

## 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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August 23, 2022

**INLX \$4.17 — (OTC)**

	2019 A	2020 A	2021 A	2022 E	2023 E
Revenue (in millions)	\$2.5	\$8.3	\$11.5	<b>\$13.3</b>	<b>\$15.6</b>
Earnings (loss) per share	(\$5.76)	(\$0.91)*	\$0.17**	<b>(\$0.04)***</b>	<b>\$0.14</b>

52-Week range	\$9.90 – \$3.01	Fiscal year ends:	December
Shares outstanding a/o 8/10/22	4.1 million	Revenue/shares (ttm)	\$3.67
Approximate float	2.9 million	Price/Sales (ttm)	1.1X
Market Capitalization	\$17.1 million	Price/Sales (2023) E	1.1X
Tangible Book value/shr	(\$0.638)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2023) E	29.8X

*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 (\$0.10) 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 23.1% to \$6.5 million in 2023 from an estimated \$5.3 million in 2022, and \$2.8 million in 2021.**

**In 2Q22, the company announced it signed 241 new contracts in 1H22, including 63 customers, which is 70% of the total contract count sold in all of 2021.**

**INLX reported (on 08-15-22) a 2Q22 loss per share of (\$0.09) on revenue of \$3.4 million. In 2Q21, revenue was \$2.9 million and EPS was \$0.06. In 2Q22, excluding acquisition related transaction costs, the loss per share was approximately (\$0.02). We projected a loss per share of (\$0.10) per share on revenue of \$3.3 million.**

**For 2022, we project a loss per share of (\$0.04) (prior was EPS of \$0.13) on revenue growth of 16.1% to \$13.3 million (prior was \$13.2 million). Our EPS forecast excludes (\$0.10) per share in transaction related costs that occurred in 1H22, but also includes higher than anticipated sales and marketing and interest expense.**

**For 2023, we project EPS of \$0.14 (prior was \$0.25) on revenue growth of 17.4% to \$15.6 million (unchanged). Our forecast reflects a full year of Yellow Folder's operations that should drive higher margin recurring revenue to \$6.5 million from an estimated \$5.3 million in 2022. Our reduced EPS forecast reflects higher than anticipated sales and marketing costs and interest expense.**

**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 3Q22 with over 500 K-12 customers using its enterprise content management solution offerings, which includes Yellow Folder customers that were acquired in April 2022. The expectation is to add at least on average 15 new school district customers per quarter.

### **Our 12-month price target of \$8.25 per share implies shares could double over the next twelve months.**

According to finviz (a/o 08/22/22), 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 1.1X (prior was 1.3X). We anticipate investors are likely to accord INLX a multiple approaching that of the sector given its annualized sales growth forecast of 23.7% from 2020 to 2023. We applied a multiple of 2.7X (unchanged) to our 2023 sales per share forecast of \$3.61 (prior was \$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 \$1.4 million in 2023 compared to an estimated operating profit of \$699,000 (excluding an estimated \$355,000 in acquisition related transaction costs) in 2022. In 2023, INLX should generate cash earnings of \$1.6 million, up from estimated cash earnings of \$1.5 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. In April 2022, INLX acquired Yellow Folder, LLC, a Texas based company that digitally maintains and manages student records, special education records, employee records, and administrative records for an entire school district or school system. This acquisition provides greater cross-selling opportunities that include INLX's document processing and business process outsourcing offerings.

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 August 18, 2022**, the company announced the formation of a new K-12 Division focused exclusively on K-12 schools. The division's personnel will manage product development, service, support, marketing, and sales of solutions that include cloud-based records management software, digital forms, business process outsourcing, document and micrographics scanning, and records storage services. Having a unified division with common goals,

objectives, and focus should enable the company to provide more value to educators, as well as better leverage the people, partnerships, and technology to deliver solutions for the challenges faced by its education customers.

**In 2Q22**, the company announced it introduced a new offering called IntelliCloud Payables Automation Solution (IPAS). INLX has secured four new IPAS contracts, with one already deployed and the others in the implementation stage. This new IPAS solution should increase the company's average selling price and expand its customer based opportunities since this offering was designed to integrate to any enterprise resource planning financial solution.

## ***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. After inclusion of the April 2022 acquisition of Yellow Folder, INLX entered 3Q22 with over 500 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 1H22 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 occurred in the latter part of 2Q22 but still restrained the workflow during 1H22, which is likely to slowly ramp in 2H22. 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 \$6.5 million from an estimated \$5.3 million in 2022, which is up from \$2.8 million in 2021.

We anticipate 2022 and 2023 gross margins of 63.3% and 65.1%, respectively, compared to 60.6% in 2021. We anticipate recurring revenue SaaS margins to remain robust at 83.2% in 2023 compared to an estimated 82.8% 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 July 2022, the International Monetary Fund (IMF) revised its economic growth estimate for the US to an increase of 2.3% for 2022 and 1% for 2023. In April 2022, the IMF projected US economic growth of 3.7% for 2022 and 2.3% for 2023. The downward revisions reflect higher-than-expected inflation that has triggered tighter financial conditions (i.e. higher interest rates) and further negative spillover effects from the war in Ukraine.

The advance estimate of US GDP growth (released on July 28, 2022) showed the US economy decreased at an annual rate of 0.9% in 2Q22, an improvement from the 1.6% decrease in 1Q22, but still below the 6.9% increase reported in 4Q21. The 2Q22 US GDP estimate primarily reflects decreases in inventory investments, fixed investments, federal government spending, and state and local government spending, partly offset by increases in exports and personal consumption expenditures.

### ***2022***

We project total revenue growth of 16.1% to \$13.3 million (prior was \$13.2 million) 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 21.4% increase in gross profit to \$8.4 million due to revenue growth and gross margin expansion to 63.3% from 60.6% in 2021 due primarily to an increase in higher margin recurring SaaS and maintenance revenue. We forecast operating income of \$699,000 (excludes an estimated \$355,000 in acquisition related transaction costs) compared to \$965,000 in 2021. We anticipate operating expense margin of 58.1% (excluding transaction costs) compared to 52.2% in 2021.

We forecast operating expenses increasing 29.3% to nearly \$7.7 million (excluding \$355,000 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 21.8% to \$4.9 million from \$4 million in 2021 along with a 45.6% increase in sales and marketing expense to \$2 million from \$1.4 million in 2021. D&A expense should approximate \$684,000 from \$414,000 in 2021.

We project interest expense increasing to \$853,000 from \$452,000 due to increases in outstanding debt and interest rates. In 2021, the company recorded an \$845,000 gain on extinguishment of debt, which should not occur in the current period.

We are projecting a net loss of \$154,000 or (\$0.04) per share (excluding \$355,000 in acquisition transaction costs) on average shares of 3.8 million. We previously projected net income (excluding \$650,000 in acquisition transaction costs) of \$475,000 or \$0.13 per share on average shares of 3.9 million. Our swing to a loss from a profit reflects higher than anticipated sales and marketing costs and interest expense.

#### Finances – 2022

In 2022, we project cash earnings of \$1.5 million and a decrease in working capital of \$478,000. Cash provided by operations of \$2 million and net proceeds of \$8.7 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 \$2 million to nearly \$3.8 million at December 31, 2022.

#### 2023

We project total revenue growth of 17.4% to \$15.6 million (unchanged) 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 \$6.5 million, up from an estimated \$5.3 million in 2022. We estimate professional services increasing 16.5% to \$7.9 million from an estimated \$6.8 million.

We project a 20.7% increase in gross profit to \$10.2 million due to revenue growth and gross margin expanding to 65.1% from an estimated 63.3% in 2022 due primarily to higher margin SaaS and maintenance revenue (combined) reaching 41.7% of total revenue, up from 39.8% in 2022. We forecast operating income increasing to \$1.4 million from an estimated \$699,000 (excluding transaction costs of \$355,000) in 2022. We anticipate operating expense margin of 56.4% from an estimated 58.1% (excluding transaction costs) in 2022.

We forecast operating expenses increasing 13.9% to \$8.8 million compared to an estimated \$7.7 million (excluding \$355,000 in transaction costs) due primarily to increasing overall compensation costs to support revenue growth and a full year of Yellow Folder operations. We anticipate G&A expenses increasing 14.2% to \$5.6 million from an estimated \$4.9 million in 2022 along with a 24.3% increase in sales and market expense to nearly \$2.5 million from an estimated \$2 million in 2022. D&A expense should approximate \$690,000 compared to \$684,000 in 2022.

We project interest expense decreasing to \$745,000 from an estimated \$853,000 in 2022 due primarily to the repayment of some promissory notes at the end of 2Q23.

We forecast net income of \$625,000 or \$0.14 per share on 4.3 million average shares outstanding. We previously forecasted net income of \$1.1 million or \$0.25 per share on 4.4 million average shares outstanding. The reduction in our forecast is due primarily to higher than previously anticipated sales and marketing costs and interest expense.

Finances – 2023

In 2023, we project cash earnings of \$1.6 million and an increase in working capital of \$82,000. Cash provided by operations of \$1.5 million is unlikely to cover capital expenses, repayment of debt, and earn-out payments. Cash should decrease by \$1.5 million to \$2.3 million at December 31, 2023.

**2Q22 and 1H22 Results**2Q22 Results

Total revenue increased 17.4% to \$3.4 million from \$2.9 million in the year-ago period due primarily to growth in the company's document management segment, which includes software-as-service (SaaS) offerings, partly offset by short-term weakness in the document conversion segment that includes professional and storage and retrieval services. The total revenue increase stems primarily from recurring SaaS sales increasing to nearly \$1.2 million compared to \$376,000 in 2Q22 due to the April 2022 acquisition of Yellow Folder that added \$681,000 to revenue, as well as the addition of new customers choosing a cloud-based solution. The decrease in professional services to \$1.6 million from nearly \$1.9 million in the year-ago period reflects challenges in hiring staff to ramp up production for the company's backlog of project work.

Gross profit increased 20.7% to nearly \$2.2 million from \$1.8 million in 2Q21 due to revenue growth and gross margin expansion to 64.1% from 62.3% in the year-ago period due primarily to higher recurring SaaS and maintenance margins, partly offset by lower professional and retrieval services segment gross margin.

Operating expenses increased to \$2.3 million from \$1.5 last year with the current period including \$285,000 in acquisition related transaction costs and a \$52,000 change in fair value of earn-out liabilities. The year-ago period included a \$7,000 change in fair value of earn-out liabilities. The \$202,000 increase in G&A expense to nearly \$1.3 million reflects the inclusion of Yellow Folder operations. Sales and marketing expense increased by \$188,000 to \$529,000 and depreciation expense increased by \$94,000 to \$195,000. Higher sales and marketing expense reflects the hiring of additional personnel and inclusion of Yellow Folder operation that were acquired in April 2022.

Interest expense increased to \$240,000 from \$113,000 in 2Q21 due to increased net debt following the April 2022 private placement of debt securities.

The net loss was \$374,000 or (\$0.09) per share, on 4.1 million average shares outstanding compared to net income of \$192,000 or \$0.06 per share on 3.1 million average shares outstanding in 2Q21. Excluding transaction costs in 2Q22, the net loss was approximately \$89,000 or (\$0.02) per share. We projected a net loss of \$410,000 or (\$0.10) per share on revenue of \$3.3 million.

1H22 Results

Total revenue increased 10.4% to \$6.1 million from \$5.5 million in the year-ago period. The increase reflects a \$681,000 contribution from the April 2022 acquisition of Yellow Folder and organic recurring revenue customer growth, partly offset by a revenue decrease of \$381,000 in the company's document service segment stemming from a COVID-19 resurgence in Michigan and the corresponding temporary pause in demand in 1Q22 and hiring challenges to complete pending projects in 2Q22.

Gross profit increased 11.8% to \$3.8 million from \$3.4 million due to revenue growth and gross margin improvement to 62.4% from 61.7% in 1H21.

Operating expenses were nearly \$3.9 million (including \$355,000 of transaction related acquisition costs) compared to \$3 million in 1H21. The increase reflects the inclusion of Yellow Folder operations that was acquired in April 2022.

In Thousands \$	6 Mos. '22	6 Mos. '21	% D
Total revenue	\$ 6,119	\$ 5,545	10.4%
Cost of sales	2,298	2,126	8.1%
Gross Profit	3,821	3,419	11.8%
Total Operating Expenses	3,862	3,003	28.6%
Operating Income (loss)	(41)	416	NMF
Total Other Income (expense)	(353)	619	NMF
Pre-Tax Income (loss)	(394)	1,035	NMF
Income Tax Expense (Benefit)	-	-	
Net income (loss)	(394)	1,035	NMF
Earnings per share	\$ (0.11)	\$ 0.33	
Avg Shares Outstanding	3,456	3,106	
Adjusted EBITDA	923	793	
Margin Analysis			
Gross margin	62.4%	61.7%	
Operating margin	(0.7%)	7.5%	
Pre-tax margin	(6.4%)	18.7%	
Source: company reports			

Interest expense increased to \$353,000 from \$226,000 in 1H21 due to higher average debt balances. In 1H21, 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 \$394,000 or (\$0.11) per share, on 3.5 million average shares outstanding compared to net income of \$1 million or \$0.33 per share on 3.1 million average shares outstanding in 1H21. Excluding items in 1H22, the loss per share was approximately (\$0.01). Excluding items in 1H21, the company would have had EPS of \$0.06.

### Finances

In 1H22, cash earnings of \$675,000 and an increase in working capital of \$602,000 resulted in cash from operations of \$73,000. Cash provided by operations of \$73,000 and net proceeds of \$8.7 million from the issuance of common stock and subordinated debt cover capital expenses, cash paid to acquire Yellow Folder, and earn-out payments. Cash increased by \$361,000 to \$2.1 million at June 30, 2022.

### Capital Structure

At June 30, 2022, INLX had total debt on its balance sheet of \$4.4 million of which \$1.9 million was short-term. On March 2, 2020, the company issued 12% subordinated promissory notes with a principal amount of \$2 million that matures on February 28, 2023. On June 30, 2022, the outstanding balance was nearly \$1.9 million.

On April 1, 2022, the company had nearly \$2.4 million in 12% subordinated notes to unrelated accredited investors. The entire outstanding principal and accrued interest is due and payable on March 30, 2025. INLX used a portion of the net proceeds to help finance the acquisition of Yellow Folder with the remaining proceeds used for working capital and general corporate purposes. The outstanding balance less unamortized debt issuance costs and debt discount was \$2 million at June 30, 2022.

On April 1, 2022, INLX issued 12% \$600,000 principal amount subordinated notes with a nearly \$87,000 debt discount to Robert Taglich (a related party and Managing Director of Taglich Brothers, Inc., that owns or has a controlling interest in more than 5% of INLX's common stock). The note will be repaid not later than March 30, 2025.

### **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 June 30, 2022, the company's accumulated deficit was \$22 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 operating 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 June 30, 2022, INLX had over 753,000 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 1H22 and 1H21, two customers represented approximately 45% and 58% of net revenues, respectively. In 1H22, the company's two largest customers represented 59% of gross accounts receivables compared to two customers accounting for 48% 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 8.3% of the outstanding voting stock as of the company's June 2022 proxy filing (shares outstanding on May 13, 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 29.3% of the company's outstanding voting stock. Significant ownership interests could potentially influence the outcome of matters requiring stockholder approval, which decisions may or may not be in the best interests of the other shareholders.

### Miscellaneous Risk

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

### Trading Volume

Based on our calculations, the average daily-volume during the last three months to August 19, 2022 was 229. 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	2Q22A	FY22E	FY23E
<b>ASSETS</b>						
Current assets:						
Cash	\$ 404	\$ 1,908	\$ 1,753	\$ 2,113	\$ 3,788	\$ 2,317
Accounts receivable, net	330	792	1,176	871	1,109	1,216
Accounts receivable, unbilled	23	524	445	435	435	435
Parts and supplies, net	4	80	77	85	90	90
Prepaid expense and other current assets - includes contracts	111	162	234	419	500	650
<b>Total current assets</b>	<b>872</b>	<b>3,466</b>	<b>3,684</b>	<b>3,924</b>	<b>5,922</b>	<b>4,708</b>
Property and equipment, net	7	699	1,092	1,092	1,095	1,100
Right of use asset	97	2,641	3,842	3,528	3,528	3,528
Intangible assets, net	-	1,185	968	4,675	3,163	2,550
Goodwill	-	2,323	2,323	5,790	5,790	5,790
Other assets	10	31	53	215	215	215
<b>Total assets</b>	<b>\$ 987</b>	<b>\$ 10,345</b>	<b>\$ 11,962</b>	<b>\$ 19,225</b>	<b>\$ 19,713</b>	<b>\$ 17,891</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Accounts payable	161	142	182	368	300	250
Accrued compensation	70	272	344	291	325	400
Accrued expenses, other	140	132	162	129	150	200
Lease liability	47	519	616	654	654	654
Deferred revenues	754	996	1,195	1,714	2,000	2,300
Deferred compensation	117	101	101	50	50	50
Earnout liabilities	-	878	959	729	729	-
Accrued interest payable	1,212	6	-	-	-	-
Notes payable	3,340	581	-	1,860	2,000	-
Notes payable - related party	1,467	-	-	-	-	-
<b>Total current liabilities</b>	<b>7,310</b>	<b>3,625</b>	<b>3,557</b>	<b>5,795</b>	<b>6,208</b>	<b>3,854</b>
Notes payable	-	1,802	1,755	2,023	1,883	1,883
Lease liability	53	2,197	3,317	2,981	2,931	2,563
Notes payable - related party, net	-	-	-	513	513	513
Earnout liabilities	-	1,566	672	-	-	-
<b>Stockholders' equity:</b>						
Common stock, \$0.001 par value; authorized 50,000,000 shares;	0	3	3	4	4	4
Additional paid-in capital	14,419	24,147	24,297	29,941	30,322	30,597
Retained earnings (accumulated deficit)	(20,796)	(22,996)	(21,638)	(22,033)	(22,148)	(21,523)
<b>Total stockholders' equity</b>	<b>(6,376)</b>	<b>1,155</b>	<b>2,662</b>	<b>7,912</b>	<b>8,178</b>	<b>9,078</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 987</b>	<b>\$ 10,345</b>	<b>\$ 11,962</b>	<b>\$ 19,225</b>	<b>\$ 19,713</b>	<b>\$ 17,891</b>
SHARES OUT	370	2,811	2,823	4,074	4,080	4,115

Source: Company reports and Taglich Brothers estimates

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

	FY19 A	FY20 A	FY21 A	FY22 E	FY23 E
Sale of software	\$ 189	\$ 195	\$ 78	\$ 96	\$ 40
Software-as-a-service (SaaS)	860	1,055	1,442	3,935	5,175
Software maintenance services	1,011	1,257	1,350	1,365	1,350
Professional services	450	5,008	7,469	6,804	7,925
Storage and retrieval services	-	739	1,121	1,110	1,140
<b>Total Revenues</b>	<b>\$ 2,536</b>	<b>\$ 8,253</b>	<b>\$ 11,460</b>	<b>\$ 13,309</b>	<b>\$ 15,630</b>
Cost of Revenues per segment					
Sale of software	9	57	15	44	20
Software-as-a-service (SAAS)	255	273	333	677	870
Software maintenance services	87	159	82	77	120
Professional services	192	2,553	3,682	3,732	4,080
Storage and retrieval services	-	220	406	348	360
<b>Total Cost of sales</b>	<b>568</b>	<b>3,262</b>	<b>4,517</b>	<b>4,878</b>	<b>5,450</b>
<b>Gross Profit</b>	<b>1,968</b>	<b>4,991</b>	<b>6,943</b>	<b>8,431</b>	<b>10,180</b>
<b>Operating Expenses:</b>					
General and administrative	2,131	3,499	4,044	4,924	5,625
Change in fair value of earnout liabilities	-	1,555	141	117	-
Transactions costs	-	636	-	355	-
Sales and marketing	982	1,041	1,378	2,007	2,495
Depreciation	8	297	414	684	690
<b>Total Operating Expenses</b>	<b>3,121</b>	<b>7,029</b>	<b>5,978</b>	<b>8,087</b>	<b>8,810</b>
<b>Operating Income (loss)</b>	<b>(1,153)</b>	<b>(2,038)</b>	<b>965</b>	<b>344</b>	<b>1,370</b>
Other income (expense)					
Gain on extinguishment of debt	-	287	845	-	-
Interest income (expense)	(981)	(638)	(452)	(853)	(745)
<b>Total Other Income (expense)</b>	<b>(981)</b>	<b>(350)</b>	<b>393</b>	<b>(853)</b>	<b>(745)</b>
<b>Pre-Tax Income (loss)</b>	<b>(2,133)</b>	<b>(2,388)</b>	<b>1,358</b>	<b>(509)</b>	<b>625</b>
Income Tax Expense (Benefit)	-	(188)	-	-	-
<b>Net income (loss)</b>	<b>(2,133)</b>	<b>(2,200)</b>	<b>1,358</b>	<b>(509)</b>	<b>625</b>
<b>Earning (loss) per share</b>	<b>\$ (5.76)</b>	<b>\$ (0.91)</b>	<b>\$ 0.44</b>	<b>\$ (0.14)</b>	<b>\$ 0.14</b>
Avg Shares Outstanding	370	2,407	3,105	3,765	4,329
Adjusted EBITDA	\$ (707)	\$ 803	\$ 1,670	\$ 1,883	\$ 2,360
Margin Analysis					
Gross margin - Sale of software	95.4%	70.9%	81.1%	54.4%	50.0%
Gross margin - SAAS	70.3%	74.1%	76.9%	82.8%	83.2%
Gross margin - Maintenance services	91.4%	87.3%	94.0%	94.3%	91.1%
Gross margin - Professional services	57.3%	49.0%	50.7%	45.2%	48.5%
Storage and retrieval services	NMF	70.2%	63.8%	68.6%	68.4%
Total gross margin	77.6%	60.5%	60.6%	63.3%	65.1%
General and administrative	84.0%	42.4%	35.3%	37.0%	36.0%
Sales and marketing	38.7%	12.6%	12.0%	15.1%	16.0%
Depreciation	0.3%	3.6%	3.6%	5.1%	4.4%
Operating margin	(45.5%)	(24.7%)	8.4%	2.6%	8.8%
Pre-tax margin	(84.1%)	(28.9%)	11.8%	(3.8%)	4.0%
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%

**YEAR / YEAR GROWTH**

Total Revenues	6.5%	225.5%	38.9%	16.1%	17.4%
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Our 2022 forecast includes and estimated (\$0.10) 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 A	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	\$ 11	\$ 10	\$ 10	\$ 96	\$ 10	\$ 10	\$ 10	\$ 10	\$ 40
Software-as-a-service (SaaS)	324	376	352	390	1,442	431	1,158	1,170	1,175	3,935	1,200	1,250	1,350	1,375	5,175
Software maintenance services	340	335	337	338	1,350	337	344	345	340	1,365	340	340	335	335	1,350
Professional services	1,652	1,898	2,165	1,753	7,469	1,588	1,626	1,800	1,790	6,804	1,825	2,050	2,100	1,950	7,925
Storage and retrieval services	309	295	259	258	1,121	283	276	275	275	1,110	285	285	285	285	1,140
<b>Total Revenues</b>	<b>\$ 2,635</b>	<b>\$ 2,910</b>	<b>\$ 3,171</b>	<b>\$ 2,744</b>	<b>\$ 11,460</b>	<b>\$ 2,704</b>	<b>\$ 3,416</b>	<b>\$ 3,600</b>	<b>\$ 3,590</b>	<b>\$ 13,309</b>	<b>\$ 3,660</b>	<b>\$ 3,935</b>	<b>\$ 4,080</b>	<b>\$ 3,955</b>	<b>\$ 15,630</b>
Cost of Revenues per segment															
Sale of software	4	2	4	5	15	26	7	5	5	44	5	5	5	5	20
Software-as-a-service (SAAS)	76	92	74	91	333	91	191	195	200	677	205	210	225	230	870
Software maintenance services	24	22	18	17	82	18	19	20	20	77	30	30	30	30	120
Professional services	834	861	1,042	944	3,682	848	919	980	985	3,732	990	1,025	1,050	1,015	4,080
Storage and retrieval services	91	118	118	79	406	88	90	85	85	348	90	90	90	90	360
<b>Total Cost of sales</b>	<b>1,030</b>	<b>1,096</b>	<b>1,256</b>	<b>1,136</b>	<b>4,517</b>	<b>1,072</b>	<b>1,227</b>	<b>1,285</b>	<b>1,295</b>	<b>4,878</b>	<b>1,320</b>	<b>1,360</b>	<b>1,400</b>	<b>1,370</b>	<b>5,450</b>
<b>Gross Profit</b>	<b>1,605</b>	<b>1,814</b>	<b>1,916</b>	<b>1,608</b>	<b>6,943</b>	<b>1,632</b>	<b>2,189</b>	<b>2,315</b>	<b>2,295</b>	<b>8,431</b>	<b>2,340</b>	<b>2,575</b>	<b>2,680</b>	<b>2,585</b>	<b>10,180</b>
<b>Operating Expenses:</b>															
General and administrative	1,039	1,058	1,028	919	4,044	939	1,261	1,350	1,375	4,924	1,385	1,415	1,425	1,400	5,625
Change in fair value of earnout liabilities	70	7	-	64	141	64	52	-	-	117	-	-	-	-	-
Transactions costs	-	-	-	-	-	70	285	-	-	355	-	-	-	-	-
Sales and marketing	290	342	372	374	1,378	352	529	550	575	2,007	600	615	630	650	2,495
Depreciation	95	101	106	112	414	114	195	190	185	684	180	175	170	165	690
<b>Total Operating Expenses</b>	<b>1,494</b>	<b>1,508</b>	<b>1,506</b>	<b>1,469</b>	<b>5,978</b>	<b>1,539</b>	<b>2,323</b>	<b>2,090</b>	<b>2,135</b>	<b>8,087</b>	<b>2,165</b>	<b>2,205</b>	<b>2,225</b>	<b>2,215</b>	<b>8,810</b>
<b>Operating Income (loss)</b>	<b>111</b>	<b>306</b>	<b>409</b>	<b>139</b>	<b>965</b>	<b>92</b>	<b>(134)</b>	<b>225</b>	<b>160</b>	<b>344</b>	<b>175</b>	<b>370</b>	<b>455</b>	<b>370</b>	<b>1,370</b>
Other income (expense)															
Gain on extinguishment of debt	845	-	-	-	845	-	-	-	-	-	-	-	-	-	-
Interest income (expense)	(113)	(113)	(113)	(113)	(452)	(113)	(240)	(250)	(250)	(853)	(245)	(200)	(150)	(150)	(745)
<b>Total Other Income (expense)</b>	<b>732</b>	<b>(113)</b>	<b>(113)</b>	<b>(113)</b>	<b>393</b>	<b>(113)</b>	<b>(240)</b>	<b>(250)</b>	<b>(250)</b>	<b>(853)</b>	<b>(245)</b>	<b>(200)</b>	<b>(150)</b>	<b>(150)</b>	<b>(745)</b>
<b>Pre-Tax Income (loss)</b>	<b>843</b>	<b>192</b>	<b>296</b>	<b>26</b>	<b>1,358</b>	<b>(20)</b>	<b>(374)</b>	<b>(25)</b>	<b>(90)</b>	<b>(509)</b>	<b>(70)</b>	<b>170</b>	<b>305</b>	<b>220</b>	<b>625</b>
Income Tax Expense (Benefit)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net income (loss)</b>	<b>843</b>	<b>192</b>	<b>296</b>	<b>26</b>	<b>1,358</b>	<b>(20)</b>	<b>(374)</b>	<b>(25)</b>	<b>(90)</b>	<b>(509)</b>	<b>(70)</b>	<b>170</b>	<b>305</b>	<b>220</b>	<b>625</b>
<b>Earning (loss) per share</b>	<b>\$ 0.27</b>	<b>\$ 0.06</b>	<b>\$ 0.10</b>	<b>\$ 0.01</b>	<b>\$ 0.44</b>	<b>\$ (0.01)</b>	<b>\$ (0.09)</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>	<b>\$ (0.14)</b>	<b>\$ (0.02)</b>	<b>\$ 0.04</b>	<b>\$ 0.07</b>	<b>\$ 0.05</b>	<b>\$ 0.14</b>
Avg Shares Outstanding	3,107	3,104	3,104	3,104	3,105	2,831	4,074	4,075	4,080	3,765	4,100	4,400	4,405	4,410	4,329
Adjusted EBITDA	\$ 356	\$ 438	\$ 538	\$ 338	\$ 1,670	\$ 421	\$ 502	\$ 515	\$ 445	\$ 1,883	\$ 430	\$ 620	\$ 700	\$ 610	\$ 2,360
Margin Analysis															
Gross margin - Sale of software	55.8%	62.1%	93.7%	(6.7%)	81.1%	59.4%	33.4%	50.0%	50.0%	54.4%	50.0%	50.0%	50.0%	50.0%	50.0%
Gross margin - SAAS	76.4%	75.6%	79.1%	76.6%	76.9%	78.8%	83.5%	83.3%	83.0%	82.8%	82.9%	83.2%	83.3%	83.3%	83.2%
Gross margin - Maintenance services	92.8%	93.4%	94.6%	95.1%	94.0%	94.6%	94.4%	94.2%	94.1%	94.3%	91.2%	91.2%	91.0%	91.0%	91.1%
Gross margin - Professional services	49.5%	54.6%	51.9%	46.2%	50.7%	46.6%	43.5%	45.6%	45.0%	45.2%	45.8%	50.0%	50.0%	47.9%	48.5%
Storage and retrieval services	70.5%	60.0%	54.4%	69.5%	63.8%	69.0%	67.3%	69.1%	69.1%	68.6%	68.4%	68.4%	68.4%	68.4%	68.4%
<b>Total gross margin</b>	<b>60.9%</b>	<b>62.3%</b>	<b>60.4%</b>	<b>58.6%</b>	<b>60.6%</b>	<b>60.4%</b>	<b>64.1%</b>	<b>64.3%</b>	<b>63.9%</b>	<b>63.3%</b>	<b>63.9%</b>	<b>65.4%</b>	<b>65.7%</b>	<b>65.4%</b>	<b>65.1%</b>
General and administrative	39.4%	36.4%	32.4%	33.5%	35.3%	34.7%	36.9%	37.5%	38.3%	37.0%	37.8%	36.0%	34.9%	35.4%	36.0%
Sales and marketing	11.0%	11.7%	11.7%	13.6%	12.0%	13.0%	15.5%	15.3%	16.0%	15.1%	16.4%	15.6%	15.4%	16.4%	16.0%
Depreciation	3.6%	3.5%	3.3%	4.1%	3.6%	4.2%	5.7%	5.3%	5.2%	5.1%	4.9%	4.4%	4.2%	4.2%	4.4%
Operating margin	4.2%	10.5%	12.9%	5.1%	8.4%	3.4%	(3.9%)	6.3%	4.5%	2.6%	4.8%	9.4%	11.2%	9.4%	8.8%
Pre-tax margin	32.0%	6.6%	9.3%	1.0%	11.8%	(0.7%)	(11.0%)	(0.7%)	(2.5%)	(3.8%)	(1.9%)	4.3%	7.5%	5.6%	4.0%
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%
<b>YEAR / YEAR GROWTH</b>															
Total Revenues	117.1%	58.5%	26.3%	1.9%	38.9%	2.6%	17.4%	13.5%	30.8%	16.1%	35.4%	15.2%	13.3%	10.2%	17.4%

2Q22 forecast includes and estimated (\$0.10) charge related to acquisition transaction costs

1Q21, includes \$0.27 per share gain on extinguishment of debt

Source: Company reports and Taglich Brothers estimates

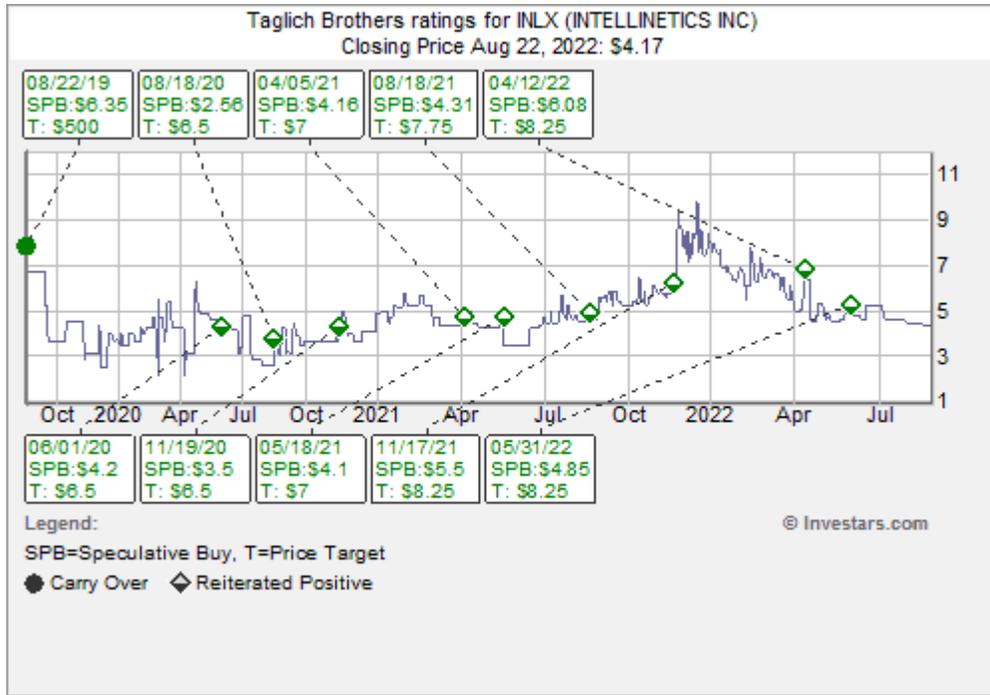
Intellinetics Inc.  
Cash Flow Statement  
FY2019A – FY2023E  
(in thousands)

	<u>FY2019A</u>	<u>FY2020A</u>	<u>FY2021A</u>	<u>6 Mos. 22A</u>	<u>FY2022E</u>	<u>FY2023E</u>
<i>Cash Flows from Operating Activities</i>						
Net Income (loss)	\$ (2,133)	\$ (2,200)	\$ 1,358	\$ (394)	\$ (509)	\$ 625
Depreciation and amortization	8	297	414	309	684	690
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	91	230	-
Amortization of beneficial conversion option	71	12	-	-	-	-
Amortization of debt discount	-	89	107	53	110	-
Amortization of original issue discount on notes	12	18	-	-	-	-
Amortization of right of use asset	41	405	636	313	630	-
Stock issued for services	88	58	58	58	158	125
Stock options compensation	200	59	92	126	126	150
Note conversion expense	-	141	-	-	-	-
Warrant issue expense	-	237	-	-	-	-
Change in fair value of earnout liabilities	-	1,555	141	117	117	-
Interest on converted debt	-	176	-	-	-	-
Gain on retirement of debt	-	(287)	(845)	-	-	-
Cash earnings (burn)	(1,502)	746	2,062	675	1,548	1,590
<i>Changes In:</i>						
Accounts receivable	(222)	605	(372)	371	67	(107)
Accounts receivable, unbilled	42	(224)	79	10	10	-
Parts and supplies, net	2	1	(6)	(8)	(13)	-
Prepaid expenses and other current assets	(19)	7	(94)	(137)	(266)	(150)
Right of use asset	(139)	(63)	-	-	(200)	(200)
Accounts payable and accrued expenses	63	(646)	142	65	88	75
Accrued interest, current and long-term	710	6	0	-	-	-
Lease liabilities, current and long term	101	(333)	(619)	(298)	38	-
Deferred compensation	(48)	(16)	-	(50)	(51)	-
Deferred revenues	30	43	199	(553)	805	300
(Increase)/decrease in Working Capital	520	(620)	(672)	(602)	478	(82)
<b>Net cash provided (used in) Operations</b>	<u>(982)</u>	<u>125</u>	<u>1,390</u>	<u>73</u>	<u>2,026</u>	<u>1,508</u>
<i>Cash Flows from Investing Activities</i>						
Purchase of property and equipment	(5)	(77)	(590)	(98)	(200)	(250)
Capitalized software	-	-	-	(171)	(350)	-
Cash paid to acquire business, net of cash acquired	-	(4,019)	-	(6,383)	(6,383)	-
<b>Cash flow provided (used in) Investing Activities</b>	<u>(5)</u>	<u>(4,096)</u>	<u>(590)</u>	<u>(6,653)</u>	<u>(6,933)</u>	<u>(250)</u>
<i>Cash Flows from Financing Activities</i>						
Proceeds from issuance of common stock	-	3,168	-	5,741	5,741	-
Offering costs paid on issuance of common stock and debt	-	(308)	-	(746)	(746)	-
Payment of earnout liabilities	-	-	(955)	(1,018)	(1,018)	(729)
Payment of deferred financing costs	-	(176)	-	-	-	-
Proceeds (repayment) from notes payable, net	-	2,839	-	2,365	2,365	(2,000)
Proceeds (repayment) from notes payable - related party, net	303	(48)	-	600	600	-
<b>Net cash provided (used) by Financing</b>	<u>303</u>	<u>5,475</u>	<u>(955)</u>	<u>6,941</u>	<u>6,942</u>	<u>(2,729)</u>
Net change in Cash	(684)	1,504	(155)	361	2,035	(1,471)
Cash Beginning of Period	<u>1,089</u>	<u>404</u>	<u>1,908</u>	<u>1,753</u>	<u>1,753</u>	<u>3,788</u>
Cash End of Period	<u>\$ 404</u>	<u>\$ 1,908</u>	<u>\$ 1,753</u>	<u>\$ 2,113</u>	<u>\$ 3,788</u>	<u>\$ 2,317</u>

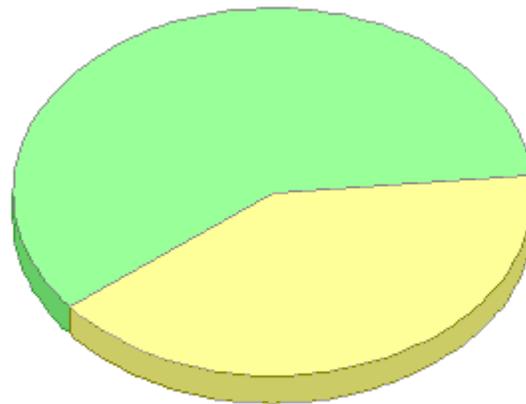
Source: Company reports and Taglich Brothers estimates

Taglich Brothers, Inc.

**Price Chart**



**Taglich Brothers Current Ratings Distribution**



59.26 % Buy | 40.74 % Hold

<b>Investment Banking Services for Companies Covered in the Past 12 Months</b>		
Rating	#	%
Buy	5	26
Hold		
Sell		
Not Rated		

### **Important Disclosures**

As of August 19, 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 696,475 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 490,115 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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**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.**

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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.