

## Research Report – Update

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

**BGSF, Inc.**

**Rating: Speculative Buy**

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August 14, 2023

**BGSF \$11.16 — (NYSE MKT)**

	2021 A*	2022 A	2023 E	2024 E
Revenues (in millions)	\$239.0	\$298.4	\$321.1	\$330.8
Earnings per share	\$0.80**	\$1.07	\$0.90***	\$1.17

52-Week range	\$16.02 – \$8.85	Fiscal year ends:	December
Shares outstanding <small>a/o 08/08/23</small>	10.9 million	Revenue/shares (ttm)	\$29.12
Approximate float	10.0 million	Price/Sales (ttm)	0.4X
Market Capitalization	\$121.6 million	Price/Sales (2024) E	0.4X
Tangible Book value/shr	(\$0.67)	Price/Earnings (ttm)***	11.4X
Price/Book	NMF	Price/Earnings (2024) E	9.5X
Annual dividend per share	\$0.60	Dividend Yield	5.4%

\* 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 (\$1.71) 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 but lowering our 12-month price target to \$17.50 per share from \$18.25 per share due to a reduction in our 2024 EPS forecast, partly offset by an increase in sector valuation.**

**BGSF has positioned its professional and real estate segments to grow operations through 2024. For 2023, consulting firm Staffing Industry Analysts 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 2Q23, BGSF acquired Arroyo Consulting that specializes in IT and software development with operations in the US, Colombia, and India.**

**In 2Q23, the operations of Horn Solutions (acquired in 4Q22) and Arroyo Consulting (acquired in April 2023) contributed revenue of \$6.4 million and \$4.1 million, respectively.**

**In 2Q23, BGSF reported (on 8-9-23) EPS of \$0.24 on a 9.1% increase in revenues to \$80.8 million. In 2Q22, EPS from continuing operations was \$0.30 on revenue of \$74.1 million. We projected revenue of \$81 million and EPS of \$0.19.**

**In 2023, we forecast excluding charges EPS of \$0.90 (prior was \$1.19) on revenue growth of 7.6% to \$321.1 million (prior was \$335.2 million). Our forecasts reflect significant 2H23 sector headwinds stemming from a forecasted decline in industry revenues and economic uncertainty, partly offset by the operations of Horn Solutions and Arroyo Consulting acquired in 4Q22 and 2Q23, respectively.**

**In 2024, we forecast EPS of \$1.17 (prior \$1.46) on revenue growth of 3% to \$330.8 million (prior was \$358.8 million). Our reduced forecasts reflect sector headwinds that are likely to persist through most of 2024, partly growth in the company's real estate operations.**

**Please view our Disclosures on pages 14 – 16.**

## ***Appreciation Potential***

**Maintaining Speculative Buy but lowering our 12-month price target to \$17.50 per share from \$18.25 per share due to a reduction in our 2024 EPS forecast, partly offset by an increase in sector valuation.** 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 reaching \$121.5 million, up from \$103.5 million in 2022. Gross profit growth should be driven by revenue gains, inclusion of the higher margin operations of Horn Solutions and Arroyo Consulting, and real estate segment growth (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 16.6X (prior was 13.8X). Based on our 2024 forecast, BGSF's P/E multiple is 9.5X (prior was 6.4X) with EPS growth of 30% to \$1.17 per share (prior was \$1.46) from an estimated \$0.90 per share (excluding items) in 2023.

We anticipate investors are likely to accord BGSF the peer group multiple based on its estimated 2024 EPS growth. We applied a 16.6X multiple (prior was 13.8X) to our 2024 EPS forecast of \$1.17, discounted for execution risk, to obtain a year ahead price target of approximately \$17.50 per share, implying a total (including a 5.4% dividend yield) year-ahead return in excess of 60%.

## ***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 remainder 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*

The primary goal of the company is to develop and internally deploy technology to reduce cycle time to fill client orders and onboard applicants, improve internal operations through automation and scalability, and implement secure cloud solutions. In 2023, the company is feeling the benefits of having deployed in late 2022 technology 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.

In 2H23, BGSF is implementing a new technology revolving its maintenance technician training solutions within the real estate segment. This technology is training tool that has an artificial intelligence component that allows apartment maintenance personnel in the field to access real-time expert solutions from their mobile device.

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 2H23, 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 company will continue to seek acquisitions to enhance its professional services segment. It is likely the focus in the 2H23 will be to continue the integration and leveraging process of Horn Solutions and Arroyo Consulting, which were acquired in 4Q22 and 2Q23, respectively.

## ***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 that should drive organic revenue growth along with the acquisitions of Horn Solutions and Arroyo Consulting. Offsetting those revenue growth initiatives is likely to be sector headwinds that is due to an uncertain economic growth environment. The digital technology initiatives should help gross and operating margins 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 the opportunity to have sustained revenue growth and improved operating leverage through 2024.

In 2023, 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 and an additional charge of (\$0.13) per share related to transaction fee stemming from the acquisitions of Horn Solutions and Arroyo Consulting.

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

### ***Economy***

In July 2023, the International Monetary Fund (IMF) revised its economic growth estimate for the US to an increase of 1.8% for 2023 and 1% for 2024. In April 2023, the IMF projected US economic growth of 1.6% and 1.1% for 2023 and 2024, respectively. The IMF's forecast reflects a reduced inflation outlook but higher interest rates.

The advance estimate of US GDP growth (released on July 27, 2023) showed the US economy increased at an annual rate of 2.4% in 2Q23, up from growth of 2% reported for 1Q23. The 2Q23 US GDP estimate reflects increases in consumer spending, federal government spending, state and local government spending, nonresidential fixed investment, and private inventory investment, partly offset by decreases in exports and residential fixed investment.

The unemployment rate for July 2023 (reported on August 4, 2023) was 3.5% compared to the peak unemployment rate of 14.7% in April 2020. In July 2023, unemployed people in the US were approximately 5.8 million, which down from 5.9 million in April 2023. In July 2023, the number of employed totaled 161.4 million and the labor force participation rate was 62.6% compared to 62.1% last year. In July 2023, employment in temporary help services trended down by 22,000 and has declined by 205,000 since its peak in March 2022.

In June 2023, the Federal Reserve Board issued a forecast that calls for a US unemployment rate (median forecast) in 2023 and 2024 of 4.1% and 4.5%, respectively compared to 4.5% and 4.6, respectively in March 2023.

### ***Operations***

**In 2023**, we project revenue growth of 7.6% to \$321.1 million (prior was \$335.2 million). Our diminished revenue forecast reflects significant 2H23 sector headwinds due to economic uncertainties, offset in part by the 4Q22 acquisition of Horn Solutions, Inc. and 2Q23 acquisition of Arroyo Consulting, as well as growth (albeit slower than anticipated) within the company's real estate segment. We anticipate the company's real estate segment should experience growth of 5.3% to \$127.5 million (prior was \$135.1 million) and professional services should grow due to the contributions from Horn and Arroyo, by 9.2% to \$193.6 million (prior was \$200 million).

We project a 12.3% increase in gross profit to \$116.3 million driven by gross margin improvement to 36.2% from 34.7% in 2022. The gross margin improvement reflects revenue growth from the real estate segment and inclusion of higher margin Horn Solutions and Arroyo Consulting operations in the professional services segment. We anticipate the real estate segment should deliver gross margin of 40.3% compared to 39.4% in 2022. The professional services segment should deliver gross margin of 33.5% compared to 31.5% in 2022. We anticipate operating income (excluding approximately \$22.8 million in impairment and transaction fee charges) increasing 7.1% to \$17.4 million from \$16.3 million due to revenue growth and gross margin expansion, partly offset by operating margin expense increasing to 30.8% (excluding items) from 29.2% in 2022.

We forecast operating expense (excluding items) increasing 13.3% to \$98.8 million compared to \$87.3 million in 2022. We project a 9.8% increase in SG&A to \$91.4 million (excluding transaction fees) to support sales growth, higher compensation costs related to the acquisitions of Horn Solutions and Arroyo Consulting. D&A expense should increase to \$7.5 million from \$4.1 million in 2022 due to the acquisition made in 4Q22 and 2Q23.

We project interest expense of nearly \$5.7 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 \$8.7 million or (\$0.81), after applying an income tax benefit of \$2.8 million. Our forecast includes charges of approximately (\$1.71) 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 \$0.90, compared to our prior EPS forecast of \$1.19.

**In 2024**, we project revenue growth of 3% (prior was 7%) to \$330.8 million (prior was \$358.8 million). Our forecast does not include potential acquisitions in the company's professional staffing segment. Our reduced forecasts reflect sector headwinds that are likely to persist through most of 2024, partly growth in the company's real estate operations. We anticipate real estate segment growth of 6.9% to \$136.3 million (prior was \$150.8 million) and professional services revenue of \$194.5 million (prior was \$208 million) compared to estimated revenue of \$193.6 million in 2023.

We project a 4.5% increase in gross profit to \$121.5 million driven by gross margin improvement to 36.7% from an estimated 36.2% in 2023. We anticipate operating income increasing 27% to \$22.1 million from an estimated \$17.4 million (excludes approximately \$22.8 million in impairment and \$753,000 in transaction fee charges) due to revenue growth, gross margin expansion, and operating margin expense improving to 30.1% from an estimated 30.8% in 2023 (excludes items).

We forecast operating expense increasing to \$99.4 million compared to an estimated \$98.8 million (excludes items) in 2023. We project a 1.4% increase in SG&A to \$92.7 million from an estimated \$91.4 million (excludes \$753,000 in transaction fees) to support sales growth. D&A expense should decrease to \$6.8 million from an estimated \$7.5 million in 2023.

We project interest expense of \$5.4 million compared to \$5.7 million reflecting higher average interest rates, partly offset by a lower average debt balance.

We forecast net income of \$12.8 million or \$1.17 per share, after income tax expense of \$3.9 million for an income tax rate of 23.43%. We previously forecast net income 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 \$18.7 million and a decrease in working capital of \$4.6 million. Cash from operations of \$23.2 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 \$21.8 million and a decrease in working capital of \$1.4 million. Cash from operations of \$23.3 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.

## **2Q23 and 1H23 Results**

### 1Q23 Results

Revenues increased 9.1% to \$80.8 million from \$74.1 million in the year-ago period due to a 12.7% increase in the professional staffing revenue to \$49.7 million and a 3.6% increase in real estate segment sales to \$31.1 million.

The 12.7% or \$5.6 million increase in professional staffing segment sales reflects a \$6.4 million contribution from the 4Q22 acquisition of Horn Solutions and a \$4.1 million contribution from the April 2023 acquisition of Arroyo Consulting, which was partly offset by a \$4.9 million or 11% decrease in the company other professional staffing operations.

The 3.6% or \$1.1 million increase in real estate segment sales was due to an increase in the average bill rate.

Gross profit increased 18% to \$29.6 million reflecting gross margin expansion to 36.6% from 33.8% in the year-ago period. The gross profit improvement reflects real estate segment gross margin of 40.7%, up from 38.6% in 2Q22 with professional staffing's gross margin improving to 34%, up from 30.6% last year. Professional staffing's gross margin improvement was driven by the sales mix toward the higher margin offering of Horn Solutions and Arroyo Consulting.

Operating expenses increased 17.8% to \$24.5 million from \$20.8 million due to a 13.5% increase in SG&A to \$22.6 million. The increase in SG&A expense reflects higher compensation costs and the inclusion of recently acquired Horn Solutions and Arroyo Consulting. D&A expense increased to \$1.9 million from \$922,000 in 2Q22. The increase in D&A expense stems from the company's information technology improvement projects and assets acquired from Horn Solutions and Arroyo Consulting.

Operating income increased 19.1% to nearly \$5.1 million compared to \$4.2 million in 2Q22. The increase in operating income was due primarily to revenue growth and gross margin expansion, partly offset by operating expense margin increasing to 30.4% from 28.1% in the year-ago period.

Interest expense was \$1.5 million, up from \$70,000 stemming from debt use to acquire Horn Solutions and Arroyo Consulting, higher interest rates, and a higher average balance on the company's revolving facility.

Net income was \$2.6 million or \$0.24 per share compared to net income of \$3.2 million or \$0.30 per share in 2Q22.

### 1H23 Results

Revenues increased 9.5% to \$156.1 million from \$142.6 million due to a 6.4% increase in real estate segment sales to \$59.5 million and an 11.4% increase in the professional staffing revenue to \$96.6 million.

Gross profit increased 16.2% to \$56.4 million reflecting gross margin expansion to 36.1% from 34% in 1H22. The gross profit improvement reflects the sales mix to higher margin offerings from the recently acquired Horn Solutions and Arroyo Consulting within the company professional staffing segment.

Operating expenses increased 18.5% to \$49.1 million (excludes approximately \$22.9 million in one-time charges related to impairment of trade names and acquisition related transaction fees) from \$41.4 million.

Operating income (excluding the one-time impairment charges) was \$7.2 million compared to \$7.1 million in 1H22.

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<b>Revenues per segment</b> in Millions			
Real Estate	59.5	55.9	6.4%
Professional Staffing	96.6	86.7	11.4%
<b>Total Revenue</b>	<b>\$ 156.1</b>	<b>\$ 142.6</b>	<b>9.5%</b>
<b>Cost of Sales per segment</b>			
Real Estate	35.5	34.4	3.3%
Professional Staffing	64.3	59.8	7.5%
<b>Total Cost of Sales</b>	<b>\$ 99.8</b>	<b>\$ 94.1</b>	<b>6.0%</b>
<b>Gross Profit per segment</b>			
Real Estate	24.0	21.5	11.4%
Professional Staffing	32.4	26.9	20.1%
<b>Gross Profit</b>	<b>\$ 56.4</b>	<b>\$ 48.5</b>	<b>16.2%</b>
Total Operating Expenses	\$72.0	\$41.4	73.9%
<b>Operating Income</b>	(\$15.7)	\$7.1	NMF
Total Other Income (Expense)	(\$2.7)	(\$0.3)	NMF
<b>Pre-Tax Income</b>	(\$18.4)	\$6.7	NMF
Income Tax Expense (Benefit)	(\$4.5)	\$1.5	
<b>Net Income (loss) - from continuing operations</b>	(\$13.9)	\$5.2	
Discontinued operations includes gain on sale	\$0.0	\$13.8	
Net Income (loss) includes discontinued operations	(\$13.9)	\$19.0	
<b>Earnings (loss) per share - Continuing operations</b>	(\$1.30)	\$0.50	
<b>Discontinued operations per share including sale</b>	\$0.01	\$1.32	
<b>Net Income (loss) per share</b>	(\$1.29)	\$1.82	
<b>Dividend per share</b>	\$ 0.30	\$ 0.30	
Avg Shares Outstanding	10.7	10.5	
<b>Margins</b>			
Gross margin - combined	36.1%	34.0%	
Operating Margin	(10.0%)	4.9%	
Pre-Tax Margins	(11.8%)	4.7%	
Tax Rate	24.6%	22.7%	
Source: company reports			

Interest expense increased to \$2.7 million from \$343,000 in the year-ago period stemming from increased debt balances related to the Horn Solutions and Arroyo Consulting acquisitions and higher interest rates.

The net loss was \$13.9 million or (\$1.29) per share, which includes the impairment charge compared to income from continuing operations of \$5.2 million or \$0.50 per share. Excluding the impairment charge, we estimate EPS of \$0.39 in 1H23.

### Finances

In 1H23, the company generated cash earnings of \$8.1 million and a \$4.4 million decrease in working capital. Cash from operations of \$12.5 million more than covered capital investments, repayment of term debt, and common stock dividends. Cash increased from zero to \$660,000 at the end of 2Q23.

### Capital Structure

At the end of 2Q23, the company had total outstanding debt of \$67.1 million, all of which is long-term except \$4 million is classified as short-term debt. The interest rate on the credit line was 7.5% compared to 3.6% last year. The company's \$38 million of term debt had an interest rate of 7.5%. In the year-ago period, the company had no outstanding term debt. The company's debt to equity ratio of 0.8 versus 1 for the industry, indicating that BGSF's leverage is in line with other staffing and outsourcing service companies. In 2Q23, 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 a third Credit amendment with BMO that revised language to permit an acquisition of a foreign entity. On May 19, 2023, the company entered into a fourth amendment that increased the revolving facility by \$6 million to an amount up to \$41 million.

At July 2, 2023, BGSF had outstanding a two-year convertible promissory note of \$4.4 million due to the seller of Horn Solutions that has an annual interest rate of 6%. The note is convertible into shares of common stock at any time after the first year at a conversion price of \$17.12 per share.

### ***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 increased the Federal Funds interest rate to 5.33% after the most recent rate increase in July 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.

### Revenue concentration

In 1H23, two states (Texas – 27% and Tennessee – 11%) accounted for 38% of the company's revenues compared to 34% (Texas – 23% and Tennessee – 11%) in 1H22. 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, declining, or a recessionary US economic environment would likely reduce customer demand for workforce solutions. If demand for BGSF's services drops, operating profit will be negatively impacted.

### 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 August 11, 2023, average daily volume was 16,500 compared to average daily volume of 17,400 in 2022. The company has a float of 10 million shares and shares outstanding of approximately 10.9 million.

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

	2020 A	2021 A	2022 A	2Q23A	2023 E	2024 E
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ -	\$ 112	\$ -	\$ 660	\$ -	\$ -
Accounts receivable, net	32,831	48,133	66,285	61,745	63,331	63,852
Prepaid expense and other current assets	2,155	2,346	2,418	2,511	2,689	2,557
Other current assets	-	2,381	7,459	4,517	4,741	4,981
Assets of discontinued operations	8,663	7,198	-	-	-	-
<b>Total current assets</b>	<b>43,649</b>	<b>60,170</b>	<b>76,162</b>	<b>69,433</b>	<b>70,761</b>	<b>71,390</b>
Property and equipment, net	3,464	4,331	2,081	1,623	1,600	1,575
Deposits an other assets	5,175	5,390	7,028	7,821	7,850	7,850
Right-of-use asset - operating lease, net	5,550	3,914	4,462	4,469	4,469	4,469
Deferred income taxes	5,828	4,548	2,196	7,483	7,483	7,483
Intangible assets, net	32,133	33,585	47,552	33,156	27,994	24,389
Goodwill	27,052	29,142	55,193	58,453	58,453	58,453
Noncurrent assets of discontinued operations	7,427	7,213	-	-	-	-
<b>Total assets</b>	<b>\$ 130,278</b>	<b>\$ 148,294</b>	<b>\$ 194,673</b>	<b>\$ 182,438</b>	<b>\$ 178,610</b>	<b>\$ 175,609</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Debt	2,625	3,563	4,000	4,000	4,000	4,000
Accrued interest	78	102	273	537	575	500
Accounts payable	220	401	587	73	350	700
Accrued payroll and expenses	10,376	16,154	19,171	17,286	17,124	18,750
Current liabilities of discontinued operations	1,239	1,262	-	-	-	-
Contingent consideration	-	1,074	1,081	3,657	3,657	3,657
Lease liability	1,866	1,896	1,842	1,770	1,770	1,770
Other current liabilities	-	3,550	1,000	1,200	1,200	1,200
Taxes payable	1,861	382	253	157	157	157
<b>Total current liabilities</b>	<b>18,264</b>	<b>28,384</b>	<b>28,207</b>	<b>28,680</b>	<b>28,833</b>	<b>30,734</b>
Line of credit	5,709	12,588	22,302	24,768	21,302	19,302
Long-term debt	26,300	23,300	36,000	34,000	30,500	26,500
Convertible note	-	-	4,368	4,368	4,368	4,368
Lease liability	4,581	2,685	3,049	6,224	6,224	5,639
Other long-term liabilities and contingent consideration	9,643	4,555	10	10	10	10
Noncurrent liabilities of discontinued operations	323	190	-	-	-	-
<b>Stockholders' equity:</b>						
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	67,761	68,871	70,554
Retained earnings (Deficit)	5,050	14,592	33,663	16,557	18,431	18,431
Accumulated other comprehensive loss	(123)	58	-	-	-	-
<b>Total stockholders' equity</b>	<b>65,458</b>	<b>76,592</b>	<b>100,737</b>	<b>84,388</b>	<b>87,373</b>	<b>89,056</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 130,278</b>	<b>\$ 148,294</b>	<b>\$ 194,673</b>	<b>\$ 182,438</b>	<b>\$ 178,610</b>	<b>\$ 175,609</b>
SHARES OUT	10,328	10,425	10,773	10,839	10,850	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	\$ 321,116	\$ 330,750
Cost of services	<u>141,086</u>	<u>158,087</u>	<u>194,874</u>	<u>204,793</u>	<u>209,295</u>
<b>Gross Profit</b>	<u>66,039</u>	<u>80,940</u>	<u>103,547</u>	<u>116,323</u>	<u>121,455</u>
<b>Operating Expenses:</b>					
SG&A	55,244	65,115	83,212	92,121	92,650
Gain on contingent consideration	(76)	(2,403)	-	-	-
Impairment losses	7,240	-	-	22,545	-
Depreciation and amortization	4,861	3,698	4,053	7,517	6,750
Total Operating Expenses	<u>67,268</u>	<u>66,411</u>	<u>87,265</u>	<u>122,183</u>	<u>99,400</u>
<b>Operating Income (loss)</b>	(1,229)	14,530	16,282	(5,860)	22,055
Other income (expense)					
Interest expense	<u>(1,584)</u>	<u>(1,433)</u>	<u>(1,362)</u>	<u>(5,677)</u>	<u>(5,400)</u>
Total Other Income (expense)	<u>(1,584)</u>	<u>(1,433)</u>	<u>(1,362)</u>	<u>(5,677)</u>	<u>(5,400)</u>
<b>Income (loss) before taxes</b>	(2,813)	13,097	14,920	(11,537)	16,655
Income Tax Expense (Benefit)	<u>(741)</u>	<u>2,640</u>	<u>3,659</u>	<u>(2,805)</u>	<u>3,905</u>
Net Income (loss) - from continuing operations	<u>(2,072)</u>	<u>10,457</u>	<u>11,261</u>	<u>(8,732)</u>	<u>12,750</u>
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	<u>\$ 1,441</u>	<u>\$ 14,109</u>	<u>\$ 25,361</u>	<u>\$ (8,732)</u>	<u>\$ 12,750</u>
<b>Earnings (loss) per share - Continuing operations</b>	<u>\$ (0.20)</u>	<u>\$ 1.00</u>	<u>\$ 1.07</u>	<u>\$ (0.81)</u>	<u>\$ 1.17</u>
<b>Discontinued operations per share including sale</b>	0.34	0.35	1.35	-	-
<b>Net Income (loss) per share</b>	<u>\$ 0.14</u>	<u>\$ 1.35</u>	<u>\$ 2.42</u>	<u>\$ (0.81)</u>	<u>\$ 1.17</u>
<b>Dividend per share</b>	\$ 0.50	\$ 0.44	\$ 0.60	\$ 0.60	\$ 0.60
Avg Shares Outstanding	10,338	10,417	10,473	10,808	10,893
EBITDA - Adjusted from continuing operations	\$ 13,760	\$ 16,658	\$ 21,692	\$ 27,092	\$ 31,805
Margin Analysis					
Gross margin	31.9%	33.9%	34.7%	36.2%	36.7%
SG&A	26.7%	27.2%	27.9%	28.7%	28.0%
Depreciation and amortization	2.3%	1.5%	1.4%	2.3%	2.0%
Operating margin	(0.6%)	6.1%	5.5%	(1.8%)	6.7%
Pre-tax margin	(1.4%)	5.5%	5.0%	(3.6%)	5.0%
Tax rate	26.3%	20.2%	24.5%	24.3%	23.4%
<b>YEAR / YEAR GROWTH</b>					
Total Revenues	(5.8%)	15.4%	24.8%	7.6%	3.0%

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

Our 2023 forecast includes approximately (\$1.71) 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 A	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	\$ 80,800	\$ 85,000	\$ 80,000	\$ 321,116	\$ 77,500	\$ 81,750	\$ 88,250	\$ 83,250	\$ 330,750
Cost of services	45,111	49,030	50,508	50,225	194,874	48,532	51,226	53,860	51,175	204,793	49,400	51,650	55,550	52,695	209,295
<b>Gross Profit</b>	<b>23,431</b>	<b>25,059</b>	<b>28,000</b>	<b>27,057</b>	<b>103,547</b>	<b>26,784</b>	<b>29,574</b>	<b>31,140</b>	<b>28,825</b>	<b>116,323</b>	<b>28,100</b>	<b>30,100</b>	<b>32,700</b>	<b>30,555</b>	<b>121,455</b>
<b>Operating Expenses:</b>															
SG&A	19,717	19,898	20,386	23,211	83,212	23,212	22,584	23,325	23,000	92,121	23,000	22,750	23,900	23,000	92,650
Gain on contingent consideration	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	22,545	-	-	-	22,545	-	-	-	-	-
Depreciation and amortization	899	922	1,145	1,087	4,053	1,757	1,940	1,920	1,900	7,517	1,800	1,700	1,650	1,600	6,750
Total Operating Expenses	20,616	20,820	21,531	24,298	87,265	47,514	24,524	25,245	24,900	122,183	24,800	24,450	25,550	24,600	99,400
<b>Operating Income (loss)</b>	<b>2,815</b>	<b>4,239</b>	<b>6,469</b>	<b>2,760</b>	<b>16,282</b>	<b>(20,730)</b>	<b>5,050</b>	<b>5,895</b>	<b>3,925</b>	<b>(5,860)</b>	<b>3,300</b>	<b>5,650</b>	<b>7,150</b>	<b>5,955</b>	<b>22,055</b>
Other income (expense)															
Interest expense	(273)	(70)	(376)	(644)	(1,362)	(1,200)	(1,502)	(1,500)	(1,475)	(5,677)	(1,400)	(1,375)	(1,325)	(1,300)	(5,400)
Total Other Income (expense)	(273)	(70)	(376)	(644)	(1,362)	(1,200)	(1,502)	(1,500)	(1,475)	(5,677)	(1,400)	(1,375)	(1,325)	(1,300)	(5,400)
<b>Income (loss) before taxes</b>	<b>2,542</b>	<b>4,170</b>	<b>6,093</b>	<b>2,116</b>	<b>14,920</b>	<b>(21,930)</b>	<b>3,548</b>	<b>4,395</b>	<b>2,450</b>	<b>(11,537)</b>	<b>1,900</b>	<b>4,275</b>	<b>5,825</b>	<b>4,655</b>	<b>16,655</b>
Income Tax Expense (Benefit)	534	986	1,440	699	3,659	(5,464)	944	1,100	615	(2,805)	435	980	1,375	1,115	3,905
Net Income (loss) - from continuing operations	2,008	3,184	4,653	1,417	11,261	(16,466)	2,604	3,295	1,835	(8,732)	1,465	3,295	4,450	3,540	12,750
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)	\$ 2,604	\$ 3,295	\$ 1,835	\$ (8,732)	\$ 1,465	\$ 3,295	\$ 4,450	\$ 3,540	\$ 12,750
<b>Earnings (loss) per share - Continuing operations</b>	<b>\$ 0.19</b>	<b>\$ 0.30</b>	<b>\$ 0.44</b>	<b>\$ 0.13</b>	<b>\$ 1.07</b>	<b>\$ (1.54)</b>	<b>\$ 0.24</b>	<b>\$ 0.30</b>	<b>\$ 0.17</b>	<b>\$ (0.81)</b>	<b>\$ 0.13</b>	<b>\$ 0.30</b>	<b>\$ 0.41</b>	<b>\$ 0.32</b>	<b>\$ 1.17</b>
<b>Discontinued operations per share including sale</b>	<b>1.32</b>	<b>-</b>	<b>-</b>	<b>0.03</b>	<b>1.35</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Income (loss) per share</b>	<b>\$ 1.51</b>	<b>\$ 0.30</b>	<b>\$ 0.44</b>	<b>\$ 0.16</b>	<b>\$ 2.42</b>	<b>\$ (1.54)</b>	<b>\$ 0.24</b>	<b>\$ 0.30</b>	<b>\$ 0.17</b>	<b>\$ (0.81)</b>	<b>\$ 0.13</b>	<b>\$ 0.30</b>	<b>\$ 0.41</b>	<b>\$ 0.32</b>	<b>\$ 1.17</b>
<b>Dividend per share</b>	<b>\$ 0.15</b>	<b>\$ 0.15</b>	<b>\$ 0.15</b>	<b>\$ 0.15</b>	<b>\$ 0.60</b>	<b>\$ 0.15</b>	<b>\$ 0.15</b>	<b>\$ 0.15</b>	<b>\$ 0.15</b>	<b>\$ 0.60</b>	<b>\$ 0.15</b>	<b>\$ 0.15</b>	<b>\$ 0.15</b>	<b>\$ 0.15</b>	<b>\$ 0.60</b>
Avg Shares Outstanding	10,485	10,514	10,533	10,825	10,473	10,712	10,770	10,870	10,880	10,808	10,885	10,890	10,895	10,900	10,893
EBITDA - Adjusted from continuing operations	\$ 3,925	\$ 5,403	\$ 8,031	\$ 4,332	\$ 21,692	\$ 4,252	\$ 7,500	\$ 8,665	\$ 6,675	\$ 27,092	\$ 5,850	\$ 8,100	\$ 9,550	\$ 8,305	\$ 31,805
<b>Margin Analysis</b>															
Gross margin	34.2%	33.8%	35.7%	35.0%	34.7%	35.6%	36.6%	36.6%	36.0%	36.2%	36.3%	36.8%	37.1%	36.7%	36.7%
SG&A	28.8%	26.9%	26.0%	30.0%	27.9%	30.8%	28.0%	27.4%	28.8%	28.7%	29.7%	27.8%	27.1%	27.6%	28.0%
Depreciation and amortization	1.3%	1.2%	1.5%	1.4%	1.4%	2.3%	2.4%	2.3%	2.4%	2.3%	2.3%	2.1%	1.9%	1.9%	2.0%
Operating margin	4.1%	5.7%	8.2%	3.6%	5.5%	(27.5%)	6.3%	6.9%	4.9%	(1.8%)	4.3%	6.9%	8.1%	7.2%	6.7%
Pre-tax margin	3.7%	5.6%	7.8%	2.7%	5.0%	(29.1%)	4.4%	5.2%	3.1%	(3.6%)	2.5%	5.2%	6.6%	5.6%	5.0%
Tax rate	21.0%	23.6%	23.6%	33.0%	24.5%	24.9%	26.6%	25.0%	25.1%	24.3%	22.9%	22.9%	23.6%	24.0%	23.4%
<b>YEAR / YEAR GROWTH</b>															
Total Revenues	37.8%	29.1%	22.3%	14.2%	24.8%	9.9%	9.1%	8.3%	3.5%	7.6%	2.9%	1.2%	3.8%	4.1%	3.0%

1Q23 and FY23 includes an impairment charge and transaction fees of (\$1.61) per share and (\$1.71), respectively.

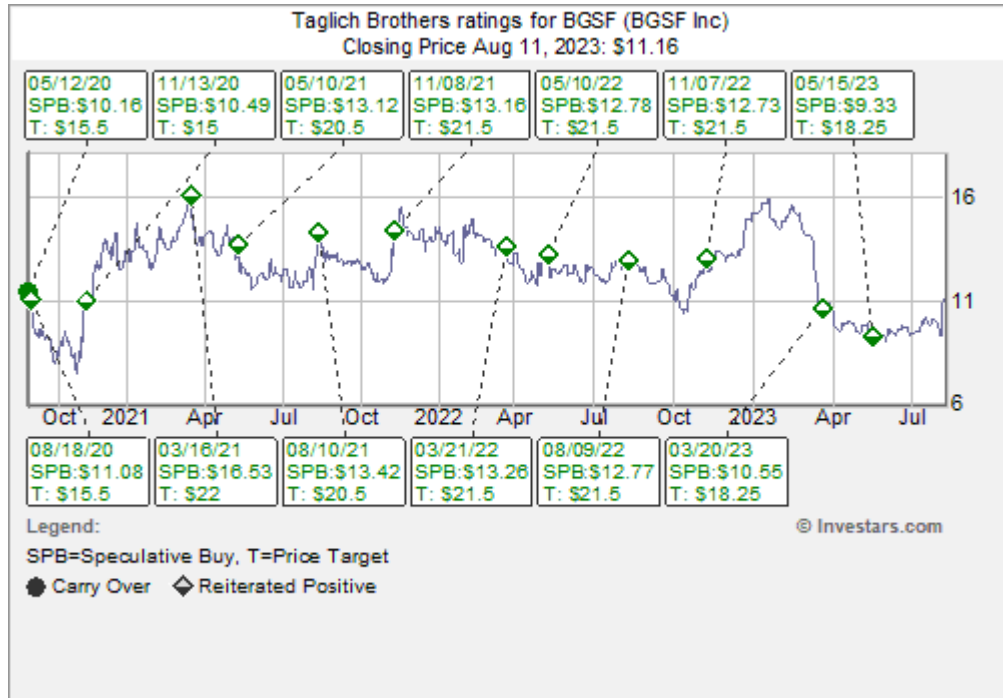
Source: Company reports and Taglich Brothers estimates

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

	<u>FY2020A</u>	<u>FY2021A</u>	<u>FY2022A</u>	<u>6 Mos.23A</u>	<u>FY2023E</u>	<u>FY2024E</u>
<i>Cash Flows from Operating Activities</i>						
Net Income (loss)	\$ 1,441	\$ 14,109	\$ 25,361	\$ (13,862)	\$ (8,732)	\$ 12,750
(Income) from discontinued operations, net of tax	(3,513)	(3,652)	(1,235)	-	-	-
Depreciation and amortization	4,861	3,698	4,053	3,696	7,517	6,750
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 consideration adjustment	(76)	(2,403)	-	-	-	-
Amortization of deferred financing costs	83	75	172	92	185	200
Interest expense on earnout payable	190	252	128	202	400	400
Provision for doubtful accounts	349	221	315	321	785	650
Stock based compensation	786	1,058	1,085	436	1,250	1,100
Deferred income taxes	(2,413)	1,279	2,353	(5,287)	(5,287)	-
Cash earnings (burn)	8,947	12,279	14,562	8,143	18,663	21,850
<i>Changes In:</i>						
Accounts receivable	5,026	(15,178)	(14,793)	7,672	2,954	(521)
Prepaid expenses and other	(855)	(201)	(866)	(93)	(272)	132
Other current assets	(916)	319	661	2,572	2,718	(240)
Deposits and other	(209)	(126)	1,503	353	(822)	-
Accrued interest	5	24	171	264	(302)	75
Accounts payable	(279)	156	(228)	(1,515)	(237)	350
Accrued payroll and expenses	(1,342)	5,730	1,633	(5,033)	(2,047)	1,626
Other current and long-term liabilities - includes Contingent Consideration	7,216	(59)	(4,613)	-	2,776	-
Operating leases	213	(107)	(127)	(88)	(88)	-
Accrued taxes	1,875	(1,479)	60	274	(96)	-
Net (increase)/decrease in Working Capital	10,733	(10,921)	(17,862)	4,406	4,584	1,422
<b>Net cash provided (used) by continuing operating activities</b>	<u>19,680</u>	<u>1,358</u>	<u>(3,300)</u>	<u>12,549</u>	<u>23,247</u>	<u>23,272</u>
Net cash provided (used) by discontinued operating activities	2,577	5,306	(3,822)	-	-	-
<b>Net cash provided (used) by operating activities</b>	<u>22,257</u>	<u>6,663</u>	<u>(7,122)</u>	<u>12,549</u>	<u>23,247</u>	<u>23,272</u>
<i>Cash Flows from Investing Activities</i>						
Business acquired, net of cash received	(22,002)	(3,791)	(33,940)	(6,740)	(6,740)	-
Capital expenditures	(2,076)	(3,204)	(5,680)	(1,490)	(2,980)	(3,255)
Business sold	-	-	30,722	-	-	-
Proceeds from sale of property and equipment	-	5	-	-	-	-
<b>Net cash used in continuing investing activities</b>	<u>(24,078)</u>	<u>(6,990)</u>	<u>(8,898)</u>	<u>(8,230)</u>	<u>(9,720)</u>	<u>(3,255)</u>
Net cash used in discontinued investing activities	(69)	(35)	(26)	-	-	-
<b>Net cash used in investing activities</b>	<u>(24,147)</u>	<u>(7,024)</u>	<u>(8,924)</u>	<u>(8,230)</u>	<u>(9,720)</u>	<u>(3,255)</u>
<i>Cash Flows from Financing Activities</i>						
Borrowings (repayments) under line of credit	(14,368)	6,804	9,781	2,438	(1,000)	(2,000)
Proceeds from long-term debt	22,500	-	40,000	-	-	-
Principal payments on long-term debt	(1,075)	(2,063)	(26,863)	(2,000)	(5,500)	(4,000)
Issuance of common stock	(12)	(41)	(1)	-	-	-
Issuance of ESSP shares	-	340	654	292	618	583
Contingent consideration paid	-	-	(1,110)	(1,110)	(1,110)	-
Dividends	(5,155)	(4,567)	(6,290)	(3,244)	(6,500)	(6,600)
Deferred financing and share issuance costs	-	-	(238)	(35)	(35)	-
<b>Net cash provided (used) by Financing</b>	<u>1,890</u>	<u>473</u>	<u>15,934</u>	<u>(3,659)</u>	<u>(13,527)</u>	<u>(20,017.0)</u>
Net change in Cash	-	112	(112)	660	-	-
Cash Beginning of Period	-	-	112	-	-	-
Cash End of Period	-	\$ 112	-	\$ 660	\$ -	\$ -

Source: Company reports and Taglich Brothers estimates

**Price Chart**



**Taglich Brothers Current Ratings Distribution**



66.67 % Buy | 33.33 % Hold

**Investment Banking Services for Companies Covered in the Past 12 Months**

Rating	#	%
Buy	4	22
Hold		
Sell		
Not Rated		

### **Important Disclosures**

As of August 11, 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 461,791 shares of BGSF common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 547,939 shares of BGSF common stock. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 91,200 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.

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### **General Disclosures**

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**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.**

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