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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 $12.12 — (NYSE American)

March 31, 2025

	2023 A	2024 A	*2025 E*	*2026 E*
Revenue (in millions)	$16.9	$18.0	***$19.0***	***$20.3***
Earnings (loss) per share	$0.11	($0.13)*	***($0.38)***	***($0.21)***

52-Week range	$16.50 – $5.85	Fiscal year ends:	December
Shares outstanding a/o 3/19/25	4.3 million	Revenue/shares (ttm)	$4.29
Approximate float	2.6 million	Price/Sales (ttm)	2.8X
Market Capitalization	$52.1 million	Price/Sales (2026) E	2.6X
Tangible Book value/shr	$0.34	Price/Earnings (ttm)	NMF
Price/Book	35.6X	Price/Earnings (2026) E	NMF

***Includes approximately ($0.18) 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 decreasing our 12-month price target to $17.50 per share from $19.00 per share due primarily to a decreased sector valuation.

Intellinetics' is in a position to accelerate recurring revenue growth through its newest technology offering called IPAS (IntelliCloud Payables Automation System) through our forecast period. Analysts anticipate the payables automations market to reach $17.1 billion by 2032, up from $5.4 billion in 2023.

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% for 2026.

By the end of 2025, we anticipate INLX's IPAS offering should have at least fourteen Constellation homebuilder systems customers live and generating annual recurring revenue of approximately $1 million. Additional functionality (a purchasing order module) is being added, which should accelerate recurring revenue growth and pipeline of new customer. The IPAS offering for INLX's existing K-12 customer base should contribute to recurring revenues in 2025.

In 2024, INLX reported (on 3-24-25) a loss of ($0.13) per share on 6.7% revenue growth to $18 million from $16.9 million last year. We projected a loss of ($0.19) per share on revenue of $17.9 million.

For 2025, we forecast a loss per share of ($0.38) on revenue growth of 5.5% to $19 million. We previously forecast a loss per share of ($0.12) on revenue growth of 6.5% to $19.1 million. Our increased loss per share forecast reflects higher operating expenses stemming from increased headcount to promote and sell the company's IPAS offering. We anticipate SaaS revenue growth of 19.5% to $6.8 million in 2025.

For 2026, we project a loss of ($0.11) per share on revenue growth of 6.9% to $20.3 million. Our revenue growth and loss per share forecasts reflect SaaS revenue growth of 20% to $8.2 million and the company's ability to leverage operation expenses. We anticipate operating expense margin of 70.8% compared to an estimated 73.2% in 2025.

Please view our Disclosures on pages 15 – 17.

Appreciation Potential

Maintaining Speculative Buy rating and decreasing our 12-month price target to $17.50 per share from $19.00 per share due primarily to a decreased sector valuation.

Our rating reflects a foundation that was put in place with the acquisitions of Graphic Sciences, CEO Imaging, and Yellow Folder. The launch of its IPAS (IntelliCloud Payables Automation System) is accelerating the company's recurring SaaS revenue growth. We project SaaS revenue growth of 20% in 2026, up from an estimated 19.5% in 2025. Our recurring SaaS revenue growth forecast reflects the launch of its IPAS offering to enterprise customers, as well as its K-12 customer base. By the end of 2025, we anticipate INLX's IPAS offering should have at least fourteen Constellation homebuilder systems customers live and generating annual recurring revenue of approximately $1 million. Additional functionality (a purchasing order module) is being added, which should accelerate recurring revenue growth and pipeline of new customer. The IPAS offering for INLX's existing K-12 customer base should contribute to recurring revenues in 2025, as it should have at least three customers by 2Q25.

INLX entered 1Q25 with at least 600 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.

Our 12-month price target of $17.50 per share implies shares could appreciate approximtely 45% 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 4.4X (prior was 4.7X). INLX's trailing twelve-month price-to-sales multiple is 2.8X (prior was 3.3X). We anticipate investors are likely to accord INLX the sector multiple given SaaS sales growth should reach 20% in 2026, up from an estimated 19.5% in 2025. We applied a multiple of 4.4X (prior was 4.7X) to our initial 2026 sales per share forecast of $4.74, discounted for execution risks, to obtain a year-ahead price target of approximately $17.50 per share.

A higher valuation of INLX is likely to be supported by year-over year growth in revenues, a positive resolution of a significant document services contract with the state of Michigan, obtaining new enterprise resource planning partners, and a return to cash earnings growth in 2026. While we forecast overall modest revenue growth in 2026 of 6.9%, SaaS revenue growth should approximate 20% reaching an estimated $8.2 million from an estimated $6.8 million in 2026. We forecast in INLX should generate cash earnings of $2 million in 2026, up from an estimated $928,000 in 2025. In 2025, cash earning was $2.3 million.

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

IPAS (IntelliCloud Payables Automation System) Offering
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. The company is adding purchasing order functionality, which has the potential to add incremental revenue as this module is deployed.

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. Management is pursuing opportunities in a wide range of markets beyond the homebuilder market and the family of Constellation verticals. To accelerate growth, INLX hired a brand partner manager that is being tasked with identifying and find finding new ERP partners. In the first two months since the hiring, the brand partner manager has already identified a couple of new ERP partners.

The company has developed a standalone IPAS offering to its established K-12 customer base, which should provide cross-selling opportunities to these customer and contribute to future recurring revenue growth. To further this offering to the K-12 market, the company announced it signed a co-marketing agreement with SUI Software Unlimited which is an existing partner.

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.

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 2024, we estimate the company had in excess of 600 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. A key to IPAS growth is demonstrating the quick ROI return from its customer, along with added efficiencies. In March 2025, the company announced that one of its largest IPAS customer is processing over 11,000 invoices a month with zero touch, thus freeing up employee to do other tasks.

Based on the company's potential pipeline of customer opportunities, we anticipated by the end of 2025, INLX's IPAS offering should have at least fourteen Constellation homebuilder systems customers live and generating annual recurring revenue of approximately $1 million. Additional functionality (a purchasing order module) is being added, which should incrementally accelerate recurring revenue growth potential. In August 2024, IPAS pilot programs began for INLX's existing K-12 customer. In October 2024, the company announced it officially launched for this customer base. Since its pilot program with the Clear Creek Community Schools in Iowa, two additional Iowa school districts have launched with the IPAS offering. In February 2025, the company engaged its own K-12 sales force and marketing team to drive growth, as well as engaging its existing partner Software Unlimited's 1,300 school districts.

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 announce it hired a VP of Sales as it entered 2025 and anticipates hiring at least a number of additional sales and deployment professionals to increase the efficient deployment of new customer projects.

Projections

<u>Basis of Forecast</u>

Our forecast is based on the company maintain its document services contract with the state of Michigan. The outcome of open bidding process should be known by the end of May 2025. If the company does not retain the contract, revenues from this contract would likely diminish by 30% during the 2H25.

By the end of 2025, we anticipate INLX's IntelliCloud Payables Automation System (IPAS) offering should have at least fourteen Constellation homebuilder systems customers live and generating annual recurring revenue of approximately $1 million. Additional functionality (a purchasing order module) is being added, which should accelerate recurring revenue growth and pipeline of new customer. The IPAS offering for INLX's existing K-12 customer base should contribute to recurring revenues in 2025.

While the IPAS customer base should grow rapidly through our forecast period, there is likely to be a drag as operating expenses will increase due to the hiring of additional sales representative, implementation management and help desk support, as well as bringing on sales engineering resources, and a VP of Sales, and additional spending on outbound sales efforts and internal and contracted resources. The increase in spending should cause adjusted EBITDA to decrease below $1 million in 2025 from nearly $2.5 million in 2024. We anticipate the company leveraging revenue and customer growth in 2026 that should drive adjusted EBITDA to approximately $1.9 million.

We anticipate 2025 and 2026 gross margins of 65.3% and 66.4%, respectively, compared to 64% in 2024. We anticipate recurring revenue SaaS margins to be robust in 2025 and 2026 at 86.5% and 86.48%, respectively.

We are not recording income tax expense. We estimate the company likely had $15.8 million in net operating loss carry forwards entering 2025.

2025
We project total revenue growth of 5.5% to $19 million (prior was $19.1 million) from $18 million in 2024. While our forecast decrease slightly 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 19.5% to $6.8 million (prior was nearly $6.7) million from nearly $5.7 million in 2024. We estimate professional services revenue essentially flat at nearly $10 million.

We project a 7.7% increase in gross profit to $12.4 million due to revenue growth and gross margin improving to 65.4% from 64% in 2024 due primarily to a sales mix shift to higher margin recurring revenue. We forecast an operating loss of $1.5 million compared to an operating loss of $174,000 in 2024. Both periods includes non-cash stock based compensation expense for employees and directors. We anticipate revenue growth and gross margin expansion to be more than offset by an increase in operating expense margin to 73.2% from 64.9% in 2024.

We forecast operating expenses increasing 19% to $13.9 million due primarily to a full year spending to support SaaS revenue growth that began in 2H24. We anticipate G&A expenses increasing 10.8% to nearly $9.1 million from $8.2 million in 2024, as well as a 54% increase in sales and market expense to $3.7 million from $2.4 million in 2024. D&A expense should approximate $1.2 million compared to $1.1 million last year.

We project interest expense decreasing to $105,000 from $373,000 in 2024 due primarily to a reduction in average debt balances, which should reach zero in 4Q25.

We are forecasting a net loss of $1.6 million or ($0.38) per share on 4.3 million average shares outstanding. We previously forecast a net loss of $505,000 or ($0.12) per share on 4.3 million average shares outstanding. The decrease in our forecast reflects 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 $928,000 and an increase in working capital of $28,000. Cash provided by operations of $900,000 is unlikely to cover capital expenses and repayment of all remaining outstanding debt. Cash should decrease by $1.3 million to $1.2 million at December 31, 2025.

2026
We project total revenue growth of 6.9% to $20.3 million from an estimated $19 million in 2025. We anticipate our overall revenue forecast should be supported by organic customer growth from an increased sales team that should support the IPAS offerings for enterprise and K-12 customers. We anticipate higher margin SaaS revenue growth of 20% to $8.2 million from an estimated $6.8 million in 2025. We estimate professional services revenue remaining in the area of $10 million.

We project an 8.7% increase in gross profit to $13.5 million due to revenue growth and gross margin improving to 66.4% from an estimated 65.3% in 2025 due primarily to a sales mix shift to higher margin recurring revenue. We forecast the operating loss narrowing to $908,000 from an estimated operating loss of $1.5 million in 2025. Both periods includes non-cash stock based compensation expense for employees and directors. The operating loss narrowing is due primarily to revenue growth, gross margin expansion, and operating expense margin improving to 70.9% from an estimated 73.2% in 2025.

We forecast operating expenses increasing 3.5% to $14.4 million as the pace of spending to drive SaaS revenue growth slows. We anticipate G&A expenses increasing 2.5% to $9.3 million from an estimated $9.1 million in 2025, as well as an 8.1% increase in sales and market expense to $4 million from an estimated $3.7 million in 2025. D&A expense should approximate $1.1 million compared to an estimated $1.2 in 2025.

We project interest expense will likely be zero compared to an estimated $105,000 due to outstanding debt reahing zero in 4Q25.

We forecast a net loss of $908,000 or ($0.21) per share on 4.3 million average shares outstanding.

Finances – 2026
In 2026, we project cash earnings of $2 million and a decrease in working capital of $103,000. Cash provided by operations of $2.1 million is likely to cover capital expenses. Cash should increase by $1 to $2.2 million at December 31, 2026.

2024 Results

2024
Total revenue increased 6.7% to $18 million from $16.9 million in 2023 reflecting a 10.8% increase in recurring SaaS revenue to $5.7 million from $5.1 million last year. SaaS revenue growth reflects new cloud-based solution sales, primarily IPAS, as well as expanded data storage, user seats, and hosting fees for existing customers, partly offset by weakness in the YellowFolder’s K-12 operations, which was impacted by higher than normal churn rate. Professional services revenue increased 8.9% to nearly $10 million from nearly $9.2 million last year reflecting 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) amount to $2.3 million compared to $2.6 million in 2023. The decrease reflects lower customer activity in the storage and retrieval segment stemming from a slowdown in the home mortgage and refinancing industry.

Gross profit increased 9% to $11.5 million from $10.6 million last year due to revenue growth and gross margin improving to 64% from 62.6% in the year-ago period. Gross margin improvement reflects SaaS and software maintenance service segments that accounted for 39.4% of total revenue and had gross margin of 87.1% compared to those segments accounting for 38.7% with a gross margin of 85.5% in the year-ago period.

Operating expenses increased 23.7% to $11.7 million from nearly $9.5 million in 2023. The $1.7 million or 26.5% increase in G&A expense to $8.2 million stems from an increase in share-based compensation expense to nearly $1.5 million compared to $663,000 last year. Excluding share-based compensation expense G&A expenses increased by $877,000, or 13.6% due primarily to investments made in order to scale future operations that include finance, and SOC2 processes, as well as wage increases and infrastructure investments such as installation of an internal ERP system. Sales and marketing expense increased $376,000 or 18.5% to $2.4 million compared to $2 million last year stemming from the expansion of INLX’s sales team by hiring two new professionals and creating a new position of brand partner manager. These new investments are intended to accelerate recurring revenue from new IPAS customers. Also, INLX focused efforts on implementing new marketing campaigns and experienced increased spending on travel and trade show attendance and associated materials. D&A expense increased to $1.1 million from $975,000 last year reflecting increased amortization of capitalized software costs.

Interest expense decreased to $373,000 from $588,000 in 2023 reflecting lower average debt balances.

Net loss was $546,000 or ($0.13) per share, on 4.2 million average shares. In 2023, EPS was $0.11, on 4.7 million average shares outstanding. We projected a loss of ($0.19) per share on revenue of $17.9 million. Our average shares forecast was 4.3 million.

4Q24

Total revenue increased 2.1% to $4.3 million from $4.2 million in 4Q23 reflecting an 11.8% increase in recurring SaaS revenue to $1.5 million from $1.3 million in the year-ago period. Professional services revenue was flat at $2.2 million.

Gross profit increased 3.5% to $2.8 million from $2.7 million last year due to revenue growth and gross margin improving to 65.8% from 64.9% in 4Q23.

Total operating expenses increased 11.3% to $2.8 million from $2.5 million in the year-ago period. G&A expense increased 4.1% to $1.9 million from $1.8 million last year. Sales and marketing expense increased 37% to $629,000 compared to $459,000 in the year-ago period stemming from the expansion of INLX's sales team creating a new position of brand partner manager. D&A expenses increased to $302,000 from$259,000 in 4Q24.

Interest expense decreased to $41,000 from $120,000 last year reflecting lower average debt balances.

Net loss was $53,000 or ($0.01) per share, on 4.1 million average shares.

Finances

In 2024, cash earnings of $2.3 million and a decrease in working capital of $1.6 million resulted in cash from operations of nearly $3.9 million. Cash from operations covered capital expenditures and repayment of debt and finance lease liability. Cash increased by $1.3 million to $2.5 million at December 31, 2024.

Capital Structure

At December 31, 2024, INLX had a cash balance of $2.5 million and total debt on its balance sheet of $1.3 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 December 31, 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 $782,000 at December 31, 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 balance of $516,000 will be repaid no later than December 31, 2025.

Market Briefs

Payables Automation Market

A report published by Allied Market Research indicated that the global accounts payable automation market should grow annually to over $17 billion by 2032 from $5.5 billion in 2023. This market is defined as the use of devices or procedures to replace the manual operations involved in accounts payable with automation. By digitizing the methods used for receiving, processing, and storing vendor invoices, it strives to improve the efficiency of the accounts payable workflow. The primary growth driver is the overall demand from companies to seek out advance technology to speed up payment process in order to generate operating efficiencies.

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

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, Stampli, and Nexus. 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.

<u>Dilution</u>
Over the ten-year period ended April 2022, the company raised $26.4 million through the issuance of debt and equity securities.

At December 31, 2024, INLX had nearly 949,000 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.

<u>Customer Concentration</u>
In 2024 and 2023, the company's largest customer represented 40% and 35% of net revenues, respectively. At December 31, 2024, the company's two largest customer represented 64% of gross accounts receivables compared to 65% in the year-ago period. The loss of its largest customer could disrupt the company's operations.

<u>Largest Customer</u>
The state of Michigan is the company's largest customer and through its document conversion segment. Graphics Sciences' operations. In 2007, the initial contract with Michigan signed with the company Graphics Sciences' operations. This contract is in its extension period beyond the five years from June 1, 2018 to May 30, 2023, which

extended the contract to May 30, 2025. INLX is participating in a competitive bidding process to renew this contract. The belief is that INLX is suited to continue to provide services to this client. However, there can be no assurance that this contract will be awarded to the company or that if it is awarded that volumes with this customer will continue at their current levels and/or pricing, which would negatively impact future operations. If the contract was lost, due to the necessary transition period to a new vendor, INLX anticipates that it would still receive approximately 70% of the anticipated revenue from this contract for 2025.

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.

Partners

The company relies on cooperation with its distribution partners for sales and product development. The success of INLX's operations in part is due to its Enterprise Resource Planning (ERP) partner programs that provide the company access to existing channels of distribution and to gain access to new market channels. If the company is unable to maintain or expand ERP relationships future grow opportunities may diminish. A reduction in partner cooperation or sales efforts, or a decline in the number of channels, could negatively impact the company's revenue potential.

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 and is Chairman of the

Board). 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 increased in 2024 to 11,100 from 4,800 in 2023. During the last three months to March 28, 2025, average daily volume was approximately 5,600. The company has a float of 2.6 million shares and shares outstanding of 4.3 million.

Intellinetics Inc.
Consolidated Balance Sheets
FY2023A – FY2026E
(in thousands)

	FY23A	FY24A	**FY25E**	**FY26E**
ASSETS				
Current assets:				
Cash	$ 1,215	$ 2,489	**$ 1,177**	**$ 2,197**
Accounts receivable, net	1,850	1,112	**1,500**	**1,700**
Accounts receivable, unbilled	1,321	1,297	**1,350**	**1,500**
Parts and supplies, net	110	101	**100**	**100**
Prepaid expense and other current assets - includes contracts	508	477	**500**	**750**
Total current assets	5,004	5,475	**4,627**	**6,247**
Property and equipment, net	924	1,094	**1,090**	**1,075**
Right of use asset - includes finance	2,753	2,133	**2,133**	**2,133**
Intangible assets, net	3,909	3,399	**2,889**	**2,507**
Goodwill	5,790	5,790	**5,790**	**5,790**
Other assets	646	685	**885**	**950**
Total assets	$ 19,026	$ 18,575	**$ 17,414**	**$ 18,702**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	194	311	**300**	**250**
Accrued compensation	338	494	**550**	**625**
Accrued expenses, other	164	172	**175**	**165**
Lease liability - includes finance	763	912	**912**	**800**
Deferred revenues	2,928	3,412	**4,000**	**5,000**
Notes payables	-	782	**-**	**-**
Notes payables related party	-	516	**-**	**-**
Total current liabilities	4,387	6,598	**5,937**	**6,840**
Notes payable	2,209	-	**-**	**-**
Lease liability - includes finance	2,119	1,345	**1,257**	**850**
Notes payable - related party, net	561	-	**-**	**-**
Stockholders' equity:				
Common stock, $0.001 par value; authorized 50,000,000 shares;	4	4	**4**	**4**
Additional paid-in capital	30,842	32,269	**33,469**	**35,169**
Retained earnings (accumulated deficit)	(21,095)	(21,641)	**(23,253)**	**(24,161)**
Total stockholders' equity	9,750	10,632	**10,220**	**11,012**
Total liabilities and stockholders' equity	$ 19,026	$ 18,575	**$ 17,414**	**$ 18,702**
SHARES OUT	4,075	4,250	**4,265**	**4,280**

Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.
Annual Income Statement
FY2023A – FY2026E
(in thousands)

	FY23 A	FY24 A	**FY25 E**	**FY26 E**
Sale of software	$ 100	$ 33	**$ 30**	**$ 20**
Software-as-a-service (SaaS)	5,133	5,689	**6,800**	**8,160**
Software maintenance services	1,407	1,410	**1,345**	**1,310**
Professional services	9,167	9,985	**9,950**	**9,975**
Storage and retrieval services	1,078	901	**880**	**860**
Total Revenues	$ 16,886	$ 18,018	**$ 19,005**	**$ 20,325**
Cost of Revenues per segement				
Sale of software	26	8	**12**	**8**
Software-as-a-service (SAAS)	889	857	**915**	**1,110**
Software maintenance services	59	58	**60**	**60**
Professional services	4,993	5,223	**5,225**	**5,290**
Storage and retreval services	355	348	**380**	**360**
Total Cost of sales	6,322	6,493	**6,592**	**6,828**
Gross Profit	10,564	11,525	**12,413**	**13,497**
Operating Expenses:				
General and administrative	6,455	8,167	**9,050**	**9,275**
Sales and marketing	2,027	2,403	**3,700**	**4,000**
Depreciation	975	1,129	**1,170**	**1,130**
Total Operating Expenses	9,456	11,698	**13,920**	**14,405**
Operating Income (loss)	1,107	(174)	**(1,507)**	**(908)**
Other income (expense)				
Interest income (expense)	(588)	(373)	**(105)**	**-**
Total Other Income (expense)	(588)	(373)	**(105)**	**-**
Pre-Tax Income (loss)	519	(546)	**(1,612)**	**(908)**
Income Tax Expense (Benefit)	-	-	**-**	**-**
Net income (loss)	519	(546)	**(1,612)**	**(908)**
Earning (loss) per share	$ 0.11	$ (0.13)	**$ (0.38)**	**$ (0.21)**
Avg Shares Outstanding	4,652	4,201	**4,269**	**4,293**
Adjusted EBITDA	$ 2,745	$ 2,452	**$ 863**	**$ 1,922**
Margin Analysis				
Gross margin - Sale of software	74.3%	74.2%	**60.0%**	**60.0%**
Gross margin - SAAS	82.7%	84.9%	**86.5%**	**86.4%**
Gross margin - Maintenance services	95.8%	95.9%	**95.5%**	**95.4%**
Gross margin - Professional services	45.5%	47.7%	**47.5%**	**47.0%**
Storage and retrieval services	67.0%	61.4%	**56.8%**	**58.1%**
Total gross margin	62.6%	64.0%	**65.3%**	**66.4%**
General and administrative	38.2%	45.3%	**47.6%**	**45.6%**
Sales and marketing	12.0%	13.3%	**19.5%**	**19.7%**
Depreciation	5.8%	6.3%	**6.2%**	**5.6%**
Operating margin	6.6%	(1.0%)	**(7.9%)**	**(4.5%)**
Pre-tax margin	3.1%	(3.0%)	**(8.5%)**	**(4.5%)**
YEAR / YEAR GROWTH				
Total Revenues	20.5%	6.7%	**5.5%**	**6.9%**

2024 includes approximately $779,000 or ($0.18) per share due to a one-time recognition of restricted stock and option expense

Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.
Income Statement Model
Quarters 2024A – 2026E
(in thousands)

	Q1 24 A	Q2 24 A	Q3 24 A	Q4 24 A	FY24 A	Q1 25 E	Q2 25 E	Q3 25 E	Q4 25 E	**FY25 E**	Q1 26 E	Q2 26 E	Q3 26 E	Q4 26 E	**FY26 E**
Sale of software	$ 6	$ 15	$ 13	$ (1)	$ 33	$ 5	$ 10	$ 10	$ 5	**$ 30**	$ 5	$ 5	$ 5	$ 5	**$ 20**
Software-as-a-service (SaaS)	1,405	1,401	1,404	1,479	5,689	1,485	1,600	1,800	1,915	**6,800**	1,950	2,000	2,085	2,125	**8,160**
Software maintenance services	358	354	352	346	1,410	345	340	335	325	**1,345**	335	330	325	320	**1,310**
Professional services	2,480	2,662	2,600	2,243	9,985	2,400	2,600	2,650	2,300	**9,950**	2,450	2,575	2,635	2,315	**9,975**
Storage and retrieval services	258	210	220	213	901	220	220	220	220	**880**	215	215	215	215	**860**
Total Revenues	$ 4,507	$ 4,642	$ 4,590	$ 4,280	$ 18,018	$ 4,455	$ 4,770	$ 5,015	$ 4,765	**$ 19,005**	$ 4,955	$ 5,125	$ 5,265	$ 4,980	**$ 20,325**
Cost of Revenues per segement															
Sale of software	6	1	1	1	8	3	3	3	3	**12**	2	2	2	2	**8**
Software-as-a-service (SAAS)	216	218	229	194	857	200	215	235	265	**915**	270	275	280	285	**1,110**
Software maintenance services	16	13	14	15	58	15	15	15	15	**60**	15	15	15	15	**60**
Professional services	1,284	1,345	1,431	1,163	5,223	1,250	1,375	1,400	1,200	**5,225**	1,275	1,365	1,415	1,235	**5,290**
Storage and retreval services	87	62	109	91	348	95	95	95	95	**380**	90	90	90	90	**360**
Total Cost of sales	1,608	1,639	1,784	1,463	6,493	1,563	1,703	1,748	1,578	**6,592**	1,652	1,747	1,802	1,627	**6,828**
Gross Profit	2,899	3,003	2,806	2,817	11,525	2,892	3,067	3,267	3,187	**12,413**	3,303	3,378	3,463	3,353	**13,497**
Operating Expenses:															
General and administrative	2,128	2,026	2,114	1,898	8,167	2,075	2,265	2,335	2,375	**9,050**	2,275	2,350	2,400	2,250	**9,275**
Sales and marketing	542	530	703	629	2,403	850	950	965	935	**3,700**	950	975	1,075	1,000	**4,000**
Depreciation	264	275	288	302	1,129	300	295	290	285	**1,170**	290	285	280	275	**1,130**
Total Operating Expenses	2,934	2,831	3,104	2,829	11,698	3,225	3,510	3,590	3,595	**13,920**	3,515	3,610	3,755	3,525	**14,405**
Operating Income (loss)	(35)	172	(298)	(12)	(174)	(333)	(443)	(323)	(408)	**(1,507)**	(212)	(232)	(292)	(172)	**(908)**
Other income (expense)															
Interest income (expense)	(140)	(97)	(95)	(41)	(373)	(40)	(35)	(30)	-	**(105)**	-	-	-	-	-
Total Other Income (expense)	(140)	(97)	(95)	(41)	(373)	(40)	(35)	(30)	-	**(105)**	-	-	-	-	-
Pre-Tax Income (loss)	(175)	75	(393)	(53)	(546)	(373)	(478)	(353)	(408)	**(1,612)**	(212)	(232)	(292)	(172)	**(908)**
Income Tax Expense (Benefit)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(175)	75	(393)	(53)	(546)	(373)	(478)	(353)	(408)	**(1,612)**	(212)	(232)	(292)	(172)	**(908)**
Earning (loss) per share	$ (0.04)	$ 0.02	$ (0.09)	$ (0.01)	$ (0.13)	$ (0.09)	$ (0.11)	$ (0.08)	$ (0.10)	**$ (0.38)**	$ (0.05)	$ (0.05)	$ (0.07)	$ (0.04)	**$ (0.21)**
Avg Shares Outstanding	4,114	4,722	4,231	4,114	4,201	4,260	4,265	4,270	4,280	**4,269**	4,285	4,290	4,295	4,300	**4,293**
Adjusted EBITDA	$ 673	$ 698	$ 480	$ 601	$ 2,452	$ 267	$ 152	$ 267	$ 177	**$ 863**	$ 503	$ 478	$ 413	$ 528	**$ 1,922**
Margin Analysis															
Gross margin - Sale of software	2.2%	92.5%	91.5%	152.2%	74.2%	40.0%	70.0%	70.0%	40.0%	**60.0%**	60.0%	60.0%	60.0%	60.0%	**60.0%**
Gross margin - SAAS	84.6%	84.5%	83.7%	86.9%	84.9%	86.5%	86.6%	86.9%	86.2%	**86.5%**	86.2%	86.2%	86.6%	86.6%	**86.4%**
Gross margin - Maintenance services	95.6%	96.2%	96.1%	95.7%	95.9%	95.7%	95.6%	95.5%	95.4%	**95.5%**	95.5%	95.5%	95.4%	95.3%	**95.4%**
Gross margin - Professional services	48.2%	49.5%	45.0%	48.2%	47.7%	47.9%	47.1%	47.2%	47.8%	**47.5%**	48.0%	47.0%	46.3%	46.7%	**47.0%**
Storage and retrieval services	66.5%	70.4%	50.6%	57.4%	61.4%	56.8%	56.8%	56.8%	56.8%	**56.8%**	58.1%	58.1%	58.1%	58.1%	**58.1%**
Total gross margin	64.3%	64.7%	61.1%	65.8%	64.0%	64.9%	64.3%	65.1%	66.9%	**65.3%**	66.7%	65.9%	65.8%	67.3%	**66.4%**
General and administrative	47.2%	43.6%	46.1%	44.4%	45.3%	46.6%	47.5%	46.6%	49.8%	**47.6%**	45.9%	45.9%	45.6%	45.2%	**45.6%**
Sales and marketing	12.0%	11.4%	15.3%	14.7%	13.3%	19.1%	19.9%	19.2%	19.6%	**19.5%**	19.2%	19.0%	20.4%	20.1%	**19.7%**
Depreciation	5.9%	5.9%	6.3%	7.1%	6.3%	6.7%	6.2%	5.8%	6.0%	**6.2%**	5.9%	5.6%	5.3%	5.5%	**5.6%**
Operating margin	(0.8%)	3.7%	(6.5%)	(0.3%)	(1.0%)	(7.5%)	(9.3%)	(6.4%)	(8.6%)	**(7.9%)**	(4.3%)	(4.5%)	(5.5%)	(3.5%)	**(4.5%)**
Pre-tax margin	(3.9%)	1.6%	(8.6%)	(1.2%)	(3.0%)	(8.4%)	(10.0%)	(7.0%)	(8.6%)	**(8.5%)**	(4.3%)	(4.5%)	(5.5%)	(3.5%)	**(4.5%)**
YEAR / YEAR GROWTH															
Total Revenues	7.6%	9.0%	8.0%	2.1%	6.7%	(1.2%)	2.8%	9.3%	11.3%	**5.5%**	11.2%	7.4%	5.0%	4.5%	**6.9%**

2024 includes approximately $779,000 or ($0.18) per share due to a recognition of restricted stock and option expense that was included in G&A expense in 1Q24 and 3Q24

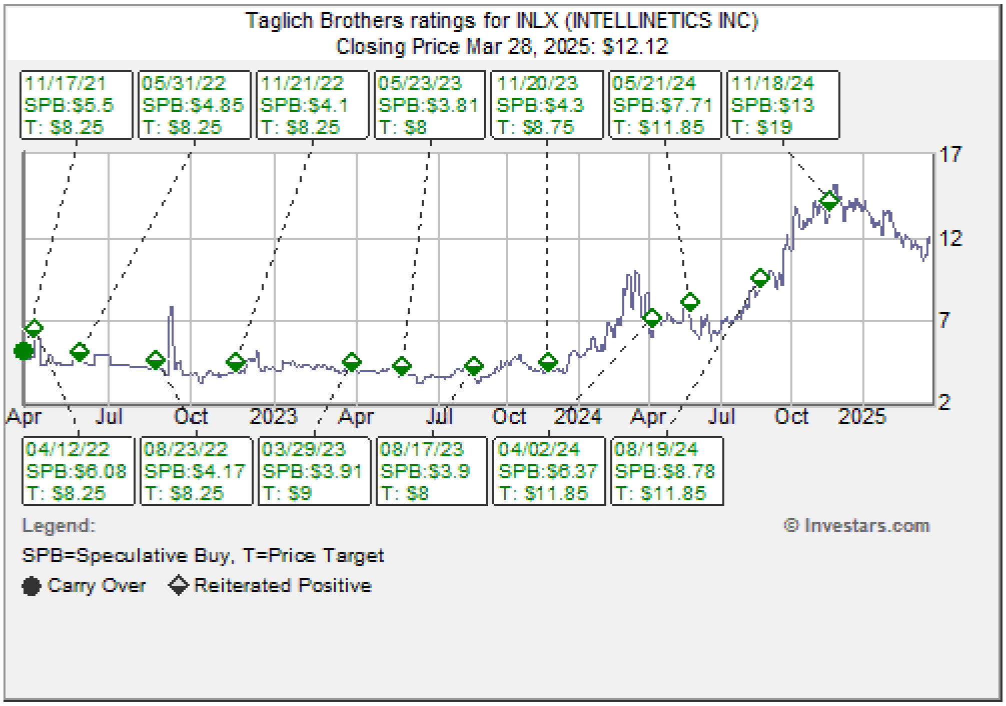
Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.
Cash Flow Statement
FY2023A – FY2026E
(in thousands)

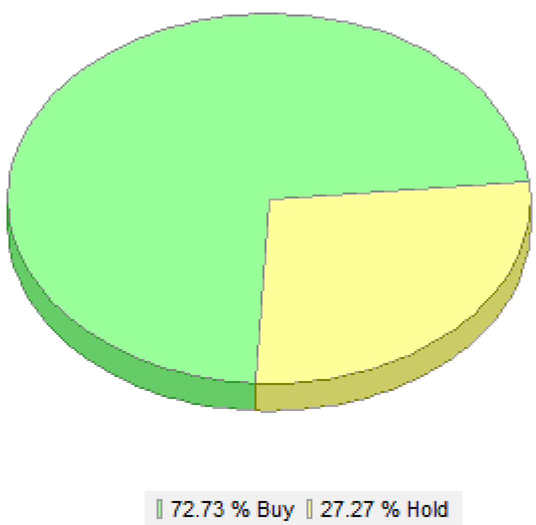
	FY2022A	FY2023A	FY2024A	**FY2025E**	**FY2026E**
Cash Flows from Operating Activities					
Net Income (loss)	$ 24	$ 519	$ (546)	**$ (1,612)**	**$ (908)**
Depreciation and amortization	722	975	1,129	**1,170**	**1,130**
Bad debt expense	42	77	(9)	**-**	**-**
Loss on disposal of fixed assets - parts and supplies reserve	24	-	1	**-**	**-**
Amortization of deferred and original issue financing costs	216	177	153	**100**	**-**
Amortization of debt discount	102	22	-	**-**	**-**
Amortization of right of use asset	648	42	71	**70**	**70**
Stock issued for services	58	198	-	**-**	**-**
Stock options compensation	364	465	1,497	**1,200**	**1,700**
Cash earnings (burn)	2,289	2,475	2,295	**928**	**1,992**
Changes In:					
Accounts receivable	81	(807)	748	**(388)**	**(200)**
Accounts receivable, unbilled	(152)	(724)	24	**(53)**	**(150)**
Parts and supplies, net	3	(37)	10	**1**	**-**
Prepaid expenses and other current assets	(177)	(102)	31	**(23)**	**(250)**
Right of use asset	-	-	-	**(200)**	**(200)**
Accounts payable and accrued expenses	173	(200)	280	**48**	**15**
Lease liabililities, current and long term	(616)	6	(14)	**0**	**(112)**
Deferred revenues	487	174	484	**588**	**1,000**
(Increase)/decrease in Working Capital	(300)	(1,690)	1,564	**(28)**	**103**
Net cash provided (used in) Operations	1,989	785	3,858	**900**	**2,095**
Cash Flows from Investing Activities					
Purchase of property and equipment	(201)	(111)	(439)	**(250)**	**(400)**
Capitalized software	(376)	(437)	(389)	**(600)**	**(600)**
Cash flow provided (used in) Investing Activities	(6,961)	(548)	(828)	**(850)**	**(1,000)**
Cash Flows from Financing Activities					
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)	(62)	**(75)**	**(75)**
Payments to taxing authorities in connection with share directly withheld from employees	-	-	(70)	**-**	**-**
Proceeds (repayment) from notes payable, net	1,345	(980)	(1,307)	**(776)**	**-**
Proceeds (repayment) from notes payable - related party, net	600	-	(318)	**(511)**	**-**
Net cash provided (used) by Financing	5,916	(1,718)	(1,756)	**(1,362)**	**(75)**
Net change in Cash	944	(1,481)	1,274	**(1,312)**	**1,020**
Cash Beginning of Period	1,753	2,696	1,215	**2,489**	**1,177**
Cash End of Period	$ 2,696	$ 1,215	$ 2,489	**$ 1,177**	**$ 2,197**

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	17
Hold		
Sell		
Not Rated		

Important Disclosures

As of March 28, 2025, 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 770,653 shares of INLX common and restricted common stock (combined), controlling interest in $200,000 in 12% subordinated notes, and 64,624 restricted warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 491,125 shares of INLX common and restricted common stock (combined), $675,000 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 6,000 of common stock and at least 19,323 shares of INLX that may be acquired upon the exercise of warrants. Taglich Brothers, Inc. has an investment banking relationship with INLX. In March 2013, Taglich Brothers, Inc. served as the placement agent for a common stock offering, as well as for the sale of convertible notes the transaction in 2014. In November and December 2016, and January 2017, Taglich Brothers Inc. served as the placement agent in the sale of 12% convertible notes for the company. In September and November 2017 and September 2018, Taglich Brothers, Inc. served as the placement agent in the sale of 8% convertible notes for the company. In March 2020, Taglich Brothers acted as the placement agent for the sale of common stock and bridge notes and in April 2022, acted as the placement agent for the sale of common stock and 12% subordinated notes for INLX.

All research issued by Taglich Brothers, Inc. is based on public information. In January 2018, the company paid Taglich Brothers a monetary fee of $4,500 (USD) representing payment for the creation and dissemination of research reports for three months. In June 2018, the company began paying Taglich Brothers a monthly monetary fee of $1,500 (USD) for the creation and dissemination of research reports.

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Analyst Certification

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

Public Companies mentioned in this report:

Intel Corporation	(NASDAQ: INTC)	Iron Mountain Incorporated	(NYSE: IRM)

Meaning of Ratings

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

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

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

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

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

Some notable Risks within the Microcap Market

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

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.