Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

Intellinetics Inc.

Rating: Speculative Buy

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INLX $4.16 — (OTC)

April 5, 2021

	2018 A	2019 A	*2020 A*	***2021 E***	***2022 E***
Revenue (in millions)	$2.4	$2.5	*$8.3*	***$10.9***	***$12.4***
Earnings (loss) per share	($6.60)	($5.76)	*($0.91)**	***$0.01***	***$0.13***

52-Week range	$9.83 – $0.08	Fiscal year ends:	December
Shares outstanding a/o 11/12/20	2.8 million	Revenue/shares (ttm)	$3.43
Approximate float	1.9 million	Price/Sales (ttm)	1.2X
Market Capitalization	$11.7 million	Price/Sales (2022) E	1.0X
Tangible Book value/shr	($0.84)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2022) E	26.9X

All per share amounts adjusted to reflect a 1-for-50 reverse stock split on 3/20/20. *Includes one-time items (net) of approximately ($0.79) per share

Intellinetics Inc., headquartered in Columbus, OH, is a cloud-based document services software provider. IntelliCloud™, its software solutions platform serves a mission-critical role for organizations in highly regulated, risk and compliance-intensive markets by enabling customers to securely capture and manage documents across its operations. Graphic Science is INLX's Image Technology Group that includes production scanning that converts images from paper to many different forms.

Key Investment Considerations:

Maintaining our Speculative Buy rating and increasing our 12-month price target to $7.00 per share from $6.50 due primarily to our 2022 sales forecast, partly offset by diminished sector valuation.

Intellinetics' document management software solutions and the acquisitions of Graphic Sciences and CEO Imaging Systems should provide the scale needed to grow within the records management services segment of the $7.2 billion document management services industry in 2025.

We anticipate as pandemic conditions ease, revenues should grow in 2021 and 2020 due to the 2020 acquisitions of Graphic Sciences and CEO Imaging. Recurring revenue growth should continue as new public and private sector customers deploy the company's IntelliCloud™ and CEO Image Executive™ solutions.

In March 2020, INLX acquired Graphic Sciences, a new subsidiary that converts images from paper to digital, paper to microfilm, and microfiche to microfilm for business and federal, county, and municipal governments, primarily in Michigan. In April 2020, the company acquired document solutions company CEO Imaging that has a strong customer base within the K-12 education market.

INLX reported a 2020 loss per share (on 3-30-21) of ($0.91) on revenue of $8.3 million. In 2020, the loss per share was ($5.76) on sales of $2.5 million. We projected a loss of ($0.30) per share on sales of $8 million. In 2020, the loss per share included one-time items (net) of approximately ($0.79).

For 2021, we project EPS of $0.01 (prior was $0.13) on revenue growth of 31.9% to $10.9 million (unchanged). Our reduced EPS forecast reflects higher than anticipated operating expenses.

For 2022, we project EPS of $0.13 on revenue growth of 13.5% to $12.4 million. Our forecast reflects an increase in INLX's customer base and operating expense margin improvement to 50.9% from an estimated 53.7% in 2021.

Please view our Disclosures on pages 14 – 16.

Appreciation Potential

Maintaining our Speculative Buy rating and increasing our 12-month price target to $7.00 per share from $6.50 due primarily to our 2022 sales forecast, partly offset by diminished sector valuation.

Our rating reflects the company's 2020 acquisitions of privately held Graphic Sciences and CEO Imaging Systems with the former generating significant professional services revenue and the later providing an opportunity to convert their customer base to INLX's higher margin recurring revenue IntelliCloud™ software solutions platform. INXL ended 2020 with 221 K-12 document solutions school district customers and expects to add at least on average 15 to 20 new school district customers per quarter.

Our 12-month price target of $7.00 per share implies shares could appreciate nearly 70% over the next twelve months. According to finviz (a/o 4/1/21), the average trailing twelve-month price-to-sales multiple for companies in the Specialty – Business Services sector is 2.1X (prior was 2.7X). INLX's trailing twelve-month price-to-sales multiple is 1.2X. We anticipate investors are likely to accord INLX the sector multiple given its annualized sales growth forecast of nearly 70% from 2019 to 2022. We applied a multiple of 2.1X to our 2022 sales per share forecast of $4.16, discounted for execution risks, to obtain a year-ahead price target of approximately $7.00 per share.

A higher valuation of Intellinetics Inc. is likely to be supported by quarterly sequential sales growth that should begin in 2Q21, a swing to an operating profit, generating cash earnings, and leveraging the 2020 acquisitions that should increase its professional services and recurring revenue customer bases. We forecast an operating profit of $820,000 in 2022 compared to an estimated operating profit of $480,000 in 2021. In 2020, the company had an operating profit of $153,000 excluding one-time merger related transaction costs of $636,000 and a nearly $1.6 million charge related to change in fair value of earn-out liabilities. In 2022, INLX should generate cash earnings of $1.1 million, up from estimated cash earnings of $749,000 in 2021 and cash burn of $809,000 in 2020.

In our view, Intellinetics Inc. is most suitable for high-risk tolerant investors seeking exposure to a microcap technology company that is attempting to build a solid SaaS recurring revenue customer base and a dedicated professional services organization.

Overview

Intellinetics, Inc., located in Columbus, Ohio, is a cloud-based document services software provider. Its secure document management solution, IntelliCloud™ serves a mission-critical role for organizations in highly regulated, risk and compliance-intensive markets in healthcare, K-12, public safety, public sector, risk management, financial services and more. The March 2020 acquisition of Michigan based Graphic Sciences, Inc., created the company's Image Technology Group and large scale production scanning department. This subsidiary has converted hundreds of millions of images over the last 33 years from paper to digital, paper to microfilm, and microfiche to microfilm for business and government agencies (local, state, and Federal). The April 2020 acquisition of CEO Imaging Systems, brings an existing customer base and the knowledge and capabilities to enable its clients (primarily in the K-12 education and financial services markets) to transform their paper records and document content into the digital cloud. The management system offered saves time, money, and floor space, and streamlines the archiving processes.

The company and its subsidiaries are targeting existing and new organizations and governmental agencies (state and local) within the health and human services and K-12 education market initially in the Midwestern US states.

Growth Platforms

<u>Document Management Solution</u>
The IntelliCloud software solutions platform is a Windows application that can have unlimited downloads and installs, enabling customers secure access even from remote locations. The platform has in excess of 50 pre-configured industry solutions ready for deployment. The primary modules of IntelliCloud include image processing, records management, workflow, and extended components.

The image processing module is used for capturing, transforming and managing images of paper documents, including support of distributed and high-volume capture, and optical character recognition. Records management enables customers the ability to retain content through automation and policies, ensuring legal, regulatory and industry compliance within the markets they serve. The workflow module is designed to support business processes, routing content electronically, assigning work tasks, and creating related audit trails.

The company's document management solutions include CEO Image Executive™, a document management system that was acquired in April 2020. The company's solutions portfolio allows document composition and e-forms (via third party OEM integration partnership), search, content and web analytics (via third party data visualization and advanced optical character recognition engine partnerships), email and information archiving, packaged application integration, and advanced capture for invoice processing.

Graphic Sciences

The company's Graphic Sciences subsidiary offers digital scanning, microfilm and microfiche, box storage, and equipment, software, and repair. The primary offering that drives this subsidiary's growth is its digital scanning services that provide paper scanning, newspaper and microfilm scanning, microfiche scanning, aperture card scanning, drawing scanning, and book scanning. Since most government files must be retained for the long term or permanently, the ability of Graphic Sciences to convert images from paper to digital, paper to microfilm, and microfiche to microfilm for business and federal, county, and municipal governments places it in a position to grow its customer base. The service offerings provided by the company has four production categories consisting of document prep, scanning, indexing, and delivery.

Graphic Sciences' offerings includes converting scanned images to microfilm or microfiche, and microfilm/microfiche preservation and duplication. The company provides physical document storage and retrieval services for its clients.

Growth Strategy

The company's aim is to drive recurring cloud-based software-as-a-service (SaaS) revenue from a growing customer base. INLX has an opportunity to grow its customer base for its document management solutions offerings based on the potential conversion of existing customers of Graphic Sciences and CEO Imaging Systems. The opportunity exists to expand the company's document management solutions customer base within the two acquired customer bases (governmental agencies and K-12 school districts primarily in Michigan), which should reduce customer acquisition costs, thus providing greater operating leverage as recurring revenue sales increase. Entering 2021, the company had 221 K-12 document solutions school district customers and added approximately 18 in 1Q21. The expectation is to add (at least) on average 15 to 20 new school district customers per quarter.

INLX seeks to accelerate adoption of its IntelliCloud software solutions platform through direct sales, partnerships, and a reseller network. The company anticipates its offerings (large scale scanning capabilities and IntelliCloud) will be a means for small to medium size organizations (public and private sectors) to create a cloud based remote file cabinet of documents for employees as people are likely to still work from home even in a post COVID-19 pandemic environment.

Acquisitions are likely to enable the company to grow its operations. The Graphic Science and CEO Imaging Systems acquisitions not only added revenue but also an existing customer base that provides cross selling opportunities.

Projections

Basis of Forecast

Our forecast reflects the easing of COVID-19 pandemic conditions that should allow for Graphic Sciences' revenue contribution (primarily in professional services) to accelerate in 2021 and grow organically in 2022. In 3Q20, the company reconfigured and expanded its Graphic Sciences Michigan operations. The Michigan plant conforms to social distancing requirements and INLX added its existing document preparation technology to enhance throughput of its document scanning services that convert paper documents to digital images. The company ended 2020 with 67 document services and storage operations specialists. In 2021, the company is likely to add additional sales and document services specialists, as well as additional warehouse capacity to enhance throughput and storage capabilities.

In 2021, a full year contribution from Graphic Sciences and an increasing customer base for the company's IntelliCloud and CEO Image Executive software solutions should translate into higher recurring revenue and drive total revenue growth of 31.9% while generating net income (the first time in the company's history). In 2022, revenue growth of 13.5% should enable net income to accelerate to $400,000, up from an estimate $40,000 in 2011.

We anticipate 2021 and 2022 gross margins of approximately 58.1% and 57.5%, respectively, compared to 60.5% in 2020. Our gross margin forecast reflects an increase in lower margin professional services revenue stemming from the Graphic Sciences acquisition. However, as recurring revenue increases, we anticipate SaaS margins of 75.5% in 2022, up from an estimated 75.2% in 2020. SaaS margins were 74.1% in 2020. SaaS revenue growth should enable the company to leverage operations with minimal incremental cost of sales.

We are not recording income tax expense as the company has over $19.1 million in net operating loss carry forwards at December 31, 2020.

Economic conditions

In January 2021, the International Monetary Fund (IMF) revised its economic growth estimate for the US to an increase of 5.1% for 2021 and 2.5% for 2022. In October 2020, the IMF projected US economic growth of 3.1% for 2021 and 2.9% for 2022.

The third estimate of US GDP growth (released on March 25, 2021) showed the US economy increased at an annual rate of 4.3% in 4Q20, down from the 33.4% increase reported in 3Q20. The 4Q20 US GDP estimate primarily reflects increases in exports, business investment, consumer spending, housing investment and inventory investment, partially offset by a decrease in government spending.

2021

We project total revenue growth of 31.9% to $10.9 million (unchanged) due primarily to inclusion of a full year of Graphic Sciences professional service and storage and retrieval sales and a return to more normal economic conditions as the COVID-19 pandemic environment eases. We anticipate a growing recurring revenue customer base driving SaaS and software maintenance revenue (combined) to $2.7 million, up from $2.3 million in 2020.

We project a 26.6% increase in gross profit to $6.3 million due primarily to sales growth. Gross margin is likely to contract to 58.1% from 60.5% in 2020 due primarily to an increase in lower margin professional services revenue. We forecast operating income of $480,000 compared to $153,000 (excluding a $1.6 million expense related to a change in fair value of earn-out liabilities and $636,000 in merger related transaction costs), as operating expense margin should improve to 53.7% from 58.6% (excluding a charge) in 2020.

We anticipate operating expenses of nearly $5.8 million compared to nearly $4.8 million (excludes excluding a $1.6 million expense related to a change in fair value of earn-out liabilities and $636,000 in merger related transaction costs). We project G&A expense increasing 14.6% to $4 million and sales and marketing expenses increasing 41.2% to nearly $1.5 million. D&A expense should increase to $360,000 from $297,000 in 2020. The increase in operating expenses reflects supporting the operations of Graphic Science and CEO Imaging, and converting their customers to the company's document management software solutions.

We project interest expense decreasing to $440,000 from $638,000 due to a lower debt balance. The year-ago period included a gain on extinguishment of debt of $287,000 compared to none in our forecast period. We forecast net income of $40,000 or $0.01 per share. We previously forecasted net income of $360,000 or $0.13 per share. The reduction in our forecast reflects higher than anticipated operating expenses of $5.8 million compared to our prior forecast of approximately $5.5 million.

2022

We project total revenue growth of 13.5% to nearly $12.4 million due primarily to organic growth from the company's Graphic Sciences professional service and storage and retrieval operations. We anticipate a growing recurring revenue customer base driving SaaS and software maintenance revenue (combined) to nearly $3 million, up from an estimated $2.7 million in 2021.

We project a 12.4% increase in gross profit to $7.1 million due primarily to sales growth. Gross margin is likely to contract to 57.5% from an estimated 58.1% in 2021 due primarily to an increase in lower margin professional services revenue. We forecast operating income increasing to $820,000 from an estimated $480,000 in 2021, as operating expense margin should improve to 50.9% from an estimated 53.7% in 2021.

We anticipate operating expenses of nearly $6.3 million compared to an estimated $5.8 million due to an increase in sales and marketing expenses by 33.3% to $2 million. We anticipate flat G&A and D&A expense at $4 million and $340,000, respectively.

We project interest expense decreasing by $20,000 to $420,000. We forecast net income of $400,000 or $0.13 per share on approximately 3 million average shares outstanding.

Finances

In 2021, we project cash earnings of $749,000 and an increase in working capital of $430,000. The increase in working capital reflect a reduction in earn-out liabilities, partly offset by increases in payables and accruals. Cash provided by operations of $319,000 is unlikely to cover capital expenses and repayment of debt. Cash should decrease by $341,000 to approximately $1.6 million at December 31, 2021.

In 2022, we project cash earnings of $1.1 million and an increase in working capital of $476,000. The increase in working capital reflect a reduction in earn-out liabilities, partly offset by increases in payables and accruals and reduction in unbilled receivables. Cash provided by operations of $613,000 is likely to cover capital expenses and repayment of debt. Cash should increase by $275,000 to $1.8 million at December 31, 2022.

2020 and 4Q20 Results

2020

Total revenue increased 225.5% to nearly $8.3 million from $2.5 million in 2019. The increase was due to the March 2020 acquisition of Graphic Solutions and the April 2020 acquisition of CEO Imaging Systems, as well as sales growth from software as a service and software maintenance customers. The Graphic Solutions acquisition contributed $4.5 million of the increase in professional services revenue to over $5 million from $450,000 in 2019. Document storage and retrieval services are a new revenue category that is part of the Graphic Solutions acquisition. This category generated revenue of $739,000 in 2020. Revenue from SaaS and software maintenance customers was $1.1 million and $1.3 million, respectively, compared to $860,000 and $1 million in 2019. The increases reflects new customers choosing the company's a cloud-based solutions. Software sales increase $6,000 to $195,000.

Gross profit increased 153% to nearly $5 million from nearly $2 million last year due to sales growth, offset in part by gross margin contraction to 60.5% from 77.6% in 2019. The contraction in gross margin reflects the sales mix impact of the Graphic Sciences acquisition.

Operating expenses, excluding a $1.6 million expense related to a change in fair value of earn-out liabilities and $636,000 in merger related transaction costs, increased to $4.8 million from $3.1 million 2019. The increase in operating expenses reflects G&A costs increasing 64.2% to $3.5 million due primarily to the acquisition of Graphic Sciences. Sales and marketing expense increased $59,000 to $1 million reflecting the addition of Graphic Sciences and CEO Image expenses. D&A expense increased to $297,000 from $8,000 in the year-ago period due to amortization of the intangible assets and associated depreciation stemming from the acquisition of Graphic Sciences in March 2020 and CEO Imaging in April 2020, partially offset by a reduction from fully depreciated assets.

Interest expense decreased to $638,000 from $981,000 in 2019 due to a lower debt balance. The current period included $287,000 from a gain on extinguishment of debt that did not occur last year.

The net loss was $2.2 million or ($0.91) per share, on 2.4 million average shares outstanding compared to a net loss of $2.1 million or ($5.76) per share on 370,000 average shares outstanding in 2019. Excluding one-time times, we estimate the net loss per share was ($0.12). We forecasted revenues of $8 million and a net loss per share excluding items of ($0.15).

<u>4Q20 Results</u>
Total revenue increased 331.8% to $2.7 million due primarily to the March and April 2020 acquisitions of Graphic Sciences and CEO Image that drove professional service and storage and retrieval services sales (combined) to $2 million, up from $63,000 in the year-ago period. Recurring SaaS and software maintenance service sales (combined) increased to $641,000 from $474,000 in 4Q19.

Gross profit increased to $1.6 million from $477,000 due to sales growth, offset in part by gross margin contraction to 58.8% from 76.4% in 4Q19. The contraction in gross margin reflects the mix impact of the Graphic Sciences acquisition.

Operating expenses, excluding a $1.6 million expense related to a change in fair value of earn-out liabilities, increased to $1.3 million from $805,000 in the year-ago period due primarily to the addition of expenses from the acquired operations of Graphic Sciences and CEO Image.

Interest expense decreased to $115,000 from $263,000 in the year-ago period due to a lower debt balance.

The net loss was $1.4 million or ($0.51) per share, on 2.8 million average shares outstanding compared to a net loss $591,000 or ($1.60) per share on 371,000 average shares outstanding in the year-ago period. Excluding the $1.6 million in change in fair value of earn-out liabilities, we estimate EPS was $0.05.

<u>Finances</u>
In 2020, cash burn of $809,000 and a decrease in working capital of $934,000 resulted in cash from operations of $125,000. The decrease in working capital was due primarily to an increase in earn-out liabilities, partly offset by decreases in payables and accruals. Cash from operations, borrowings, and proceeds from the issuance of common stock more than covered capital expenditures including the cash paid to acquire Graphic Sciences and CEO Imaging. Cash increased by $1.5 million to $1.9 million at December 31, 2020.

<u>Capital Structure</u>
At December 31, 2020, the company had total debt on its balance sheet of $2.4 million comprised of $1.8 million in long-term notes and $581,000 of short-term notes payable. On March 2, 2020, the company issued 12% subordinated promissory notes with a principal amount of $2 million (includes $225,000 in unamortized debt issuance costs and $231,000 in unamortized debt discount) that matures on February 28, 2023.

On April 15, 2020, INLX secured payroll protection funding of nearly $839,000 from the CARES Act through PNC Bank. On January 20, 2021, the company received notification that the US Small Business Administration forgave the loan in full. The company is likely to record such forgiveness on its financial statement in 1Q21.

On March 2, 2020, the company issued 12% subordinated promissory notes with a principal amount of $2 million and maturity date of February 28, 2023. At December 31, 2020, the outstanding balance was $2 million.

Document Management Market

According to IBISWorld, the Document Management Services industry should reach $7.2 billion in 2025, up from $5.6 billion in 2020. The industry is divided into companies that provide commercial and government clients with outsourced records storage, document destruction services and digital conversion of paper-based records. The growth in the industry reflects increasing regulatory requirements mandating the retention of company records.

Operators in the industry, such as Intellinetics, should benefit from sustained demand for secure document storage in electronic form.

IBISWorld estimates records management services and data protection segment revenue should reach $4.9 billion in 2025, up from $3.8 billion in 2020 (forecast assumes that 68.3% of the segment remains through 2025). One of the primary drivers of industry and segment growth is the increasing demand for digital conversion services. Industry participants estimate that only 1% of stored paper documents have been converted into digital files. In the next five-years, industry operators anticipate the digital conversion of medical records should be a significant growth opportunity.

Additional industry growth drivers should include people working from home that need access to documents in their office location, stricter records management required by various governmental and industry regulatory authorities, as well as records requirements for potential litigation. Companies within the industry must provide a platform that is cost-effective and secure for outsourcing document and record management.

Customers seeking a document management solution have begun to embrace a hybrid deployment model that allows an organization to move their most vital data to a private cloud without compromising on security and their non-sensitive data to a public cloud. Analysts estimate this is likely to be the fastest-growing segment over the next five years due to the flexibility, technical control, enhanced security, and adherence to the compliance requirements it offers.

Competition

The market for the company's IntelliCloud software solutions platform is highly competitive with competition likely to intensify as the document solutions market evolves. The market is highly fragmented with the US having a large number of small companies servicing local or regional markets.

The competitive factors affecting the document solutions market include reputation, quality, performance, and price, as well as the availability of software products on multiple platforms, product scalability and integration with other enterprise applications. Additional competitive factors that Intellinetics' solutions are likely to face include the ability to effectively store, manage, and retrieve client records. In this market, companies are responsible for handling client's highly confidential records; thus having a reputation for reliability and security is crucial in order to obtain and retain customers.

The company believes its primary competitors within the small-to-medium business sector are private companies including DocuWare, Square 9, M-files, On Base, and Laserfiche. The competitors for the company's Graphic Science division vary from smaller shops to larger entities, including publicly traded Iron Mountain Incorporated.

Risks

In our view, these are the principal risks underlying the stock.

<u>History of Losses</u>
In 3Q20, INLX reported its first quarterly profit. At December 31, 2020, the company's accumulated deficit was nearly $23 million, up from nearly $15 million in 2016. While losses could occur, we anticipate a net profit in 4Q21 and full year 2022. If profits were to return to losses it could result in the company's inability to execute its growth strategy and/or seek dilutive financing.

<u>COVID-19 Pandemic</u>
The COVID-19 global pandemic presents concerns that may affect the company's ability to conduct normal business operations.

<u>Dilution</u>
Over the eight-year period ended June 3, 2020, the company raised $17.7 million through the issuance of debt and equity securities.

At March 26, 2021, INLX had over 333,000 shares of common stock reserved for issuance upon the exercise of outstanding warrants, convertible notes, and outstanding and unissued stock options under the company's equity incentive plan.

Customer Concentration

In 2020 and 2019, government contracts represented approximately 64% and 41% of net revenues, respectively. A significant portion of the company's sales to resellers represents ultimate sales to government agencies. In 2020, the company's two largest customers represented 70% of gross accounts receivable, compared to its four largest customers representing 78% of gross accounts receivables at December 31, 2019. The loss of a significant customer could disrupt the company's operations.

Intellectual Property

Since software and most of the underlying technologies are built on a Microsoft.Net framework, Intellinetics must rely on a combination of copyright, trademark laws, non-disclosure agreements, and other contractual provisions to establish and maintain proprietary intellectual property rights. Loss of such rights could adversely impact operations and growth prospects.

Data Center

The company's users must have access to its solutions 24-hours a day, seven-days a week, without interruption. INLX has computing and communications hardware operations located in data centers owned and operated by third parties. Since it does not control the operation of those data centers, the company is vulnerable to any security breaches, power outages or other issues the data centers experience. Disruptions or experience interruptions, delays and outages in service and availability from time to time could adversely impact customer relationships.

Infringement

Claims of infringement are becoming commonplace within the software industry. While the company does not believe it infringes on the rights of third parties, a third party may assert Intellinetics' software violates their intellectual property rights.

Cyber Security

Security breaches, unauthorized access and usage, viruses or similar types of breaches or disruptions could result in loss of confidential information, damage to the company's reputation, early termination of contracts, litigation, regulatory investigations, etc. If the company's security measures or its third-party data centers are breached as a result of third-party action, employee error, or malfeasance, its business could diminish due to the potential for significant liability expenses.

The US has laws and regulations relating to data privacy, security, and retention and transmission of information. The company must protect its information systems against unauthorized access and disclosure of confidential information and confidential information belonging to customers. The company believes it has policies and procedures in place to meet data security and records retention requirements. However, there is no assurance that the security measures in place will be effective in every case.

Market Acceptance

The markets for the company's IntelliCloud software solutions platform is rapidly evolving, which means that the level of acceptance of the platform will take time to determine. If customer acceptance fails to develop or develops slower than anticipated, current operations and growth opportunities are likely to diminish.

Shareholder Control

Intellinetics officers and directors own or have a controlling interest of approximately 28.9% of the outstanding voting stock as of the company's May 2020 proxy filing (shares outstanding on April 13, 2020). The company's officers include Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. who was appointed Chairman of INLX in October 2017 and owns or has a controlling interest in 7.8% of the company's outstanding voting stock. Two shareholders, Michael Taglich (President of Taglich Brothers, Inc.) and Robert Taglich (Managing Director of Taglich Brothers, Inc.) collectively own or have a controlling interest in 24.1% of the company's currently (March 26, 2021) outstanding voting stock. Significant ownership interests could potentially influence the outcome of matters requiring stockholder approval, which decisions may or may not be in the best interests of the other shareholders.

Miscellaneous Risk

The company's financial results and equity values are subject to other risks and uncertainties, including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume

Based on our calculations, the average daily-volume during the last three months to April 1, 2021 was 427. The company has a float of 1.9 million shares and shares outstanding of 2.8 million.

Intellinetics Inc.
Consolidated Balance Sheets
FY2018A – FY2021E
(in thousands)

	FY18A	FY19A	FY20A	**FY21E**	**FY22E**
ASSETS					
Current assets:					
Cash	$ 1,089	$ 404	$ 1,908	**$ 1,567**	**$ 1,842**
Accounts receivable, net	136	330	792	**907**	**995**
Accounts receivable, unbilled	-	23	524	**450**	**350**
Parts and supplies, net	-	4	80	**85**	**85**
Prepaid expense and other current assets	162	111	162	**200**	**250**
Total current assets	1,387	872	3,466	**3,209**	**3,522**
Property and equipment, net	9	7	699	**715**	**720**
Right of use asset	-	97	2,641	**3,207**	**3,295**
Intangible assets, net	-	-	1,185	**970**	**755**
Goodwill	-	-	2,323	**2,323**	**2,323**
Other assets	10	10	31	**31**	**31**
Total assets	$ 1,406	$ 987	$ 10,345	**$ 10,455**	**$ 10,646**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	308	161	142	**100**	**75**
Accrued compensation	-	70	272	**350**	**375**
Accrued expenses, other	-	140	132	**200**	**150**
Lease liability	-	47	519	**519**	**519**
Deferred revenues	724	754	996	**1,300**	**1,500**
Deferred compensation	165	117	101	**125**	**125**
Earnout liabilities	-	-	878	**878**	**688**
Accrued interest payable	-	1,212	6	**5**	**5**
Notes payable	-	3,340	581	**258**	**1,742**
Notes payable - related party	47	1,467	-	**-**	**-**
Total current liabilities	1,244	7,310	3,625	**3,735**	**5,179**
Notes payable	3,145	-	1,802	**1,742**	**-**
Notes payable - related party	1,046	-	-	**-**	**-**
Lease liability	-	53	2,197	**2,097**	**2,714**
Other	-	-	-	**839**	**839**
Earnout liabilities	502	-	1,566	**688**	**-**
Stockholders' equity:					
Common stock, $0.001 par value; authorized 50,000,000 shares;	0	0	3	**3**	**3**
Additional paid-in capital	14,132	14,419	24,147	**24,307**	**24,467**
Retained earnings (accumulated deficit)	(18,663)	(20,796)	(22,996)	**(22,956)**	**(22,556)**
Total stockholders' equity	(4,531)	(6,376)	1,154	**1,354**	**1,914**
Total liabilities and stockholders' equity	$ 1,406	$ 987	$ 10,345	**$ 10,455**	**$ 10,646**
SHARES OUT	355	370	2,811	**2,825**	**2,835**

Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.
Annual Income Statement
FY2018A – FY2022E
(in thousands)

	FY18 A	FY19 A	FY20 A	**FY21 E**	**FY22 E**
Sale of software	$ 174	$ 189	$ 195	**$ 40**	**$ 40**
Software-as-a-service (SaaS)	749	860	1,055	**1,270**	**1,450**
Software maintenance services	995	1,011	1,257	**1,410**	**1,510**
Professional services	290	450	5,008	**7,140**	**8,200**
Storage and retrieval services	-	-	739	**1,025**	**1,150**
Third party services	174	26	-	-	-
Total Revenues	$ 2,381	$ 2,536	$ 8,253	**$ 10,885**	**$ 12,350**
Cost of Revenues per segement					
Sale of software	70	9	57	-	-
Software-as-a-service (SAAS)	300	255	273	**315**	**355**
Software maintenance services	100	87	159	**170**	**180**
Professional services	120	192	2,553	**3,710**	**4,290**
Storage and retreval services	-	-	220	**370**	**420**
Third party services	152	25	-	-	-
Total Cost of sales	742	568	3,263	**4,565**	**5,245**
Gross Profit	1,639	1,968	4,991	**6,320**	**7,105**
Operating Expenses:					
General and administrative	2,107	2,131	3,499	**4,010**	**3,985**
Change in fair value of earnout liabilities			1,555	-	-
Transactions costs	-	-	636	-	-
Sales and marketing	998	982	1,041	**1,470**	**1,960**
Depreciation	9	8	297	**360**	**340**
Total Operating Expenses	3,114	3,121	7,029	**5,840**	**6,285**
Operating Income (loss)	(1,475)	(1,153)	(2,038)	**480**	**820**
Other income (expense)					
Gain on extingusihment of debt	-	-	287	-	-
Interest income (expense)	(866)	(981)	(638)	**(440)**	**(420)**
Total Other Income (expense)	(866)	(981)	(350)	**(440)**	**(420)**
Pre-Tax Income (loss)	(2,340)	(2,133)	(2,389)	**40**	**400**
Income Tax Expense (Benefit)	-	-	(188)	-	-
Net income (loss)	(2,340)	(2,133)	(2,200)	**40**	**400**
Earning (loss) per share	$ (6.60)	$ (5.76)	$ (0.91)	**$ 0.01**	**$ 0.13**
Avg Shares Outstanding	355	370	2,407	**2,846**	**2,983**
Adjusted EBITDA	$ (1,159)	$ (707)	$ 803	**$ 1,000**	**$ 1,220**
Margin Analysis					
Gross margin - Sale of software	59.8%	95.4%	70.9%	**100.0%**	**100.0%**
Gross margin - SAAS	59.9%	70.3%	74.1%	**75.2%**	**75.5%**
Gross margin - Maintenance services	89.9%	91.4%	87.3%	**87.9%**	**88.1%**
Gross margin - Professional services	58.5%	57.3%	49.0%	**48.0%**	**47.7%**
Storage and retrieval services	NMF	NMF	70.2%	**63.9%**	**63.5%**
Gross margin - Third Party services	12.7%	5.2%	NMF	**NMF**	**NMF**
Total gross margin	68.8%	77.6%	60.5%	**58.1%**	**57.5%**
General and administrative	88.5%	84.0%	42.4%	**36.8%**	**32.3%**
Sales and marketing	41.9%	38.7%	12.6%	**13.5%**	**15.9%**
Depreciation	0.4%	0.3%	3.6%	**3.3%**	**2.8%**
Operating margin	(61.9%)	(45.5%)	(24.7%)	**4.4%**	**6.6%**
Pre-tax margin	(98.3%)	(84.1%)	(28.9%)	**0.4%**	**3.2%**
Tax rate	0.0%	0.0%	0.0%	**0.0%**	**0.0%**
YEAR / YEAR GROWTH					
Total Revenues	(9.1%)	6.5%	225.5%	**31.9%**	**13.5%**

Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.
Income Statement Model
Quarters 2020A – 2022E
(in thousands)

	Q1 20 A	Q2 20A	Q3 20 A	Q4 20 A	FY20 A	Q1 21 E	Q2 21 E	Q3 21 E	Q4 21 E	**FY21 E**	Q1 22 E	Q2 22 E	Q3 22 E	Q4 22 E	**FY22 E**
Sale of software	$ 94	$ 10	$ 50	$ 41	$ 195	$ 10	$ 10	$ 10	$ 10	**$ 40**	$ 10	$ 10	$ 10	$ 10	**$ 40**
Software-as-a-service (SaaS)	226	249	282	299	1,055	305	315	320	330	**1,270**	350	360	365	375	**1,450**
Software maintenance services	261	314	340	342	1,257	345	350	355	360	**1,410**	370	375	380	385	**1,510**
Professional services	560	1,046	1,615	1,786	5,008	1,650	1,750	1,825	1,915	**7,140**	1,925	2,100	2,200	1,975	**8,200**
Storage and retrieval services	-	290	220	228	739	235	250	265	275	**1,025**	250	275	300	325	**1,150**
Total Revenues	$ 1,141	$ 1,908	$ 2,508	$ 2,696	$ 8,253	$ 2,545	$ 2,675	$ 2,775	$ 2,890	**$ 10,885**	$ 2,905	$ 3,120	$ 3,255	$ 3,070	**$ 12,350**
Cost of Revenues per segement															
Sale of software	38	2	-	17	57	-	-	-	-	-	-	-	-	-	-
Software-as-a-service (SAAS)	73	71	66	64	273	70	75	80	90	**315**	85	85	90	95	**355**
Software maintenance services	47	32	49	32	159	35	40	45	50	**170**	40	40	50	50	**180**
Professional services	297	499	841	916	2,553	855	920	950	985	**3,710**	990	1,065	1,150	1,085	**4,290**
Storage and retreval services	-	57	80	84	220	85	90	95	100	**370**	90	100	110	120	**420**
Total Cost of sales	454	660	1,036	1,112	3,263	1,045	1,125	1,170	1,225	**4,565**	1,205	1,290	1,400	1,350	**5,245**
Gross Profit	687	1,248	1,472	1,584	4,991	1,500	1,550	1,605	1,665	**6,320**	1,700	1,830	1,855	1,720	**7,105**
Operating Expenses:															
General and administrative	844	845	844	966	3,499	985	1,000	1,050	975	**4,010**	985	990	1,025	985	**3,985**
Change in fair value of earnout liabilities	-	-	-	1,555	1,555	-	-	-	-	-	-	-	-	-	-
Transactions costs	461	176	-	-	636	-	-	-	-	-	-	-	-	-	-
Sales and marketing	244	230	285	282	1,041	335	355	380	400	**1,470**	425	475	525	535	**1,960**
Depreciation	28	87	89	93	297	90	90	90	90	**360**	85	85	85	85	**340**
Total Operating Expenses	1,577	1,337	1,219	2,896	7,029	1,410	1,445	1,520	1,465	**5,840**	1,495	1,550	1,635	1,605	**6,285**
Operating Income (loss)	(890)	(89)	253	(1,312)	(2,038)	90	105	85	200	**480**	205	280	220	115	**820**
Other income (expense)															
Gain on extingusihment of debt	287	-	-	-	287	-	-	-	-	-	-	-	-	-	-
Interest income (expense)	(290)	(117)	(115)	(115)	(638)	(110)	(110)	(110)	(110)	**(440)**	(105)	(105)	(105)	(105)	**(420)**
Total Other Income (expense)	(3)	(117)	(115)	(115)	(350)	(110)	(110)	(110)	(110)	**(440)**	(105)	(105)	(105)	(105)	**(420)**
Pre-Tax Income (loss)	(893)	(206)	137	(1,427)	(2,389)	(20)	(5)	(25)	90	**40**	100	175	115	10	**400**
Income Tax Expense (Benefit)	(188)	-	-	-	(188)	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(705)	(206)	137	(1,427)	(2,200)	(20)	(5)	(25)	90	**40**	100	175	115	10	**400**
Earning (loss) per share	$ (0.59)	$ (0.07)	$ 0.05	$ (0.51)	$ (0.91)	$ (0.01)	$ (0.00)	$ (0.01)	$ 0.03	**$ 0.01**	$ 0.03	$ 0.06	$ 0.04	$ 0.00	**$ 0.13**
Avg Shares Outstanding	1,186	2,811	2,811	2,811	2,407	2,820	2,830	2,835	2,900	**2,846**	2,975	2,980	2,985	2,990	**2,983**
Adjusted EBITDA	$ 75	$ 5	$ 361	$ 361	$ 803	$ 220	$ 235	$ 215	$ 330	**$ 1,000**	$ 305	$ 380	$ 320	$ 215	**$ 1,220**
Margin Analysis															
Gross margin - Sale of software	59.3%	81.2%	100.0%	59.4%	70.9%	100.0%	100.0%	100.0%	100.0%	**100.0%**	100.0%	100.0%	100.0%	100.0%	**100.0%**
Gross margin - SAAS	67.9%	71.3%	76.7%	78.6%	74.1%	77.0%	76.2%	75.0%	72.7%	**75.2%**	75.7%	76.4%	75.3%	74.7%	**75.5%**
Gross margin - Maintenance services	82.2%	89.9%	85.5%	90.7%	87.3%	89.9%	88.6%	87.3%	86.1%	**87.9%**	89.2%	89.3%	86.8%	87.0%	**88.1%**
Gross margin - Professional services	46.9%	52.3%	47.9%	48.7%	49.0%	48.2%	47.4%	47.9%	48.6%	**48.0%**	48.6%	49.3%	47.7%	45.1%	**47.7%**
Storage and retrieval services	NMF	80.5%	63.8%	63.1%	70.2%	63.8%	64.0%	64.2%	63.6%	**63.9%**	64.0%	63.6%	63.3%	63.1%	**63.5%**
Total gross margin	60.2%	65.4%	58.7%	58.8%	60.5%	58.9%	57.9%	57.8%	57.6%	**58.1%**	58.5%	58.7%	57.0%	56.0%	**57.5%**
General and administrative	74.0%	44.3%	33.7%	35.8%	42.4%	38.7%	37.4%	37.8%	33.7%	**36.8%**	33.9%	31.7%	31.5%	32.1%	**32.3%**
Sales and marketing	21.4%	12.0%	11.4%	10.5%	12.6%	13.2%	13.3%	13.7%	13.8%	**13.5%**	14.6%	15.2%	16.1%	17.4%	**15.9%**
Depreciation	2.5%	4.5%	3.6%	3.4%	3.6%	3.5%	3.4%	3.2%	3.1%	**3.3%**	2.9%	2.7%	2.6%	2.8%	**2.8%**
Operating margin	(78.0%)	(4.7%)	10.1%	(48.7%)	(24.7%)	3.5%	3.9%	3.1%	6.9%	**4.4%**	7.1%	9.0%	6.8%	3.7%	**6.6%**
Pre-tax margin	(78.2%)	(10.8%)	5.5%	(52.9%)	(28.9%)	(0.8%)	(0.2%)	(0.9%)	3.1%	**0.4%**	3.4%	5.6%	3.5%	0.3%	**3.2%**
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%	0.0%	0.0%	0.0%	**0.0%**
YEAR / YEAR GROWTH															
Total Revenues	121.5%	197.9%	231.9%	331.8%	225.5%	123.0%	40.2%	10.7%	7.2%	**31.9%**	14.1%	16.6%	17.3%	6.2%	**13.5%**

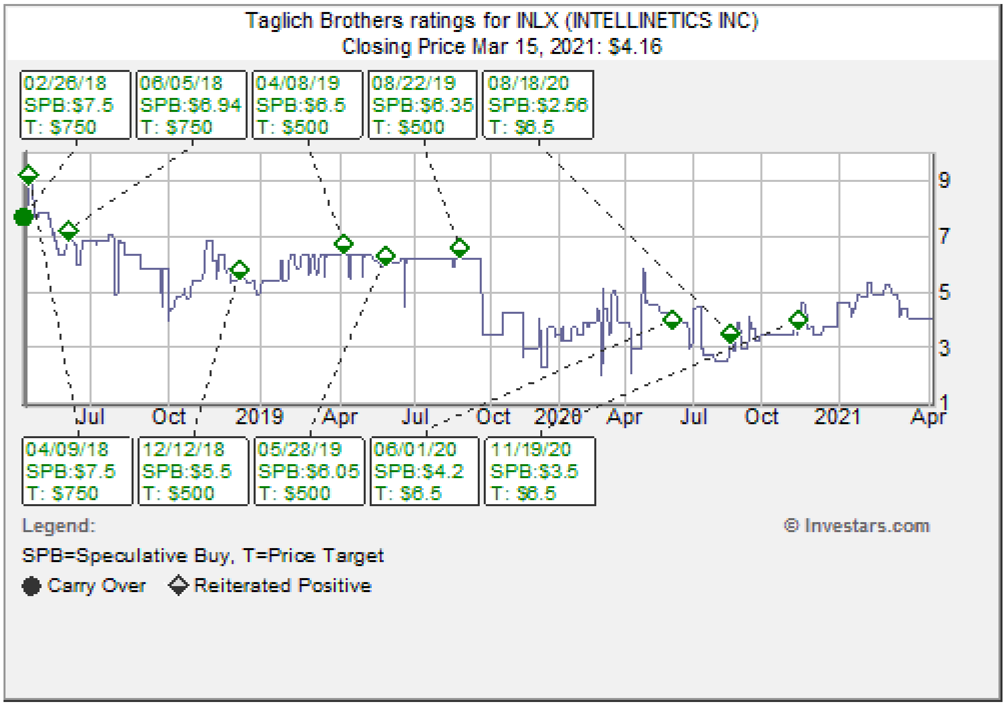
Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.
Cash Flow Statement
FY2018A – FY2022E
(in thousands)

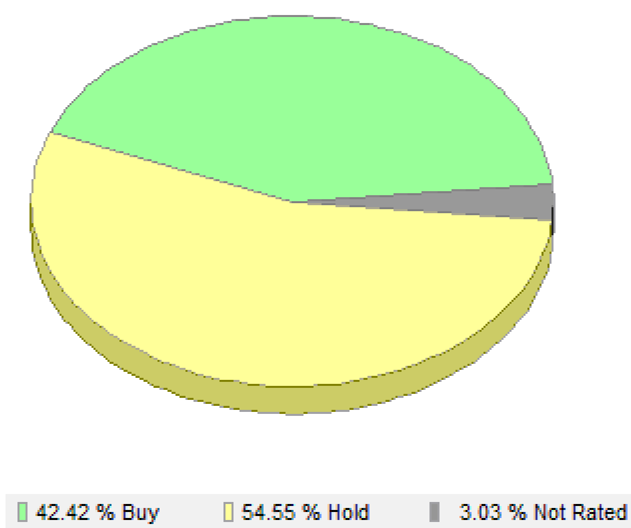
	FY2018A	FY2019A	FY2020A	**FY2021E**	**FY2022E**
Cash Flows from Operating Activities					
Net Income (loss)	$ (2,340)	$ (2,133)	$ (2,200)	**$ 40**	**$ 400**
Depreciation and amortization	9	8	297	**360**	**340**
Bad debt expense	(7)	28	55	-	-
Loss on disposal of fixed assets - parts and supplies reserve	-	-	15	-	-
Amortization of deferred and original issue financing costs	233	184	117	**100**	**100**
Amortization of beneficial conversion option	202	71	12	-	-
Amortization of debt discount	-	-	89	**89**	**89**
Amorization of orignial issue discount on notes	-	12	18	-	-
Amortization of right of use asset	-	41	405	-	-
Stock issued for services	58	88	58	**100**	**100**
Stock options compensation	249	200	59	**60**	**60**
Note conversion expense	-	-	141	-	-
Warrant issue expense	-	-	237	-	-
Interest on converted debt	-	-	176	-	-
Gain on retirement of debt	-	-	(287)	-	-
Cash earnings (burn)	(1,597)	(1,502)	(809)	**749**	**1,089**
Changes In:					
Accounts receivable	167	(222)	605	**(115)**	**(88)**
Accounts receivable, unbilled	-	42	(224)	**74**	**100**
Parts and supplies, net	-	2	1	**(5)**	-
Prepaid expenses and other current assets	(0)	(19)	7	**(38)**	**(50)**
Right of use asset	-	(139)	(63)	-	-
Accounts payable and accrued expenses	(97)	63	(646)	**105**	**(50)**
Accrued interest, current and long-term	402	710	6	**100**	**100**
Lease liability	-	101	(333)	**1**	**(1)**
Deferred compensation	(48)	(48)	(16)	**24**	-
Earnout liabilities	-	-	1,555	**(878)**	**(688)**
Deferred revenues	15	30	43	**304**	**200**
(Increase)/decrease in Working Capital	440	520	934	**(429)**	**(476)**
Net cash provided (used in) Operations	(1,157)	(982)	125	**320**	**613**
Cash Flows from Investing Activities					
Purchase of property and equipment	(3)	(5)	(77)	**(80)**	**(80)**
Cash paid to acquire business, net of cash acquired	-	-	(4,019)	-	-
Cash flow provided (used in) Investing Activities	(3)	(5)	(4,096)	**(80)**	**(80)**
Cash Flows from Financing Activities					
Proceeds from issuance of common stock	-	-	3,168	-	-
Offering costs paid on issuance of common stock	-	-	(308)	-	-
Payment of deferred financing costs	(131)	-	(176)	-	-
Issuance of convertible notes	-	-	-	-	-
Proceeds (repayment) from notes payable, net	900	-	2,839	**(581)**	**(258)**
Proceeds (repayment) from notes payable - related party, net	354	303	(48)	-	-
Net cash provided (used) by Financing	1,124	303	5,475	**(581)**	**(258)**
Net change in Cash	(37)	(684)	1,504	**(341)**	**275**
Cash Beginning of Period	1,126	1,089	404	**1,908**	**1,567**
Cash End of Period	$ 1,089	$ 404	$ 1,908	**$ 1,567**	**$ 1,842**

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	3	16
Hold		
Sell		
Not Rated		

Important Disclosures

As of April 1, 2021, Taglich Brothers, Inc. and/or its affiliates own or have controlling interests in more than 1% of INLX common stock. Michael Taglich, President of Taglich Brothers, Inc. owns or has a controlling interest in 458,838 shares in shares of INLX common and restricted common stock (combined), and 2,059,111 restricted warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 161,291 shares in shares of INLX common and restricted common stock (combined), and 2,543,712 shares of restricted warrants. Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. and Chairman of Intellinetics Inc., owns or has a controlling interest in 54,745 shares in shares of INLX common and restricted common stock (combined), which includes 1,435,084 shares of restricted warrants. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 571 shares of INLX restricted common stock and 332,000 restricted warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 404,000 shares restricted warrants. Taglich Brothers, Inc., owns or has a controlling interest in 35,732 shares of restricted common stock and 11,258 warrants. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 933,140 shares of INLX that may be acquired upon the exercise of warrants. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In March 2013, Taglich Brothers, Inc. served as the placement agent for a common stock offering. In 2014, the company retained Taglich Brothers, Inc. as a placement agent for the sale of convertible notes the transaction. In November and December 2016, and January 2017, Taglich Brothers Inc. served as the placement agent in the sale of 12% convertible notes for the company. In September and November 2017 and September 2018, Taglich Brothers, Inc. served as the placement agent in the sale of 8% convertible notes for the company. In March 2020, Taglich Brothers acted as the placement agent for the sale of common stock and bridge notes for INLX.

All research issued by Taglich Brothers, Inc. is based on public information. In January 2018, the company paid Taglich Brothers a monetary fee of $4,500 (USD) representing payment for the creation and dissemination of research reports for three months. In June 2018, the company began paying Taglich Brothers a monthly monetary fee of $1,500 (USD) for the creation and dissemination of research reports.

General Disclosures

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Analyst Certification

I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Public Companies mentioned in this report:

Intel Corporation	(NASDAQ: INTC)	Iron Mountain Incorporated	(NYSE: IRM)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long-term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Discontinued – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company-specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.