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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 $4.10 — (OTC)

May 18, 2021

	2018 A	2019 A	*2020 A*	***2021 E***	***2022 E***
Revenue (in millions)	$2.4	$2.5	$8.3	***$11.0***	***$12.4***
Earnings (loss) per share	($6.60)	($5.76)	*($0.91)**	***$0.01****	***$0.13***

52-Week range	$6.99 – $2.56	Fiscal year ends:	December
Shares outstanding a/o 05/17/21	2.8 million	Revenue/shares (ttm)	$3.38
Approximate float	2.0 million	Price/Sales (ttm)	1.2X
Market Capitalization	$11.5 million	Price/Sales (2022) E	1.0X
Tangible Book value/shr	($0.49)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2022) E	31.5X

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

***** Excludes $0.29 per share gain on extinguishment of debt***

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 12-month price target of $7.00 per share.

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 projected for 2025.

We anticipate as pandemic conditions ease, revenues should grow in 2021 and 2022 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 1Q20, INLX acquired Graphic Sciences, a new subsidiary that converts images from paper to digital, paper to microfilm, and microfiche to microfilm for businesses and federal, county, and municipal governments, primarily in Michigan. In 2Q20, the company acquired document solutions company CEO Imaging that has a strong customer base within the K-12 education market.

INLX reported 1Q21 EPS (on 5-17-21) of $0.27 on sales of $2.6 million. In 1Q20, the loss per share was ($0.59) on sales of $1.1 million. We projected a loss of ($0.01) per share on sales of $2.5 million. Excluding the gain on extinguishment of debt in 1Q21, we estimate breakeven per share.

For 2021, we project EPS of $0.01 (unchanged) on revenue growth of 33.2% to $11 million (prior was $10.9 million). Our forecast reflects 1Q21 results and excludes the gain on extinguishment of debt.

For 2022, we project EPS of $0.13 (unchanged) on revenue growth of 13.2% to $12.4 million (unchanged). Our forecast reflects an increase in INLX's customer base and operating expense margin improvement to 50.7% from an estimated 54% in 2021.

Please view our Disclosures on pages 13 – 15.

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Appreciation Potential

Maintaining our Speculative Buy rating and 12-month price target of $7.00 per share.

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 entered 2Q20 with over 230 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 70% over the next twelve months. According to finviz (a/o 5/17/21), the average trailing twelve-month price-to-sales multiple for companies in the Specialty – Business Services sector is 2.1X (unchanged). INLX's trailing twelve-month price-to-sales multiple is 1.2X (unchanged). We anticipate investors are likely to accord INLX the sector multiple given its annualized sales growth forecast of 70% from 2019 to 2022. We applied a multiple of 2.1X to our 2022 sales per share forecast of $3.99, discounted for execution risks, to obtain a year-ahead price target of approximately $7.00 per share.

A higher valuation of INLX is likely to be supported by sequential sales growth that should begin in 2Q21, operating profit growth, 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 $845,000 in 2022 compared to an estimated operating profit of $491,000 in 2021. In 2022, INLX should generate cash earnings of $1.4 million, up from estimated cash earnings of $1.2 million in 2021. In 2020, INLX reported cash burn of $809,000.

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 1Q20 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 2Q20 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 2Q20. 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 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 include 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, as well as physical document storage and retrieval services.

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 2Q21, the company had at least 230 K-12 document solutions school district customers. 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 2H20, 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. In 2021, the company is likely to add additional sales and document services specialists, as well as additional warehouse capacity (that was completed in 2Q21) 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 33.2% while generating net income (the first time in the company's history) excluding a one-time gain of $845,000 on extinguishment of debt related to PPP loan forgiveness. In 2022, revenue growth of 13.2% should enable net income to accelerate to $405,000, up from an estimate $39,000 in 2021 (excludes the one-time gain).

We anticipate 2021 and 2022 gross margins of 58.4% 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. We anticipate recurring revenue SaaS margins to remain robust at 72.1% in 2022 compared to an estimated 73.9% in 2021.

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 April 2021, the International Monetary Fund (IMF) revised its economic growth estimate for the US to an increase of 6.4% for 2021 and 3.5% for 2022. In January 2021, the IMF projected US economic growth of 5.1% for 2021 and 2.5% for 2022. The IMF increased their forecast due primarily to the US stimulus package enacted in early 2021 and the progress being made to vaccinate the population.

The advanced estimate of US GDP growth (released on April 29, 2021) showed the US economy increased at an annual rate of 6.4% in 1Q21 compared to a 4.3% gain in 4Q20, up from the worst of COVID-19 pandemic conditions of a 31.4% decline in 2Q20. The 1Q21 increase reflects increases in personal consumption expenditures, nonresidential fixed investment, federal government spending, residential fixed investment, and state and local government spending, partly offset by decreases in private inventory investment and exports.

2021

We project total revenue growth of 33.2% to $11 million (prior was $10.9 million) due primarily to the 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 28.7% increase in gross profit to $6.4 million due primarily to sales growth. Gross margin is likely to contract to 58.4% from 60.5% in 2020 due primarily to an increase in lower margin professional services revenue. We forecast operating income of $491,000 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 58.4% from 58.6% (excluding a charge) in 2020.

We anticipate operating expenses of $5.9 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 19.7% to $4.2 million and sales and marketing expenses increasing 24.4% to nearly $1.3 million. D&A expense should increase to $380,000 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, as well as the expense of increasing warehouse capacity.

We project interest expense decreasing to $452,000 from $638,000 due to a lower debt balance. In 2021, we anticipate an $845,000 gain from extinguishment of debt related to PPP loan forgiveness compared to a gain on extinguishment of debt of $287,000 in the year-ago period due to the retirement of debt. We forecast net income of $39,000 or $0.01 per share (unchanged) which excludes the $0.29 per share gain from extinguishment of debt related to PPP loan forgiveness recorded in 1Q21.

2022

We project total revenue growth of 13.2% to $12.4 million (unchanged) 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 an 11.4% increase in gross profit to nearly $7.2 million due primarily to sales growth. Gross margin is likely to contract to 57.5% from an estimated 58.4% in 2021 due primarily to an increase in lower margin professional services revenue. We forecast operating income increasing to $845,000 from an estimated $491,000 in 2021, as operating expense margin should improve to 50.7% from an estimated 54% in 2021.

We anticipate operating expenses of $6.3 million compared to an estimated $5.9 million due to an increase in sales and marketing expenses by 40.5% to $1.8 million. We anticipate a $59,000 decrease in G&A to $4.1 million and $20,000 decrease in D&A expense t0 $360,000.

We project interest expense decreasing by $12,000 to $440,000. We forecast net income of $405,000 or $0.13 per share on approximately 3.1 million average shares outstanding (unchanged).

Finances

In 2021, we project cash earnings of $1.2 million and a decrease in working capital of $27,000. Cash provided by operations of nearly $1.2 million should cover capital expenses and repayment of debt. Cash should increase by $362,000 to nearly $2.3 million at December 31, 2021.

In 2022, we project cash earnings of $1.4 million and an increase in working capital of $571,000. The increase in working capital is due primarily to a reduction in earn-out liabilities. Cash provided by operations of $874,000 is likely to cover capital expenses and repayment of debt. Cash should increase by $341,000 to $2.6 million at December 31, 2022.

1Q20 Results

Total revenue increased 130.9% to $2.6 million due primarily to the March and April 2020 acquisitions of Graphic Sciences and CEO Imaging that drove professional service and storage and retrieval services sales (combined) to $2 million, up from $560,000 in the year-ago period. Recurring SaaS and software maintenance service sales (combined) increased to $664,000 from $487,000 in 1Q20 due primarily to new customers choosing a cloud-based solution, as well as expanded data storage, user seats, and hosting fees for existing customers.

Gross profit increased to $1.6 million from $687,000 due to sales growth and gross margin improving to 60.9% from 60.2% in 1Q20. Gross margin improvement reflects the sales mix within the company's Graphic Sciences subsidiary. Graphic Sciences has gross margin of 49.5% to 46.9% in the year-ago period.

Operating expenses were nearly $1.5 million (including a $70,000 expense related to a change in fair value of earn-out liabilities) compared to nearly $1.6 million (including $461,000 in one-time transaction costs related to the acquisition of Graphic Sciences and CEO Image) in the year-ago period.

Interest expense decreased to $113,000 from $290,000 in the year-ago period due to a lower debt balance. The current period recorded a gain of $845,000 from extinguishment of debt compared to $287,000 in the year-ago period.

Net income was $843,000 or $0.27 per share, on 3.1 million average shares outstanding compared to a net loss $705,000 or ($0.59) per share on 1.2 million average shares outstanding in the year-ago period. Excluding one-time items in 1Q21 and 1Q20, we estimate breakeven per share and a loss per share of ($0.36), respectively.

Finances
In 1Q21, cash earnings of $427,000 and an increase in working capital of $100,000 resulted in cash from operations of $327,000. The increase in working capital was due primarily to an increase in receivables and decrease in lease liabilities. Cash from operations covered capital expenditures, increasing cash by $95,000 million to $2 million at March 31, 2021.

Capital Structure
At March 31, 2021, the company had total debt on its balance sheet of $1.6 million (all long-term). On March 2, 2020, the company issued 12% subordinated promissory notes with a principal amount of $2 million (includes $199,000 in unamortized debt issuance costs and $204,000 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 recorded in 1Q21 the forgiveness on its income statement as extinguishment of debt.

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.

History of Losses
In 3Q20, INLX reported its first quarterly profit. At March 31, 2021, the company's accumulated deficit was $22.2 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.

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

Dilution
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 31, 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 8.9% of the outstanding voting stock as of the company's April 2021 proxy filing (shares outstanding on April 27, 2021). 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 2.6% 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 27% of the company's outstanding voting stock at April 27, 2021. 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 May 17, 2021 was 264. The company has a float of 2 million shares and shares outstanding of 2.8 million.

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

	FY18A	FY19A	FY20A	1Q21A	**FY21E**	**FY22E**
ASSETS						
Current assets:						
Cash	$ 1,089	$ 404	$ 1,908	$ 2,003	**$ 2,269**	**$ 2,610**
Accounts receivable, net	136	330	792	1,055	**1,069**	**1,210**
Accounts receivable, unbilled	-	23	524	346	**400**	**425**
Parts and supplies, net	-	4	80	76	**85**	**85**
Prepaid expense and other current assets	162	111	162	231	**235**	**250**
Total current assets	1,387	872	3,466	3,712	**4,058**	**4,580**
Property and equipment, net	9	7	699	890	**895**	**900**
Right of use asset	-	97	2,641	2,511	**2,511**	**2,511**
Intangible assets, net	-	-	1,185	1,131	**975**	**755**
Goodwill	-	-	2,323	2,323	**2,323**	**2,323**
Other assets	10	10	31	27	**27**	**27**
Total assets	$ 1,406	$ 987	$ 10,345	$ 10,594	**$ 10,789**	**$ 11,096**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	308	161	142	240	**200**	**150**
Accrued compensation	-	70	272	391	**400**	**375**
Accrued expenses, other	-	140	132	142	**125**	**100**
Lease liability	-	47	519	489	**489**	**489**
Deferred revenues	724	754	996	946	**1,000**	**1,200**
Deferred compensation	165	117	101	101	**105**	**115**
Earnout liabilities	-	-	878	947	**947**	**688**
Accrued interest payable	-	1,212	6	-	**-**	**-**
Notes payable	-	3,340	581	-	**258**	**1,597**
Notes payable - related party	47	1,467	-	-	**-**	**-**
Total current liabilities	1,244	7,310	3,625	3,257	**3,524**	**4,714**
Notes payable	3,145	-	1,802	1,597	**1,597**	**-**
Notes payable - related party	1,046	-	-	-	**-**	**-**
Lease liability	-	53	2,197	2,097	**1,734**	**1,734**
Other	-	-	-	-	**-**	**574**
Earnout liabilities	502	-	1,566	1,566	**1,566**	**966**
Stockholders' equity:						
Common stock, $0.001 par value; authorized 50,000,000 shares;	0	0	3	3	**3**	**3**
Additional paid-in capital	14,132	14,419	24,147	24,228	**24,477**	**24,812**
Retained earnings (accumulated deficit)	(18,663)	(20,796)	(22,996)	(22,153)	**(22,112)**	**(21,707)**
Total stockholders' equity	(4,531)	(6,376)	1,154	2,077	**2,368**	**3,108**
Total liabilities and stockholders' equity	$ 1,406	$ 987	$ 10,345	$ 10,594	**$ 10,789**	**$ 11,096**
SHARES OUT	355	370	2,811	2,823	**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	**1,329**	**1,490**
Software maintenance services	995	1,011	1,257	**1,390**	**1,470**
Professional services	290	450	5,008	**6,972**	**8,145**
Storage and retrieval services	-	-	739	**1,264**	**1,300**
Third party services	174	26	-	**-**	**-**
Total Revenues	$ 2,381	$ 2,536	$ 8,253	**$ 10,995**	**$ 12,445**
Cost of Revenues per segement					
Sale of software	70	9	57	**4**	**-**
Software-as-a-service (SAAS)	300	255	273	**346**	**415**
Software maintenance services	100	87	159	**149**	**160**
Professional services	120	192	2,553	**3,639**	**4,275**
Storage and retreval services	-	-	220	**431**	**440**
Third party services	152	25	-	**-**	**-**
Total Cost of sales	742	568	3,263	**4,570**	**5,290**
Gross Profit	1,639	1,968	4,991	**6,425**	**7,155**
Operating Expenses:					
General and administrative	2,107	2,131	3,499	**4,189**	**4,130**
Change in fair value of earnout liabilities			1,555	**70**	**-**
Transactions costs	-	-	636	**-**	**-**
Sales and marketing	998	982	1,041	**1,295**	**1,820**
Depreciation	9	8	297	**380**	**360**
Total Operating Expenses	3,114	3,121	7,029	**5,934**	**6,310**
Operating Income (loss)	(1,475)	(1,153)	(2,038)	**491**	**845**
Other income (expense)					
Gain on extingusihment of debt	-	-	287	**845**	**-**
Interest income (expense)	(866)	(981)	(638)	**(452)**	**(440)**
Total Other Income (expense)	(866)	(981)	(350)	**393**	**(440)**
Pre-Tax Income (loss)	(2,340)	(2,133)	(2,389)	**884**	**405**
Income Tax Expense (Benefit)	-	-	(188)	**-**	**-**
Net income (loss)	(2,340)	(2,133)	(2,200)	**884**	**405**
Earning (loss) per share	$ (6.60)	$ (5.76)	$ (0.91)	**$ 0.30**	**$ 0.13**
Avg Shares Outstanding	355	370	2,407	**2,970**	**3,118**
Adjusted EBITDA	$ (1,159)	$ (707)	$ 803	**$ 1,261**	**$ 1,525**
Margin Analysis					
Gross margin - Sale of software	59.8%	95.4%	70.9%	**89.3%**	**100.0%**
Gross margin - SAAS	59.9%	70.3%	74.1%	**73.9%**	**72.1%**
Gross margin - Maintenance services	89.9%	91.4%	87.3%	**89.3%**	**89.1%**
Gross margin - Professional services	58.5%	57.3%	49.0%	**47.8%**	**47.5%**
Storage and retrieval services	NMF	NMF	70.2%	**65.9%**	**66.2%**
Gross margin - Third Party services	12.7%	5.2%	NMF	**NMF**	**NMF**
Total gross margin	68.8%	77.6%	60.5%	**58.4%**	**57.5%**
General and administrative	88.5%	84.0%	42.4%	**38.1%**	**33.2%**
Sales and marketing	41.9%	38.7%	12.6%	**11.8%**	**14.6%**
Depreciation	0.4%	0.3%	3.6%	**3.5%**	**2.9%**
Operating margin	(61.9%)	(45.5%)	(24.7%)	**4.5%**	**6.8%**
Pre-tax margin	(98.3%)	(84.1%)	(28.9%)	**8.0%**	**3.3%**
Tax rate	0.0%	0.0%	0.0%	**0.0%**	**0.0%**
YEAR / YEAR GROWTH					
Total Revenues	(9.1%)	6.5%	225.5%	**33.2%**	**13.2%**

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 A	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	324	330	335	340	**1,329**	360	365	375	390	**1,490**
Software maintenance services	261	314	340	342	1,257	340	345	350	355	**1,390**	360	365	370	375	**1,470**
Professional services	560	1,046	1,615	1,786	5,008	1,652	1,700	1,760	1,860	**6,972**	1,900	2,090	2,190	1,965	**8,145**
Storage and retrieval services	-	290	220	228	739	309	310	320	325	**1,264**	310	325	330	335	**1,300**
Total Revenues	$ 1,141	$ 1,908	$ 2,508	$ 2,696	$ 8,253	$ 2,635	$ 2,695	$ 2,775	$ 2,890	**$ 10,995**	$ 2,940	$ 3,155	$ 3,275	$ 3,075	**$ 12,445**
Cost of Revenues per segement															
Sale of software	38	2	-	17	57	4	-	-	-	**4**	-	-	-	-	**-**
Software-as-a-service (SAAS)	73	71	66	64	273	76	85	90	95	**346**	95	100	105	115	**415**
Software maintenance services	47	32	49	32	159	24	30	40	55	**149**	40	40	40	40	**160**
Professional services	297	499	841	916	2,553	834	900	925	980	**3,639**	985	1,060	1,150	1,080	**4,275**
Storage and retreval services	-	57	80	84	220	91	95	115	130	**431**	90	110	115	125	**440**
Total Cost of sales	454	660	1,036	1,112	3,263	1,030	1,110	1,170	1,260	**4,570**	1,210	1,310	1,410	1,360	**5,290**
Gross Profit	687	1,248	1,472	1,584	4,991	1,605	1,585	1,605	1,630	**6,425**	1,730	1,845	1,865	1,715	**7,155**
Operating Expenses:															
General and administrative	844	845	844	966	3,499	1,039	1,100	1,075	975	**4,189**	1,020	1,030	1,065	1,015	**4,130**
Change in fair value of earnout liabilities	-	-	-	1,555	1,555	70	-	-	-	**70**	-	-	-	-	**-**
Transactions costs	461	176	-	-	636	-	-	-	-	**-**	-	-	-	-	**-**
Sales and marketing	244	230	285	282	1,041	290	315	335	355	**1,295**	410	435	485	490	**1,820**
Depreciation	28	87	89	93	297	95	95	95	95	**380**	90	90	90	90	**360**
Total Operating Expenses	1,577	1,337	1,219	2,896	7,029	1,494	1,510	1,505	1,425	**5,934**	1,520	1,555	1,640	1,595	**6,310**
Operating Income (loss)	(890)	(89)	253	(1,312)	(2,038)	111	75	100	205	**491**	210	290	225	120	**845**
Other income (expense)															
Gain on extingusihment of debt	287	-	-	-	287	845	-	-	-	**845**	-	-	-	-	**-**
Interest income (expense)	(290)	(117)	(115)	(115)	(638)	(113)	(113)	(113)	(113)	**(452)**	(110)	(110)	(110)	(110)	**(440)**
Total Other Income (expense)	(3)	(117)	(115)	(115)	(350)	732	(113)	(113)	(113)	**393**	(110)	(110)	(110)	(110)	**(440)**
Pre-Tax Income (loss)	(893)	(206)	137	(1,427)	(2,389)	843	(38)	(13)	92	**884**	100	180	115	10	**405**
Income Tax Expense (Benefit)	(188)	-	-	-	(188)	-	-	-	-	**-**	-	-	-	-	**-**
Net income (loss)	(705)	(206)	137	(1,427)	(2,200)	843	(38)	(13)	92	**884**	100	180	115	10	**405**
Earning (loss) per share	$ (0.59)	$ (0.07)	$ 0.05	$ (0.51)	$ (0.91)	$ 0.27	$ (0.01)	$ (0.00)	$ 0.03	**$ 0.30**	$ 0.03	$ 0.06	$ 0.04	$ 0.00	**$ 0.13**
Avg Shares Outstanding	1,186	2,811	2,811	2,811	2,407	3,107	2,830	2,835	3,110	**2,970**	3,110	3,115	3,120	3,125	**3,118**
Adjusted EBITDA	$ 75	$ 5	$ 361	$ 361	$ 803	$ 356	$ 250	$ 275	$ 380	**$ 1,261**	$ 380	$ 460	$ 395	$ 290	**$ 1,525**
Margin Analysis															
Gross margin - Sale of software	59.3%	81.2%	100.0%	59.4%	70.9%	55.8%	100.0%	100.0%	100.0%	**89.3%**	100.0%	100.0%	100.0%	100.0%	**100.0%**
Gross margin - SAAS	67.9%	71.3%	76.7%	78.6%	74.1%	76.4%	74.2%	73.1%	72.1%	**73.9%**	73.6%	72.6%	72.0%	70.5%	**72.1%**
Gross margin - Maintenance services	82.2%	89.9%	85.5%	90.7%	87.3%	92.8%	91.3%	88.6%	84.5%	**89.3%**	88.9%	89.0%	89.2%	89.3%	**89.1%**
Gross margin - Professional services	46.9%	52.3%	47.9%	48.7%	49.0%	49.5%	47.1%	47.4%	47.3%	**47.8%**	48.2%	49.3%	47.5%	45.0%	**47.5%**
Storage and retrieval services	NMF	80.5%	63.8%	63.1%	70.2%	70.5%	69.4%	64.1%	60.0%	**65.9%**	71.0%	66.2%	65.2%	62.7%	**66.2%**
Total gross margin	60.2%	65.4%	58.7%	58.8%	60.5%	60.9%	58.8%	57.8%	56.4%	**58.4%**	58.8%	58.5%	56.9%	55.8%	**57.5%**
General and administrative	74.0%	44.3%	33.7%	35.8%	42.4%	39.4%	40.8%	38.7%	33.7%	**38.1%**	34.7%	32.6%	32.5%	33.0%	**33.2%**
Sales and marketing	21.4%	12.0%	11.4%	10.5%	12.6%	11.0%	11.7%	12.1%	12.3%	**11.8%**	13.9%	13.8%	14.8%	15.9%	**14.6%**
Depreciation	2.5%	4.5%	3.6%	3.4%	3.6%	3.6%	3.5%	3.4%	3.3%	**3.5%**	3.1%	2.9%	2.7%	2.9%	**2.9%**
Operating margin	(78.0%)	(4.7%)	10.1%	(48.7%)	(24.7%)	4.2%	2.8%	3.6%	7.1%	**4.5%**	7.1%	9.2%	6.9%	3.9%	**6.8%**
Pre-tax margin	(78.2%)	(10.8%)	5.5%	(52.9%)	(28.9%)	32.0%	(1.4%)	(0.5%)	3.2%	**8.0%**	3.4%	5.7%	3.5%	0.3%	**3.3%**
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%	130.9%	41.2%	10.7%	7.2%	**33.2%**	11.6%	17.1%	18.0%	6.4%	**13.2%**

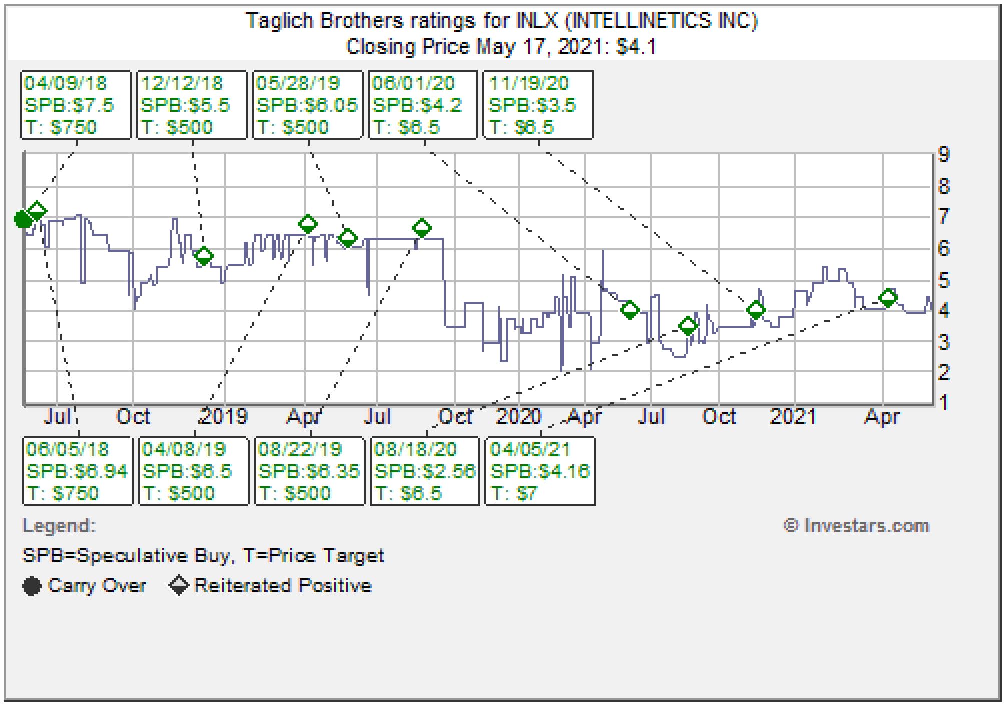
Source: Company reports and Taglich Brothers estimates

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

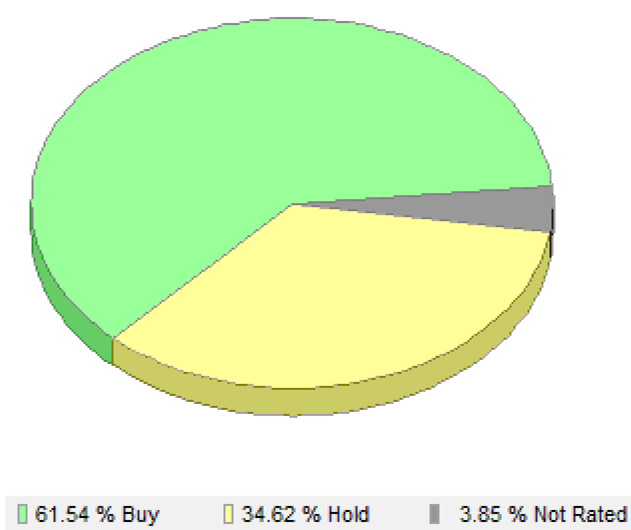
	FY2018A	FY2019A	FY2020A	1Q21A	**FY2021E**	**FY2022E**
Cash Flows from Operating Activities						
Net Income (loss)	$ (2,340)	$ (2,133)	$ (2,200)	$ 843	**$ 884**	**$ 405**
Depreciation and amortization	9	8	297	95	**380**	**360**
Bad debt expense	(7)	28	55	(3)	**(3)**	-
Loss on disposal of fixed assets - parts and supplies reserve	-	-	15	5	**5**	-
Amortization of deferred and original issue financing costs	233	184	117	26	**105**	**105**
Amortization of beneficial conversion option	202	71	12	-	-	-
Amortization of debt discount	-	-	89	27	**110**	**110**
Amorization of orignial issue discount on notes	-	12	18	-	-	-
Amortization of right of use asset	-	41	405	130	**130**	**130**
Stock issued for services	58	88	58	58	**230**	**235**
Stock options compensation	249	200	59	23	**100**	**100**
Note conversion expense	-	-	141	-	-	-
Warrant issue expense	-	-	237	-	-	-
Change in fair value of earnout liabilities	-	-	-	70	**70**	-
Interest on converted debt	-	-	176	-	-	-
Gain on retirement of debt	-	-	(287)	(845)	**(845)**	-
Cash earnings (burn)	(1,597)	(1,502)	(809)	427	**1,166**	**1,445**
Changes In:						
Accounts receivable	167	(222)	605	(260)	**(277)**	**(141)**
Accounts receivable, unbilled	-	42	(224)	177	**124**	**(25)**
Parts and supplies, net	-	2	1	(1)	**(5)**	-
Prepaid expenses and other current assets	(0)	(19)	7	(65)	**(73)**	**(15)**
Right of use asset	-	(139)	(63)	-	-	-
Accounts payable and accrued expenses	(97)	63	(646)	228	**180**	**(100)**
Accrued interest, current and long-term	402	710	6	0	**100**	**100**
Lease liability	-	101	(333)	(130)	**(30)**	-
Deferred compensation	(48)	(48)	(16)	-	**4**	**10**
Earnout liabilities	-	-	1,555	-	**(0)**	**(600)**
Deferred revenues	15	30	43	(50)	**4**	**200**
(Increase)/decrease in Working Capital	440	520	934	(100)	**27**	**(571)**
Net cash provided (used in) Operations	(1,157)	(982)	125	327	**1,192**	**874**
Cash Flows from Investing Activities						
Purchase of property and equipment	(3)	(5)	(77)	(232)	**(250)**	**(275)**
Cash paid to acquire business, net of cash acquired	-	-	(4,019)	-	-	-
Cash flow provided (used in) Investing Activities	(3)	(5)	(4,096)	(232)	**(250)**	**(275)**
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	95	**362**	**341**
Cash Beginning of Period	1,126	1,089	404	1,908	**1,908**	**2,269**
Cash End of Period	$ 1,089	$ 404	$ 1,908	$ 2,003	**$ 2,269**	**$ 2,610**

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 May 17, 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 of INLX common and restricted common stock (combined), and 34,017 restricted warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 161,291 shares of INLX common and restricted common stock (combined), and 34,018 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 47,498 shares of INLX common and restricted common stock (combined), which includes 26,287 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 4,650 restricted warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 6,860 shares of 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 17,653 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.