

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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May 31, 2022

INLX \$4.85 — (OTC)

	2019 A	2020 A	2021 A	2022 E	2023 E
Revenue (in millions)	\$2.5	\$8.3	\$11.5	\$13.2	\$15.6
Earnings (loss) per share	(\$5.76)	(\$0.91)*	\$0.17**	\$0.13***	\$0.25

52-Week range	\$9.90 – \$3.36	Fiscal year ends:	December
Shares outstanding a/o 5/16/22	4.1 million	Revenue/shares (ttm)	\$3.80
Approximate float	2.9 million	Price/Sales (ttm)	1.3X
Market Capitalization	\$19.9 million	Price/Sales (2023) E	1.4X
Tangible Book value/shr	(\$0.18)	Price/Earnings (ttm)	30.3X
Price/Book	NMF	Price/Earnings (2023) E	19.4X

*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 ***Excludes estimated (\$0.17) per share transaction costs to acquire Yellow Folder*

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 \$8.25 per share.

Intellinetics' document management software solutions and the acquisitions of Yellow Folder, 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 April 2022 acquisition of Yellow Folder, we anticipate recurring SaaS and maintenance revenues combined to increase 22.2% to \$6.4 million in 2023 from an estimated \$5.2 million in 2022, and up from \$2.8 million in 2021.

In April 2022, INLX announced it acquired Texas based Yellow Folder for \$6.7 million. Yellow Folder, which had recurring revenue of approximately \$2.8 million in 2021, specializes in document solutions in the K-12 education market. Its customer base is primarily located in Texas and the surrounding states.

INLX reported (on 05-16-22) a 1Q22 loss per share of \$0.01 on revenue of \$2.7 million. In 1Q21, the company reported revenue of \$2.6 million and breakeven per share after excluding an \$845,000 gain on extinguishment of debt. We projected breakeven per share on revenue of \$2.6 million.

For 2022, we project EPS of \$0.13 (unchanged) on revenue growth of 15.6% to \$13.2 million (unchanged). Our EPS forecast excludes (\$0.17) per share transaction related costs that should occur in 1H22.

For 2023, we project EPS of \$0.25 (unchanged) on revenue growth of 17.5% to \$15.6 million (prior was \$15.5 million). Our forecast reflects a full year of Yellow Folder's operations that should drive higher margin recurring revenue to \$6.4 million from an estimated \$5.2 million and gross margin improving to 65% from an estimated 63.4% in 2022.

Please view our Disclosures on pages 14 – 16.

Appreciation Potential

Maintaining our Speculative Buy rating and 12-month price target of \$8.25 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 latter providing an opportunity to convert their customer base to INLX's higher margin recurring revenue IntelliCloud™ software solutions platform. INLX entered 2Q22 with approximately 275 K-12 document solutions school district customers and expects to add at least on average 15 new school district customers per quarter. Further supporting our rating is the April 2022 acquisition of Yellow Folder that brings in a recurring revenue customer base that generated approximately \$2.8 million in 2021.

Our 12-month price target of \$8.25 per share implies shares could increase 70% over the next twelve months.

According to finviz (a/o 05/23/22), the average trailing twelve-month price-to-sales multiple for companies in the Specialty – Business Services sector is 2.9X (unchanged). INLX's trailing twelve-month price-to-sales multiple is 1.3X (prior was 1.6X). We anticipate investors are likely to accord INLX a multiple approaching that of the sector given its annualized sales growth forecast of 43.7% from 2019 to 2023. We applied a multiple of 2.7X (unchanged) to our 2023 sales per share forecast of \$3.55, discounted for execution risks, to obtain a year-ahead price target of approximately \$8.25 per share.

A higher valuation of INLX is likely to be supported by year-over year revenue growth, operating profit growth, cash earnings, and leveraging acquisitions that should increase its professional services and recurring revenue customer bases. We forecast an operating profit of \$1.7 million in 2023 compared to an estimated operating profit of \$1.2 million (excluding an estimated \$650,000 in acquisition related transaction costs) in 2022. In 2023, INLX should generate cash earnings of \$2 million, up from estimated cash earnings of \$1.6 million in 2022.

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.

Recent Developments

On April 5, 2022, the company announced it acquired Yellow Folder, LLC, a Texas based company that specializes in document solutions in the K-12 education market. Yellow Folder digitally maintains and manages student records, special education records, employee records, and administrative records for an entire school district or school system. Utilizing Yellow Folder offerings allows for its customers to upload transcripts, district reports, medical records, personnel data and all other school records to secure, cloud-based servers for easy access by district personnel at any time with an internet browser and appropriate security credentials.

This acquisition should provide greater cross-selling opportunities that include INLX's document processing and business process outsourcing offerings. The addition of Yellow Folder is expected to be accretive to operations and should increase the proportion of Intellinetics' recurring revenues relative to total revenue starting in 2Q22. In 2021, Yellow Folder generated unaudited revenue of \$3.1 million, of which \$2.8 million was recurring SaaS revenue.

At closing, INLX paid approximately \$6.5 million in cash that was funded by proceeds from the issuance of common stock and subordinated promissory notes.

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 2022, the company had over 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. The company anticipates hiring additional sales professionals to increase the number of projects within the professional services segment, as well as adding additional SaaS recurring revenue customers.

Acquisitions, such as Yellow Folder that was acquired in April 2022, are likely to enable the company to accelerate growth in its operations.

Projections

Basis of Forecast

The company's Michigan plant was reconfigured to conform to social distancing requirements due to the COVID-19 pandemic and also 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 added additional sales and document services specialists, as well as additional warehouse capacity (that was completed in 2Q21) to enhance throughput and storage capabilities. However, in 4Q21 and 1Q22 the state of Michigan saw a resurgence in COVID-19 variant cases leading to the reinstatement of restrictions that reduced workflow at the company's Graphic Sciences Michigan operations. The easing of those restrictions should occur but is likely to restrain the workflow during 1H22. The April 2022 acquisition of Yellow Folder and its recurring revenue should contribute at least \$2.1 million to our 2022 revenue forecast.

In 2023, a full year contribution from Yellow Folder, a return to normal operations at Graphic Sciences, and an increasing customer base for the company's IntelliCloud and CEO Image Executive software solutions, should translate into higher recurring revenue. We estimate recurring SaaS and maintenance revenue (combined) growth to \$6.4 million from an estimated \$5.2 million in 2022, which is up from \$2.8 million in 2021.

We anticipate 2022 and 2023 gross margins of 63.4% and 65%, respectively, compared to 60.6% in 2021. We anticipate recurring revenue SaaS margins to remain robust at 78.9% in 2023 compared to an estimated 78.8% in 2022.

We are not recording income tax expense as the company has \$18.8 million in net operating loss carry forwards at December 31, 2021.

Economic conditions

In April 2022, the International Monetary Fund (IMF) revised its economic growth estimate for the US to an increase of 3.7% for 2022 and 2.2% for 2023. In January 2022, the IMF projected US economic growth of 4% for 2022 and 2.6% for 2023. The IMF adjusted their 2022 forecast due primarily to economic damage from the war in Ukraine resulting in elevated inflation and rising interest rates, as well as supply chain disruptions.

The advance estimate of US GDP growth (released on April 28, 2022) showed the US economy decreased at an annual rate of 1.4% in 1Q22, down from the 6.9% increase reported in 4Q21. The 1Q22 US GDP estimate primarily reflects decreases in inventory investment, exports, federal government spending, and state and local government spending.

2022

We project total revenue growth of 15.6% to \$13.2 million (unchanged) due primarily to the acquisition of Yellow Folder and organic recurring revenue customer growth, that is likely to be restrained by diminished 1H22 operations at the company's Graphic Sciences operations in Michigan that is being hurt by the reinstatement of COVID-19 restriction in 4Q21 that lasted into the middle of 2Q22.

We project a 20.9% increase in gross profit to \$8.4 million due to revenue growth and gross margin expansion to 63.4% from 60.6% in 2021 due primarily to an increase in higher margin recurring SaaS and maintenance revenue. We forecast operating income increasing to \$1.2 million (excludes an estimated \$650,000 in acquisition related transaction costs) from \$965,000 in 2021. We anticipate operating expense margin of 54.3% (excluding transaction costs) compared to 52.2% in 2021.

We anticipate operating expenses increasing 20.3% to nearly \$7.2 million (excluding \$650,000 in acquisition related transaction costs) compared to \$6 million due to the acquisition of Yellow Folder and identification of new customer leads in order to grow recurring and professional services operations. We anticipate G&A expenses increasing 20.9% to \$4.9 million from \$4 million in 2021 along with a 20.6% increase in sales and marketing expense to nearly \$1.7 million from \$1.4 million in 2021. D&A expense should approximate \$574,000 from \$414,000 in 2021.

We project interest expense increasing to \$728,000 from \$452,000 due to an increase in outstanding debt. In 2021, the company recorded an \$845,000 gain on extinguishment of debt, which did not occur in the current period.

We are maintaining our prior forecast of net income (excluding \$650,000 in acquisition transaction costs) of \$475,000 or \$0.13 per share on average shares of 3.9 million.

Finances – 2022

In 2022, we project cash earnings of \$1.6 million and an increase in working capital of \$477,000. Cash provided by operations of nearly \$1.1 million and net proceeds of \$8 million from the issuance of common stock and subordinated debt is likely to cover capital expenses, cash paid to acquire Yellow Folder, and earn-out payments. Cash should increase by \$1.3 million to nearly \$3.1 million at December 31, 2022.

2023

We project total revenue growth of 17.5% to \$15.6 million (prior was \$15.5) due primarily to organic growth and a full year contribution from Yellow Folder. We anticipate a growing recurring revenue customer base driving SaaS and software maintenance revenue (combined) to \$6.4 million, up from an estimated \$5.2 million in 2022. We estimate professional services increasing 17.3% to \$8 million from an estimated \$6.8 million.

We project a 20.6% increase in gross profit to \$10.1 million due to revenue growth and gross margin expanding to 65% from an estimated 63.4% in 2022 due primarily to higher margin SaaS and maintenance revenue (combined) reaching 41.1% of total revenue, up from 39.5% in 2022. We forecast operating income increasing to \$1.7 million from an estimated \$1.2 million (excluding transaction costs of \$650,000) in 2022. We anticipate operating expense margin of 54% from an estimated 54.3% in 2022.

We forecast operating expenses increasing 16.8% to \$8.4 million compared to an estimated \$7.2 million (excluding \$650,000 in transaction costs) due primarily to hourly wage and overall compensation costs to support revenue growth and a full year of Yellow Folder operations. We anticipate G&A expenses increasing 19.1% to \$5.8 million from an estimated \$4.9 million in 2022 along with an 18.2% increase in sales and market expense to \$2 million from an estimated \$1.7 million in 2022. D&A expense should approximate \$610,000 from \$574,000 in 2022.

We project interest expense decreasing to \$610,000 from an estimated \$728,000 in 2022 due primarily to the repayment of the company's 2020 promissory notes at the end of 2Q23.

We are maintain our forecast for net income of \$1.1 million or \$0.25 per share on 4.4 million average shares outstanding.

Finances – 2023

In 2023, we project cash earnings of nearly \$2 million and a decrease in working capital of \$84,000. Cash provided by operations of \$2.1 million is unlikely to cover capital expenses, repayment of debt, and earn-out payments. Cash should decrease by \$976,000 to nearly \$2.1 million at December 31, 2023.

1Q22 Results

1Q22 Results

Total revenue increased 2.6% to \$2.7 million from \$2.6 million in the year-ago period due primarily to growth in the company's document management segment, which includes software-as-service offerings, nearly offset by short-term weakness in the document conversion segment that includes professional and storage and retrieval services. The decrease in the document service segment reflects a COVID-19 resurgence in Michigan and the corresponding temporary pause in demand.

Gross profit was flat at \$1.6 million due to revenue growth that was offset by gross margin contraction to 60.4% from 60.9% in 1Q21 due primarily to lower professional and retrieval services segment gross margin, partly offset by an improvement in recurring SaaS and maintenance margins.

Operating expenses were flat at \$1.5 million with the current period including \$70,000 in acquisition related transaction costs and a \$64,000 change in fair value of earn-out liabilities. The year-ago period included \$70,000 in change in fair value of earn-out liabilities. The \$100,000 decrease in G&A expense to \$939,000 was mostly offset by increases in sales and marketing costs of \$62,000 to \$352,000 and depreciation expense of \$19,000 to \$114,000. Higher sales and marketing expense reflects the hiring of additional personnel that should help drive future customer growth.

Interest expense was unchanged at \$113,000. In 1Q21, the company recorded an \$845,000 gain on extinguishment of debt that reflects the full forgiveness of the principal and interest on its PPP note in January 2021. No such gain or loss occurred in the current period.

The net loss was \$20,000 or (\$0.01) per share, on 2.8 million average shares outstanding compared to net income of \$843,000 or \$0.27 per share on 3.1 million average shares outstanding in 1Q21. Excluding items in 1Q22, EPS was approximately \$0.01. Excluding items in 1Q21, the company would have broken even on a per share basis. We projected a net loss of \$15,000 or breakeven per share on revenue of \$2.6 million.

Finances

In 1Q22, cash earnings of \$444,000 and an increase in working capital of \$33,000 resulted in cash from operations of \$476,000. Cash from operations covered capital expenditures increasing cash by \$420,000 to nearly \$2.2 million at March 31, 2022.

Capital Structure

At March 31, 2022, INLX had total debt on its balance sheet of \$1.8 million (all short-term). On March 2, 2020, the company issued 12% subordinated promissory notes with a principal amount of \$2 million (includes \$95,100 in unamortized debt issuance costs and \$97,800 in unamortized debt discount) that matures on February 28, 2023.

On April 5, 2021, INLX announced the issuance of nearly \$3 million in subordinated promissory notes that will pay holders 12% interest and matures March 30, 2025, as well as the issuance of over 1.2 million common shares for gross proceeds of \$5.7 million. Taglich Brothers acted as the placement agent for both the debt and common stock issuances and received an 8% fee that equals \$696,000.

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 include the ability to effectively store, manage, and retrieve client records. In this market, companies are responsible for handling clients' 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, 2022, the company's accumulated deficit was \$21.7 million, up from nearly \$15 million in 2016, but down from \$23 million at December 31, 2020. While losses could occur, we anticipate the company reporting net profits in 2022 and 2023. 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 ten-year period ended April 2022, the company raised \$26.4 million through the issuance of debt and equity securities.

At March 31, 2022, INLX had over 629,000 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 1Q22 and 1Q21, two customers represented approximately 50% and 57% of net revenues, respectively. In 1Q22, the company's three largest customers represented 62% of gross accounts receivables compared to two customers accounting for 57% of gross accounts receivables. 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% of the outstanding voting stock as of the company's May 2022 proxy filing (shares outstanding on April 27, 2022). 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 nearly 28% of the company's outstanding voting stock after the April 1, 2022 announcement of a private placement by the company. 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 27, 2022 was 490. The company has a float of 2.9 million shares and shares outstanding of 4.1 million.

Intellinetics Inc.
Consolidated Balance Sheets
FY2019A – FY2023E
(in thousands)

	FY19A	FY20A	FY21A	1Q22A	FY22E	FY23E
ASSETS						
Current assets:						
Cash	\$ 404	\$ 1,908	\$ 1,753	\$ 2,173	\$ 3,050	\$ 2,075
Accounts receivable, net	330	792	1,176	898	1,288	1,513
Accounts receivable, unbilled	23	524	445	474	474	474
Parts and supplies, net	4	80	77	66	90	90
Prepaid expense and other current assets - includes contracts	111	162	234	298	750	755
Total current assets	872	3,466	3,684	3,909	5,652	4,907
Property and equipment, net	7	699	1,092	1,088	2,000	2,100
Right of use asset	97	2,641	3,842	3,687	4,840	5,975
Intangible assets, net	-	1,185	968	914	3,215	3,000
Goodwill	-	2,323	2,323	2,323	4,323	4,323
Other assets	10	31	53	79	79	79
Total assets	\$ 987	\$ 10,345	\$ 11,962	\$ 12,000	\$ 20,109	\$ 20,384
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	161	142	182	330	125	125
Accrued compensation	70	272	344	287	550	550
Accrued expenses, other	140	132	162	155	300	315
Lease liability	47	519	616	635	635	635
Deferred revenues	754	996	1,195	1,136	1,300	1,800
Deferred compensation	117	101	101	81	81	81
Earnout liabilities	-	878	959	995	626	-
Accrued interest payable	1,212	6	-	-	-	-
Notes payable	3,340	581	-	1,807	1,707	-
Notes payable - related party	1,467	-	-	-	-	-
Total current liabilities	7,310	3,625	3,557	5,427	5,324	3,506
Notes payable	-	1,802	1,755	-	-	-
Subordinated 12% Debt	-	-	-	-	2,965	2,672
Lease liability	53	2,197	3,317	3,151	3,317	4,317
Other	-	-	-	-	-	-
Earnout liabilities	-	1,566	672	700	-	-
Stockholders' equity:						
Common stock, \$0.001 par value; authorized 50,000,000 shares;	0	3	3	3	4	4
Additional paid-in capital	14,419	24,147	24,297	24,378	30,313	30,588
Retained earnings (accumulated deficit)	(20,796)	(22,996)	(21,638)	(21,658)	(21,813)	(20,703)
Total stockholders' equity	(6,376)	1,155	2,662	2,722	8,504	9,889
Total liabilities and stockholders' equity	\$ 987	\$ 10,345	\$ 11,962	\$ 12,000	\$ 20,109	\$ 20,384
SHARES OUT	370	2,811	2,823	2,831	4,080	4,115

Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.
Annual Income Statement
FY2019A – FY2023E
(in thousands)

	<u>FY19 A</u>	<u>FY20 A</u>	<u>FY21 A</u>	<u>FY22 E</u>	<u>FY23 E</u>
Sale of software	\$ 189	\$ 195	\$ 78	\$ 94	\$ 40
Software-as-a-service (SaaS)	860	1,055	1,442	2,936	3,820
Software maintenance services	1,011	1,257	1,350	2,292	2,570
Professional services	450	5,008	7,469	6,813	7,995
Storage and retrieval services	<u>-</u>	<u>739</u>	<u>1,121</u>	<u>1,108</u>	<u>1,140</u>
Total Revenues	\$ 2,536	\$ 8,253	\$ 11,460	\$ 13,244	\$ 15,565
Cost of Revenues per segment					
Sale of software	9	57	15	41	20
Software-as-a-service (SAAS)	255	273	333	651	845
Software maintenance services	87	159	82	153	120
Professional services	192	2,553	3,682	3,663	4,100
Storage and retrieval services	<u>-</u>	<u>220</u>	<u>406</u>	<u>343</u>	<u>360</u>
Total Cost of sales	<u>568</u>	<u>3,262</u>	<u>4,517</u>	<u>4,852</u>	<u>5,445</u>
Gross Profit	<u>1,968</u>	<u>4,991</u>	<u>6,943</u>	<u>8,392</u>	<u>10,120</u>
Operating Expenses:					
General and administrative	2,131	3,499	4,044	4,889	5,825
Change in fair value of earnout liabilities		1,555	141	64	-
Transactions costs	-	636	-	650	-
Sales and marketing	982	1,041	1,378	1,662	1,965
Depreciation	8	297	414	574	610
Total Operating Expenses	<u>3,121</u>	<u>7,029</u>	<u>5,978</u>	<u>7,839</u>	<u>8,400</u>
Operating Income (loss)	<u>(1,153)</u>	<u>(2,038)</u>	<u>965</u>	<u>552</u>	<u>1,720</u>
Other income (expense)					
Gain on extinguishment of debt	-	287	845	-	-
Interest income (expense)	<u>(981)</u>	<u>(638)</u>	<u>(452)</u>	<u>(728)</u>	<u>(610)</u>
Total Other Income (expense)	<u>(981)</u>	<u>(350)</u>	<u>393</u>	<u>(728)</u>	<u>(610)</u>
Pre-Tax Income (loss)	<u>(2,133)</u>	<u>(2,388)</u>	<u>1,358</u>	<u>(175)</u>	<u>1,110</u>
Income Tax Expense (Benefit)	<u>-</u>	<u>(188)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss)	<u>(2,133)</u>	<u>(2,200)</u>	<u>1,358</u>	<u>(175)</u>	<u>1,110</u>
Earning (loss) per share	<u>\$ (5.76)</u>	<u>\$ (0.91)</u>	<u>\$ 0.44</u>	<u>\$ (0.04)</u>	<u>\$ 0.25</u>
Avg Shares Outstanding	370	2,407	3,105	3,916	4,383
Adjusted EBITDA	\$ (707)	\$ 803	\$ 1,670	\$ 2,071	\$ 2,630
Margin Analysis					
Gross margin - Sale of software	95.4%	70.9%	81.1%	56.4%	50.0%
Gross margin - SAAS	70.3%	74.1%	76.9%	77.8%	77.9%
Gross margin - Maintenance services	91.4%	87.3%	94.0%	93.3%	95.3%
Gross margin - Professional services	57.3%	49.0%	50.7%	46.2%	48.7%
Storage and retrieval services	NMF	70.2%	63.8%	69.1%	68.4%
Total gross margin	77.6%	60.5%	60.6%	63.4%	65.0%
General and administrative	84.0%	42.4%	35.3%	36.9%	37.4%
Sales and marketing	38.7%	12.6%	12.0%	12.6%	12.6%
Depreciation	0.3%	3.6%	3.6%	4.3%	3.9%
Operating margin	(45.5%)	(24.7%)	8.4%	4.2%	11.1%
Pre-tax margin	(84.1%)	(28.9%)	11.8%	(1.3%)	7.1%
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
YEAR / YEAR GROWTH					
Total Revenues	6.5%	225.5%	38.9%	15.6%	17.5%

Our 2022 forecast includes and estimated (\$0.17) charge related to acquisition transaction costs
2021 includes \$0.27 per share gain on extinguishment of debt

Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.
Income Statement Model
Quarters 2021A – 2023E
(in thousands)

	Q1 21 A	Q2 21 A	Q3 21 A	Q4 21 A	FY21 A	Q1 22 A	Q2 22 E	Q3 22 E	Q4 22 E	FY22 E	Q1 23 E	Q2 23 E	Q3 23 E	Q4 23 E	FY23 E
Sale of software	\$ 10	\$ 6	\$ 59	\$ 4	\$ 78	\$ 64	\$ 10	\$ 10	\$ 10	\$ 94	\$ 10	\$ 10	\$ 10	\$ 10	\$ 40
Software-as-a-service (SaaS)	324	376	352	390	1,442	431	810	845	850	2,936	915	945	975	985	3,820
Software maintenance services	340	335	337	338	1,350	337	650	650	655	2,292	650	645	640	635	2,570
Professional services	1,652	1,898	2,165	1,753	7,469	1,588	1,600	1,825	1,800	6,813	1,825	2,025	2,170	1,975	7,995
Storage and retrieval services	309	295	259	258	1,121	283	275	275	275	1,108	285	285	285	285	1,140
Total Revenues	\$ 2,635	\$ 2,910	\$ 3,171	\$ 2,744	\$ 11,460	\$ 2,704	\$ 3,345	\$ 3,605	\$ 3,590	\$ 13,244	\$ 3,685	\$ 3,910	\$ 4,080	\$ 3,890	\$ 15,565
Cost of Revenues per segment															
Sale of software	4	2	4	5	15	26	5	5	5	41	5	5	5	5	20
Software-as-a-service (SAAS)	76	92	74	91	333	91	180	185	195	651	200	210	215	220	845
Software maintenance services	24	22	18	17	82	18	45	45	45	153	30	30	30	30	120
Professional services	834	861	1,042	944	3,682	848	860	980	975	3,663	980	1,025	1,100	995	4,100
Storage and retrieval services	91	118	118	79	406	88	85	85	85	343	90	90	90	90	360
Total Cost of sales	1,030	1,096	1,256	1,136	4,517	1,072	1,175	1,300	1,305	4,852	1,305	1,360	1,440	1,340	5,445
Gross Profit	1,605	1,814	1,916	1,608	6,943	1,632	2,170	2,305	2,285	8,392	2,380	2,550	2,640	2,550	10,120
Operating Expenses:															
General and administrative	1,039	1,058	1,028	919	4,044	939	1,250	1,325	1,375	4,889	1,400	1,425	1,475	1,525	5,825
Change in fair value of earnout liabilities	70	7	-	64	141	64	-	-	-	64	-	-	-	-	-
Transactions costs	-	-	-	-	-	70	580	-	-	650	-	-	-	-	-
Sales and marketing	290	342	372	374	1,378	352	425	435	450	1,662	465	475	500	525	1,965
Depreciation	95	101	106	112	414	114	120	175	165	574	160	155	150	145	610
Total Operating Expenses	1,494	1,508	1,506	1,469	5,978	1,539	2,375	1,935	1,990	7,839	2,025	2,055	2,125	2,195	8,400
Operating Income (loss)	111	306	409	139	965	92	(205)	370	295	552	355	495	515	355	1,720
Other income (expense)															
Gain on extinguishment of debt	845	-	-	-	845	-	-	-	-	-	-	-	-	-	-
Interest income (expense)	(113)	(113)	(113)	(113)	(452)	(113)	(205)	(205)	(205)	(728)	(205)	(205)	(100)	(100)	(610)
Total Other Income (expense)	732	(113)	(113)	(113)	393	(113)	(205)	(205)	(205)	(728)	(205)	(205)	(100)	(100)	(610)
Pre-Tax Income (loss)	843	192	296	26	1,358	(20)	(410)	165	90	(175)	150	290	415	255	1,110
Income Tax Expense (Benefit)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	843	192	296	26	1,358	(20)	(410)	165	90	(175)	150	290	415	255	1,110
Earning (loss) per share	\$ 0.27	\$ 0.06	\$ 0.10	\$ 0.01	\$ 0.44	\$ (0.01)	\$ (0.10)	\$ 0.04	\$ 0.02	\$ (0.04)	\$ 0.03	\$ 0.07	\$ 0.09	\$ 0.06	\$ 0.25
Avg Shares Outstanding	3,107	3,104	3,104	3,104	3,105	2,831	4,100	4,365	4,370	3,916	4,375	4,380	4,385	4,390	4,383
Adjusted EBITDA	\$ 356	\$ 438	\$ 538	\$ 338	\$ 1,670	\$ 421	\$ 545	\$ 595	\$ 510	\$ 2,071	\$ 590	\$ 725	\$ 740	\$ 575	\$ 2,630
Margin Analysis															
Gross margin - Sale of software	55.8%	62.1%	93.7%	(6.7%)	81.1%	59.4%	50.0%	50.0%	50.0%	56.4%	50.0%	50.0%	50.0%	50.0%	50.0%
Gross margin - SAAS	76.4%	75.6%	79.1%	76.9%	76.9%	78.8%	77.8%	78.1%	77.1%	77.8%	78.1%	77.8%	77.9%	77.7%	77.9%
Gross margin - Maintenance services	92.8%	93.4%	94.6%	95.1%	94.0%	94.6%	93.1%	93.1%	93.1%	93.3%	95.4%	95.3%	95.3%	95.3%	95.3%
Gross margin - Professional services	49.5%	54.6%	51.9%	46.2%	50.7%	46.6%	46.3%	46.3%	45.8%	46.2%	46.3%	49.4%	49.3%	49.3%	48.7%
Storage and retrieval services	70.5%	60.0%	54.4%	69.5%	63.8%	69.0%	69.1%	69.1%	69.1%	69.1%	68.4%	68.4%	68.4%	68.4%	68.4%
Total gross margin	60.9%	62.3%	60.4%	58.6%	60.4%	60.4%	64.9%	63.9%	63.6%	63.4%	64.6%	65.2%	64.7%	65.6%	65.0%
General and administrative	39.4%	36.4%	32.4%	33.5%	35.3%	34.7%	37.4%	36.8%	38.3%	36.9%	38.0%	36.4%	36.1%	39.2%	37.4%
Sales and marketing	11.0%	11.7%	11.7%	13.6%	12.0%	13.0%	12.7%	12.1%	12.5%	12.6%	12.6%	12.1%	12.3%	13.5%	12.6%
Depreciation	3.6%	3.5%	3.3%	4.1%	3.6%	4.2%	3.6%	4.9%	4.6%	4.3%	4.3%	4.0%	3.7%	3.7%	3.9%
Operating margin	4.2%	10.5%	12.9%	5.1%	8.4%	3.4%	(6.1%)	10.3%	8.2%	4.2%	9.6%	12.7%	12.6%	9.1%	11.1%
Pre-tax margin	32.0%	6.6%	9.3%	1.0%	11.8%	(0.7%)	(12.3%)	4.6%	2.5%	(1.3%)	4.1%	7.4%	10.2%	6.6%	7.1%
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	117.1%	58.5%	26.3%	1.9%	38.9%	2.6%	15.0%	13.7%	30.8%	15.6%	36.3%	16.9%	13.2%	8.4%	17.5%

2Q22 forecast includes and estimated (\$0.17) charge related to acquisition transaction costs
1Q21, includes \$0.27 per share gain on extinguishment of debt

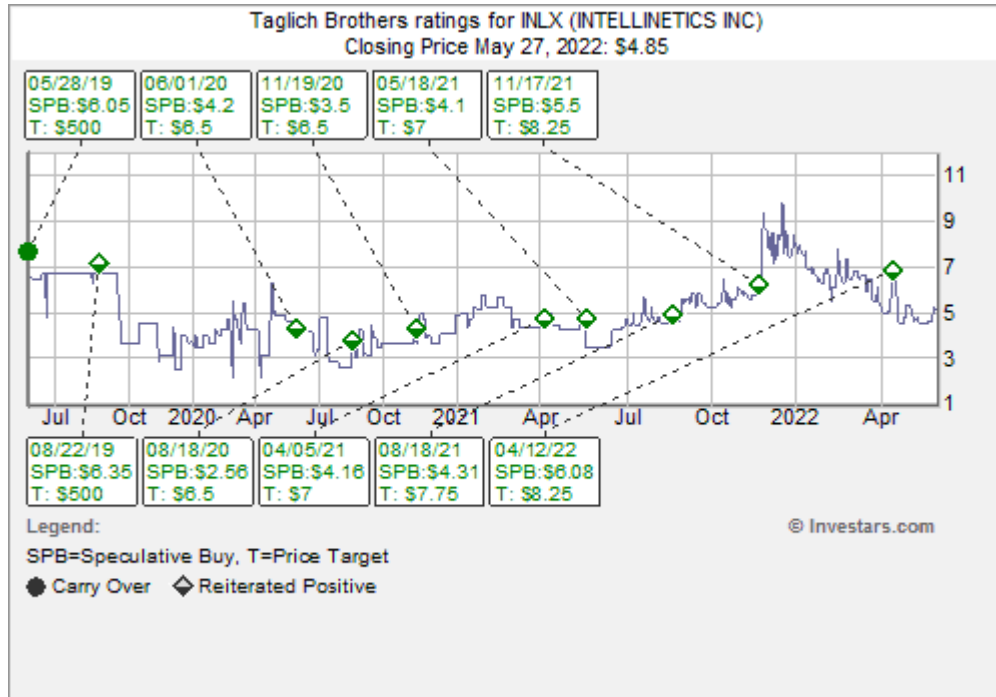
Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.
Cash Flow Statement
FY2019A – FY2023E
(in thousands)

	<u>FY2019A</u>	<u>FY2020A</u>	<u>FY2021A</u>	<u>1Q21A</u>	<u>FY2022E</u>	<u>FY2023E</u>
<i>Cash Flows from Operating Activities</i>						
Net Income (loss)	\$ (2,133)	\$ (2,200)	\$ 1,358	\$ (20)	\$ (175)	\$ 1,110
Depreciation and amortization	8	297	414	114	574	610
Bad debt expense	28	55	(11)	(2)	(2)	-
Loss on disposal of fixed assets - parts and supplies reserve	-	15	9	-	-	-
Amortization of deferred and original issue financing costs	184	117	104	26	100	-
Amortization of beneficial conversion option	71	12	-	-	-	-
Amortization of debt discount	-	89	107	27	110	-
Amortization of original issue discount on notes	12	18	-	-	-	-
Amortization of right of use asset	41	405	636	155	620	-
Stock issued for services	88	58	58	58	200	125
Stock options compensation	200	59	92	23	75	150
Note conversion expense	-	141	-	-	-	-
Warrant issue expense	-	237	-	-	-	-
Change in fair value of earnout liabilities	-	1,555	141	64	64	-
Interest on converted debt	-	176	-	-	-	-
Gain on retirement of debt	-	(287)	(845)	-	-	-
Cash earnings (burn)	(1,502)	746	2,062	444	1,566	1,995
<i>Changes In:</i>						
Accounts receivable	(222)	605	(372)	280	(112)	(226)
Accounts receivable, unbilled	42	(224)	79	(29)	(29)	-
Parts and supplies, net	2	1	(6)	11	(13)	-
Prepaid expenses and other current assets	(19)	7	(94)	(90)	(516)	(5)
Right of use asset	(139)	(63)	-	-	(200)	(200)
Accounts payable and accrued expenses	63	(646)	142	86	288	15
Accrued interest, current and long-term	710	6	0	-	-	-
Lease liabilities, current and long term	101	(333)	(619)	(146)	19	-
Deferred compensation	(48)	(16)	-	(20)	(20)	-
Deferred revenues	30	43	199	(59)	105	500
(Increase)/decrease in Working Capital	520	(620)	(672)	33	(477)	84
Net cash provided (used in) Operations	<u>(982)</u>	<u>125</u>	<u>1,390</u>	<u>476</u>	<u>1,089</u>	<u>2,079</u>
<i>Cash Flows from Investing Activities</i>						
Purchase of property and equipment	(5)	(77)	(590)	(56)	(300)	(200)
Cash paid to acquire business, net of cash acquired	-	(4,019)	-	-	(6,500)	-
Cash flow provided (used in) Investing Activities	<u>(5)</u>	<u>(4,096)</u>	<u>(590)</u>	<u>(56)</u>	<u>(6,800)</u>	<u>(200)</u>
<i>Cash Flows from Financing Activities</i>						
Proceeds from issuance of common stock	-	3,168	-	-	5,741	-
Offering costs paid on issuance of common stock and debt	-	(308)	-	-	(696)	-
Payment of earnout liabilities	-	-	(955)	-	(1,000)	(855)
Payment of deferred financing costs	-	(176)	-	-	-	-
Issuance of subordinated notes	-	-	-	-	2,965	-
Proceeds (repayment) from notes payable, net	-	2,839	-	-	-	(2,000)
Proceeds (repayment) from notes payable - related party, net	303	(48)	-	-	-	-
Net cash provided (used) by Financing	<u>303</u>	<u>5,475</u>	<u>(955)</u>	<u>-</u>	<u>7,009</u>	<u>(2,855)</u>
Net change in Cash	(684)	1,504	(155)	420	1,298	(976)
Cash Beginning of Period	1,089	404	1,908	1,753	1,753	3,050
Cash End of Period	<u>\$ 404</u>	<u>\$ 1,908</u>	<u>\$ 1,753</u>	<u>\$ 2,173</u>	<u>\$ 3,050</u>	<u>\$ 2,075</u>

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



56 % Buy | 44 % Hold

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	5	25
Hold		
Sell		
Not Rated		

Important Disclosures

As of May 27, 2022, 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 695,311 shares of INLX common and restricted common stock (combined), controlling interest in \$25,000 in 12% subordinated notes, and 70,285 restricted warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 458,642 shares of INLX common and restricted common stock (combined), \$600,000 in 12% subordinated notes, and 70,146 shares of restricted warrants. William Cooke, Vice President – Investment Banking at Taglich Brothers, Inc. and Chairman of Intellinetics Inc., owns or has a controlling interest in 4,577 shares of INLX restricted common stock and 8,720 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. Other employees at Taglich Brothers, Inc. also own or have controlling interests in at least 15,033 shares of INLX that may be acquired upon the exercise of warrants. Taglich Brothers, Inc. has an investment banking relationship with INLX. In March 2013, Taglich Brothers, Inc. served as the placement agent for a common stock offering, as well as for the sale of convertible notes the transaction in 2014. 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 and in April 2022, acted as the placement agent for the sale of common stock and 12% subordinated 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.

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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.