

# Trickle Research

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



## Price Target Increase



**HireQuest, Inc.**

(Nasdaq Symbol: HQI)

Report Date: 02/08/21

Allocation: 5

12- 24 month Price Target (split adjusted): \* \$17.50

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 Target Increase (Close 10/05/20): \$7.73

Closing Stock Price at This Update (Close 02/08/21): \$13.15

Prepared By:

David L. Lavigne

Senior Analyst, Managing Partner

Trickle Research LLC

We provided an update the other day on HireQuest regarding their recent acquisition of Snelling Staffing. In that update, we noted the following:

*Recognize that we have not been able to speak with management about this transaction, so much of our narrative here is restricted by the clarity that sort of conversation might otherwise yield. We are arranging a call with management but are waiting on their availability, however, we think there are things we know that are worth sharing.*

We have had the opportunity to speak with management, and as a result we can “finish our thought” with respect to the potential impact of the acquisition.

First, in the recent update we noted that we thought the impact of the acquisition should be quite positive on the face. Following our discussion, we remain of that view. However, management did point out something that they alluded to in the acquisition release that we had not fully absorbed:

*“This acquisition will significantly expand our scale and provide a new and compelling franchise opportunity in commercial staffing, complementing our existing direct dispatch model,” commented Rick Hermanns, HireQuest’s President and Chief Executive Officer.*

Succinctly, prior to the Snelling acquisition, HQI’s business was largely focused on the direct dispatch portion of the temporary employment spectrum. However, Snelling’s business is primarily on the commercial staffing side of the industry. As a result (and again as they alluded to) their intent is to utilize the Snelling brand to enhance their commercial staffing opportunities across the organization and across the country. That approach may allow them to introduce the Snelling name in its existing direct dispatch footprint as well as perhaps in new market/locations altogether. The point is the acquisition should provide additional value beyond the simple addition of stores.

As result of the above acquisition and our discussion with management thereof, we are establishing a new 12-24 month price target for HQI shares of \*\$17.50 per share. That number is up from our prior target of \$11.50. Frankly, we think the acquisition could provide a bit more synergy than we are initially reflecting here, which could lead to better valuation conclusions as learn more. In addition, we reiterate our allocation of 5.

## Projected Operating Overview

<b>HireQuest, Inc.</b>							
<b>By: Trickle Research LLC</b>		(actual)	(actual)	(actual)	(estimate)	(estimate)	(estimate)
		<b>3/31/20</b>	<b>6/30/20</b>	<b>9/30/20</b>	<b>12/31/20</b>	<b>Fiscal 2020</b>	<b>Fiscal 2021</b>
Franchise Royalties		\$ 3,705,232	\$ 2,639,287	\$ 3,218,606	\$ 3,341,943	\$ 12,905,067	\$ 22,533,556
Service Revenues		\$ 414,739	\$ 261,703	\$ 164,074	\$ 206,481	\$ 1,046,997	\$ 1,126,818
Total Revenues		\$ 4,119,971	\$ 2,900,990	\$ 3,382,680	\$ 3,548,424	\$ 13,952,064	\$ 23,660,374
Selling, general, and administrative expenses		\$ 3,253,372	\$ 1,931,076	\$ 1,357,725	\$ 2,100,559	\$ 8,642,732	\$ 10,985,164
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	\$ 12,544,970
Interest expense and other financing expense		\$ (11,289)	\$ (17,850)	\$ (10,035)	\$ (10,931)	\$ (50,105)	\$ 392,156
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	\$ 12,152,814
Provision for income taxes		\$ 199,037	\$ 51,497	\$ 404,058	\$ 322,835	\$ 977,427	\$ 2,795,147
Income From Continuing Operations							
Income From Discontinued Operations							
Net Income		\$ 875,168	\$ 1,157,002	\$ 1,971,133	\$ 1,080,795	\$ 5,084,098	\$ 9,357,666
<b>Earnings per share:</b>							
Basic		\$ 0.06	\$ 0.09	\$ 0.15	\$ 0.08	\$ 0.38	\$ 0.70
Diluted		\$ 0.06	\$ 0.09	\$ 0.15	\$ 0.08	\$ 0.37	\$ 0.70
<b>Weighted average shares outstanding:</b>							
Basic		\$ 13,536,742	\$ 13,547,950	\$ 13,573,086	\$ 13,465,151	13,530,732	13,355,085
Diluted		\$ 13,680,565	\$ 13,549,727	\$ 13,574,863	\$ 13,479,476	13,571,158	13,396,385

Proprietary - DC

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## **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.**