

Trickle Research

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



Earnings Update: Q2-Fiscal 2018

Report Date: 08/15/18

12- 24 month Price Target (split adjusted): \$9.60

Allocation: 4

Closing Stock Price at Initiation (Split Adjusted Close 09/08/17): \$4.44

Closing Stock Price (Close 08/14/18): \$5.70

Command Center, Inc.



(OTC Stock Symbol: CCNI)

Prepared By:

David L. Lavigne

Senior Analyst, Managing Partner

Trickle Research LLC

For 2QF18, Command Center (“CCNI”) missed our revenue estimate by about \$1.5 million or about 5.5% and they reflected eps of \$.11 versus our estimate of \$.16. Obviously, the bottom line miss was an extension of the top line miss. Much like Q1, revenues were essentially flat for the year-over-year quarterly comp.

The earnings call was largely uneventful as (new) management basically reiterated the notion that they do not intend to implement any broad new strategies (acquisitions for example), but rather, they intend to focus on improving the core business at the store level, which they believe can yield some progress on both revenue growth and the expenses. Frankly, we don’t know what to expect from that guidance, but we will reiterate what have said in the past regarding new CEO Rick Coleman, principally, that we think he is solid and we are willing to hang in here to see if he can indeed wring some additional positive results out of the existing business. We would add, we do think they will continue to add some stores here and there (much like they have over the past several quarters) so we are modeling some (very) modest expansion in that regard.

The above said, keep in mind, CCNI includes some very modest outstanding share counts, and given the share buyback, those counts will get smaller. They actually ended 2QF18 with basic shares under 5 million. That means that every \$50,000 of net income translates into 1¢ of EPS, so it doesn’t take much to move the EPS needle. Of course, that can be a double-edged sword. Second, they ended the quarter with cash of \$5.8 million, so the enterprise value of the company is currently under \$23 million or about 24% of sales. Incidentally, that metric (price to sales) is about half of the same metric for industry comp TrueBlue (NYSE:TBI). We continue to view that as a relative value compared to much of eh equities universe these days.

Looking ahead, we have again parred back some of our estimates just to try to get them more in line with the results over the past few quarters where revenue comps have been flat. Our hope is that the Company’s initiatives to fine tune the existing business will provide some upside revisions to our estimates on both top and bottom line items. We will see how that plays out, but again, we don’t think our current price targets are reflective of much anticipated growth, so any surprises to the upside would provide a catalyst for higher prices. Again, we view the stock at these levels as an increasingly clear value play, with the potential for a growth catalyst if management can indeed tighten some of the screws on the business. That may be especially true now that management has essentially muted any expectations the street may have had regarding acquisitions or other related non-organic growth. Further, we continue to believe (and they reiterated on the call) that the board remains focused on alternatives that might better reflect the “value” we keep arguing. We think that means they are exploring the potential sale of the company. In that event, we feel confident that a sale would fetch something closer to our target than to the current price of the

We reiterate our allocation of 4, and our 12-24 month target of \$9.60. We will look to potential operating progress as a catalyst for higher target adjustments.

Projected Operating Model

Income Statement						
Projected Operating Statement						
Command Center, Inc.						
By: Trickle Research LLC	(actual)	(actual)	(estimate)	(estimate)	(estimate)	(estimate)
	3/30/18	6/29/18	9/28/18	12/28/18	Fiscal 2018	Fiscal 2019
Revenue	\$ 22,467,398	\$ 24,175,985	\$ 25,546,000	\$ 23,979,444	\$ 96,168,827	\$ 98,578,593
Cost of staffing services	\$ 16,873,331	\$ 17,898,665	\$ 18,757,810	\$ 17,775,980	\$ 71,305,785	\$ 72,771,570
Gross Profit	\$ 5,594,067	\$ 6,277,320	\$ 6,788,190	\$ 6,203,465	\$ 24,863,042	\$ 25,807,023
Selling, general, and administrative expenses	\$ 7,213,620	\$ 5,368,908	\$ 5,411,980	\$ 5,308,328	\$ 23,302,836	\$ 21,839,857
Depreciation and amortization	\$ 92,591	\$ 87,926	\$ 90,692	\$ 88,762	\$ 359,971	\$ 336,551
Income from operations	\$ (1,712,143)	\$ 820,486	\$ 1,285,518	\$ 806,375	\$ 1,200,236	\$ 3,630,615
Interest expense and other financing expense	\$ 2,163	\$ 267	\$ -	\$ -	\$ 2,430	\$ 0
Impairment of goodwill	\$ -	\$ -	\$ -	\$ -	\$ 0	\$ 0
Change in fair value of derivative liability	\$ -	\$ -	\$ -	\$ -	\$ 0	\$ 0
Net income before income taxes	\$ (1,714,306)	\$ 820,219	\$ 1,285,518	\$ 806,375	\$ 1,197,806	\$ 3,630,615
Provision for income taxes	\$ (496,618)	\$ 256,972	\$ 321,380	\$ 201,594	\$ 283,327	\$ 907,654
Net Income	\$ (1,217,688)	\$ 563,247	\$ 964,139	\$ 604,781	\$ 914,478	\$ 2,722,961
Earnings per share:						
Basic	\$ (0.24)	\$ 0.11	\$ 0.20	\$ 0.12	\$ 0.19	\$ 0.55
Diluted	\$ (0.20)	\$ 0.11	\$ 0.19	\$ 0.12	\$ 0.17	\$ 0.54
Weighted average shares outstanding:						
Basic	\$ 4,983,157	\$ 4,924,245	\$ 4,921,717	\$ 4,918,255	4,936,844	4,909,066
Diluted	\$ 5,968,762	\$ 4,931,201	\$ 5,033,289	\$ 5,046,852	5,245,026	5,074,261

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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.