

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 \$4.31 — (OTC)

	2018 A	2019 A	2020 A	2021 E	2022 E
Revenue (in millions)	\$2.4	\$2.5	\$8.3	\$11.2	\$12.8
Earnings (loss) per share	(\$6.60)	(\$5.76)	(\$0.91)*	\$0.08**	\$0.19

52-Week range	\$6.12 – \$2.56	Fiscal year ends:	December
Shares outstanding a/o 08/12/21	2.8 million	Revenue/shares (ttm)	\$3.63
Approximate float	2.0 million	Price/Sales (ttm)	1.2X
Market Capitalization	\$12.1 million	Price/Sales (2022) E	1.1X
Tangible Book value/shr	(\$0.39)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2022) E	22.7X

*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 approximately \$0.27 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 increasing our 12-month price target to \$7.75 per share from \$7.00 per share due to an increase in our 2022 sales forecast and an expanded 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 projected for 2025.

With the 2020 acquisitions of Graphic Sciences and CEO Imaging fully integrated and the 3Q21 hiring of a marketing director to drive lead generation, we anticipate revenues reaching \$12.8 million in 2022, up from \$8.3 million in 2020 for annualized growth of 24.5%.

In 1H20, INLX acquired Graphic Sciences and CEO Imaging. Graphic Sciences converts images from paper to digital, paper to microfilm, and microfiche to microfilm for businesses and federal, county, and municipal governments. CEO Imaging provides document solutions to the K-12 education market.

INLX reported 2Q21 EPS (on 8-16-21) of \$0.06 on sales of \$2.9 million. In 2Q20, the loss per share was (\$0.10) on sales of \$1.8 million. We projected a loss of (\$0.01) per share on sales of \$2.6 million. The year-ago period included approximately \$0.06 per share in transaction costs related to the acquisitions made in 1H20.

For 2021, we project EPS of \$0.08 (prior was \$0.01) on revenue growth of 36% to \$11.2 million (prior was \$11 million). Our forecast reflects 1H21 results and excludes the \$0.27 per share gain on extinguishment of debt.

For 2022, we project EPS of \$0.19 (prior was \$0.13) on revenue growth of 14% to \$12.8 million (prior was \$12.4 million). Our forecast reflects a greater than anticipated increase in INLX's recurring revenue customer base and operating expense margin improvement to 50.7% from an estimated 54.3% 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 \$7.75 per share from \$7.00 per share due to an increase in our 2022 sales forecast and an expanded 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. INLX entered 3Q20 with over 250 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 \$7.75 per share implies shares could appreciate nearly 80% over the next twelve months. According to finviz (a/o 8/16/21), the average trailing twelve-month price-to-sales multiple for companies in the Specialty – Business Services sector is 2.3X (prior was 2.1X). INLX's trailing twelve-month price-to-sales multiple is 1.1X (prior was 1.2X). We anticipate investors are likely to accord INLX a multiple approaching that of the sector given its annualized sales growth forecast of 71.5% from 2019 to 2022. We applied a multiple of 2.2X (prior was 2.1X) to our 2022 sales per share forecast of \$4.11 (prior was \$3.99), discounted for execution risks, to obtain a year-ahead price target of approximately \$7.75 per share.

A higher valuation of INLX is likely to be supported by year-over year revenue growth, 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 \$1 million in 2022 compared to an estimated operating profit of \$708,000 in 2021. In 2022, INLX should generate cash earnings of \$1.7 million, up from estimated cash earnings of \$1.5 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

Document Management Solution

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 2H21, the company had at least 250 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.

In August 2021, INLX announced it hired a marketing director that will be tasked with expanding its search engine optimization and direct marketing lead generation. The marketing director will also provide support for its expanded group of sales professionals as it relates to cross-selling opportunities between the company recurring revenue product offerings and document conversion services.

Acquisitions are likely to enable the company to grow its operations.

Projections

Basis of Forecast

While COVID-19 pandemic stay at home orders hurt 2020 operations, the lifting of the stay at home orders in 2021 should allow for Graphic Sciences' revenue contribution (primarily in professional services) to accelerate 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 adding 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 36% 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 14% should enable net income to accelerate to \$594,000, up from an estimate \$256,000 in 2021 (excludes the one-time gain).

We anticipate 2021 and 2022 gross margins of 60.6% and 58.8%, respectively, compared to 60.5% in 2020. Our 2022 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 74.9% in 2022 compared to an estimated 75.4% 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 July 2021, the International Monetary Fund (IMF) revised its economic growth estimate for the US to an increase of 7% for 2021 and 4.9% for 2022. In April 2021, the IMF projected US economic growth of 6.4% for 2021 and 3.5% for 2022. The 2022 upward revision primarily reflects additional fiscal policy support in advanced economies in 2H21 and improved health metrics across the group.

The advanced estimate of US GDP growth (released on July 29, 2021) showed the US economy increased at an annual rate of 6.5% in 2Q21 compared to a 6.3% gain in 1Q21. 2Q21 growth is up from the worst of COVID-19 pandemic conditions of a 31.4% decline in 2Q20. The 2Q21 increase reflects increases in personal consumption expenditures, nonresidential fixed investment, exports, and state and local government spending, partly offset by decreases in private inventory investment, residential fixed investment, and federal government spending.

2021

We project total revenue growth of 36% to \$11.2 million (prior was \$11 million) due primarily to 1H21 results that reflect the inclusion of Graphic Sciences professional service and storage and retrieval sales and a return to more normal economic conditions once the COVID-19 pandemic stay at home orders were lifted in Michigan and Ohio. We anticipate a growing recurring revenue customer base driving SaaS and software maintenance revenue (combined) to \$2.8 million, up from \$2.3 million in 2020.

We project a 36.3% increase in gross profit to \$6.8 million due primarily to revenue growth and a slight improvement in gross margin to 60.6% from 60.5% in 2020 due primarily to the sales mix in 2Q21. We forecast operating income of \$708,000 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 54.3% from 58.6% (excluding a charge) in 2020.

We anticipate operating expenses of \$6.1 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 21.1% to \$4.2 million and sales and marketing expenses increasing 32.8% to nearly \$1.4 million. D&A expense should increase to \$396,000 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 and the hiring of a marketing director along with additional sales professionals.

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

\$256,000 or \$0.08 per share which excludes the \$845,000 or \$0.27 per share gain from extinguishment of debt related to PPP loan forgiveness recorded in 1Q21. We previously forecasted net income of \$39,000 or \$0.01 per share that excluded the gain from extinguishment of debt related to PPP loan forgiveness recorded in 1Q21.

2022

We project total revenue growth of 14% to \$12.8 million (prior \$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 \$3.2 million, up from an estimated \$2.8 million in 2021.

We project a 10.7% increase in gross profit to \$7.5 million due primarily to revenue growth. Gross margin is likely to contract to 58.8% from an estimated 60.6% in 2021 due primarily to an increase in lower margin professional services revenue. We forecast operating income increasing to over \$1 million from an estimated \$708,000 in 2021, as operating expense margin should improve to 50.7% from an estimated 54.3% in 2021.

We anticipate operating expenses of \$6.5 million compared to an estimated \$6.1 million due to an increase in sales and marketing expenses by 32.8% to \$1.8 million reflecting the hiring of additional sales professionals in 2H21. We anticipate a \$63,000 increase in G&A to \$4.3 million and \$36,000 decrease in D&A expense to \$360,000.

We project interest expense decreasing by \$12,000 to \$440,000. We forecast net income of \$594,000 or \$0.19 per share on approximately 3.1 million average shares outstanding. We previously forecast net income of \$405,000 or \$0.13 per share on approximately 3.1 million average shares outstanding. The increase in our forecast reflects higher than anticipated recurring revenue sales growth.

Finances

In 2021, we project cash earnings of \$1.5 million and an increase in working capital of \$161,000. Cash provided by operations of nearly \$1.3 million is unlikely to cover capital expenses and earn-out payments. Cash should decrease by \$262,000 to \$1.6 million at December 31, 2021.

In 2022, we project cash earnings of \$1.7 million and an increase in working capital of \$201,000. Cash provided by operations of \$1.5 million is likely to cover capital expenses and earn-out payments. Cash should increase by \$72,000 to \$1.7 million at December 31, 2022.

2Q21 and 1H21 Results

2Q21

Total revenue increased 58.5% to \$2.9 million from \$1.8 million in the year-ago period due primarily to 1H20 acquisitions of Graphic Sciences and CEO Imaging that drove professional service and storage and retrieval services sales (combined) to \$2.2 million, up from nearly \$1.3 million in the year-ago period. Recurring SaaS and software maintenance service sales (combined) increased to \$711,000 from \$563,000 in 2Q20 due primarily to new customers choosing a cloud-based solution, as well as expanded data storage, user seats, and hosting fees for existing customers, and agreements acquired with CEO Image that were enhanced by expansion of services with existing customers, partly offset by customer attrition.

Gross profit increased 54.9% to \$1.8 million from \$1.2 million due to revenue growth, partly offset by gross margin compression to 62.3% from 63.8% in 2Q20. Gross margin compression reflects the mix of professional services, partly offset by the company's growth in higher margin recurring SaaS revenue.

Operating expenses were \$1.5 million (including a \$7,000 expense related to a change in fair value of earn-out liabilities) compared to \$1.3 million (including \$176,000 in transaction costs related to the acquisition of Graphic Sciences and CEO Image) in the year-ago period. The increase is due primarily to support the operations of the two acquisition made in 1H20.

Interest expense was \$113,000 compared to \$117,000 in the year-ago.

Intellinetics Inc.

Net income was \$192,000 or \$0.06 per share, on 3.1 million average shares outstanding compared to a net loss \$282,000 or (\$0.10) per share on 2.8 million average shares outstanding in the year-ago period. We projected a net loss per share of (\$0.01) on revenue of \$2.6 million.

1H21

Total revenue increased 81.8% to \$5.5 million due primarily to the acquisitions of Graphic Sciences and CEO Imaging (in 1H20) that drove professional service and storage and retrieval services sales (combined) to nearly \$4.2 million, up from \$1.9 million in the year-ago period. Recurring SaaS and software maintenance service sales (combined) increased \$325,000 to nearly \$1.4 million.

Gross profit increased 78.4% to \$3.4 million from \$1.9 million due to revenue growth, partly offset by gross margin compression to 61.7% from 62.8% in 1H20. Gross margin compression reflects the revenue mix that is skewed to lower margin professional, storage, and retrieval services compared higher margin recurring SaaS revenue.

Operating expenses were \$3 million (including a \$77,000 expense related to a change in fair value of earn-out liabilities) compared to nearly \$2.9 million (including \$636,000 in transaction costs related to the acquisition of Graphic Sciences and CEO Image) in the year-ago period.

Interest expense decreased to \$226,000 from \$407,000 in the year-ago period due to a lower debt balance. The current period included a gain of \$845,000 from extinguishment of debt compared to \$287,000 in the year-ago period.

In Thousands \$	<u>6 Mos. '21</u>	<u>6 Mos. '20</u>	<u>% D</u>
Total revenue	\$ 5,545	\$ 3,050	81.8%
Cost of sales	<u>2,126</u>	<u>1,133</u>	87.6%
Gross Profit	<u>3,419</u>	<u>1,917</u>	78.4%
Total Operating Expenses	<u>3,003</u>	<u>2,914</u>	3.0%
Operating Income (loss)	<u>416</u>	<u>(997)</u>	NMF
Total Other Income (expense)	<u>619</u>	<u>(120)</u>	NMF
Pre-Tax Income (loss)	<u>1,035</u>	<u>(1,117)</u>	NMF
Income Tax Expense (Benefit)	<u>-</u>	<u>(188)</u>	
Income from continuing ops.(loss)	1,035	(929)	NMF
Earnings per share	<u>\$ 0.33</u>	<u>\$ (0.46)</u>	
Avg Shares Outstanding	3,106	1,998	
Adjusted EBITDA	793	80	
Margin Analysis			
Gross margin	61.7%	62.8%	
Operating margin	7.5%	(32.7%)	
Pre-tax margin	18.7%	(36.6%)	
Source: company reports			

Net income was \$1 million or \$0.33 per share, on 3.1 million average shares outstanding compared to a net loss \$929,000 or (\$0.46) per share on 2 million average shares outstanding in the year-ago period. Excluding one-time items in 1H21 (gain on extinguishment of debt) and 1H20 (transaction costs and income tax benefit), we estimate EPS of \$0.06 per share and a loss per share of (\$0.24), respectively.

Finances

In 1H21, cash earnings of \$962,000 and an increase in working capital of \$375,000 resulted in cash from operations of \$587,000. The increase in working capital was due primarily to an increase in right of use assets, partly offset by a decrease in lease liabilities. Cash from operations did not cover capital expenditures and earn-out payment, decreasing cash by \$767,000 to \$1.1 million at June 30, 2021.

Capital Structure

At June 30, 2021, the company had total debt on its balance sheet of more than \$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 \$173,000 in unamortized debt issuance costs and \$178,000 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 June 30, 2021, the company's accumulated deficit was \$22 million, up from nearly \$15 million in 2016. While losses could occur, we anticipate the company reporting net profits in 2021 and 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 June 30, 2021, INLX had over 633,000 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 August 17, 2021 was 714. 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	2Q21A	FY21E	FY22E
ASSETS						
Current assets:						
Cash	\$ 1,089	\$ 404	\$ 1,908	\$ 1,141	\$ 1,646	\$ 1,718
Accounts receivable, net	136	330	792	1,002	1,029	1,244
Accounts receivable, unbilled	-	23	524	512	550	525
Parts and supplies, net	-	4	80	61	60	60
Prepaid expense and other current assets	162	111	162	253	265	275
Total current assets	1,387	872	3,466	2,968	3,550	3,822
Property and equipment, net	9	7	699	1,010	1,066	1,300
Right of use asset	-	97	2,641	3,833	3,633	3,433
Intangible assets, net	-	-	1,185	1,077	970	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	\$ 11,238	\$ 11,569	\$ 11,660
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	308	161	142	164	200	225
Accrued compensation	-	70	272	459	475	500
Accrued expenses, other	-	140	132	152	165	175
Lease liability	-	47	519	606	606	606
Deferred revenues	724	754	996	943	975	1,100
Deferred compensation	165	117	101	101	101	115
Earnout liabilities	-	-	878	923	923	643
Accrued interest payable	-	1,212	6	-	-	-
Notes payable	-	3,340	581	-	-	1,649
Notes payable - related party	47	1,467	-	-	-	-
Total current liabilities	1,244	7,310	3,625	3,348	3,445	5,013
Notes payable	3,145	-	1,802	1,649	1,649	-
Notes payable - related party	1,046	-	-	-	-	-
Lease liability	-	53	2,197	3,304	3,304	3,304
Other	-	-	-	-	52	39
Earnout liabilities	502	-	1,566	643	643	-
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	24,251	24,367	24,602
Retained earnings (accumulated deficit)	(18,663)	(20,796)	(22,996)	(21,961)	(21,895)	(21,301)
Total stockholders' equity	(4,531)	(6,376)	1,154	2,293	2,475	3,304
Total liabilities and stockholders' equity	\$ 1,406	\$ 987	\$ 10,345	\$ 11,238	\$ 11,569	\$ 11,660
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	\$ 35	\$ 40
Software-as-a-service (SaaS)	749	860	1,055	1,495	1,875
Software maintenance services	995	1,011	1,257	1,331	1,280
Professional services	290	450	5,008	7,170	8,405
Storage and retrieval services	-	-	739	1,194	1,200
Third party services	174	26	-	-	-
Total Revenues	\$ 2,381	\$ 2,536	\$ 8,253	\$ 11,225	\$ 12,800
Cost of Revenues per segment					
Sale of software	70	9	57	14	16
Software-as-a-service (SAAS)	300	255	273	368	470
Software maintenance services	100	87	159	91	100
Professional services	120	192	2,553	3,506	4,205
Storage and retrieval services	-	-	220	445	480
Third party services	152	25	-	-	-
Total Cost of sales	742	568	3,263	4,424	5,271
Gross Profit	1,639	1,968	4,991	6,801	7,529
Operating Expenses:					
General and administrative	2,107	2,131	3,499	4,237	4,300
Change in fair value of earnout liabilities	-	-	1,555	77	-
Transactions costs	-	-	636	-	-
Sales and marketing	998	982	1,041	1,382	1,835
Depreciation	9	8	297	396	360
Total Operating Expenses	3,114	3,121	7,029	6,093	6,495
Operating Income (loss)	(1,475)	(1,153)	(2,038)	708	1,034
Other income (expense)					
Gain on extinguishment 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)	1,101	594
Income Tax Expense (Benefit)	-	-	(188)	-	-
Net income (loss)	(2,340)	(2,133)	(2,200)	1,101	594
Earning (loss) per share	\$ (6.60)	\$ (5.76)	\$ (0.91)	\$ 0.35	\$ 0.19
Avg Shares Outstanding	355	370	2,407	3,107	3,118
Adjusted EBITDA	\$ (1,159)	\$ (707)	\$ 803	\$ 1,345	\$ 1,714
Margin Analysis					
Gross margin - Sale of software	59.8%	95.4%	70.9%	59.2%	60.0%
Gross margin - SAAS	59.9%	70.3%	74.1%	75.4%	74.9%
Gross margin - Maintenance services	89.9%	91.4%	87.3%	93.2%	92.2%
Gross margin - Professional services	58.5%	57.3%	49.0%	51.1%	50.0%
Storage and retrieval services	NMF	NMF	70.2%	62.7%	60.0%
Gross margin - Third Party services	12.7%	5.2%	NMF	NMF	NMF
Total gross margin	68.8%	77.6%	60.5%	60.6%	58.8%
General and administrative	88.5%	84.0%	42.4%	37.7%	33.6%
Sales and marketing	41.9%	38.7%	12.6%	12.3%	14.3%
Depreciation	0.4%	0.3%	3.6%	3.5%	2.8%
Operating margin	(61.9%)	(45.5%)	(24.7%)	6.3%	8.1%
Pre-tax margin	(98.3%)	(84.1%)	(28.9%)	9.8%	4.6%
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
YEAR / YEAR GROWTH					
Total Revenues	(9.1%)	6.5%	225.5%	36.0%	14.0%

Our 2021 forecast includes approximately \$0.27 per share gain on extinguishment of debt

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 A	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	\$ 6	\$ 10	\$ 10	\$ 35	\$ 10	\$ 10	\$ 10	\$ 10	\$ 40
Software-as-a-service (SaaS)	226	249	282	299	1,055	324	376	390	405	1,495	430	460	490	495	1,875
Software maintenance services	261	314	340	342	1,257	340	335	330	325	1,331	320	320	320	320	1,280
Professional services	560	1,046	1,615	1,786	5,008	1,652	1,898	1,760	1,860	7,170	1,925	2,190	2,290	2,000	8,405
Storage and retrieval services	72	218	220	228	739	309	295	295	295	1,194	300	300	300	300	1,200
Total Revenues	\$ 1,214	\$ 1,836	\$ 2,508	\$ 2,696	\$ 8,253	\$ 2,635	\$ 2,910	\$ 2,785	\$ 2,895	\$ 11,225	\$ 2,985	\$ 3,280	\$ 3,410	\$ 3,125	\$ 12,800
Cost of Revenues per segment															
Sale of software	38	5	-	13	57	4	2	4	4	14	4	4	4	4	16
Software-as-a-service (SAAS)	73	71	66	64	273	76	92	95	105	368	110	115	120	125	470
Software maintenance services	47	32	49	32	159	24	22	22	22	91	25	25	25	25	100
Professional services	297	514	826	916	2,553	834	861	880	930	3,506	970	1,095	1,140	1,000	4,205
Storage and retrieval services	14	43	80	84	220	91	118	118	118	445	120	120	120	120	480
Total Cost of sales	468	665	1,021	1,108	3,263	1,030	1,096	1,119	1,179	4,424	1,229	1,359	1,409	1,274	5,271
Gross Profit	745	1,171	1,486	1,588	4,991	1,605	1,814	1,666	1,716	6,801	1,756	1,921	2,001	1,851	7,529
Operating Expenses:															
General and administrative	844	845	844	966	3,499	1,039	1,058	1,065	1,075	4,237	1,050	1,065	1,085	1,100	4,300
Change in fair value of earnout liabilities	-	-	-	1,555	1,555	70	7	-	-	77	-	-	-	-	-
Transactions costs	461	176	-	-	636	-	-	-	-	-	-	-	-	-	-
Sales and marketing	244	230	285	282	1,041	290	342	365	385	1,382	400	435	485	515	1,835
Depreciation	28	87	89	93	297	95	101	100	100	396	90	90	90	90	360
Total Operating Expenses	1,577	1,337	1,219	2,896	7,029	1,494	1,508	1,530	1,560	6,093	1,540	1,590	1,660	1,705	6,495
Operating Income (loss)	(832)	(166)	267	(1,308)	(2,038)	111	306	136	156	708	216	331	341	146	1,034
Other income (expense)															
Gain on extinguishment 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)	(835)	(282)	152	(1,423)	(2,389)	843	192	23	43	1,101	106	221	231	36	594
Income Tax Expense (Benefit)	(188)	-	-	-	(188)	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(646)	(282)	152	(1,423)	(2,200)	843	192	23	43	1,101	106	221	231	36	594
Earning (loss) per share	\$ (0.54)	\$ (0.10)	\$ 0.05	\$ (0.51)	\$ (0.91)	\$ 0.27	\$ 0.06	\$ 0.01	\$ 0.01	\$ 0.35	\$ 0.03	\$ 0.07	\$ 0.07	\$ 0.01	\$ 0.19
Avg Shares Outstanding	1,186	2,811	2,811	2,811	2,407	3,107	3,104	3,105	3,110	3,107	3,110	3,115	3,120	3,125	3,118
Adjusted EBITDA	\$ 134	\$ (72)	\$ 376	\$ 365	\$ 803	\$ 356	\$ 438	\$ 266	\$ 286	\$ 1,345	\$ 386	\$ 501	\$ 511	\$ 316	\$ 1,714
Margin Analysis															
Gross margin - Sale of software	59.3%	44.6%	100.0%	68.1%	70.9%	55.8%	62.1%	60.0%	60.0%	59.2%	60.0%	60.0%	60.0%	60.0%	60.0%
Gross margin - SAAS	67.9%	71.3%	76.7%	78.6%	74.1%	76.4%	75.6%	75.6%	74.1%	75.4%	74.4%	75.0%	75.5%	74.7%	74.9%
Gross margin - Maintenance services	82.2%	89.9%	85.5%	90.7%	87.3%	92.8%	93.4%	93.3%	93.2%	93.2%	92.2%	92.2%	92.2%	92.2%	92.2%
Gross margin - Professional services	46.9%	50.8%	48.9%	48.7%	49.0%	49.5%	54.6%	50.0%	50.0%	51.1%	49.6%	50.0%	50.2%	50.0%	50.0%
Storage and retrieval services	NMF	80.5%	63.5%	63.3%	70.2%	70.5%	60.0%	60.0%	60.0%	62.7%	60.0%	60.0%	60.0%	60.0%	60.0%
Total gross margin	61.4%	63.8%	59.3%	58.9%	60.5%	62.3%	59.8%	59.3%	59.3%	60.6%	58.8%	58.6%	58.7%	59.2%	58.8%
General and administrative	69.6%	46.0%	33.7%	35.8%	42.4%	39.4%	36.4%	38.2%	37.1%	37.7%	35.2%	32.5%	31.8%	35.2%	33.6%
Sales and marketing	20.1%	12.5%	11.4%	10.5%	12.6%	11.0%	11.7%	13.1%	13.3%	12.3%	13.4%	13.3%	14.2%	16.5%	14.3%
Depreciation	2.3%	4.7%	3.6%	3.4%	3.6%	3.6%	3.5%	3.6%	3.5%	3.5%	3.0%	2.7%	2.6%	2.9%	2.8%
Operating margin	(68.5%)	(9.0%)	10.7%	(48.5%)	(24.7%)	4.2%	10.5%	4.9%	5.4%	6.3%	7.2%	10.1%	10.0%	4.7%	8.1%
Pre-tax margin	(68.8%)	(15.4%)	6.0%	(52.8%)	(28.9%)	32.0%	6.6%	0.8%	1.5%	9.8%	3.6%	6.7%	6.8%	1.2%	4.6%
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	135.5%	186.6%	231.9%	331.8%	225.5%	117.1%	58.5%	11.1%	7.4%	36.0%	13.3%	12.7%	22.4%	7.9%	14.0%

Our 2021 forecast includes approximately \$0.27 per share gain on extinguishment of debt that occurred in 1Q21

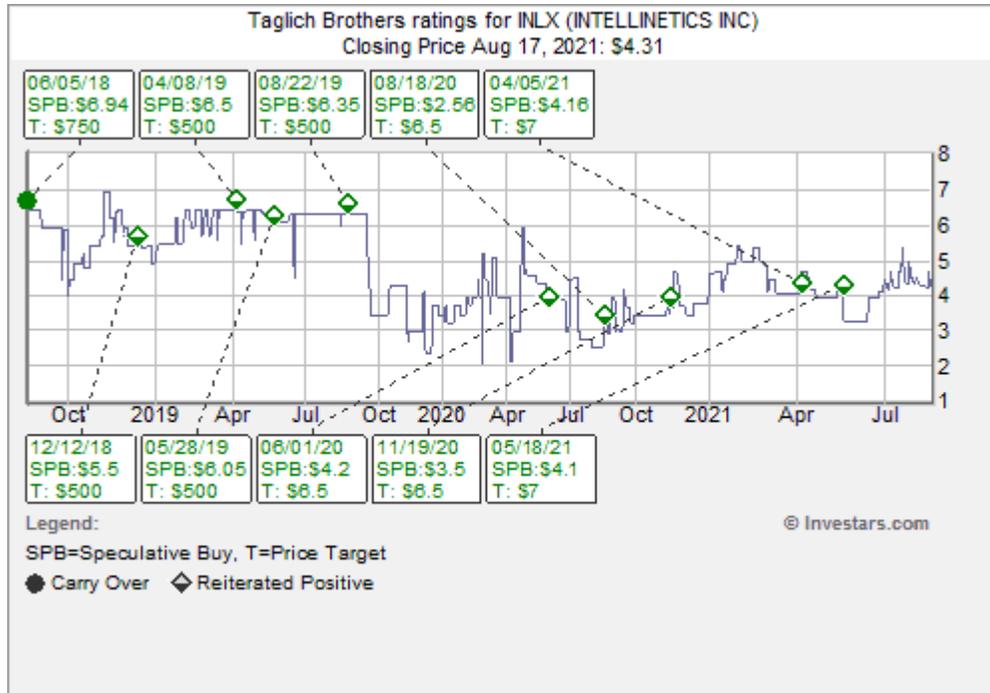
Source: Company reports and Taglich Brothers estimates

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

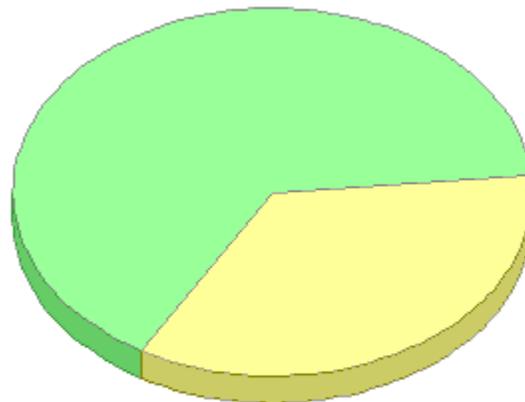
	<u>FY2018A</u>	<u>FY2019A</u>	<u>FY2020A</u>	<u>6 Mos. 21A</u>	<u>FY2021E</u>	<u>FY2022E</u>
<i>Cash Flows from Operating Activities</i>						
Net Income (loss)	\$ (2,340)	\$ (2,133)	\$ (2,200)	\$ 1,035	\$ 1,101	\$ 594
Depreciation and amortization	9	8	297	196	396	360
Bad debt expense	(7)	28	55	(11)	(11)	-
Loss on disposal of fixed assets - parts and supplies reserve	-	-	15	9	9	-
Amortization of deferred and original issue financing costs	233	184	117	52	105	105
Amortization of beneficial conversion option	202	71	12	-	-	-
Amortization of debt discount	-	-	89	53	110	110
Amorization of original issue discount on notes	-	12	18	-	-	-
Amortization of right of use asset	-	41	405	292	292	292
Stock issued for services	58	88	58	58	120	135
Stock options compensation	249	200	59	46	100	100
Note conversion expense	-	-	141	-	-	-
Warrant issue expense	-	-	237	-	-	-
Change in fair value of earnout liabilities	-	-	-	77	77	-
Interest on converted debt	-	-	176	-	-	-
Gain on retirement of debt	-	-	(287)	(845)	(845)	-
Cash earnings (burn)	<u>(1,597)</u>	<u>(1,502)</u>	<u>(809)</u>	<u>962</u>	<u>1,454</u>	<u>1,696</u>
<i>Changes In:</i>						
Accounts receivable	167	(222)	605	(198)	(237)	(215)
Accounts receivable, unbilled	-	42	(224)	11	(26)	25
Parts and supplies, net	-	2	1	10	20	-
Prepaid expenses and other current assets	(0)	(19)	7	(86)	(103)	(10)
Right of use asset	-	(139)	(63)	(1,484)	(1,284)	(200)
Accounts payable and accrued expenses	(97)	63	(646)	229	295	60
Accrued interest, current and long-term	402	710	6	0	0	0
Lease liabilities, current and long term	-	101	(333)	1,195	1,195	-
Deferred compensation	(48)	(48)	(16)	-	0	14
Earnout liabilities	-	-	1,555	-	-	-
Deferred revenues	<u>15</u>	<u>30</u>	<u>43</u>	<u>(53)</u>	<u>(21)</u>	<u>125</u>
(Increase)/decrease in Working Capital	<u>440</u>	<u>520</u>	<u>934</u>	<u>(375)</u>	<u>(161)</u>	<u>(201)</u>
Net cash provided (used in) Operations	<u>(1,157)</u>	<u>(982)</u>	<u>125</u>	<u>587</u>	<u>1,293</u>	<u>1,495</u>
<i>Cash Flows from Investing Activities</i>						
Purchase of property and equipment	(3)	(5)	(77)	(400)	(600)	(500)
Cash paid to acquire business, net of cash acquired	-	-	(4,019)	-	-	-
Cash flow provided (used in) Investing Activities	<u>(3)</u>	<u>(5)</u>	<u>(4,096)</u>	<u>(400)</u>	<u>(600)</u>	<u>(500)</u>
<i>Cash Flows from Financing Activities</i>						
Proceeds from issuance of common stock	-	-	3,168	-	-	-
Offering costs paid on issuance of common stock	-	-	(308)	-	-	-
Payment of earnout liabilities	-	-	-	(955)	(955)	(923)
Payment of deferred financing costs	(131)	-	(176)	-	-	-
Issuance of convertible notes	-	-	-	-	-	-
Proceeds (repayment) from notes payable, net	900	-	2,839	-	-	-
Proceeds (repayment) from notes payable - related party, net	<u>354</u>	<u>303</u>	<u>(48)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by Financing	<u>1,124</u>	<u>303</u>	<u>5,475</u>	<u>(955)</u>	<u>(955)</u>	<u>(923)</u>
Net change in Cash	(37)	(684)	1,504	(767)	(262)	72
Cash Beginning of Period	<u>1,126</u>	<u>1,089</u>	<u>404</u>	<u>1,908</u>	<u>1,908</u>	<u>1,646</u>
Cash End of Period	<u>\$ 1,089</u>	<u>\$ 404</u>	<u>\$ 1,908</u>	<u>\$ 1,141</u>	<u>\$ 1,646</u>	<u>\$ 1,718</u>

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



65.22 % Buy | 34.78 % Hold

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	11
Hold		
Sell		
Not Rated		

Important Disclosures

As of August 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 459,001 shares of INLX common and restricted common stock (combined), and 34,767 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 34,628 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 of INLX common and restricted common stock (combined) and 24,099 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 4,890 restricted warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 6,980 shares of restricted warrants. Taglich Brothers, Inc., owns or has a controlling interest in 35,732 shares of restricted common stock and 11,258 restricted warrants. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 18,353 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

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

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.