

Trickle Research

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



Research Update



HireQuest, Inc.

(Nasdaq Symbol: HQI)

Report Date: 02/02/21

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 02/02/21): \$12.79

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Trickle Research LLC

HireQuest made the following announcement the other day, which we think is quite positive and we have provided some color in that regard below:

***HireQuest, Inc. Announces Acquisition of Assets of Snelling Staffing
February 01, 2021***

Asset Purchase Adds 48 Locations in 24 States; Expands Franchise Opportunity to Include Traditional Commercial Staffing

HireQuest, Inc. (Nasdaq: HQI), a national franchisor of on-demand and temporary staffing services, today announced that its subsidiary, HQ Snelling Corporation, has entered into a definitive asset purchase agreement to acquire certain assets of Snelling Staffing (<https://www.snelling.com/>), a 67-year-old staffing company headquartered in Richardson, Texas, for approximately \$17.3 million before working capital adjustments. The assets include Snelling's 48 locations which generated approximately \$95 million in system-wide sales in 2020.

"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. "For more than 60 years, the Snelling name has been synonymous with staffing excellence. HireQuest is excited to welcome the Snelling franchisees that have built the brand over the years, and we intend to maintain and advance this respected trade name going forward. We believe this acquisition will build on the strong foundation laid by both companies by allowing us not only to expand more fully into commercial staffing, but also to broaden our geographic reach to new states."

"HireQuest is always looking to deploy its capital to its best use. Strategic acquisitions are a key component of our growth strategy. This acquisition will further diversify our business, broaden our national footprint and allow us to realize even greater operational leverage. We expect this added scale and diversity of offerings to make us more attractive to national accounts, intrigue potential new franchisees, and grow our revenue base and corresponding earnings while maintaining historical margins."

HireQuest has agreed to guarantee the payment and performance of HQ Snelling Corporation's obligations pursuant to the purchase agreement. HireQuest will fund this acquisition with existing cash on hand and a modest draw on its existing line of credit. Completion of the transaction is subject to a number of closing conditions. Subject to such conditions, the transaction is expected to close February 28, 2021. During the interim, both HireQuest and Snelling offices are expected to remain open for business without interruption.

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.

First, this is a big acquisition for HQI. Keep in mind, prior to the transaction, they had 138 franchise offices around the country, so the addition of 48 additional offices represents a considerable increase to that aggregate number.

Second, we are assuming these offices will ultimately be franchised like their other offices. That is important because while the release states that Snelling realized revenues of \$95 million in 2020, on a *franchise basis*, HQI's reported revenues post integrations will be much lower than that. As a point of reference, in the first three quarters of fiscal 2020, HQI realized (franchise) revenues of \$10.4 million which represents an annualized run rate of about \$13.9 million or roughly \$102,000 per franchisee store per year. Using that math, and assuming the Snelling stores perform close to that same number, we would extrapolate that the 48 acquired stores would collectively create about \$5 million of annual additive franchise revenue. Again, for the sake of comparison, recall, HQI came public via acquisition with Command Center (which was the public entity we originally covered). At that time, Command center was on a similar annual revenue run rate to that of Snelling (around \$97 million), but Command Center had 67 offices at the time. However, they also culled some of the underperforming stores from Command Center transaction. For instance, the Command Center HQI combination collectively had about 163 locations at consumatin, but between the closing of the deal and yearend 2019, that number was 147, so they dropped about 16 stores in that time and we believe much of that was Command Center attrition (which would put the Command Center store count at about 51, which approximates Snelling's 48). To translate, we see the Snelling transaction as similar in scope to that of Command Center. Wit that said, looking back at relative valuations, HQI added about \$6+ per share in valuation following the Command Center combination, and we expect the same sort of intrinsic lift from Snelling.

Third, when we layer the Snelling stores into our model it supports the notion we just laid out above, which is that we see this combination as being additive by about \$6+ per share, which would get us to a new price target of something around \$18. Moreover, our sense is that the combination could include some operating leverage beyond what our revised model suggests. That is something we need to spend some time with management on. Further, as we alluded to, the Snelling may (or may not) be a bit more additive than the "average" pre-acquisition stores, but again, that will require some color that we do not have yet.

Lastly, some of this comparison exercise we are doing with respect to Command Center vs. Snelling, is complicated by the negative impact of Covid19 during the relevant period(s). We think management may be able to enlighten us a bit there as well.

To summarize, we think this acquisition is likely to prove highly positive for HQI, and our inclination is to raise the price target to something closer to \$20 per share. Recall, we raised our price target in October (2020) to \$11.50 when the stock was trading about \$7.75, and the stock has subsequently breached that target as well, which in our methodology means we either need to reduce our allocations or increase our targets. Again, we are compelled to pursue the latter, but we would like to speak with management to see if we can sharpen our pencil before we finalize more definitive conclusions. In the meantime, we are providing the new "layered" on model we alluded to above, but recognize, we will probably need to make some modifications to it once we speak with management.

Projected Operating Overview

Income Statement							
Projected Operating Statement							
HireQuest, 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	\$ 3,391,089	\$ 12,954,214	\$ 22,793,761	
Service Revenues	\$ 414,739	\$ 261,703	\$ 164,074	\$ 207,267	\$ 1,047,783	\$ 1,145,412	
Total Revenues	\$ 4,119,971	\$ 2,900,990	\$ 3,382,680	\$ 3,598,356	\$ 14,001,997	\$ 23,939,172	
Selling, general, and administrative expenses	\$ 3,253,372	\$ 1,931,076	\$ 1,357,725	\$ 2,112,172	\$ 8,654,345	\$ 11,215,037	
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	\$ 1,452,881	\$ 5,217,695	\$ 12,593,895	
Interest expense and other financing expense	\$ (11,289)	\$ (17,850)	\$ (10,035)	\$ (10,931)	\$ (50,105)	\$ (61,509)	
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	\$ 1,441,950	\$ 6,099,845	\$ 12,532,386	
Provision for income taxes	\$ 199,037	\$ 51,497	\$ 404,058	\$ 331,648	\$ 986,240	\$ 2,882,449	
Income From Continuing Operations							
Income From Discontinued Operations							
Net Income	\$ 875,168	\$ 1,157,002	\$ 1,971,133	\$ 1,110,301	\$ 5,113,604	\$ 9,649,937	
Earnings per share:							
Basic	\$ 0.06	\$ 0.09	\$ 0.15	\$ 0.08	\$ 0.38	\$ 0.72	
Diluted	\$ 0.06	\$ 0.09	\$ 0.15	\$ 0.08	\$ 0.38	\$ 0.72	
Weighted average shares outstanding:							
Basic	\$ 13,536,742	\$ 13,547,950	\$ 13,573,086	\$ 13,550,338	13,552,029	13,418,405	
Diluted	\$ 13,680,565	\$ 13,549,727	\$ 13,574,863	\$ 13,564,663	13,592,454	13,459,705	

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Trickle Research co-sponsors two microcap conferences each year. Trickle Research encourages its coverage companies to present at those conferences and Trickle charges them a fee to do so. Companies are under no obligation to present at these conferences. HireQuest, (as Command Center) has paid fees to present at past investor conferences co-sponsored by Trickle Research LLC.

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

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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.