

## 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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November 20, 2023

**INLX \$4.30 — (NYSE American)**

	2021 A	2022 A	2023 E	2024 E
Revenue (in millions)	\$11.5	\$14.0	<b>\$16.8</b>	<b>\$18.9</b>
Earnings (loss) per share	\$0.17*	\$0.09**	<b>\$0.15</b>	<b>\$0.30</b>
52-Week range	\$5.72 – \$2.92		Fiscal year ends:	December
Shares outstanding a/o 11/10/23	4.1 million		Revenue/shares (ttm)	\$3.83
Approximate float	2.6 million		Price/Sales (ttm)	1.1X
Market Capitalization	\$17.6 million		Price/Sales (2024) E	1.0X
Tangible Book value/shr	(\$0.11)		Price/Earnings (ttm)	28.7X
Price/Book	NMF		Price/Earnings (2024) E	13.3X

\* Excludes approximately \$0.27 per share gain on extinguishment of debt \*\*Excludes estimated (\$0.08) per share transaction costs to acquire Yellow Folder

Intellinetics Inc., headquartered in Columbus, OH, is a cloud-based document services software and business process outsourcing provider. IntelliCloud™, its software solutions platform serves a mission-critical role for organizations by enabling customers to securely capture and manage documents across its operations.

#### Key Investment Considerations:

**Maintaining Speculative Buy rating and increasing our 12-month price target to \$8.75 per share from \$8.00 per share due primarily to increases in sector valuation and 2024 sales per share forecast.**

**Intellinetics' document management software solutions and the acquisitions of Yellow Folder, Graphic Sciences and CEO Imaging Systems is providing the scale needed to grow within the records management services segment of the \$8.7 billion document management services industry projected for 2028.**

**A strong foundation was put in place with the acquisitions of Graphic Sciences and CEO Imaging. The April 2022 acquisition of Yellow Folder and launch of its IntelliCloud Payables Automation System (IPAS) is accelerating the company's recurring SaaS revenue growth. We project annualized SaaS revenue growth of 64.3% between 2021 and 2024 compared to annualized SaaS growth of 24.4% between 2018 and 2021.**

**INLX newest offering, IPAS, is on track to have nine Constellation homebuilders systems customers complete the implementation process in 1Q24. The recurring revenue run-rate from those nine customers should approximate \$475,000 annually. The IPAS offering will sold through channels where it is filling an unmet need, or direct to INLX's existing K-12 customer base.**

**In 3Q23, INLX reported (on 11-14-23) EPS of \$0.05 on revenue growth of 10.1% to \$4.2 million. In 3Q22, revenue was \$3.9 million and EPS was \$0.05. We projected EPS of \$0.04 on revenue of \$4.3 million.**

**For 2023, we project EPS of \$0.15 (prior was \$0.13) on revenue growth of 19.8% to \$16.8 million (unchanged). Our increased EPS forecast reflects 3Q23 results.**

**Maintaining our 2024 EPS forecast of \$0.30 on revenue growth of 12.6% to \$18.9 million (prior was \$19.3 million). Our forecast reflects SaaS revenue growth of 24.8% to nearly \$6.4 million from an estimated \$5.1 million in 2023 and gross margin improving to 64.6% compared to an estimated 62.3% in 2023.**

**Please view our Disclosures on pages 14 – 16.**

## ***Appreciation Potential***

**Maintaining Speculative Buy rating and increasing our 12-month price target to \$8.75 per share from \$8.00 per share due primarily to increases in sector valuation and 2024 sales per share forecast.**

Our rating reflects a foundation that was put in place with the acquisitions of Graphic Sciences and CEO Imaging. The April 2022 acquisition of Yellow Folder and launch of its IntelliCloud Payables Automation System (IPAS) is accelerating the company's recurring SaaS revenue growth. We project annualized SaaS revenue growth of 64.3% between 2021 and 2024 compared to annualized SaaS growth of 24.4% between 2018 and 2021. Our recurring SaaS revenue growth forecast reflects the launch of its newest IPAS offering that is on track to have nine customers complete the implementation process by the end of 1Q24. The recurring revenue run-rate from those nine customers should approximate \$475,000 annually. The IPAS offering will be sold through channels where it is filling an unmet need, or direct to INLX's existing K-12 customer base.

INLX entered 4Q23 with 584 K-12 customers generating recurring revenue 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. In 3Q23, the company closed 108 contracts, with an estimated total contract value of \$2.1 million and at the start of 4Q23 had a significant pipeline of potential new deals to close.

**Our 12-month price target of \$8.75 per share implies shares could more than double over the next twelve months.** According to finviz.com the average trailing twelve-month price-to-sales multiple for companies in the Specialty – Business Services and Application Software sectors is 3.2X (prior was 2.9X). INLX's trailing twelve-month price-to-sales multiple is 1.1X (unchanged). We anticipate investors are likely to accord INLX a multiple approaching that of the sector given its annualized sales growth forecast of 23% from 2020 to 2024. We applied a multiple of 2.6X (prior was 2.5X) to our 2024 sales per share forecast of \$4.20 (prior was \$4.07), discounted for execution risks, to obtain a year-ahead price target of approximately \$8.75 per share.

A higher valuation of INLX is likely to be supported by year-over-year growth in revenues, operating profits, cash earnings, and EPS. We forecast an operating profit of \$1.8 million in 2024 compared to an estimated operating profit of \$1.3 million in 2023. In 2023 and 2024 combined, INLX should generate cash earnings of \$5.3 million. We anticipate the company should generate year-over-year quarterly and annual EPS growth, with estimated EPS of \$0.30 in 2024, up from an estimated \$0.15 per share in 2023.

**In our view, Intellinetics Inc. is most suitable for risk tolerant investors seeking exposure to an emerging growth 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.

## ***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.

The company's newest offering is called IntelliCloud payables automation or IPAS offering. IPAS is a new enterprise class software payables automation solution for financial platforms with very complex cost accounting. To begin, the company is collaborating with Constellation homebuilders systems, part of the \$5 billion Constellation software family of 1,000 technology companies, in order to broaden the awareness for IPAS. The first vertical targeted is the homebuilder market. Constellation HomeBuilder Systems assist residential home builders reduce their costs and drive growth via powerful, easy-to-use construction management software. The company has developed a standalone IPAS offering that is being introduced to its established K-12 customer base, which should provide cross-selling opportunities to these customer and contribute to future recurring revenue growth.

### *Document Conversion*

The company's Graphic Sciences subsidiary converts images from paper to digital, paper to microfilm, microfiche to microfilm, and micrographics to digital for businesses and federal, county, and municipal governments. The subsidiary also provides its clients with long-term paper and microfilm storage and retrieval options. The offerings include digital scanning services that includes paper scanning, newspaper and microfilm scanning, microfiche scanning, aperture card scanning, drawing scanning, and book scanning. Most government files must be retained for long terms or permanently, making those clients a prime candidate for digital conversion. The four production categories for these services are document prep, scanning, indexing, and delivery.

Other important services include business process outsourcing where customers' contracts with this subsidiary to provide ongoing outsourcing of customer processes such as mail room activities, where customer mail is picked up from the post office, opened, sorted, scanned, and upload to the appropriate customer system.

Box storage services is where the company provides physical document storage and retrieval services for customers. The company also sells and services document image software, document scanners, and microfilm scanners, readers and printers.

## ***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 4Q23, the company had 584 K-12 document solutions school district customers generating recurring revenue. The expectation is to add (at least) on average 15 to 20 new school district customers per quarter that should enhance recurring SaaS revenue, as well as the potential for incremental revenue from professional services offerings.

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.

INLX newest offering, IPAS, is on track to have nine Constellation homebuilders systems customers complete the implementation process in 1Q24. The recurring revenue run-rate from those nine customers should approximate \$475,000 annually. The IPAS offering will sold through channels where it is filling an unmet need, or direct to INLX's existing K-12 customer base. It is actively seeking additional distribution partnerships in order to enter new vertical markets.

INLX tasked two marketing professionals to expand its search engine optimization and direct marketing lead generation. The marketing professional 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 at least three additional sales professionals in 2023 to increase the number of projects within the professional services segment, as well as adding additional SaaS recurring revenue customers.

The company will be seeking acquisition to facilitate growth opportunities. The ideal situation would be to make a similar acquisition to Yellow Folder that will not only expand the SaaS customer base but also increase technological capabilities. Management indicated that it will only make strategic accretive acquisitions.

## ***Projections***

### ***Basis of Forecast***

In 2Q23, the company's Graphic Sciences Michigan operations returned to more normal seasonal work flow patterns which should remain in place through our forecast period.

In 2023, a full year contribution from Yellow Folder and an increasing customer base for the company's IntelliCloud and CEO Image Executive software solutions, should translate into higher recurring revenue. In 3Q23, total recurring revenue within each of the company's operating segments was over \$2.5 million which covered operating expenses of \$2.3 million in the quarter.

We anticipate the company's newest offering IntelliCloud Payables Automation System (IPAS) should begin to make a meaningful contribution to operating results in 2024 from nine customers that should be fully implemented in 1Q24. The nine customers combined should generate recurring revenues of approximate \$475,000 annually. This larger value offering is designed to integrate into any enterprise resource planning financial solution and has a robust customer pipeline through its integration into the software offering of Constellation homebuilders systems, which is part of the \$5 billion Constellation software family that has approximately 1,000 technology companies in its portfolio.

We anticipate 2023 and 2024 gross margins of 62.3% and 64.6%, respectively, compared to 63.6% in 2022. We anticipate recurring revenue SaaS margins to remain robust at 84.4% in 2024 compared to an estimated 82.7% in 2023.

We are not recording income tax expense. We estimate the company likely had over \$18 million in net operating loss carry forwards entering 2023.

### Economy

In September 2023, the International Monetary Fund (IMF) revised its economic growth estimate for the US to an increase of 2.1% for 2023 and 1.5% for 2024. In July 2023, the IMF projected US economic growth of 1.8% and 1% for 2023 and 2024, respectively. The increase reflects stronger than anticipated consumption amid tight labor markets.

### 2023

We project total revenue growth of 19.8% to \$16.8 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 \$5.4 million in 2022. We estimate professional services increasing 23.8% to \$9.1 million from \$7.4 million in 2022.

We project a 17.4% increase in gross profit to nearly \$10.5 million due primarily to revenue growth. We anticipate gross margin compression to 62.3% compared to 63.6% in 2022 due primarily to sales mix shift toward professional services. We forecast operating income improving to \$1.2 million from \$827,000 in 2022. We anticipate operating expense margin of 54.8% from 57.7% in 2022.

We forecast operating expenses increasing 13.8% to \$9.2 million compared to nearly \$8.1 million (includes \$355,000 in transaction costs) due to increasing overall compensation costs to support revenue growth, a full year of Yellow Folder operations, technology upgrades, and hiring of additional sales professionals. We anticipate G&A expenses increasing 24.5% to \$6.2 million from \$4.9 million in 2022, as well as a 5.4% increase in sales and market expense to \$2.1 million from \$2 million in 2022. D&A expense should approximate \$960,000 compared to \$722,000 in 2022.

We project interest expense decreasing to \$608,000 from \$803,000 in 2022 due to the repayment of some promissory notes in 4Q22 and 2023. We project net income of \$655,000 or \$0.15 per share on 4.4 million average shares outstanding. We previously forecasted EPS of \$0.13 per share on 4.5 million average shares outstanding.

### Finances – 2023

In 2023, we project cash earnings of nearly \$2.4 million and an increase in working capital of \$610,000. Cash provided by operations of \$1.8 million is unlikely to cover capital expenses, repayment of debt, and earn-out payments. Cash should decrease by \$833,000 to nearly \$1.9 million at December 31, 2023.

### 2024

We project total revenue growth of 12.6% to \$18.9 million (prior was \$19.3 million) from an estimated \$16.8 million in 2023. We anticipate our revenue forecast should be supported by organic customer growth from an increased sales team, the cross-selling of products within the company's existing customer base, as well as growing acceptance of the IPAS enterprise offering. We anticipate higher margin SaaS revenue growth of 24.8% to nearly \$6.4 million from an estimated \$5.1 million in 2023. We estimate professional services increasing 10.2% to \$10 million from an estimated \$9.1 million in 2023.

We project a 16.8% increase in gross profit to \$12.2 million due to revenue growth and gross margin improving to 64.6% from an estimated 62.3% in 2023 due primarily to a sales mix shift to higher margin recurring revenue. We forecast operating income increasing 43.7% to \$1.8 million from an estimated \$1.2 million in 2023. We anticipate operating expense margin of 55% from an estimated 54.8% in 2023.

We forecast operating expenses increasing 13.1% to \$10.24 million compared to an estimated \$9.2 million due primarily to increasing overall compensation costs to support revenue growth. We anticipate G&A expenses increasing 10% to \$6.8 million from an estimated \$6.2 million in 2023, as well as a 28.7% increase in sales and market expense to nearly \$2.7 million from an estimated \$2.1 million in 2023. D&A expense should approximate \$950,000 compared to an estimated \$960,000 in 2023.

We project interest expense decreasing to \$475,000 from an estimated \$608,000 in 2023 due primarily to a reduction in average debt balances. We are maintaining our net income forecast of \$1.3 million or \$0.30 per share on 4.5 million (prior was 4.7 million) average shares outstanding.

Finances – 2024

In 2024, we project cash earnings of nearly \$3 million and a decrease in working capital of \$132,000. Cash provided by operations of nearly \$3.1 million is likely to cover capital expenses and repayment of debt. Cash should increase by \$942,000 to \$2.8 million at December 31, 2024.

**3Q23 and 9M23 Results**3Q23 Results

Total revenue increased 10.1% to over \$4.2 million from nearly \$3.9 million in the year-ago period reflecting professional services revenue growth of 16.2% to \$2.3 million stemming from strong customer demand for document conversion services. Recurring SaaS revenue increased 6.8% to nearly \$1.3 million.

Gross profit increased 4% to \$2.6 million from \$2.5 million in 3Q22 due to revenue growth, partly offset by gross margin compression to 61.3% from 64.9% last year. Gross margin compression reflects the sales mix shift toward lower margin professional services that account for 54.9% of total revenue and had gross margin of 42.6% compared to professional services accounting for 52% with a gross margin of 48.8% in the year-ago period.

Operating expenses increased 10.4% to nearly \$2.3 million from \$2 million in the year-ago period. The \$183,000 increase in G&A expense to \$1.5 million reflects expenses from the operations of Yellow Folder, costs to support growth in document conversion within the professional service segment, as well as an infrastructure investment related to upgrading the enterprise resource planning software system. Sales and marketing expense was \$496,000 compared to \$493,000 last year. D&A expense increased to \$248,000 from \$194,000 in the year-ago period reflecting amortization of new intangible assets related to the Yellow Folder acquisition and increased amortization of capitalized software costs.

Interest expense decreased to \$136,000 from \$240,000 in 2Q22 reflecting lower average debt balances stemming from partial principal repayment of the 2020 notes on December 1, 2022 and February 28, 2023, and final payment on August 31, 2023.

Net income was \$209,000 or \$0.05 per share, on 4.4 million average shares outstanding. In 3Q22, EPS was \$0.01, on 4.7 million average shares outstanding. We projected EPS of \$0.04 per share on revenue of \$4.3 million.

9M23 Results

Total revenue increased 27.2% to \$12.7 million from nearly \$10 million in the year-ago period. The increase reflects the April 2022 acquisition of Yellow Folder, organic recurring revenue customer growth, and a significant rebound in customer demand for document conversion services within the company's professional segment.

Gross profit increased 23.9% to \$7.8 million from \$6.3 million due to revenue growth, partly restrained by gross margin of 61.8% compared to 63.4% in 9M22.

Operating expenses were \$6.9 million compared to \$5.9 million (including \$500,000 of transaction related acquisition costs and earn-out adjustments) in 9M22. The increase reflects Yellow Folder operations that were acquired in April 2022 and software infrastructure spending.

Interest expense decreased to \$468,000 compared to \$594,000 in the year-ago period.

In Thousands \$	9 Mos. '23	9 Mos. '22	% D
Total revenue	\$ 12,694	\$ 9,979	27.2%
Cost of sales	4,852	3,652	32.9%
Gross Profit	7,842	6,327	23.9%
Total Operating Expenses	6,916	5,910	17.0%
Operating Income (loss)	926	417	NMF
Total Other Income (expense)	(468)	(594)	NMF
Pre-Tax Income (loss)	458	(177)	NMF
Income Tax Expense (Benefit)	-	-	
Net income (loss)	458	(177)	NMF
Earnings per share	\$ 0.10	\$ (0.05)	
Avg Shares Outstanding	4,389	3,664	
Adjusted EBITDA	1,990	1,722	
Margin Analysis			
Gross margin	61.8%	63.4%	
Operating margin	7.3%	4.2%	
Pre-tax margin	3.6%	(1.8%)	
Source: company reports			

Net income was \$458,000 or \$0.10 per share compared to a net loss of \$117,000 or (\$0.05) per share. Excluding items in 9M22, EPS was approximately \$0.09.

### Finances

In 9M23, cash earnings of \$1.8 million and an increase in working capital of \$642,000 resulted in cash from operations of \$1.1 million. Cash from operations, capital expenditures, and repayment of debt and earn-outs reduced cash by \$1 million to \$1.7 million at September 30, 2023.

### Capital Structure

At September 30, 2023, INLX had total debt on its balance sheet of \$2.7 million all of which is long short-term. On March 2, 2020, the company issued 12% subordinated promissory notes that was fully paid off in August 2023.

On April 1, 2022, the company issued 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 approximately \$2.2 million at September 30, 2023.

On April 1, 2022, INLX issued 12% \$600,000 principal amount subordinated notes with approximately \$70,900 debt discount (as of December 30, 2022) 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 no later than March 30, 2025.

### ***Document Management Market***

According to IBISWorld, the Document Management Services industry should reach \$8.7 billion in 2028, up from nearly \$7.7 billion in 2022. 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 2028, up from \$4.3 billion in 2022 (forecast assumes that 56.2% of the segment remains through 2028). 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

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, FileBound, Frontline, Laserfiche, Harvest Technology Group, and PowerSchool. 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.

### Dilution

Over the ten-year period ended April 2022, the company raised \$26.4 million through the issuance of debt and equity securities.

At September 30, 2023, 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 9M23 and 9M22, two customers represented 39% and 44% of net revenues, respectively. At September 30, 2023, the company's two largest customers represented 33% of gross accounts receivables compared to two customers accounting for 40% of gross accounts receivables in the year-ago period. 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

INLX's officers and directors own or have a controlling interest of approximately 8.4% of the outstanding voting stock as of the company's May 2023 proxy filing. 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 32.3% 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 November 17, 2023 was 6,800. The company has a float of 2.6 million shares and shares outstanding of 4.1 million.

Intellinetics Inc.  
Consolidated Balance Sheets  
FY2021A – FY2024E  
(in thousands)

	FY21A	FY22A	3Q23A	FY23E	FY24E
<b>ASSETS</b>					
Current assets:					
Cash	\$ 1,753	\$ 2,696	\$ 1,689	\$ 1,863	\$ 2,806
Accounts receivable, net	1,176	1,121	1,324	1,306	1,471
Accounts receivable, unbilled	445	596	1,278	1,275	1,250
Parts and supplies, net	77	73	95	95	100
Prepaid expense and other current assets - includes contracts	234	406	477	500	600
<b>Total current assets</b>	<b>3,684</b>	<b>4,893</b>	<b>4,864</b>	<b>5,039</b>	<b>6,227</b>
Property and equipment, net	1,092	1,069	962	960	965
Right of use asset - includes finance	3,842	3,354	2,950	2,950	2,950
Intangible assets, net	968	4,420	4,037	3,910	3,404
Goodwill	2,323	5,790	5,790	5,790	5,790
Other assets	53	417	624	702	918
<b>Total assets</b>	<b>\$ 11,962</b>	<b>\$ 19,943</b>	<b>\$ 19,226</b>	<b>\$ 19,351</b>	<b>\$ 20,254</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Accounts payable	182	370	249	250	275
Accrued compensation	344	412	437	450	425
Accrued expenses, other	162	115	223	223	150
Lease liability - includes finance	616	715	762	762	762
Deferred revenues	1,195	2,754	3,132	3,250	3,900
Deferred compensation	101	-	-	-	-
Earnout liabilities	959	700	-	-	-
Notes payable	-	937	-	-	-
<b>Total current liabilities</b>	<b>3,557</b>	<b>6,002</b>	<b>4,805</b>	<b>4,935</b>	<b>5,512</b>
Notes payable	1,755	2,085	2,178	1,858	858
Lease liability - includes finance	3,317	2,758	2,315	2,315	1,815
Notes payable - related party, net	-	529	553	555	560
Earnout liabilities	672	-	-	-	-
<b>Stockholders' equity:</b>					
Common stock, \$0.001 par value; authorized 50,000,000 shares;	3	4	4	4	4
Additional paid-in capital	24,297	30,179	30,528	30,644	31,124
Retained earnings (accumulated deficit)	(21,638)	(21,614)	(21,157)	(20,960)	(19,619)
<b>Total stockholders' equity</b>	<b>2,662</b>	<b>8,569</b>	<b>9,376</b>	<b>9,688</b>	<b>11,509</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 11,962</b>	<b>\$ 19,943</b>	<b>\$ 19,226</b>	<b>\$ 19,351</b>	<b>\$ 20,254</b>
SHARES OUT	2,823	4,074	4,074	4,075	4,085

Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.  
Annual Income Statement  
FY2021A – FY2024E  
(in thousands)

	<u>FY21 A</u>	<u>FY22 A</u>	<u>FY23 E</u>	<u>FY24 E</u>
Sale of software	\$ 78	\$ 159	\$ 98	\$ 80
Software-as-a-service (SaaS)	1,442	4,017	5,120	6,390
Software maintenance services	1,350	1,388	1,397	1,370
Professional services	7,469	7,358	9,106	10,035
Storage and retrieval services	<u>1,121</u>	<u>1,095</u>	<u>1,073</u>	<u>1,040</u>
Total Revenues	<u>\$ 11,460</u>	<u>\$ 14,017</u>	<u>\$ 16,794</u>	<u>\$ 18,915</u>
Cost of Revenues per segment				
Sale of software	15	65	27	40
Software-as-a-service (SAAS)	333	701	884	1,000
Software maintenance services	82	80	57	60
Professional services	3,682	3,908	5,008	5,260
Storage and retrieval services	<u>406</u>	<u>354</u>	<u>358</u>	<u>340</u>
Total Cost of sales	<u>4,517</u>	<u>5,108</u>	<u>6,335</u>	<u>6,700</u>
<b>Gross Profit</b>	<u>6,943</u>	<u>8,909</u>	<u>10,459</u>	<u>12,215</u>
<b>Operating Expenses:</b>				
General and administrative	4,044	4,945	6,158	6,775
Change in fair value of earnout liabilities	141	88	-	-
Transactions costs	-	355	-	-
Sales and marketing	1,378	1,971	2,078	2,675
Depreciation	414	722	960	950
Total Operating Expenses	<u>5,978</u>	<u>8,082</u>	<u>9,196</u>	<u>10,400</u>
<b>Operating Income (loss)</b>	965	827	1,263	1,815
Other income (expense)				
Interest income (expense)	<u>(452)</u>	<u>(803)</u>	<u>(608)</u>	<u>(475)</u>
Total Other Income (expense)	<u>393</u>	<u>(803)</u>	<u>(608)</u>	<u>(475)</u>
<b>Pre-Tax Income (loss)</b>	1,358	24	655	1,340
Income Tax Expense (Benefit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss)	<u>1,358</u>	<u>24</u>	<u>655</u>	<u>1,340</u>
<b>Earning (loss) per share</b>	<u>\$ 0.44</u>	<u>\$ 0.01</u>	<u>\$ 0.15</u>	<u>\$ 0.30</u>
Avg Shares Outstanding	3,105	4,296	4,387	4,500
Adjusted EBITDA	<u>\$ 1,670</u>	<u>\$ 2,414</u>	<u>\$ 2,687</u>	<u>\$ 3,245</u>
Margin Analysis				
Gross margin - Sale of software	81.1%	59.4%	72.1%	50.0%
Gross margin - SAAS	76.9%	82.5%	82.7%	84.4%
Gross margin - Maintenance services	94.0%	94.3%	95.9%	95.6%
Gross margin - Professional services	50.7%	46.9%	45.0%	47.6%
Storage and retrieval services	63.8%	67.7%	66.6%	67.3%
Total gross margin	60.6%	63.6%	62.3%	64.6%
General and administrative	35.3%	35.3%	36.7%	35.8%
Sales and marketing	12.0%	14.1%	12.4%	14.1%
Depreciation	3.6%	5.2%	5.7%	5.0%
Operating margin	8.4%	5.9%	7.5%	9.6%
Pre-tax margin	11.8%	0.2%	3.9%	7.1%
<b>YEAR / YEAR GROWTH</b>				
Total Revenues	38.9%	22.3%	19.8%	12.6%

2022 includes an approximately (\$0.08) per share 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 2022A – 2024E  
(in thousands)

	Q1 22 A	Q2 22 A	Q3 22 A	Q4 22 A	FY22 A	Q1 23 A	Q2 23 A	Q3 23 A	Q4 23 E	FY23 E	Q1 24 E	Q2 24 E	Q3 24 E	Q4 24 E	FY24 E
Sale of software	\$ 64	\$ 11	\$ 18	\$ 65	\$ 159	\$ 15	\$ 64	\$ 9	\$ 10	\$ 98	\$ 20	\$ 20	\$ 20	\$ 20	\$ 80
Software-as-a-service (SaaS)	431	1,158	1,211	1,216	4,017	1,238	1,278	1,294	1,310	5,120	1,400	1,565	1,700	1,725	6,390
Software maintenance services	337	344	353	355	1,388	350	349	353	345	1,397	350	345	340	335	1,370
Professional services	1,588	1,626	2,008	2,137	7,358	2,299	2,298	2,333	2,175	9,106	2,400	2,525	2,650	2,460	10,035
Storage and retrieval services	283	276	269	266	1,095	284	269	259	260	1,073	260	260	260	260	1,040
<b>Total Revenues</b>	<b>\$ 2,704</b>	<b>\$ 3,416</b>	<b>\$ 3,860</b>	<b>\$ 4,038</b>	<b>\$ 14,017</b>	<b>\$ 4,187</b>	<b>\$ 4,258</b>	<b>\$ 4,248</b>	<b>\$ 4,100</b>	<b>\$ 16,794</b>	<b>\$ 4,430</b>	<b>\$ 4,715</b>	<b>\$ 4,970</b>	<b>\$ 4,800</b>	<b>\$ 18,915</b>
<b>Cost of Revenues per segment</b>															
Sale of software	26	7	11	20	65	8	7	6	6	27	10	10	10	10	40
Software-as-a-service (SAAS)	91	191	208	211	701	221	258	200	205	884	215	240	270	275	1,000
Software maintenance services	18	19	19	23	80	17	15	13	12	57	15	15	15	15	60
Professional services	848	919	1,028	1,113	3,908	1,187	1,307	1,339	1,175	5,008	1,265	1,325	1,385	1,285	5,260
Storage and retrieval services	88	90	88	88	354	108	80	85	85	358	85	85	85	85	340
<b>Total Cost of sales</b>	<b>1,072</b>	<b>1,227</b>	<b>1,353</b>	<b>1,456</b>	<b>5,108</b>	<b>1,541</b>	<b>1,668</b>	<b>1,643</b>	<b>1,483</b>	<b>6,335</b>	<b>1,590</b>	<b>1,675</b>	<b>1,765</b>	<b>1,670</b>	<b>6,700</b>
<b>Gross Profit</b>	<b>1,632</b>	<b>2,189</b>	<b>2,506</b>	<b>2,582</b>	<b>8,909</b>	<b>2,646</b>	<b>2,590</b>	<b>2,606</b>	<b>2,617</b>	<b>10,459</b>	<b>2,840</b>	<b>3,040</b>	<b>3,205</b>	<b>3,130</b>	<b>12,215</b>
<b>Operating Expenses:</b>															
General and administrative	939	1,261	1,333	1,413	4,945	1,555	1,562	1,516	1,525	6,158	1,600	1,700	1,750	1,725	6,775
Change in fair value of earnout liabilities	64	52	28	(57)	88	-	-	-	-	-	-	-	-	-	
Transactions costs	70	285	-	-	355	-	-	-	-	-	-	-	-	-	
Sales and marketing	352	529	493	597	1,971	580	492	496	510	2,078	575	675	700	725	2,675
Depreciation	114	195	194	219	722	228	240	248	245	960	245	240	235	230	950
<b>Total Operating Expenses</b>	<b>1,539</b>	<b>2,323</b>	<b>2,048</b>	<b>2,172</b>	<b>8,082</b>	<b>2,362</b>	<b>2,294</b>	<b>2,260</b>	<b>2,280</b>	<b>9,196</b>	<b>2,420</b>	<b>2,615</b>	<b>2,685</b>	<b>2,680</b>	<b>10,400</b>
<b>Operating Income (loss)</b>	<b>92</b>	<b>(134)</b>	<b>458</b>	<b>411</b>	<b>827</b>	<b>284</b>	<b>296</b>	<b>346</b>	<b>337</b>	<b>1,263</b>	<b>420</b>	<b>425</b>	<b>520</b>	<b>450</b>	<b>1,815</b>
Other income (expense)															
Interest income (expense)	(113)	(240)	(240)	(210)	(803)	(171)	(161)	(136)	(140)	(608)	(135)	(130)	(110)	(100)	(475)
<b>Total Other Income (expense)</b>	<b>(113)</b>	<b>(240)</b>	<b>(240)</b>	<b>(210)</b>	<b>(803)</b>	<b>(171)</b>	<b>(161)</b>	<b>(136)</b>	<b>(140)</b>	<b>(608)</b>	<b>(135)</b>	<b>(130)</b>	<b>(110)</b>	<b>(100)</b>	<b>(475)</b>
<b>Pre-Tax Income (loss)</b>	<b>(20)</b>	<b>(374)</b>	<b>218</b>	<b>201</b>	<b>24</b>	<b>113</b>	<b>136</b>	<b>209</b>	<b>197</b>	<b>655</b>	<b>285</b>	<b>295</b>	<b>410</b>	<b>350</b>	<b>1,340</b>
Income Tax Expense (Benefit)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net income (loss)</b>	<b>(20)</b>	<b>(374)</b>	<b>218</b>	<b>201</b>	<b>24</b>	<b>113</b>	<b>136</b>	<b>209</b>	<b>197</b>	<b>655</b>	<b>285</b>	<b>295</b>	<b>410</b>	<b>350</b>	<b>1,340</b>
<b>Earning (loss) per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.09)</b>	<b>\$ 0.05</b>	<b>\$ 0.04</b>	<b>\$ 0.01</b>	<b>\$ 0.03</b>	<b>\$ 0.03</b>	<b>\$ 0.05</b>	<b>\$ 0.04</b>	<b>\$ 0.15</b>	<b>\$ 0.06</b>	<b>\$ 0.07</b>	<b>\$ 0.09</b>	<b>\$ 0.08</b>	<b>\$ 0.30</b>
Avg Shares Outstanding	2,831	4,074	4,695	4,700	4,296	4,696	4,074	4,388	4,390	4,387	4,425	4,500	4,525	4,550	4,500
Adjusted EBITDA	\$ 421	\$ 502	\$ 799	\$ 691	\$ 2,414	\$ 630	\$ 652	\$ 709	\$ 697	\$ 2,687	\$ 785	\$ 785	\$ 875	\$ 800	\$ 3,245
<b>Margin Analysis</b>															
Gross margin - Sale of software	59.4%	33.4%	42.1%	68.7%	59.4%	46.5%	88.5%	37.5%	40.0%	72.1%	50.0%	50.0%	50.0%	50.0%	50.0%
Gross margin - SAAS	78.8%	83.5%	82.9%	82.6%	82.5%	82.2%	79.8%	84.5%	84.4%	82.7%	84.6%	84.7%	84.1%	84.1%	84.4%
Gross margin - Maintenance services	94.6%	94.4%	94.6%	93.4%	94.3%	95.2%	95.7%	96.3%	96.5%	95.9%	95.7%	95.7%	95.6%	95.5%	95.6%
Gross margin - Professional services	46.6%	43.5%	48.8%	47.9%	46.9%	48.4%	43.1%	42.6%	46.0%	45.0%	47.3%	47.5%	47.7%	47.8%	47.6%
Storage and retrieval services	69.0%	67.3%	67.3%	67.0%	67.7%	61.9%	70.4%	67.1%	67.3%	66.6%	67.3%	67.3%	67.3%	67.3%	67.3%
<b>Total gross margin</b>	<b>60.4%</b>	<b>64.1%</b>	<b>64.9%</b>	<b>63.9%</b>	<b>63.6%</b>	<b>63.2%</b>	<b>60.8%</b>	<b>61.3%</b>	<b>63.8%</b>	<b>62.3%</b>	<b>64.1%</b>	<b>64.5%</b>	<b>64.5%</b>	<b>65.2%</b>	<b>64.6%</b>
General and administrative	34.7%	36.9%	34.5%	35.0%	35.3%	37.1%	36.7%	35.7%	37.2%	36.7%	36.1%	36.1%	35.2%	35.9%	35.8%
Sales and marketing	13.0%	15.5%	12.8%	14.8%	14.1%	13.8%	11.6%	11.7%	12.4%	12.4%	13.0%	14.3%	14.1%	15.1%	14.1%
Depreciation	4.2%	5.7%	5.0%	5.4%	5.2%	5.4%	5.6%	5.8%	6.0%	5.7%	5.5%	5.1%	4.7%	4.8%	5.0%
Operating margin	3.4%	(3.9%)	11.9%	10.2%	5.9%	6.8%	7.0%	8.1%	8.2%	7.5%	9.5%	9.0%	10.5%	9.4%	9.6%
Pre-tax margin	(0.7%)	(11.0%)	5.6%	5.0%	0.2%	2.7%	3.2%	4.9%	4.8%	3.9%	6.4%	6.3%	8.2%	7.3%	7.1%
<b>YEAR / YEAR GROWTH</b>															
Total Revenues	2.6%	17.4%	21.7%	47.2%	22.3%	54.9%	24.7%	10.1%	1.5%	19.8%	5.8%	10.7%	17.0%	17.1%	12.6%

2022 includes an approximately (\$0.08) per share charge related to acquisition transaction costs

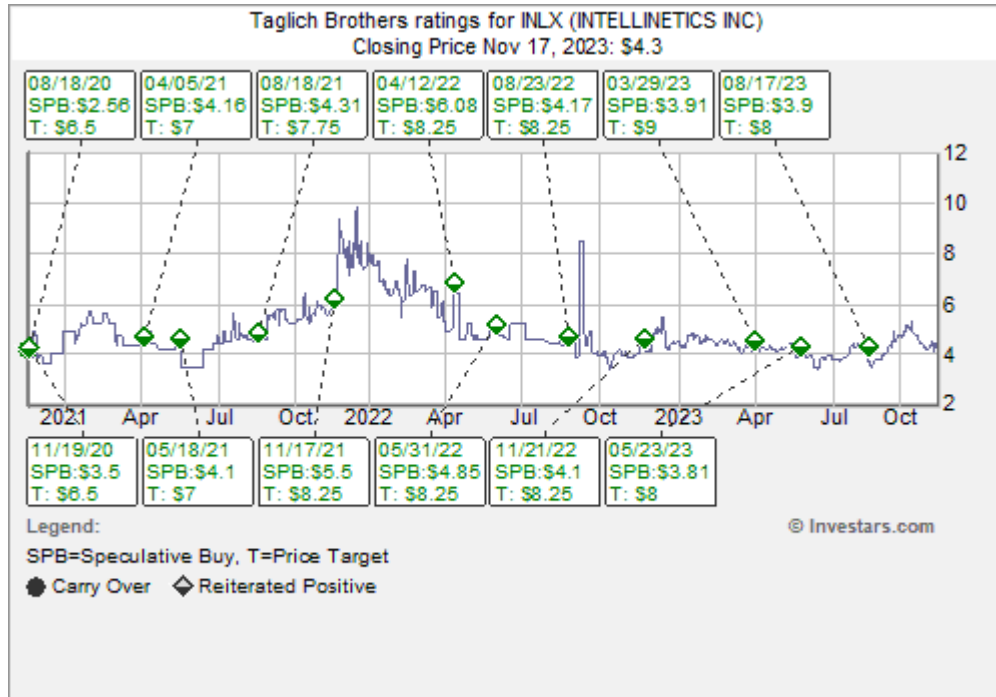
Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.  
Cash Flow Statement  
FY2021A – FY2024E  
(in thousands)

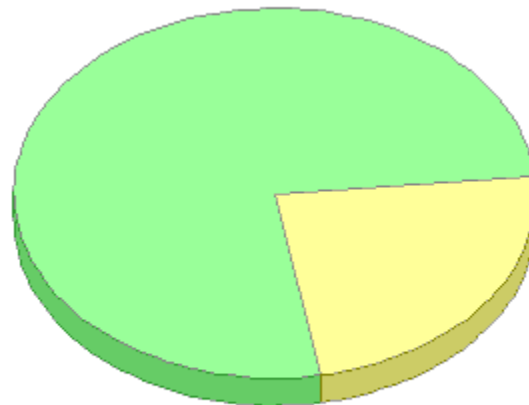
	<u>FY2021A</u>	<u>FY2022A</u>	<u>9 Mos. 23A</u>	<u>FY2023E</u>	<u>FY2024E</u>
<i>Cash Flows from Operating Activities</i>					
Net Income (loss)	\$ 1,358	\$ 24	\$ 458	\$ 655	\$ 1,340
Depreciation and amortization	414	722	715	960	950
Bad debt expense	(11)	42	59	60	40
Loss on disposal of fixed assets - parts and supplies reserve	9	24	-	-	-
Amortization of deferred and original issue financing costs	104	216	138	180	150
Amortization of debt discount	107	102	22	25	-
Amortization of right of use asset	636	648	28	40	-
Stock issued for services	58	58	-	-	-
Stock options compensation	92	364	349	465	480
Change in fair value of earnout liabilities	141	88	-	-	-
Gain on retirement of debt	(845)	-	-	-	-
Cash earnings (burn)	<u>2,062</u>	<u>2,289</u>	<u>1,770</u>	<u>2,385</u>	<u>2,960</u>
<i>Changes In:</i>					
Accounts receivable	(372)	81	(263)	(185)	(165)
Accounts receivable, unbilled	79	(152)	(681)	(679)	25
Parts and supplies, net	(6)	3	(22)	(22)	(5)
Prepaid expenses and other current assets	(94)	(177)	(72)	(94)	(100)
Right of use asset	-	-	-	(200)	(200)
Accounts payable and accrued expenses	142	173	13	26	(73)
Accrued interest, current and long-term	0	-	-	-	-
Lease liabilities, current and long term	(619)	(616)	5	47	-
Deferred compensation	-	(101)	-	-	-
Deferred revenues	199	487	378	496	650
(Increase)/decrease in Working Capital	<u>(672)</u>	<u>(300)</u>	<u>(642)</u>	<u>(610)</u>	<u>132</u>
<b>Net cash provided (used in) Operations</b>	<u>1,390</u>	<u>1,989</u>	<u>1,128</u>	<u>1,775</u>	<u>3,092</u>
<i>Cash Flows from Investing Activities</i>					
Purchase of property and equipment	(552)	(201)	(84)	(100)	(125)
Capitalized software	(38)	(376)	(348)	(485)	(525)
Cash paid to acquire business, net of cash acquired	-	(6,383)	-	-	-
<b>Cash flow provided (used in) Investing Activities</b>	<u>(590)</u>	<u>(6,961)</u>	<u>(432)</u>	<u>(585)</u>	<u>(650)</u>
<i>Cash Flows from Financing Activities</i>					
Proceeds from issuance of common stock	-	5,741	-	-	-
Offering costs paid on issuance of common stock and debt	-	(746)	-	-	-
Payment of earnout liabilities	(955)	(1,018)	(700)	(700)	-
Principal portion of finance lease liability	-	(5)	(23)	(23)	(500)
Proceeds (repayment) from notes payable, net	-	1,345	(980)	(1,300)	(1,000)
Proceeds (repayment) from notes payable - related party, net	-	600	-	-	-
<b>Net cash provided (used) by Financing</b>	<u>(955)</u>	<u>5,916</u>	<u>(1,704)</u>	<u>(2,023)</u>	<u>(1,500)</u>
Net change in Cash	(155)	944	(1,007)	(833)	942
Cash Beginning of Period	<u>1,908</u>	<u>1,753</u>	<u>2,696</u>	<u>2,696</u>	<u>1,863</u>
Cash End of Period	<u>\$ 1,753</u>	<u>\$ 2,696</u>	<u>\$ 1,689</u>	<u>\$ 1,863</u>	<u>\$ 2,806</u>

Source: Company reports and Taglich Brothers estimates

**Price Chart**



**Taglich Brothers Current Ratings Distribution**



| 76.47 % Buy | 23.53 % Hold

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

### **Important Disclosures**

As of November 17, 2023, 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 705,311 shares of INLX common and restricted common stock (combined), controlling interest in \$25,000 in 12% subordinated notes, and 64,624 restricted warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 495,618 shares of INLX common and restricted common stock (combined), \$600,000 in 12% subordinated notes, and 64,625 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 34,694 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 common stock and 13,348 restricted warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 12,860 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 34,221 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.

### **General Disclosures**

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

### **Analyst Certification**

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

**Public Companies mentioned in this report:**

Intel Corporation

(NASDAQ: INTC)

Iron Mountain Incorporated

(NYSE: IRM)

**Meaning of Ratings**

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

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

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

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

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

**Some notable Risks within the Microcap Market**

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

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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.