Research Report – Update

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

Intellinetics Inc.

Rating: Speculative Buy

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INLX $8.78 — (NYSE American)

	2022 A	2023 A	*2024 E*	*2025 E*
Revenue (in millions)	$14.0	$16.9	***$18.1***	***$19.6***
Earnings (loss) per share	$0.09*	$0.11	***$0.02****	***$0.06***

52-Week range	$10.99 – $3.13	Fiscal year ends:	December
Shares outstanding a/o 8/9/24	4.2 million	Revenue/shares (ttm)	$3.94
Approximate float	2.6 million	Price/Sales (ttm)	2.2X
Market Capitalization	$36.9 million	Price/Sales (2025) E	2.1X
Tangible Book value/shr	$0.21	Price/Earnings (ttm)**	NMF
Price/Book	41.8X	Price/Earnings (2025) E	NMF

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 within the document management services industry, which is projected to reach $17 billion by 2030.

A strong foundation was put in place with prior acquisitions and the launch of IPAS. The foundation should support accelerated recurring SaaS revenue growth. We project SaaS revenue growth of 20.2% for 2025.

INLX's newest offering IPAS has eleven Constellation homebuilder systems customers of which nine have paid in full. In 2Q24, four IPAS customers went live with up to four more anticipated going live in 3Q24. While the implementation process has been slow due to additional functionality request from its customers, it is anticipated implementations and the IPAS pipeline will accelerate in 2H24 and in 2025. The IPAS offering for INLX's existing K-12 customer base began pilot programs in August 2024.

In 2Q24, INLX reported (on 8-13-24) EPS of $0.02 on revenue growth of 9% to $4.6 million. In 2Q23, revenue was nearly $4.3 million and EPS was $0.03. We projected EPS of $0.04 on revenue of $4.6 million.

For 2024, we project EPS of $0.02 on revenue growth of 7.1% to $18.1 million. We previously forecast EPS of $0.17 on revenue growth of 9.4% to $18.5 million. Our reduced EPS forecast reflects higher than anticipated expenses related to hiring additional sales team members to drive SaaS revenue.

For 2025, we forecast EPS of $0.06 on revenue growth of 8.1% to $19.6 million. We previously forecast EPS of $0.21 on revenue growth of 8.5% to $20 million. The reduction in our EPS forecast reflects higher than anticipated 1H25 expenses stemming from adding two new sales team members. Operating income should begin to show year-over-year growth in 2H25.

Please view our Disclosures on pages 15 – 17.

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 20.2% in 2025, up from an estimated 12.6% in 2024. Our recurring SaaS revenue growth forecast reflects the launch of its IPAS offering. Entering 2H24, INLX's newest offering IPAS should had eleven Constellation homebuilder systems customers, of which nine have paid in full. In 1H24, four IPAS customers are live with up to four additional customers anticipated to go live in 3Q24. We estimate that once all eleven customers are live by the early part of 2025, the recurring annual revenue run-rate should exceed $500,000. In August 2024, IPAS pilot programs began for INLX's existing K-12 customer.

INLX entered 2H24 with 619 K-12 customers (up from 530 K-12 customers in the year-ago period) generating recurring revenue using its enterprise content management solution offerings, which includes Yellow Folder customers. The expectation is to add at least on average 15 new school district customers per quarter. In 2023, the company closed 353 contracts, with an estimated total contract value of $7.7 million and entering 2H24 had a significant pipeline of potential new deals to close, which included a significant increase in the pipeline for potential new IPAS customers as this customer base should continue to improve in terms of quality and quantity.

Our 12-month price target of $11.85 per share implies shares could appreciate nearly 35% 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 4X (prior was 3.6X). INLX's trailing twelve-month price-to-sales multiple is 2.2X (prior was 1.8X). We anticipate investors are likely to accord INLX a multiple approaching that of the sector given its SaaS sales growth forecast of 20.2% in 2025. We applied a multiple of 3.3X (prior was 3.1X) to our 2025 sales per share forecast of $4.25 (prior was $4.34), 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. While we forecast overall modest revenue growth in 2025 of 8.1%, SaaS revenue growth should approximate 20.2% reaching an estimated $7 million from an estimated $5.8 million in 2024. We forecast in 2024 and 2025 combined, INLX should generate cash earnings of $4.6 million. Driven by a strong 2H25, we anticipate EPS of $0.06 in 2025, up from an estimate $0.02 per share (excluding items) in 2024.

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

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 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.

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 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 2H24, the company had 619 K-12 document solutions school district customers generating recurring revenue. The expectation is to add (at least) on average 15 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.

Entering 2H24, INLX's newest offering IPAS should had eleven Constellation homebuilder systems customers, of which nine have paid in full. In 1H24, four IPAS customers are live with up to four additional customers anticipated to go live in 3Q24. We estimate that once all eleven customers are live by the early part of 2025, the recurring annual revenue run-rate should exceed $500,000. In August 2024, IPAS pilot programs began for INLX's existing K-12 customer. In August 2024, the company announced more details related to expansion of its SaaS related sales team. INLX will be adding four sales people to support its IPAS and K-12 sales and marketing initiatives to drive new customers to these 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 customer 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 4Q24. While the company works to mitigate this potential, we have incorporated reductions in this segment starting in 2024 and early 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 2H25 from its initial customer base of eleven, which we estimate should generate recurring annual revenues of at least $500,000 beginning in 2H25. While anticipate the

IPAS customer base to grow rapidly through our forecast period, initially there is likely to be a drag as operating expenses will increase due to the hiring of four additional sales team members over the next several quarters and expansion of technical functionality occurs stemming from customer requests. Operating leverage from those new hires are likely to occur during 2H25. IPAS is a larger value offering that 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 64.4% and 65.5%, respectively, compared to 62.6% in 2023. We anticipate recurring revenue SaaS margins to remain robust in 2024 and 2025 at 84.5% and 82.8%, respectively. Also, we anticipate professional service gross margin of 49.3% in 2025 compared to an estimated 48% 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 2024.

Economy

In July 2024, the International Monetary Fund (IMF) revised its global economic growth estimates to 3.2% for 2024 and 3.3% for 2025. In April 2024, the IMF's prior projection called for growth of 3.2% in 2024 and 3.2% in 2025.

The IMF revised its economic growth estimate for the US to an increase of 2.6% for 2024 and 1.9% for 2025. In April 2024, the IMF projected US economic growth of 2.7% and 1.9% for 2024 and 2025, respectively.

2024

We project total revenue growth of 7.1% to $18.1 million (prior was $18.5 million) from $16.9 million in 2023. The adjustment to our revenue forecast reflects 2Q24 results, organic K-12 customer growth, the cross-selling of products within the company's existing customer base, as well as growing acceptance of the IPAS enterprise offering albeit at a slower implementation rate than previously anticipated. We project higher margin SaaS revenue growth of 12.6% to $5.8 million (prior was $6.4 million) from $5.1 million in 2023. We estimate professional services revenue increasing to $9.9 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 10.4% increase in gross profit to nearly $11.7 million due to revenue growth and gross margin improving to 64.4% from 62.6% in 2023 due primarily to a sales mix shift to higher margin recurring SaaS revenue. We forecast operating income decreasing to $458,000 (excluding approximately a $398,000 one-time expense related to the recognition of restricted stock) from $1.1 million in 2023 stemming from operating expense margin increasing to 61.9% (excluding the one-time expense) from 56% in 2023.

We forecast operating expenses increasing 18.5% to $11.2 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, spending on support functions, and additional sales team member in order to accelerating SaaS revenue growth through new IPAS and K-12 customers.

We project interest expense decreasing to $382,000 from $588,000 in 2023 due primarily to a reduction in average debt balances. We project net income of $70,000 or $0.02 per share (excluding the $398,000 one-time expense related to the recognition of restricted stock) on 4.4 million average shares outstanding. We previously forecast net income of $748,000 or $0.17 per share on 4.3 million average shares outstanding.

Finances – 2024

In 2024, we project cash earnings of $2.1 million and a decrease in working capital of $492,000. Cash provided by operations of $2.6 million is likely to cover capital expenses and repayment of debt. Cash should increase by $387,000 to nearly $1.7 million at December 31, 2024.

_2025_
We project total revenue growth of 8.1% to $19.6 million (prior was $20.1 million) from an estimated $18.1 million in 2024. While our forecast has decrease primarily due to the timing of SaaS implementations, we still anticipate our overall 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 offerings for enterprise and K-12 customers. We anticipate higher margin SaaS revenue growth of 20.2% to nearly $7 million from an estimated $5.8 million in 2024. We estimate professional services revenue increasing $333,000 to nearly $10.3 million due to initiatives to increase document conversion customers, partly restrained by a modest negative impact from its largest potentially shifting certain tasks performed by INLX from one office location to another location.

We project a 9.9% increase in gross profit to $12.8 million due to revenue growth and gross margin improving to 65.5% from an estimated 64.4% in 2024 due primarily to a sales mix shift to higher margin recurring revenue. We forecast operating income of $311,000 compared to an estimated $458,000 in 2024 (excludes $398,000 one-time expense). We anticipate revenue growth and gross margin expansion to be more than offset by an increase in operating expense margin to 63.9% from an estimated 61.9% in 2024 (excluding items).

We forecast operating expenses increasing 11.6% to $12.5 million due primarily to a full year spending to support SaaS revenue growth that began in 2H24. We anticipate G&A expenses increasing 7.6% to $8.4 million from an estimated $7.8 million (excludes $398,000 from a one-time expense) in 2024, as well as a 31.7% increase in sales and market expense to $3 million from an estimated $2.3 million in 2024. D&A expense should approximate $1.1 million in each period.

We project interest expense decreasing to $50,000 from an estimated $382,000 in 2024 due primarily to a reduction in average debt balances, which should reach zero in 4Q25.

We are forecasting net income of $261,000 or $0.06 per share on 4.6 million average shares outstanding. We previously forecast net income of $970,000 or $0.21 per share on 4.6 million average shares outstanding. The decrease in our forecast reflects lower total revenue and higher than anticipated operating expenses in order to build the sales and infrastructure foundation to support sustained SaaS customer and revenue growth beyond our forecast period.

Finances – 2025
In 2025, we project cash earnings of $2.5 million and an increase in working capital of $127,000. Cash provided by operations of $2.4 million is likely to cover capital expenses and repayment of all remaining outstanding debt. Cash should increase by $375,000 to $2 million at December 31, 2025.

2Q24 and 1H24 Results

2Q24
Total revenue increased 9% to $4.6 million from nearly $4.3 million in 2Q23 reflecting a 9.6% increase in recurring SaaS revenue to $1.4 million from nearly $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 15.8% to nearly $2.7 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 $579,000 compared to $682,000 in 2Q23. The decrease reflects lower customer activity in the storage and retrieval segment.

Gross profit increased 15.9% to $3 million from nearly $2.6 million last year due to revenue growth and gross margin improving to 64.7% from 60.8% in the year-ago period. Gross margin expansion reflects the higher margin SaaS and software maintenance service segments that accounted for 37.8% of total revenue and had gross margin of 86.8% compared to those segments accounting for 38.2% with a gross margin of 83.2% in the year-ago period.

Operating expenses increased 23.4% to $2.8 million from nearly $2.3 million in 2Q23. The $464,000 or 29.7% increase in G&A expense to $2 million 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 increased to $530,000 from $492,000 in the year-ago period, while D&A expense increased to $275,000 from $240,000 last year reflecting increased amortization of capitalized software costs. The increase in sales and marketing expense reflects one new employee starting during the quarter.

Interest expense decreased to $97,000 from $161,000 in 2Q23 reflecting lower average debt balances.

Net income was $75,000 or $0.02 per share, on 4.7 million average shares. In 2Q23, EPS was $0.03, on 4.1 million average shares outstanding. We projected EPS of $0.04 per share on revenue of $4.6 million. Our average shares forecast was 4.4 million.

1H24

Total revenue increased 8.3% to $9.1 million from $8.4 million in 1H23 reflecting an 11.5% increase in recurring SaaS revenue to $2.8 million from $2.5 million last year. Professional services revenue increased 11.8% to $5.1 million from $4.6 million in the year-ago period.

Gross profit increased 12.7% to $5.9 million from $5.2 last year due to revenue growth and gross margin improving to 64.5% from 62% in 1H23.

Total operating expenses increased 23.8% to nearly $5.8 million (includes $398,000 from a one-time recognition related to the company's restricted stock granted to employees) from nearly $4.7 million in the year-ago period. The increase 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 and hiring of new sales team members.

In Thousands $	6 Mos. '24	6 Mos. '23	% D
Total revenue	$ 9,149	$ 8,445	8.3%
Cost of sales	3,246	3,209	1.2%
Gross Profit	5,903	5,236	12.7%
Total Operating Expenses	5,765	4,656	23.8%
Operating Income (loss)	138	580	NMF
Total Other Income (expense)	(237)	(332)	NMF
Pre-Tax Income (loss)	(100)	248	NMF
Income Tax Expense (Benefit)	-	-	
Net income (loss)	(100)	248	NMF
Earnings per share	$ (0.02)	$ 0.06	
Avg Shares Outstanding	4,172	4,074	
Adjusted EBITDA	1,371	1,282	
Margin Analysis			
Gross margin	64.5%	62.0%	
Operating margin	1.5%	6.9%	
Pre-tax margin	(1.1%)	2.9%	

Source: company reports

Interest expense decreased to $237,000 from $332,000 in 1H23 reflecting lower average debt balances stemming from principal debt repayments.

Net loss was $100,000 or ($0.02) per share, on 4.2 million average shares. In 1H23, EPS was $0.06, on 4.1 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 $0.07 per share.

Finances

In 1H24, cash earnings of $1.3 million and a decrease in working capital of $455,000 resulted in cash from operations of $1.7 million. Cash from operations covered capital expenditures and repayment of debt and finance lease liability. Cash increased by $465,000 to nearly $1.7 million at June 30, 2024.

Capital Structure

At June 30, 2024, INLX had total debt on its balance sheet of $2 million all of which is long-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 $1.5 million at June 30, 2024.

On April 1, 2022, INLX issued 12% $600,000 principal amount subordinated notes with approximately $28,000 debt discount to Robert Taglich (a related party and Managing Director of Taglich Brothers, Inc., that owns or has a controlling interest in more than 5% of INLX's common stock). The note will be repaid no later than March 30, 2025.

On August 13, 2024, the company announced it will be prepaying $800,000 of its long term debt in 3Q24, 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 June 30, 2024, INLX had over 1 million 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 1H24 and 1H23, the company's largest customer represented 45% and 35% of net revenues, respectively. At June 30, 2024, the company's largest customer represented 62% of gross accounts receivables, the same as last year. 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 August 16, 2024, average daily volume was approximately 6,900. The company has a float of 2.6 million shares and shares outstanding of 4.2 million.

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

	FY22A	FY23A	2Q24A	**FY24E**	**FY25E**
ASSETS					
Current assets:					
Cash	$ 2,696	$ 1,215	$ 1,681	**$ 1,602**	**$ 1,978**
Accounts receivable, net	1,121	1,850	1,449	**1,960**	**2,281**
Accounts receivable, unbilled	596	1,321	1,483	**1,485**	**1,600**
Parts and supplies, net	73	110	94	**95**	**100**
Prepaid expense and other current assets - includes contracts	406	508	477	**485**	**500**
Total current assets	4,893	5,004	5,184	**5,627**	**6,459**
Property and equipment, net	1,069	924	999	**995**	**990**
Right of use asset - includes finance	3,354	2,753	2,550	**2,550**	**2,550**
Intangible assets, net	4,420	3,909	3,654	**3,398**	**2,893**
Goodwill	5,790	5,790	5,790	**5,790**	**5,790**
Other assets	417	646	685	**685**	**900**
Total assets	$ 19,943	$ 19,026	$ 18,863	**$ 19,045**	**$ 19,582**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	370	194	340	**375**	**300**
Accrued compensation	412	338	540	**550**	**500**
Accrued expenses, other	115	164	161	**175**	**180**
Lease liability - includes finance	715	763	864	**864**	**864**
Deferred revenues	2,754	2,928	2,755	**3,350**	**4,000**
Earnout liabilities	700	-	-	**-**	**-**
Notes payable	937	-	-	**-**	**-**
Total current liabilities	6,002	4,387	4,661	**5,314**	**5,844**
Notes payable	2,085	2,209	1,467	**667**	**-**
Lease liability - includes finance	2,758	2,119	1,816	**1,920**	**1,906**
Notes payable - related party, net	529	561	572	**573**	**-**
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	31,537	**31,987**	**32,987**
Retained earnings (accumulated deficit)	(21,614)	(21,095)	(21,195)	**(21,420)**	**(21,159)**
Total stockholders' equity	8,569	9,750	10,346	**10,571**	**11,832**
Total liabilities and stockholders' equity	$ 19,943	$ 19,026	$ 18,863	**$ 19,045**	**$ 19,582**
SHARES OUT	4,074	4,075	4,231	**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	**$ 41**	**$ 40**
Software-as-a-service (SaaS)	4,017	5,133	**5,781**	**6,950**
Software maintenance services	1,388	1,407	**1,407**	**1,390**
Professional services	7,358	9,167	**9,942**	**10,275**
Storage and retrieval services	1,095	1,078	**918**	**900**
Total Revenues	$ 14,017	$ 16,886	**$ 18,089**	**$ 19,555**
Cost of Revenues per segement				
Sale of software	65	26	**17**	**20**
Software-as-a-service (SAAS)	701	889	**894**	**1,195**
Software maintenance services	80	59	**53**	**44**
Professional services	3,908	4,993	**5,169**	**5,205**
Storage and retreval services	354	355	**299**	**280**
Total Cost of sales	5,108	6,322	**6,431**	**6,744**
Gross Profit	8,909	10,564	**11,658**	**12,811**
Operating Expenses:				
General and administrative	4,945	6,455	**8,229**	**8,425**
Change in fair value of earnout liabilities	88	-	**-**	**-**
Transactions costs	355	-	**-**	**-**
Sales and marketing	1,971	2,027	**2,297**	**3,025**
Depreciation	722	975	**1,074**	**1,050**
Total Operating Expenses	8,082	9,456	**11,600**	**12,500**
Operating Income (loss)	827	1,107	**58**	**311**
Other income (expense)				
Interest income (expense)	(803)	(588)	**(382)**	**(50)**
Total Other Income (expense)	(803)	(588)	**(382)**	**(50)**
Pre-Tax Income (loss)	24	519	**(324)**	**261**
Income Tax Expense (Benefit)	-	-	**-**	**-**
Net income (loss)	24	519	**(324)**	**261**
Earning (loss) per share	$ 0.01	$ 0.11	**$ (0.07)**	**$ 0.06**
Avg Shares Outstanding	4,296	4,652	**4,420**	**4,605**
Adjusted EBITDA	$ 2,414	$ 2,745	**$ 2,277**	**$ 2,361**
Margin Analysis				
Gross margin - Sale of software	59.4%	74.3%	**58.8%**	**50.0%**
Gross margin - SAAS	82.5%	82.7%	**84.5%**	**82.8%**
Gross margin - Maintenance services	94.3%	95.8%	**96.2%**	**96.8%**
Gross margin - Professional services	46.9%	45.5%	**48.0%**	**49.3%**
Storage and retrieval services	67.7%	67.0%	**67.5%**	**68.9%**
Total gross margin	63.6%	62.6%	**64.4%**	**65.5%**
General and administrative	35.3%	38.2%	**45.5%**	**43.1%**
Sales and marketing	14.1%	12.0%	**12.7%**	**15.5%**
Depreciation	5.2%	5.8%	**5.9%**	**5.4%**
Operating margin	5.9%	6.6%	**0.3%**	**1.6%**
Pre-tax margin	0.2%	3.1%	**(1.8%)**	**1.3%**
YEAR / YEAR GROWTH				
Total Revenues	22.3%	20.5%	**7.1%**	**8.1%**

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 A	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	$ 15	$ 10	$ 10	**$ 41**	$ 10	$ 10	$ 10	$ 10	**$ 40**
Software-as-a-service (SaaS)	1,238	1,278	1,294	1,323	5,133	1,405	1,401	1,450	1,525	**5,781**	1,600	1,675	1,775	1,900	**6,950**
Software maintenance services	350	349	353	355	1,407	358	354	350	345	**1,407**	355	350	345	340	**1,390**
Professional services	2,299	2,298	2,333	2,237	9,167	2,480	2,662	2,650	2,150	**9,942**	2,400	2,650	2,725	2,500	**10,275**
Storage and retrieval services	284	269	259	266	1,078	258	210	225	225	**918**	225	225	225	225	**900**
Total Revenues	$ 4,187	$ 4,258	$ 4,248	$ 4,193	$ 16,886	$ 4,507	$ 4,642	$ 4,685	$ 4,255	**$ 18,089**	$ 4,590	$ 4,910	$ 5,080	$ 4,975	**$ 19,555**
Cost of Revenues per segement															
Sale of software	8	7	6	4	26	6	1	5	5	**17**	5	5	5	5	**20**
Software-as-a-service (SAAS)	221	258	200	210	889	216	218	225	235	**894**	280	290	300	325	**1,195**
Software maintenance services	17	15	13	14	59	16	13	12	12	**53**	11	11	11	11	**44**
Professional services	1,187	1,307	1,339	1,160	4,993	1,284	1,345	1,340	1,200	**5,169**	1,225	1,340	1,355	1,285	**5,205**
Storage and retreval services	108	80	85	82	355	87	62	75	75	**299**	70	70	70	70	**280**
Total Cost of sales	1,541	1,668	1,643	1,471	6,322	1,608	1,639	1,657	1,527	**6,431**	1,591	1,716	1,741	1,696	**6,744**
Gross Profit	2,646	2,590	2,606	2,722	10,564	2,899	3,003	3,028	2,728	**11,658**	2,999	3,194	3,339	3,279	**12,811**
Operating Expenses:															
General and administrative	1,555	1,562	1,516	1,823	6,455	2,128	2,026	2,050	2,025	**8,229**	2,050	2,100	2,125	2,150	**8,425**
Sales and marketing	580	492	496	459	2,027	542	530	575	650	**2,297**	700	750	775	800	**3,025**
Depreciation	228	240	248	259	975	264	275	270	265	**1,074**	270	265	260	255	**1,050**
Total Operating Expenses	2,362	2,294	2,260	2,541	9,456	2,934	2,831	2,895	2,940	**11,600**	3,020	3,115	3,160	3,205	**12,500**
Operating Income (loss)	284	296	346	182	1,107	(35)	172	133	(212)	**58**	(21)	79	179	74	**311**
Other income (expense)															
Interest income (expense)	(171)	(161)	(136)	(120)	(588)	(140)	(97)	(95)	(50)	**(382)**	(25)	(15)	(10)	-	**(50)**
Total Other Income (expense)	(171)	(161)	(136)	(120)	(588)	(140)	(97)	(95)	(50)	**(382)**	(25)	(15)	(10)	-	**(50)**
Pre-Tax Income (loss)	113	136	209	62	519	(175)	75	38	(262)	**(324)**	(46)	64	169	74	**261**
Income Tax Expense (Benefit)	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Net income (loss)	113	136	209	62	519	(175)	75	38	(262)	**(324)**	(46)	64	169	74	**261**
Earning (loss) per share	$ 0.03	$ 0.03	$ 0.05	$ 0.01	$ 0.11	$ (0.04)	$ 0.02	$ 0.01	$ (0.06)	**$ (0.07)**	$ (0.01)	$ 0.01	$ 0.04	$ 0.02	**$ 0.06**
Avg Shares Outstanding	4,696	4,074	4,388	4,652	4,652	4,114	4,722	4,415	4,430	**4,420**	4,230	4,725	4,730	4,735	**4,605**
Adjusted EBITDA	$ 630	$ 652	$ 709	$ 754	$ 2,745	$ 673	$ 698	$ 628	$ 278	**$ 2,277**	$ 499	$ 594	$ 689	$ 579	**$ 2,361**
Margin Analysis															
Gross margin - Sale of software	46.5%	88.5%	37.5%	63.7%	74.3%	2.2%	92.5%	50.0%	50.0%	**58.8%**	50.0%	50.0%	50.0%	50.0%	**50.0%**
Gross margin - SAAS	82.2%	79.8%	84.5%	84.1%	82.7%	84.6%	84.5%	84.5%	84.6%	**84.5%**	82.5%	82.7%	83.1%	82.9%	**82.8%**
Gross margin - Maintenance services	95.2%	95.7%	96.3%	96.0%	95.8%	95.6%	96.2%	96.6%	96.5%	**96.2%**	96.9%	96.9%	96.8%	96.8%	**96.8%**
Gross margin - Professional services	48.4%	43.1%	42.6%	48.1%	45.5%	48.2%	49.5%	49.4%	44.2%	**48.0%**	49.0%	49.4%	50.3%	48.6%	**49.3%**
Storage and retrieval services	61.9%	70.4%	67.1%	69.1%	67.0%	66.5%	70.4%	66.7%	66.7%	**67.5%**	68.9%	68.9%	68.9%	68.9%	**68.9%**
Total gross margin	63.2%	60.8%	61.3%	64.9%	62.6%	64.3%	64.7%	64.6%	64.1%	**64.4%**	65.3%	65.1%	65.7%	65.9%	**65.5%**
General and administrative	37.1%	36.7%	35.7%	43.5%	38.2%	47.2%	43.6%	43.8%	47.6%	**45.5%**	44.7%	42.8%	41.8%	43.2%	**43.1%**
Sales and marketing	13.8%	11.6%	11.7%	10.9%	12.0%	12.0%	11.4%	12.3%	15.3%	**12.7%**	15.3%	15.3%	15.3%	16.1%	**15.5%**
Depreciation	5.4%	5.6%	5.8%	6.2%	5.8%	5.9%	5.9%	5.8%	6.2%	**5.9%**	5.9%	5.4%	5.1%	5.1%	**5.4%**
Operating margin	6.8%	7.0%	8.1%	4.3%	6.6%	(0.8%)	3.7%	2.8%	(5.0%)	**0.3%**	(0.5%)	1.6%	3.5%	1.5%	**1.6%**
Pre-tax margin	2.7%	3.2%	4.9%	1.5%	3.1%	(3.9%)	1.6%	0.8%	(6.2%)	**(1.8%)**	(1.0%)	1.3%	3.3%	1.5%	**1.3%**
YEAR / YEAR GROWTH															
Total Revenues	54.9%	24.7%	10.1%	3.8%	20.5%	7.6%	9.0%	10.3%	1.5%	**7.1%**	1.8%	5.8%	8.4%	16.9%	**8.1%**

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

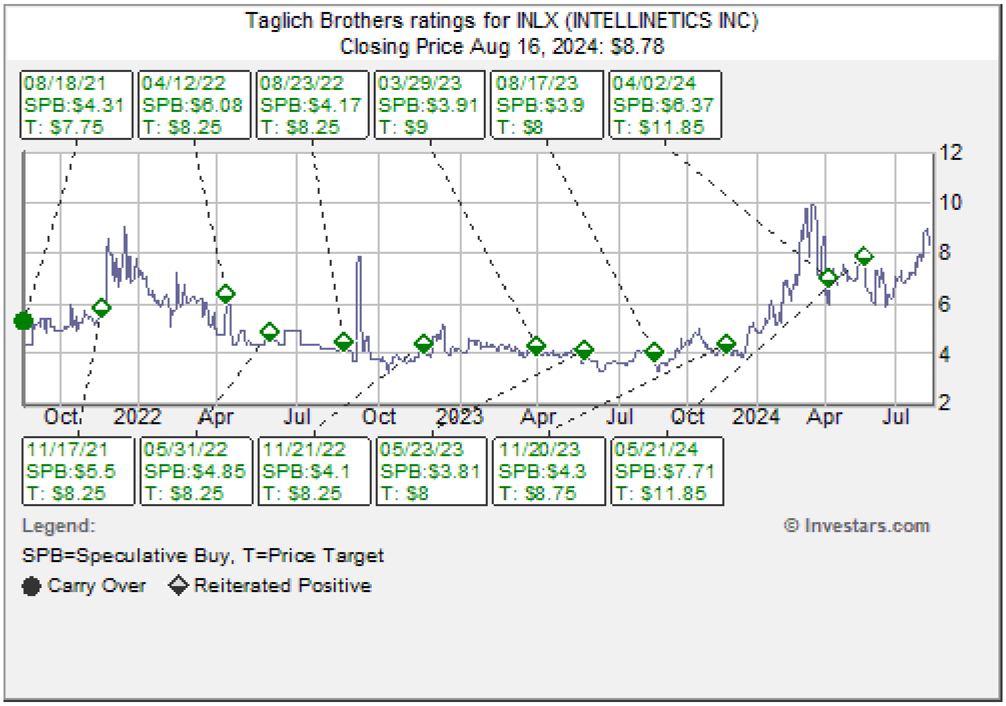
Source: Company reports and Taglich Brothers estimates

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

	FY2022A	FY2023A	6 Mos. 24A	**FY2024E**	**FY2025E**
Cash Flows from Operating Activities					
Net Income (loss)	$ 24	$ 519	$ (100)	**$ (324)**	**$ 261**
Depreciation and amortization	722	975	539	**1,074**	**1,050**
Bad debt expense	42	77	(0)	**(5)**	**-**
Loss on disposal of fixed assets - parts and supplies reserve	24	-	1	**1**	**-**
Amortization of deferred and original issue financing costs	216	177	95	**165**	**150**
Amortization of debt discount	102	22	-	**-**	**-**
Amortization of right of use asset	648	42	35	**75**	**70**
Stock issued for services	58	198	-	**-**	**-**
Stock options compensation	364	465	695	**1,145**	**1,000**
Change in fair value of earnout liabilities	88	-	-	**-**	**-**
Cash earnings (burn)	2,289	2,475	1,264	**2,130**	**2,531**
Changes In:					
Accounts receivable	81	(807)	401	**(109)**	**(322)**
Accounts receivable, unbilled	(152)	(724)	(162)	**(164)**	**(115)**
Parts and supplies, net	3	(37)	16	**15**	**(5)**
Prepaid expenses and other current assets	(177)	(102)	31	**23**	**(15)**
Right of use asset	-	-	-	**(200)**	**(200)**
Accounts payable and accrued expenses	173	(200)	345	**404**	**(120)**
Lease liabililities, current and long term	(616)	6	(4)	**101**	**-**
Deferred compensation	(101)	-	-	**-**	**-**
Deferred revenues	487	174	(173)	**422**	**650**
(Increase)/decrease in Working Capital	(300)	(1,690)	455	**492**	**(127)**
Net cash provided (used in) Operations	1,989	785	1,719	**2,622**	**2,404**
Cash Flows from Investing Activities					
Purchase of property and equipment	(201)	(111)	(201)	**(350)**	**(115)**
Capitalized software	(376)	(437)	(199)	**(200)**	**(600)**
Cash paid to acquire business, net of cash acquired	(6,383)	-	-	**-**	**-**
Cash flow provided (used in) Investing Activities	(6,961)	(548)	(399)	**(550)**	**(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)	(30)	**(60)**	**(75)**
Proceeds (repayment) from notes payable, net	1,345	(980)	(825)	**(1,625)**	**(667)**
Proceeds (repayment) from notes payable - related party, net	600	-	-	**-**	**(572)**
Net cash provided (used) by Financing	5,916	(1,718)	(855)	**(1,685)**	**(1,314)**
Net change in Cash	944	(1,481)	465	**387**	**375**
Cash Beginning of Period	1,753	2,696	1,215	**1,215**	**1,602**
Cash End of Period	$ 2,696	$ 1,215	$ 1,680	**$ 1,602**	**$ 1,978**

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	2	14
Hold		
Sell		
Not Rated		

Important Disclosures

As of August 16, 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 768,745 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 499,118 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.