Transcript of Interview with Rick Hermanns, CEO of HireQuest

Interview by Aaron Edelheit
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*Lightly edited for readability

Aaron: Thank you for coming on and agreeing to this interview. My first question is, so you were a profitable private company generating millions of dollars of net income with a small group of owners, including yourself, and then you decide to merge with Command Center and go public. Why? Why go public? Why buy Command Center?

Rick: So those are really almost two different questions, right, as far as why buying Command Center. Buying Command Center was a way to basically expand geographically very quickly. So that was almost the perfect acquisition from the perspective of they were heavy in the northwest and of course, we were historically always heavy in the southeast. And so, from that perspective, it was really a perfect acquisition. As far as the other one, that's sort of a deeper question. And, you know, the funny answer is that back in about 1998, so twenty-three years ago, it was already part of my vision to go public. The funny thing about it is it was always my vision to go public and, you know, in part because of the, you know, sort of the credibility that being public brings with larger clients. So that's part of it. But really, even then, as I got older and as we got more profitable, you know, it's kind of funny as you start looking at, OK, to go to the next step to buy a Command, and of course, I was the majority shareholder, so the question was, OK, I could go out and personally borrow a bunch of money to get larger, which, you know, didn't seem like a good idea for me in the long run, because sooner or later, you know, sooner or later, I really was never desirous of selling the company to like a private equity group, because I really do care about my franchisees and I care about my employees. And it's kind of like on the other hand, though I can only put so much money into one investment. And so, merging with Command Center that was already public made a ton of sense because like I said, as I said before, geographically, but then also going public. And part of that and it was always even five or six years ahead of time it was like as you said before, we were always profitable, we've been profitable for 20 years. We've never, I think the last time we lost money was like 1999 or something like that. We've always been profitable. And one of the funny parts about it is we were constantly being told is how you really can't go public. That's dumb. The costs will eat you up, et cetera, et cetera. And you won't get a following or anything like that. I'm just saying, gosh dang, there's so many small, really badly run microcaps, it's like there's got to be a market for a small company that's actually really profitable. And, you know, so I think that's been the case.

It's taken a while for us to convince people that, hey, this is a profitable company. This is kind of unusual for a microcap. And it doesn't take any fancy, we're not looking for FDA approval of some new cutting-edge biotech discovery or anything like that. It's just our same template that we've been using for 20 years. And it's just now sort of just getting it out there and telling people and then educating people on sort of what our model is and why it makes a lot of sense.

Aaron: So, when you go back to 1998, you said something interesting that it was always your plan to go public. And the reason why I'm asking why go public. And you came public as you were a very profitable private business. You merged with Command Center, Command Center’s public, so you become public, you kind of take over Command Center. But I guess the reason I ask why is I want to go back to the 1998. Has it always been your desire and kind of vision to build a larger company that is publicly traded so that you can really expand in the industry? I want to explore that.

Rick: That's a good question. And I was remiss to say that. And because that is part of it, because obviously, you know, as a private company, you have only so much access to capital unless you keep putting it in yourself. And so, yes, the reason was and still is, is the ability to continue to grow, being public gives us the ability to grow with a, frankly exponentially higher rate than what we were in the past. Because we have access to better access to capital to create that base, the two acquisitions we just did while we did do them in cash, we could have just as easily, you know, issued a bit of stock in order to do them. And so, it allows us to maintain a healthy capital structure and yet grow dynamically. And so that was always what it was, is it's kind of like because otherwise to grow, you know, to grow organically takes a long time and it takes a while. Yes, you know, during from 2009 to 2019 we certainly grew at generally twelve to twenty five percent a year, which is nice growth in and of itself organically. But obviously once again it's not the same as what we just experienced with, with Link and with Snelling. And yet again, being public gives us the ability to make sure that our capital structure stays very healthy.

Aaron: And so, I guess this leads to the that you really see an opportunity to accelerate the growth and that what you're doing with HireQuest and build it to just a much larger scale than it is today.

Rick: No, there's no question. So that being said, I need to always stress whenever I mean, whenever I talk to anybody is our goal is not to grow for the sake of growth. There are companies out there that that's all they're looking for is that top line growth. We're not interested

in top line. I mean, we're interested in top line growth, but we're only interested in top line growth to the extent that it creates bottom line growth and that we retain our margins, and we continue to grow. But the reality is there are no, I shouldn’t say no, but there are virtually no limitations on our ability to grow. Other than the capital to buy entities. Because what we do because of our franchise model, we don't have the operating risk that a lot of other companies do. And what I mean by that is if I'm you know, I'm staffing Company X and I want to buy a staffing company Y, and they're both company-owned stores, the problem is, is when I go out and I buy company Y, I may well lose their best salespeople, or the owner might have been sort of the lynchpin to keeping that customer list together. And so, I'm out there thinking I just bought a book at ten million dollars of business that turns to five million. And any efficiencies that maybe I was able to bring get wiped out because I just lost half the business because I lost their two best salespeople or their best recruiters or whatever. The beauty of the franchising model that we do and how it helps us in our growth is that we're not left in a situation where we spend the next 12 to 18 months just trying to retain what the seller had already achieved. I mean, the funny part of that is to say we've already seen it with Snelling and Link. Basically, I mean, their revenues haven't changed, or for that matter, it's always hard to tell with Command because of the pandemic, but even with the pandemic a lot of those Command offices held up very well.

Aaron: But Command wasn't a franchise business. That was a vertically integrated model. And you converted them very quickly to franchise. And it actually leads to my question, what was what is wrong with the, I don't know if wrong is the right word, but why is your franchise model so much more powerful than that vertically integrated model or what Command Center was doing? Could you go into, like, the incentive structure or what you're specifically doing that is creating so much opportunity inside the staffing industry and maybe use Command Center as an example?

Rick: Command Center would be a good example. And by the way, so the reason why I put Command Center in there with, let's say with Link to start with, and with Link and with Snelling is the people were kept in place, the which is a big deal. So, in other words, when we bought Command Center the offices were immediately converted to franchises. And generally speaking, the same people were in the offices after the merger than were before, and it's that turnover that creates that creates the risk. And so, with our model and sort of like so why it works compared to vertically, let's say it's a vertically integrated company is a couple of fold is that and it's funny if you look at the history, most staffing companies, they probably started off where they had two or three great offices. Maybe they started in Chicago or they started in Minnesota or wherever. It

doesn't really matter where they started. Generally, they started in a place like, let's say, Chicago, maybe they had two great offices, they were in Chicago and Indianapolis and they grow and then they sit there and say, well, hey, let's open in Detroit. And then a client may say, let's go to Iowa. And what happens with these vertically integrated companies is it gets harder and harder. What maybe what really made Chicago great was because they had the founder and two or three great salespeople, and they really built it up. That doesn't mean that that's going to automatically replicate when you go out and you run an Indeed ad or a zip recruiter and you find a new manager in Minnesota, Minneapolis doesn't mean it's going to be nearly as good as the person in Chicago. And so, what happens over time is, yes, you pick up certain cost efficiencies, you get better workers comp, you get maybe cheaper money, you get to spread your administrative staff over a bigger base of sales. But over time, those become, you know, those become sort of less and less sort of important as far as in the cost structure. And what happens then is you have this far-flung group of offices, which means then you've got to go out and hire regional managers to make sure that the people are that these new branch managers that you now have all over the place are doing what they're supposed to be doing. And so, what happens is basically your expenses get killed because you've got a bad manager. You've got to make sure that your managers that are that are far flung are being supervised. Well, OK, now you've got a $80,000 or $100,000 a year person overseeing them. And then all of a sudden, the person quits and now you've got a person living out of a hotel to run that branch for six weeks. And at the end of the day, you don't make any more money. In fact, you actually deteriorate. You'd probably have been better off staying just in Chicago where you started because of the big infrastructure you've got to build. For us because we're franchised, we really don't have to worry about the person in Des Moines, Iowa quitting, because they're the franchise, it's their business. And that's why when you look at, for example, Command Center as an example, is about half the size of HireQuest. It had about six regional managers. We had one. And so, to give you a sense of that, that means that if effectively Command Center was paying something close to six tenths of a percent just for regional managers, we were paying something like one tenth of a percent. That's a big difference when it comes to ultimately to your bottom line, and that's why we're able to offer the same efficiencies to our franchisees, the main efficiencies, which really are cost of software, cost of money, cost of workers comp. We're able to offer those, you know, we're able to offer, which is pretty much mostly all you get and administrative efficiencies that you could get if you expanded on your own. So, we're still offering all of that. And yet without the need to have this big regional, you know, sort of all these regional managers. And the point is, is everybody makes more money is really what it comes down to, because there just.

Aaron: Is it because you're aligning incentives so that you don't need this kind of super this level of supervision or this bureaucracy to kind of monitor people because the incentives are aligned?

Rick: Well, that's right. And so, there's and it really it comes down to two things. One is turnover. Turnover is a killer. Is that if you look at when most branches basically collapse and this is whether it's in a sort of the traditional corporate owned environment or in the franchise, it's almost always associated with turnover. Being franchised essentially dramatically minimizes turnover, and it's one of those things, would you rather have you know in a five-year period would you rather have a branch that does $4M for the first two years and then only a million for the next three? Or would you rather have one that does $3M for five years? You know, you might not get the high highs of the two $4M years, but you get a straight up experience of the three. Well, OK, everybody can do math, right? That's 15 million in sales versus 10 million in sales and I'll take the three every time. And so, what happened even with Command Center

Aaron: And at a more profitable level!

Rick: Exactly, because it's just consistently it tends to just be consistently profitable and so what happens, that's why, you know, that like HireQuest branches did on average about 50 percent more sales per unit than Command Center did. That's not that Command Center was bad in the traditional sense of corporate owned stores. It's just simply their turnover was appalling, and their turnover was exactly what it typically is in the staffing industry. But again, whereas from a franchising standpoint, we have people who are minding the stores that are directly incentivized to do well because if the branch does really well, they do really well. And therefore, it's worked really well for us. And it allows us, to go back to your question, one or two questions ago as far as that's where from the growth side of it is this that obviously, I can assure you that we would never have attempted to buy Link and Snelling sort of within three weeks of each other, had we run the corporate model because we'd have been chasing and of course they're primarily franchise, so it's not a completely fair comparison. But let's just say had they been public, they had been corporate owned stores. We wouldn't have been able to do it because we had so much turnover in that period of time that we would have probably destroyed at least a third of the value within two months because people would have quit. But as it is, you know, again, it's not to say that some people may not be excited about the transition and we may lose a couple of franchisees over time. And that's OK. I mean, we want people in our system that believe in it and that want to be in it in the long run. The important part is that we're doing our part, which is basically we're supplying the money, we're supplying the workers comp, we're supplying the software, we're

supplying the administrative support for our franchisees. That really hasn't changed. Now we think and we hope that by now being larger in scale when combining the Link and the Snelling is that our national accounts program will become far more meaningful which obviously inures to the benefit of our franchisees. And also it creates and I talked about this on our earnings call last week, is that I think just as important, it creates a much firmer platform on which to sell new franchises as well, because by having more branches now, you know, it makes the name more valuable and the name being more valuable makes it easier to sell and gives more of a reason for people to want to want to buy, buy or open a new selling office is because now I'm part of an 80 or 90 branch network instead of a 40 branch network. And again, it becomes much more well known. And that's really one of the big promises of these acquisitions. But anyway, the point is, is that all the people are still, the vast majority of the people I should say, the vast majority of the people are the exact same people. They're all they're basically all still in place, which makes making these acquisitions far easier. And to the extent that they're far easier, makes them more likely in the future.

Aaron: So why aren't other people or other companies in the industry doing this? It seems like a no brainer. And even more, not only why aren’t people doing this, but like what's the competitive advantage of HireQuest and what you're offering? What's stopping me from being like, oh my gosh, you know, this is a business with over 50 percent operating margins. Its asset light you have these incentivized owners. It sounds great, like what's stopping me from doing this or any competing company.

Rick: And that's an interesting, it leads to a story. So back maybe five years ago, four years ago, a friend of mine had put me in touch with a SPAC. Of course, SPACs are all the rage right now. Back then, they were still much newer. And I remember I'm like, well, OK, I want to go really serious about going public. And the SPAC would be as good a way, would be potentially as good a way as any. You know, when I spoke to the person who was running it, but I just was like look, I'm not going to change my business methodology in doing this you know. If you're interested, we're going to remain franchising and, you know, and the funny part of it is, of course, our revenues are a lot lower because we report you know, we report our revenues, which are our royalties. And so, they're pretty low. And it was funny. And I remember taking the meeting. So, I'm in Manhattan. I'm talking to the guy, and it was like wasn't four or five minutes into the call. And it's like, oh, you mean your underlying sales are $160M, $250M, whatever they were at the time, it's like, oh well you know, we need to you know, basically we need to convert these to Company-owned and we can give some stock to the franchisees to make it, you know, to have a

much higher top, much higher top line. Nobody wanted to screw with our small top line. That's really what it came down to. And the meeting lasted about 12 minutes because as soon as he said that it's like, listen, I'm not going to do that because basically what I'm going to do is I'm going to destroy my company for the initial for valuation. That's not what it is. And so that was a long way of getting around to is a lot of people chase after the high top line and they just sit there and all they want to look at is, you know, so for example, if obviously if you count our system wide sales that sort of that are underlying what our reported revenues are, you know, when you rolled up, you know, Snelling, Link and HireQuest direct, you know, pushing three hundred and thirty three hundred forty million dollars in the middle of a pandemic. Well, that sounds a lot more impressive than, you know $25M or whatever it is of revenues. Sounds a lot more impressive. And that's what a lot of people chase after. To me, I don't care about that. I don't really care about the revenues. What I care about is the net income. And anyway, so that is one problem. There is a trade-off. I mean, one of the trade-offs is if you're doing company owned stores, you could conceivably just keep pyramiding acquisition upon acquisition in one market. Take a market, let's say like the size of Chicago. Chicago's probably, I don't know what the numbers really are, but I'll bet you it's probably a three- or four-billion-dollar staffing industry. The staffing industry in Chicago, you can do a lot of acquisitions in one city and keep pyramiding it on to your company owned location. And whereas with the franchise if we sign up a bad franchisee, we could be capped by their performance. And so, I think that's also part of the reason why some people stay away from it as well. But to be honest with you, the only part that I would say that so it's like, well, why wouldn't you do it or why wouldn't anyone else do it? It takes more than what you think, it really takes more than one to take than what you think to get to scale. And, you know, the underlying HireQuest is, so I've been in the industry for thirty, thirty-one years or something like that, and Dan McAnner, who was my president and CEO, we were partners for twenty-seven years. He had 40 years' experience. Most of our people all have, you know, our VP of Ops has 30 years. To properly run it as well, it's not, you know, look, I mean, I guess you could get some smart financial guys who could go out, get a big line of credit and maybe they could talk at workers comp carrier and putting together a big program doesn't mean you still know the industry. And the one thing that's sort of important, is in my view and for other people, it's not you know, maybe this is old fashioned, but for me, I don't ever want to be in a situation ever with HireQuest where it's, you know, where basically the people in senior management have really no real knowledge of what actually goes on in a branch. I mean, I again, I started I worked in a branch 30 years ago and I after Hurricane Andrew, I mean, after Hurricane Andrew I literally slept in my branch for six weeks. It was it was so nuts. So, it makes it makes my senior management team, they're empathetic to what goes on in the branches because they

know what's going on there. To me, it's sort of like trying to win the Masters Golf Tournament without a putter. It's like, look, you got to know what you're doing and you've got to go with the right skills and I guess what I'm saying is, is that does create somewhat of a barrier is that you need you need the financial abilities to put together a decent sized company like HireQuest, and yet I still think by the same token, you really need to have that group of managers, when Isay managers, so like in the senior management that really, again, understand and appreciate what goes on at the franchise.

Aaron: And I think you can tell that. I think you can tell that, by the way, just from the nuances, that when you have decades of experience and you can create a model that is profitable even in the global financial crisis and that your model is even profitable when everything's shut down in the second quarter of last year with covid and my experience with business is just the nuance. I mean, to understand exactly how workers comp works and then to provide it well for all of your franchisees and then to create a system of incentives, because you know what it was like when you ran a branch. I think I mean, that makes a ton of sense to me and would be hard to replicate, at least from what you're describing of your senior management team.

Rick: It would be hard. It really would be hard to replicate it. I mean, again, if you tried hard enough and you had enough money to get it started, you certainly could. But then you're better off just buying our stock and then you get it. That's the thing is, though, and it is really true as far as the nuances, it's funny because I was talking to somebody who was in the senior management of a large competitor. And it's just funny how even again, if you don't really understand the industry, it's easy to sit there and say, gee, Seattle, billed two million last year. This year they should bill two point two million. We should get 10 percent growth. That may completely ignore what's going on really at the local the local level, it's not like, well gee we’ll raise everybody's prices 10 percent and we're just going to get 10 percent growth. It just doesn't work. It just doesn't work that way. You might have a big project that's ending. You might have an H.R. manager that quits, and you lose your third largest account. And you may be lucky to get 80 percent of your prior year sales, but it's understanding those types of things. But again, it goes back to and then it's like by having a franchisee there, though, they're going to work harder to replace that, to replace that business. They're not going to just sit back on their past results. They're going to go out and they're going to replace that third largest client that loses or that they lost. But it really is important to be, you know, again, to have an understanding what's going there, because the very first company I worked for in the staffing industry and there was always and there's always a certain amount of tension between the people at the corporate headquarters

and in the offices. But again, that's why to me, it's so important to have people that have been there. Is this to at least understand again, to understand what goes on, because it's not an easy business, it's not an easy business, and it's not one that's given to, you know, we're a people business and people are messy. I mean, it's, you can on paper, you can look at a resume and sit there and say this is the perfect fit, and your client may sit there and say, this is a piece of crap. You don't know. You just don't know because people are people. And the client might have just been having a bad day and saying, I don't like people with red hair. I don't like people who went to X, Y, Z University. It's the craziest thing. And but if you're a people person, you know, you work through that. But other people find it exhausting.

Aaron: And you could see that in the two, if you just go to Snelling. That was I mean; this is maybe part of the opportunity for HireQuest is Snelling was a subsidiary of either bankrupt or a company that was in financial distress. Right?

Rick: Right.

Aaron: Yeah. And so, I think you told me before that prior to the deal, you were visiting a franchisee of Snelling and the person told you this is the first time in like 10 or 12 years that anyone from senior management has ever visited me.

Rick: Exactly.

Aaron: And that was very eye opening to me, that you could have a company where there's no communication going on in person.

Rick: Right. And that is the funny part about it is one of the people we added a person who I mean, like literally, you know, and again, a part of that's how you how you look at it and how you look at your franchise community and, you know, you can start taking away support functions and sit there and say, see, now I just increased, you know, I just improved my bottom line because I got rid of these four people that were all each making 50 grand a year. Congratulations to me. Now I'm making two hundred grand more in the meantime. That's what might well be making your franchisees really successful and then you start creating resentment. And that's where, you know, our goal is to, I mean, our goal is always to never lose a franchise. Now again we can't always adhere to that. But we're certainly going to always try to do that. But there's plenty of other companies out there where they just look at it like if we can cut our costs a

little bit and the franchisees don't have a chance and don't have a choice. And it's like, yeah, but they do in their efforts will reflect if they know that you're really working for them, you're out there, you're doing national. A good example, for example, is national accounts, national accounts, funny thing is, is we really probably on a direct basis, we probably don't more than maybe we break even on national accounts, we might make a little bit of money, but really, we don't make money on national accounts. And even though I put that so even though we put that out there, it's sort of like that's part of the reason why we do this. National accounts are more what makes being a franchisee valuable, right? So, it's like I can go out and sit there and say, OK, 10 percent, 15 percent of our business comes from national accounts. So, if you buy a franchise of ours in Pocatello, Idaho there's a good chance that just through national accounts, I'm practically paying for the royalty that makes it easier to sell franchises, it makes it easier to retain franchises. Now, I may not make that much of the national accounts, but again, if it makes it so that I have far less turnover and then I can sell them easier. That's where I get my money back. Not specifically. And there's a lot of people who would just look at and say, why the heck am I going to have national accounts by the time I'm done paying I don't make any money out of it and you've got to look at the broader picture

Aaron: And the long-term value.

Rick: Right, and are you adding value to your franchises? Are you adding value? And if you are, you're going to have a you know, you're going to have a vibrant group of franchisees. And if your franchisees are vibrant, you're going to be vibrant. If you have a bad group, you're going to struggle.

Aaron: And is that why you're able to like, previous to Snelling and Link, is that why you're able to buy companies for what looks like on a normalized basis, like very low valuations, including Command Center, which basically, from what I can tell you, bought for free or almost paid to acquire when you converted the franchise. Is it because the franchise system, whether for a variety of reasons or the internal structure, was just was suffering or just that people were not looking at the long term? Why are you able to come in and seemingly acquire companies for very, very low valuations?

Rick: So Link and Snelling were two very different situations. Snelling, you know, Snelling clearly with a with a bankrupt parent was in a completely different situation and, you know, and had had financial difficulties for a long time. And so there really weren't going to be many

buyers for that. There weren't going to be many buyers for it for a variety of factors. And you know, Link, on the other hand, it was, it's a long story that's not really appropriate for me to share. But it's just that was just that became available due to a change in plans by the former owners, you know, and it just worked out that way. The thing is, and this is where it goes back to there aren't, the part of the reason the valuations are relatively attractive is that other than going public there aren't a lot of good exit options for smaller franchisers and the

Aaron: In the staffing industry.

Rick: In the staffing industry, in the staffing industry in that and even for that matter, it would be far more difficult for us, just in full disclosure, is that, you know, let's say now we've got something like 40 branches, I think, let's say combined in Texas now. So, our ability if we found somebody who was already a franchiser in Texas, and they operated under the name Bill

Aaron: Aaron.

Rick: Aaron, you're right, Aaron Staffing. Aaron Staffing, that would be really hard or almost impossible for us to buy. So, somebody like Blink is an example, really, can't really sell to Manpower, can't really sell to Adecco or anything like that. So that didn't leave necessarily huge amounts, huge numbers of potential buyers other than maybe strategics or private equity groups. And frankly, as good as the deal is, as fair of a deal as it was for us, a private equity group would have given them less so, you know, or would have put on the conditions that would have made it worse. So really, it was a win win for the trustee of Snelling. And it was a win win with the sellers of Link. Frankly, we were the best buy.

Aaron: Gotcha, can you talk about the opportunity continuing on this theme of kind of growing. Because normally when you acquire companies, they call it rolling up industry. And I even brought this up to you and you say, no, I don't actually think we're rolling up the industry. I think we're rolling down the industry. Can you explain what you meant by rolling down an industry?

Rick: Yeah, absolutely. And so, there are even now you can look at a couple of competitors of ours that are publicly traded that almost their whole stated goal is we're just going to go out and we're going to we're going to buy, buy, buy. We're going to, we're just going to keep buying and we're going to get efficiencies and we're going to we're going to make a fortune. What that ignores, again, is this is a people business, and when you go, and you buy a person’s business

and they've been running it. And let's just say they've been there in Cincinnati, Ohio, and they've been doing it for 30 years. And a lot of their clients are good friends of theirs and stuff. You're not going to walk in. You're going to be lucky if you keep 80 percent of their business and all these efficiencies, they say they're going to get, they're going to more than lose. And so, by a roll down, what I just mean is this, look, we're going to take even in a case like that, let's say we take over, we don't have an office in Cincinnati. So, we go on. We buy a person in Cincinnati. Now, the person who might be the seller, you know, maybe they're a sixty-eight-year-old who's been running it for 40 years and they're ready to retire. But meanwhile, for the last 10 years her office manager has been running it really for the last 10 years, anyway, we give the ability to cash out the 68-year-old, have the manager come in and become the franchisee. And so, it's sort of its roll down. Yeah, OK. The real value ended up in the hands of a person who knows the business the best and cares the most about it

Aaron: And has been running the business.

Rick: And has been running it. And what you've really just done is taken out all of the operating risk because you don't have that turnover. And so, wherever we can do that, we're always going to do that first, because that's what really matters to the you know, that's what really matters to maintaining a healthy, you know, maintaining a healthy business. And so, you know, the reality is and that's where some of what it comes back to, when you start, you start looking at more, let's say, a longer-term sort of evolution of the company is, you know, as I said before, you know, a company like I'll say Manpower. Manpower could make 50 acquisitions in Chicago and just keep pyramiding those companies on. As a franchiser we can't do that, not easily. And so, we may well not ever get to the point of, let's say, Manpower is in Chicago. We may hit the best franchisee there. And maybe we do maybe we do go toe to toe with them, but maybe not. But what's funny about it is, is that we're not on the other hand, we're not restricted to trying to force too much out of out of a market or out of a sort of a business type. What we really do is we offer as much as anything, we're a finance and insurance company for people with large payrolls in fragmented, basically in a fragmented industry. But the dynamics that exist in the staffing business are identical to what exists, let's say, in the security guard business. I don't even know how big it is. I mean, it's a multibillion-dollar industry. But realistically, it's the same thing. There are all sorts of people out there that know how to run a security guard company, but they don't have three, four hundred thousand dollars to float the payroll before they get paid by their clients. And so, either they stay trapped in their job as a branch manager for Securitas or whoever, but they can't branch out. Well, realistically, again, we can offer our same services to

allow that person to get into business and to become an entrepreneur and to really sort of fulfill their own dreams by, you know, by just doing what we're doing in the staffing industry. And so, my point is, is that if you start thinking about there are so many industries out there, whether it's commercial landscaping, whether it's parking lot cleaning, whether it's commercial janitorial, there are all sorts of applications for exactly the type of franchising that we do. And so, we you know, to me the ultimate beauty of HireQuest is that we don't have to get ourselves locked in a spot where in order to grow, we have to take really low margin business or go into really bad regulatory states or anything like that. All we have to do is move over and to sit there and say, hey, we're going to start doing security guard franchising and then we're going to start doing it again with the same characteristics of what we do, what we do now, which is we process a ton of payroll very efficiently.

Aaron: So that value and just in terms of taking the people that are actually doing the work of running a branch or who want to run a branch and have the capabilities. Backing them financially by running the payroll, backing them with the workers comp, which is now spread over a much larger, providing software and the ability to support them. You can go into other verticals, like you mentioned, security guards, landscaping and offer the same HireQuest model and align the incentives correctly so that these people can be successful, can be really successful. And in a way, you are kind of if I take that phrase that you used before rolling down the responsibility and the incentives as close as possible to the jobs that are actually being done, is that correct summary?

Rick: That's a very good way of looking at it. And the thing is, is that, like I said, we're not going to let's say we're not a hammer on the anvil of consolidating, let's say, the staffing industry, because a lot of people have tried it with a lot more money than what we have. And it doesn't it really just doesn't work because it's again, it's a people business. And the security guard business is the same again. It's the same basic way is you still have to be hungry. Right. And so, what we want to do is we want to help hungry people. We want to get them again, the back-office support that they need. They know how to run. You know, they know how to staff a 30- or 40-person guard account. That doesn't mean that they really that they have the resources like I said, to finance that payroll, to make payroll tax deposits and stuff like that. And so, we give them the opportunity to flourish. And so, the key is, is that, again, that gives us the ability to continue to grow with no real with no real limitations. I mean, I shouldn't say there's obviously, there's I guess at some point you run out, but these are huge industries. These are huge industries. And

again, we're not looking to have to get towards the saturation point to where we're going to start just chasing, you know, chasing.

Aaron: You're looking for niche opportunities to take this high margin business, to incentivize people to be entrepreneurs, hustlers to go out. And this is if I go back to the very beginning, this is why you're public, is basically to dramatically expand what you can do with the HireQuest model. That's it's exciting. It's exciting.

Rick: Right. There are tons of application for it. And yet again, look, before I got into the staffing business, I was in the banking business. And so, by nature, I'm still somewhat conservative. We could probably, our ROE, could be almost infinite because the vast majority of our assets are AR which are easily financeable. But, you know, I want to stay, you know, I want to keep a strong capital structure. Number one, simply because, you know, I want to sleep at night. But the other part is, is it gives us the ability to take on opportunities like Snelling or Link when they present themselves, whereas they wouldn't otherwise. You know, if we had been highly leveraged, we really wouldn't have either been able to or wouldn't have taken on that opportunity. And so, to your point, it's just a long way of saying, you know, being public gives us an opportunity to make sure that we can retain, again, a solid balance sheet. So, it's like so if I can, I guess to convey something is a sort of like at least as long as I'm the CEO, we're not going to be some highly levered company, because that's the other part about all of this and about this whole process is this is all about making money, not just now, not next quarter or three quarters from now, but really five years from now, 10 years, not 20 years from now. And, you know, in order to do that, it's important to retain a responsible a responsible capital structure. And some of the very best opportunities that I've had over the years were basically because other people got themselves overextended. And I'm not even talking about Link or Snelling. I'm talking about prior deals where people they get desperate.

Aaron: You're literally talking on a day when the news is a hedge fund that blew a family office, that blew up because they levered five times over. And they basically everyone knows about it this past weekend. So, you're preaching to the choir and also reflects you're the largest shareholder management insiders own the majority of the company. I mean, you're clearly building this for the long term. If you are just looking to kind of extract short term profits, I don't know that you would have gone public or that you would be utilizing the capital structure, how you've been operating. So, it's very clear just from following you about that.

Rick: There's no question this is all designed for the long term and will continue to be designed for the long term. Like I said, as long as I'm CEO, it will always be designed for the long term and that's where sometimes it's easy to chase shiny objects. And at the same time, we were offered the opportunity for these the two acquisitions we just did. There was another one that was far larger. And it was just like it would have frankly, it would have been, you know, it would have been really you know, it looked sexy from a top line standpoint, it looked sexy, but, you know, but it's like it had so many danger signs on it where it's like nah, we're not going to touch that because we're at a point where, you know, as the economy normalizes here, you know, hopefully realistically, I would say, you know, as the vaccines become fully available to everybody, I mean I would certainly expect the economy to return to pretty much normal by the fourth quarter, hopefully at least. And so, we have good things in place as it is. Why would we risk, why would we risk what's already a great story and a great situation that we could do the acquisitions that we did you know, almost for cash, we could do almost the same set of acquisitions, each year going forward. Why would I mess with that? But not only that, what

Aaron: But not only that, what I love about how resilient your business model is, because if you can stay profitable in the second quarter when the economy ground to a halt, and I don't know many people that overstaffing anything. And you could not only be profitable, but thrive and come out on the other side, it gives you all of these opportunities and just shows how strong your franchise system is, how strong your company is, which in the long term just builds a greater foundation. So, like I mean, this is what I see, and what has attracted me so much to not only investing in your company, but following you and your company. Thank you so much for doing this interview. I've learned a lot about incentives, the importance of people, the importance of experience. And thank you so much, Rick. I appreciate it.

Rick: Thank you, Aaron.