TAGLICH BROTHERS

MEMBER: FINRA, SIPC | WWW.TAGLICHBROTHERS.COM

Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

Intellinetics Inc.

Rating: Speculative Buy

Howard Halpern

INLX $7.95 — (NYSE American)

May 21, 2024

	2022 A	2023 A	*2024 E*	*2025 E*
Revenue (in millions)	$14.0	$16.9	***$18.5***	***$20.1***
Earnings (loss) per share	$0.09*	$0.11	***$0.17****	***$0.21***

52-Week range	$10.99 – $2.92	Fiscal year ends:	December
Shares outstanding a/o 5/11/24	4.1 million	Revenue/shares (ttm)	$4.00
Approximate float	2.3 million	Price/Sales (ttm)	2.0X
Market Capitalization	$32.9 million	Price/Sales (2025) E	1.8X
Tangible Book value/shr	$0.11	Price/Earnings (ttm)**	56.8X
Price/Book	72.3X	Price/Earnings (2025) E	37.9X

Excludes estimated ($0.08) per share transaction costs to acquire Yellow Folder **Excludes approximately ($0.09) per share due to a one-time recognition of restricted stock expense

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 12-month price target of $11.85 per share.

Intellinetics' document management software solutions, acquisitions of Yellow Folder, Graphic Sciences and CEO Imaging Systems, as well as the 2023 launch of its IntelliCloud Payables Automation System (IPAS) is providing the scale needed to grow within the records management services segment of the $17 billion document management services industry projected for 2030.

A strong foundation was put in place with prior acquisitions and the 2023 launch of IPAS. All of which is accelerating the company's recurring SaaS revenue growth. We project annualized SaaS revenue growth of 26.6% between 2022 and 2025.

By the end of June 2024, INLX's newest offering IPAS should have at least eight of nine Constellation homebuilder systems customers complete the implementation process. The recurring annual revenue run-rate from those nine customer's is approximately $500,000. The IPAS offering for INLX's existing K-12 customer base will begin pilot programs during the summer of 2024.

In 1Q24, INLX reported (on 5-14-24) EPS of $0.05 (excludes approximately ($0.09) per share due to a one-time recognition of restricted stock expense) on revenue growth of 7.6% to $4.5 million. In 1Q23, revenue was $4.2 million and EPS was $0.01. We projected EPS of $0.04 on revenue of $4.2 million.

Maintaining our 2024 projections of $0.17 per share on revenue growth of 9.4% to $18.5 million. Our forecast reflects SaaS revenue growth of 24.5% to nearly $6.4 million.

For 2025, we forecast EPS of $0.21 on revenue growth of 8.5% to $20 million. We previously forecast EPS of $0.28 on revenue growth of 11% to $20.5 million. The reduction in our forecasts reflect the potential loss of a portion of professional services business from the company's largest customer, partly offset by SaaS revenue growth of 27.7% to $8.2 million from IPAS and K-12 customer growth.

Please view our Disclosures on pages 14 – 16.

Appreciation Potential

Maintaining Speculative Buy rating and 12-month price target of $11.85 per share.

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 SaaS revenue growth of 27.7% in 2025, up from an estimated 24.5% in 2024. Our recurring SaaS revenue growth forecast reflects the launch of its IPAS offering. By the end of June 2024, INLX's newest offering IPAS should have at least eight of nine Constellation homebuilder systems customers complete the implementation process. The recurring annual revenue run-rate from those nine customer's is approximately $500,000. The IPAS offering for INLX's existing K-12 customer base will begin pilot programs during the summer of 2024.

INLX entered 2Q24 with 597 K-12 customers generating recurring revenue using its enterprise content management solution offerings, which includes Yellow Folder customers. The expectation is to add at least on average 10 new school district customers per quarter. In 2023, the company closed 353 contracts, with an estimated total contract value of $7.7 million and at the start of 2024 had a significant pipeline of potential new deals to close, which included a 50% increase in the pipeline for potential new IPAS customers.

Our 12-month price target of $11.85 per share implies shares could appreciate nearly 50% over 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 3.6X (prior was 3.8X). INLX's trailing twelve-month price-to-sales multiple is 1.8X (unchanged). We anticipate investors are likely to accord INLX a multiple approaching that of the sector given its SaaS sales growth forecast of 27.7% in 2025. We applied a multiple of 3.1X (unchanged) to our 2025 sales per share forecast of $4.34 (prior was $4.38), discounted for execution risks, to obtain a year-ahead price target of approximately $11.85 per share.

A higher valuation of INLX is likely to be supported by year-over year growth in revenues, cash earnings, and EPS. We forecast in 2024 and 2025 combined, INLX should generate cash earnings of $5.2 million. We anticipate the company should generate year-over-year Adjusted EBITDA growth to $3 million in 2025, up from an estimated $2.7 million in 2024. Adjusted EBITDA was $2.7 million 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 utilizing the cash flow from its dedicated professional services operations.

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, as well as its new IntelliCloud payables automation offering that is an enterprise software payables automation solution for financial platforms with very complex cost accounting.

Growth Platforms

<u>*Document Management Solution*</u>
The IntelliCloud software solutions platform is a Windows application that can have unlimited downloads and installs, enabling customers secure access even from remote locations. The platform has in excess of 50 pre-configured industry solutions ready for deployment. The primary modules of IntelliCloud include image processing, records management, workflow, and extended components.

The image processing module is used for capturing, transforming and managing images of paper documents, including support of distributed and high-volume capture, and optical character recognition. Records management enables customers the ability to retain content through automation and policies, ensuring legal, regulatory and industry compliance within the markets they serve. The workflow module is designed to support business processes, routing content electronically, assigning work tasks, and creating related audit trails.

The company's document management solutions include CEO Image Executive™, a document management system that was acquired in 2Q20. The company's solutions portfolio allows document composition and e-forms (via third party OEM integration partnership), search, content and web analytics (via third party data visualization and advanced optical character recognition engine partnerships), email and information archiving, packaged application integration, and advanced capture for invoice processing.

The company's newest offering is IntelliCloud payables automation or IPAS offering. IPAS is an 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. In March 2024, management indicated it is pursuing opportunities in a wide range of markets beyond the homebuilder market and the family of Constellation verticals. 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.

<u>*Document Conversion*</u>
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 modestly growth the company's document management solutions customer base within the two acquired customer bases (governmental agencies and K-12 school districts), which should reduce customer acquisition costs, thus providing greater operating leverage and cash flow to support recurring revenue opportunities. Entering 2Q24, the company had 597 K-12 document solutions school district customers generating recurring revenue. The expectation is to add (at least) on average 10 new school district customers per quarter that should enhance recurring SaaS revenue including cross-selling opportunities for the IPAS offering, 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.

By the end of June 2024, INLX's newest offering IPAS should have at least eight of nine Constellation homebuilder systems customers complete the implementation process. The recurring annual revenue run-rate from those nine customer's is approximately $500,000. The IPAS offering for INLX's existing K-12 customer base will begin pilot programs during the summer of 2024. The company will be increasing its tradeshow activity in 2024, which should accelerated growth for the IPAS and K-12 offerings.

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.

Acquisitions maybe used to facilitate growth opportunities. The ideal acquisition candidate would be a company similar to Yellow Folder so that it would 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 2H23, the company's Graphic Sciences Michigan operations returned to more normal seasonal work flow patterns which should remain in place through 3Q24. However, the company indicated the potential for its largest taking steps to shift certain tasks performed by INLX's document conversion business from one office location to another location in a way that could reduce annual revenue of the document conversion segment, starting in Q424. While the company works to mitigate this potential, we have incorporated modest reductions in this segment starting in 2024 and throughout 2025.

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 2023, company closed 353 contracts, with an estimated total contract value of $7.7 million.

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 that should generate recurring annual revenues of approximate $500,000. We anticipate the IPAS customer base to grow rapidly through our forecast period as the implementation process takes approximately two months. 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 2024 and 2025 gross margins of 64.9% and 66.7%, respectively, compared to 62.6% in 2023. We anticipate recurring revenue SaaS margins to remain robust in 2024 and 2025 at 84.8% and 85.3%, respectively, compared to 82.7% in 2023. Also, we anticipate professional service gross margin of 46.6% in 2025 compared to an estimated 47% in 2024.

We are not recording income tax expense. We estimate the company likely had over $15 million in net operating loss carry forwards entering 2023.

Economy
In April 2024, the International Monetary Fund (IMF) revised its global economic growth estimates to 3.2% for 2024 and 3.2% for 2025. In January 2024, the IMF's prior projection called for growth of 3.1% in 2024 and 3.2% in 2025.

The IMF revised its economic growth estimate for the US to an increase of 2.7% for 2024 and 1.9% for 2025. In January 2024, the IMF projected US economic growth of 2.1% and 1.7% for 2024 and 2025, respectively. The IMF increased its 2024 forecast due primarily to fiscal over-performance in the early part of the year, with aggregate demand being supported by stronger-than-expected private consumption.

2024
We project total revenue growth of 9.4% to $18.5 million (unchanged) from $16.9 million in 2023. We anticipate our revenue forecast should be supported by 1Q24 results, 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 24.5% to $6.4 million from $5.1 million in 2023. We estimate professional services revenue increasing to $9.6 million from nearly $9.2 million in 2023 due to quarterly growth during the first three quarters, partly restrained by a 4Q24 reduction in sales compared to 4Q23.

We project a 13.4% increase in gross profit to nearly $12 million due to revenue growth and gross margin improving to 64.9% from 62.6% in 2023 due primarily to a sales mix shift to higher margin recurring SaaS revenue. We forecast operating income increasing to nearly $1.2 million (excluding approximately a $398,000 one-time expense related to the recognition of restricted stock) from $1.1 million in 2023. We anticipate operating expense margin of 58.5% (excluding the one-time expense) from 56% in 2023.

We forecast operating expenses increasing 14.3% to $10.8 million (excluding approximately a $398,000 one-time expense related to the recognition of restricted stock) compared to $9.5 million due primarily to increasing compensation costs and spending an incremental $400,000 to accelerating IPAS customer growth.

We project interest expense decreasing to $425,000 from $588,000 in 2023 due primarily to a reduction in average debt balances. We project net income of $748,000 or $0.17 per share (excluding the $398,000 one-time expense related to the recognition of restricted stock) on 4.3 million average shares outstanding. We previously forecast net income of $785,000 or $0.17 per share on 4.7 million average shares outstanding.

Finances – 2024
In 2024, we project cash earnings of nearly $2.5 million and an increase in working capital of $618,000. Cash provided by operations of nearly $1.9 million is likely to cover capital expenses and repayment of debt. Cash should increase by $181,000 to $1.4 million at December 31, 2024.

2025
We project total revenue growth of 8.5% to $20.1 million (prior was $20.5 million) from an estimated $18.5 million in 2024. 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 that should have at least 20 customers that have completed the implementation process. We anticipate higher margin SaaS revenue growth of 27.7% to nearly $8.2 million from an estimated $6.4 million in 2024. We estimate professional services revenue decreasing $165,000 to $9.5 million due to a modest negative impact from its largest potentially shifting certain tasks performed by INLX's document conversion business from one office location to another location.

We project an 11.6% increase in gross profit to $13.4 million due to revenue growth and gross margin improving to 66.7% from an estimated 64.9% in 2024 due primarily to a sales mix shift to higher margin recurring revenue. We forecast operating income flat at approximately $1.2 million (2024 excludes $398,000 one-time expense), due primarily to revenue growth and gross margin expansion that should be offset by an increase in operating expense margin to 60.8% from an estimated 58.5% in 2024.

We forecast operating expenses increasing 12.8% to $12.2 million due primarily to spending to support SaaS revenue growth. We anticipate G&A expenses increasing 9.8% to $8.1 million from an estimated $7.3 million (excludes $398,000 from a one-time expense) in 2024, as well as a 30.8% increase in sales and market expense to $3.2 million from an estimated $2.4 million in 2024. D&A expense should approximate $950,000 compared to an estimated $1 million in 2024.

We project interest expense decreasing to $200,000 from an estimated $425,000 in 2024 due primarily to a reduction in average debt balances, which should reach zero in 4Q25.

We are forecasting net income of $970,000 or $0.21 per share on 4.6 million average shares outstanding. We previously forecast net income of $1.3 million or $0.28 per share on 4.7 million average shares outstanding. The decrease in our forecast reflects lower total revenue and higher than anticipated operating expenses.

Finances – 2025

In 2025, we project cash earnings of $2.7 million and a decrease in working capital of $166,000. Cash provided by operations of $2.8 million is likely to cover capital expenses and repayment of all remaining outstanding debt. Cash should increase by $211,000 to $1.6 million at December 31, 2025.

1Q24 Results

1Q24

Total revenue increased 7.6% to $4.5 million from nearly $4.2 million in 1Q23 reflecting a 13.5% increase in recurring SaaS revenue to $1.4 million from $1.2 million last year stemming from new cloud-based solution sales, as well as expanded data storage, user seats, and hosting fees for existing customers. Professional services revenue increased 7.8% to nearly $2.5 million from $2.3 million in the year-ago period due primarily to a strong pipeline in the document conversion segment, as well as realized price increases in late 2023. The other revenue categories (software sales, maintenance services, and storage and retrieval) were $622,000 compared to $649,000 in 1Q23.

Gross profit increased 9.6% to $2.9 million from $2.6 million last year due to revenue growth and gross margin improving to 64.3% from 63.2% in the year-ago period. Gross margin expansion reflects the sales mix shift towards the higher margin SaaS and software maintenance service segments that accounted for 39.1% of total revenue and had gross margin of 86.7% compared to those segments accounting for 37.9% with a gross margin of 85% in the year-ago period.

Operating expenses increased 7.4% to $2.5 million (excludes $398,000 from a one-time recognition related to the company's restricted stock granted to employees) from nearly $2.4 million in 1Q23. The $176,000 or 11.3% increase in G&A expense to $1.7 million (excluded the $398,000 in one-time recognition of restricted stock) reflects investments in order to scale future operations that include finance, and SOC2 process, as well as wage increases and infrastructure investments such as installation of an internal ERP system. Sales and marketing expense decreased to $542,000 from $580,000 in the year-ago period, while D&A expense increased to $264,000 from $228,000 last year reflecting increased amortization of capitalized software costs.

Interest expense decreased to $140,000 from $171,000 in 1Q23 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 loss was $175,000 or ($0.04) per share, on 4.1 million average shares. In 1Q23, EPS was $0.03, on 4.7 million average shares outstanding. In the current period, excluding the one-time recognition related to the company's restricted stock granted to employees of $398,000, EPS was approximately $0.05 per share. We projected EPS of $0.04 per share on revenue of $4.2 million. Our average shares forecast was 4.6 million.

Finances
In 1Q24, cash earnings of $596,000 and a decrease in working capital of $16,000 resulted in cash from operations of $612,000. Cash from operations, capital expenditures, and repayment of debt and finance lease liability reduced cash by $30,000 to nearly $1.2 million at March 31, 2024.

Capital Structure
At March 31, 2024, INLX had total debt on its balance sheet of $2.3 million of which $325,000 is short-term.

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 $1.8 million at March 31, 2024.

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.

On May 14, 2024, the company announced it will be prepaying $325,000 of its long term debt in 2Q24, and expect to have no net debt at the end of 2024 meaning cash will equal or exceeds outstanding debt.

Document Management Market

According to Verified Market Research, the Global Document Management Services industry could reach nearly $17 billion in 2030, up from $6.6 billion in 2023. 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.

The records management services and data protection segment revenue should approximate $9.5 billion in 2030, up from approximately $4.3 billion in 2023. 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 March 31, 2024, INLX had over 903,000 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 1Q24 and 1Q23, two customers represented 52% and 4% of net revenues, respectively. At March 31, 2024, the company's two largest customers represented 68% of gross accounts receivables compared to two customers accounting for 49% of gross accounts receivables in the year-ago period. The loss of a significant customer could disrupt the company's operations.

Potential loss of a Customer
On May 14, 2024, the company announced its largest customer, may seek a reduction on the pricing on a significant portion of the work done for them, which could take effect beginning in 4Q24. While INLX has yet to receive any formal or written notice, in the event of any such renegotiation resulting in a reduction on the pricing of work, the company will take actions with respect to other work with this customer that could mitigate the overall effects of any pricing reduction. However, there is no assurance that mitigating the effects of any pricing will be effective. This customer may terminate any contract or any portion thereof without cause, so it has the ability to renegotiate pricing even outside any stated contract term. The loss of revenue from this customer due to any such pricing reduction could materially and adversely affect the company's operations and future cash flow.

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 32.1% of the outstanding voting stock as of the company's May 2024 proxy filing, which includes Michael Taglich (President of Taglich Brothers, Inc. who was appointed as a member of INLX's board of directors on October 27, 2023). One large shareholder Robert Taglich (Managing Director of Taglich Brothers, Inc.) owns or have a controlling interest in 13% 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 was 4,800 in 2023. During the last three months to May 17, 2024, average daily volume was approximately 18,600. The company has a float of 2.3 million shares and shares outstanding of 4.1 million.

Intellinetics Inc.
Consolidated Balance Sheets
FY2022A – FY2025E
(in thousands)

	FY22A	FY23A	1Q24A	**FY24E**	**FY25E**
ASSETS					
Current assets:					
Cash	$ 2,696	$ 1,215	$ 1,185	**$ 1,397**	**$ 1,607**
Accounts receivable, net	1,121	1,850	1,931	**2,156**	**2,395**
Accounts receivable, unbilled	596	1,321	1,286	**1,400**	**1,600**
Parts and supplies, net	73	110	93	**100**	**110**
Prepaid expense and other current assets - includes contracts	406	508	533	**575**	**650**
Total current assets	4,893	5,004	5,029	**5,627**	**6,362**
Property and equipment, net	1,069	924	881	**880**	**875**
Right of use asset - includes finance	3,354	2,753	2,754	**2,754**	**2,754**
Intangible assets, net	4,420	3,909	3,782	**3,401**	**2,893**
Goodwill	5,790	5,790	5,790	**5,790**	**5,790**
Other assets	417	646	681	**500**	**500**
Total assets	$ 19,943	$ 19,026	$ 18,916	**$ 18,952**	**$ 19,174**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	370	194	278	**185**	**150**
Accrued compensation	412	338	558	**300**	**285**
Accrued expenses, other	115	164	262	**150**	**165**
Lease liability - includes finance	715	763	844	**775**	**700**
Deferred revenues	2,754	2,928	2,583	**3,000**	**4,000**
Earnout liabilities	700	-		**-**	**-**
Notes payable	937	-	325	**-**	**-**
Total current liabilities	6,002	4,387	4,917	**4,410**	**5,300**
Notes payable	2,085	2,209	1,438	**1,263**	**-**
Lease liability - includes finance	2,758	2,119	2,040	**1,718**	**1,385**
Notes payable - related party, net	529	561	567	**567**	**-**
Stockholders' equity:					
Common stock, $0.001 par value; authorized 50,000,000 shares;	4	4	4	**4**	**4**
Additional paid-in capital	30,179	30,842	31,285	**31,736**	**32,261**
Retained earnings (accumulated deficit)	(21,614)	(21,095)	(21,270)	**(20,746)**	**(19,776)**
Total stockholders' equity	8,569	9,750	10,020	**10,994**	**12,489**
Total liabilities and stockholders' equity	$ 19,943	$ 19,026	$ 18,982	**$ 18,952**	**$ 19,174**
SHARES OUT	4,074	4,075	4,114	**4,125**	**4,150**

Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.
Annual Income Statement
FY2022A – FY2025E
(in thousands)

	FY22 A	FY23 A	**FY24 E**	**FY25 E**
Sale of software	$ 159	$ 100	**$ 36**	**$ 20**
Software-as-a-service (SaaS)	4,017	5,133	**6,380**	**8,150**
Software maintenance services	1,388	1,407	**1,408**	**1,390**
Professional services	7,358	9,167	**9,615**	**9,450**
Storage and retrieval services	1,095	1,078	**1,038**	**1,040**
Total Revenues	$ 14,017	$ 16,886	**$ 18,477**	**$ 20,050**
Cost of Revenues per segement				
Sale of software	65	26	**21**	**20**
Software-as-a-service (SAAS)	701	889	**971**	**1,195**
Software maintenance services	80	59	**61**	**60**
Professional services	3,908	4,993	**5,099**	**5,045**
Storage and retreval services	354	355	**342**	**360**
Total Cost of sales	5,108	6,322	**6,493**	**6,680**
Gross Profit	8,909	10,564	**11,984**	**13,370**
Operating Expenses:				
General and administrative	4,945	6,455	**7,753**	**8,075**
Change in fair value of earnout liabilities	88	-	**-**	**-**
Transactions costs	355	-	**-**	**-**
Sales and marketing	1,971	2,027	**2,427**	**3,175**
Depreciation	722	975	**1,029**	**950**
Total Operating Expenses	8,082	9,456	**11,209**	**12,200**
Operating Income (loss)	827	1,107	**775**	**1,170**
Other income (expense)				
Interest income (expense)	(803)	(588)	**(425)**	**(200)**
Total Other Income (expense)	(803)	(588)	**(425)**	**(200)**
Pre-Tax Income (loss)	24	519	**350**	**970**
Income Tax Expense (Benefit)	-	-	**-**	**-**
Net income (loss)	24	519	**350**	**970**
Earning (loss) per share	$ 0.01	$ 0.11	**$ 0.08**	**$ 0.21**
Avg Shares Outstanding	4,296	4,652	**4,340**	**4,615**
Adjusted EBITDA	$ 2,414	$ 2,745	**$ 2,713**	**$ 2,960**
Margin Analysis				
Gross margin - Sale of software	59.4%	74.3%	**42.3%**	**0.0%**
Gross margin - SAAS	82.5%	82.7%	**84.8%**	**85.3%**
Gross margin - Maintenance services	94.3%	95.8%	**95.7%**	**95.7%**
Gross margin - Professional services	46.9%	45.5%	**47.0%**	**46.6%**
Storage and retrieval services	67.7%	67.0%	**67.1%**	**65.4%**
Total gross margin	63.6%	62.6%	**64.9%**	**66.7%**
General and administrative	35.3%	38.2%	**42.0%**	**40.3%**
Sales and marketing	14.1%	12.0%	**13.1%**	**15.8%**
Depreciation	5.2%	5.8%	**5.6%**	**4.7%**
Operating margin	5.9%	6.6%	**4.2%**	**5.8%**
Pre-tax margin	0.2%	3.1%	**1.9%**	**4.8%**
YEAR / YEAR GROWTH				
Total Revenues	22.3%	20.5%	**9.4%**	**8.5%**

2022 includes an approximately ($0.08) per share charge related to acquisition transaction costs
2024 includes approximately $398,000 or ($0.09) per share due to a one-time recognition of restricted stock expense

Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.
Income Statement Model
Quarters 2023A – 2025E
(in thousands)

	Q1 23 A	Q2 23 A	Q3 23 A	Q4 23 A	FY23 A	Q1 24 A	Q2 24 E	Q3 24 E	Q4 24 E	**FY24 E**	Q1 25 E	Q2 25 E	Q3 25 E	Q4 25 E	**FY25 E**
Sale of software	$ 15	$ 64	$ 9	$ 12	$ 100	$ 6	$ 10	$ 10	$ 10	**$ 36**	$ 5	$ 5	$ 5	$ 5	**$ 20**
Software-as-a-service (SaaS)	1,238	1,278	1,294	1,323	5,133	1,405	1,500	1,700	1,775	**6,380**	1,875	1,975	2,100	2,200	**8,150**
Software maintenance services	350	349	353	355	1,407	358	355	350	345	**1,408**	355	350	345	340	**1,390**
Professional services	2,299	2,298	2,333	2,237	9,167	2,480	2,485	2,500	2,150	**9,615**	2,200	2,400	2,475	2,375	**9,450**
Storage and retrieval services	284	269	259	266	1,078	258	260	260	260	**1,038**	260	260	260	260	**1,040**
Total Revenues	$ 4,187	$ 4,258	$ 4,248	$ 4,193	$ 16,886	$ 4,507	$ 4,610	$ 4,820	$ 4,540	**$ 18,477**	$ 4,695	$ 4,990	$ 5,185	$ 5,180	**$ 20,050**
Cost of Revenues per segement															
Sale of software	8	7	6	4	26	6	5	5	5	**21**	5	5	5	5	**20**
Software-as-a-service (SAAS)	221	258	200	210	889	216	230	255	270	**971**	280	290	300	325	**1,195**
Software maintenance services	17	15	13	14	59	16	15	15	15	**61**	15	15	15	15	**60**
Professional services	1,187	1,307	1,339	1,160	4,993	1,284	1,300	1,315	1,200	**5,099**	1,215	1,275	1,290	1,265	**5,045**
Storage and retreval services	108	80	85	82	355	87	85	85	85	**342**	90	90	90	90	**360**
Total Cost of sales	1,541	1,668	1,643	1,471	6,322	1,608	1,635	1,675	1,575	**6,493**	1,605	1,675	1,700	1,700	**6,680**
Gross Profit	2,646	2,590	2,606	2,722	10,564	2,899	2,975	3,145	2,965	**11,984**	3,090	3,315	3,485	3,480	**13,370**
Operating Expenses:															
General and administrative	1,555	1,562	1,516	1,823	6,455	2,128	1,850	1,875	1,900	**7,753**	1,975	2,000	2,025	2,075	**8,075**
Sales and marketing	580	492	496	459	2,027	542	575	635	675	**2,427**	750	775	800	850	**3,175**
Depreciation	228	240	248	259	975	264	260	255	250	**1,029**	245	240	235	230	**950**
Total Operating Expenses	2,362	2,294	2,260	2,541	9,456	2,934	2,685	2,765	2,825	**11,209**	2,970	3,015	3,060	3,155	**12,200**
Operating Income (loss)	284	296	346	182	1,107	(35)	290	380	140	**775**	120	300	425	325	**1,170**
Other income (expense)															
Interest income (expense)	(171)	(161)	(136)	(120)	(588)	(140)	(100)	(95)	(90)	**(425)**	(85)	(65)	(50)	-	**(200)**
Total Other Income (expense)	(171)	(161)	(136)	(120)	(588)	(140)	(100)	(95)	(90)	**(425)**	(85)	(65)	(50)	-	**(200)**
Pre-Tax Income (loss)	113	136	209	62	519	(175)	190	285	50	**350**	35	235	375	325	**970**
Income Tax Expense (Benefit)	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Net income (loss)	113	136	209	62	519	(175)	190	285	50	**350**	35	235	375	325	**970**
Earning (loss) per share	$ 0.03	$ 0.03	$ 0.05	$ 0.01	$ 0.11	$ (0.04)	$ 0.04	$ 0.06	$ 0.01	**$ 0.08**	$ 0.01	$ 0.05	$ 0.08	$ 0.07	**$ 0.21**
Avg Shares Outstanding	4,696	4,074	4,388	4,652	4,652	4,114	4,400	4,415	4,430	**4,340**	4,600	4,610	4,620	4,630	**4,615**
Adjusted EBITDA	$ 630	$ 652	$ 709	$ 754	$ 2,745	$ 673	$ 705	$ 790	$ 545	**$ 2,713**	$ 575	$ 750	$ 870	$ 765	**$ 2,960**
Margin Analysis															
Gross margin - Sale of software	46.5%	88.5%	37.5%	63.7%	74.3%	2.2%	50.0%	50.0%	50.0%	**42.3%**	0.0%	0.0%	0.0%	0.0%	**0.0%**
Gross margin - SAAS	82.2%	79.8%	84.5%	84.1%	82.7%	84.6%	84.7%	85.0%	84.8%	**84.8%**	85.1%	85.3%	85.7%	85.2%	**85.3%**
Gross margin - Maintenance services	95.2%	95.7%	96.3%	96.0%	95.8%	95.6%	95.8%	95.7%	95.7%	**95.7%**	95.8%	95.7%	95.7%	95.6%	**95.7%**
Gross margin - Professional services	48.4%	43.1%	42.6%	48.1%	45.5%	48.2%	47.7%	47.4%	44.2%	**47.0%**	44.8%	46.9%	47.9%	46.7%	**46.6%**
Storage and retrieval services	61.9%	70.4%	67.1%	69.1%	67.0%	66.5%	67.3%	67.3%	67.3%	**67.1%**	65.4%	65.4%	65.4%	65.4%	**65.4%**
Total gross margin	63.2%	60.8%	61.3%	64.9%	62.6%	64.3%	64.5%	65.2%	65.3%	**64.9%**	65.8%	66.4%	67.2%	67.2%	**66.7%**
General and administrative	37.1%	36.7%	35.7%	43.5%	38.2%	47.2%	40.1%	38.9%	41.9%	**42.0%**	42.1%	40.1%	39.1%	40.1%	**40.3%**
Sales and marketing	13.8%	11.6%	11.7%	10.9%	12.0%	12.0%	12.5%	13.2%	14.9%	**13.1%**	16.0%	15.5%	15.4%	16.4%	**15.8%**
Depreciation	5.4%	5.6%	5.8%	6.2%	5.8%	5.9%	5.6%	5.3%	5.5%	**5.6%**	5.2%	4.8%	4.5%	4.4%	**4.7%**
Operating margin	6.8%	7.0%	8.1%	4.3%	6.6%	(0.8%)	6.3%	7.9%	3.1%	**4.2%**	2.6%	6.0%	8.2%	6.3%	**5.8%**
Pre-tax margin	2.7%	3.2%	4.9%	1.5%	3.1%	(3.9%)	4.1%	5.9%	1.1%	**1.9%**	0.7%	4.7%	7.2%	6.3%	**4.8%**
YEAR / YEAR GROWTH															
Total Revenues	54.9%	24.7%	10.1%	3.8%	20.5%	7.6%	8.3%	13.5%	8.3%	**9.4%**	4.2%	8.2%	7.6%	14.1%	**8.5%**

2024 includes approximately $398,000 or ($0.09) per share due to a one-time recognition of restricted stock expense that was included in G&A expense in 1Q24

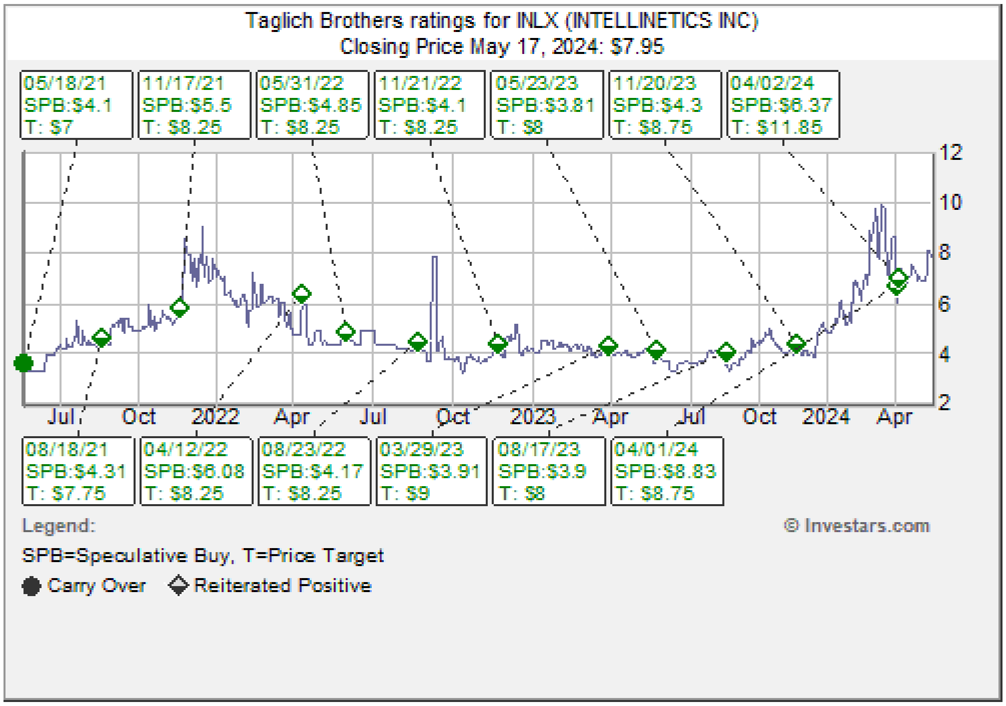
Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.
Cash Flow Statement
FY2022A – FY2025E
(in thousands)

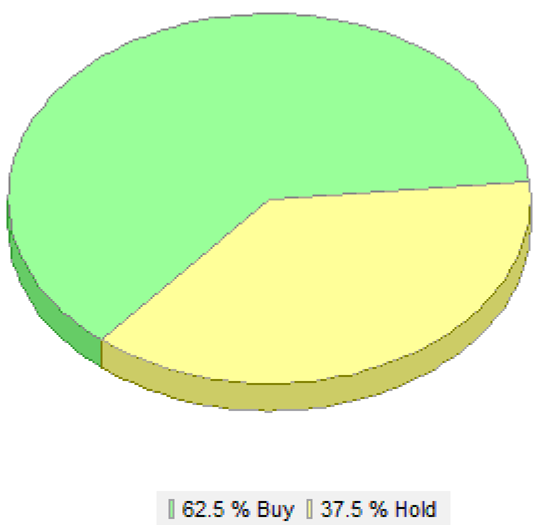
	FY2022A	FY2023A	1Q24A	**FY2024E**	**FY2025E**
Cash Flows from Operating Activities					
Net Income (loss)	$ 24	$ 519	$ (175)	**$ 350**	**$ 970**
Depreciation and amortization	722	975	264	**1,029**	**950**
Bad debt expense	42	77	(15)	**(15)**	**-**
Loss on disposal of fixed assets - parts and supplies reserve	24	-	-	**-**	**-**
Amortization of deferred and original issue financing costs	216	177	61	**165**	**150**
Amortization of debt discount	102	22	-	**-**	**-**
Amortization of right of use asset	648	42	17	**68**	**70**
Stock issued for services	58	198	-	**-**	**-**
Stock options compensation	364	465	444	**894**	**525**
Change in fair value of earnout liabilities	88	-	-	**-**	**-**
Cash earnings (burn)	2,289	2,475	596	**2,491**	**2,665**
Changes In:					
Accounts receivable	81	(807)	(66)	**(305)**	**(239)**
Accounts receivable, unbilled	(152)	(724)	34	**(79)**	**(200)**
Parts and supplies, net	3	(37)	17	**10**	**(10)**
Prepaid expenses and other current assets	(177)	(102)	(26)	**(67)**	**(75)**
Right of use asset	-	-	-	**(200)**	**(200)**
Accounts payable and accrued expenses	173	(200)	402	**(61)**	**(35)**
Lease liabililities, current and long term	(616)	6	(1)	**12**	**(75)**
Deferred compensation	(101)	-	-	**-**	**-**
Deferred revenues	487	174	(345)	**72**	**1,000**
(Increase)/decrease in Working Capital	(300)	(1,690)	16	**(618)**	**166**
Net cash provided (used in) Operations	1,989	785	612	**1,872**	**2,831**
Cash Flows from Investing Activities					
Purchase of property and equipment	(201)	(111)	(18)	**(110)**	**(115)**
Capitalized software	(376)	(437)	(110)	**(525)**	**(600)**
Cash paid to acquire business, net of cash acquired	(6,383)	-	-	**-**	**-**
Cash flow provided (used in) Investing Activities	(6,961)	(548)	(128)	**(635)**	**(715)**
Cash Flows from Financing Activities					
Proceeds from issuance of common stock	5,741	-	-	**-**	**-**
Offering costs paid on issuance of common stock and debt	(746)	-	-	**-**	**-**
Payment of earnout liabilities	(1,018)	(700)	-	**-**	**-**
Other net changes in finance lease assets and liabilities	-	(2)	-	**-**	**-**
Principal portion of finance lease liability	(5)	(35)	(14)	**(56)**	**(75)**
Proceeds (repayment) from notes payable, net	1,345	(980)	(500)	**(1,000)**	**(1,263)**
Proceeds (repayment) from notes payable - related party, net	600	-	-	**-**	**(567)**
Net cash provided (used) by Financing	5,916	(1,718)	(514)	**(1,056)**	**(1,905)**
Net change in Cash	944	(1,481)	(30)	**181**	**211**
Cash Beginning of Period	1,753	2,696	1,215	**1,215**	**1,397**
Cash End of Period	$ 2,696	$ 1,215	$ 1,185	**$ 1,397**	**$ 1,607**

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	3	18
Hold		
Sell		
Not Rated		

Important Disclosures

As of May 17, 2024, 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. and member of the Board of Directors of INLX, owns or has a controlling interest in 761,416 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 509,947 shares of INLX common and restricted common stock (combined), $600,000 in 12% subordinated notes, and 64,625 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.

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.