Trickle Research

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

Coverage Termination

HireQuest, Inc.

(Nasdaq Symbol: HQI)

Report Date: 11/15/21

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 (Split Adjusted Close 11/13/18): $3.88
Closing Stock Price at Price Targe Increase (Split Adjusted Close 10/05/20): $7.73
Closing Stock Price at Price Target Update (Split Adjusted Close 02/08/21): $13.15
Closing Price at Price Target Upgrade and Allocation Downgrade (Split Adjusted Close 02/16/21): $14.84
Closing Price at This Allocation Downgrade (Split Adjusted Close 06/15/21): $21.20
Closing Price at Coverage Termination (Split Adjusted Close 11/15/21): $24.39

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HireQuest reported 3Q-F21 earnings last week, and once again they hit it out of the park. The Company reported revenues of $6.9 million versus our estimate of $6.1 million and they reflected operating income of $3.52 million versus our estimate of $2.8 million. Clearly, the income surprise was largely related to the revenue bump, but the Company continues to demonstrate impressive control over operating expenses relative to expanding revenues. Frankly, there may be more operating leverage in the model than we previously anticipated and we made some adjustments in that regard in terms of our modeling.

Perhaps the most encouraging piece of the results (and the subsequent earnings call) was the Company's revelation that during the quarter, the Company estimates that the business returned to pre-covid levels. To be clear, our revenue miss was largely related to that issue. That is, for a handful of reasons, our approach to modeling the Company has been to model the business on a normalized basis, and then apply a "covid-discount" to account for the adverse environment. Succinctly, while our model assumed their eventual emergence from that discount, the Company has apparently put that behind them faster than we anticipated. While certainly some of that is related to the macro environment (we think the **overall** yoke of covid is diminishing, which *we did* model), ostensibly, the Company has managed to shed the covid impact faster than many others. Specifically, adjusting out that covid discount for a portion of the quarter reconciled our revenue miss. Clearly, management is dialed in.

Looking ahead, we anticipate the Company will continue to post strong numbers. They continue to demonstrate an ability to grow organically, while at the same time (as we noted) continue to leverage the operating overhead. Further, they have also demonstrated an ability to identify, execute and integrate highly additive acquisitions, and we expect to see more of that moving forward.

The above noted, in our last update (June 16, 2021) we lowered our allocation from 4 to 2 largely on the appreciation of the stock towards our price target, which we have been consistently raising along the way as operating results dictated. Since that update, (specifically on the date of **this update**), the shares breached our 12-24 month price target of $23, trading as high as $25.68. In addition, the market cap of the stock is currently around $320 million which is about 14X the $22.5 million market cap of the stock when we initiated the coverage. To be clear, we are not opposed to covering (or continuing to cover) stocks that trade into the $300 million+ market cap ranges, but as most who read our coverage recognize, our universe is generally more concentrated in the sub $100 million (and even sub $50 million) market cap range, which typically tends to fit better with our (albeit unbinding) mission statement. From another perspective, our research tends to focus on stories a bit early, before they have experienced the kind of success that HQI is currently achieving and in the aggregate, we think our comparative results support that approach.

In retrospect, we think our coverage of HQI has proven constructive, and we think some of that is based on the realization of what we believed from the beginning was a business that likely held more value than was reflected in the valuation at the time of our initiating coverage. We stand by that, but we are also humble enough to recognize that the board's decision to effectively sell the Company to new (the current) management was demonstrably fortuitous. That transaction has proven to be a boon for legacy Command Center shareholders who chose to stick around, and while we think we provided a reasonable argument for why that made sense, we are not lost on the notion that sometimes a little luck doesn't hurt.

The above considered, as we noted, we fully expect HQI to continue to perform well. On the other hand, **given what we know today**, we think the stock is fully valued at the current share price, and that is often a place where we terminate the coverage and move on. **That is not to say** that the Company will not continue to perform and likely add new pieces that could provide additional valuation legs to the story that could challenge our "fully valued" conclusion. In fact, we think that outcome may be more likely than not. Further, for those looking for income, we think the prospect of increasing dividends going forward is also more likely than not. That said, we think we have run our course in terms of the value we can provide our subscribers with respect to HireQuest. As a result, we are (albeit somewhat begrudgingly) terminating our coverage of HireQuest.

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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.

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.