Research Note

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

BGSF, Inc.

Rating: Speculative Buy

Howard Halpern

BGSF $9.80 — (NYSE MKT)

November 13, 2023

	2021 A*	2022 A	***2023 E***	***2024 E***
Revenues (in millions)	$239.0	$298.4	***$314.7***	***$324.4***
Earnings per share	$0.80**	$1.07	***$0.73****	***$0.90***

52-Week range	$16.02 – $8.85	Fiscal year ends:	December
Shares outstanding a/o 11/3/23	10.9 million	Revenue/shares (ttm)	$29.40
Approximate float	10.0 million	Price/Sales (ttm)	0.3X
Market Capitalization	$106.8 million	Price/Sales (2024) E	0.3X
Tangible Book value/shr	($0.38)	Price/Earnings (ttm)***	12.6X
Price/Book	NMF	Price/Earnings (2024) E	10.9X
Annual dividend per share	$0.60	Dividend Yield	6.1%

** 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 9M23 – 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 $15.50 per share from $17.50 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 in 2024. In 2023, headwinds exist as consulting firm Staffing Industry Analysts anticipates the US staffing industry to decrease 10% to $201.1 billion (prior forecast was $211.8 billion in April 2023). In 2022, the industry was $218 billion. In 2024, growth is anticipated at 3%, up from a 2% forecast in April 2023.

The operations of Horn Solutions (acquired in 4Q22) and Arroyo Consulting (acquired in April 2023) contributed combined revenue of $11.6 million to the company's professional services segment during 3Q23.

In 3Q23, BGSF reported (on 11-8-23) EPS of $0.24 on a 6.3% increase in revenues to $83.5 million. In 3Q22, EPS was $0.44 on revenue of $78.5 million. We projected revenue of $85 million and EPS of $0.30.

In 2023, we forecast excluding charges EPS of $0.73 (prior was $0.90) on revenue growth of 5.5% to $314.7 million (prior was $321.1 million). Our forecasts reflect 3Q23 results and continued 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 $0.90 (prior $1.17) on revenue growth of 3.1% to $324.4 million (prior was $330.8 million). Our reduced revenue forecast reflects more persistent sector headwinds than previously anticipated that should be partly offset by growth in BGSF's real estate operations. The reduction is our EPS forecast reflects lower revenue and gross margin of 36.1% (prior forecast was 36.8%) compared to 35.9% in 2023.

Please view our Disclosures on pages 12 – 14.

Appreciation Potential

Maintaining Speculative Buy but lowering our 12-month price target to $15.50 per share from $17.50 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 should provide the ability to cross-sell their offering into BGSF's existing customers.

We forecast gross profit reaching $117 million in 2024, up from $103.5 million in 2022. Gross profit growth should be driven by revenue gains, inclusion of the operations of Horn Solutions and Arroyo Consulting, and real estate segment growth (BGSF's highest margin segment) reflecting over 64 locations by the end of 2023.

The comparative peers in the Staffing & Employment Services industry (source: finviz) have a forward P/E multiple of 18.9X (prior was 16.6X). Based on our 2024 forecast, BGSF's P/E multiple is 10X (prior was 9.5X) with EPS growth of 23.3% to $0.90 per share (prior was $1.17) from an estimated $0.73 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 18.9X multiple (prior was 16.6X) to our 2024 EPS forecast of $0.90, discounted for execution risk, to obtain a year ahead price target of approximately $15.50 per share, implying a total (including a 6.1% dividend yield) year-ahead return approaching 65%.

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 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.

Projections

<u>Basis of Forecast</u>

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 are the persistent sector headwinds due to an uncertain economic environment that is likely to last through 2024. The digital technology initiatives should continue to generate process efficiencies in onboarding professional talent. 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.

By the end of 2023, the company should have at least 64 locations (including one in Toronto, Canada). Future growth for this segment should be supported additional company technology initiatives, as well as 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.

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.

<u>Economy</u>

The unemployment rate for October 2023 (reported on November 3, 2023) was 3.9% as it remains relatively stable since January 2022. In October 2023, unemployed people in the US were approximately 6.5 million, up from recent lows seen in April 2023 of 5.8 million. In October 2023, the number of employed totaled 161.2 million and the labor force participation rate was 62.7% compared to 62.2% last year. In October 2023, employment in temporary help services trended up by 7,000 and has declined by 229,000 since its peak in March 2022.

In September 2023, the Federal Reserve Board issued a forecast that calls for a US unemployment rate (median forecast) in 2023 and 2024 of 3.8% and 4.1%, respectively compared to 4.1% and 4.5, respectively in June 2023.

<u>Operations</u>

In 2023, we project revenue growth of 5.5% to $314.7 million (prior was $321.1 million). Our diminished revenue forecast reflects 3Q23 results and continued sector headwinds in 4Q23 due to economic uncertainties, offset in part by the 4Q22 acquisition of Horn Solutions and 2Q23 acquisition of Arroyo Consulting. We anticipate the company's real estate segment should experience growth of 4.8% to $127 million (prior was $127.5 million) and professional services should grow due to the contributions from Horn and Arroyo, by 5.9% to $187.7 million (prior was $193.6 million).

We project a 9% increase in gross profit to $112.8 million driven by gross margin improvement to 35.9% 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 39.7% 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 $23.3 million in impairment and transaction fee charges) decreasing to $15.6 million from $16.3 million due to operating margin expense increasing to 30.9% (excluding items) from 29.2% in 2022, partly offset by revenue growth and gross margin expansion.

We forecast operating expense (excluding items) increasing 11.5% to $97.3 million compared to $87.3 million in 2022. We project a 7.6% increase in SG&A to $89.5 million (excluding transaction fees of approximately $753,000) to support sales growth and higher compensation costs related to the acquisitions of Horn Solutions and Arroyo Consulting. D&A expense should increase to $7.8 million from $4.1 million in 2022 due to the acquisition made in 4Q22 and 2Q23.

We project interest expense of nearly $6.1 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 $10.5 million or ($0.98), after applying an income tax benefit of $3.3 million. We previously forecasted a net loss of $8.7 million or ($0.81), after applying an income tax benefit of $2.8 million. Our current 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 $0.73, compared to our prior EPS forecast of $0.90.

In 2024, we project revenue growth of 3.1% to $324.4 million (prior was $330.8 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 offset by growth in the company's real estate operations. We anticipate real estate segment growth of 6.4% to $135.1 million (prior was $136.3 million) and professional services revenue of $189.3 million (prior was $194.5 million).

We project a 3.6% increase in gross profit to $117 million driven by gross margin improvement to 36.1% from an estimated 35.9% in 2023. We anticipate operating income increasing 27% to $22.1 million from an estimated $17.4 million (excludes approximately $22.5 million in impairment and $753,000 in transaction fee charges) due to revenue growth, gross margin expansion, and operating margin expense improving to 30.2% from an estimated 30.9% in 2023 (excludes items).

We forecast operating expense increasing to $97.8 million compared to an estimated $97.3 million (excludes items) in 2023. We project a 1.4% increase in SG&A to $90.8 million from an estimated $89.5 million (excludes $753,000 in transaction fees) to support sales growth. D&A expense should decrease to $7 million from an estimated $7.8 million in 2023.

We project interest expense of $6.3 million compared to $6.1 million reflecting higher average interest rates, partly offset by a lower average debt balance.

We forecast net income of $92.8 million or $0.90 per share, after income tax expense of $3.1 million for an income tax rate of 23.9%. We previously 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 23.4%. Our reduced forecast reflects lower than previously anticipated revenue and gross margin, as well as a higher than expected income tax rate.

Finances
For 2023, we project cash earnings of $17.3 million and a decrease in working capital of $5.7 million. Cash from operations of $23.1 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 $19.5 million and a decrease in working capital of $3.5 million. Cash from operations of $23.1 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.

3Q23 and 9M23 Results

3Q23 Results
Revenues increased 6.3% to $83.5 million from $78.5 million in the year-ago period due to a 5% increase in the professional staffing revenue to $47.5 million and an 8.2% increase in real estate segment sales to nearly $36 million.

The 5% or $2.2 million increase in professional staffing segment sales reflects an $11.6 million contribution from the acquisitions of Horn Solutions and Arroyo Consulting, which was partly offset by a $9.4 million or 20.7% decrease in the company other professional staffing operations.

The 8.2% or $2.7 million increase in real estate segment sales was due to an increase in the average bill rate.

Gross profit increased 7.1% to nearly $30 million reflecting gross margin expansion to 35.9% from 35.7% in the year-ago period. The gross profit improvement reflects professional staffing's gross margin improving to 33.2%, up from 31.9% last year due to the sales mix trending toward the higher margin offerings of Horn Solutions and Arroyo Consulting. Real estate segment gross margin decreased to 39.5% from 40.8% in 3Q22 reflecting a reduction in higher margin placements during the current period.

Operating expenses increased 14.8% to $24.7 million from $21.5 million due to an 11.2% increase in SG&A to $22.7 million. The increase in SG&A expense reflects higher compensation costs and inclusion of the acquisitions of Horn Solutions and Arroyo Consulting. D&A expense increased to $2 million from $1.1 million in 3Q22. 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 decreased 18.6% to $5.3 million compared to $6.5 million in 3Q22. The decrease in operating income was due primarily to operating expense margin increasing to 29.7% from 27.4% in the year-ago period, partly offset by revenue growth and gross margin expansion to 35.9% from 35.7% in 3Q22.

Interest expense was $1.7 million, up from $376,000 stemming from debt use to acquire Horn Solutions and Arroyo Consulting, higher interest rates, non-cash debt amortization, and higher average balances on the company's revolving and term debt facilities.

Net income was $2.6 million or $0.24 per share compared to net income of $4.7 million or $0.44 per share in 3Q22. We estimated revenues of $85 million and net income of $3.3 million or $0.30 per share.

<u>9M23 Results</u>

Revenues increased 8.3% to $239.6 million from $221.1 million due to a 7.1% increase in real estate segment sales to $95.5 million and a 9.2% increase in the professional staffing revenue to $144.1 million.

Gross profit increased 12.9% to $86.3 million reflecting gross margin expansion to 36% from 34.6% in 9M22. The gross profit improvement reflects the sales mix to higher margin offerings from the acquisition of Horn Solutions and Arroyo Consulting within the company professional staffing segment.

Operating expenses increased 17.1% to $73.8 million (excludes approximately $22.9 million in one-time charges related to impairment of trade names and acquisition related transaction fees) from $63 million. Operating income (excluding the one-time impairment charges) was $12.5 million compared to $13.5 million in the same period last year.

Interest expense increased to $4.4 million from $719,000 in the year-ago period stemming from increased debt balances related to the Horn Solutions and Arroyo Consulting acquisitions and higher interest rates.

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Revenues per segment in Millions			
Real Estate	95.5	89.1	**7.1%**
Professional Staffing	144.1	132.0	**9.2%**
Total Revenue	**$ 239.6**	**$ 221.1**	**8.3%**
Cost of Sales per segment			
Real Estate	57.3	54.0	**5.9%**
Professional Staffing	96.0	90.6	**6.0%**
Total Cost of Sales	**$ 153.3**	**$ 144.6**	**6.0%**
Gross Profit per segment			
Real Estate	38.2	35.1	**8.8%**
Professional Staffing	48.1	41.4	**16.3%**
Gross Profit	**$ 86.3**	**$ 76.5**	**12.9%**
Total Operating Expenses	$96.7	$63.0	**53.7%**
Operating Income	($10.4)	$13.5	**NMF**
Total Other Income (Expense)	($4.4)	($0.7)	**NMF**
Pre-Tax Income	($14.8)	$12.8	**NMF**
Income Tax Expense (Benefit)	($3.6)	$3.0	
Net Income (loss) - from continuing operations	($11.2)	$9.8	
Discontinued operations includes gain on sale	$0.0	$13.8	
Net Income (loss) includes discontinued operations	($11.2)	$23.6	
Earnings (loss) per share - Continuing operations	($1.04)	$0.93	
Discontinued operations per share including sale	$0.00	$1.32	
Net Income (loss) per share	($1.04)	$2.25	
Dividend per share	$ 0.45	$ 0.45	
Avg Shares Outstanding	10.8	10.5	
Margins			
Gross margin - combinded	36.0%	34.6%	
Operating Margin	(4.3%)	6.1%	
Pre-Tax Margins	(6.2%)	5.8%	
Tax Rate	24.1%	23.1%	

Source: company reports

The net loss was $11.2 million or ($1.04) per share, which includes the impairment charge compared to income from continuing operations of $9.8 million or $0.93 per share. Excluding the impairment charge, we estimate EPS of $0.67 in 9M23.

Finances
In 9M23, the company generated cash earnings of $14.1 million and a $1 million decrease in working capital. Cash from operations of $15.1 million more than covered capital investments, repayment of term debt, and common stock dividends. Cash at the end of 3Q23 was zero.

Capital Structure
At the end of 3Q23, the company had total outstanding debt of $66 million, all of which is short-term except $4.4 million of convertible debt that is classified as long-term debt. The interest rate on the company's credit line of nearly $26.7 million was 8.1% compared $27 million at an interest rate of 5.5% last year. The company's $35 million of term debt had an interest rate of 7.8%. In the year-ago period, the company had no outstanding term debt. The company's debt to equity ratio of 1.1 versus 1 for the industry, indicating that BGSF's leverage is in line with other staffing and outsourcing service companies. In 3Q23, 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 company's credit agreements matures on July 16, 2024, which is classified within current liabilities as of October 1, 2023. BGSF is in active and advanced discussions with its lenders to refinance such indebtedness with an extended maturity date. The intent is to close such refinancing during 4Q23.

On April 24, 2023, in connection with the acquisition of Arroyo Consulting, BGSF entered into a third credit amendment with BMO that permitted 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

In September 2023, Staffing Industry Analysts (SIA) updated its forecast for the US staffing industry indicating that industry revenue should decrease by approximately 10% to $201.1 billion from its April 2023 forecast of $211.8 billion. Industry revenue was $218 billion in 2022. The reduced forecast comes after the industry experienced growth of 20% in 2022. The projected revenue decline is broad-based reflecting macroeconomic concerns and headwinds such as labor hoarding, a shrinking number of remote work positions, and B2C work platforms as alternative sources of income.

In September 2023, SIA revised its industry growth forecast for 2024 to 3% from 2% in April 2023.

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 raised interest rates over the last year to cool employment growth and inflation. The Federal Funds interest rate remained at 5.33% after the Federal Reserve held interest rates steady in November 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.

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 June 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 November 10, 2023, average daily volume was 13,900 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	3Q23A	**2023 E**	**2024 E**
ASSETS						
Current assets:						
Cash and cash equivalents	$ -	$ 112	$ -	$ -	**$ -**	**$ -**
Accounts receivable, net	32,831	48,133	66,285	67,284	**67,311**	**65,771**
Prepaid expense and other current assets	2,155	2,346	2,418	2,105	**2,580**	**2,532**
Other current assets	-	2,381	7,459	3,300	**3,434**	**3,000**
Assets of discontinued operations	8,663	7,198	-	-	**-**	**-**
Total current assets	43,649	60,170	76,162	72,689	**73,324**	**71,303**
Property and equipment, net	3,464	4,331	2,081	1,603	**1,600**	**1,575**
Deposits an other assets	5,175	5,390	7,028	7,769	**7,775**	**7,800**
Right-of-use asset - operating lease, net	5,550	3,914	4,462	4,253	**2,253**	**2,253**
Deferred income taxes	5,828	4,548	2,196	7,288	**5,288**	**7,288**
Intangible assets, net	32,133	33,585	47,552	31,619	**28,082**	**23,796**
Goodwill	27,052	29,142	55,193	58,453	**58,453**	**58,453**
Noncurrent assets of discontinued operations	7,427	7,213	-	-	**-**	**-**
Total assets	$ 130,278	$ 148,294	$ 194,673	$ 183,674	**$ 176,775**	**$ 172,468**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Debt	2,625	3,563	4,000	26,666	**21,384**	**19,384**
Accrued interest	78	102	273	296	**300**	**350**
Accounts payable	220	401	587	250	**350**	**450**
Accrued payroll and expenses	10,376	16,154	19,171	18,068	**17,000**	**18,500**
Current liabilities of discontinued operations	1,239	1,262	-	-	**-**	**-**
Contingent consideration	-	1,074	1,081	3,798	**3,798**	**3,798**
Lease liability	1,866	1,896	1,842	1,759	**1,770**	**1,770**
Other current liabilities	-	3,550	1,000	1,200	**1,200**	**1,200**
Long-term debt, current	-	-	-	35,000	**34,500**	**30,500**
Taxes payable	1,861	382	253	211	**211**	**211**
Total current liabilities	18,264	28,384	28,207	87,248	**80,513**	**76,163**
Line of credit	5,709	12,588	22,302	-	**-**	**-**
Long-term debt	26,300	23,300	36,000	-	**-**	**-**
Convertible note	-	-	4,368	4,368	**4,368**	**4,368**
Lease liability	4,581	2,685	3,049	2,823	**3,156**	**1,500**
Other long-term liabilities and contingent consideration	9,643	4,555	10	3,319	**3,319**	**3,319**
Noncurrent liabilities of discontinued operations	323	190	-	-	**-**	**-**
Stockholders' equity:						
Common stock, $0.01 par value; authorized 19,500,000 shares;	74	66	70	60	**60**	**60**
Additional paid-in capital	60,457	61,875	67,003	68,289	**68,722**	**70,422**
Retained earnings (Deficit)	5,050	14,592	33,663	17,567	**16,636**	**16,636**
Accumulated other comprehensive loss	(123)	58	-	-	**-**	**-**
Total stockholders' equity	65,458	76,592	100,737	85,916	**85,419**	**87,119**
Total liabilities and stockholders' equity	$ 130,278	$ 148,294	$ 194,673	$ 183,674	**$ 176,775**	**$ 172,468**
SHARES OUT	10,328	10,425	10,773	10,865	**10,880**	**10,925**

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	**$ 314,700**	**$ 324,350**
Cost of services	141,086	158,087	194,874	**201,858**	**207,400**
Gross Profit	66,039	80,940	103,547	**112,842**	**116,950**
Operating Expenses:					
SG&A	55,244	65,115	83,212	**90,275**	**90,800**
Gain on contingent consideration	(76)	(2,403)	-	-	-
Impairment losses	7,240	-	-	**22,545**	-
Depreciation and amortization	4,861	3,698	4,053	**7,760**	**7,025**
Total Operating Expenses	67,268	66,411	87,265	**120,580**	**97,825**
Operating Income (loss)	(1,229)	14,530	16,282	**(7,738)**	**19,125**
Other income (expense)					
Interest expense	(1,584)	(1,433)	(1,362)	**(6,099)**	**(6,250)**
Total Other Income (expense)	(1,584)	(1,433)	(1,362)	**(6,099)**	**(6,250)**
Income (loss) before taxes	(2,813)	13,097	14,920	**(13,837)**	**12,875**
Income Tax Expense (Benefit)	(741)	2,640	3,659	**(3,315)**	**3,081**
Net Income (loss) - from continuing operations	(2,072)	10,457	11,261	**(10,522)**	**9,794**
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	**$ (10,522)**	**$ 9,794**
Earnings (loss) per share - Continuing operations	$ (0.20)	$ 1.00	$ 1.07	**$ (0.98)**	**$ 0.90**
Discontinued operations per share including sale	0.34	0.35	1.35	-	-
Net Income (loss) per share	$ 0.14	$ 1.35	$ 2.42	**$ (0.98)**	**$ 0.90**
Dividend per share	$ 0.50	$ 0.44	$ 0.60	**$ 0.60**	**$ 0.60**
Avg Shares Outstanding	10,338	10,417	10,473	**10,774**	**10,823**
EBITDA - Adjusted from continuing operations	$ 13,760	$ 16,658	$ 21,692	**$ 24,864**	**$ 29,150**
Margin Analysis					
Gross margin	31.9%	33.9%	34.7%	**35.9%**	**36.1%**
SG&A	26.7%	27.2%	27.9%	**28.7%**	**28.0%**
Depreciation and amortization	2.3%	1.5%	1.4%	**2.5%**	**2.2%**
Operating margin	(0.6%)	6.1%	5.5%	**(2.5%)**	**5.9%**
Pre-tax margin	(1.4%)	5.5%	5.0%	**(4.4%)**	**4.0%**
Tax rate	26.3%	20.2%	24.5%	**24.0%**	**23.9%**
YEAR / YEAR GROWTH					
Total Revenues	(5.8%)	15.4%	24.8%	**5.5%**	**3.1%**

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 A	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	$ 83,484	$ 75,100	**$ 314,700**	$ 76,250	$ 81,750	$ 87,500	$ 78,850	**$ 324,350**
Cost of services	45,111	49,030	50,508	50,225	194,874	48,532	51,226	53,505	48,595	**201,858**	49,195	52,400	55,455	50,350	**207,400**
Gross Profit	23,431	25,059	28,000	27,057	103,547	26,784	29,574	29,979	26,505	**112,842**	27,055	29,350	32,045	28,500	**116,950**
Operating Expenses:															
SG&A	19,717	19,898	20,386	23,211	83,212	23,212	22,584	22,679	21,800	**90,275**	21,950	22,750	23,750	22,350	**90,800**
Impairment losses	-	-	-	-	-	22,545	-	-	-	**22,545**	-	-	-	-	**-**
Depreciation and amortization	899	922	1,145	1,087	4,053	1,757	1,940	2,033	2,030	**7,760**	1,850	1,750	1,725	1,700	**7,025**
Total Operating Expenses	20,616	20,820	21,531	24,298	87,265	47,514	24,524	24,712	23,830	**120,580**	23,800	24,500	25,475	24,050	**97,825**
Operating Income (loss)	2,815	4,239	6,469	2,760	16,282	(20,730)	5,050	5,267	2,675	**(7,738)**	3,255	4,850	6,570	4,450	**19,125**
Other income (expense)															
Interest expense	(273)	(70)	(376)	(644)	(1,362)	(1,200)	(1,502)	(1,672)	(1,725)	**(6,099)**	(1,750)	(1,700)	(1,450)	(1,350)	**(6,250)**
Total Other Income (expense)	(273)	(70)	(376)	(644)	(1,362)	(1,200)	(1,502)	(1,672)	(1,725)	**(6,099)**	(1,750)	(1,700)	(1,450)	(1,350)	**(6,250)**
Income (loss) before taxes	2,542	4,170	6,093	2,116	14,920	(21,930)	3,548	3,595	950	**(13,837)**	1,505	3,150	5,120	3,100	**12,875**
Income Tax Expense (Benefit)	534	986	1,440	699	3,659	(5,464)	944	955	250	**(3,315)**	361	755	1,225	740	**3,081**
Net Income (loss) - from continuing operations	2,008	3,184	4,653	1,417	11,261	(16,466)	2,604	2,640	700	**(10,522)**	1,144	2,395	3,895	2,360	**9,794**
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	$ 2,640	$ 700	**$ (10,522)**	$ 1,144	$ 2,395	$ 3,895	$ 2,360	**$ 9,794**
Earnings (loss) per share - Continuing operations	$ 0.19	$ 0.30	$ 0.44	$ 0.13	$ 1.07	$ (1.54)	$ 0.24	$ 0.24	$ 0.06	**$ (0.98)**	$ 0.11	$ 0.22	$ 0.36	$ 0.22	**$ 0.90**
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)	$ 0.24	$ 0.24	$ 0.06	**$ (0.98)**	$ 0.11	$ 0.22	$ 0.36	$ 0.22	**$ 0.90**
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	10,770	10,803	10,810	**10,774**	10,815	10,820	10,825	10,830	**10,823**
EBITDA - Adjusted from continuing operations	$ 3,925	$ 5,403	$ 8,031	$ 4,332	$ 21,692	$ 4,252	$ 7,500	$ 7,857	$ 5,255	**$ 24,864**	$ 5,855	$ 7,350	$ 9,045	$ 6,900	**$ 29,150**
Margin Analysis															
Gross margin	34.2%	33.8%	35.7%	35.0%	34.7%	35.6%	36.6%	35.9%	35.3%	**35.9%**	35.5%	35.9%	36.6%	36.1%	**36.1%**
SG&A	28.8%	26.9%	26.0%	30.0%	27.9%	30.8%	28.0%	27.2%	29.0%	**28.7%**	28.8%	27.8%	27.1%	28.3%	**28.0%**
Depreciation and amortization	1.3%	1.2%	1.5%	1.4%	1.4%	2.3%	2.4%	2.4%	2.7%	**2.5%**	2.4%	2.1%	2.0%	2.2%	**2.2%**
Operating margin	4.1%	5.7%	8.2%	3.6%	5.5%	(27.5%)	6.3%	6.3%	3.6%	**(2.5%)**	4.3%	5.9%	7.5%	5.6%	**5.9%**
Pre-tax margin	3.7%	5.6%	7.8%	2.7%	5.0%	(29.1%)	4.4%	4.3%	1.3%	**(4.4%)**	2.0%	3.9%	5.9%	3.9%	**4.0%**
Tax rate	21.0%	23.6%	23.6%	33.0%	24.5%	24.9%	26.6%	26.6%	26.3%	**24.0%**	24.0%	24.0%	23.9%	23.9%	**23.9%**
YEAR / YEAR GROWTH															
Total Revenues	37.8%	29.1%	22.3%	14.2%	24.8%	9.9%	9.1%	6.3%	(2.8%)	**5.5%**	1.2%	1.2%	4.8%	5.0%	**3.1%**

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

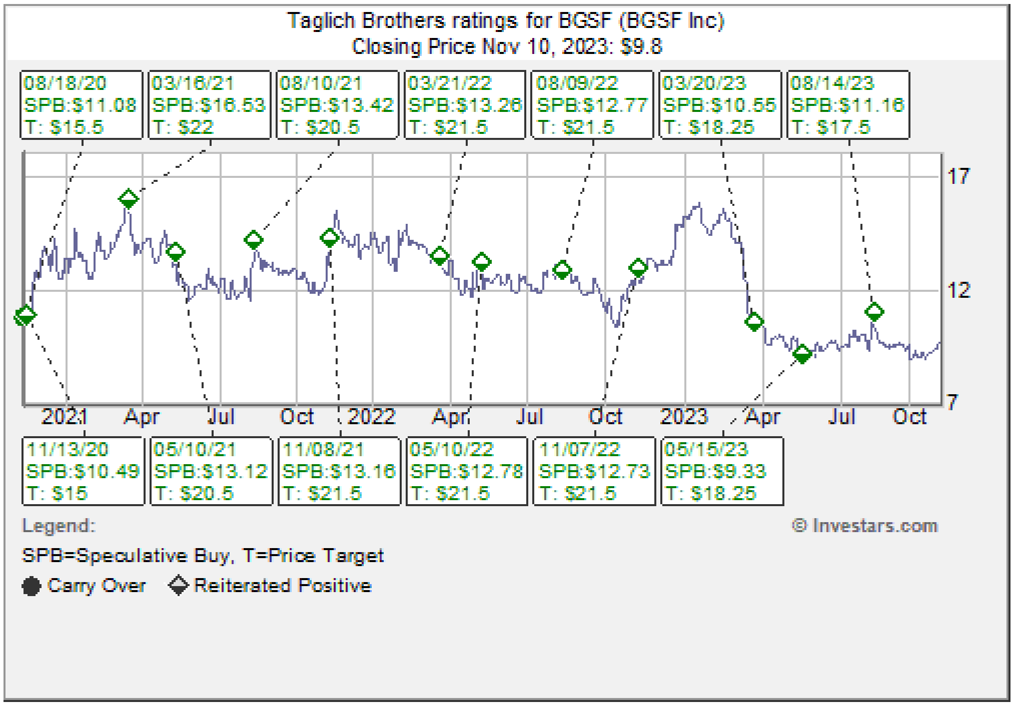
Source: Company reports and Taglich Brothers estimates

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

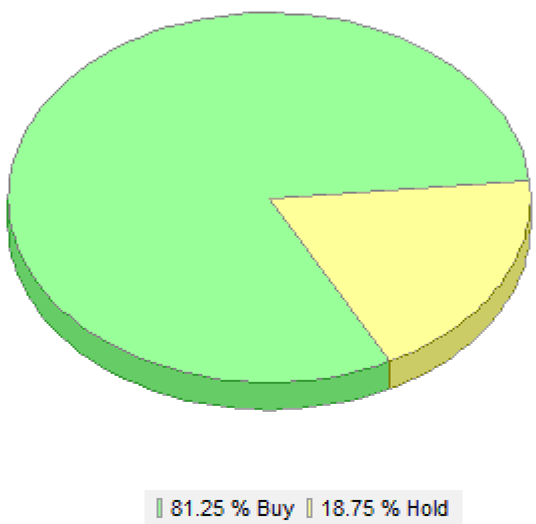
	FY2020A	FY2021A	FY2022A	9 Mos.23A	**FY2023E**	**FY2024E**
Cash Flows from Operating Activities						
Net Income (loss)	$ 1,441	$ 14,109	$ 25,361	$ (11,222)	**$ (10,522)**	**$ 9,794**
(Income) from discontinued operations, net of tax	(3,513)	(3,652)	(1,235)	-	-	-
Depreciation and amortization	4,861	3,698	4,053	5,729	**7,760**	**7,025**
Gain on sale of discontinued operations	-	-	(17,675)	-	-	-
Impairment losses	7,240	-	-	22,545	**22,545**	-
CARES Act credit	-	(2,368)	-	0	-	-
Disposal of property and equipment	-	8	6	-	-	-
Contingent considerationt adjustment	(76)	(2,403)	-	-	-	-
Amortization of defered financing costs	83	75	172	145	**185**	**185**
Interest expense on earnout payable	190	252	128	468	**500**	**550**
Provision for doubtful accounts	349	221	315	658	**785**	**800**
Stock based compensation	786	1,058	1,085	844	**1,150**	**1,150**
Deferred income taxes	(2,413)	1,279	2,353	(5,092)	**(5,092)**	-
Cash earnings (burn)	8,947	12,279	14,562	14,075	**17,311**	**19,504**
Changes In:						
Accounts receivable	5,026	(15,178)	(14,793)	1,795	**(1,026)**	**1,540**
Prepaid expenses and other	(855)	(201)	(866)	313	**(162)**	**48**
Other current assets	(916)	319	661	3,179	**4,026**	**434**
Deposits and other	(209)	(126)	1,503	459	**(747)**	**(25)**
Accrued interest	5	24	171	23	**(27)**	**(50)**
Accounts payable	(279)	156	(228)	(337)	**(237)**	**100**
Accrued payroll and expenses	(1,342)	5,730	1,633	(4,251)	**(2,171)**	**1,500**
Other current and long-term liabilities - includes Contingent Consideration	7,216	(59)	(4,613)	(1,000)	**6,226**	-
Operating leases	213	(107)	(127)	(100)	**(100)**	-
Accrued taxes	1,875	(1,479)	60	938	**(42)**	-
Net (increase)/decrease in Working Capital	10,733	(10,921)	(17,862)	1,019	**5,739**	**3,546**
Net cash provided (used) by continuing operating activities	19,680	1,358	(3,300)	15,094	**23,050**	**23,050**
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)	15,094	**23,050**	**23,050**
Cash Flows from Investing Activities						
Business acquired, net of cash received	(22,002)	(3,791)	(33,940)	(6,740)	**(6,740)**	-
Captial expenditures	(2,076)	(3,204)	(5,680)	(2,019)	**(2,700)**	**(3,000)**
Business sold	-	-	30,722	-	-	-
Proceeds from sale of property and equipment	-	5	-	-	-	-
Net cash used in continuing investing activities	(24,078)	(6,990)	(8,898)	(8,759)	**(9,440)**	**(3,000)**
Net cash used in discontinued investing activities	(69)	(35)	(26)	-	-	-
Net cash used in investing activities	(24,147)	(7,024)	(8,924)	(8,759)	**(9,440)**	**(3,000)**
Cash Flows from Financing Activities						
Borrowings (repayments) under line of credit	(14,368)	6,804	9,781	4,282	**(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)	(5,000)	**(5,500)**	**(4,000)**
Issuance of common stock	(12)	(41)	(1)	19	**19**	-
Issuance of ESSP shares	-	340	654	412	**550**	**550**
Contingent consideration paid	-	-	(1,110)	(1,110)	**(1,110)**	-
Dividends	(5,155)	(4,567)	(6,290)	(4,874)	**(6,505)**	**(6,600)**
Deferred financing and share issuance costs	-	-	(238)	(64)	**(64)**	-
Net cash provided (used) by Financing	1,890	473	15,934	(6,335)	**(13,610)**	**(20,050.0)**
Net change in Cash	-	112	(112)	-	-	-
Cash Beginning of Period	-	-	112	-	-	-
Cash End of Period	-	$ 112	-	$ -	**$ -**	**$ -**

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	2	11
Hold		
Sell		
Not Rated		

Important Disclosures

As of November 10, 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 479,899 shares of BGSF common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 544,539 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 850 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.