Trickle Research

Every raging river, every great lake, every
deep blue sea starts … with a trickle

Research Update

HireQuest

HireQuest, Inc.

(Nasdaq Symbol: HQI)

Report Date: 11/16/20

Allocation: 5

12- 24 month Price Target (split adjusted): $11.50

Closing Stock Price at Initiation (Split Adjusted Close 9/08/17): $4.44

Closing Stock Price at Allocation Increase (Close 11/13/18): $3.88

Closing Stock Price at Price Targe Increase (Close 10/05/20): $7.73

Closing Stock Price at This Update (Close 10/05/20): $8.80

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We just provided a HireQuest update a little over a month ago wherein we raised our price target, but they did announce earnings a few days ago so we thought we would take a moment and weigh in on those. In short, revenues were $3.4 million versus our estimate of $3.4 million, but they crushed our Net Income estimate of $775,000 ($.06 of eps) by posting $1.97 million of $.15 (eps). Much of that difference was related to workman's comp (and our estimates therein). Recall (going way back in this story), this has always been a bit of the wildcard in the analysis, but we suspect we may have to revisit some of our methodology because succinctly, we think current management has a better handle on this than its predecessors. We will try to refine that as we move forward.

In addition to posting a very solid quarter, the Company also paid a $.05 per share dividend during the quarter and just prior to the start of the quarter they announced a board authorization to repurchase up to 1 million shares of its common stock through June 2021. Keep in mind, there are only 13.6 million shares outstanding. They also ended the quarter with $10.3 million in cash, and over $29 million in working capital.

Looking ahead, we think HQI has done a great job working through the pandemic, although we also think the result underscore a cogent point regarding the business today versus in the past, which is that the current model (among other advantages) is probably more risk averse in general, so it should be no surprise that it has held up better than pre-merger operations would likely have posted. By the way, that view is not meant to minimize what we think has been exceptional work on the part of management. That said, while we are hopeful that perhaps the worst of the pandemic is behind us, at least in terms of economic impact, that remains a very open-ended item. On the other hand, given HQI's business model and strong balance sheet, they are certainly in much better shape to weather a potential continued storm, than most of the microcap companies we follow or are familiar, which is a relatively large universe. Moreover, they seem to be able to keep moving forward in spite o the challenging environment.

Recall, in our last update, we raised our price target quite considerably based on what noted then (and continue to believe today), which is that "*we do not think the Company has ever been in better hands and we think the numbers since the time of the acquisition support that view"*. The truly intriguing part of the story is that we really have not seem what the Company can do in a "normalized" environment. That is, the merger included some usual extraordinary items that often make it difficult to ascertain what "normalized" will be, and from there we entered "pandemic mode", which also provide some extraordinary challenges. Despite those nuances, they have posted constructive results, which makes us think they might do *exceptionally* well in a reasonable environment. Obviously, we need to get to that "reasonable environment" before we can test our theory, but in the meantime, we do not think either our current target or our current allocation include much blue sky for that sort of scenario.

We are becoming increasingly constructive on HQI but remain guarded about the macro environment. As a result, we will stand pat on our current target and allocation assessments until we get a better sense of the world view.

Projected Operating Overview

Income Statement						
Projected Operating Statement						
Command Center, Inc.						
By: Trickle Research LLC	(actual)	(actual)	(actual)	(estimate)	(estimate)	(estimate)
	3/31/20	**6/30/20**	**9/30/20**	**12/31/20**	**Fiscal 2020**	**Fiscal 2021**
Franchise Royalties	$ 3,705,232	$ 2,639,287	$ 3,218,606	$ 3,341,943	$ 12,905,067	$ 18,380,810
Service Revenues	$ 414,739	$ 261,703	$ 164,074	$ 206,481	$ 1,046,997	$ 987,511
Total Revenues	$ 4,119,971	$ 2,900,990	$ 3,382,680	$ 3,548,424	$ 13,952,064	$ 19,368,321
Selling, general, and administrative expenses	$ 3,253,372	$ 1,931,076	$ 1,357,725	$ 2,100,559	$ 8,642,732	$ 9,658,393
Depreciation and amortization	$ 31,814	$ 32,402	$ 32,438	$ 33,303	$ 129,957	$ 130,240
Income from operations	$ 834,785	$ 937,512	$ 1,992,517	$ 1,414,561	$ 5,179,375	$ 9,579,687
Interest expense and other financing expense	$ (11,289)	$ (17,850)	$ (10,035)	$ (10,931)	$ (50,105)	$ (48,552)
Other Miscellaneous Income	$ 250,709	$ 288,837	$ 392,709	$ -	$ 932,255	$ 0
Net income before income taxes	$ 1,074,205	$ 1,208,499	$ 2,375,191	$ 1,403,630	$ 6,061,525	$ 9,531,136
Provision for income taxes	$ 199,037	$ 51,497	$ 404,058	$ 322,835	$ 977,427	$ 2,192,161
Income From Continuing Operations						
Income From Discontinued Operations						
Net Income	$ 875,168	$ 1,157,002	$ 1,971,133	$ 1,080,795	$ 5,084,098	$ 7,338,975
Earnings per share:						
Basic	$ 0.06	$ 0.09	$ 0.15	$ 0.08	$ 0.38	$ 0.56
Diluted	$ 0.06	$ 0.09	$ 0.15	$ 0.08	$ 0.37	$ 0.55
Weighted average shares outstanding:						
Basic	$13,536,742	$13,547,950	$13,573,086	$13,465,151	13,530,732	13,204,699
Diluted	$13,680,565	$13,549,727	$13,574,863	$13,479,476	13,571,158	13,245,999

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Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals $250) and 10 representing 10 investment units or $2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit $25,000 to buying micro-cap stocks, that would assume an investment of $1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to perhaps add another 5 of the names from our profiles). We generally start initial coverage stocks with an allocation of 4. Thus, at $1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same $250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting $1000 into the position ($250 * 4). If we later raise the allocation to 6, you might consider adding two additional units or $500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.