acquired Arroyo Consulting a nearshore/offshore professional workforce solutions firm that specializes in information technology and software development with operations in the US, Colombia, and India, for an initial purchase price of $8 million cash. At closing the company paid $6.8 million in cash as the reminder was held back and is subject to potential adjustments. Term also include the potential for the sell to obtain earn-out payments of up to $8.5 million, provided certain agreed upon performance targets are met over a two-year period.

The acquisition of Arroyo Consulting adds global delivery capabilities, expands the company's presence into Latin America and India, recruitment and retention of information technology talent, as well as providing strategic pricing flexibility. In 2022, Arroyo reported unaudited revenues of approximately $16.2 million.

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, the 4Q22 acquisition of Horn Solutions, Inc., and the 2Q23 acquisition of Arroyo Consulting.

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 2Q23, 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 anticipate 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.

Acquisitions

The 4Q22 acquisition of Horn Solutions, Inc. contributed $6.8 million to revenue in 1Q23. We estimate for 2022, Horn Solutions should contribute revenue of at least $26 million to the company's professional staffing segment while providing gross margin exceeding 40%. The 2Q23 acquisition of Arroyo Consulting should contribute at least $11 million to top line results in 2023. 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 acquisitions of Horn Solutions and Arroyo Consulting. 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.

In 1Q23, the company recorded a non-cash charge of $22.5 million ($16.9 million after-tax or $1.58 per diluted share) related to the impairment of trade name intangible assets from the re-branding to BGSF for all entities.

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

Economy
In April 2023, the International Monetary Fund (IMF) revised its economic growth estimate for the US to an increase of 1.6% for 2023 and 1.1% for 2024. In January 2022, the IMF projected US economic growth of 1.2% and 1.4% for 2023 and 2024, respectively. The IMF's forecast reflects a reduced inflation outlook.

The advance estimate of US GDP growth (released on April 27, 2023) showed the US economy increased at an annual rate of 1.1% in 1Q23, down from growth of 2.6% reported for 4Q22. The 1Q23 US GDP estimate reflects increases in consumer spending, exports, federal government spending, state and local government spending, and nonresidential fixed investment, partly offset by decreases in private inventory investment and residential fixed investment.

The unemployment rate for April 2023 (reported on May 5, 2023) was 3.4% compared to the peak unemployment rate of 14.7% in April 2020. In April 2023, unemployed people in the US were approximately 5.9 million, which down from 5.9 million in February 2023 and 6 million last year. In April 2023, the number of employed totaled 161 million and the labor force participation rate was 62.6% compared to 62.2% last year. In April 2023, employment in temporary help services trended down by 23,000 compared to March 2023 and has declined by 174,000 since its peak in March 2022.

In March 2023, the Federal Reserve Board issued a forecast that calls for a US unemployment rate in 2023 and 2024 of 4.5% and 4.6%, respectively compared to 4.6% in each period from its December 2022 forecast.

Operations
In 2023, we project revenue growth of 12.3% to $335.2 million (prior was $346.3 million). Our forecast reflects 1Q23 results, the 4Q22 acquisition of Horn Solutions, Inc. and 2Q23 acquisition of Arroyo Consulting, and growth within the company's real estate segment. We anticipate the company's real estate segment should experience growth of 11.5% to $135.1 million (prior was $136.3 million) and professional services should grow by 12.9% to $200 million (prior was $210 million). We adjusted professional services revenue as the contribution from the two acquisitions will be muted by the anticipated industry slowdown predicted by consulting firm Staffing Industry Analysts for 2023.

We project a 16.7% increase in gross profit to $120.9 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 40.2% compared to 39.4% in 2022. The professional services segment should deliver gross margin of 33.3% compared to 31.5% in 2022. We anticipate operating income (excluding approximately $22.8 million in impairment and transaction fee charges) increasing 25% to $20.4 million from $16.3 million due to revenue growth and gross margin expansion, partly offset by operating margin expense increasing to 30.1% (excluding items) from 29.2% in 2022.

We forecast operating expense (excluding items) increasing 15.2% to $100.5 million compared to $87.3 million in 2022. We project a 12.9% increase in SG&A to $94 million to support sales growth and higher compensation costs related to promotions made during 4Q22. D&A expense should increase to $6.8 million from $4.1 million in 2022 due to the Horn Solutions and Arroyo Consulting acquisitions.

We project interest expense of nearly $5 million compared to $1.4 million reflecting increased borrowings to complete two acquisitions and issuance of a $4.4 million promissory note to acquire Horn Solutions, as well as higher average interest rates.

We forecast a net loss of $5.2 million or ($0.47), after applying an income tax benefit of $2.2 million for an annual tax rate of 29.6%. Our forecast includes charges of approximately ($1.66) per share related to impairment of trade names and transaction fees related to the acquisition of Horn and Arroyo. Excluding the charges, we project EPS of approximately $1.19, compared to our prior EPS forecast of $1.16.

In 2024, we project revenue growth of 7% (unchanged) to $358.8 million (prior was $370.3 million). Our forecast does not include potential acquisitions in the company's professional staffing segment. Our forecast reflects the anticipated industry decrease in professional services in 2023. However, anticipate the company's real estate and professional services segments should experience overall growth as the company executes on its growth plan. We anticipate real estate segment growth of 11.6% to $150.8 million and professional services growth of 3.9% to $208 million.

We project a 7.9% increase in gross profit to $130.4 million driven by gross margin improvement to 36.4% from an estimated 36.1% in 2023. We anticipate operating income increasing 19.6% to $25.9 million from an estimated $20.4 million (excludes approximately $22.8 million in impairment and transaction fee charges) due to revenue growth, gross margin expansion, and operating margin expense improving to 29.1% from an estimated 30.1% in 2023 (excludes items).

We forecast operating expense increasing 4% to $104.5 million compared to an estimated $100.5 million (excludes items) in 2023. We project a 4.2% increase in SG&A to $97.9 million to support sales growth. D&A expense should decrease to $6.6 million from an estimated $6.8 million in 2023.

We project interest expense of $4.7 million compared to $5 million reflecting higher average interest rates, partly offset by a lower average debt balance.

We are maintaining our net income forecast of $16.3 million or $1.46 per share, after income tax expense of $5 million for an income tax rate of 23.5%.

Finances

For 2023, we project cash earnings of nearly $21 million and an increase in working capital of $986,000. Cash from operations of $20 million and borrowings used to acquire Arroyo Consulting 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 $26.1 million and an increase in working capital of $440,000. Cash from operations of $25.6 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.

1Q23 Results

1Q23 Results

Revenues increased 9.9% to $75.3 million from $68.5 million in the year-ago period due to a 9.6% increase in real estate segment sales to $28.4 million and a 10.1% increase in the professional staffing revenue to $46.9 million. The year-ago period reflects company recording its light industrial segment as a discontinued operation in 1Q22.

The 9.9% or $2.5 million increase in real estate segment sales was due primarily to a 13% increase in the average bill rate, partly offset by a 3% decrease in billed hours.

The 10.1% or $4.3 million increase in professional staffing segment sales reflects a $6.8 million contribution from the 4Q22 acquisition of Horn Solutions, which was partly offset by a $2.5 million or 5.9% decrease in the company other professional staffing operations.

Gross profit increased 14.3% to $26.8 million reflecting gross margin expansion to 35.6% from 34.2% in the year-ago period. The gross profit improvement reflects real estate segment gross margin of 39.9%, up from 38.5% in 1Q22 with professional staffing's gross margin improving to 32.9%, up from 31.6% last year.

Operating expenses increased 19.6% to $24.7 million (excludes approximately $22.9 million in one-time charges related to impairment of trade names and acquisition related transaction fees) from $20.6 million due to a $3.5 million increase in SG&A to $23.2 million. The increase in SG&A expense reflects higher compensation costs and the inclusion of Horn Solutions that was acquired in 4Q22. D&A expense increased to $1.8 million from $899,000 in 1Q22. The increase in D&A expense stems from the company's information technology improvement projects and assets acquired from Horn Solutions.

Operating income (excluding items) decreased to $2.1 million compared to $2.8 million in 1Q22. The decrease in operating income was due primarily to operating expense margin increasing to 32.7% from 30.1% in the year-ago period, partly offset by revenue growth and gross margin expansion.

Interest expense was $1.2 million, up from $273,000 stemming from debt use to acquire Horn Solutions, higher interest rates, and a higher average balance on the company's revolving facility.

Net income (excluding items) was approximately $753,000 or $0.07 per share compared to income from continuing operations of $2 million or $0.19 per share in 1Q22. Including items the company reported a loss of $16.5 million or ($1.54) per share. Excluding items, we projected a net loss of $45,000 or breakeven per share on revenue of $73 million.

Finances

In 1Q23, the company's had cash earnings of $3.2 million and a $788,000 decrease in working capital. Cash from operations of $3.9 million covered capital investments, repayment of term debt, and common stock dividends. Cash increased from zero to $79,000 at the end of 1Q23.

Capital Structure

At the end of 1Q23, the company had total outstanding debt of $60.7 million, all of which is long-term except $4 million is short-term debt. The interest rate on the credit line was 6.8% compared to nearly 4.3% last year. The company's $40 million of term debt had an interest rate of 6.7%. In the year-ago period, the company had no outstanding term debt. The company's debt to equity ratio is 1.1 versus 1 for the industry, indicating that BGSF's leverage is in line with other staffing and outsourcing service companies. In 1Q23, the company was in compliance with all of its financial covenants.

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, which was done in connection with the Horn Solutions acquisition in 4Q22. 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 its lender, therefore our balance sheet forecast anticipates an extension will likely occur.

On April 24, 2023, in connection with the acquisition of Arroyo Consulting, BGSF entered into the Third Credit Amendment with BMO that revised language to permit an acquisition of a foreign entity. Also, the company increased its borrowing by $6.8 million in order to paid cash at closing for the acquisition of Arroyo.

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 April 2023, Staffing Industry Analysts (SIA) issued its forecast for the US staffing industry indicating that industry revenue should decrease by approximately 3% to $211.8 billion in 2023 compared to $218 billion in 2022. The reduced forecast comes after the industry experienced growth of 16.6% in 2022.

In April 2023, SIA issued its initial growth forecast for 2024 of 2% for 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 5% to 5.25% after the most recent rate increase in May 2023. The Federal Reserve may or may not increase rates again at its next meeting. If economic growth and inflation warrant, interest rates could 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 1Q23, two states (Texas – 23% and Tennessee – 10%) accounted for 33% of the company's revenues compared to 35% (Texas – 23% and Tennessee – 12%) in 1Q22. 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 1Q23, management implemented 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.

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 May 12, 2023, average daily volume was 24,600 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	1Q23A	**2023 E**	**2024 E**
ASSETS						
Current assets:						
Cash and cash equivalents	$ -	$ 112	$ -	$ 70	**$ -**	**$ -**
Accounts receivable, net	32,831	48,133	66,285	62,540	**65,009**	**71,285**
Prepaid expense and other current assets	2,155	2,346	2,418	3,202	**3,000**	**4,002**
Other current assets	-	2,381	7,459	6,569	**6,500**	**7,000**
Assets of discontinued operations	8,663	7,198	-	-	**-**	**-**
Total current assets	43,649	60,170	76,162	72,381	**74,509**	**82,287**
Property and equipment, net	3,464	4,331	2,081	1,249	**1,300**	**1,295**
Deposits an other assets	5,175	5,390	7,028	7,823	**7,823**	**8,000**
Right-of-use asset - operating lease, net	5,550	3,914	4,462	3,996	**3,996**	**3,996**
Deferred income taxes	5,828	4,548	2,196	7,388	**7,388**	**7,388**
Intangible assets, net	32,133	33,585	47,552	23,410	**29,325**	**25,000**
Goodwill	27,052	29,142	55,193	55,635	**55,635**	**55,635**
Noncurrent assets of discontinued operations	7,427	7,213	-	-	**-**	**-**
Total assets	$ 130,278	$ 148,294	$ 194,673	$ 171,882	**$ 179,976**	**$ 183,601**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Debt	2,625	3,563	4,000	4,000	**4,000**	**4,000**
Accrued interest	78	102	273	171	**400**	**350**
Accounts payable	220	401	587	551	**600**	**625**
Accrued payroll and expenses	10,376	16,154	19,171	16,157	**18,500**	**17,500**
Current liabilities of discontinued operations	1,239	1,262	-	-	**-**	**-**
Contingent consideration	-	1,074	1,081	1,102	**-**	**-**
Lease liability	1,866	1,896	1,842	1,703	**1,703**	**2,893**
Other current liabilities	-	3,550	1,000	1,000	**1,000**	**1,000**
Taxes payable	1,861	382	253	302	**302**	**302**
Total current liabilities	18,264	28,384	28,207	24,986	**26,505**	**26,670**
Line of credit	5,709	12,588	22,302	21,697	**21,302**	**17,202**
Long-term debt	26,300	23,300	36,000	35,000	**32,800**	**28,800**
Convertible note	-	-	4,368	4,368	**4,368**	**4,368**
Lease liability	4,581	2,685	3,049	2,662	**4,030**	**5,220**
Other long-term liabilities and contingent consideration	9,643	4,555	10	10	**10**	**8,500**
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**	**70**
Additional paid-in capital	60,457	61,875	67,003	67,509	**68,933**	**70,813**
Retained earnings (Deficit)	5,050	14,592	33,663	15,579	**21,957**	**21,957**
Accumulated other comprehensive loss	(123)	58	-	-	**-**	**-**
Total stockholders' equity	65,458	76,592	100,737	83,158	**90,961**	**92,841**
Total liabilities and stockholders' equity	$ 130,278	$ 148,294	$ 194,673	$ 171,881	**$ 179,976**	**$ 183,601**
SHARES OUT	10,328	10,425	10,773	10,806	**10,835**	**10,900**

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	**$ 335,166**	**$ 358,750**
Cost of services	141,086	158,087	194,874	**214,277**	**228,325**
Gross Profit	66,039	80,940	103,547	**120,889**	**130,425**
Operating Expenses:					
SG&A	55,244	65,115	83,212	**93,962**	**97,900**
Gain on contingent consideration	(76)	(2,403)	-	-	-
Impairment losses	7,240	-	-	**22,545**	-
Depreciation and amortization	4,861	3,698	4,053	**6,827**	**6,620**
Total Operating Expenses	67,268	66,411	87,265	**123,334**	**104,520**
Operating Income (loss)	(1,229)	14,530	16,282	**(2,445)**	**25,905**
Other income (expense)					
Interest expense	(1,584)	(1,433)	(1,362)	**(4,955)**	**(4,650)**
Total Other Income (expense)	(1,584)	(1,433)	(1,362)	**(4,955)**	**(4,650)**
Income (loss) before taxes	(2,813)	13,097	14,920	**(7,400)**	**21,255**
Income Tax Expense (Benefit)	(741)	2,640	3,659	**(2,194)**	**4,990**
Net Income (loss) - from continuing operations	(2,072)	10,457	11,261	**(5,206)**	**16,265**
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	**$ (5,206)**	**$ 16,265**
Earnings (loss) per share - Continuing operations	$ (0.20)	$ 1.00	$ 1.07	**$ (0.47)**	**$ 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	**$ (0.47)**	**$ 1.46**
Dividend per share	$ 0.50	$ 0.44	$ 0.60	**$ 0.60**	**$ 0.60**
Avg Shares Outstanding	10,338	10,417	10,473	**11,011**	**11,123**
EBITDA - Adjusted from continuing operations	$ 13,760	$ 16,658	$ 21,692	**$ 28,657**	**$ 34,325**
Margin Analysis					
Gross margin	31.9%	33.9%	34.7%	**36.1%**	**36.4%**
SG&A	26.7%	27.2%	27.9%	**28.0%**	**27.3%**
Depreciation and amortization	2.3%	1.5%	1.4%	**2.0%**	**1.8%**
Operating margin	(0.6%)	6.1%	5.5%	**(0.7%)**	**7.2%**
Pre-tax margin	(1.4%)	5.5%	5.0%	**(2.2%)**	**5.9%**
Tax rate	26.3%	20.2%	24.5%	**29.6%**	**23.5%**
YEAR / YEAR GROWTH					
Total Revenues	(5.8%)	15.4%	24.8%	**12.3%**	**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
Or 2023 forecast includes approximately ($1.66) per share impairment charge related to the company's rebranding initiative and transaction related fees.

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 A	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	$ 75,316	$ 81,000	$ 90,500	$ 88,350	**$ 335,166**	$ 80,500	$ 89,250	$ 96,000	$ 93,000	**$ 358,750**
Cost of services	45,111	49,030	50,508	50,225	194,874	48,532	51,915	57,540	56,290	**214,277**	51,490	56,830	60,845	59,160	**228,325**
Gross Profit	23,431	25,059	28,000	27,057	103,547	26,784	29,085	32,960	32,060	**120,889**	29,010	32,420	35,155	33,840	**130,425**
Operating Expenses:															
SG&A	19,717	19,898	20,386	23,211	83,212	23,212	23,400	23,750	23,600	**93,962**	23,500	24,250	25,250	24,900	**97,900**
Impairment losses	-	-	-	-	-	22,545	-	-	-	**22,545**	-	-	-	-	**-**
Depreciation and amortization	899	922	1,145	1,087	4,053	1,757	1,700	1,690	1,680	**6,827**	1,670	1,660	1,650	1,640	**6,620**
Total Operating Expenses	20,616	20,820	21,531	24,298	87,265	47,514	25,100	25,440	25,280	**123,334**	25,170	25,910	26,900	26,540	**104,520**
Operating Income (loss)	2,815	4,239	6,469	2,760	16,282	(20,730)	3,985	7,520	6,780	**(2,445)**	3,840	6,510	8,255	7,300	**25,905**
Other income (expense)															
Interest expense	(273)	(70)	(376)	(644)	(1,362)	(1,200)	(1,280)	(1,275)	(1,200)	**(4,955)**	(1,180)	(1,165)	(1,155)	(1,150)	**(4,650)**
Total Other Income (expense)	(273)	(70)	(376)	(644)	(1,362)	(1,200)	(1,280)	(1,275)	(1,200)	**(4,955)**	(1,180)	(1,165)	(1,155)	(1,150)	**(4,650)**
Income (loss) before taxes	2,542	4,170	6,093	2,116	14,920	(21,930)	2,705	6,245	5,580	**(7,400)**	2,660	5,345	7,100	6,150	**21,255**
Income Tax Expense (Benefit)	534	986	1,440	699	3,659	(5,464)	610	1,405	1,255	**(2,194)**	625	1,255	1,665	1,445	**4,990**
Net Income (loss) - from continuing operations	2,008	3,184	4,653	1,417	11,261	(16,466)	2,095	4,840	4,325	**(5,206)**	2,035	4,090	5,435	4,705	**16,265**
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	$ (16,466)	$ 2,095	$ 4,840	$ 4,325	**$ (5,206)**	$ 2,035	$ 4,090	$ 5,435	$ 4,705	**$ 16,265**
Earnings (loss) per share - Continuing operations	$ 0.19	$ 0.30	$ 0.44	$ 0.13	$ 1.07	$ (1.54)	$ 0.19	$ 0.44	$ 0.39	**$ (0.47)**	$ 0.18	$ 0.37	$ 0.49	$ 0.42	**$ 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	$ (1.54)	$ 0.19	$ 0.44	$ 0.39	**$ (0.47)**	$ 0.18	$ 0.37	$ 0.49	$ 0.42	**$ 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	10,712	11,100	11,110	11,120	**11,011**	11,115	11,120	11,125	11,130	**11,123**
EBITDA - Adjusted from continuing operations	$ 3,925	$ 5,403	$ 8,031	$ 4,332	$ 21,692	$ 4,252	$ 6,035	$ 9,560	$ 8,810	**$ 28,657**	$ 5,960	$ 8,620	$ 10,355	$ 9,390	**$ 34,325**
Margin Analysis															
Gross margin	34.2%	33.8%	35.7%	35.0%	34.7%	35.6%	35.9%	36.4%	36.3%	**36.1%**	36.0%	36.3%	36.6%	36.4%	**36.4%**
SG&A	28.8%	26.9%	26.0%	30.0%	27.9%	30.8%	28.9%	26.2%	26.7%	**28.0%**	29.2%	27.2%	26.3%	26.8%	**27.3%**
Depreciation and amortization	1.3%	1.2%	1.5%	1.4%	1.4%	2.3%	2.1%	1.9%	1.9%	**2.0%**	2.1%	1.9%	1.7%	1.8%	**1.8%**
Operating margin	4.1%	5.7%	8.2%	3.6%	5.5%	(27.5%)	4.9%	8.3%	7.7%	**(0.7%)**	4.8%	7.3%	8.6%	7.8%	**7.2%**
Pre-tax margin	3.7%	5.6%	7.8%	2.7%	5.0%	(29.1%)	3.3%	6.9%	6.3%	**(2.2%)**	3.3%	6.0%	7.4%	6.6%	**5.9%**
Tax rate	21.0%	23.6%	23.6%	33.0%	24.5%	24.9%	22.6%	22.5%	22.5%	**29.6%**	23.5%	23.5%	23.5%	23.5%	**23.5%**
YEAR / YEAR GROWTH															
Total Revenues	37.8%	29.1%	22.3%	14.2%	24.8%	9.9%	9.3%	15.3%	14.3%	**12.3%**	6.9%	10.2%	6.1%	5.3%	**7.0%**

1Q23 and FY23 includes an impairment charge and transaction fees of ($1.61) per share and ($1.66), respectively.

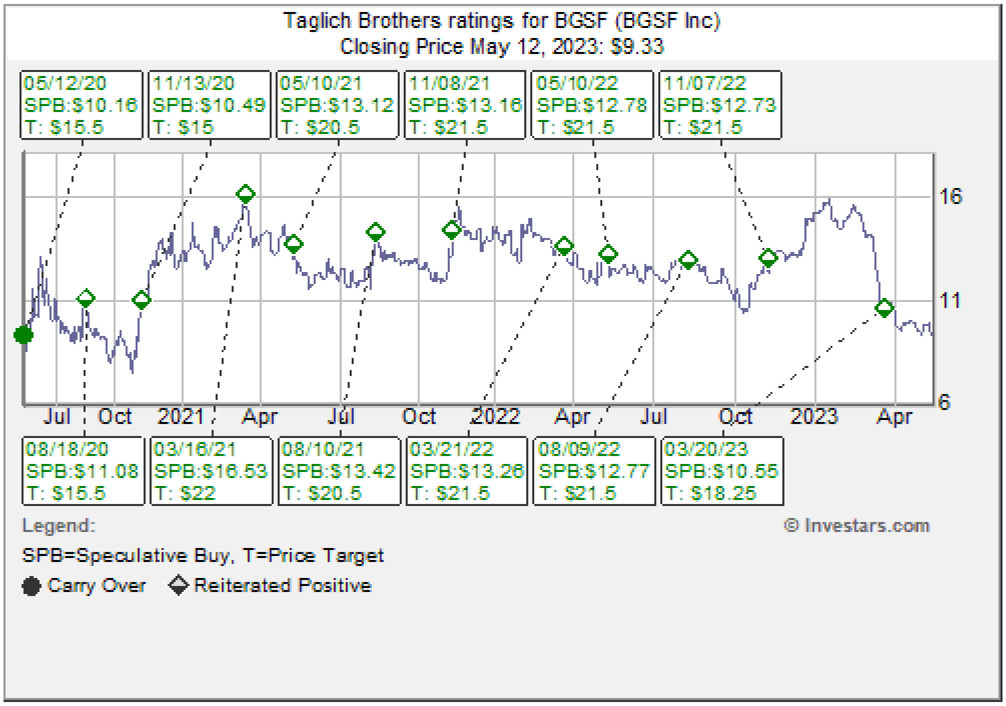
Source: Company reports and Taglich Brothers estimates

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

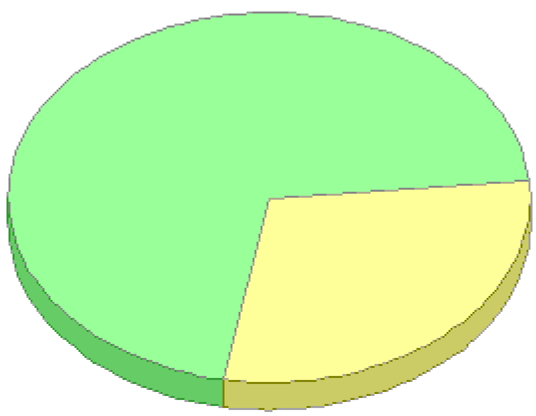
	FY2020A	FY2021A	FY2022A	1Q23A	**FY2023E**	**FY2024E**
Cash Flows from Operating Activities						
Net Income (loss)	$ 1,441	$ 14,109	$ 25,361	$ (16,466)	**$ (5,206)**	**$ 16,265**
(Income) from discontinued operations, net of tax	(3,513)	(3,652)	(1,235)	-	**-**	**-**
Depreciation and amortization	4,861	3,698	4,053	1,757	**6,827**	**6,620**
Gain on sale of discontinued operations	-	-	(17,675)	-	**-**	**-**
Impairment losses	7,240	-	-	22,545	**22,545**	**-**
CARES Act credit	-	(2,368)	-	-	**-**	**-**
Disposal of property and equipment	-	8	6	-	**-**	**-**
Contingent considerationt adjustment	(76)	(2,403)	-	-	**-**	**-**
Amortization of defered financing costs	83	75	172	46	**200**	**200**
Interest expense on earnout payable	190	252	128	22	**90**	**75**
Provision for doubtful accounts	349	221	315	79	**350**	**350**
Stock based compensation	786	1,058	1,085	361	**1,350**	**1,300**
Deferred income taxes	(2,413)	1,279	2,353	(5,193)	**(5,193)**	**1,250**
Cash earnings (burn)	8,947	12,279	14,562	3,151	**20,963**	**26,060**
Changes In:						
Accounts receivable	5,026	(15,178)	(14,793)	3,666	**1,276**	**(6,276)**
Prepaid expenses and other	(855)	(201)	(866)	(784)	**(582)**	**(1,002)**
Other current assets	(916)	319	661	1,247	**959**	**(500)**
Deposits and other	(209)	(126)	1,503	180	**(795)**	**(177)**
Accrued interest	5	24	171	(103)	**(127)**	**50**
Accounts payable	(279)	156	(228)	(36)	**(13)**	**(25)**
Accrued payroll and expenses	(1,342)	5,730	1,633	(3,014)	**(671)**	**(1,000)**
Other current and long-term liabilities - includes Contingent Consideration	7,216	(59)	(4,613)	-	**(1,081)**	**8,490**
Operating leases	213	(107)	(127)	(58)	**-**	**-**
Accrued taxes	1,875	(1,479)	60	(310)	**49**	**-**
Net (increase)/decrease in Working Capital	10,733	(10,921)	(17,862)	788	**(986)**	**(440)**
Net cash provided (used) by continuing operating activities	19,680	1,358	(3,300)	3,939	**19,977**	**25,620**
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)	3,939	**19,977**	**25,620**
Cash Flows from Investing Activities						
Business acquired, net of cash received	(22,002)	(3,791)	(33,940)	-	**(8,000)**	**-**
Captial expenditures	(2,076)	(3,204)	(5,680)	(745)	**(3,750)**	**(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)	(745)	**(9,750)**	**(3,500)**
Net cash used in discontinued investing activities	(69)	(35)	(26)	-	**-**	**-**
Net cash used in investing activities	(24,147)	(7,024)	(8,924)	(745)	**(9,750)**	**(3,500)**
Cash Flows from Financing Activities						
Borrowings (repayments) under line of credit	(14,368)	6,804	9,781	(646)	**(1,000)**	**(4,100)**
Proceeds from long-term debt	22,500	-	40,000	-	**6,800**	**-**
Principal payments on long-term debt	(1,075)	(2,063)	(26,863)	(1,000)	**(9,000)**	**(4,000)**
Issuance of common stock	(12)	(41)	(1)	-	**-**	**-**
Issuance of ESSP shares	-	340	654	145	**580**	**580**
Contingent consideration paid	-	-	(1,110)	-	**(1,102)**	**-**
Dividends	(5,155)	(4,567)	(6,290)	(1,618)	**(6,500)**	**(6,600)**
Deferred financing and share issuance costs	-	-	(238)	(5)	**(5)**	**-**
Net cash provided (used) by Financing	1,890	473	15,934	(3,124)	**(10,227)**	**(22,120.3)**
Net change in Cash	-	112	(112)	70	-	-
Cash Beginning of Period	-	-	112	-	-	-
Cash End of Period	-	$ 112	-	$ 70	**$ -**	**$ -**

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 May 12, 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 461,191 shares of BGSF common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 546,648 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 15,664 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.