

Trickle Research

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



Allocation Downgrade



HireQuest, Inc.

(Nasdaq Symbol: HQI)

Report Date: 06/16/21

Allocation: *2

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 Allocation Downgrade (Close 06/15/21): \$21.20

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Trickle Research LLC

We have raised our price target on HireQuest a handful of times over the past few months following a combination of positive results (in the midst of Covid-19) as well as two significant acquisitions. In short, since the time management took over the public Company and installed their franchise approach across the system, the Company and the stock have been outstanding. That said, yesterday (06/15/21) the stock finished at \$21.20 or within about 7.5% of our \$23 target. We think our price target represents something close to fair value. As a result of the advance in the stock we are lowering our allocation from 4 to 2.

We submit, we believe management is quite capable of continuing to add value (with or without additional acquisitions), which could certainly cause us to revisit (increase) our target and our allocation. That said, when we initiated coverage of HireQuest (Command Center at the time), in September 2017, the market capitalization of the Company was \$22 million. Today, that number is approaching *\$300 million*. To be clear, we are not opposed to covering names with \$300 million market caps, but it is certainly on the outer bounds of our “typical” coverage stock.

Proprietary - DO NOT Distribute

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 - DO NOT

General Disclaimer:

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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.