

Trickle Research

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



Earnings Update



HireQuest, Inc.

(Nasdaq Symbol: HQI)

Report Date: 05/25/21

Allocation: 4

12- 24 month Price Target (split adjusted): \$23.00

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 Price Target Update (Close 02/08/21): \$13.15

Closing Price at Price Target Update and Allocation Downgrade (Close 02/16/21): \$14.84

Closing Price at This Update (Close 05/24/21): \$17.75

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Trickle Research LLC

HireQuest's Q1F21 results were a bit mixed, so we thought a short overview might be helpful.

The Company reported revenues of \$3.4 million versus our estimate of \$4.1 million. Much of the difference was related to the timing of the closing of the recent Snelling and Link Staffing acquisitions. However, we also think Covid impacted the quarter more than we anticipated. We have tried to reflect the impact of Covid by essentially starting with a "normal" set of assumptions and then handicapping them. Obviously, that is subject to some error. That may have been particularly true in the first half of the quarter as cases briefly started growing again, relative to the close of 2020. In any event, Q1 was certainly not "normal" and in retrospect, we overstated that a bit. Moreover, as the Company also alluded to on the call, stepped unemployment insurance payments have ostensibly created hiring problems for many employers and as one might expect, that has not spared the temporary employment business either. Inasmuch as an improving pandemic picture is welcome, the extended unemployment benefit issue may be more problematic for the HQI in the coming quarters.

Aside from revenues, there were a couple of other notable line items in the quarter. First, SG&A was impacted by about \$1.4 million associated largely with the acquisitions. In addition, the acquisitions included franchise agreements (assets), which have been determined to have a useful life of 15 years and as such will be amortized on that basis. That will result in additional non-cash amortization charges of roughly \$350,000 per quarter.

The quarter also included (net) miscellaneous income of \$3.9 million related to the acquisition of Snelling. Without the miscellaneous income, the Company would have generated a net loss of just under \$800,000. However, our proforma estimates (without the contribution and other impact of the acquisitions) indicate the results would have been close to the \$.10 of basic eps reported in Q4-F20. In short, the net impact of the acquisitions was to add approximately \$.17 or \$.18 of additional (extraordinary) eps, which is a little odd since acquisitions generally add some expense layers without the corresponding miscellaneous income.

Looking ahead, we have revised some of our revenue estimates for fiscal(s) 2021 and 2022 slightly lower to reflect some of the uncertainties we raised above. However, to put that into perspective, while we have tried to discount the macro environment (largely the idea that government policy is keeping workers home), we also think the Company may experience some added synergy from the two acquisitions that we have not reflected. Their presentations and discussion regarding the acquisitions certainly allude to that expectation. If that notion proves viable, that could provide some upside surprises that we would frankly not consider to be all that surprising. In the meantime, to reiterate, we expect visibility to be a bit more ambiguous as the employment situation navigates the noise of government intervention.

For now, we will stick with our allocation of 4 and our 12-24 month price target of \$23.00 per share.

Projected Operating Overview

Income Statement						
Projected Operating Statement						
HireQuest, Inc.						
By: Trickle Research LLC	(actual)	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)
	<u>3/31/21</u>	<u>6/30/21</u>	<u>9/30/21</u>	<u>12/31/21</u>	<u>Fiscal 2021</u>	<u>Fiscal 2022</u>
Franchise Royalties	\$ 3,259,036	\$ 4,871,222	\$ 5,783,819	\$ 6,253,006	\$ 20,167,082	\$ 29,070,676
Service Revenues	\$ 143,947	\$ 233,257	\$ 274,300	\$ 322,673	\$ 974,177	\$ 1,688,375
Total Revenues	\$ 3,402,983	\$ 5,104,478	\$ 6,058,119	\$ 6,575,679	\$ 21,141,259	\$ 30,759,051
Selling, general, and administrative expenses	\$ 3,841,772	\$ 2,601,788	\$ 2,896,018	\$ 3,222,979	\$ 12,562,557	\$ 15,609,914
Depreciation and amortization	\$ 332,841	\$ 363,437	\$ 360,465	\$ 357,220	\$ 1,413,963	\$ 1,396,983
Income from operations	\$ (771,631)	\$ 2,139,254	\$ 2,801,636	\$ 2,995,480	\$ 7,164,740	\$ 13,752,153
Interest expense and other financing expense	\$ (4,600)	\$ (6,286)	\$ (8,794)	\$ (11,174)	\$ (30,854)	\$ (62,929)
Other Miscellaneous Income	\$ 3,915,980	\$ -	\$ -	\$ -	\$ 3,915,980	\$ 0
Net income before income taxes	\$ 3,139,749	\$ 2,132,968	\$ 2,792,843	\$ 2,984,307	\$ 11,049,866	\$ 13,689,224
Provision for income taxes	\$ (602,294)	\$ 490,583	\$ 642,354	\$ 686,391	\$ 1,217,033	\$ 3,148,522
Income From Continuing Operations						
Income From Discontinued Operations						
Net Income	\$ 3,742,043	\$ 1,642,385	\$ 2,150,489	\$ 2,297,916	\$ 9,832,833	\$ 10,540,703
Earnings per share:						
Basic	\$ 0.28	\$ 0.12	\$ 0.16	\$ 0.17	\$ 0.72	\$ 0.79
Diluted	\$ 0.27	\$ 0.12	\$ 0.16	\$ 0.17	\$ 0.71	\$ 0.78
Weighted average shares outstanding:						
Basic	\$13,602,764	\$13,602,764	\$13,573,854	\$13,530,292	13,577,418	13,382,521
Diluted	\$13,799,203	\$13,779,006	\$13,755,351	\$13,716,654	13,762,554	13,579,343

Proprietary -

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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.