

Services
Analysis of Sales/Earnings

Estimates Changed, Target Price Changed

BGSF, Inc. | BGSF - \$13.61 - NYSE | Buy
Stock Data

52-Week Low - High	\$11.45 - \$16.91
Shares Out. (mil)	10.43
Mkt. Cap.(mil)	\$141.89
3-Mo. Avg. Vol.	19,924
12-Mo.Price Target	\$18.00
Cash (mil)	\$0.1
Tot. Debt (mil)	\$9.5
Est. 3Yr. EPS Growth	20%

Debt is our pro forma estimate and assumes \$30mm net proceeds from the sale of the Light Industrial business will repay debt.

Revenue (\$ millions)

Yr Dec	—2021—	—2022E—		—2023E—
		Curr	Prev	Curr
1Q	49.8A	56.3E	70.5E	-
2Q	57.4A	62.8E	80.1E	-
3Q	64.2A	69.0E	88.7E	-
4Q	67.7A	72.9E	86.5E	-
YEAR	239.0A	260.9E	325.8E	282.9E

EBITDA

Yr Dec	—2021—	—2022E—		—2023E—
		Curr	Prev	Curr
1Q	0.6A	2.2E	3.0E	-
2Q	2.2A	4.0E	5.3E	-
3Q	3.3A	5.9E	7.6E	-
4Q	5.5A	7.2E	6.6E	-
YEAR	16.7A	19.3E	22.6E	21.9E

EPS \$

Yr Dec	—2021—	—2022E—		—2023E—
		Curr	Prev	Curr
1Q	(0.02)A	0.06E	0.11E	-
2Q	0.25A	0.20E	0.27E	-
3Q	0.36A	0.34E	0.43E	-
4Q	0.41A	0.44E	0.36E	-
YEAR	1.00A	1.04E	1.18E	1.27E

Financials exclude results of Light Industrial given it's pending sale. As a result, 2022 estimates are not comparable to prior estimates.

BGSF: 4Q21 Results and Light Industrial Sale Takeaway

The sale of the Light Industrial business improves BGSF's margin and growth profile, lower leverage and allows for investment in organic and inorganic growth initiatives. We are encouraged by continued improvements in both Real Estate and Professional, and anticipate the new technology platform to provide cost efficiencies and enable more rapid growth, as industry conditions allow. Maintain Buy rating, PT to \$18 from \$20 on revised estimates.

Quick take: BGSF posted strong 4Q results, with a continued rebound in Real Estate and Professional showing strength outside of Infrastructure and Development (I&D). I&D was down 5.5% y/y in 4Q21 and has been slower to recover from the pandemic and management noted continuous improvement, with increased activity in early 2022. We believe strategic initiatives over the past two years will begin to bear fruit in 2022, with the significant investment in IT systems driving automation and recruiting efficiency gains. The technology platform goes live in 2Q22.

Earlier in the month, BGSF announced the planned sale of the Light Industrial business for \$32.3mm cash, reflecting a 7.5x EBITDA multiple. The sale allows BGSF to focus on high-end IT consulting and project-based managed services in the Professional segment and growth initiatives in the Real Estate segment. We assume proceeds will repay debt, bringing leverage to under 1x.

Estimate revisions (and historicals) reflect the exclusion of Light Industrial for all periods shown in our model. We estimate 9% revenue growth in 2022, including 14% for Real Estate and 6% for Professional. We model \$1.04 GAAP EPS (+4%) adjusted EPS of \$1.27 (+30%) and adjusted EBITDA of \$19.3mm (+16%). 2023 estimates assume 8% revenue growth and translate to 23% GAAP EPS growth, 19% adjusted EPS growth and 13% adjusted EBITDA growth.

4Q21 results summary: Revenue increased 38% to \$67.7mm, including a 54% increase in Real Estate and 29% increase in Professional. Professional revenue includes a \$1.2mm contribution from the Momentum Solutionz acquisition. Gross margin improved 141bps to 34.6%, enabling a 44% increase in gross profit. EPS from continuing operations improved to \$0.41 vs. \$0.10 in 4Q20. Adjusted EPS from continuing operations, excluding the CARES Act credit, was \$0.29, up from \$0.17 in 4Q20. Adjusted EBITDA from continuing operations improved to \$5.5mm from \$3.1mm. Given the shift of the Light Industrial segment to discontinued operations, results are not comparable to our estimates.

BGSF One-Year Price and Volume History


VALUATION

Our \$18 price target is based on 10x our 2023 adjusted EBITDA estimate of \$21.9mm, discounted 10% for the additional time horizon. The valuation target represents 19x and 16x our 2022 and 2023 GAAP EPS estimates, 16x and 13x our adjusted EPS estimates and 11.3 and 10x our adjusted EBITDA estimates. The stock currently yields 4.4% on the \$0.15 quarterly dividend.

Potential impediments to BGSF shares reaching our price target include, but are not limited to, impact of COVID-19 on the economy and on BGSF's three segments, lack of trading liquidity, small public float, risk of economic downturn and the sensitivity of the staffing industry to economic activity, potential loss of large customers, risk of pricing competition in the staffing industry that would suppress margins, difficulty in finding skilled labor for staffing assignments and execution risk associated with acquisitions.

RISKS

Key risks for BGSF include, but are not limited to, lack of trading liquidity, small public float, risk of economic downturn and the sensitivity of the staffing industry to economic activity, potential loss of large customers, risk of pricing competition in the staffing industry that would suppress margins, difficulty in finding skilled labor for staffing assignments and execution risk associated with acquisitions.

COMPANY DESCRIPTION

BG Staffing, Inc. (BG Staffing) is a provider of temporary staffing services. The company provides temporary workers to a range of customers that are seeking to match their workforce requirements to their business needs. Its customers operate across a diverse set of industries. The company's operations are organized into three segments: Commercial, Multifamily and Professional. The company's temporary staffing services consist of on-demand or short-term staffing assignments, contract staffing, and on-site management administration. Short-term staffing services assist employers in dealing with employee demands caused by such factors as seasonality, fluctuations in customer demand, vacations, illnesses, parental leave, and special projects. The company's contract staffing services place temporary employees with customers for time-periods of more than three months or for an indefinite time period.

BGSF - Income Statement (\$ in 000s, except per share data)

Year End: December	2017	2018	2019	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21	4Q21	2021	1Q22E	2Q22E	3Q22E	4Q22E	2022-E	2023-E
Real Estate (Multifamily)	74,152	86,874	96,422	20,028	11,780	19,156	17,791	68,756	18,613	21,212	24,789	27,404	92,018	23,266	24,394	27,268	30,145	105,072	117,681
Professional staffing	126,641	119,300	123,343	36,344	36,649	34,042	31,335	138,370	31,137	36,186	39,396	40,290	147,009	33,006	38,357	41,760	42,707	155,830	165,179
Total revenue	198,448	206,174	219,764	56,372	48,430	53,198	49,126	207,125	49,750	57,398	64,185	67,694	239,027	56,272	62,751	69,027	72,852	260,902	282,860
% Change yr-yr	-21.8%	3.9%	6.6%					-5.8%	-11.7%	18.5%	20.7%	37.8%	15.4%	13.1%	9.3%	7.5%	7.6%	9.2%	8.4%
% Change seq.					-14.1%	9.8%	-7.7%		1.3%	15.4%	11.8%	5.5%		-16.9%	11.5%	10.0%	5.5%		
Cost of revenue	140,684	141,654	149,938	38,635	33,563	51,807	32,812	141,085	33,535	38,150	42,138	44,263	158,086	37,398	41,808	45,961	48,415	173,582	188,350
% of sales	70.9%	68.7%	68.2%	68.5%	69.3%	97.4%	66.8%	68.1%	67.4%	66.5%	65.7%	65.4%	66.1%	66.5%	66.6%	66.6%	66.5%	66.5%	66.6%
Gross profit	57,764	64,520	69,826	17,737	14,867	1,391	16,314	66,040	16,215	19,247	22,047	23,432	80,941	18,874	20,942	23,067	24,437	87,320	94,510
% margin	29.1%	31.3%	31.8%	31.5%	30.7%	2.6%	33.2%	31.9%	32.6%	33.5%	34.3%	34.6%	33.9%	33.5%	33.4%	33.4%	33.5%	33.5%	33.4%
Selling, general and administrative expenses	38,659	44,787	50,222					55,244					65,115	17,000	17,250	17,500	17,500	69,250	74,000
% of sales	19.48%	21.72%	22.85%					26.67%					27.24%	30.21%	27.49%	25.35%	24.02%	26.54%	26.16%
Gain on contingent consideration	(226)	(3,775)	-					(76)					(2,403)						
Depreciation and amortization	5,873	4,833	4,718					4,861					3,698	850	850	850	850	3,400	3,600
Impairment losses								7,240											
Total SG&A	44,306	45,845	54,940					67,269					66,410	17,850	18,100	18,350	18,350	72,650	77,600
% of sales	22.3%	22.2%	25.0%					32.5%					27.8%	31.7%	28.8%	26.6%	25.2%	27.8%	27.4%
Operating income	13,458	18,675	14,886					(1,229)					14,531	1,024	2,842	4,717	6,087	14,670	16,910
% margin	6.8%	9.1%	6.8%					-0.6%					6.1%	1.8%	4.5%	6.8%	8.4%	5.6%	6.0%
Total non-operating expenses (income)	(3,253)	(2,850)	(2,110)					(1,584)					(1,433)	(220)	(180)	(125)	(125)	(650)	(500)
Pretax income	10,205	15,825	12,776					(2,813)					13,098	804	2,662	4,592	5,962	14,020	16,410
% margin	5.1%	7.7%	5.8%					-1.4%					5.5%	1.4%	4.2%	6.7%	8.2%	5.4%	5.8%
Tax provision (benefit)	6,090	2,855	3,135					(741)					2,640	177	586	1,010	1,312	3,084	2,842
% tax rate	59.7%	18.0%	24.5%					26.3%					20.2%	22.0%	22.0%	22.0%	22.0%	22.0%	17.3%
Change in unrealized gains (losses) on cash flow hedges								-					-	-	-	-	-		
Net income - continuing operations	4,115	12,970	9,641	690	(5,471)	1,628	1,081	(2,072)	(212)	2,635	3,713	4,321	10,458	627	2,077	3,581	4,650	10,935	13,568
% margin	2.1%	6.3%	4.4%	1.2%	-11.3%	3.1%	2.2%	-1.0%	-0.4%	4.6%	5.8%	6.4%	4.4%	1.1%	3.3%	5.2%	6.4%	4.2%	4.8%
EPS - continuing operations	\$0.46	\$1.32	\$0.93	\$0.07	(\$0.53)	\$0.16	\$0.10	(\$0.20)	(\$0.02)	\$0.25	\$0.36	\$0.41	\$1.00	\$0.06	\$0.20	\$0.34	\$0.44	\$1.04	\$1.27
Adjusted EPS - continuing operations							\$0.17	\$0.74					\$0.98	\$0.11	\$0.24	\$0.39	\$0.49	\$1.27	\$1.52
Diluted shares outstanding	9,038	9,808	10,351	10,383	10,307	10,326	10,334	10,338	10,395	10,392	10,427	10,465	10,417	10,490	10,515	10,540	10,565	10,527	10,652
Adjusted EBITDA - continuing operations	19,970	21,256	21,609	1,883	(4,798)	2,213	3,083	13,760	582	2,192	3,305	5,473	16,659	2,174	3,992	5,867	7,237	19,270	21,860
% margin	10.1%	10.3%	9.8%	3.3%	-9.9%	4.2%	6.3%	6.6%	1.2%	3.8%	5.1%	8.1%	7.0%	3.9%	6.4%	8.5%	9.9%	7.4%	7.7%

Adjusted EPS in 2020 and 2021 excludes transaction fees, IT roadmap expenses, and changes in contingent consideration estimates. Adjusted EPS in 2021 excludes a CARES Act credit.

2021 SG&A includes a CARES Act credit of \$2.1mm

Source: SEC filings and Roth Capital Partners estimates.

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Rating	Count	Percent	IB Serv./Past 12 Mos. as of 03/14/22	
			Count	Percent
Buy [B]	348	82.86	234	67.24
Neutral [N]	45	10.71	24	53.33
Sell [S]	0	0.00	0	0
Under Review [UR]	27	6.43	17	62.96

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